Conference Call Financial Results

Second Quarter 2023

June 1, 2023

Forward-Looking Statements and Non-GAAP Financial Measures

Caution Regarding Forward-Looking Statements

From time to time, Laurentian Bank of Canada and, as applicable its subsidiaries (collectively referred to as the "Bank") may make written or oral forward-looking statements within the meaning of applicable Canadian and United States (U.S.) securities legislation. These forward-looking statements are made in accordance with the "safe harbor" provisions and are intended to be forward-looking statements in accordance with applicable Canadian and U.S. securities legislation. Forward-looking statements 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 statements under the headings "Outlook" and "Risk Appetite and Risk Management Framework" contained in the 2022 Annual Report for the year ended October 31, 2022 (the "2022 Annual Report"), including the Management's Discussion and Analysis for the fiscal year ended October 31, 2022; and other statements that are not historical facts. The forward-looking statements contained in, or incorporated by reference in, this document are used to assist readers in obtaining a better understanding of the Bank's financial position and the results of operations as at and for the periods ended on the dates presented and may not be appropriate for other purposes.

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 such forward-looking statements are set out in the 2022 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 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 factors include, but are not limited to, risks relating to: credit; market; liquidity and funding; insurance; operational; regulatory compliance (which could lead to the Bank 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 2022 Annual Report, such as those related to: the ongoing and potential impacts of COVID-19 on the Bank's business, financial condition and prospects; Canadian and global economic conditions (including the risk of higher inflation and rising interest rates); 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 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; environmental and social risks; including 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" of the 2022 Annual Report, including the Management's Discussion and Analysis for the fiscal year ended October 31, 2022, which information is incorporated by reference herein. The Bank further cautions that the foregoing list of factors is not exhaustive. 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 or potential events.

Any forward-looking statements contained herein or incorporated by reference represent the views of management of the Bank only as at the date such statements were or are made, are presented for the purposes of assisting investors, financial analysts, and others in understanding certain key elements of the Bank's financial position, current objectives, strategic priorities, expectations and plans, and in obtaining a better understanding of the Bank's business and anticipated financial performance and 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 and laws. Additional information relating to the Bank can be located on SEDAR at www.sedar.com.

Non-GAAP and Other Financial 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 page 30 of this presentation and to the Non-GAAP financial and other measures section beginning on page 5 of the Second Quarter 2023 Report to Shareholders, including the Management's Discussion and Analysis (MD&A) as at and for the period ending April 30, 2023, which pages are incorporated by reference herein. The MD&A is available on SEDAR at www.sedar.com.

Operator

Welcome to the Laurentian Bank Quarterly Financial Results Call.

Please note that this call is being recorded.

I now would like to turn the meeting over to Andrew Chornenky, Vice President, Investor Relations. Please go ahead, Andrew.

Andrew Chornenky — Vice President, Investor Relations, Laurentian Bank

Bonjour à tous. Good morning and thank you for joining us. Today's opening remarks will be delivered by Rania Llewellyn, President and CEO, and the review of the second 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; Eric 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'd like to remind you that during this conference call forward-looking statements may be made. 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'll now turn the call over to Rania.

Rania Llewellyn — President and Chief Executive Officer, Laurentian Bank

Bonjour à tous. Thank you, Andrew, and thank you all for joining us today. I'm extremely pleased with our results this quarter and the progress we have made in achieving key milestones on our digital journey. We’ve also continued our focus on optimizing our funding structure, ending the quarter with very strong liquidity and capital positions.

On behalf of the entire Management Team, we would like to thank the Laurentian Bank team for their efforts. Our employees continue to remain agile and pulled together as one winning team to execute on our plan, proving that size really is our advantage.

Given the continued macroeconomic uncertainty, coupled with the effects of the recent turmoil in the U.S. Banking Sector, there are three key topical subjects that I would like to address upfront as it relates to liquidity management, funding, and commercial real estate.

First, the issues in the financial services sector in the U.S. put a particular focus on the liquidity management of banks. It's important to note that our Bank's liquidity portfolio has no negative mark-to-market exposure, we do not take interest rate risk and we hedge as appropriate.

Second, funding. Given our commitment to maintaining a strong balance sheet, we have been focused on optimizing our funding structure to be diversified, stable, and cost effective. This includes issuing cost efficient long-term securitizations and growing personal deposits of which more than 85 percent are insured. We ended the quarter with an average weekly liquidity coverage ratio or LCR of about 200 percent, materially above the big six average.

Third, commercial real estate. The majority of our portfolio is multi-residential, which remains strong due to the structural housing shortage in Canada and increased immigration levels. Our exposure to the office sector is around three percent of our commercial portfolio and is well diversified. We remain comfortable with our entire portfolio, because of our prudent approach to lending, low loan-to-value ratios, and relatively low level of historical loan losses.

Turning now to our financial results.

Top line revenue for the quarter was $257 million, relatively consistent with last quarter and last year. On a quarter-over-quarter basis, EPS was up one percent, and our ROE was up 30-basis points to 8.1 percent. PCL this quarter were 18-basis points, up 3-basis points year-over-year and 2-basis points sequentially. We remain adequately provisioned, having prudently built reserves over the past few quarters. Our NIM was up 3-basis points on the back of improving spreads in our commercial loan portfolio and in line with our previous guidance.

We continue to invest in our business to improve the customer experience, including the launch of our digital account opening solution and the work to begin the migration of existing Visa customers to our new platform. As a result, our efficiency ratio was 69.7 percent and relatively in line with last quarter.

I am pleased to share that our capital position is solid with a CET1 ratio of 9.3 percent that is up 20-basis points on a sequential basis as a result of internal capital generation. The revised Basel III reforms that came into effect as of February 1, had a non-material benefit on our capital this quarter. We remain confident in our ability to continue delivering good results, execute against our plan, and drive meaningful value for our shareholders under the current macroeconomic environment.

For fiscal 2023, we identified three priority areas to stimulate growth. First, deliver excellent customer service. Second, deposits and optimizing our funding structure. Third, drive efficiencies through simplification.

I will now cover key achievements under each priority, beginning with customer experience.

As we said last quarter, we will continue our focus on delivering excellent customer service and removing pain points by leveraging data from our net promoter score or NPS program. This concentrated effort is helping us gain a deeper understanding of what drives customer satisfaction and dissatisfaction, allowing us to implement targeted actions.

Following the results in Commercial Banking's NPS that we spoke about last quarter, we are sharing best practices across the organization and have seen significant improvement in Personal Banking. A few highlights include: a 9-point increase in private banking; a 7-point increase in brand scores; and 100 percent increase in the score of our loyalty team. We have been consistently taking actions to drive these results.

Last year, we addressed the top five digital pain points as identified by our customers, and this year we included NPS metrics in all personal banking scorecards. To provide a consistent brand experience for our customers, we also continue to enhance our public website by improving usability and refreshing the look and feel. I am pleased to report that as of today, more than two-thirds of our external facing public website has now been updated.

As many of you may be aware, in 2019, our branches moved to a cashless advice-only model. However, the majority of our branches are still large enough to accommodate teller lines and cash vaults. We are now taking the opportunity to move these branches into smaller and more convenient locations when current leases expire. In addition to generating increased efficiencies, we are also able to update the designs and refresh the branding to improve the customer experience and employee engagement.

The second priority we identified this year was a focus on deposits and optimizing our funding structure. We are committed to maintaining a diverse, stable, and strong balance sheet that supports loan growth. I'm particularly excited that on April 25, we officially launched our digital account opening solution to the public, allowing us to grow deposits by deepening our relationships with current customers and acquiring additional customers outside of our branch footprint across Canada. This solution was developed through a strategic partnership with thirdstream, which illustrated how we can make size our advantage and get to market more quickly. For the first phase of the launch, we are offering a high interest savings account and a variety of checking accounts to meet the everyday banking needs for a wide range of customers. To date, roughly two-thirds of accounts opened are new to bank customers.

In relation to this strategic priority, I would also note, retail deposit growth of more than one percent this quarter, and an issuance of $0.8 billion in cost efficient long-term securitization debt. In line with our strategy on a year-over-year basis, we have been consistently growing deposits at a rate that is relatively in line with loan growth.

Our third priority is to drive efficiencies through simplification. We remain committed to reducing our efficiency ratio over the medium term by further streamlining our internal processes and operations. In line with this priority and our strategic objective to focus on our specializations, coupled with the macroeconomic climate, we announced today that we have decided to right size our Capital Market franchise. This is in line with our commitment to operate a focused and aligned offering in key businesses where we can win, such as fixed income and FX, where we have significant alignment and cross-sell opportunities with the rest of the Bank.

I've spoken before about opportunities to reduce costs and improve efficiencies. This quarter two initiatives that I would like to briefly highlight that lead to about $1 million in annual savings were: a re-evaluation and reduction of our enterprise-wide printing needs, and improved training and onboarding processes and operations leading to increased productivity levels.

Culture and ESG also remain a significant priority and I would like to provide a few highlights. This quarter we launched our second annual ESG report which outlines the progress we have made so far on our ESG journey. As part of our commitment to support our customers on their ESG journeys, we recently announced a collaboration with Quebec's Net Positive, helping Quebec-based small and medium-sized businesses get ready to thrive in a low carbon and sustainable economy.

As part of our Getting Beyond Numbers corporate giving strategy, we announced $100,000 donation to Windmill Microlending, a Canadian National charity offering affordable loans to skilled immigrants and refugees in Quebec. As we have always said, our culture is our driving force, and our employees are the biggest stakeholders in our success.

I would like to once again thank them for their collective efforts over the past quarter. Their focus, drive, and belief in our strategy has a direct and positive impact on our results each and every day.

I will now turn the call over to Yvan.

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

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 second quarter.

Total revenue in the second quarter was $257 million, relatively in line with last year and on a sequential basis. Our net interest income year-over-year was offset by lower contribution from financial markets-related revenue, which was impacted by sustained unfavourable financial market conditions.

On a reported basis, net income in the second quarter was $49.3 million and EPS was $1.11. Adjusting items for the quarter amounted to $2.4 million or $0.05 per share and are related to the amortization of acquisition-related intangible assets. Details of these items are shown on Slide 29.

The remainder of my comments will be on an adjusted basis.

EPS of $1.16 was up slightly quarter-over-quarter on net income of $51.7 million. ROE was up 30-basis points sequentially to 8.1 percent.

As guided to at the end of Q1, the efficiency ratio was relatively in line with last quarter at 69.7 percent, despite unfavourable financial markets and continued investments in key strategic priorities. We are also pleased to announce a $0.01 increase to the Bank's dividend to $0.47 per common share.

As mentioned by Rania, in line with our strategic priority to focus on our specialization and to drive efficiencies through simplification, we've decided to right size our Capital Markets franchise. As a result, we expect about $5 million of annual savings and the third quarter will include an approximate $6 million restructuring charge.

Slide 14 shows net interest income up by $4.1 million or two percent year-over-year, mainly due to higher interest income stemming from commercial loans, partly offset by higher funding costs and lower mortgage prepayment penalties. On a sequential basis, the decrease of $2.9 million mainly reflects the negative impact of three fewer days in the second quarter. Net interest margin was up three basis points to 1.80 percent. This is the result of an improved business mix, partially offset by higher funding costs.

Slide 15 highlights our diversified sources of funding and the Bank's liquidity position. For the past few quarters, we've spoken about managing our liquidity (inaudible), due to macroeconomic uncertainty. In Q2, our weekly average liquidity coverage ratio or LCR was about 200 percent, up 30-basis points compared to Q1, and 60-basis points compared to last year and significantly higher than regulatory and internal limits, as well as the big six bank average.

Year-over-year, we've seen total deposit growth of $1.3 billion or five percent, relatively in line with our asset growth and our strategic objective to grow deposits and loans in line on a relative basis. Personal deposits were up $2.2 billion or 11 percent in the same period, including a sequential $1.4 billion increase during Q1 from partnership and retail term deposits. In addition, to further strengthen our funding structure this quarter, we issued $0.8 billion in new cost-efficient long-term debt related to securitization activities.

Given these inflows and the already high level of liquidity at the beginning of the quarter, we took actions throughout the quarter to reduce shorter term and/or more costly deposits, including deposits from advisors and brokers, as well as certain municipal sector deposits. This led to a four percent reduction in deposits on a sequential basis.

Out of an abundance of caution following the U.S. banking system turmoil, we further increased our LCR position in the second half of the quarter, and this metric was also about 200 percent throughout the month of May. In addition to strengthening our funding structure, our actions are also expected to improve NIM by about one basis point for future quarters, all other things being equal.

It's also worth noting that increased our core retail deposits by one percent during the quarter and by five percent since the beginning of the year, and then 85 percent of our personnel deposits are insured. We expect our deposit mix to further improve with the recent launch of our digital account opening solution. Also noteworthy is that given our hedging strategy, the fair value of our liquidity portfolio is aligned with its cost, thereby eliminating any negative mark-to-market exposure.

Slide 16 presents other income, which decreased by eight percent compared to last year, because of unfavourable market conditions impacting financial markets related revenue, including fees and securities brokerage commissions, income from mutual funds, and income from financial instruments. On a sequential basis, other income was unchanged.

As stated in our previous guidance, Slide 17 shows non-interest expenses, up by six percent compared to last year, due to salary increases and talent acquisition to invest in strategic priority; improve the customer experience and support growth. On a sequential basis, non-interest expenses were slightly lower mostly due to three fewer days in the quarter and seasonally lower vacation accruals.

Turning to Slide 18. Our CET1 ratio was up 20-basis points to 9.3 percent, including a non-material benefit from the recent Basel III reports. We continue to manage our capital to support business growth and expect to manage our CET1 capital ratio above nine percent for the remainder of the year.

Slide 19 highlights our commercial loan portfolio which was up by $1.9 billion or 11 percent year-over-year. Portfolio was up $250 million or one percent quarter-over-quarter, mostly due to contributions from our inventory financing specialization. Similar to last quarter, we are providing additional details on our commercial real estate portfolio on Slide 20.

The majority of our portfolio is multi-residential housing, where demand remains resilient, due to high immigration levels in Canada. Our office portfolio is around three percent of our commercial portfolio and consists of Class A or B assets with an LTV of 62 percent and financial recourse is strong and experienced sponsors. The majority of the portfolio is multi-tenanted properties with limited exposure in single tenanted buildings.

Slide 21 provides details of our inventory financing portfolio, where key performance indicators such as the age of inventories and turnover rates are monitored closely. We've seen the credit line utilization rate come back in line to pre-COVID levels, currently standing at 58 percent. Beginning in April and for the majority of Q3, we expect to see a normal seasonal portfolio reduction in line with pre-pandemic utilization rates and behaviour. The normal patterns suggest that utilization rates should be lower in Q3 when dealers' sales to customers are high, dealers then begin restocking in Q4 and Q1, which increases utilization rate once again. Given the current economic environment, we are monitoring the portfolio closely and it continues to perform well.

Slide 22, presents the Bank's residential mortgage portfolio. Residential mortgage loans were up five percent year-over-year and one percent on a sequential basis. We maintain prudent underwriting standards and are confident in the quality of our portfolio, as evidenced by the high proportion of insured mortgages at 58 percent and low LTV of 51 percent of the uninsured portfolio—portion, sorry.

It's also worth noting that more than 80 percent of our residential mortgage portfolio is fixed rate, of which more than 75 percent will mature in 2025 or later. Allowances for credit losses on Slide 23, although $211.6 million, up $14.7 million, compared to last year, and up $8.1 million sequentially, mostly as a result of higher provisions on commercial loans related to volume growth and the macroeconomic uncertainty.

Turning to Slide 24. The provision for credit losses was $16.2 million, an increase of $3.2 million from a year ago, mainly as a result of higher provisions on impaired loans and commercial loan portfolio, partly offset by releases of provisions on performing personal loans. (Inaudible) PCLs were slightly higher compared to last quarter, mostly for the same reasons.

Slide 25 provides an overview of impaired loans. On a year-over-year basis, gross impaired loans decreased by $4 million and were up $13.5 million sequentially. We continue to manage our risk with a prudent and disciplined approach and remain adequately provision.

Last quarter, we provided detailed guidance for the remainder of 2023, and I would like to note a few key points. The Bank's NIM is contingent on interest rate stability and improved funding spreads. Other income from Capital Markets business is expected to remain soft until unfavourable financial market conditions improve, which will hinge on the macroeconomic environment.

Expenses are expected to remain elevated due to our ongoing strategic investments, including the cost associated with running two credit card platforms as we gradually transition current Visa customers to the new brand platform. We expect loan growth to remain tempered as macroeconomic conditions impact business and consumer spending. As mentioned before, Q3 is expected to have a normal inventory, finance, and financing seasonal reduction, as dealer sales are high in the summer season.

Overall, loan growth for the year is expected to be in the low-single digits as previously guided. We target to remain above nine percent CET1 capital ratio for the remainder of the year. As a reminder, in LRCN interest payment is due next quarter, which has an impact of approximately $0.06 on our EPS.

I'll now turn the call back to the Operator.

Q & A

Operator

Thank you, sir. (Operator Instructions) Your first question will be from Meny Grauman at Scotiabank. Please go ahead.

Meny Grauman — Analyst, Scotiabank

Hi. Good morning. First question is on the LCR averaging around 200 percent. I'm just wondering, are you targeting to keep it at that level for the remainder of the year?

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

Yes. Thank you for your question, Meny. This is Yvan. We mentioned that we're at about 200 percent. We mentioned that last year we were 60 bps lower, which is a more normal level as you can see with other banks as well. We will over time go back to more normal levels. Considering the current environment and what's been happening with regional banks in the U.S., we just acted prudently. We will probably manage down, but for this time, we're happy with the level we have in the current economy.

Meny Grauman — Analyst, Scotiabank

Thanks for that. If I can ask on the margin, it was really good to see margin expansion this quarter. I think the Street was expecting it to come a little bit later, and my impression was that Management was as well. I'm wondering, is that the case? If that's the case, what happened in the quarter that you didn't expect that helped drive the margin higher sequentially?

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

It really came from a few factors. The first thing is the business mix helped. We've been growing commercial, and commercial has a better NIM than the personal assets. There's definitely an impact from this. We also mentioned that as [interest] rates would stabilize, we would get the benefit, gradual benefit, and we start to see some of that despite the fact rates have not fully stabilized yet. This offset additional funding costs in the market, especially in Q2, have been impacted with the U.S. turmoil.

Going forward, I would expect to continue seeing a small benefit, if rates fully stabilize. As you know, currently, we expect a rate increase in Canada and slightly in the U.S. It's going to be gradual for the next two quarters again. That's probably what I can provide you at this point, Meny.

Meny Grauman — Analyst, Scotiabank

Just in terms of business mix, on the commercial side, one of your peers definitely took a more cautious stance in terms of their outlook for loan growth and highlighting some of the risks out there. I was hoping you could speak to that and just your perspective on the commercial loan environment in Canada and do you see risks rising? What's your response to that risk outlook?

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

Yes. Generally, Meny, I can start by saying we've been guiding you for the last few quarters, that we were seeing growth in the low-single-digits for the Bank. I would say we saw the environment and we just acted prudently in the environment. That's what we've been doing, but at this point, I'll let Liam add from a credit perspective what we've been seeing.

Liam Mason — Chief Risk Officer, Laurentian Bank

Meny, thank you for the questions. Liam speaking. Overall economic growth remains challenging with slower consumer and business spending. Central Bank increases are still expected and depending on the path of inflation, we may see additional rate increases, as Yvan indicated. That said, the housing sector and resale conditions are stabilizing to a degree. Retail conditions remain tight and housing supply is not meeting demand and that supports our core multi-residential housing construction business.

Overall, we continue to monitor the economic environment, but our expectations as Yvan laid out are for single-digit growth and our disciplined lending practices and approach will serve us well.

Meny Grauman — Analyst, Scotiabank

Thanks for that. That's it for me.

Operator

Thank you. Next question will be from Paul Holden at CIBC. Please go ahead.

Paul Holden — Analyst, CIBC

Thank you. Good morning. Just one quick question on clarification for Yvan. In terms of the NIM guidance of positive one basis point. How do I read that? Is that kind of per quarter through the back half of the year, or is that kind of aggregate over both the quarters?

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

Just to make sure on your question, Paul. I'll add a few details and you tell me if I answered your point. What we mentioned is the—what we've done with our funding strategy this quarter is going to benefit us. We would expect, all other things being equal, to be at about 1 bps benefit from this. That's going to help NII and NIM. The advantage this quarter is due to our issuance of long-term debt and having a lot of deposits in Q1 from partnership and retail term deposits, allowed us really to manage down the broker deposits that are more costly and shorter term. The reshuffle of that funding will generate about 1 bps of benefits, all other things being equal. That's what you were looking for, Paul?

Paul Holden — Analyst, CIBC

Okay. Yes, I understand. That's the shift in deposit mix that's already taken place. I guess my real question then would be, do you care to offer any kind of NIM guidance through the back half of '23?

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

Yes, that's a big question, Paul, because everybody is looking right now at what BOC is going to do or what the Fed is going to do in the U.S. We mentioned that the benefits we would get in the NIM would come with stability of rates. It slowed down with this quarter versus what we have seen in Q1 and Q4 before. If it continues to stabilize, we may see a small, slight increase in the NIM. It's going to be probably gradual based on what we hear from BOC or Fed at this point. I would probably expect it to be later in the year than in Q3.

That's one benefit. Also, as the rates stabilize, we mentioned also contractually, we have some of our loans that will benefit from it. We mentioned it would be gradual this year, but based on the feedback from Central Banks, I would expect more the latter part of the year.

Paul Holden — Analyst, CIBC

Okay. My second question is with respect to the real estate construction lending business specifically. I mean, you covered off, I think, the other components of CRE well, but how are you viewing the risk in construction lending? Specifically, I see it continues to be an area of growth. My impression would be you don't see elevated risks necessarily, but it's become very topical given some recent events. Maybe you can walk us through your comfort level around risk and how you're mitigating risk in that particular portfolio?

Liam Mason — Chief Risk Officer, Laurentian Bank

As Rania indicated in her remarks, the majority of our CRE is multi-residential housing construction. Given the lack of supply in Canada, I saw some recent statistics suggesting two percent vacancy and demand is way outstripping supply. There is a lot of demand for this. We focus on established Tier 1 and Tier 2 developers with good track records. There are pressures, as you mentioned, in the broader commercial real estate market, but our construction portfolio remains very strong.

We also approach things from a disciplined perspective with regard to LTV and we've been adjusting our underwriting standards commensurate with conditions, additional views with regard to contingencies. Very happy with how the portfolio is behaving right now given the developers we have.

We're also maintaining a disciplined approach with regard to our reserves. Historic losses have been small, albeit forward-looking conditions are worse, but we've got a solid reserve against that portfolio as well. Quite comfortable with how it stands right now.

Paul Holden — Analyst, CIBC

Okay. Just to be clear on this development business or construction business, it is also mostly multifamily, not single individual homes?

Liam Mason — Chief Risk Officer, Laurentian Bank

Yes, the majority is multi-residential housing construction. We do have some development projects as well.

Paul Holden — Analyst, CIBC

Okay. That's good. One last question, and to get Rania involved here. When I look at your KPIs on Slide 31, I see all green dots apart from one. Of course, I got to ask on the one that's not green dot. The new bank account openings, that one is running a little bit behind target. I think obviously that's an important one for the Bank and important for all banks currently given the cost of liquidity. Maybe talk to us a little bit about why it's behind target currently and the plan to get it back on target?

Rania Llewellyn — President and Chief Executive Officer, Laurentian Bank

Yes. Good morning, Paul, and thanks for the question. Yes, it’s the only one on that slide, so I'll definitely comment on it. We did say it was all dependent on the speed by which we can launch our digital account opening program and platform. What we decided last year was to do, kind of, a phased rollout to ensure the customer experience is excellent. We started with our employee base. There was a delay in terms of our digital public launch, which just happened in April, and we're extremely excited about the uptick and that was with almost no marketing at all. We're already starting to see interest in the market.

What's really interesting is that over two-thirds of the account opening are coming—they are net new customers to the Bank and a large percentage of them too are outside of Quebec. It really serves and is very much aligned with what we said all along is that we'd like to deepen our existing customer relationships. We'd like to expand within Quebec, but we also want to expand across the country. I would say early days, but we are committed. It's a target that everybody has in their scorecards and the field as well. As a Management Team and as an employee base, we're all committed to attracting net new customers. It's early days, but positive results thus far.

Paul Holden — Analyst, CIBC

That’s great. I'll leave it there. Thank you.

Operator

Thank you. Next question will be from Lemar Persaud at Cormark. Please go ahead.

Lemar Persaud — Analyst, Cormark Securities

I want to start off on the tax rate, just want to come back to the lower tax rate over the past couple of quarters and the budget proposal to move the break for financial institutions on certain dividends received. How do you see your tax rate evolving should this receive, I guess, Royal Assent?

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

The first, the tax rate is about 16.3 percent this quarter, which is in line with the guidance we had provided. At this point for Q3, I would keep the same guidance in the same range. Your question is good, because there's been a lot of noise about new legislation, including sales tax on card services or taxes in terms of dividend income for banks. I would say for those, we don't expect any material impacts. The tax rate on card services there's also what we call a retroactive potential impact, but we did provision for that. If it happens, there would not be an impact for us. For the changes on the dividends, we don't have that much dividend income instruments at the Bank, so the impact should be material for us.

Lemar Persaud — Analyst, Cormark Securities

Okay. Thank you. Apologies there. Alexa was trying to answer your question. Just moving on to the Capital Markets here. Can you talk about how we should think about this restructuring? I know at Investor Day, you guys have talked about looking for better alignment with the commercial bank and a more focused product offering. Should we think about this as a one and done restructuring, or could there be more to come?

Rania Llewellyn — President and Chief Executive Officer, Laurentian Bank

All along in line with our objective that we outlined at our Investor Day, our commitment was to operate a focused and aligned offering in our key businesses with really a focus on our specializations and where we can win. Fixed income and FX have been great businesses for us where we have significant alignment and cross-sell opportunities along with some other sectors as well.

Given the market conditions, and they've been unfavourable for quite some time, right, so we made the decision to right size. It's very much in line with our strategic objectives. We're going to continue to grow that business, but in alignment and with opportunities where we know we can win and that are fully aligned with the overall strategy of the Bank.

Lemar Persaud — Analyst, Cormark Securities

Should we think about this as, you know, potentially an ongoing issue? That's the way I'm kind of reading through this. Like, there could be more restructuring to come?

Rania Llewellyn — President and Chief Executive Officer, Laurentian Bank

The way I would say it is like any good operator, you're constantly reviewing all of your operations across the institution. Not in any one sector. You're constantly reevaluating. If markets turn and we need to add additional resources in our Capital Markets businesses and where we can win, we will be looking to reassess that. But we're constantly, kind of, reviewing how to optimize our operations and making sure that we operate in the businesses where we can win.

Lemar Persaud — Analyst, Cormark Securities

Appreciate that. This is going to be a tough one, but how should we think about—maybe the way to phrase this is, how should we think about the earnings power of the Capital Markets business? Now I appreciate, Yvan, there's a lot of headwinds in capital markets right now. Maybe that's the way I'm going to kind of phrase it, does this reduce the earnings power of the Capital Markets franchise? Or are some of the benefits going to come through to kind of fill the gaps here? I don't know if I'm asking the right way, but hopefully, you kind of understand where I'm going at with this.

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

Just to add a bit of colour there, our business is in mostly fee business, that's where we evolved over the last three years. What's been happening with the current environment, there's less activities in terms of issuances. Definitely, it's softer than it was a year ago. That's why as you would expect the market will recover at one point, it’s going to be more stable, there are going to be more activities. We should see some of that coming back in our favour in the upcoming quarters.

The next one is a summer quarter, so we should not expect too much activity during the summer. But technically, the market is going to recover and that should be an improvement of other income when it happens.

Rania Llewellyn — President and Chief Executive Officer, Laurentian Bank

Just to add, just to put it in perspective, the reduction is less than 10 percent. In line with similar actions that others in the market have taken over the last 12 months.

Lemar Persaud — Analyst, Cormark Securities

That's helpful. Maybe the final one for me, I want to come to this other income line, card services revenue, there's a relatively sharp decline in that line item in other income. Is there like—maybe talk to me about that, Yvan. Is there some element of seasonality we should be thinking about in that line and kind of what drove the decline in card services revenue this quarter? Thanks.

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

No. Good, in fact it’s a good question. Card services revenues, you would see seasonal impact, right? What's leading to Christmas, including Christmas, will add more transaction volume. This quarter is probably one of the lowest you would see seasonally in the year. Most of it happened related to that.

Lemar Persaud — Analyst, Cormark Securities

Appreciate that. Thanks again for the time, guys. My apologies for Alexa interjecting there.

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

No problem.

Rania Llewellyn — President and Chief Executive Officer, Laurentian Bank

At least it wasn't ChatGPT.

Lemar Persaud — Analyst, Cormark Securities

Thanks.

Operator

Thank you. Next question will be from Marcel McLean at TD. Please go ahead.

Marcel McLean — Analyst, TD Securities

Okay. Thanks. I'm going to (inaudible) commercial real estate outlook. Try to ask it quite a different way. We're at a time where we're seeing some of your peers and people in the industry leaning away from growth there, whereas you guys are still (inaudible). Going forward, are you guys seeing this as maybe an opportunity to try to take some market share given the risk/reward trade off? Is that something you'd view as attractive right now? Or what's sort of the outlook going forward from here?

Eric Provost — Head, Commercial Banking, Laurentian Bank

Thank you for the question. Right now, the market has definitely slowed down, there's still some good projects out there being started, mostly in the multi-res sector just in terms of the demand out there. We're not changing our approach. We're keeping the same disciplined underwriting processes we have in place, and we'll still be looking out for opportunity with our Tier 1s and Tier 2 developers out there. Don't expect us to go outside of our current practices. We will keep the current pace and make sure that the projects we onboard fit our current credit appetite.

Marcel McLean — Analyst, TD Securities

Okay, thanks. Just two quick ones on CRE. Is all the exposure Canadian or if not, do you have the split of U.S. and Canada? Also, do you have the stat for how much of—what percentage of the book is in retail?

Eric Provost — Head, Commercial Banking, Laurentian Bank

Yes. Actually, all our assets are in Canada, and I would say that referring to Page 20 of our investor deck, we have about three percent of the book that is retail, about $600 million. Again, small retail, suburb type that we feel good about with good key anchors and low LTVs. We're comfortable with the low metrics we have out there for those loans.

Marcel McLean — Analyst, TD Securities

Okay. Thanks a lot. My other question was on expenses. You commented they were elevated, but really in the context of what we're seeing across the industry, they weren't that high. The largest difference I noticed was on comp expense. Just wondering if you could comment on that. Headcount is up slightly year-over-year, but comp has barely moved. Just wondering what's driving that, if that's something that's sustainable or we might see an acceleration there as people compete for talent?

Rania Llewellyn — President and Chief Executive Officer, Laurentian Bank

Yes. Maybe I'll kick off this question. It's Rania. At the end of the day, bottom line is we remain committed to our medium-term target of managing our efficiency ratio to less than 65 percent. Obviously, similar to all industries, base salaries have been impacted by inflation, but we've managed it very prudently throughout the cycle. Inflation has also impacted vendor costs as well. I want to, kind of, put it in perspective.

If you actually—if you combine the impacted NIM pressure that we've had over the past year, unfavourable financial market conditions, if you take our NIM and hold it steady, as well as our other income, our efficiency ratio would actually sit at 66 percent, and that's despite us putting significant investments in our strategic investments, whether it's digital onboarding or digital Visa. We said all along in the last couple of years, cost discipline is definitely something that's in our culture and focusing on identifying operational efficiency, so we can kind of continue to drive that.

We're going to maintain that discipline on both discretionary spend, as well as identifying, continuing to identify efficiency plays that will help us deliver on that medium term target of less than 65 percent.

Marcel McLean — Analyst, TD Securities

Okay. Appreciate that. On that 65 percent, you highlighted the running two Visa platforms as one of the additional costs that will come out. Just wondering when that transition is expected to be complete and how much of an impact that really has on the overall number?

Rania Llewellyn — President and Chief Executive Officer, Laurentian Bank

Yes. We publicly launched the Visa platform for new customers and we're in the process of migrating our existing customers over to the new platform. At this point, we're targeting that that's going to be delivered in the latter part of the year. Once that happens then those costs will come out.

Marcel McLean — Analyst, TD Securities

Thank you. That's all for me.

Operator

Thank you. Next question will be from Sohrab Movahedi at BMO Capital Markets. Please go ahead.

Sohrab Movahedi — Analyst, BMO Capital Markets

Rania, I just wanted to maybe come back to both in the context of the expense ratio and the medium-term targets. I mean, some of the performance indicators you've given are 2024. Obviously, we're only partway through 2023. Employee turnover, if you reduce that, does that actually—which is one of your targets, does that create a headwind vis-à-vis the 65 percent expense to revenue ratio? You need more employee turnover to be able to reprice the cost base, which would be, you know, I guess, kind of running contrary to your target of reducing turnover?

Rania Llewellyn — President and Chief Executive Officer, Laurentian Bank

Yes. Sohrab, what I would say is that we've been prudently managing our expense line not just this quarter, but throughout the year and the prior years. We are constantly looking at what's needed to deliver on our strategic investments, what percentage are full time employees versus contract employees, making sure we're managing our employee base and our salary cost efficiently, as well as identifying other efficiency opportunities as well. I think we've proved that we can deliver on that. That's despite the inflationary pressures that have happened. Again, we continue to—we're committed to delivering that medium term target of 65 percent.

Sohrab Movahedi — Analyst, BMO Capital Markets

Maybe just to put a finer point on it, that to achieve that 65 percent, obviously, depends on the revenue environment as well. Will that include rightsizing the complement of FTE still or is it primarily through decommissioning of platforms and getting, I don't know, synergies on the outsourcing and operating efficiency improvements of the like. I mean, obviously, you right sized your Capital Markets. Is there an opportunity to right size elsewhere as well?

Rania Llewellyn — President and Chief Executive Officer, Laurentian Bank

Yes. Again, we're going to continue to maintain our discipline on all discretionary spend, as well as continuously identifying efficiency plays. Rightsizing the Capital Markets was one example this quarter, but that's again in line with our strategy of making sure that we, kind of, concentrate on specializations where we can win and in sectors where things have slowed down dramatically.

The other example is the rightsizing of our branch space. There's a huge opportunity there. This quarter alone, we were able to right size one of our branches where, as I said in my comments, if you recall, we moved to an advice-only structure in 2019. When you walk into our branches, you've got all these teller spaces and cash vaults that are not necessary. As leases are coming up, we’re reducing that branch space. One example is a lease came up that we just moved into a smaller footprint, and we were able to reduce our lease by $250,000 a year, or $225,000 a year.

We're going to be very opportunistic. We've got a number of those. We reduced our printing costs significantly and that's generated some savings. We've got as part of our simplification strategy and driving efficiencies; we've got lots of different plays. In the meantime, we're going to continue to maintain our discipline on discretionary spend.

Sohrab Movahedi — Analyst, BMO Capital Markets

Thank you for taking my questions.

Rania Llewellyn — President and Chief Executive Officer, Laurentian Bank

Thanks, Sohrab.

Operator

Next question will be from Nigel D'Souza at Veritas Investment Research. Please go ahead.

Nigel D'Souza — Analyst, Veritas Investment Research

Thank you. Good morning. I had a couple of questions for you. The first on deposits. When I look at strategic and retail deposits quarter-over-quarter, looks like that's down sequentially. Am I correct in understanding that the outflows in both categories this quarter exceeded any inflows rate? I was wondering if you could speak to the characteristics of the deposit that are leaving the Bank and the deposits that are coming in, in terms of new or existing client relationships and in terms of whether you're winning deposits on pricing and offering higher rate?

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

Yes. Thank you, Nigel. Maybe what I can do is, we’ll step back and explain a bit what's our funding strategy. That will probably help with what we've been doing. The first one, as I mentioned previously, we want to grow deposits in line with the loan growth, on a relative basis, and that's what we've done over the last 12 months, and we grew deposits meaningfully. Including in Q1, we gathered $1.4 billion of retail term deposits and partnership deposits. Big amount of gathering in Q1. We finished Q1 very strong in terms of the liquidity level.

Second objective is really optimizing and strengthening the funding structure. We also did $800 million of a securitization, which is long-term and cost efficient during the quarter. That can be considered pretty much deposit as well. There's great characteristics there, because it’s long-term, it’s aligned with the assets, it’s cost efficient. It's, in fact, more cost efficient than going and getting broker deposits or municipal deposits that we discussed.

The third one is really optimizing our cost of funds, and that's what we're doing by doing this. It should improve, as I mentioned before, NIM by about 1 bps, all other things being equal. All doing that with a great LCR level and very prudent LCR in the context. We also have retail deposits that have been growing in the last six months by five percent and also growing in Q2.

What we've done this quarter is really using the high level of liquidity we have. The additional secured funding, cost efficient, that we got from securitization to reduce what is shorter term, more costly. As mentioned, the broker deposits is a good example of that. We reduced it by $1.3 billion over the last six months. That's a good example of what we've been doing. We reduced rates where we could and we have such a great liquidity position that that helps us in the context of what's been happening in the U.S. We had a big liquidity war chest.

Nigel D'Souza — Analyst, Veritas Investment Research

Appreciate that. I guess what I'm getting at is, could you speak to what proportion to deposits you consider core versus non-core? How does that relate to liquidity coverage ratio? Because it is running, as you noted, at pretty healthy levels above your peers. Is that because you see your deposit base is perhaps less stickier, less—more non-core deposits and there's greater risk of some deposit outflows here? Or how does that relate to your core, non-core, and LCR?

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

Thank you for your question, Nigel. I'll just go back and say what we've done is we did exactly the inverse. We stabilized and secured the deposit base further versus where we were. We have more secured funding, longer term funding, but we did that also on a cost-efficient basis. What's really interesting is that we mentioned also over the last few quarters that we were taking liquidities up, considering what was happening in the environment. That's what we've done. I mentioned in my script, that we were at 60-basis points higher than where we were a year ago. We gradually increased the level of liquidity, and it turns out that we were in a very safe, secured position with all the term loans that we have this quarter.

Overall, very happy with what we have. As mentioned before to another analyst, of course, at one point, we'll take it down, but we just want to make sure that we put it in a prudent way considering what's happening in the environment out there. There's no way you should read into the LCR is that it's because of instability, it’s in fact the reverse, it's by being more stable that you increase your LCR.

Nigel D'Souza — Analyst, Veritas Investment Research

That makes sense. Switching to credit losses, any colour on what drove the reversal and release of provisions for personal loans. Just trying to get a sense of why we're seeing kind of favourable reverses there given the macroeconomic uncertainty.

Liam Mason — Chief Risk Officer, Laurentian Bank

Thank you, Nigel. It's Liam for your question. Overall, we saw a decrease in investment loans from a volume perspective. Given that volume drop, we proportionally reduced the reserves against that book. We remain very well provisioned against our retail book and comfortable with the levels we have at this time.

Nigel D'Souza — Analyst, Veritas Investment Research

Last quick question just on your inventory financing portfolio. Any comments on what the expected loss rate might be through a cycle just to get a sense of sizing it and what proportion to book does have that creditor protection, or credit protection versus portion that doesn't have some of that credit enhancement, any colour there would be appreciated?

Liam Mason — Chief Risk Officer, Laurentian Bank

We have multiple layers of protection on this book, Nigel. We have the collateral itself. We have the manufacturer support. We have the dealer equity. We have personal guarantees backing those dealers. We also have a disciplined process of curtailments if we're not seeing the turnover. We're happy with the portfolio. It’s returning to pre-pandemic levels, and quite frankly, the level of losses have not been material and we're well reserved. I think we've indicated in the past a return to pre-pandemic levels of utilization. Expect to see some seasonal behaviour, but the portfolio is holding up very well.

Nigel D'Souza — Analyst, Veritas Investment Research

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

Operator

Thank you. Next question will be from Joo Ho Kim at Credit Suisse. Please go ahead.

Joo Ho Kim — Analyst, Credit Suisse

Hi, thanks. Good morning. Just wanted to go back to the discussion on the Capital Markets restructuring in Q3. I do see the savings on the cost side, but are there any lost revenues that we should think about with the restructuring? Just curious if that was disclosed.

Rania Llewellyn — President and Chief Executive Officer, Laurentian Bank

Yes. Joo Ho, it's nice to hear your voice this morning. What I would say is, as I said in my opening remarks, the rightsizing should have no impact on the revenue. We're going to continue to focus on our areas of strength. Again, should the market conditions change and there are opportunities for us to kind of grow again in the areas and the sectors that we can compete to win, we'll be reassessing that. At this point, the impact has really been on the sectors that have seen significant slowdown and I would say no impact from a revenue perspective.

Joo Ho Kim — Analyst, Credit Suisse

Okay. Got it. Thank you. Just on your gross impaired loans, it's up sequentially, and I do see some new formations there that picked up higher this quarter. Just wondering, can you comment on what—more detail? Can you, I guess, give us some more detail on just whether it came from certain geographies and certain sectors? Also on the repayment side, for that matter, also looked high as well as this quarter. Just wanted to get a sense if this was just more regular course recovery or if there's anything specific there as well. Thanks.

Liam Mason — Chief Risk Officer, Laurentian Bank

Thank you for the question. It's Liam, I'll walk through it. Overall, the GIL migration was in a few commercial files, no specific geography or sectors. It's really to be expected in this environment that you would see an uptick, and I think you've seen it in the industry as a whole. Overall, very comfortable with our provisioning against these files. Indeed, the files that migrated into impaired were already fully reserved, consistent with our prudent and disciplined reserving approach.

I'd note that we've been very disciplined in terms of building reserves as the macroeconomic conditions have evolved and that disciplined approach has served us well. We have a customer focused way of working these files out and usually see good results as a result of that discipline.

Joo Ho Kim — Analyst, Credit Suisse

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

Operator

Thank you. Next question will be from Pranoy Kurian at National Bank Financial. Please go ahead.

Pranoy Kurian — National Bank Financial

Good morning. Just a question on expenses. You had highlighted last quarter that expense would be elevated in the first half. I'm just wondering about the technology premises cost, I think that's—it's up to around $49 million. Do you see that staying at the same level or does that sort of fade as the year goes on?

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

Yes. Thank you for your question, and nice to hear you for the first time, I believe. The technology cost, the increase that you see there is in relation to our strategic projects. As we are improving the technology of the Bank, we've been investing, for example, for the digital solution that we're going to be putting in place is a great example of that. The increase there is definitely having talent to make sure that we have what we need to support the strategic projects that we have. Also, as we invest in those projects, there is some depreciation coming from those as well that do show up on the technology side. At this point, I would expect that line to remain roughly in line with the level where we are.

Pranoy Kurian — National Bank Financial

When I look at employee costs up two percent year-on-year, I know there are three fewer days, but going forward, do you see it trending up again or should it stay flat?

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

Yes, the way, in fact, as Rania mentioned a few minutes ago. We've been managing very prudently our cost base, and that includes the people and the employee as well. We did absorb the salary increases in the environment by managing efficiently the employee base. We're just going to continue doing the same thing. The best metric to use is really that we intend to improve the efficiency ratio to below 65 percent in the medium-term. That's something that we should be focused on. We mentioned that in Q3, we'll have still elevated expenses related to Visa migration and strategic elements. We should probably expect an efficiency ratio in the same ballpark.

Pranoy Kurian — National Bank Financial

All right. Lastly, on the NIM you had mentioned that you expect inventory utilization levels to trend down in Q3. I'm guessing that that boosted your NIM in this quarter, what's the negative impact that that would have if you were to go down to say 45 percent utilization. How would that impact your NIM outlook?

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

Yes. The key point to remember is that when the volume goes down in the quarter, it goes down gradually. When it goes up in the quarter, it goes up gradually. When you could—if you take a look at Q2 versus Q3, there may be some impact depending on the exact volume, but it should not vary the NIM that much Q2 versus Q4.

Pranoy Kurian — National Bank Financial

All right. That's helpful. Thanks.

Operator

Thank you. That is all the time we have for questions. I would like to turn the meeting over to Rania.

Rania Llewellyn — President and Chief Executive Officer, Laurentian Bank

Thank you for your questions today. We remain focused on our strategic plan and delivering against our three core priorities for this year. Customer experience is top of mind, and I am pleased with the results of our reimagined Visa experience including the number of customers signing up for our new suite of cards from across Canada. Deposits and an optimized funding structure remain a priority. Our digital account opening solution is supporting this objective by gathering cost-effective deposits from customers across the country.

We will continue to take the necessary actions to simplify and automate processes to reduce our efficiency ratio. We take a prudent approach to credit, and we'll manage capital to support growth. We are confident in our ability to execute on our plan and deliver meaningful value for our shareholders.

Thank you again for joining the call and I hope everyone has a nice summer.

Operator

Thank you. Ladies and gentlemen, this does indeed conclude your conference call for today. Once again, thank you for attending. At this time, we do ask that you please disconnect your lines.