Banque Laurentienne du Canada

Fourth Quarter 2023 Results

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PRESENTATION

Operator

Welcome to the Laurentian Bank Quarterly and Annual Financial Results Call. Please note that this call is being recorded.

I 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 á tous. Good morning everyone. Today's opening remarks will be delivered by Éric Provost, President and CEO, and the review of the fourth quarter financial results will be presented by Yvan Deschamps, Chief Executive Vice President and Chief Financial Officer, after which we will invite questions from the phone. Also joining us for the question period are Liam Mason, Chief Risk Officer, and Kelsey Gunderson, Head of Capital Markets.

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

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. Éric and Yvan will be referring to adjusted results in their remarks unless otherwise noted, as reported.

I will now turn the call over to Éric.

Éric Provost — President, Chief Executive Officer, Laurentian Bank

Thank you Andrew, and (French Spoken). Good morning and thank you for joining us today. I'm humbled to be speaking to you as the new President and CEO of Laurentian Bank. I know that the past few months have been a challenging period for the Bank with the conclusion of the strategic review and an outage of our mainframe, which impacted our retail and some small business customers for more than three days. There were also a series of leadership changes. Notwithstanding, I strongly believe that there is a stable and brighter future ahead for our organization.

I would like to thank the entire Laurentian Bank team for their resilience and commitment to our customers, to each other, our shareholders and all other stakeholders during this time. I would also like to thank our customers for the trust you've placed in us. You continue to be our number one priority and my commitment to you as the Bank's new CEO is that we will do better.

While we have made significant progress over the past few years, our results this year have been impacted by continued macroeconomic uncertainty and limited progress in reducing our cost base. That's why I will be devoting some time today to talk about our path forward; but first, I will provide an overview of our results and recent changes at the Bank.

On an annual basis, the Bank had total revenue of $1.03 billion, relatively in line with last year. Strong growth in interest income from commercial loans was offset by lower financial markets-related revenue, which continued to be impacted by unfavourable market conditions. Net income for the year was $208 million, down 12 percent compared to last year, and EPS was $4.52 or down 13 percent. Over the past year, we made a series of foundational investments in talent acquisition, technology and business development to improve the customer experience. As a result, expenses were up 4 percent compared to last year and our full year efficiency ratio was 69.9 percent. With our prudent and disciplined approach to credit, our PCL ratio was relatively in line with last year at 17 basis points.

In the fourth quarter, net income was $44.7 million and EPS was $1.00, down 22 percent and 18 percent respectively quarter-over-quarter, and down 23 percent and 24 percent respectively year-over-year. Results this quarter were negatively impacted by $5.3 million or $0.09 per share from the mainframe outage. Of note, monthly service fees for the months of September and October were waived to support our customers and make things right.

This quarter, we also announced restructuring and strategic review-related charges of $11.7 million after tax. This includes severance charges, impairment charges and professional fees resulting from the Bank's review of strategic options. This amount is excluded from our adjusted results.

Relative to the guidance we provided last quarter, loan growth was muted as macroeconomic conditions impacted business and consumer spending. Our efficiency ratio was higher at 72 percent due to a lower loan base, unfavourable market conditions, and higher expenses due to the outage. NIM was down 8 BPs due to lower interest income from commercial loans and higher liquidity levels. PCLs were

18 BPs, down 1 BP from last year and up 4 BPs compared to last quarter. Capital remains strong at 9.9 percent, up 10 BPs sequentially.

Before moving onto some of the recent changes at the Bank, I would like to address two of our commercial banking specialties, inventory financing and commercial real estate. Inventory financing remains a core specialty, and while utilization rates were down this quarter as dealers took a more conservative approach to inventory volumes, it is still aligned with our credit appetite. We have a well diversified and healthy dealer network and expect a modest ramp-up of inventory heading into the 2024 season.

In commercial real estate, the majority of our portfolio is in multi-residential housing, where demand is stronger than supply. While we have seen a slowdown in some projects, there have been no project cancellations. As a reminder, we deal with Tier 1 and Tier 2 developers and are comfortable with our portfolio.

I would now like to address some of the recent events at the Bank, beginning with the mainframe outage. On September 23, the Bank along with third party partners initiated an upgrade to one of its two mainframe computers. The update was unsuccessful and led to a multi-day outage, where our retail and some small business customers could not access a number of our electronic services, including our online banking platform. Throughout the outage, our customers were able to use their debit and credit cards at point of sale and withdraw money at ATMs, and at no time were customer funds or data at risk.

This situation was completely unacceptable. In response, we've established and successfully executed on a three-point plan to restore trust with our customers. First, we resolved all outstanding issues related to the outage. Second, we increased communication with our customers to ensure that they were provided with timely updates on the full restoration of the Bank's services. Third, we launched a comprehensive review of the factors that led to the outage. We have shared updates with our Board and are adjusting internal processes as required, based on the lessons learned.

On October 14, 2023, following my appointment, we initiated the succession plans for personal and commercial banking designed to increase our focus on customers. First, Sébastien Bélair was appointed as the Bank Chief Operating Officer. In addition to his responsibility for retail operations, his mandate was expanded to include oversight of product and digital development. This structure will allow the Bank to focus on the customer from an end-to-end product and servicing perspective.

Second, Thierry Langevin joined the Bank's executive committee by assuming the role of Executive Vice President, Commercial Banking. Thierry has long been on the succession plan for commercial banking and with more than 10 years of experience at the Bank and 20 years in commercial financing, he brings a proven track record of building and maintaining strong relationships with the Bank's commercial clients.

Third, Sophie Boucher was appointed Senior Vice President, Head of Personal Banking, Distribution, and Small-Medium Enterprises. With more than 25 years of experience at the Bank, she is tasked with extending commercial banking's highly successful customer service practices and distribution to personal banking. I am confident that with these changes, we are bringing our senior leaders even closer to the customer and make them more accountable for the customer experience.

Moving forward, we will be revamping our strategic plan and sharing further details with you in the spring. We are already taking action today under the following guiding principles: understanding the past in order to shape the future; simplifying the organization to increase efficiency; and re-focusing the Bank's core activities to create maximum value for our customers.

To that end, we have introduced three strategic priorities for the organization: first, becoming more customer centric. As previously outlined, we have made a series of executive changes that move customer-centric individuals in key roles and give them and end-to-end view of the customer experience. We will now continue to cascade this approach throughout the organization. Second, simplification. Laurentian Bank has talked about simplification and efficiency for many years without results. Notwithstanding the investments we had to make to close foundation gaps for our customers, we have failed to reduce expenses at an appropriate pace.

We must now focus on running the Bank versus transforming the Bank and we are already taking action. Earlier this week, we began to simplify our organizational structure and eliminated approximately 2 percent of our workforce. As part of our strategic planning exercise, we will also be reviewing all products and projects. Product will be evaluated on customer satisfaction, value and margin. Projects will be reviewed on their ability to generate revenue or improve our activities. If they do not meet certain thresholds, we will eliminate those products and pause or cancel those projects.

Third, technology investments will be focused on running the Bank and improving our systems. We will also continue to invest prudently in technology projects that generate additional revenue. I am also committing to ensuring that our dollars are appropriately directed to maximize net income and return to shareholders. Going forward, we will be looking for performance-driven results on our investments.

In conclusion, these steps I just outlined will streamline the organization and allow us to focus on what we do well: serving our customers, improving customer trust, and ensuring that we remain a strong Quebec-based financial institution.

I would now like to turn the call over to Yvan to review our financial performance.

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

Merci Éric, et bonjour á tous. I would like to begin by turning to Slide 9, which highlights the Bank's financial performance for 2023.

Total revenue for the year was $1.03 billion, relatively in line with last year. On a reported basis, net income and EPS were $181.1 million and $3.89 respectively. Adjusting items for the year amounted to $27.3 million after tax, or $0.63 per share, and includes amortization of acquisition-related intangible assets and restructuring and strategic review-related charges of $17.7 million - this includes $13.4 million resulting from changes in the Bank's management structure and the right-sizing of the Bank's capital markets franchise, as well as strategic review-related charges of $4.4 million. Details of these items are shown on Slide 24.

The remainder of my comments will focus on the fourth quarter on an adjusted basis.

Total revenue, as seen on Slide 10, was $247.4 million, down 4 percent year-over-year and 5 percent sequentially due to fee waivers of $2.3 million related to the mainframe outage and from a lower contribution from financial markets related to revenue as a result of sustained unfavourable market conditions. EPS of $1.00 was down year-over-year and quarter-over-quarter by 24 percent and 18 percent respectively, impacted by $0.09 due to charges related to the outage.

Net income of $44.7 million was down by 23 percent compared to last year and 22 percent compared to last quarter. The efficiency ratio was up by 540 basis points compared to last year and 350 basis points sequentially as uncertain macroeconomic conditions impacted revenue and our continued investments in strategic priorities. ROE was 6.6 percent.

Slide 11 shows net interest income down by $900,000 or 1 percent year-over-year—sorry, exact, mainly due to higher liquidity levels and funding costs, partly offset by higher interest income from commercial loans. On a sequential basis, the decrease of $9.2 million or 5 percent mainly reflects lower interest income from commercial loans and higher liquidity levels. Net interest margin was down 8 basis points sequentially to 1.76 percent, mainly for the same reasons.

Slide 12 highlights our diversified sources of funding and the Bank's liquidity position. Year-over-year, cost efficient long term debt related to securitizations increased by $700 million, and loans decreased by $500 million. As an offset, we reduced wholesale funding and rate-sensitive deposits while maintaining the same level of personal deposits. On a sequential basis, total funding was relatively flat. Personal term deposits were up $300 million, which was offset by a decrease in demand deposits as customers choose higher interest rate products in the current environment. The Bank maintained a strong liquidity coverage ratio through the quarter. Retail deposits only slightly reduced by $50 million in Q4 and were not materially impacted by recent events.

Slide 13 presents other income, which decreased by 12 percent compared to last year because of unfavourable market conditions impacting financial markets-related revenue, including fees and securities brokerage commissions and income from mutual funds. On a sequential basis, other income was down 6 percent or $4.2 million, mainly for the same reasons, as well as a $2.3 million reduction in service charges for customer banking fees waived as a result of the mainframe outage.

Slide 14 shows non-interest expenses up by 4 percent compared to last year, mainly due to higher technology depreciation and amortization costs as the Bank continues to invest in its strategic priorities. There were also additional expenses of $3 million as a result of the outage, partly offset by lower performance-based compensation. On a sequential basis, non-interest expenses were relatively flat, mainly due to sequentially lower performance-based compensation.

As Éric mentioned in his remarks, we have taken steps this month to further simplify our organizational structure. As a result, restructuring charges of $6.5 million before tax are expected to be incurred in the first quarter of 2024 and will generate annual cost savings of approximately $8 million before taxes.

Turning to Slide 15, our CET-1 ratio was up 10 basis points to 9.9 percent due to internal capital generation and a reduction in the right-weighted assets.

Slide 16 highlights our commercial loan portfolio, which was down $400 million or 2 percent year-over-year and was sequentially stable.

Slide 17 provides details of our inventory financing portfolio. This quarter, utilization rates are down slightly as dealers have been taking a more conservative approach to inventory. We've seen a modest ramp-up of inventory going into 2024 and we expect utilization rates to increase slightly next quarter but remain below historical levels. Given the current economic environment, we are monitoring the portfolio closely.

In commercial real estate, our unfunded pipeline remains healthy, but the market is still cooling. Some developers have slowed down given the current macroeconomic environment as they navigate through this period of high inflation and interest rates; however, demand in residential real estate continues to exceed supply. We expect our unfunded pipeline to be impacted in line with the market.

As seen on Slide 18, the majority of our portfolio is in multi-residential housing and only 3 percent of our commercial loan portfolio is in office. Our office portfolio consists of Class A or B assets and financial recourse to strong and experienced sponsors. As we've said over the past few quarters, the majority of the portfolio is in multi-tenanted properties with limited exposure to single-tenanted buildings.

Slide 19 presents the Bank's residential mortgage portfolio. Residential mortgage loans were up 3 percent year-over-year and 2 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 59 percent and low LTV of 49 percent on the uninsured portfolio. It is also worth noting that more than 80 percent of our residential mortgage portfolio is fixed rate, of which more than 80 percent will mature in 2025 or later.

Allowances for credit losses on Slide 20 totaled $214.8 million, up $13.6 million compared to last year mostly as a result of higher provisions on commercial loans related to credit migration. Allowances for credit losses decreased by $2.3 million sequentially mostly as a result of already provisioned net write-offs.

Turning to Slide 21, the provision for credit losses was $16.7 million, an improvement of $1.2 million from a year ago reflecting lower provisions on performing loans due to volume reductions and credit migration, partly offset by higher provisions on impaired loans. PCLs were up by $3.3 million compared to last quarter due to higher provisions on impaired loans.

Slide 22 provides an overview of impaired loans. On a year-over-year basis, gross impaired loans increased by $70.3 million and were up $26 million sequentially, mostly in the commercial portfolio, which is well collateralized. We continue to manage our risk with a prudent and disciplined approach and remain adequately provisioned.

Over the past few years, we have maintained a dividend payout ratio at the lower end of our stated range of 40 percent to 50 percent. Our current payout ratio is currently high and expect it to be next quarter. As a result of ongoing macroeconomic conditions, our current high payout ratio and dividend yield, the Board decided to prudently maintain our quarterly dividend at $0.47.

As we look to the beginning of 2024, I would like to note a few key points focused on the first quarter. We expect our loan book to be relatively stable, but if macroeconomic conditions continue to negatively impact business and consumer spending, we may see a small decline in the first quarter. Considering the muted loan growth, the current macroeconomic environment and recent events, we have been managing at a high level of liquidity. We now intend to manage our liquidity down slightly and gradually over the coming quarters while remaining prudent. The NIM is expected to remain relatively stable.

We expect our efficiency ratio to increase in the first quarter due to a seasonal increase in payroll taxes as we start the new year and pay annual bonuses, as well as due to the reset of the performance-based compensation. We mentioned that a key priority for the Bank is to simplify and improve our operational efficiency. We are committed to reducing our efficiency ratio and will share more details with you in the spring as part of our revamped strategic plan.

Given the macroeconomic environment, PCLs are expected to be in the high teens to low 20s. As a reminder, an LRCN interest payment is due next quarter, which has an impact of $0.06 on our EPS.

I will now turn the call back to the Operator.

Q & A

Operator

Thank you. (Operator instructions)

Your first question will be from Meny Grauman at Scotiabank. Please go ahead.

Meny Grauman – Analyst, Scotiabank

Hi, good morning. Yvan, just wanted to clarify something off the top in terms of the guidance you provided at the end of your commentary, just to clarify that most of it was directed at Q1, and then the PCL guidance for the year as a whole, do I have that right? I just wanted to double-check.

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

Yes Meny, the guidance was related essentially to Q1, but for the PCL, I think it applies probably to Q1 and the full 2024.

Liam Mason — Chief Risk Officer, Laurentian Bank

Yes Meny, this is Liam. Our expectations are in the high teens, low 20s for the full year on PCL guidance.

Meny Grauman – Analyst, Scotiabank

Okay, thanks for that. Another clarification in terms of the restructuring charge that you're going to take in Q1, you highlight run rate savings of $8 million. Just wondering if you see that flowing down to the bottom line or is there a need to reinvest that at this stage?

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

No, definitely Meny, it's done for impacting the efficiency ratio, so the $8 million is savings that is expected to—this is pre-tax, but it's expected to flow down to the bottom line.

Meny Grauman – Analyst, Scotiabank

Got it. Then maybe this is a question for Éric - you know, it definitely sounds like there is a level of frustration on your part in terms of the progress on expense management at the Bank. I'm just curious about a few things: one, if you could go into more detail in terms of how you analyze the problem, why has expense management not been at the level that you think it needs to be. If you look back historically, where do you see the issues? Maybe start there.

Éric Provost — President, Chief Executive Officer, Laurentian Bank

Yes, thank you Meny. I would not qualify those as issues. I think that we haven't tackled simplification as hard as we could have in the past, and what I'm committed to is that me and the leadership team in place will be revisiting the strategic plan and make sure that on the core aspects, we focus more on our customer, we focus more on creating efficiencies through simplification, and that while doing that, we will continue and invest in the fundamental technology. But I think it's a whole, Meny, at the end of the day.

Meny Grauman – Analyst, Scotiabank

That's really the second question, especially in the context of the systems outage. As you cut, how do you gain confidence that you're cutting in the right places and not cutting in the wrong places, that might lead to issues? Just high level, how you see that playing out, how you make sure that you're cutting in the right places.

Éric Provost — President, Chief Executive Officer, Laurentian Bank

I think I'm surrounded with talented executives that have great experience, and I've been around the Bank 11 years, Meny, so I have a pretty good feel of where we're performing, where we can improve, and again it's going to be part of the full exercise we're going to undertake, and it's already started, as you know. We've reduced 2 percent of our workforce this week, and we'll keep making the right assessments and make sure that the decisions we're taking are to make our Bank a better bank at the end of the day.

Meny Grauman – Analyst, Scotiabank

I know you're going to have—you're going to speak about your strategic plan in more detail in the spring - you made that clear, but just on this expense issue in terms of where expenses go from here, ideally is there an efficiency target that you think is important to reach, even if it's just a range? At what point would you say mission accomplished in terms of expenses? How much improvement is there for Laurentian Bank?

Éric Provost — President, Chief Executive Officer, Laurentian Bank

The only thing I can come back to, Meny, is that the goal of the previous strategic plan was to get us below the 65 percent mark, and we're not heading in the right direction right now, so again, part of the revamping will be to get back to the drawing board, make sure that we address the path of simplification and that we go the other way around.

Meny Grauman – Analyst, Scotiabank

Understood, thank you.

Éric Provost — President, Chief Executive Officer, Laurentian Bank

So no particular target at this point.

Meny Grauman – Analyst, Scotiabank

Understood, thank you.

Operator

The next question will be from Paul Holden at CIBC. Please go ahead.

Paul Holden – Analyst, CIBC World Markets

Thank you, good morning. On the guidance, appreciate that it was focused on Q1. I think the other important factor for us to have a good sense on is the net interest margins. I'm not sure to what extent that might be impacted by your upcoming strategic review, but if you'd give us any kind of colour on NIM outlook for the full year, I think that would be helpful and appreciated.

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

Yes, there is definitely a few factors impacting this, Paul, but at this point, I would probably guide to relative stability. We expect 2024 to be impacted by the macroeconomic environment, so the loan growth is going to be relatively muted, so the portfolio mix is definitely something that could play in, but it should not move that much in the coming year based on the fact we expect relatively muted growth.

What should be helping the NIM a little bit, by a BP or two gradually over the next few quarters, is that we've been prudently managing at high liquidity levels relative to the economic environment, as well as the recent events at the Bank, so we will gradually reduce that excess liquidity that we've been maintaining, so there is probably a BP or two that's going to be coming from this. But at this point, I think we're just going to be prudent in terms of NIM management or expectations.

Paul Holden – Analyst, CIBC World Markets

Okay, that is helpful, thank you.

Then a specific question on funding, the strategic partner deposits were down roughly 10 percent quarter-over-quarter. What drove that, and are the strategic partner deposits still an area of focus for Laurentian?

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

Yes, thank you for your question, Paul. The strategic deposit is the key reduction in terms of deposits on the demand side. We have to keep in mind that this is demand deposits, right, so it does follow the trend that we've seen in the street of going from demand to term deposits, so that's what we've been seeing, so it seems that it just continues going to term deposits or some kind of investment, so there's nothing particular this quarter in terms of that reduction. It's really related to market dynamics that we've seen in terms of demand.

Paul Holden – Analyst, CIBC World Markets

Okay. On that, based on that answer, is there then an opportunity for Laurentian to offer term deposits to those same partners?

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

I don't want to go too much into details of those agreements for competitive reasons, Paul, but it's really structured around demand deposits. With the partners we have right now, there is less opportunities to do the term deposits, but definitely we're always looking at partnerships on the deposit side, but the ones we have right now are really structured around demand deposits.

Paul Holden – Analyst, CIBC World Markets

I understand, okay, okay. Next question is with respect to credit. Obviously nothing worrying in the PCL ratios, but if I look at Slide 22, I can see both the gross and net impaired loans on a basis point basis increasing faster than PCLs, and again nothing necessarily worrying there, it's just rate of change is different. My question really is, why not increase provisions a little bit more, be a little bit more conservative in terms of how you're managing the allowances, particularly given you've highlighted economic challenges ahead?

Liam Mason — Chief Risk Officer, Laurentian Bank

Paul, thank you for your question - it's Liam Mason, Chief Risk Officer. You may recall that over the past year or so, we've been very, very measured in terms of setting our ACLs. While some other larger banks released post the pandemic, we maintained our reserves. We have a very disciplined ACL process. We benchmark our economic scenarios against the Bank of Canada and the competitors. We have very good coverage ratios and we take a prudent and measured approach to setting those ACLs. We're very comfortable with where we are right now, given that measured, disciplined approach, and we will be continuing to do that.

Paul Holden – Analyst, CIBC World Markets

Okay, okay. Last question and probably the most important question from me, with respect to capital allocation, so CET-1 ratio of 9.9, up 80 basis points from a year ago. I would agree you're in a good capital position, so—and given the outlook for muted loan growth, what is the plan to use that additional capital you've built over the last year, or maybe the question is do you believe you have capacity to use it, and if you do, how would you plan on using it? I would argue with the stock trading at less than 0.5 times book and operating ROE of, let's call it around 8, buying back stock is a pretty attractive use of capital, so interested to hear your thoughts on that.

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

Thank you, Paul. I'll take this one. We're at 9.9 percent, so in this environment, it's a good place to be. We're comfortable with the capital base that we have, and I think it's a great moment in time probably to have that. We've mentioned loan growth is going to be relatively muted for the next few quarters, so I would say stay tuned. We're looking at the plan right now and we're going to come back in a few quarters and probably provide more perspective on what we're going to be doing exactly. But at this point, we like the position we're in, very comfortable in the current environment. It's a great place to be.

Paul Holden – Analyst, CIBC World Markets

Okay, that's it for me. Thank you.

Operator

The next question will be from Sohrab Movahedi at BMO Capital Markets. Please go ahead.

Sohrab Movahedi – Analyst, BMO Capital Markets

Okay, thank you. Éric, perhaps some of these questions are going to be answered in more detail when you do your, I guess, strategic review unveiling, but when you say the focus is on customer centricity or being more customer centric, can you just elaborate what does that mean, and how it would be different from how you are operating today, or have been operating, I guess, over the last number of years?

Éric Provost — President, Chief Executive Officer, Laurentian Bank

Well, one thing I can comment on, Sohrab, and thank you for the question, is definitely sharing best practices. As we've highlighted in the past quarters, our NPS from our commercial banking customers have been quite exceptional and we were able to actually build a strong culture around value added to our customer base in that particular segment, and from the get-go, it is just a question of sharing those best practices. I think that I highlighted that in my intro in terms of appointing the right leaders to get that expertise closer to our other business lines, so this is a start but for sure, as you mentioned, the plan will get us further there.

Sohrab Movahedi – Analyst, BMO Capital Markets

Okay, and the other thing you mentioned, I think as you finished off your remarks, opening remarks, was that you intend to remain a strong Quebec-based financial institution, so I guess I just wanted to see if you could comment as to whether or not, as you are doing the strategic review, it may entail perhaps tightening the footprint, or was that just a generic statement? I just want to make sure I understand if the path forward, for example on higher ROE, may actually involve shrinking the Bank a little bit.

Éric Provost — President, Chief Executive Officer, Laurentian Bank

Well Sohrab, no, I just think it's a fact - we are a Quebec-based institution with activities across Canada in some specialties that go to North American scale, so nothing to be decoded there except that our roots are deeply engrained into the Quebec market.

Sohrab Movahedi – Analyst, BMO Capital Markets

Okay, understood. Thank you very much.

Éric Provost — President, Chief Executive Officer, Laurentian Bank

Thank you.

Operator

The next question will be from Gabriel Deschaine at National Bank Financial. Please go ahead.

Gabriel Deschaine – Analyst, National Bank Financial

Hi, good morning. I have a technical question on your NIM change explanation, and then I want to dive into the liquidity comment there and outlook a little bit more.

But on the NIM performance, one of the items you identified was that commercial NII was down. I'm just trying to understand why that is, because if I look at balances, they were—you know, at least on a spot basis, they were flat. Maybe I'm missing something there.

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

Thank you Gabriel, I'll take this one. If you look at the end of Q3 versus the end of Q4, there is—they're pretty much aligned. The way it works is that you need to look at the average balance for the quarter. So, if you look at Q3, there's been a reduction of $800 million in commercial assets, which did not recur or reverse in Q4, so if you take that, apply a good margin, you're going to get to the explanation of the NIM.

Gabriel Deschaine – Analyst, National Bank Financial

Got it, okay. Then on the liquidity, and this is probably one of these average balance things, but if I do simple average using your spot balances, and forgive me if you disclosed these average liquidity balances somewhere, but if I just look at cash deposits with banks and securities, the ratio of those liquid assets to earning assets, it was up a bit sequentially but pretty much in line with previous quarters earlier this year, and actually down versus last year, so it doesn't look to me that you've dramatically increased liquidity or anything like that, so—and maybe I'll file this one in the technical questions as well, maybe you can walk me through what I might be missing, or how you define liquidity perhaps, because some of this stuff doesn't get disclosed.

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

It's a good question, Gabriel, and unfortunately I would acknowledge that the details of the Bank financials doesn't give you all the answers in relation to liquidity. But the way we look at liquidity internally is what we call liquidity buffers, so the way that, for example, we're guided by items like LCRN, CCF and other metrics, it looks at the commitments and what's coming and the inflows and the outflows and all of that, so unfortunately you don't have all of that information. But when you look at that, after you look at the net inflows versus outflows and the requirements of what you need, it's what we describe internally as the buffer of liquidity, and that buffer of liquidity has been running higher than last quarter.

Gabriel Deschaine – Analyst, National Bank Financial

Okay. I'm a bit surprised to hear you say you're going to take liquidity down over the next few quarters, maybe not dramatically but whittling away at it, whatever. I would think some—you know, given the issues, given the deposit base that's been, well, now shrinking in some areas, that maybe some, we'll call them outside observers would want you to stick with higher liquidity ratios for an indeterminate period. What's the…

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

Yes, thank you for your question. I'm happy to discuss about deposits and liquidity in general. We have diversified and have a solid funding in place at the Bank. We've been running high in terms of liquidity, so the real key element here is that we've been running high, and we did that in the context of the economy and we did that in the context of the recent events. But you know, we have great customers, they've been resilient with us. There's been no material impact from recent events, and at this point despite being prudent with the macroeconomic environment, we do have an excellent buffer in terms of liquidity that we can take down a bit.

If we were running normal or low in terms of liquidity, I wouldn't tell you I would reduce. It's in the context of we've been running high for a few quarters, so in that context, we have the availability to do that and that may be helpful (inaudible).

Gabriel Deschaine – Analyst, National Bank Financial

Okay, so when I look at the—you're saying there's been no fallout from the—well, at least from a customer standpoint, retention standpoint. I see the personal deposits down a bit from last quarter, nothing crazy, but the business deposits were down 4, 5 percent - that's normal course, nothing—nobody said okay, I'm done with Laurentian or anything like that?

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

Yes, two elements, Gabriel. First, if you look at retail, it has been the customer base that's been impacted by the outage. There is a $50 million variation over multi billions of dollars of deposits, so I would call that definitely non-material. It's not been impacted, pretty much, by the outage, and we think our customer base that's been very trustworthy with us and loyal, so we appreciate that and we thank them for that.

What you mentioned on the commercial side, in fact we bundle a few categories into that one. We also bundle what is called wholesale funding - you know, the BDNs, FRNs and SDNs, and most of the reduction has been in that category, so using less wholesale right now is good. For anybody that can use less wholesale than just use their personal deposits, it's a great place to be. It's also a reflection of the fact we've been running high in terms of liquidity, and for whatever is what we call also rate-sensitive deposits, we didn't have to compete highly in the market, so we could take the opportunity to take that down a little bit as well.

Overall, solid, solid liquidity base, and the deposits are very solid and not been materially impacted by the events.

Gabriel Deschaine – Analyst, National Bank Financial

Got it, and then last one, I guess another technical one, the RWA deflation, so the 30 basis point boost to your capital ratio, can you explain that one to me? Was it some lagged impact from the CAR guidelines, or something like that?

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

No, there is no specific changes to the CAR guidelines. It's a reflection of some reductions and changes in the mix, but the way we look at it, yes, it's a bit—yes, so it's mainly related to that.

Gabriel Deschaine – Analyst, National Bank Financial

Okay, thank you. Joyeux Noel.

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

Thank you Gabriel.

Operator

(Operator Instructions)

Your next question will be from Darko Mihelic at RBC Capital Markets. Please go ahead.

Darko Mihelic – Analyst, RBC Capital Markets

Hi, thank you. Good morning. My first question is, are you committing to earnings per share growth in 2024?

Éric Provost — President, Chief Executive Officer, Laurentian Bank

Good morning Darko.

In fact, Darko, we're going to be reviewing the plan, as we mentioned, so we're going to get back to you with more specific plans and more specific guidance. At this point, we're not providing guidance for 2024.

Darko Mihelic – Analyst, RBC Capital Markets

Okay, thank you. Similar question - Laurentian Bank has in the past cut its dividend . Are you committed to keeping the dividend at its current level for 2024?

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

In fact, we just mentioned that we're holding the dividend increase this quarter, based on the fact that the payout ratio of the Bank has been pretty high, so the Board decided to act prudently in the economic environment, and the Board decides every quarter the decision, so I think it's too early to discuss next the dividend decision at this point.

Darko Mihelic – Analyst, RBC Capital Markets

Okay. The Bank had a strategic review last year. I guess there's a couple questions around—like, is that going to be something that may occur more frequently at Laurentian as we go forward now at the Board level? I guess in a roundabout way, where I'm coming from on this question is there was some information circulating, I guess last year that perhaps there was someone looking to acquire Laurentian going forward, and I'm just curious if the strategic review could happen again in 2024. Is there any intention to hold a strategic review every year going forward?

Éric Provost — President, Chief Executive Officer, Laurentian Bank

Hi Darko, it's Éric. I'm going to take this one. Listen - as it was announced mid-September, the strategic review was closed and the decision was to actually pursue with accelerating and reducing, simplifying this organization. This is what I'm committed to doing with our executive team, so I won't speculate about future years. What I can tell you is that me and the team will be working together to revamp the plan. We're comfortable right now about the business mix and how we operate and how we've been able to focus on specialized aspects, mostly in our commercial business lines, but the thing for sure we will put more emphasis on our customer, where we bring value. We need to streamline and be a simpler bank, and we will keep investing in the foundational technology that will keep us in the right spot. This is what I can share right now in terms of where we are.

Darko Mihelic – Analyst, RBC Capital Markets

Okay, that's helpful, thank you. One last question from me, just given the existing business mix and your expectations, what would be a reasonable tax rate to assume for 2024?

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

Yes, it's a good question. I'll give it to you for next quarter, for sure. We're at 15 percent on an adjusted basis for Q4. I would expect that to be 1 to 2 percent higher because the restructuring charges impacted the highest tax rate portion of the Bank, so I would see gradually an increase of the tax rate over 2024, starting in Q1.

Darko Mihelic – Analyst, RBC Capital Markets

Okay, great. Thank you very much for taking my questions.

Operator

The next question will be from Lamar Persaud at Cormark. Please go ahead.

Lemar Persaud – Analyst, Cormark Securities

Thank you. Maybe for Yvan, you mentioned stable—like, relatively stable margins. Is that relatively stable to Q1 or was that relatively stable versus last year, so the full year? Can you just clarify that?

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

No, it's relatively stable Q1 versus Q4, so that's the key element. Of course, like any other institution, we need to see what's going to be happening to rates in the market in general, but we can reassess that next quarter. But for the next quarter, relatively in the same ballpark and potentially a bit better, if we can reduce slightly liquidity.

Lemar Persaud – Analyst, Cormark Securities

Okay, so it's just Q1 - okay, understood.

Yvan, maybe sticking with you for a moment, can you talk to any benefits from this quarter's restructuring charges? I think you mentioned the $8 million in cost savings from next quarter's restructuring, but I didn't hear anything for this quarter, so should we assume no savings from this quarter? What are your thoughts on that?

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

No, no. There are some definitely, not to the same quantum of the restructuring because of the nature of them. The restructuring this quarter included mostly charges related to the management changes, so it will—some of those have not been replaced, they will generate some savings, but overall not to the same quantum.

Lemar Persaud – Analyst, Cormark Securities

Okay, and then maybe I'll switch over to Éric here, just on that thought. Would it be fair to suggest you have the right management team in place right now, so there is no more shifts we should expect at the top of the house? Is that a fair statement?

Éric Provost — President, Chief Executive Officer, Laurentian Bank

Well, with the recent appointments we just made, Lemar, I think surrounding me is the right team, and we'll work together to again focus on our structure and simplifying the organization. Right now, I have the right level of experts with me to achieve this revamp plan.

Lemar Persaud – Analyst, Cormark Securities

Got you, and then last one from me, I know you're still assessing the go-forward strategy and you're going to provide more details in the spring, but it sounded like, based on your comments, you have some pretty strong thoughts on what you could do on the expense side. Maybe I'm reading too much into it, but could you talk broadly speaking where do you see the areas of low-hanging fruit? You already talked about the employee reduction, the restructuring charge next quarter, but maybe, even if broadly, what are some other areas that you think you could find substantial cost savings?

Éric Provost — President, Chief Executive Officer, Laurentian Bank

Yes, thank you Lemar. Well, I think that the low-hanging fruit, we actually executed on this week, so the reduction of 2 percent of our workforce were the ones that the team felt comfortable executing upon, and all the rest will be part of our overall review, and we have to re-think. Like I said, we need to be simpler, more focused on the customer, we need to share best practices from our commercial banking operations, and then this is what the team will tackle in the next few months.

Lemar Persaud – Analyst, Cormark Securities

Thanks, that's it for me.

Operator

The next question will be from Marcel McLean at TD Securities. Please go ahead.

Marcel McLean – Analyst, TD Securities

Thanks very much. Maybe I'll continue with Éric on a similar line of questioning from Lemar there. You know, I can appreciate you've been in the seat only two months here, but are there any areas of the Bank that maybe you're thinking about doubling down on, or perhaps stepping away from? If we're not going to get a sale of the Bank, the total Bank, are there assets or certain businesses you want to exit that you see? Just want to get your thoughts, early thoughts there.

Éric Provost — President, Chief Executive Officer, Laurentian Bank

Yes, thank you Marcel. From a macro perspective right now, we're in a situation where we still need to take a cautious approach in terms of how we see the future. What I can tell you is that we feel good about our current business mix, but part of revamping the plan will be to make sure that we make the right approach and decisioning in terms of how we put even more emphasis on where we add value to our customers, so this will be done across our business lines. I did commit to making us a simpler organization and a better one, so again, we'll see out there how we can end with the right approach, but right now too early to tell. We'll be back in the spring with more details.

Marcel McLean – Analyst, TD Securities

Thanks for that. Then just my second question, I apologize if I missed this earlier, I had to jump off briefly, but the inventory finance volumes down year-over-year, I think it was 2 percent or something - maybe I'm wrong there, correct me if I am. But my sense if you've got a lot of partners there, so why—I understand there's seasonality on the quarter-over-quarter, but why were we down so on the year-over-year?

Éric Provost — President, Chief Executive Officer, Laurentian Bank

Yes Marcel, well usually what we see in our fourth quarter, due to the seasonality you just mentioned, is an increase of utilization of our line of credit to our dealers. Last year, just to give you an example, we were running at above 54 percent utilization at end of Q4, and now at the end of this Q4, we landed at 48 percent utilization, which means that our dealers are taking a more cautious approach toward the 2024 season, and we're good with that in terms of taking that prudent approach, not being quite sure about the overall traction they're going to get, is the right way to manage this type of business, and this is what explains the reduction overall in terms of year-over-year assets from that business line.

Marcel McLean – Analyst, TD Securities

Okay, got it. Okay, that's it for me. Thank you very much.

Operator

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

Éric Provost — President, Chief Executive Officer, Laurentian Bank

(French Spoken) Thank you for joining the call today. One thing is certain - the status quo at Laurentian Bank is no longer an option, and we will seize this opportunity to continue our simplification efforts in order to improve our customer experience. We have a lot of work ahead of us as we revamp our strategic plan and continue to implement our priorities of customer focus, simplifying the Bank, and making investments in our foundational technology.

I would like to once again thank our employees for their continued resilience and effort for the organization. I wish you all happy holidays and look forward to speaking again in the new year. Thank you.

Operator

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