Conference Call Financial Results

Third Quarter 2022

August 31, 2022

Caution Regarding Forward-Looking Statements

From time to time, Laurentian Bank of Canada (the “Bank”) will make written or oral forward-looking statements within the meaning of applicable Canadian and United States (U.S.) securities legislation, including such as those contained in this document (and in the documents incorporated by reference herein), and in other documents filed with Canadian regulatory authorities or the U.S. Securities and Exchange Commission, in reports to shareholders, and in other written or oral communications. These forward-looking statements are made in accordance with the “safe harbor” provisions of, and are intended to be forward-looking statements under applicable Canadian and U.S. securities legislation, including the U.S. Private Securities Litigation Reform Act of 1995. They include, but are not limited to, statements regarding the Bank's vision, strategic goals, business plans and strategies, priorities and financial performance objectives; the economic and market review and outlook for Canadian, U.S., European, and global economies; the regulatory environment in which the Bank operates; the risk environment, including, credit risk, liquidity, and funding risks; the 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”, “Impact of 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 the Bank to make assumptions and are subject to inherent risks and uncertainties, both general and specific in nature, which give rise to the possibility that the Bank's predictions, forecasts, projections, expectations, or conclusions may prove to be inaccurate; that the Bank's assumptions may be incorrect (in whole or in part); and that the Bank's financial performance objectives, visions, and strategic goals may not be achieved. Forward-looking statements should not be read as guarantees of future performance or results, or indications of whether or not actual results will be achieved. Material economic assumptions underlying 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.

The Bank cautions 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; supply chain disruptions; geopolitical events and uncertainties; government sanctions; conflict, war, or terrorism; and other significant risks discussed in the risk-related portions of the Bank's 2021 Annual Report, such as those related to: the ongoing and potential impacts of the COVID-19 pandemic on the Bank, the Bank's business, financial condition and prospects; Canadian and global economic conditions (including the risk of higher inflation); geopolitical issues; Canadian housing and household indebtedness; technology, information systems and cybersecurity; technological disruption, privacy, data and third-party related risks; competition and the Bank's ability to execute on its strategic objectives; the economic climate in the U.S. and Canada; digital disruption and innovation (including, emerging fintech competitors); Interbank offered rate (IBOR) transition; changes in currency and interest rates; accounting policies, estimates and developments; legal and regulatory compliance changes; changes in government fiscal, monetary and other policies; tax risk and transparency; modernization of Canadian payment systems; fraud and criminal activity; human capital; insurance; business continuity; business infrastructure; emergence of widespread health emergencies or public health crises; emergence of COVID-19 variants; development and use of ‘vaccine passports’; environmental and social risk; and climate change; and the Bank's ability to manage, measure or model operational, regulatory, legal, strategic or reputational risks, all of which are described in more detail in the section titled “Risk Appetite and Risk Management Framework” beginning on page 50 of the 2021 Annual Report, including the Management’s Discussion and Analysis for the fiscal year ended October 31, 2021 which information is incorporated by reference herein.

The Bank further cautions 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. 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 or incorporated by reference in this document 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 or incorporated by reference in this document represent the views of management only as at the date such statements were or are made, 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. The Bank does not undertake any obligation to update any forward-looking statements made by the Bank or on its behalf whether as a result of new information, future events or otherwise, except to the extent required by applicable securities regulations. Additional information relating to the Bank can be located on the SEDAR website at www.sedar.com.

Non-GAAP financial and other measures

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

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

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

For more information, refer to pages 27 and 28 of this presentation and to the Non-GAAP Financial and Other Measures section beginning on page 5 of the Third Quarter 2022 Report to Shareholders, including the Management's Discussion and Analysis (MD&A) as at and for the period ended July 31, 2022, which pages are incorporated by reference herein. The MD&A is available on SEDAR at www.sedar.com.

Operator

Welcome to the Laurentian Bank Financial Group conference call. Please note that this call is being recorded. I would now like to turn the meeting over to Andrew Chornenky.

Andrew Chornenky, Head of Investor Relations

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

My name is Andrew Chornenky and I am the head of Investor Relations at Laurentian Bank.

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

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

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

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

I will now turn the call over to Rania.

Rania Llewellyn, President and Chief Executive Officer

Bonjour à tous.

Good morning and thank you for joining us. I hope everyone had a nice summer and a chance to recharge.

We are pleased with our performance this quarter and remain confident that we will exceed our financial targets for the year.

On behalf of the entire management team, we would like to thank our One Winning Team for their efforts over the last quarter. They have continuously shown their resilience and commitment to putting our customers first.

Financial Results

The macroeconomic environment continues to be uncertain and volatile, and is being weighed down by high inflation, very rapid interest rate increases and geopolitical tensions.

Notwithstanding, our results speak to the strength of our underlying businesses, our prudent approach to credit, disciplined cost management and the progress we are making on executing against our plan.

This quarter, total revenue grew by 2% and pre-tax, pre-provision income was up 6% year-over-year. Net income for the third quarter was $58.2 million or 2% lower than a year earlier. As a result of higher provisions on performing loans, PCLs increased by $11.2 million or 11 bps year-over-year to $16.6 million or 18 bps. Earnings per share were $1.24 compared to $1.25 last year and ROE was 8.7%, down 20 basis points from a year ago.

Following our record strong second quarter since 2018, revenue was relatively flat quarter-over-quarter, impacted by lower financial market related non-interest revenues. PCLs increased by $3.6 million or 3 bps quarter-over-quarter. Pre-tax, pre-provision income and net income were both down by 5% and 6% respectively while ROE was down 160 basis points, including the impact of the $3.3 million interest payment on limited recourse capital notes.

Commercial Banking had another strong quarter. Our commercial loan portfolio grew by $3.9 billion or 29% year-over-year and over $600 million or 4% quarter-over-quarter.

Personal deposits saw significant growth, up 17% year-over-year and 8% quarter-over-quarter, supporting our solid loan growth.

Last quarter, we said that expenses would be higher in the second half of the year as we continue to deliver on key strategic initiatives, including digital onboarding and our reimagined VISA experience. At 67.1% our efficiency ratio improved by 130 basis points year-over-year and at 66.4% year-to-date, we will exceed our FY2022 target of less than 68%.

The Bank's CET1 capital ratio of 9.1% is down from 9.3% last quarter as we continued to redeploy capital in line with our strategic plan to support profitable, sustainable, organic growth. Our CET1 ratio remains above our pre-COVID level of 9% and higher than our operating target of 8.5%.

Strategy Updates

As I outlined at our December 2021 Investor Day, our business lines play a key role in the success of our strategy.

Commercial Banking

Commercial Banking, our growth engine, continued to execute on its proven business model with a focus on its key specializations.

- Real Estate Financing was up by more than $300 million, or 3% from last quarter, to $9.7 billion. Results were mostly driven by the conversion of our strong unfunded pipeline in the construction portfolio to support the multi residential segment as developers continue to catch up to the structural supply shortage in certain markets.
- Inventory Financing was up $225 million, or 7% from last quarter, to $3.6 billion, driven by a more normalized pre-pandemic credit utilization rate of 51%.
- Equipment Financing was up $50 million, or 3% from last quarter, to $1.5 billion, driven mainly by the transportation and construction segment.

As part of our strategy and commitment to diversify our geographic footprint, we now have 21% of our commercial loan portfolio in the U.S., exceeding our medium-term target of 18%.

Capital Markets

In Capital Markets, we saw significant volatility this quarter as markets digested various geopolitical risks and aggressive monetary tightening by central banks. In response, we continued to deliver on our focused and aligned strategy.

1. First, in line with our objective to expand coverage to our top-tier commercial clients, we offered a full suite of advice to our core clients as they navigated current macroeconomic conditions. This led to a strong quarter in FX.
2. Second, we participated in six bank-issued Preferred or Limited Recourse Capital Notes issuances, as part of our priority to grow our syndicate positions with core corporate issuers. And,
3. Third, we participated in four ESG-themed bonds, including two new-to-market issuances by OPG and the Municipal Financing Authority of BC as part of our objective to participate in sustainable bond issuances.

Personal Banking

In Personal Banking, we are leading with a digital-first approach to reposition the business for growth.

To that end, we are pleased to announce the launch of our Digital Account Opening solution. In partnership with thirdstream, we were able to deploy Digital Account Opening in just six months, which aligns with our strategy to partner versus build to get to market faster.

Our digital onboarding rollout will focus first on our employees to ensure a seamless customer experience. As the solution is rolled out more broadly, it will allow us to continue acquiring new customers within Quebec, beyond our physical footprint, and is our launching pad to expanding our retail presence across the rest of Canada. Our initial focus will be on chequing and deposit products.

To enable the launch of digital account opening, we were able to utilize our recently announced cloud-based API solution, in partnership with Kyndryl. With this milestone, we now have a strong and proven foundation to deliver faster, more seamless, and innovative digital capabilities for our customers.

Along with this key milestone, other digital achievements this quarter include:

- The introduction of self-service password resets, which will help divert more than 5,000 calls per month from our contact centre; and,
- The launch of our refreshed public website as well as our newly modernized online customer platform, LBC*Direct*. The new, modernized LBC*Direct* ensures that our digital banking experience is consistent across all devices and improves the overall banking experience for our customers.

We said that retention was also a key priority this year and our recently launched loyalty team continues to make progress. For instance, our loyalty team's proactive outreach to GIC customers led to a 12% year-over-year increase in retention.

In our year of execution, we have now successfully closed the top five digital pain points identified by our customers, through the launch of contactless tap debit cards, mobile app, self-service password resets, refreshed web and digital onboarding.

Culture & ESG

Our strategy is also underpinned by a strong culture and a commitment to ESG.

With culture as our driving force, we launched a new career path program for our Personal Bank advisors, participated in Pride events across the country, and partnered with Pride at Work Canada, to build up and foster a culture where everyone belongs.

In making the better choice, I am proud to announce that Laurentian Bank had the best year-over-year improvement among the big Canadian banks in the Sustainalytics ESG Risk Rating survey, and we moved into the low-risk category. This reflects the collective enterprise-wide effort to incorporate ESG best practices across all the Bank's activities, including implementing a new ED&I policy for the Board and employees.

Conclusion

In wrapping up my remarks, I want to share a progress update with you. On a year-to-date basis, we are exceeding each of our 2022 financial targets.

- Our EPS growth is up 11%, exceeding our target of greater than 5%;
- ROE is 9.4%, exceeding our target of greater than 8.5%;
- Our efficiency ratio is 66.4% or 160 bps better than our target of less than 68%; and,
- Our operating leverage is positive at 3.9%.

Our team continues to demonstrate their resilience through this volatile economic environment. We are confident and committed to executing on our strategy to deliver long-term, sustainable, and profitable growth, as well as exceeding our financial targets this year.

I would now like 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 13 which highlights the Bank's financial performance for the third quarter of 2022.

Reported EPS was $1.18 and net income was $55.9 million. Adjusting items this quarter amounted to $3.1 million before taxes or 6 cents per share and are related to the amortization of acquisition-related intangible assets. Details of adjusting items are shown on Slide 27. The remainder of my comments will focus on adjusted results.

EPS and ROE were $1.24 and 8.7%, a decrease of 1 cent and 20 basis points respectively compared to a year ago. The pre-tax pre-provision income (or PTPP) was $85.5 million, a 6% increase from last year.

Compared to the second quarter of 2022, EPS and ROE decreased by 11% and 160 basis points respectively while PTPP decreased by 5%. The key elements of variation this quarter related to:

- The $3.3 million interest payment on LRCN;

- Lower financial market related non-interest revenues due to volatile market conditions;

- An increase in PCLs, as a result of higher provisions on performing loans due to the less favourable macroeconomic outlook; and,

- Strategic investments to close key foundational gaps and support growth.

Slide 14, shows the increase of net interest income by 8% year-over-year. On a sequential basis it increased by 5%, mainly due to the positive impact of three additional days in the quarter and higher interest income from commercial loans, partly offset by higher funding costs and liquidity levels.

At 1.83%, NIM was down 4 basis points quarter-over-quarter. We made the decision this quarter to prudently carry a higher level of liquidity based on our strong asset growth this year and to reduce funding risks in a period of economic volatility. This, along with the timing lag of asset repricing, resulted in the quarter-over-quarter decrease.

Other income, as presented on Slide 15, decreased by 11% compared with a year ago and 10% sequentially. This quarter, the decrease was mainly as a result of the volatile financial markets unfavourably impacting fees and securities brokerage commissions, commissions on sales of mutual funds and income from financial instruments.

Non-interest expenses, as shown on slide 16, were flat compared to a year ago despite our strategic investments to close key foundational gaps, improve the customer experience and accelerate business development activities to support growth. These were offset by lower amortization charges and rent expenses. Sequentially, non-interest expenses increased by 3% mainly due to the aforementioned strategic investments, as well as higher professional and advertising fees, also to support growth, partly offset by lower performance-based compensation. The increase this quarter was in line with our previous guidance.

As a result, the efficiency ratio this quarter was higher by 190 bps sequentially to 67.1%. However, as Rania mentioned in her remarks, we are seeing sustained improvement year-over-year as we were able to grow revenues and maintain our focus on cost discipline.

Slide 17 presents our diversified sources of funding. Sequentially, deposits increased by 6%, or $1.4 billion, while loans grew by 2%. Compared to last year, deposits grew by 15% while loans grew by 11%. This tracks positively with our objective of growing deposits and loans in line.

Slide 18 highlights our capital position. The CET1 capital ratio, which is presented under the Standardized approach, stood at 9.1% compared to 9.3% last quarter. This quarter's variation was once again linked to the redeployment of capital accumulated during the pandemic to sustainable, profitable commercial loan growth in line with our strategic plan. Our CET1 ratio remains above our pre-COVID level of 9% and higher than our minimal operating level of 8.5%.

In line with our disciplined approach to managing capital, the Bank is re-introducing a 2% discount as part of its DRIP program.

Slide 19 highlights the commercial loan portfolio which delivered strong growth. Loans increased by over $600 million or 4% quarter-over-quarter, driven by growth in real estate financing of over $300 million or 3% and inventory financing of over $225 million or 7%.

Our results in Real Estate were driven by the realization of our strong pipeline, particularly in the construction portfolio for the multi-residential segment. Inventory Financing continued to make market share gains and experienced normalization in utilization rates.

Slide 20 presents the pan-Canadian residential mortgage loan portfolio. Residential mortgage loans increased by 1%, both year-over-year and sequentially, in line with our 2022 objective of portfolio stabilization.

The Bank's residential mortgage portfolio remains relatively weighted towards insured mortgages at 56% and combined with a low LTV of 44% on the uninsured portfolio, contributes to reducing the overall risk of this business.

Turning to Slide 21, allowances for credit losses totaled $193.2 million, a sequential decrease of $9.6 million, mainly due to write-offs of previously provisioned accounts in the commercial loan portfolio.

As shown on slide 22, the provision for credit losses was $16.6 million in the third quarter of 2022, increasing by $11.2 million from a year ago. This was mainly due to higher provisions on performing loans as a result of volume growth in the Commercial loan book and less favourable macroeconomic outlook. Last year also saw a release of provisions on performing loans. Sequentially, the provision for credit losses increased by $3.6 million mainly for the same reasons. The PCL ratio stood at 18 basis points.

Slide 23 highlights the improving trend in gross impaired loans which decreased by $29.1 million quarter-over-quarter, mainly due to favourable repayments and write-offs of previously provisioned accounts in the commercial loan portfolio.

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

I would now like to offer some thoughts on how we see the remainder of the year developing.

- We anticipate a relatively stable capital level for Q4 as a result of tempering loan growth supported by internal capital generation.
- We expect modest revenue growth in Q4, on the back of the recent commercial loan growth and early indicators showing a partial rebound in capital markets activity.
- We are forecasting our NIM to be in the mid 1.80s for Q4, an increase of a few basis points versus Q3. For the full year, we expect to be at or slightly above our target of 1.85%.
- Overall expenses are expected to remain elevated in Q4, slightly above Q3. For the year, we will remain below our 2022 efficiency ratio target of less than 68%, leading to a positive operating leverage.
- The provision for credit losses remains difficult to predict on a quarterly basis given the uncertain macroeconomic environment.

Overall, we expect PTPP to increase slightly in Q4 and we remain confident that we will exceed our 2022 financial targets.

I will now turn the call back to Andrew.

Andrew Chornenky, Vice President and Head of Investor Relations

At this point, I would like to turn the call over to the conference operator for the question-and-answer session. Alexandra, we're ready for our first question.

Operator

Of course. Thank you. And if you'd like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to all your signal to reach our equipment. Again, it is star one if you'd like to ask a question. And we'll go ahead and take our first question from Meny Grauman with Scotiabank. Please go ahead.

Meny Grauman, Scotia Global Banking and Market

Hi. Good morning. I'd like to talk about capital. Yvan, you gave some guidance for the rest of the year and we've talked about this before. You highlighted moderating loan growth for Q4, keeping the capital ratio relatively stable, if I got that correct. And just on that guidance, in terms of moderating loan growth, is this something that you're actively doing, or is this just a broader comment on the market as a whole slowing down? And if that's the case, do you see evidence of that sort of early days in Q4 already?

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Thank you for the question, Meny. I think it's an important one, and I'm really pleased to just have a few comments on that. But if you allow me, I'll just start by doing a step back. And we're currently at 9.1% CET1, which is above the 8.5 minimal range. So we still have a good buffer there, but it's very important to look at the past.

Pre-pandemic we were at 9%. So we're pretty much back to the level that we had pre-pandemic because the pandemic definitely impacted a few portfolio and we had accumulated capital during that period. And our first priority has always been to redeploy that capital, and we're really pleased with the exceptional growth that we have in commercial growth over the last 12 months pretty much.

At this point, it's not a question of wanting to slow it down. It's a question of normalization because we did redeploy that capital and the specialty inventory financing is normalizing in terms of market growth at this point. The utilization rate, as mentioned by Rania is now 51%, which is closer to historical level. So that is slowing down and that's just a reflection of the growth that we had over the last year.

We're still managing prudently the capital and are pleased with the level and expect at this point that the capital generation internally is going to sustain a more normalized growth going forward.

Rania Llewellyn, President and Chief Executive Officer

And Meny, just to add to what Yvan was saying, we are constantly, proactively managing prudently our capital. And so, we did pause the share buyback in Q2. We're reintroducing the 2% DRIP. And given the current macroeconomic conditions, making sure that our growth is profitable and we're looking at a risk-adjusted return. So, it's not growth for the sake of growth, but just being more diligent and proactively managing that growth going forward.

Meny Grauman, Scotia Global Banking and Market

Thanks for that. I guess where I'm coming from is commercial loan growth just seems remarkably strong. And if I look across the peer group, it doesn't seem like it's slowing in the near term. Certainly, it's come in higher than expected, I think even higher than you had guided to and expected. So, the question is in Q4, if it doesn't slow as you expect, what are the implications of that? So that's what I'm trying to understand. Is it something that you can actively slow or do you have other levers that you can use in order to offset that tremendous RWA growth that you're seeing?

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Yeah. So definitely, I would say any institution, including us, we do have what we call a capital toolkit. Depending on what's happening in the market, we will adjust. Can we slow down some growth? Definitely, we could slow down some growth if we see higher growth in other portfolios. We're not uncomfortable, Meny at this point with the level of capital that we have and we feel that we have a few tweaks. But as mentioned by Rania, we're taking proactive actions like we stopped the share buyback last quarter, we reintroduced the DRIP this quarter, which is a reflection of the economy, but is also a reflection, honestly, of the growth that we have.

So, we are taking proactive moves, but we definitely have contingency plans in case we would need to address them. But at this point, what we see in our crystal ball, which is hard, it's not a pure science, is that we should be roughly in line with internal capital generation next quarter.

Meny Grauman, Scotia Global Banking and Market

Thanks, Yvan.

Operator

And we can now take our next question from Gabriel Dechaine with National Bank Financial. Please go ahead.

Gabriel Dechaine, National Bank Financial

Good morning. I just want to talk about the margin. A few things here coming to mind. One, I get the idea that you want to make the balance sheet more liquid during volatile times. But from Q2 to Q3, it's not like the world has really gotten dramatically worse with volatile in Q2 and volatile in Q3. Just wondering what changed the perspective there.

And also, to what extent did you maybe get caught off guard by some rapidly increasing costs in the broker channel where the deposit growth was the highest at the bank? I get that you got to be nimble and all that, but it's not like the world got dramatically worse this quarter. It's about the same, i.e., bad as it was in Q2.

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Thank you for your question, Gabriel. I'll take that one. The level of liquidity is a reflection of two items. Definitely, the uncertain times led us to be prudent in the context and gather more liquidity. And what's great is the liquidity if you look at it, it came from the deposit side. So we didn't pull it from the wholesale or something like that. We're really pleased with the deposit gathering that we had over the last quarter.

The second thing is that if you look at the growth, definitely the growth of commercial was excessively at performance over the last 12 months. That leads us to, or that led us to be more conservative and prudent last quarter because again, we just wanted to make sure from a liquidity perspective we would be careful and manage accordingly. It did impact an end by about two basis points. So, half of the difference between last quarter and this quarter relates to the level of liquidity.

We've seen a tempering of that growth, which was exceptional in Q2, was still pretty good in Q3, but lower than it was in Q2. The exceptional deposit gathering definitely created an excess of liquidity, but I much prefer being in that position than the reverse. And with that will allow us to gradually redeploy those liquidity into loans that will have better margins, which will contribute to this. And I would call that impact transitory because it's going to come back over the next quarters.

Gabriel Dechaine, National Bank Financial

So, loan growth came in faster than anticipated, I guess. So, you decided to step on the gas a bit in the deposit channel, but for Q4 you might do less of that because you've got the excess liquidity already in the balance sheet. Can you talk about –

Yvan Deschamps, Executive Vice President, Chief Financial Officer

So, if I work for only one month – sorry. Did you want to add something?

Gabriel Dechaine, National Bank Financial

Like, do you have any comments on the increase in funding cost in the broker channel, or is that not a factor at all?

Yvan Deschamps, Executive Vice President, Chief Financial Officer

There are two things. I'll comment on your first portion, and I'll answer that one after. We're one month in. So, I would say with level of liquidity that we had at the end of the quarter, we slowed down in terms of deposit gathering at this point. So that's going to help gradually in Q4 and going forward. But the deposit came in very strong in the demand deposits as well as the broker GIC term deposits and we've been very successful there.

It's not only playing with rates in that market, as you can expect, but also building relationships and deepening the relationship that we have, which also brought more deposits than we expected. We're really, really pleased with the performance that we had not only last quarter, but if you look at the full year since last year, we grew by 15% the deposit base, which for me has been a real key changer at the bank versus what we had in the previous years.

Gabriel Dechaine, National Bank Financial

Okay. Thanks. And enjoy the last few days of summer.

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Thank you.

Operator

And we'll go ahead and move on to our next question from Paul Holden with CIBC. Please go ahead.

Paul Holden, CIBC

Thank you. Good morning. I want to continue the discussion on NIM and maybe we'll just put aside sort of the explanations you just provided to Gabe's questions because you provided some guidance last quarter, which said that you get more of a NIM benefit from Bank of Canada rates in 2023 versus 2022. So again, kind of putting aside the liquidity explanation, just remind us on why that is, is that just assets take longer to reprice than deposits?

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Yeah, it's a very good question. So, a few elements there. The first one that I did not mention yet is really the change in the mortgage retention, which I think is a short-term pain, but a very nice long-term gain. And Karine and her team have been very successful at increasing the retention of the mortgages due to the loyalty activities that we have there, probably partly because of the increasing rate as well. But we're really happy with the retention that we had.

That created less prepayment penalties this quarter. That means that we're going to keep the customers on a long-term basis. But that did create probably one basis or one point of NIM that we did not anticipate, but we're really pleased with the result.

The second one is the liquidity. We probably pulled a bit more than we expected in the context of the assets, but I discussed that one and I think it's really transitory and it's going to change over time. The last one is really the repricing of the asset, and I know I'm not the only one that mentioned that.

So, the funding costs always go up in terms of anticipation. The repricing is a question of contracts and it's also a question of discipline in the market. A portion of the lagging in terms of repricing is due to contracts, meaning that the increases need to happen so that we can implement the other contracts that we have with the customers versus the funding will have increased a few months before.

The second element to that is I would call it market discipline. If you look in some products, definitely the funding costs went way faster than what you would see in the pricing. But it's not only a question of Laurentian, it's a question of market discipline. But again, I'm optimistic and I see that also as transitory, and the market discipline should come back over the next few quarters.

Paul Holden, CIBC

Okay. So, then a couple of follow-ups to that answer. First on the contracts, I'm assuming these renew annually, so maybe you can confirm or correct me on that assumption. And then two, does your view on a benefit from Bank of Canada rate increases in 2023, does that still stand?

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Thanks for digging. I think it's good that I add a few comments. It's not a yearly thing in terms of contracts but I'll give you an easy example. The funding rates will increase, but the loans that are based on prime will only increase when Bank of Canada officially increase. There's a lag between that funding and the prime increase for the customer and then some other contracts that we have with the customers as well. The variable rate is based on the prior month, so you may get a few weeks of delay.

And in the context where we've seen pretty big increases over the last quarter and frequent increases, that creates a lag, but that one is really transitional and it's going to come back relatively quickly. The only thing I'd be careful is that we still anticipate increases of interest rates over the next two quarters or so. I would expect that that lag will last a little bit longer. But again, as the interest rate increases stabilize or stop, we will catch up to that element.

I'll reserve my comments on 2023. But I would say that we're still positioned to take advantage because of all the elements I discussed, as we will reduce the liquidity, as well reprise the variable rate contract that I just mentioned. And as well as we will continue to evolve the portfolio mix, we see that there's still upside on the NIM side.

Paul Holden, CIBC

Okay. That's very helpful. And one more question from me, if I can. Just you pointed out you're exceeding all of your 2022 financial targets. So that's great. And I guess my question is, does that enable you to accelerate any of the strategic investments you need to make in that business, whether that comes in Q4 or in the following year?

Yvan Deschamps, Executive Vice President, Chief Financial Officer

The first thing is definitely it allows us to sustain the investments that we're doing. We also mentioned last quarter that we would keep an elevated level of expenses for the remainder of 2022. It definitely did allow us to push and invest a bit more, not only in the strategic investments but also to support the growth because we had a fantastic growth over the last 12 months. And we need to make sure that we sustain the level of service to the customers. And for us, it's something that we look at it. Customer-first is our principal.

We have to invest there. We continue to invest there. But on the strategic initiatives, in fact, I'll let Rania add comments on it, but she already reflected in her remarks a lot of the accomplishments we had this quarter.

Rania Llewellyn, President and Chief Executive Officer

Yeah. Paul, thanks for the question. Obviously, it's a dynamic process in terms of us managing our expenses, looking at our projects, the majority of which are strategic, but we do also have some other non-strategic projects. So, it's really important to make sure we have the right balance between investing in the future and having the right cost discipline, particularly in a volatile, uncertain macroeconomic environment.

We've been consistent in terms of what our target is this year. We'll be coming back to the street in Q4 as we finalize kind of our budget and what our strategic plans are for delivery and execution is for next year. We've got lots of levers that we can play around but making sure that we manage our expenses in line with the growth is also very important.

So, making sure we have that cost discipline is key. We've always said at Laurentian Bank we have two opportunities here. It's top-line revenue growth and efficiency. There's a number of other efficiencies that we're looking at and we will continue to invest in that. We're comfortable with the level of investments at this point.

Paul Holden, CIBC

Great. Look forward to the 2023 outlook next quarter. Thank you.

Rania Llewellyn, President and Chief Executive Officer

Thanks, Paul.

Operator

We'll go ahead and move on to our next question from Sohrab Movahedi with BMO Capital Markets. Please go ahead.

Sohrab Movahedi, BMO Capital Markets

Thank you. Just wanted to make sure I heard a few things correctly. I think part of the reason why you mentioned commercial loan growth came in a little bit hotter than you had expected was, I guess, faster normalization in utilization rates. Is that the right way of thinking about it?

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Yes, it is Sohrab.

Sohrab Movahedi, BMO Capital Markets

So just as a matter of curiosity, how much of it would you say was kind of existing clients drawing down more versus just building the portfolio with new clients?

Éric Provost, Executive Vice President, Commercial Banking and President, Quebec Market

Sohrab, it's Eric. Just commenting on that and thank you for the question. Actually, it's really a mix. The way the team is deployed, we've been able to keep winning market share. We're up 20% year over year in terms of our dealer base. So, that is a contributor. But for sure, with the macroeconomic environment, we saw demand for those products normalizing. So that is the big factor in terms of credit line utilization of our existing dealer based in the portfolio. So really a mix of both. Like we're successful on onboarding new business, but definitely, consumers right now are more tempered in their demand for these types of products.

Yvan Deschamps, Executive Vice President, Chief Financial Officer

And maybe to add a bit more colour on that. Sohrab, normalizing is a word that is very important. And when we say normalizing, it's not negative. In fact, going back to the normal environment we had pre-COVID where the dealers will go back to the normal utilization level of their lines within the context where the consumer demand is back to what it was. If you go back in the COVID environment, the demand was extremely high from the consumers and that's why the portfolio reduced. But we're going back to normal level and we're going to go back to normal level of growth for that portfolio.

Sohrab Movahedi, BMO Capital Markets

Okay. But I suppose the normalization was a bit of a surprise to you. Is that the right way to think about it? You didn't expect it to normalize as quickly as it did.

Éric Provost, Executive Vice President, Commercial Banking and President, Quebec Market

Yeah. Not as quickly, Sohrab, for sure, because like pre-season ordering for the dealers occur usually in the fall season, early winter. That was prior to the war, prior to interest rate hikes. Like those ordering occurred very strongly again for the 2022 season in anticipation of another strong year. And then the dealers are just coming out of two exceptional years.

I just think that they forecasted higher demand and with the macroeconomic environment like it just slowed down consumer to more normal pace. Like utilization right now at 51, if you go pre-COVID in 2019, during that summer, utilization was at 55%. We're not even caught up, but definitely, it was quicker than expected.

Sohrab Movahedi, BMO Capital Markets

Eric, every indication is that maybe the economic outlook is going to further slowdown. Do you worry that the normalization may mean a lower low this cycle on these realization rates?

Éric Provost, Executive Vice President, Commercial Banking and President, Quebec Market

Well, right now we're very comfortable where we are with the portfolio and we haven't changed our way to underwrite. We feel confident about where we are. And normalization doesn't mean a stop into these sectors. This summer we saw a good liquidation of products. We're tracking KPIs on aging inventory and liquidation. We're monitoring that portfolio very closely. But no, for now, we're comfortable where we are and we'll see what's ahead. But no concerns so far.

Rania Llewellyn, President and Chief Executive Officer

Sohrab, maybe if I can just add a little bit of color because it is inventory financing. It's Rania. When consumer demand actually slows down and the dealers have ordered the units, it actually improves the utilization for us. They start drawing down on our facilities, which actually earns us revenue. And so, one of the things we're watching out for, and I know our dealers are as well is the aging of the inventory, making sure that they are slowing down on their orders.

Again, just a reminder in terms of when demand slows down and they're sitting on inventory, they're actually drawing down on our facilities, which generates revenue for us. And so that's why the pre-pandemic levels of 55%. I think where the surprise is, is the supply chain came back very quickly, faster than we anticipated. The products are still being sold and there's really no aging in the inventory. From a PCL perspective, we're very, very comfortable. And we know that our dealers are being prudent in terms of their ordering season going into this session.

Sohrab Movahedi, BMO Capital Markets

I just have two quick questions. One follow-up to that. Liam, if your borrowers end up having to sit on inventory because of lack of demand, what ripple effect does that have on your – what implications does it have on your reserve building requirements?

Liam Mason, Executive Vice President, Chief Risk Officer

Well, first of all, Sohrab, thank you for the question. We do have a disciplined reserving process against those inventories. I would note we've got sort of five layers of protection on that portfolio. We have the collateral itself, which is at wholesale prices. You've got the backing of the dealership. Many of the dealers have personal guarantees on the dealer. Your OEMs, your manufacturers have repurchased arrangements. And then we have a curtailment process where if you're not seeing the turnover, but right now, the liquidation rates are normalizing, as Eric said.

We're not seeing a lot from an aged inventory standpoint. This is a very operational business. We're on the ground doing inspections, looking at the inventory. But we really don't see any cause for concern. And given the layers of protection and given our reserving, comfortable with that portfolio at this juncture. It's more of a return to normal than a slowdown or a recessionary impact.

Sohrab Movahedi, BMO Capital Markets

Okay. So just for crystal clarity, you will earn higher spreads when dealers are using the facility because of a slowdown in demand without any implications for reserve building. Is that what you're telling me?

Liam Mason, Executive Vice President, Chief Risk Officer

Oh, no, no, no. Just to be clear, as we earn those spreads, our discipline is to maintain appropriate ACLs against that growth. And indeed, if I might jump in here, sort of one of the big drivers of our increase in ACLs was our prudent, measured approach and we increased reserves commensurate with that volume. That's our discipline. That's how we maintain ensuring that we have the credit protections that we need in addition to the layers of protection I referenced.

Sohrab Movahedi, BMO Capital Markets

Okay. And Yvan, I think to an earlier question, you suggested that the circumstances, let's just say meant being a bit more prudent on reserves. Sorry, liquidity. Higher liquidity levels was prudent. Why don't you think you will have to retain a higher liquidity, let's say, for the next couple of quarters because the macro uncertainty is certainly not lessening is intensifying.

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Yeah, it's a good question, Sohrab. And I didn't say that we would let it all go in Q4 to be clear, we're going to look at what's happening in the environment. We're going to look at the growth that we're having as well. We will redeploy some of it in the growth because currently, we did gather a lot in last quarter. We believe that we're at the point we can use some of it.

But definitely, I think we can be accused of being prudent and we'll probably continue to be prudent for a few quarters. We may hold a little bit of liquidity for the next few quarters, but I would expect gradually to see that reduce.

Sohrab Movahedi, BMO Capital Markets

Thank you for taking my question.

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Thank you.

Operator

And we'll move on to our next question from Doug Young with Desjardins Capital Markets. Please go ahead.

Doug Young, Desjardins Capital Markets

Hi. Good morning. Just on the performing loan build. Just trying to get a sense of belief it was more associated with the commercial side. Is this related to the inventory finance book? Is this across the board? And I do think there is a bit of an uptick in commercial write-offs this quarter. Correct me if I'm wrong. Again, was this more related to the inventory being longer dated, or is this across the board? Just hoping to get a sense of those two themes and what segments they relate to.

Liam Mason, Executive Vice President, Chief Risk Officer

So why don't I have my colleague Eric speak to the growth in the portfolio, then I'll take the write-off question. Eric.

Éric Provost, Executive Vice President, Commercial Banking and President, Quebec Market

Yeah. Thank you, Doug. Well, the growth was really from all across, but mainly driven by commercial real estate, as well as inventory financing. And then to pinpoint inventory financing, actually we are at record low aging. Like coming out from these two years, definitely the dealers and the portfolio there is very healthy. And like Liam just explained like we are well reserved and protected into this segment and we feel comfortable there. So Liam, maybe more details on the write-offs.

Liam Mason, Executive Vice President, Chief Risk Officer

Sure. Sure. Thanks, Eric. You got to be really pleased with that growth. The write-offs are normal ebbs and flows in our commercial file management and the files were fully provisioned. And if you look at our GILS, I'm actually really pleased our gross impaired loans are coming down, down 29 million. And we're seeing with that [inaudible] drop either things returning to performing or getting written off. But these were long-standing files. We have a very client-centric approach to managing workouts and they were fully provisioned. So not indication of any trend or any concentration and certainly not related to inventory finance.

Yvan Deschamps, Executive Vice President, Chief Financial Officer

This is Yvan. If I can be extremely crystal clear, the performing loan increase in commercial was due to the macroeconomic factors. It was not related to any particular portfolio. It's really driven by the environment. And as Liam mentioned, the write-offs is much more clean-up than something you write because they weren't fully provisioned before.

Liam Mason, Executive Vice President, Chief Risk Officer

Yeah, just to drive that point home. If you think back to last quarter, we were one of the banks that looking at the economic environment saw sort of the volatility and the weaker economic environment coming and we updated our economic assumptions and the weightings of our outlook. And that served us very well.

And this quarter, given the change in the macroeconomic outlook that's been highlighted by many of the banks and in line with our prudent approach to reserving, we made further adjustments to the assumptions and the weights. And that's really to Yvan's point, what's driving it. We continue to be prudent and measured and that's part of our DNA and how we operate.

Doug Young, Desjardins Capital Markets

Okay. So what we're seeing in the write-offs and the performing loan builds around the commercial side, this isn't anything to do specifically with a particular portfolio like inventory finance? This is more, as you say, clean up across the book and across the different segments.

Liam Mason, Executive Vice President, Chief Risk Officer

Yes. Yes.

Doug Young, Desjardins Capital Markets

And then just on the CET1 ratio and the sequential decline and this might be a simple answer, but RWA was up 4% quarter over quarter. I think the loan book was up 2% quarter over quarter. So, there's a bit of a difference there. Can you maybe detail a bit of what the driver was? Are you seeing migration impacting the RWA? I guess it wouldn't be migration, but is this just a portfolio mix? Just trying to get a sense of that.

Liam Mason, Executive Vice President, Chief Risk Officer

It's really portfolio mix. We're not seeing any adverse migration. You can see that in our stage one and stage two elements across the commercial book. So, it's really portfolio mix.

Liam Mason, Executive Vice President, Chief Risk Officer

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

Operator

We'll go ahead and move on to our next question from Nigel D'Souza with Veritas. Please go ahead.

Nigel D’Souza, Veritas

Thank you. Good morning. I had a question for you on your interest income sensitivity disclosure. I noticed that the increase in NII over the next 12 months last quarter, that was about 12 million from the 1% increase, and this quarter is less than a million. So just wondering what led to that decrease in NII benefit. Is that mainly on your expectation for higher deposit data? Any color there would be appreciated.

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Thank you for your question, Nigel. The first thing is we definitely dynamically manage the balance sheet, and that stress test is really the position that you have at one single point in time, which is exactly at the end of the quarter. If you look at the last few quarters, I think if I run the numbers, we have 1 million this quarter, we have 12 last quarter. If you look at the one before, we had three, and the one before we had 15.

So, I wouldn't see too much in it at this point. We remain in no position to take advantage of increases in distressed rates. And as I mentioned, we're going to see or we expect to see a two basis points increase next quarter. And I mentioned already a few drivers of increase in terms of margins and NII. Coming from reducing gradually the level of liquidity, the portfolio mix is going to be an impact as well and I mentioned

the repricing. I wouldn't read too much in the stress test. It's really a single point in time and that does fluctuate on a daily basis.

Nigel D’Souza, Veritas

Okay. And then maybe tying that together with your NIM outlook on slide 29 for NIM to exceed 1.9% over the medium term. Could you remind me again that expectation is that driven by your expectation for margin expansion in the existing portfolio or a change in the loan portfolio mix?

Yvan Deschamps, Executive Vice President, Chief Financial Officer

I would simply just in fact repeat what I just mentioned, Nigel, because it's a contribution of various factors. Definitely, the portfolio mix has an impact. We've seen growth in commercial and that does contribute a reduction that we would expect a little bit on the liquidity side with the impact as well. And at one point the repricing of the assets will have an impact. It's really all of those points and that's all understanding that the discipline has to be in the market in terms of repricing of the assets also.

Nigel D’Souza, Veritas

Okay. It sounds like a combination of factors. All right. So, if I could just switch gears, then maybe a broader question. Looking at your SLI [?], it doesn't look like a recession is your best-case scenario at the moment. But if that does change and the best-case scenario is one of the recession, does that impact your strategic roadmap or your strategic plan going forward? How does view change or does it change?

Liam Mason, Executive Vice President, Chief Risk Officer

Why don’t I talk about the scenario and then I'll pass it to Rania on the strategic side? We have updated our scenarios as we do every quarter on a regular process and look forward. Our pessimistic scenario does include moving to a lower economic growth pattern, call it recession. And how long and prolonged that is, depends on how the macroeconomic conditions evolve. You heard from Jackson Hole, the Fed chair, you heard the Bank of Canada indicate they are going to be moving to reduce inflation and that's going to have a direct impact on the economy. We factor that in.

As I mentioned earlier, we've also adjusted the weightings on our outlook across our economic scenarios both last quarter and this quarter to put more weight on the weaker scenarios. And our reserving will remain prudent and will adjust accordingly. In terms of the strategic implications for that and how the economic profile might affect our strategy, Rania.

Rania Llewellyn, President and Chief Executive Officer

Yeah. Thanks for that question. What I would say is, as I had mentioned, we've delivered on a lot of things this year. So, we've said it's a digital-first approach. We said we were going to grow the commercial book of business. We're going to diversify. We feel pretty confident that we built a lot of foundational pieces that should we decide to slow down some other strategic projects, we have enough of a foundation that we can use it as a launching pad for growth, acquisition, retention, cross-selling while being very selective as to where else do we want to invest in.

I think we have the appropriate levers. We feel we're very well positioned at this point, both from a provisioning perspective as well as from an expense management perspective. But it's definitely something

that we will come back to you in Q4 to kind of outline what are some of the strategic deliverables we're going to deliver on. But we're very committed to our three-year strategic plan. We've been executing according to the plan. And so we'll continue to, like I said, dynamically manage where we need to depending on how the conditions change. Does that answer your question?

Nigel D'Souza, Veritas

Yeah, it did. That was helpful. Thank you.

Operator

And we'll move on to our next question from Marcel McLean with TD Securities. Please go ahead.

Marcel McLean, TD Securities

Hey, thank you. Two real quick ones for me. Just going back to the capital, you said you had a toolkit there that you can deploy if loan growth continues to exceed expectations. Just wondering if an ATM is part of that. I know one of your peers has been using it for a number of quarters and maybe if there's a certain level where that does get implemented or is it when you dip below this 9% that was your pre-pandemic level? Or are you comfortable letting it drop to 8.5? Just kind of wondering what your thoughts are on that.

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Thank you for your question. That's a good one. I don't want to go too much in the details of my toolkit, as you can imagine. But what I can say definitely is ATM is not at the top of that list. At this point, we're pretty comfortable with the level where we stand. And I mentioned pre-pandemic, we were at 9%.

It's not like we're very low. We're just getting back to where we were, which is normal level for the bank. Our minimum is 8, 5, so we still have a cushion. So again, I'm going to repeat a bit myself. We stopped the share buyback, we've reintroduced the DRIP. There's a few things like that we can easily do, but the ATM is not on the forecast for now.

Marcel McLean, TD Securities

Okay. And then secondly on the NIM. If I'm hearing you correctly, it's actually we're going to have to wait until we see a quarter where we see stability in the Bank of Canada rate before we really start to see an improvement in your NIM and that's when the improvement might come through more. Am I hearing that correct or is there more to it?

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Yeah, I'll answer with a yes and a no to that. The first thing is we mentioned that we're going to see an expansion of the NIM or we expect to see one in Q4 and we'll provide more guidance on 2023. And again, I don't want to be too much myself, but liquidity level asset mix and the lag of repricing. Where I'm going to answer you may be right in a certain way is the repricing of the loans.

Because the fact that for the part of the loan that I have that has a repricing lag of a month or a few days or something like that, definitely as the interest rates stop increasing, we're going to catch up fully. That will have an impact. And the other pricing lag that I discussed is relative to the market and that one is a bigger question, an industry-wide question.

Marcel McLean, TD Securities

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

Operator

And we'll go ahead and take our last question from Joo Ho Kim with Crédit Suisse. Please go ahead.

Joo Ho Kim, Crédit Suisse

Hi. Good morning and thanks for taking my questions. Just had a couple of quick ones here. Just on tax rate, it was lower than what we saw in the prior period. So just wondering if there's anything unusual or one-time in nature, I'm just trying to get a sense of whether that 15% ineffective tax rate is appropriate going forward.

Yvan Deschamps, Executive Vice President, Chief Financial Officer

It's a very good question, Joo, and a big portion of that is technical. This quarter, about 16, last quarter, 20, about close to half of it is coming from the repayment of the LRCN because the way it's done is the interest payment is done below the net income while the tax is impacting the net income. Every time we have the interest payment, it does reduce the tax rate.

So, you would see that every six months because we pay that every six months. The rest is a mixed bag depending on the level of profitability of the various elements. So next quarter, just pick something in the middle of that, and you should get closer to what we would expect for Q4.

Joo Ho Kim, Crédit Suisse

Thanks. And last one for me just on your non-interest revenue. When I look at the sort of more traditional retail banking revenue, we saw a decrease in lending fee service and sort of card revenue on a year-over-year basis. Just wondering what drove that year-over-year decline this quarter.

Rania Llewellyn, President and Chief Executive Officer

Sorry if you can just speak up a little louder. It was really hard to hear.

Joo Ho Kim, Crédit Suisse

Oh, sorry, sorry. Can you hear me better now?

Rania Llewellyn, President and Chief Executive Officer

It's still a little staticky.

Joo Ho Kim, Crédit Suisse

Sorry. I'll try it again. I just had a question on the non-interest revenue. When I look at the sort of the traditional retail banking revenue, like the card's fees and service fees, just they were down year over year. Just wondering what drove that decline this quarter.

Yvan Deschamps, Executive Vice President, Chief Financial Officer

Yeah. The key item this quarter relative to that would be card services. It's lower this quarter because we had a promotion program to increase the velocity and use of the credit cards. So that impact Q3, in fact, by a little bit more than a million bucks. This one is really a one-time. You would see that being corrected in Q4 in terms of level of revenue.

The rest, I would say, is relatively in line versus what you would have seen over the last few quarters. Again, just to be very clear, we would expect the visa revenue to increase back to pretty much where it was in Q4.

Joo Ho Kim, Crédit Suisse

Thank you. That's it for me.

Operator

And with that, that does conclude our question and answer session for today. I would now like to turn the call back over to our CEO, Rania Llewellyn for any additional or closing remarks.

Rania Llewellyn, President and Chief Executive Officer

In closing, following a solid Q3, we will continue to execute against our strategy as we head into Q4.

Our credit quality is sound, and we are confident in our strong underwriting practices and highly collateralized portfolio.

We will continue to apply strong cost discipline across the organization and identify additional cost optimization opportunities.

Our One Winning Team is engaged and continues to show resilience through this period of volatility.

We remain confident in our ability to exceed our 2022 financial targets.

Thank you for joining the call today.

Operator

And with that, that does conclude today's call. Thank you for your participation. You may now disconnect.