LAURENTIAN BANK
FINANCIAL GROUP

FIRST QUARTER 2019

Report to Shareholders

For the period ended January 31, 2019

HIGHLIGHTS OF FIRST QUARTER 2019

- Adjusted net income[1] of $44.7 million, and reported net income of $40.3 million.
- Adjusted return on common shareholders' equity[1] of 7.3%, and reported return on common shareholders' equity of 6.5%.
- Adjusted efficiency ratio[1] of 74.0%, and reported efficiency ratio of 76.2%.
- Strong capital position.
- Prudent liquidity management translating into an estimated $7.0 million annual reduction in net interest income.
- Continued improvement in net interest margin at 1.80%.
- Solid credit quality, with provisions for credit losses at 0.12%.
- Phase 1 of the implementation of our core banking system completed.
- Measures to improve efficiency leading to a reduction of headcount by approximately 10% or 350 employees over the next 12 months.

In millions of Canadian dollars, except per share and percentage amounts (Unaudited)	For the three months ended		
	January 31 2019	January 31 2018	Variance
Reported basis			
Net income	**$ 40.3**	$ 59.7	(33)%
Diluted earnings per share	**$ 0.88**	$ 1.41	(38)%
Return on common shareholders' equity	**6.5%**	10.8%	
Efficiency ratio	**76.2%**	66.5%	
Common Equity Tier 1 capital ratio	**8.9%**	8.6%	
Adjusted basis[1]			
Adjusted net income	**$ 44.7**	$ 63.2	(29)%
Adjusted diluted earnings per share	**$ 0.98**	$ 1.49	(34)%
Adjusted return on common shareholders' equity	**7.3%**	11.5%	
Adjusted efficiency ratio	**74.0%**	64.8%	

(1) Certain measures presented throughout this document exclude the effect of certain amounts designated as adjusting items and are Non-GAAP measures. Refer to the Non-GAAP and Key Performance Measures section for further details.

Laurentian Bank Financial Group reported net income of $40.3 million or $0.88 diluted per share for the first quarter of 2019, compared with net income of $59.7 million or $1.41 diluted per share for the first quarter of 2018. Return on common shareholders' equity was 6.5% for the first quarter of 2019, compared with 10.8% for the first quarter of 2018. On an adjusted basis, net income totalled $44.7 million or $0.98 diluted per share for the first quarter of 2019, down 29% and 34% respectively, compared with $63.2 million or $1.49 diluted per share for the first quarter of 2018. Adjusted return on common shareholders' equity was 7.3% for the first quarter of 2019, compared with 11.5% a year ago. Reported results included adjusting items for the first quarter of 2019 and for the first quarter of 2018, as detailed in the Non-GAAP and Key Performance Measures section.

François Desjardins, President and Chief Executive Officer, commented on the first quarter of 2019 highlights: "I am pleased to report that we successfully completed Phase 1 of the Core Banking implementation and now all B2B Bank and most of Business Services products are on our new system. We are now building on solid ground."

M. Desjardins added: "This quarter's performance was impacted by lower capital market revenue, nonetheless Management remains committed to achieve mid-term targets and ultimately, create long-term value for its shareholders."

M. Desjardins concluded: "Laurentian Bank Financial Group has never been in a better financial position, in terms of its solid capital and liquidity levels; it continues to have an industry low loan loss provision - a testament to the quality of our underwriting and credit risk management; and even if there is more work to do, it has never been stronger in terms of its processes and technology."

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) is a narrative explanation, through the eyes of management, of the Laurentian Bank of Canada's financial condition as at January 31, 2019 and its operating results for the three-month period then ended, compared with the corresponding periods shown. This MD&A should be read in conjunction with the Condensed Interim Consolidated Financial Statements (Unaudited) as at and for the three-month period ended January 31, 2019 and with the 2018 Annual Report. This MD&A is dated February 26, 2019. Additional information about the Laurentian Bank of Canada, including the 2018 Annual Information Form, is available on our website at www.lbcfg.ca and on the Canadian Securities Administrators' website at www.sedar.com.

ABOUT LAURENTIAN BANK FINANCIAL GROUP

Founded in 1846, Laurentian Bank Financial Group is a diversified financial services provider whose mission is to help its customers improve their financial health. The Laurentian Bank of Canada and its entities are collectively referred as Laurentian Bank Financial Group (the "Group" or the "Bank").

With more than 3,500 employees guided by the values of proximity, simplicity and honesty, the Group provides a broad range of advice-based solutions and services to its retail, business and institutional customers. With pan-Canadian activities and a presence in the U.S., the Group is an important player in numerous market segments.

The Group has $45 billion in balance sheet assets and $29 billion in assets under administration.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

In this document and in other documents filed with Canadian regulatory authorities or in other communications, we may from time to time make written or oral forward-looking statements within the meaning of applicable securities legislation. Forward-looking statements include, but are not limited to, statements regarding our business plan and financial objectives including statements contained in our 2018 Annual Report under the heading "Outlook". The forward-looking statements contained in this document are used to assist readers in obtaining a better understanding of our 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 use the conditional, as well as words such as prospect, believe, estimate, forecast, project, expect, anticipate, plan, may, should, could and would, or the negative of these terms, variations thereof or similar terminology.

By their very nature, forward-looking statements are based on assumptions and involve inherent risks and uncertainties, both general and specific in nature. It is therefore possible that the forecasts, projections and other forward-looking statements will not be achieved or will prove to be inaccurate. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we can give no assurances that these expectations will prove to be correct. Certain important assumptions by us in making forward-looking statements include, but are not limited to, our estimates and statements regarding our business plan and financial objectives including statements contained in our 2018 Annual Report under the heading "Outlook".

We caution readers against placing undue reliance on forward-looking statements when making decisions, as the actual results could differ considerably from the opinions, plans, objectives, expectations, forecasts, estimates and intentions expressed in such forward-looking statements due to various material factors. Among other things, these factors include: changes in capital market conditions, changes in government monetary, fiscal and economic policies, changes in interest rates, inflation levels and general economic conditions, legislative and regulatory developments, changes in competition, modifications to credit ratings, scarcity of human resources, developments with respect to labour relations, as well as developments in the technological environment. Furthermore, these factors include the ability to execute our plan and in particular the successful reorganization of retail branches, the modernization of the core banking system and the adoption of the Advanced Internal Ratings-Based approach to credit risk (the AIRB approach).

We further caution that the foregoing list of factors is not exhaustive. For more information on the risks, uncertainties and assumptions that would cause our actual results to differ from current expectations, please also refer to the "Risk Appetite and Risk Management Framework" section of our 2018 Annual Report, as well as to other public filings available at www.sedar.com.

We do not undertake to update any forward-looking statements, whether oral or written, made by us or on our behalf, except to the extent required by securities regulations.

HIGHLIGHTS

In thousands of Canadian dollars, except per share and percentage amounts (Unaudited)	For the three months ended				
	January 31 2019	October 31 2018	Variance	January 31 2018	Variance
Operating results					
Total revenue	**$ 242,338**	$ 255,857	(5)%	$ 267,002	(9)%
Net income	**$ 40,256**	$ 50,801	(21)%	$ 59,747	(33)%
Adjusted net income[1]	**$ 44,653**	$ 54,344	(18)%	$ 63,217	(29)%
Operating performance					
Diluted earnings per share	**$ 0.88**	$ 1.13	(22)%	$ 1.41	(38)%
Adjusted diluted earnings per share	**$ 0.98**	$ 1.22	(20)%	$ 1.49	(34)%
Return on common shareholders' equity[1]	**6.5 %**	8.4%		10.8 %	
Adjusted return on common shareholders' equity[1]	**7.3 %**	9.0%		11.5 %	
Net interest margin	**1.80 %**	1.77%		1.77 %	
Efficiency ratio	**76.2 %**	69.0%		66.5 %	
Adjusted efficiency ratio[1]	**74.0 %**	67.2%		64.8 %	
Operating leverage	**(10.0) %**	3.9%		3.3 %	
Adjusted operating leverage[1]	**(9.5)%**	3.4%		(0.8)%	
Financial position ($ millions)					
Loans and acceptances	**$ 34,103**	$ 34,395	(1)%	$ 36,754	(7)%
Balance sheet assets	**$ 45,120**	$ 45,895	(2)%	$ 47,424	(5)%
Deposits	**$ 28,217**	$ 28,007	1 %	$ 29,435	(4)%
Common shareholders' equity[1]	**$ 2,253**	$ 2,260	— %	$ 2,173	4 %
Key growth drivers ($ millions)					
Loans to business customers	**$ 12,312**	$ 12,036	2 %	$ 12,329	— %
Residential mortgage loans	**$ 16,573**	$ 16,986	(2)%	$ 18,570	(11)%
Total deposits from clients[2]	**$ 24,561**	$ 24,410	1 %	$ 25,622	(4)%
Basel III regulatory capital ratios					
Common Equity Tier 1 (CET1) capital ratio[3]	**8.9 %**	9.0%		8.6 %	
CET1 risk-weighted assets ($ millions)	**$ 20,461**	$ 20,239		$ 20,677	
Credit quality					
Net impaired loans as a % of loans and acceptances	**0.43 %**	0.42%		0.31 %	
Provision for credit losses as a % of average loans and acceptances	**0.12 %**	0.20%		0.13 %	
Common share information					
Closing share price[4]	**$ 44.17**	$ 41.56	6 %	$ 53.20	(17)%
Price / earnings ratio (trailing four quarters)	**9.6x**	8.1x		9.7x	
Book value per share	**$ 53.41**	$ 53.72	(1)%	$ 52.08	3 %
Dividends declared per share	**$ 0.65**	$ 0.64	2 %	$ 0.63	3 %
Dividend yield	**5.9 %**	6.2%		4.7 %	
Dividend payout ratio	**73.9 %**	56.5%		44.3 %	
Adjusted dividend payout ratio[1]	**66.1 %**	52.6%		41.7 %	
Other information					
Number of full-time equivalent employees	**3,559**	3,642		3,771	
Number of branches	**92**	96		104	
Number of automated banking machines[5]	**213**	222		318	

(1) Refer to the Non-GAAP and Key Performance Measures section.
(2) Including personal deposits from branches and independent brokers and advisors, as well as commercial deposits.
(3) Using the Standardized Approach in determining credit risk and operational risk.
(4) Toronto Stock Exchange (TSX) closing market price.
(5) Through the Bank's partnership with THE EXCHANGE® Network, customers have access to more than 3,600 automated banking machines in Canada.

BASIS OF PRESENTATION

The financial information reported herein is based on the Condensed Interim Consolidated Financial Statements (Unaudited) for the three-month period ended January 31, 2019, and has been prepared in accordance with International Financial Reporting standards (IFRS), as issued by the International Accounting Standards Board (IASB) and set out in the CPA Canada Handbook. All amounts are presented in Canadian dollars.

FINANCIAL REPORTING CHANGES

Adoption of New Accounting Standards

The Bank adopted IFRS 9, *Financial Instruments* (IFRS 9) and IFRS 15, *Revenue from Contracts with Customers* (IFRS 15) as at November 1, 2018. The adoption of IFRS 9 resulted in a decrease of $7.7 million of shareholders' equity as at November 1, 2018, or a decrease of 4 bps of the CET1 capital ratio. As permitted by IFRS 9, the Bank did not restate comparative amounts for prior periods. The adoption of IFRS 15 had no significant impact on the Bank's Consolidated Financial Statements as at November 1, 2018. For details on these accounting policy changes and on the impact of adoption as at November 1, 2018, refer to Notes 2 and 5 to the Condensed Interim Consolidated Financial Statements.

NON-GAAP AND KEY PERFORMANCE MEASURES

NON-GAAP MEASURES

Management uses both generally accepted accounting principles (GAAP) and non-GAAP measures to assess the Bank's performance. Results prepared in accordance with GAAP are referred to as "reported" results. Non-GAAP measures presented throughout this document are referred to as "adjusted" measures and exclude the effect of certain amounts designated as adjusting items. Adjusting items are related to restructuring plans and to business combinations and have been designated as such as management does not believe they are indicative of underlying business performance. Non-GAAP measures are considered useful to readers in obtaining a better understanding of how management analyzes the Bank's results and in assessing underlying business performance and related trends. Non-GAAP measures do not have any standardized meaning prescribed by GAAP and are unlikely to be comparable to any similar measures presented by other issuers.

The following table shows adjusting items and their impact on reported results.

IMPACT OF ADJUSTING ITEMS ON REPORTED RESULTS

In thousands of Canadian dollars, except per share amounts (Unaudited)	For the three months ended January 31 2019	October 31 2018	January 31 2018
Impact on income before income taxes			
Reported income before income taxes	**$ 46,720**	$ 61,325	$ 76,804
Adjusting items, before income taxes			
Restructuring charges[1]			
Severance charges	**1,347**	925	—
Other restructuring charges	**659**	107	918
	2,006	1,032	918
Items related to business combinations			
Amortization of net premium on purchased financial instruments[2]	**442**	495	653
Amortization of acquisition-related intangible assets[3]	**3,433**	3,366	2,983
Other costs related to business combinations[4]	**—**	—	599
	3,875	3,861	4,235
	5,881	4,893	5,153
Adjusted income before income taxes	**$ 52,601**	$ 66,218	$ 81,957
Impact on net income			
Reported net income	**$ 40,256**	$ 50,801	$ 59,747
Adjusting items, net of income taxes			
Restructuring charges[1]			
Severance charges	**989**	678	—
Other restructuring charges	**483**	78	673
	1,472	756	673
Items related to business combinations			
Amortization of net premium on purchased financial instruments[2]	**325**	364	480
Amortization of acquisition-related intangible assets[3]	**2,600**	2,423	1,878
Other costs related to business combinations[4]	**—**	—	439
	2,925	2,787	2,797
	4,397	3,543	3,470
Adjusted net income	**$ 44,653**	$ 54,344	$ 63,217
Impact on diluted earnings per share			
Reported diluted earnings per share	**$ 0.88**	$ 1.13	$ 1.41
Adjusting items			
Restructuring charges	**0.03**	0.02	0.02
Items related to business combinations	**0.07**	0.07	0.07
	0.10	0.08	0.09
Adjusted diluted earnings per share[5]	**$ 0.98**	$ 1.22	$ 1.49

(1) Restructuring charges result from the optimization of our Retail Services activities, as well as from the reorganization of retail brokerage activities completed during the first quarter of 2019 and mostly relate to salaries, provisions related to the termination of lease contracts, communication expenses and professional fees. Restructuring charges are included on the Non-interest expenses line item.
(2) Amortization of net premium on purchased financial instruments results from a one-time gain on a business acquisition in 2012 and is included on the Amortization of net premium on purchased financial instruments line item.
(3) Amortization of acquisition-related intangible assets results from business acquisitions in 2016 and 2017 and is included on the Non-interest expenses line-item.
(4) Other costs related to business combinations result from the integration of a business acquired in 2016 and are included on the Non-interest expenses line-item.
(5) The impact of adjusting items on a per share basis does not add due to rounding for the quarters ended October 31, 2018 and January 31, 2018.

KEY PERFORMANCE MEASURES

Management also uses a number of financial metrics to assess performance. Detailed information on return on common shareholders' equity is provided below. Other performance measures such as the net interest margin, efficiency ratio, operating leverage and dividend payout ratio are defined in the "Non-GAAP and Key Performance Measures" section on page 18 of our 2018 Annual Report.

Return on common shareholders' equity

Return on common shareholders' equity (ROE) is a profitability measure calculated as the net income available to common shareholders as a percentage of average common shareholders' equity. The Bank's common shareholders' equity is defined as the sum of the value of common shares, retained earnings, accumulated other comprehensive income (AOCI) excluding cash flow hedge reserves, and share-based compensation reserve. The following table presents additional information about return on common shareholders' equity.

RETURN ON COMMON SHAREHOLDERS' EQUITY

	For the three months ended		
In thousands of Canadian dollars, except percentage amounts (Unaudited)	**January 31 2019**	October 31 2018	January 31 2018
Reported net income available to common shareholders	**$ 36,999**	$ 47,548	$ 55,468
Adjusting items, net of income taxes	**4,397**	3,543	3,470
Adjusted net income available to common shareholders	**$ 41,396**	$ 51,091	$ 58,938
Average common shareholders' equity	**$ 2,251,210**	$ 2,253,375	$ 2,034,603
Return on common shareholders' equity	**6.5%**	8.4%	10.8%
Adjusted return on common shareholders' equity	**7.3%**	9.0%	11.5%

OUTLOOK

ECONOMIC OUTLOOK

Global economic growth has been slowing down in major economies as of late 2018 and remains moderate at the beginning of 2019, in part as a result of the ongoing U.S-China trade tensions and the U.S. political gridlock. However, global economic momentum could strengthen during 2019 if trade tensions are resolved. As the business cycle ages and inflation pressures increase, central banks are continuing to gradually withdraw monetary stimulus, contributing to a rise in interest rates globally. In the U.S., after having gradually increased its policy rate, the Federal Reserve is now expected to take a more dovish stance with regard to its monetary policy and financial markets no longer expect further rate hikes in 2019.

In Canada, trade uncertainty has diminished since the new Canada-United-States-Mexico Agreement (CUSMA) was signed in November 2018. Once market concerns relative to trade tensions abate, commercial lending activity driven by stronger business investment should accelerate. Capacity constraints and the accelerated depreciation measures for investment in machinery and equipment announced by Ottawa last fall should also fuel business investment.

The Canadian economy benefits from positive momentum in most industries. Labour market conditions further improved recently as the unemployment rate reached a near four-decade low of 5.8% in January 2019. Moderate wage growth has been offsetting higher interest rates and mitigating refinancing risk for borrowers.

The Canadian housing market has been strengthening over the last nine months, recovering from the impact of regulatory reforms introduced at the beginning of 2018. In addition, the pace of residential homebuilding, led by condo and rental units, remains strong and in line with household formation. These favourable developments, combined with the solid labour market and low unemployment, should further contribute to the growth of the Canadian economy.

With above-trend economic growth and slowly increasing consumer inflation, the Bank of Canada raised its policy rate by 125 basis points since mid-2017 and signaled to markets that it plans to move its policy rate towards a neutral level. The target for the overnight rate stands at 1.75%, the highest level since late 2008, and the Canadian dollar is currently trading at around US$0.76. Canadian real gross domestic production (GDP) is expected to grow at a respectable pace of 1.6% in 2019 and 1.8% in 2020 after reaching 2.0% in 2018.

STRATEGIC PLAN

As previously mentioned, we are continuing our investments in people, processes and technology. We remain committed to executing our strategic plan and working toward our ultimate goal – to improve the Bank's performance and achieve a profitability level similar to that of the other Canadian banks in 2022, as we reap benefits from our transformation initiatives. The goal remains to improve performance and to respond to customers' needs in the current economic and technological environment. We are striving to become a different and more relevant organization. As detailed below, changes to how we do banking will also lead to improved efficiency.

Development of growth platforms, including in the inventory and equipment financing area, is already yielding positive results. As we completed Phase 1 of the implementation of our core banking system in January, we are now focusing on the latest development stage of our new digital banking offering. This new offering, expected to be launched in the upcoming months, should improve funding and positively contribute to results. Investments in the AIRB approach continue and will provide significant benefits once completed. We are reinforcing our information technology security capabilities, our business continuity programs and global governance practices to better position the Bank for growth.

As we are fully devoted to these initiatives, we are being prudent in managing the Bank's assets and maintaining depositors' confidence. Our credit quality remains strong. In addition, we are maintaining significantly higher levels of capital and liquid assets, as we are progressing towards our transformation. Gradually redeploying capital should contribute to the resumption of profitable loan growth. Being mindful of the significant investments required to achieve our transformation, we remain committed to improving efficiency.

Core-banking system

During the first quarter of 2019, we migrated the remaining products for B2B Bank and most Business Services loans onto the new platform, marking the conclusion of Phase 1 of the program. As previously mentioned, Phase 2 of the program will encompass all Retail Services accounts and products, as well as the few remaining Business Services products. The target completion date of this phase will be determined once the uncertainty associated with the renewal of the collective bargaining agreement, which expired on December 31, 2017, is clarified. During the transition period, we are running concurrent platforms for our core-banking systems.

Advanced Internal Rating-Based approach to credit risk

We are also progressing on our project to adopt in late 2020, subject to regulatory approval, the AIRB Approach to credit risk used to determine the Bank's regulatory capital requirements. In addition, we continue to improve compliance and regulatory frameworks to better manage risks.

Optimization of Retail Services activities

In the first quarter of 2019, we merged four more branches and continued to monitor the impact of branch mergers on our core client base. The conversion of our retail branches to advice-only branches is expected to progressively be completed by the end of 2019. As we continue to simplify the Bank's retail branch operations, we are progressing toward our goal of becoming a renewed financial institution by 2022. However, the uncertainty associated with the renewal of the collective bargaining agreement may impact the pace at which we will execute this plan. Based on our previous experience, we are confident that these changes will optimize our retail branch network and better position the Bank to provide value-added services to clients.

EFFICIENCY MEASURES

As part of our strategic initiative to optimize and simplify Retail Services operations, at the end of February, we are reiterating our intention to transform all remaining branches to the advice-only model by the end of the year. In addition, we are streamlining certain back-office functions, mostly related to supporting Retail Services. Overall, these actions are expected to reduce headcount by approximately 10% or 350 employees through attrition, early retirement and targeted job reductions over the next 12 months. On an ongoing basis, we expect this will generate cost savings to improve our efficiency.

ANALYSIS OF CONSOLIDATED RESULTS

The following tables show condensed consolidated results on a reported and on an adjusted basis.

CONDENSED CONSOLIDATED RESULTS – REPORTED BASIS

In thousands of Canadian dollars, except per share amounts (Unaudited)	For the three months ended January 31 2019	October 31 2018	January 31 2018
Net interest income	$ **172,600**	$ 173,152	$ 178,635
Other income	**69,738**	82,705	88,367
Total revenue	**242,338**	255,857	267,002
Amortization of net premium on purchased financial instruments	**442**	495	653
Provision for credit losses	**10,500**	17,600	12,000
Non-interest expenses	**184,676**	176,437	177,545
Income before income taxes	**46,720**	61,325	76,804
Income taxes	**6,464**	10,524	17,057
Net income	$ **40,256**	$ 50,801	$ 59,747
Preferred share dividends, including applicable taxes	**3,257**	3,253	4,279
Net income available to common shareholders	$ **36,999**	$ 47,548	$ 55,468
Diluted earnings per share	$ **0.88**	$ 1.13	$ 1.41

CONDENSED CONSOLIDATED RESULTS – ADJUSTED BASIS[1]

In thousands of Canadian dollars, except per share amounts (Unaudited)	For the three months ended January 31 2019	October 31 2018	January 31 2018
Net interest income	$ **172,600**	$ 173,152	$ 178,635
Other income	**69,738**	82,705	88,367
Total revenue	**242,338**	255,857	267,002
Provision for credit losses	**10,500**	17,600	12,000
Adjusted non-interest expenses	**179,237**	172,039	173,045
Adjusted income before income taxes	**52,601**	66,218	81,957
Adjusted income taxes	**7,948**	11,874	18,740
Adjusted net income	$ **44,653**	$ 54,344	$ 63,217
Preferred share dividends, including applicable taxes	**3,257**	3,253	4,279
Adjusted net income available to common shareholders	$ **41,396**	$ 51,091	$ 58,938
Adjusted diluted earnings per share	$ **0.98**	$ 1.22	$ 1.49

(1) Refer to the Non-GAAP and Key Performance Measures section.

THREE MONTHS ENDED JANUARY 31, 2019 COMPARED WITH THREE MONTHS ENDED JANUARY 31, 2018

Net income was $40.3 million or $0.88 diluted per share for the first quarter of 2019, compared with $59.7 million or $1.41 diluted per share for the first quarter of 2018. Adjusted net income was $44.7 million for the first quarter of 2019, down 29% from $63.2 million for the first quarter of 2018, while adjusted diluted earnings per share were $0.98, down 34% compared with $1.49 for the first quarter of 2018. The decrease in earnings per share, compared with the first quarter of 2018, is further detailed below and also reflects the full-quarter effect of the common share issuance completed at the beginning of fiscal 2018 to strengthen capital.

Total revenue

Total revenue decreased by $24.7 million or 9% to $242.3 million for the first quarter of 2019 from $267.0 million for the first quarter of 2018.

Net interest income decreased by $6.0 million or 3% to $172.6 million for the first quarter of 2019, from $178.6 million for the first quarter of 2018. The decrease was due to lower year-over-year loan volumes and to higher funding costs, partly offset by higher margins on loans to business customers as a result of changes in the portfolio mix. As mentioned above, we are maintaining a higher level of liquid assets to support our transformation plan. This prudent liquidity management is translating into an estimated $7.0 million annual reduction in net interest income. Furthermore, we have gradually increased the duration of our deposit portfolio to further strengthen the Bank. Net interest margin stood at 1.80% for the first quarter of 2019, an increase of 3 basis points compared with the first quarter of 2018, essentially as a result of the higher proportion of higher-yielding loans to business customers.

Other income decreased by $18.6 million or 21% to $69.7 million for the first quarter of 2019, compared with $88.4 million for the first quarter of 2018. Fees and commissions on brokerage operations decreased by $3.6 million compared with the first quarter of 2018, mostly as a result of a lower activity level given poor market conditions at the outset of the year. Looking forward, the pipeline remains strong and we expect revenues to increase when market conditions become more favorable. Other market related revenues, including securities gains and income from treasury and financial market operations, were also affected and decreased by a combined $7.3 million compared with the first quarter of 2018. This decline was mostly driven by lower gains on inventory held for brokerage activities, as well as by lower gains on treasury portfolios. Fees and commissions on loans and deposits decreased by $4.4 million compared with the first quarter of 2018, mainly driven by lower deposit and payment service charges as clients gradually modify their banking behavior.

Amortization of net premium on purchased financial instruments

For the first quarter of 2019, amortization of net premium on purchased financial instruments amounted to $0.4 million, compared with $0.7 million for the first quarter of 2018. Refer to Note 3.3 to the 2018 annual consolidated financial statements for additional information.

Provision for credit losses

The provision for credit losses amounted to $10.5 million for the first quarter of 2019 compared with $12.0 million for the first quarter of 2018. During the quarter, the Bank continued to benefit from the ongoing favorable economic conditions, as well as from the overall underlying good credit quality of the loan portfolios. Refer to the Risk Management section for additional information.

Non-interest expenses

Non-interest expenses amounted to $184.7 million for the first quarter of 2019, an increase of $7.1 million or 4% compared with the first quarter of 2018. Adjusted non-interest expenses increased by $6.2 million or 4% to $179.2 million for the first quarter of 2019, compared with $173.0 million for the first quarter of 2018.

Salaries and employee benefits decreased by $1.6 million or 2% to $92.1 million for the first quarter of 2019, compared with the first quarter of 2018, mainly due to lower pension costs and lower performance-based compensation.

Premises and technology costs increased by $1.7 million or 4% to $49.0 million for the first quarter of 2019 compared with the first quarter of 2018, mainly as a result of higher technology costs incurred to run concurrent core-banking platforms, as well as to enhance IT service levels and security on an ongoing basis. Higher amortization expense for the completed Phase 1 of the core-banking system program also contributed to the increase. This was partly offset by lower rent expenses following the move to the new corporate office in Montreal in the fourth quarter of 2018.

Other non-interest expenses amounted to $41.5 million for the first quarter of 2019, an increase of $6.5 million or 18% compared with the first quarter of 2018. This increase was mainly due to higher regulatory expenses, including year-over-year increases in deposit insurance costs and other costs related to various compliance and regulatory risk-related projects. Higher professional fees and labour relation costs related to the renegotiation of the expired collective bargaining agreement also contributed to the increase year-over-year.

Restructuring charges amounted to $2.0 million for the first quarter of 2019 and mainly included expenses for the optimization of the Retail Services operations and for the reorganization of retail brokerage activities completed during the first quarter of 2019.

Costs related to business combinations were nil for the first quarter of 2019 as the integration of the equipment financing operations acquired in 2016 was substantially completed in the second quarter of 2018.

Efficiency ratio

The adjusted efficiency ratiowas 74.0% for the first quarter of 2019, compared with 64.8% for the first quarter of 2018. This results in part from lower revenues, including lower market-driven income, and from higher non-interest expenses. As the Bank invests in its transformation, this ratio is currently impacted by the higher level of expenses. Therefore, as previously mentioned, this ratio is expected to remain high over the next few quarters. Operating dual core-banking platforms, managing matters related to the expired collective bargaining agreement and implementing new regulatory requirements such as the IFRS guidelines, anti-money laundering and regulatory risk-related projects are necessitating additional expenditures. The adjusted operating leverage was also negative year-over-year. We are still targeting an efficiency ratio of below 63% in 2021, and are continuing to aim for positive operating leverage.

The efficiency ratio, on a reported basis, was 76.2% for the first quarter of 2019, compared with 66.5% for the first quarter of 2018, essentially for the same reasons as noted above.

Income taxes

For the quarter ended January 31, 2019, the income tax expense was $6.5 million and the effective tax rate was 13.8%. The lower tax rate, compared to the statutory rate, mainly resulted from lower taxation level on revenues from foreign operations, as well as from the favourable effect of holding investments in Canadian securities that generate non-taxable dividend income. For the quarter ended January 31, 2018, the income tax expense was $17.1 million and the effective tax rate was 22.2%. The lower tax rate, compared to the statutory rate, resulted from the same items as mentioned above. On December 22, 2017, the U.S. government enacted new comprehensive tax legislation, which made significant changes to the U.S. tax code. The enacted reduction of the U.S. corporate tax rate had resulted in a decrease of $0.5 million of the Bank's U.S. net deferred tax assets and an equivalent one-time charge to the

income statement during the first quarter of 2018. We continue to evaluate the impact of these new tax measures on our U.S. operations. The lower tax rate for the first quarter of 2019, when compared to the first quarter of 2018, mainly resulted from the proportionally lower domestic revenue, and from the aforementioned one-time charge in 2018.

THREE MONTHS ENDED JANUARY 31, 2019 COMPARED WITH THREE MONTHS ENDED OCTOBER 31, 2018

Net income was $40.3 million or $0.88 diluted per share for the first quarter of 2019 compared with $50.8 million or $1.13 diluted per share for the fourth quarter of 2018. Adjusted net income was $44.7 million or $0.98 diluted per share for the first quarter of 2019, compared with $54.3 million or $1.22 diluted per share for the fourth quarter of 2018.

Total revenue decreased by $13.5 million to $242.3 million for the first quarter of 2019, compared with $255.9 million for the previous quarter. Net interest income decreased by $0.6 million sequentially to $172.6 million, essentially due to the tightening of the Prime-BA spread. Net interest margin stood at 1.80% for the first quarter of 2019 compared with 1.77% for the fourth quarter of 2018, mainly as a result of the higher proportion of higher yielding commercial loans.

Other income decreased by $13.0 million or 16% to $69.7 million for the first quarter of 2019, compared with $82.7 million for the previous quarter. Other income for the first quarter of 2019 was significantly affected by the poor market conditions, mainly during the first two months of fiscal 2019, which resulted in sequentially lower activity levels and lower securities gains. Fees and commissions on brokerage operations, combined with net securities gains on brokerage security portfolios decreased by $4.9 million. Income from treasury and financial markets also decreased, by $4.2 million. Fees and commissions on loans and deposits decreased by $3.9 million compared with the previous quarter, essentially as a result of sequentially lower lending fees due to the impact of commercial loan prepayment penalties and loan portfolio sales during the fourth quarter of 2018.

The line item "Amortization of net premium on purchased financial instruments" amounted to $0.4 million for the first quarter of 2019, essentially unchanged from the fourth quarter of 2018. Refer to Note 3.3 to the 2018 annual consolidated financial statements for additional information.

Provision for credit losses totalled $10.5 million for the first quarter of 2019, a $7.1 million decrease compared with $17.6 million for the fourth quarter of 2018. Credit losses for the fourth quarter of 2018 were impacted by a $10.0 million loss on a single syndicated commercial exposure.

Non-interest expenses increased by $8.2 million to $184.7 million for the first quarter of 2019 from $176.4 million in the fourth quarter of 2018. Adjusted non-interest expenses increased by $7.2 million and amounted to $179.2 million in the first quarter of 2019, compared with $172.0 million in the fourth quarter of 2018. The increase is mainly due to higher salaries as a result of additional costs to run concurrent core-banking platforms, as well as seasonal variances in vacation accruals and government payroll charges. Other expenses also contributed to the increase sequentially.

FINANCIAL CONDITION

CONDENSED BALANCE SHEET

In thousands of Canadian dollars (Unaudited)		**As at January 31 2019**		As at October 31 2018
Assets				
Cash and deposits with other banks	**$**	**605,601**	$	490,727
Securities		**5,874,552**		6,061,144
Securities purchased under reverse repurchase agreements		**3,345,351**		3,652,498
Loans and acceptances, net		**34,001,580**		34,301,662
Other assets		**1,293,050**		1,388,652
	$	**45,120,134**	$	45,894,683
Liabilities and Shareholders' Equity				
Deposits	**$**	**28,216,542**	$	28,006,572
Other liabilities		**6,705,077**		7,255,394
Debt related to securitization activities		**7,339,280**		7,787,753
Subordinated debt		**348,848**		348,762
Shareholders' equity		**2,510,387**		2,496,202
	$	**45,120,134**	$	45,894,683

As at January 31, 2019, total assets amounted to $45.1 billion, a decrease of $0.8 billion compared with $45.9 billion as at October 31, 2018. This mainly reflects a decrease in liquid assets of $0.4 billion, a decrease in loans of $0.3 billion, as well as a decrease in other assets of $0.1 billion, as explained below.

LIQUID ASSETS

Liquid assets consist of cash, deposits with other banks, securities and securities purchased under reverse repurchase agreements. As at January 31, 2019, these assets totalled $9.8 billion, a decrease of $0.4 billion compared with October 31, 2018. Overall, we continue to prudently manage the level of liquid assets as we are progressing on our various initiatives. The Bank benefits from well diversified funding sources and the current level of cash resources is sufficient to meet obligations, under both normal and stressed conditions.

LOANS

Loans and bankers' acceptances, net of allowances, stood at $34.0 billion as at January 31, 2019, a decrease of $0.3 billion since October 31, 2018. The decrease reflects the continued optimization of our portfolio mix in order to better position the Bank, and is further explained by the items outlined below.

Personal loans amounted to $5.2 billion and decreased by $0.2 billion since October 31, 2018, mainly as a result of the continued reduction in the investment loan portfolio, reflecting the ongoing consumer behaviour to reduce leverage.

Residential mortgage loans stood at $16.6 billion as at January 31, 2019, a decrease of $0.4 billion since October 31, 2018. This mostly reflects a gradual decrease in origination as we focus on higher yielding commercial loans in order to optimize product mix. The decrease was partly offset by the acquisition of mortgage loans originated by third-parties as part of our program to optimize the usage of National Housing Act mortgage-backed securities (NHA MBS) allocations.

Commercial loans and acceptances amounted to $12.3 billion as at January 31, 2019. In the first quarter of 2019, we generated growth of approximately $381 million or 3 % excluding loan sales, mainly due to inventory financing volumes through NCF and in real estate financing loans. As previously mentioned, we sold lower-yielding commercial loans amounting to $105 million at the beginning of the year, which concluded the realignment of our commercial loan portfolio. As a result, the commercial loan portfolio increased by 2% net of loan sales since October 31, 2018.

OTHER ASSETS

Other assets decreased by $0.1 billion as at January 31, 2019, compared with October 31, 2018, primarily reflecting a decrease in cheques and other items in transit.

LIABILITIES

Deposits increased by $0.2 billion to $28.2 billion as at January 31, 2019, compared with October 31, 2018. Personal deposits stood at $21.4 billion as at January 31, 2019, up $0.4 billion compared with October 31, 2018, driven by higher term deposits sourced through both independent brokers and advisors and through the branch network. Business and other deposits decreased by $0.2 billion to $6.8 billion since the beginning of the year, mainly as we optimized our funding and in light of the reduction in total assets. Personal deposits represented 76% of total deposits as at January 31, 2019, compared with 75% as at October 31, 2018, and contribute to our solid liquidity position.

Debt related to securitization activities decreased by $0.4 billion compared with October 31, 2018 and stood at $7.3 billion as at January 31, 2019. The decrease mostly stems from maturities of liabilities related to the Canada Mortgage Bond program, as well as normal repayments, and as new insured loan originations have decreased following regulatory changes implemented since 2017.

SHAREHOLDERS' EQUITY

Shareholders' equity stood at $2,510.4 million as at January 31, 2019, compared with $2,496.2 million as at October 31, 2018. As mentioned in the Basis of Presentation section of this MD&A, the adoption of IFRS 9 resulted in a decrease of $7.7 million of shareholders' equity as at November 1, 2018. This was offset by an increase in shareholder's equity as a result of the net income contribution, net of declared dividends, an increase in AOCI, as well as by the issuance of common shares under the Shareholder Dividend Reinvestment and Share Purchase plan. For additional information, please refer to the Consolidated Statement of Changes in Shareholders' Equity.

Our book value per common share was $53.41 as at January 31, 2019 compared with $53.72 as at October 31, 2018. There were 42,190,040 common shares outstanding as at February 20, 2019.

CAPITAL MANAGEMENT

REGULATORY CAPITAL

The Office of the Superintendent of Financial Institutions Canada (OSFI) requires banks to meet minimum risk-based capital ratios drawn on the Basel Committee on Banking Supervision (BCBS) capital framework, commonly referred to as Basel III. Under OSFI's *Capital Adequacy Requirements* (CAR) Guideline, our minimum Common Equity Tier 1, Tier 1 and Total capital ratios are set at 7.0%, 8.5% and 10.5%, respectively, including capital conservation buffers. Refer to the section "Capital Management" on page 36 of our 2018 Annual Report for additional information on our regulatory capital.

As detailed in the table below, the Common Equity Tier 1 (CET1), Tier 1 and Total capital ratios stood at 8.9%, 10.1% and 12.2%, respectively, as at January 31, 2019. These ratios exceeded all current requirements.

REGULATORY CAPITAL

In thousands of Canadian dollars, except percentage amounts (Unaudited)	As at January 31 2019	As at October 31 2018
Regulatory capital		
Common Equity Tier 1 capital	$ 1,818,530	$ 1,812,007
Tier 1 capital	$ 2,062,568	$ 2,056,045
Total capital	$ 2,488,487	$ 2,472,788
Total risk-weighted assets[1]	$ 20,461,367	$ 20,238,803
Regulatory capital ratios		
Common Equity Tier 1 capital ratio	8.9%	9.0%
Tier 1 capital ratio	10.1%	10.2%
Total capital ratio	12.2%	12.2%

(1) Using the Standardized Approach to determine credit risk and to account for operational risk.

The CET1 capital ratio stood at 8.9% as at January 31, 2019, compared with 9.0% as at October 31, 2018. As mentioned above, the adoption of IFRS 9 resulted in a decrease of 4 bps of the CET1 capital ratio as at November 1, 2018. During the quarter, we also continued to manage asset growth tightly to balance the product mix profitability maximization and the related risk-weighted exposures to maintain strong capital ratios.

Regulatory capital developments

Revisions to the Standardised Approach for credit risk

We use the Standardized Approach to determine credit risk capital and to account for operational risk. Currently, our capital requirements for credit risk under the Standardized Approach are not calculated on the same basis as larger Canadian financial institutions which predominantly use the more favourable AIRB Approach.

On December 7, 2017, the BCBS issued a document entitled Basel III: Finalising post-crisis reforms. This document sets out the BCBS's finalisation of the Basel III framework and follows the BCBS consultative documents issued in 2014 and 2015. It complements the initial phase of Basel III reforms previously finalized by the Committee. A key objective of the revisions incorporated into the framework is to reduce excessive variability of risk-weighted assets and improve the comparability of banks' capital ratios. The new framework revises the Standardized Approach by improving its granularity and risk sensitivity by modifying the risk weight associated to various categories of assets. The changes also include modifications to the AIRB Approach, such as by placing limits on certain inputs used to calculate capital requirements and introducing a new more robust risk-sensitive floor based on the Committee's revised Basel III standardized approaches, as well as to the methods used to measure regulatory capital for operational risk. Management is currently assessing the potential impact of the adoption of this new framework, which remains subject to OSFI's issuing its related guideline.

The implementation of the AIRB Approach remains one of our key initiatives that should strengthen our credit risk management, optimize regulatory capital and provide a level playing field for credit underwriting activities. As such, we plan to transition to the AIRB Approach in late 2020, pending regulatory approval.

BASEL III LEVERAGE RATIO

The Basel III capital reforms introduced a non-risk based leverage ratio requirement to act as a supplementary measure to the risk-based capital requirements. Under OSFI's Leverage Requirements Guideline, federally regulated deposit-taking institutions are expected to maintain a Basel III leverage ratio that meets or exceeds 3% at all times. The leverage ratio is defined as the Tier 1 capital divided by unweighted on-balance sheet assets and off-balance sheet commitments, derivatives and securities financing transactions, as defined within the requirements.

As detailed in the table below, the leverage ratio stood at 4.5% as at January 31, 2019 and exceeded current requirements.

BASEL III LEVERAGE RATIO

In thousands of Canadian dollars, except percentage amounts (Unaudited)	**As at January 31 2019**	As at October 31 2018
Tier 1 capital	**$ 2,062,568**	$ 2,056,045
Total exposures	**$ 46,229,110**	$ 46,042,387
Basel III leverage ratio	**4.5%**	4.5%

DIVIDENDS

On February 19, 2019, the Board of Directors declared the regular dividend on the various series of preferred shares to shareholders of record on March 7, 2019.

On February 26, 2019, the Board of Directors declared a quarterly dividend of $0.65 per common share, payable on May 1, 2019, to shareholders of record on April 1, 2019. This quarterly dividend is up 3% compared with the dividend declared one year ago. The Board of Directors also determined that shares attributed under the Shareholder Dividend Reinvestment and Share Purchase Plan will be made in common shares issued from treasury at a 2% discount.

COMMON SHARE DIVIDENDS AND PAYOUT RATIO

In Canadian dollars, except payout ratios (Unaudited)	For the three months ended		
	January 31 2019	October 31 2018	January 31 2018
Dividends declared per common share	**$ 0.65**	$ 0.64	$ 0.63
Dividend payout ratio	**73.9%**	56.5%	44.3%
Adjusted dividend payout ratio[1]	**66.1%**	52.6%	41.7%

(1) Refer to the Non-GAAP and Key Performance Measures section.

RISK MANAGEMENT

We are exposed to various types of risks owing to the nature of our activities. These risks are mainly related to the use of financial instruments. In order to manage these risks, controls such as risk management policies and various risk limits have been implemented. These measures aim to optimize the risk/return ratio in all operating segments. Refer to the section "Risk Appetite and Risk Management Framework" on page 41 of our 2018 Annual Report for additional information.

CREDIT RISK

The following sections provide further details on the credit quality of our loan portfolios.

PROVISION FOR CREDIT LOSSES[1]

In thousands of Canadian dollars, except percentage amounts (Unaudited)	For the three months ended		
	January 31 2019	October 31 2018	January 31 2018
Personal	**$ 4,443**	$ 4,096	$ 6,970
Residential mortgage	**(52)**	878	1,584
Commercial[2]	**6,109**	12,626	3,446
	$ 10,500	$ 17,600	$ 12,000
As a % of average loans and acceptances	**0.12%**	0.20%	0.13%

(1) Established in accordance with IFRS 9 for the three months ended January 31, 2019 and in accordance with IAS 39 for the three months ended October 31, 2018 and January 31, 2018.
(2) Including customers' liabilities under acceptances.

Provision for credit losses

The provision for credit losses decreased by $1.5 million to $10.5 million in the first quarter of 2019, compared with the same quarter a year ago and $7.1 million sequentially. Overall, the continued low level of credit losses reflects the underlying good credit quality of the loan portfolios.

The level of provisions for the first quarter of 2019 takes into account the impact of releases related to the reduced level of residential mortgage loans and personal loans. It also reflects the impact of the sale of certain commercial loans at the beginning of the year.

Credit losses on personal loans increased by $0.3 million sequentially and decreased by $2.5 million year-over-year, mainly as a result of lower charges on the credit card and lines of credit portfolios.

Credit losses on residential mortgage loans decreased by $0.9 million sequentially and by $1.6 million year-over-year, in part as a result of lower loan volumes. The level of credit losses remains at historically low levels, owing to favourable credit conditions and strong underwriting criteria.

Credit losses on commercial loans decreased by $6.5 million sequentially, mainly due to the $10.0 million loss recorded on a single syndicated commercial exposure in the fourth quarter of 2018. Credit losses on the commercial portfolios tend to fluctuate more as they can relate, in part, to isolated larger exposures. Compared to the first quarter of 2018, credit losses increased by $2.7 million essentially as a result of a $4.5 million additional provision recorded for the same single exposure identified during the fourth quarter of 2018.

The provision for credit losses expressed as a percentage of average loans and acceptances was 12 basis points for the first quarter of 2019. Over the medium term, the loss ratio should trend gradually higher as the Bank's loan portfolio mix evolves.

IMPAIRED LOANS[1]

In thousands of Canadian dollars, except percentage amounts (Unaudited)	**As at January 31 2019**	As at October 31 2018
Gross impaired loans		
Personal	**$ 25,404**	$ 19,805
Residential mortgages	**49,488**	37,134
Commercial[2]	**114,694**	124,331
	189,586	181,270
Allowances for loan losses against impaired loans (Stage 3)	**(41,550)**	(38,178)
Net impaired loans	**$ 148,036**	$ 143,092
Impaired loans as a % of loans and acceptances		
Gross	**0.56%**	0.53%
Net	**0.43%**	0.42%
Allowances for loan losses against other loans		
Stage 1	**$ (29,162)**	n/a
Stage 2	**(31,032)**	n/a
	$ (60,194)	$ (54,848)

(1) Established in accordance with IFRS 9 as at January 31, 2019 and in accordance with IAS 39 as at October 31, 2018.
(2) Including customers' liabilities under acceptances.

Gross impaired loans amounted to $189.6 million as at January 31, 2019, up $8.3 million or 5% compared with October 31, 2018 mostly due to the impact of adopting IFRS 9. Under IFRS 9, all loans classified in Stage 3 of the ECL model are impaired loans, including $15.0 million of insured residential mortgage loans that were not considered impaired under IAS 39. Allowances for loan losses against impaired loans increased by $3.4 million compared with October 31, 2018, mainly as a result of adjustments to a single commercial loan exposure and as a result of migrations in personal loans. Allowances for loan losses against other loans amounted to $60.2 million as at January 31, 2019, up $5.3 million compared with October 31, 2018, essentially due to the impact of adopting IFRS 9. Under the new impairment approach, expected credit losses for loans which experienced significant increases in credit risk must now be determined using lifetime probabilities of default, which resulted in increases in allowances for personal loans and to a lesser extent for commercial loans. These increases were partly offset by a decrease in allowances for residential mortgage loans which now better reflect the Bank's portfolio characteristics. The Bank remains comfortably provisioned as overall credit conditions continue to provide strong support to lending activities. In addition, the Bank's loan portfolio is well collateralized, which reduces potential exposures. See Notes 5 and 7 to the Condensed Interim Consolidated Financial Statements for additional information.

LIQUIDITY AND FUNDING RISK

Liquidity and funding risk represents the possibility that the Bank may not be able to gather sufficient cash resources when required and on reasonable conditions, to meet its financial obligations. Financial obligations include obligations to depositors and suppliers, as well as lending commitments, investments and posting collateral. We continue to maintain liquidity and funding that is appropriate for the execution of our strategy, with liquidity and funding risk remaining well within our approved limits.

Management monitors cash resources daily and ensures that liquidity indicators are within established limits. It pays particular attention to deposit and loan maturities, as well as to funding availability and demand when planning financing. A reserve of

unencumbered liquid assets that are readily available to face contingencies is maintained and constitutes our liquidity buffer. This reserve does not factor in the availability of the central bank's emergency liquidity facilities. Requirements are based on scenarios evaluating required liquid assets necessary to cover predetermined rates of withdrawal of wholesale financing and retail deposits over specified periods.

Management maintains a stable volume of base deposits originating from our retail, commercial and broker clientele, as well as diversified wholesale financing sources. Limits on funding sources are monitored by the Executive Committee and the Board of Directors. Funding strategies also include loan securitization and the issuance of equity or debt instruments through capital markets.

A liquidity contingency plan is prepared and reviewed on a regular basis. It guides our actions and responses to potential liquidity crises.

The Bank benefits from well diversified sources of deposits, including personal deposits sourced through our branch network and through independent advisors and brokers. We also rely on a well established institutional funding program. Those contribute to a diversified, strong and stable liquidity position. Furthermore, given current market conditions, we continue to prudently manage the level of liquid assets and maintain a strong level of liquidity to meet current obligations and support our key strategic initiatives.

Regulatory requirements concerning liquidity

We also manage the Bank's liquidity to comply with the regulatory liquidity metrics in the OSFI domestic Liquidity Adequacy Requirements (LAR) Guideline. These regulatory metrics include the Liquidity Coverage Ratio (LCR), drawn on the BCBS international Basel III liquidity framework, and the OSFI-designed Net Cumulative Cash Flow (NCCF) supervisory tool. The LCR requires that banks maintain a sufficient stock of high-quality liquid assets to meet net short-term financial obligations over a thirty day period in an acute stress scenario.

The Bank remained compliant with the LAR Guideline throughout the three months ended January 31, 2019.

The aforementioned Basel III liquidity framework also outlines the Net Stable Funding Ratio (NSFR) as a minimum regulatory standard. The NSFR measures the proportion of long-term assets which are funded by long-term, stable funding. Based on implementation progress at the international level, OSFI has determined that it will target a revised NSFR implementation date for Domestic Systemically Important Banks (D-SIBs) of January 2020. We are awaiting confirmation from OSFI for non D-SIBs.

Proposed changes to the Liquidity Adequacy Requirements Guideline – Public Consultation
OSFI expects deposit-taking institutions to have a liquidity risk management framework that allows them to maintain sufficient liquidity to withstand a stressed environment. To support this objective, OSFI has issued at the beginning of February 2019 proposed revisions to the LAR Guideline. The guideline has also been revised to ensure OSFI's liquidity metrics remain sound and prudent in an environment where certain funding sources exhibit higher risk of withdrawal. OSFI is targeting implementation of the proposed revisions for January 1, 2020. Management is currently assessing the potential impact of the adoption of these revisions, which remain subject to OSFI's issuing its revised guideline.

Maturity of financial liabilities

The following table summarizes the remaining contractual maturity for significant financial liabilities as at January 31, 2019 and October 31, 2018. The amounts disclosed in the following table are the contractual undiscounted cash flows of financial liabilities and exclude premiums, discounts or mark-to-market adjustments recognized in the instruments' carrying values as at the balance sheet date.

MATURITY OF FINANCIAL LIABILITIES

As at January 31, 2019

		Term				
In thousands of Canadian dollars (Unaudited)	Demand and notice	Under 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Deposits						
Personal	$ 4,451,399	$ 7,327,653	$ 6,964,862	$ 2,589,162	$ 90,237	$ 21,423,313
Business, banks and other	1,880,372	3,276,262	950,493	745,224	4,968	6,857,319
Obligations related to securities sold short	—	3,097,605	—	—	—	3,097,605
Obligations related to securities sold under repurchase agreements	—	2,210,839	—	—	—	2,210,839
Debt related to securitization activities	—	1,569,138	3,604,024	1,794,523	431,391	7,399,076
Subordinated debt	—	—	—	350,000	—	350,000
Derivatives[1]	—	12,462	13,060	4,825	4,378	34,725
	$ 6,331,771	$ 17,493,959	$ 11,532,439	$ 5,483,734	$ 530,974	$ 41,372,877

(1) The obligations related to derivatives represent solely the theoretical payments related to derivatives designated as cash flow hedges and used for interest rate risk management whose net fair values were negative as at January 31, 2019 and October 31, 2018.

As at October 31, 2018

In thousands of Canadian dollars (Unaudited)	Demand and notice	Term				Total
		Under 1 year	1 to 3 years	3 to 5 years	Over 5 years	
Deposits						
Personal	$ 4,501,504	$ 7,273,402	$ 6,548,714	$ 2,620,368	$ 102,482	$ 21,046,470
Business, banks and other	1,999,377	2,965,403	1,372,278	779,743	3,017	7,119,818
Obligations related to securities sold short	—	3,008,666	—	—	—	3,008,666
Obligations related to securities sold under repurchase agreements	—	2,515,823	—	—	—	2,515,823
Debt related to securitization activities	—	1,546,129	3,610,838	2,366,379	370,512	7,893,858
Subordinated debt	—	—	—	350,000	—	350,000
Derivatives[1]	—	24,928	33,135	13,610	6,123	77,796
	$ 6,500,881	$ 17,334,351	$ 11,564,965	$ 6,130,100	$ 482,134	$ 42,012,431

(1) The obligations related to derivatives represent solely the theoretical payments related to derivatives designated as cash flow hedges and used for interest rate risk management whose net fair values were negative as at January 31, 2019 and October 31, 2018.

Credit ratings

On December 12, 2018, DBRS confirmed our A (low) rating on deposits and senior debt and R-1 (low) rating on short-term instruments. In addition, DBRS revised its trends on long-term ratings to stable from negative.

MARKET RISK

Market risk represents the financial losses that the Bank could incur following unfavourable fluctuations in the value of financial instruments subsequent to changes in the underlying factors used to measure them, such as interest rates, currency exchange rates or equity prices. This risk is inherent to the Bank's financing, investment, trading and asset and liability management (ALM) activities.

The purpose of ALM activities is to control structural interest rate risk, which corresponds to the potential negative impact of interest rate movements on the Bank's net interest income and economic value of its capital. Dynamic management of structural risk is intended to maximize the Bank's profitability while preserving the economic value of common shareholders' equity. As at January 31, 2019, the effect on the economic value of common shareholders' equity and on net interest income before taxes of a sudden and sustained 1% increase in interest rates was as follows.

STRUCTURAL INTEREST RATE SENSITIVITY ANALYSIS

In thousands of Canadian dollars (Unaudited)	**As at January 31 2019**	As at October 31 2018
Effect of a 1% increase in interest rates		
Increase in net interest income before taxes over the next 12 months	**$ 5,957**	$ 13,548
Decrease in the economic value of common shareholders' equity (net of income taxes)	**$ (38,858)**	$ (37,671)

RISK RELATED TO LABOUR RELATIONS

Approximately 32% of our employees are represented by a union and are covered by a collective bargaining agreement which expired on December 31, 2017. The majority of these employees work in Laurentian Bank branches in the Province of Quebec, and certain of them are employed in Corporate Offices in Montreal. Renegotiating the expired collective bargaining agreement could result in higher costs which could have a material effect on our business, results of operations and financial condition. In addition, should we be unable to reach an acceptable negotiated collective bargaining agreement on a timely basis, a strike by affected employees, lock-out or other work disruption may occur which could adversely affect services to our Retail Services clients and operations and, in turn, financial performance.

ADDITIONAL FINANCIAL INFORMATION - QUARTERLY RESULTS

In thousands of Canadian dollars, except per share and percentage amounts (Unaudited)	**January 31 2019**	October 31 2018	July 31 2018	April 30 2018	January 31 2018	October 31 2017	July 31 2017	April 30 2017
Net interest income	**$ 172,600**	$ 173,152	$ 177,013	$ 177,112	$ 178,635	$ 176,220	$ 157,707	$ 150,476
Other income	**69,738**	82,705	83,651	82,775	88,367	91,748	90,295	88,331
Total revenue	**242,338**	255,857	260,664	259,887	267,002	267,968	248,002	238,807
Amortization of net premium on purchased financial instruments	**442**	495	547	601	653	707	766	878
Provision for credit losses	**10,500**	17,600	4,900	9,500	12,000	11,500	6,400	10,100
Non-interest expenses	**184,676**	176,437	187,245	175,554	177,545	184,365	168,364	168,934
Income before income taxes	**46,720**	61,325	67,972	74,232	76,804	71,396	72,472	58,895
Income taxes	**6,464**	10,524	13,069	15,037	17,057	12,761	17,674	14,323
Net income	**$ 40,256**	$ 50,801	$ 54,903	$ 59,195	$ 59,747	$ 58,635	$ 54,798	$ 44,572
Earnings per share								
Basic	**$ 0.88**	$ 1.13	$ 1.23	$ 1.34	$ 1.41	$ 1.42	$ 1.48	$ 1.19
Diluted	**$ 0.88**	$ 1.13	$ 1.23	$ 1.34	$ 1.41	$ 1.42	$ 1.48	$ 1.19

CORPORATE GOVERNANCE AND CHANGES TO INTERNAL CONTROL OVER FINANCIAL REPORTING

In November 2017, we initiated the first phase of the core banking system implementation. During the first quarter ended January 31, 2019, we completed the migration of all remaining B2B Bank's financial products. We also migrated commercial mortgage loans and term commercial loans. The evaluation of the ensuing changes to the internal control over financial reporting (ICFR) supported that the design is appropriate with respect to financial reporting.

With the exception of the above noted items, during the first quarter ended January 31, 2019, there have been no changes to ICFR that affected materially, or is reasonably likely to materially affect, ICFR.

The Board of Directors of Laurentian Bank approved this document prior to its release.

ACCOUNTING POLICIES AND ESTIMATES

Our significant accounting policies and estimates are outlined in Notes 2 and 3 of the 2018 Annual Consolidated Financial Statements. The Condensed Interim Consolidated Financial Statements (Unaudited) for the first quarter of 2019 have been prepared in accordance with these accounting policies, with the exception of accounting policy changes disclosed in Note 3, related to the adoption of IFRS 9 and IFRS 15.

Some of these accounting policies are deemed critical as they require management to apply judgement in order to make particularly significant estimates that, by their very nature, involve uncertainties. Changes in these estimates could materially affect our consolidated financial statements. Refer to the section "Critical Accounting Policies and Estimations" on pages 62 to 66 of our 2018 Annual Report for additional information.

FUTURE ACCOUNTING CHANGES

Except for the adoption of IFRS 9 and IFRS 15 as at November 1, 2018, there have been no significant updates to the future accounting changes disclosed in Note 4 of the 2018 Annual Consolidated Financial Statements and in the section "Future Accounting Changes" on pages 66 to 69 of our 2018 Annual Report.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

As at and for the period ended January 31, 2019

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CONSOLIDATED BALANCE SHEET[1]

In thousands of Canadian dollars (Unaudited)	Notes	As at January 31 2019	As at October 31 2018
Assets			
Cash and non-interest bearing deposits with banks		$ 108,139	$ 116,490
Interest bearing deposits with banks		497,462	374,237
Securities	6		
At amortized cost		2,955,948	n/a
At fair value through profit or loss (FVTPL)		2,558,180	n/a
At fair value through other comprehensive income (FVOCI)		360,424	n/a
Available-for-sale		n/a	2,710,249
Held-to-maturity		n/a	655,757
Held-for-trading		n/a	2,695,138
		5,874,552	6,061,144
Securities purchased under reverse repurchase agreements		3,345,351	3,652,498
Loans	7 and 8		
Personal		5,218,445	5,372,468
Residential mortgage		16,573,276	16,986,338
Commercial		12,138,193	11,839,106
Customers' liabilities under acceptances		173,410	196,776
		34,103,324	34,394,688
Allowances for loan losses		(101,744)	(93,026)
		34,001,580	34,301,662
Other			
Derivatives		124,827	94,285
Premises and equipment		79,006	80,961
Software and other intangible assets		375,135	367,345
Goodwill		116,496	116,617
Deferred tax assets		34,396	25,437
Other assets		563,190	704,007
		1,293,050	1,388,652
		$ 45,120,134	$ 45,894,683
Liabilities and shareholders' equity			
Deposits			
Personal		$ 21,387,186	$ 20,995,453
Business, banks and other		6,829,356	7,011,119
		28,216,542	28,006,572
Other			
Obligations related to securities sold short		3,097,605	3,008,666
Obligations related to securities sold under repurchase agreements		2,210,839	2,515,823
Acceptances		173,410	196,776
Derivatives		166,921	285,492
Deferred tax liabilities		31,852	19,081
Other liabilities	5	1,024,450	1,229,556
		6,705,077	7,255,394
Debt related to securitization activities	8	7,339,280	7,787,753
Subordinated debt		348,848	348,762
Shareholders' equity			
Preferred shares	9	244,038	244,038
Common shares	9	1,120,352	1,115,416
Retained earnings	5	1,132,718	1,152,470
Accumulated other comprehensive income		12,496	(15,990)
Share-based compensation reserve	10	783	268
		2,510,387	2,496,202
		$ 45,120,134	$ 45,894,683

The accompanying notes are an integral part of the condensed interim consolidated financial statements (unaudited).

(1) The Consolidated Balance Sheet as at January 31, 2019 reflects the adoption of new accounting standards as at November 1, 2018. Refer to Notes 2 and 5 for further information. The comparative information has not been restated.

CONSOLIDATED STATEMENT OF INCOME[1]

In thousands of Canadian dollars, except per share amounts (Unaudited)	Notes	For the three months ended January 31 2019	October 31 2018	January 31 2018
Interest income				
Loans		**$ 361,538**	$ 356,135	$ 340,629
Securities	14	**19,480**	18,681	13,621
Deposits with banks		**2,121**	1,488	551
Other, including derivatives		**10,436**	8,276	5,706
		393,575	384,580	360,507
Interest expense				
Deposits		**158,496**	158,290	134,060
Debt related to securitization activities		**42,409**	42,449	40,526
Subordinated debt		**3,835**	3,835	3,835
Other		**16,235**	6,854	3,451
		220,975	211,428	181,872
Net interest income		**172,600**	173,152	178,635
Other income				
Fees and commissions on loans and deposits		**33,718**	37,629	38,077
Fees and commissions - brokerage operations		**10,021**	13,438	13,620
Commissions on sales of mutual funds		**10,711**	11,630	12,229
Fees on investment accounts		**4,603**	4,508	5,730
Income from treasury and financial market operations		**1,621**	5,798	5,622
Insurance income, net		**3,635**	3,701	3,547
Securities gains (losses) - brokerage operations		**1,688**	3,194	4,966
Other	7	**3,741**	2,807	4,576
		69,738	82,705	88,367
Total revenue		**242,338**	255,857	267,002
Amortization of net premium on purchased financial instruments		**442**	495	653
Provision for credit losses	7	**10,500**	17,600	12,000
Non-interest expenses				
Salaries and employee benefits	10, 11	**92,089**	87,800	93,662
Premises and technology		**49,046**	48,358	47,306
Other		**41,535**	39,247	35,060
Restructuring charges	16	**2,006**	1,032	918
Costs related to business combinations		**—**	—	599
		184,676	176,437	177,545
Income before income taxes		**46,720**	61,325	76,804
Income taxes		**6,464**	10,524	17,057
Net income		**$ 40,256**	$ 50,801	$ 59,747
Preferred share dividends, including applicable taxes		**3,257**	3,253	4,279
Net income available to common shareholders		**$ 36,999**	$ 47,548	$ 55,468
Average number of common shares outstanding (in thousands)				
Basic		**42,114**	42,023	39,459
Diluted		**42,133**	42,023	39,459
Earnings per share	12			
Basic		**$ 0.88**	$ 1.13	$ 1.41
Diluted		**$ 0.88**	$ 1.13	$ 1.41
Dividends declared per share				
Common share		**$ 0.65**	$ 0.64	$ 0.63
Preferred share - Series 11		**$ —**	$ —	$ 0.25
Preferred share - Series 13		**$ 0.27**	$ 0.27	$ 0.27
Preferred share - Series 15		**$ 0.37**	$ 0.37	$ 0.37

The accompanying notes are an integral part of the condensed interim consolidated financial statements (unaudited).

(1) The Consolidated Statement of Income for the three months ended January 31, 2019 reflects the adoption of new accounting standards as at November 1, 2018. Refer to Notes 2 and 5 for further information. The comparative information has not been restated.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME[1]

In thousands of Canadian dollars (Unaudited)	For the three months ended January 31 2019	October 31 2018	January 31 2018
Net income	**$ 40,256**	$ 50,801	$ 59,747
Other comprehensive income (loss), net of income taxes			
Items that may subsequently be reclassified to the statement of income			
Net change in debt securities at FVOCI			
Unrealized net gains (losses) on debt securities at FVOCI	**1,036**	n/a	n/a
Reclassification of net (gains) losses on debt securities at FVOCI to net income	**(69)**	n/a	n/a
	967	n/a	n/a
Net change in available-for-sale securities			
Unrealized net gains (losses) on available-for-sale securities	**n/a**	(4,797)	985
Reclassification of net (gains) losses on available-for-sale securities to net income	**n/a**	(3,144)	(1,902)
	n/a	(7,941)	(917)
Net change in value of derivatives designated as cash flow hedges	**23,984**	(5,191)	(2,986)
Net foreign currency translation adjustments			
Net unrealized foreign currency translations gains (losses) on investments in foreign operations	**(963)**	4,404	(14,936)
Unrealized net gains (losses) on hedges of investments in foreign operations	**(1,910)**	(3,341)	7,659
	(2,873)	1,063	(7,277)
	22,078	(12,069)	(11,180)
Items that may not subsequently be reclassified to the statement of income			
Remeasurement gains (losses) on employee benefit plans	**(2,031)**	58	5,146
Net gains (losses) on equity securities designated at FVOCI	**(13,283)**	n/a	n/a
	(15,314)	58	5,146
Total other comprehensive income (loss), net of income taxes	**6,764**	(12,011)	(6,034)
Comprehensive income	**$ 47,020**	$ 38,790	$ 53,713

The accompanying notes are an integral part of the condensed interim consolidated financial statements (unaudited).

(1) The Consolidated Statement of Comprehensive Income for the three months ended January 31, 2019 reflects the adoption of new accounting standards as at November 1, 2018. Refer to Notes 2 and 5 for further information. The comparative information has not been restated.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONT'D)[1]

INCOME TAXES — OTHER COMPREHENSIVE INCOME

The following table shows income tax expense (recovery) for each component of other comprehensive income.

	For the three months ended		
In thousands of Canadian dollars (Unaudited)	**January 31 2019**	October 31 2018	January 31 2018
Net change in debt securities at FVOCI			
Unrealized net gains (losses) on debt securities at FVOCI	**$ 578**	n/a	n/a
Reclassification of net (gains) losses on debt securities at FVOCI to net income	**—**	n/a	n/a
	578	n/a	n/a
Net change in available-for-sale securities			
Unrealized net gains (losses) on available-for-sale securities	**n/a**	$ (1,670)	$ 414
Reclassification of net (gains) losses on available-for-sale securities to net income	**n/a**	(1,732)	(587)
	n/a	(3,402)	(173)
Net change in value of derivatives designated as cash flow hedges	**8,673**	(1,877)	(1,082)
Net foreign currency translation adjustments			
Unrealized net gains (losses) on hedges of investments in foreign operations	**—**	—	1,183
Remeasurement gains (losses) on employee benefit plans	**(736)**	22	1,873
Net gains (losses) on equity securities designated at FVOCI	**(4,818)**	n/a	n/a
	$ 3,697	$ (5,257)	$ 1,801

The accompanying notes are an integral part of the condensed interim consolidated financial statements (unaudited).

(1) The Consolidated Statement of Comprehensive Income for the three months ended January 31, 2019 reflects the adoption of adoption of new accounting standards as at November 1, 2018. Refer to Notes 2 and 5 for further information. The comparative information has not been restated.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY[1]

										For the three months ended January 31
				Accumulated other comprehensive income						
In thousands of Canadian dollars (Unaudited)	Preferred shares (Note 9)	Common shares (Note 9)	Retained earnings	Debt securities at FVOCI	Available-for-sale securities	Cash flow hedges	Translation of foreign operations	Total	Share-based compen-sation reserve (Note 10)	Total shareholders' equity
Balance as at October 31, 2018	$ 244,038	$1,115,416	$1,152,470	$ —	$ (8,029)	$ (12,244)	$ 4,283	$ (15,990)	$ 268	$ 2,496,202
Impact of adoption of new accounting standards (Notes 2 and 5)			(14,087)	(1,621)	8,029			6,408		(7,679)
Balance as at November 1, 2018	244,038	1,115,416	1,138,383	(1,621)	—	(12,244)	4,283	(9,582)	268	2,488,523
Net income			40,256							40,256
Other comprehensive income (net of income taxes)										
Unrealized net gains (losses) on debt securities at FVOCI				1,036				1,036		1,036
Reclassification of net (gains) losses on debt securities at FVOCI to net income				(69)				(69)		(69)
Net change in value of derivatives designated as cash flow hedges						23,984		23,984		23,984
Net unrealized foreign currency translation gains (losses) on investments in foreign operations							(963)	(963)		(963)
Unrealized net gains (losses) on hedges of investments in foreign operations							(1,910)	(1,910)		(1,910)
Remeasurement of gains (losses) on employee benefit plans			(2,031)							(2,031)
Net gains (losses) on equity securities designated at FVOCI			(13,283)							(13,283)
Comprehensive income			24,942	967	n/a	23,984	(2,873)	22,078		47,020
Issuance of share capital		4,936								4,936
Share-based compensation									515	515
Dividends										
Preferred shares, including applicable taxes			(3,257)							(3,257)
Common shares			(27,350)							(27,350)
Balance as at January 31, 2019	$ 244,038	$1,120,352	$1,132,718	$ (654)	n/a	$ 11,740	$ 1,410	$ 12,496	$ 783	$ 2,510,387

The accompanying notes are an integral part of the condensed interim consolidated financial statements (unaudited).

(1) The Consolidated Statement of Changes in Shareholders' Equity for the three months ended January 31, 2019 reflects the adoption of new accounting standards as at November 1, 2018. Refer to Notes 2 and 5 for further information. The comparative information has not been restated.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (CONT'D)

	For the three months ended January 31							
				Accumulated other comprehensive income				
In thousands of Canadian dollars (Unaudited)	Preferred shares (Note 9)	Common shares (Note 9)	Retained earnings	Available-for-sale securities	Cash flow hedges	Translation of foreign operations	Total	Total shareholders' equity
Balance as at October 31, 2017	$ 341,600	$ 953,536	$ 1,035,770	$ 4,849	$ (7,293)	$ 1,948	$ (496)	$ 2,330,410
Net income			59,747					59,747
Other comprehensive income (loss), (net of income taxes)								
Unrealized net gains (losses) on available-for-sale securities				985			985	985
Reclassification of net (gains) losses on available-for-sale securities to net income				(1,902)			(1,902)	(1,902)
Net change in value of derivatives designated as cash flow hedges					(2,986)		(2,986)	(2,986)
Net unrealized foreign currency translation gains (losses) on investments in foreign operations						(14,936)	(14,936)	(14,936)
Unrealized net gains on hedges of investments in foreign operations						7,659	7,659	7,659
Remeasurement of gains (losses) on employee benefit plans			5,146					5,146
Comprehensive income			64,893	(917)	(2,986)	(7,277)	(11,180)	53,713
Issuance of share capital		145,997						145,997
Repurchase of share capital	(97,562)		(2,438)					(100,000)
Dividends								
Preferred shares, including applicable taxes			(4,279)					(4,279)
Common shares			(24,548)					(24,548)
Balance as at January 31, 2018	$ 244,038	$ 1,099,533	$ 1,069,398	$ 3,932	$ (10,279)	$ (5,329)	$ (11,676)	$ 2,401,293

The accompanying notes are an integral part of the condensed interim consolidated financial statements (unaudited).

CONSOLIDATED STATEMENT OF CASH FLOWS[1]

In thousands of Canadian dollars (Unaudited)	Notes	For the three months ended January 31 2019	October 31 2018	January 31 2018
Cash flows relating to operating activities				
Net income		**$ 40,256**	$ 50,801	$ 59,747
Adjustments to determine net cash flows relating to operating activities:				
Provision for credit losses	7	**10,500**	17,600	12,000
Net gains on disposal of available-for-sale securities	6	**n/a**	(4,876)	(2,490)
Net gain on sale of commercial loan portfolios		**—**	1,061	—
Deferred income taxes		**(1,395)**	10,347	(1,046)
Depreciation of premises and equipment		**1,763**	1,886	1,668
Amortization of software and other intangible assets		**9,473**	8,650	8,385
Change in operating assets and liabilities:				
Loans		**185,369**	658,850	(68,372)
Acceptances		**(23,366)**	(194,268)	(14,205)
Securities at FVPL		**163,306**	(328,616)	81,633
Securities purchased under reverse repurchase agreements		**307,147**	(80,003)	(795,245)
Accrued interest receivable		**(1,028)**	(10,869)	4,876
Derivative assets		**(30,542)**	5,547	(36,003)
Deposits		**209,970**	(1,077,963)	504,759
Obligations related to securities sold short		**88,939**	(132,946)	783,303
Obligations related to securities sold under repurchase agreements		**(304,984)**	350,907	(562,812)
Accrued interest payable		**(27,579)**	25,695	(9,344)
Derivative liabilities		**(118,571)**	44,886	36,006
Debt related to securitization activities		**(448,473)**	(26,836)	12,038
Other, net		**(12,819)**	53,566	(126,499)
		47,966	(626,581)	(111,601)
Cash flows relating to financing activities				
Repurchase of preferred shares	9	**—**	—	(100,000)
Net proceeds from issuance of common shares	9	**(4)**	(1)	139,223
Dividends		**(26,837)**	(23,031)	(21,115)
		(26,841)	(23,032)	18,108
Cash flows relating to investing activities				
Change in securities at amortized cost				
Acquisitions		**(958,876)**	n/a	n/a
Proceeds on sale and at maturity		**1,005,584**	n/a	n/a
Change in securities at FVOCI				
Acquisitions		**(238,828)**	n/a	n/a
Proceeds on sale and at maturity		**198,853**	n/a	n/a
Change in available-for-sale securities				
Acquisitions		**n/a**	(721,349)	(1,279,114)
Proceeds on sale and at maturity		**n/a**	1,248,033	1,440,610
Change in held-to-maturity securities				
Acquisitions		**n/a**	(279,461)	(230,883)
Proceeds at maturity		**n/a**	68,347	184,763
Proceeds on sale of commercial loan portfolios	7	**105,366**	327,085	—
Additions to premises and equipment and software and other intangible assets		**(17,995)**	(46,191)	(28,813)
Cash paid for business combinations		**—**	233	—
Change in interest bearing deposits with banks		**(123,225)**	26,645	29,008
		(29,121)	623,342	115,571
Effect of exchange rate changes on cash and non-interest-bearing deposits with other banks		**(355)**	624	(1,934)
Net change in cash and non-interest bearing deposits with banks		**(8,351)**	(25,647)	20,144
Cash and non-interest bearing deposits with banks at beginning of period		**116,490**	142,137	111,978
Cash and non-interest bearing deposits with banks at end of period		**$ 108,139**	$ 116,490	$ 132,122
Supplemental disclosure about cash flows relating to operating activities:				
Interest paid during the period		**$ 240,928**	$ 184,605	$ 189,918
Interest received during the period		**$ 383,734**	$ 371,935	$ 368,678
Dividends received during the period		**$ 3,447**	$ 3,157	$ 2,446
Income taxes paid during the period		**$ 19,179**	$ 15,217	$ 34,291

The accompanying notes are an integral part of the condensed interim consolidated financial statements (unaudited).

(1) The Consolidated Statement of Cash Flows for the three months ended January 31, 2019 reflects the adoption of new accounting standards as at November 1, 2018. Refer to Notes 2 and 5 for further information. The comparative information has not been restated.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

All tabular amounts are in thousands of Canadian dollars, unless otherwise indicated (Unaudited)

1. GENERAL INFORMATION

Laurentian Bank of Canada (the Bank) provides financial services to its retail, business and institutional customers. The Bank operates primarily across Canada and in the United States.

The Bank is the ultimate parent of the group. The Bank is a chartered bank under Schedule 1 of the Bank Act (Canada) and has its head office in Montreal, Canada. The Bank's common shares (stock symbol: LB) are listed on the Toronto Stock Exchange.

The condensed interim consolidated financial statements (unaudited) for the period ended January 31, 2019 were approved for issuance by the Board of Directors on February 26, 2019.

2. BASIS OF PRESENTATION

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), as well as in accordance with IAS 34, *Interim Financial Reporting*. These consolidated financial statements also comply with the Bank Act, which states that, except as otherwise specified by the Office of the Superintendent of Financial Institutions Canada (OSFI), financial statements are to be prepared in accordance with IFRS.

These consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements for the year ended October 31, 2018 prepared in accordance with IFRS. The accounting policies described in Note 3 to the audited annual consolidated financial statements have been applied consistently to all periods presented within these financial statements, except for the changes described in Note 3 to these consolidated financial statements, which have been applied since November 1, 2018 following the Bank's adoption of IFRS 9, *Financial Instruments* (IFRS 9) and IFRS 15*, Revenue from Contracts with Customers* (IFRS 15). Note 5 to these consolidated financial statements shows the impacts of the adoption of new accounting standards as at November 1, 2018. As permitted by IFRS 9, the Bank did not restate comparative amounts for prior periods. The adoption of IFRS 15 had no significant impact on the Bank's Consolidated Financial Statements as at November 1, 2018.

Use of estimates and judgment

The preparation of these consolidated financial statements in accordance with IFRS requires management to make complex judgments that affect the reported amounts of assets, liabilities, net income and other related disclosures, as further described in Note 2 to the audited annual consolidated financial statements. New estimates about impairment of financial assets have been applied since November 1, 2018 following the Bank's adoption of IFRS 9 and are further described in Note 7 to these financial statements. Management has established controls and procedures to ensure these estimates are controlled, reviewed and consistently applied over time. Management believes that the estimates of the value of the Bank's assets and liabilities are appropriate.

3. CURRENT ACCOUNTING POLICY CHANGES

The accounting policies hereafter have been applied as at November 1, 2018 following the adoption of IFRS 9 and IFRS 15, further described in Note 5. The Bank elected not to apply the IFRS 9 hedge accounting requirements and instead continues to apply the IAS 39, *Financial Instruments: Recognition and Measurement* requirements.

3.1 FINANCIAL INSTRUMENTS

Classification and measurement of financial assets

At initial recognition, all financial assets are recorded at fair value on the Consolidated Balance Sheet. After initial recognition, financial assets must be measured as: 1) at amortized cost 2) at FVOCI, or 3) at FVTPL.

The Bank determines the classification of debt instruments based on the contractual cash flow characteristics of the financial assets and on the business model it uses to manage these financial assets, as described below. Equity instruments are required to be measured at FVTPL, except where the Bank has elected at initial recognition to irrevocably designate an equity investment, held for purposes other than trading, at FVOCI. Derivatives are required to be measured at FVTPL.

3. CURRENT ACCOUNTING POLICY CHANGES (CONT'D)

Contractual cash flow characteristics
In order to classify debt instruments, the Bank must determine whether the contractual cash flows associated with the debt instrument are solely payments of principal and interest (SPPI) on the principal amount outstanding. The principal is generally the fair value of the debt instrument at initial recognition. The interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time, and for other basic lending risks and costs as well as of a profit margin. If the Bank determines that the contractual cash flows associated with a debt instrument are not solely payments of principal and interest, the debt instrument must be classified as at FVTPL.

Business model assessment
The Bank determines its business models based on the objective under which each portfolio of financial assets is managed. The business model reflects how the Bank manages its financial assets and the extent to which the financial asset cash flows are generated by the collection of the contractual cash flows, the sale of financial assets, or both. The Bank determines the business model using scenarios that are reasonably expected to occur. The business model determination requires the use of judgment and consideration of all the relevant evidence available at the date of determination.

A financial asset portfolio is within a "hold to collect" business model when the Bank's primary objective is to hold these financial assets in order to collect contractual cash flows from them and not to sell them. When the Bank's objective is achieved both by collecting contractual cash flows and by selling the financial assets, the financial asset portfolio falls within a "hold to collect and sell" business model. In this type of business model, collecting contractual cash flows and selling financial assets are both integral components to achieving the Bank's objective for this financial asset portfolio. Financial assets are measured at FVTPL if they do not fall within either a "hold to collect" business model or a "hold to collect and sell" business model.

Optional designations
Under the fair value option, debt instruments that fall within a "hold to collect" or "hold to collect and sell" business model may be designated on a voluntary and irrevocable basis as at FVTPL provided that such designation:

- Eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the related gains and losses on different bases; or
- Pertains to an asset or liability that is managed and whose performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about such items is provided internally on that basis to the Bank's key management personnel; or
- Allows for reliable measurement of the fair value of the financial instruments designated at FVTPL.

As at January 31, 2019 and November 1, 2018, the Bank had not designated any financial asset as at FVTPL.

In addition, it is permitted to irrevocably designate, at initial recognition, an equity instrument that is neither held for trading nor a contingent consideration recognized in a business combination as at FVOCI.

Securities at amortized cost
Securities at amortized cost include debt securities for which the contractual terms give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding and that fall within a "hold to collect" business model. Securities at amortized cost are initially recorded at fair value on the settlement date on the consolidated balance sheet, including direct and incremental transaction costs. Subsequently, they are measured at amortized cost using the effective interest rate method, net of allowances for expected credit losses. Interest income is recognized in the Consolidated Statement of Income using the effective interest rate method, including the amortization of transaction costs as well as premium or discounts over the security's expected life.

Securities at FVOCI
Securities at FVOCI include: (i) debt securities for which the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding and that fall within a "hold to collect and sell" business model and (ii) equity securities designated at FVOCI with no subsequent reclassification of gains and losses to net income.

The Bank initially recognizes securities at FVOCI on the consolidated balance sheet at the settlement date, including direct and incremental transaction costs.

For debt securities at FVOCI, unrealized gains and losses are subsequently recognized, net of expected credit losses and income taxes, and provided that they are not hedged by derivative financial instruments in a fair value hedging relationship, in Other comprehensive income. When the securities are sold, realized gains or losses, determined on an average cost basis, are reclassified to Income from treasury and financial market operations in the Consolidated Statement of Income. Interest income is recognized in the Consolidated Statement of Income using the effective interest rate method, including the amortization of transaction costs as well as premium or discounts over the security's expected life.

For equity securities designated at FVOCI, subsequent unrealized gains and losses are presented, net of income taxes, in Other comprehensive income with no subsequent reclassification of realized gains and losses to net income. Dividend income for these instruments is recorded in interest income in the Consolidated Statement of Income.

3. CURRENT ACCOUNTING POLICY CHANGES (CONT'D)

Securities at FVTPL
Securities at FVTPL include (i) debt securities for which the business model is neither to hold to collect nor hold to collect and sell, (ii) debt securities for which the contractual cash flows are not solely payments of principal and interest on the principal amount outstanding and (iii) debt securities designated at FVTPL under the fair value option, (iv) equity securities held for trading, (v) equity securities other than those designated at FVOCI.

Securities at FVTPL are initially recorded at fair value on the settlement date on the consolidated balance sheet. Transaction costs and other fees associated with financial instruments at FVTPL are expensed as incurred. Subsequently, these securities are measured at fair value and the realized and unrealized gains and losses are recognized in the Consolidated Statement of Income under Income from treasury and financial market operations or Securities gains (losses) on brokerage operations. The amortization of premiums and discounts, calculated using the effective interest rate method, as well as interest income and dividend income, are recognized in Interest income in the Consolidated Statement of Income.

Loans at amortized cost
Loans at amortized cost include loans originated or purchased by the Bank that are not classified as measured at FVTPL or designated at FVTPL under the fair value option. These loans are held within a business model whose objective is to collect cash flows that are solely payments of principal and interest on the principal amount outstanding. Loans originated by the Bank are recognized at the settlement date on the Consolidated Balance Sheet. Loans are initially measured at fair value plus directly attributable costs and are subsequently measured at amortized cost using the effective interest method. Loans are presented net of allowances for credit losses on the Consolidated Balance Sheet.

Loans at FVOCI
Loans at FVOCI include loans originated or purchased by the Bank that are not classified as measured at FVTPL or designated at FVTPL under the fair value option. These loans are held within a "hold to collect and sell" business model business model whose objective is to collect cash flows that are solely payments of principal and interest on the principal amount outstanding and to sell them to generate a profit. Loans originated by the Bank are recognized at the settlement date on the Consolidated Balance Sheet. Loans are initially measured at fair value plus directly attributable costs. Interest income on loans at FVOCI is recorded using the effective interest rate method in Interest income in the Consolidated Statement of Income. Changes in the fair value of loans classified as at FVOCI are presented, net of income taxes, in Other comprehensive income. When the securities are sold, realized gains or losses, are reclassified to Other Income.

As at January 31, 2019 and November 1, 2018, the Bank had no loans at FVOCI.

Loans at FVTPL
Loans at FVTPL include loans designated at FVTPL under the fair value option and loans for which the contractual cash flows are not solely payments of principal and interest on the principal amount outstanding. These loans are initially recognized at fair value on the Consolidated Balance Sheet excluding any transaction costs which are recorded in Fees and commissions on loans and deposits in the Consolidated Statement of Income. Interest income on loans at FVTPL is recorded in Interest income in the Consolidated Statement of Income. Changes in the fair value of loans classified as at FVTPL and loans designated at FVTPL under the fair value option are recognized in Income from treasury and financial market operations.

As at January 31, 2019 and November 1, 2018, the Bank had no loans at FVTPL.

Classification and measurement of financial liabilities

At initial recognition, all financial liabilities are recorded at fair value at the settlement date on the Consolidated Balance Sheet. After initial recognition, financial liabilities must be measured as: 1) at amortized cost or 2) at FVTPL.

Financial liabilities at amortized cost
Financial liabilities at amortized cost include deposits, obligations related to securities sold under repurchase agreements, acceptances, subordinated debt, debt related to securitization activities and other liabilities. Financial liabilities at amortized cost are initially recognized at fair value including any transaction costs and subsequently measured at amortized cost. Interest expense on financial liabilities at amortized cost is recognized in the Consolidated Statement of Income, using the effective interest rate method.

Financial liabilities at FVTPL
Financial liabilities at FVTPL are composed of financial instruments held-for-trading including obligations related to securities sold short, derivatives not designated in hedge relationships and financial liabilities designated by the Bank as at FVTPL under the fair value option upon initial recognition. Financial liabilities at FVTPL are initially recorded at fair value at the settlement date on the Consolidated Balance Sheet. Subsequently, these financial instruments are remeasured at fair value and the realized and unrealized gains and losses are immediately recognized in the Consolidated Statement of Income under Income from treasury and financial market or Securities gains (losses) - brokerage operations. For financial liabilities designated by the Bank as at FVTPL under the fair value option, changes in the fair value which are attributable to changes in own credit risk are presented in other comprehensive income rather than in the Consolidated Statement of Income, unless it creates a mismatch. Interest expense paid is recognized in the Consolidated Statement of Income. Transaction costs and other fees associated with financial instruments at FVTPL are expensed as incurred.

As at January 31, 2019 and November 1, 2018, the Bank had not designated any financial liabilities at FVTPL.

3. CURRENT ACCOUNTING POLICY CHANGES (CONT'D)

Reclassification of financial assets and financial liabilities

Financial assets and financial liabilities are not reclassified subsequent to their initial recognition, except for financial assets for which the Bank changes its business model for managing financial assets. The reclassification is applied prospectively from the reclassification date. Such reclassifications of financial assets are expected to be rare in practice.

Impairment of financial assets

At the end of each reporting period, the Bank applies a three-stage impairment approach to measure the expected credit losses (ECL) on all debt instruments measured at amortized cost or at FVOCI, on loan commitments and financial guarantees that are not measured at fair value and on lease receivables. The ECL model is forward looking. Measurement of ECLs at each reporting period reflects reasonable and supportable information about past events, current conditions, and forecasts of future events and economic conditions.

In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the ECL model requires reverting to recognition of 12-month expected credit losses. When one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred, the financial asset is considered credit-impaired and is migrated to stage 3, and an allowance equal to lifetime expected losses continues to be recorded or the financial asset is written off. Interest income is calculated on the gross carrying amount of the financial assets in stages 1 and 2 and on the net carrying amount of the financial assets in stage 3.

For accounts receivables, the Bank applies a simplified impairment approach which does not track the changes in credit risk, but instead recognizes an allowance based on lifetime ECL at each reporting date from the date of initial recognition.

Assessment of significant increase in credit risk
In determining whether credit risk has increased significantly, the Bank uses an internal credit risk grading system and external risk ratings. To assess whether the credit risk of a financial instrument has increased significantly, the 12-month probability of default (PD) at the reporting date is compared with the 12-month PD at the date of initial recognition, and reasonable and supportable information indicative of significant increases in credit risk since initial recognition is considered. The Bank includes relative and absolute thresholds in the definition of significant increase in credit risk and a backstop of 30 days past due. All financial instruments that are 30 days past due are migrated to stage 2 even if other metrics do not indicate that a significant increase in credit risk has occurred. The assessment of a significant increase in credit risk requires significant judgment.

Measurement of expected credit losses
ECLs are measured as the probability-weighted present value of expected cash shortfalls over the remaining expected life of the financial instrument, and reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions is considered. The estimation and application of forward-looking information requires significant judgment. The cash shortfall is the difference between all contractual cash flows owed to the Bank and all the cash flows that the Bank expects to receive.

The measurement of ECLs is based primarily on the product of the instrument's PD, loss given default (LGD), and exposure at default (EAD). The IFRS 9 ECL calculation has leveraged, where appropriate, the credit risk model parameters used by the Bank for the collective allowance calculation under IAS 39, namely: PD, LGD and EAD. Forward-looking macroeconomic factors such as interest rates, unemployment rates, gross domestic product (GDP) forecasts and housing price indices are incorporated into the risk parameters. The estimate of expected credit losses reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. The Bank incorporates three forward-looking macroeconomic scenarios in its ECL calculation process: a base scenario, an upside scenario, and a downside scenario. Probability-weights are attributed to each scenario. The scenarios and probability weights are reassessed quarterly and subject to management review. The Bank applies experienced credit judgment to adjust the modeled ECL results when it becomes evident that known or expected risk factors and information were not considered in the credit risk rating and modeling process.

ECLs for all financial instruments are recognized in Provisions for credit losses in the Consolidated Statement of Income. In the case of debt instruments measured at FVOCI, ECLs are recognized in Provisions for credit losses in the Consolidated Statement of Income, and a corresponding amount is recognized in Other comprehensive income with no reduction in the carrying amount of the asset on the Consolidated Balance Sheet. As for debt instruments measured at amortized cost, they are presented net of the related allowance for credit losses on the Consolidated Balance Sheet. Allowances for credit losses for off-balance-sheet credit exposures that are not measured at fair value are included in Other liabilities on the Consolidated Balance Sheet.

Purchased or originated credit-impaired financial assets
On initial recognition of a financial asset, the Bank determines whether the asset is credit-impaired. For financial assets that are credit-impaired upon purchase or origination, in subsequent reporting periods the Bank recognizes only the cumulative changes in lifetime expected credit losses since initial recognition as an allowance for credit losses. The Bank recognizes changes in ECLs in Provision for credit losses in the Consolidated Statement of Income, even if the lifetime ECLs are less than ECLs that were included in the estimated cash flows on initial recognition.

3. CURRENT ACCOUNTING POLICY CHANGES (CONT'D)

Default
The definition of default used by the Bank to measure ECLs and transfer financial instruments between stages is consistent with the definition of default used for internal credit risk management purposes. The Bank considers a financial asset as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred or when contractual payments are 90 days past due.

Write-offs
The Bank writes off an impaired financial asset and its related allowance for credit losses in whole or in part when it considers the probability of recovery to be non-existent and when all guarantees and other remedies available to the Bank have been exhausted and balances owing are not likely to be recovered.

3.2 REVENUE FROM CONTRACTS WITH CUSTOMERS

The Bank provides banking services to its customers. Revenue from contracts with customers is recognized when control of services provided by the Bank is transferred to the customer at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for those services. Revenue associated with the rendering of services is recognized by reference to the satisfaction of performance obligations at the end of the reporting period. The Bank has generally concluded that it is the principal in its revenue arrangements, except for interchange income described below, because it typically controls the services before transferring them to the customer.

Fees and commissions on loans and deposits

Fees and commissions on loans and deposits include lending fees, deposit service charges, and card service revenues.

Lending fees include commitment fees, stand-by fees and letter of credit fees. These fees are recognized in income over the period in which the service is provided. Lending fees also include fees to guarantee acceptances issued by our customers, which are recognized over the term of the acceptance.

Deposit service charges are earned on personal and commercial deposit accounts and consist of account fees and transaction-based service charges. Account fees relate to account maintenance activities and are recognized in income over the period in which the service is provided. Transaction-based service charges are recognized as earned at a point in time when the transaction is complete.

Card service revenues include interchange income as well as card fees such as annual and transactional fees. The Bank also offers credit card loyalty points programs which affect the timing of recognition of card service revenues.

Interchange income
Interchange income is recognized at a point in time when the transaction is authorized and funded. The Bank is acting as an agent in these arrangements.

When another party is involved in providing services to its customer, the Bank determines whether it is a principal or an agent in these transactions by evaluating the nature of its promise to the customer. The Bank is a principal and records revenue on a gross basis if it controls the promised services before transferring them to the customer. However, if the Bank's role is only to arrange for another entity to provide the services, then the Bank is an agent and will record revenue at the net amount that it retains for its agency services.

Card fees
Card fees are recognized as earned at the transaction date with the exception of annual fees, which are recognized over a twelve-month period.

Loyalty points programs
The Bank offers credit card loyalty points programs, which allow customers to accumulate points that can be redeemed for free products or services. The loyalty points give rise to a separate performance obligation as they provide a material right to the customer. A portion of the transaction price is allocated to the loyalty points awarded to customers based on relative stand-alone selling price and recognized as a contract liability until the points are redeemed. Revenue is recognized upon redemption of products or services by the customer.

When estimating the stand-alone selling price of the loyalty points, the Bank considers the likelihood that the customer will redeem the points. The Banks updates its estimates of the points that will be redeemed on a monthly basis and any adjustments to the contract liability balance are charged against revenue.

Fees and commissions - brokerage operations

Fees and commissions - brokerage operations mainly include commission fees and investment banking fees. Commission fees include sales, trailer and brokerage commissions. Sales and brokerage commissions are generally recognized at a point in time when the transaction is executed. Trailer commissions are recognized over time and are generally calculated based on the average daily net asset value of the fund during the period. Investment banking fees include advisory fees and underwriting fees and are generally recognized at a point in time as income upon successful completion of the engagement.

3. CURRENT ACCOUNTING POLICY CHANGES (CONT'D)

Commissions on sales of mutual funds

Commissions on sales of mutual funds mainly include trailer commissions. Trailer commissions are recognized over time and are generally calculated based on the average daily net asset value of the fund during the period.

Fees from investment accounts

Fees from investment accounts are earned on personal investment accounts under administration and consist of account fees and transaction-based service charges. Account fees relate to account maintenance activities and are recognized in income over the period in which the service is provided. Transaction-based service charges are recognized as earned at a point in time when the transaction is complete.

Contract balances

Accounts receivables
A receivable represents the Bank's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). The timing of payment of accounts receivable is short term after the satisfaction of the performance obligation. Accounts receivables are measured at amortized cost and included in the Other assets line item.

Contract liabilities
A contract liability is the obligation to transfer goods or services to a customer for which the Bank has received consideration from the customer. If a customer pays consideration before the Bank transfers services to the customer, a contract liability is recognized when the payment is made. Contract liabilities are recognized as revenue when the Bank performs under the contract. Contract liabilities are included in the Other liabilities line item.

4. FUTURE ACCOUNTING CHANGES

Except for the adoption of IFRS 9 and IFRS 15 as at November 1, 2018, there have been no significant updates to the future accounting changes disclosed in Note 4 of the audited annual consolidated financial statements for the year ended October 31, 2018.

5. ADOPTION OF NEW ACCOUNTING STANDARDS

5.1 IFRS 9, *FINANCIAL INSTRUMENTS*

The IFRS 9 classification and measurement requirements as well as the impairment requirements have been applied retrospectively through adjustments to Consolidated Balance Sheet amounts on the date of initial application, i.e., November 1, 2018, with no restatement of comparative periods, as is permitted under the standard. The impacts of IFRS 9 adoption were recognized through adjustments to Retained earnings and Accumulated other comprehensive income on November 1, 2018. The following information presents the Consolidated Balance Sheet impacts as at November 1, 2018.

Classification and measurement of financial instruments at the date of initial application of IFRS 9

The following tables show the measurement categories and carrying amounts of the Bank's financial assets and financial liabilities, as previously established in accordance with IAS 39 as at October 31, 2018, as well as the new measurement categories and new carrying amounts established in accordance with IFRS 9 as at November 1, 2018 and the impact of IFRS 9 adoption on shareholders' equity.

With respect to financial instruments for which the measurement method has changed, additional information is provided hereafter.

5. ADOPTION OF NEW ACCOUNTING STANDARDS (CONT'D)

Impact of IFRS 9 adoption on financial assets

As at November 1, 2018	IAS 39 measurement category	IFRS 9 measurement category	Carrying amount under IAS 39	Classification	Measurement	Carrying amount under IFRS 9	
Financial assets							
Cash and non-interest-bearing deposits with other banks	Loans and receivables	Amortized cost	$ 116,490	$ —	$ —	$ 116,490	
Interest-bearing deposits with other banks	Loans and receivables	Amortized cost	374,237	—	—	374,237	
Securities	Available-for-sale	n/a	2,710,249	(2,710,249)	—	—	
		Amortized cost	—	2,333,880	(140)	2,333,740	(1)
		FVOCI (debt securities)	—	156,804	(60)	156,744	
		FVOCI (designated equity securities)		180,058	—	180,058	(2)
		FVTPL	—	39,507	—	39,507	(3)
	Held-to-maturity	n/a	655,757	(655,757)	—	—	
		Amortized cost	—	655,757	—	655,757	
	Held-for-trading	n/a	2,695,138	(2,695,138)	—	—	
		Amortized cost	—	13,159	—	13,159	(4)
		FVTPL	—	2,681,979	—	2,681,979	
			6,551,871	—	(200)	6,551,671	(5)
Securities purchased under reverse repurchase agreements	Loans and receivables	Amortized cost	3,652,498	—	—	3,652,498	
Loans							
Personal	Loans and receivables	Amortized cost	5,372,468	—	—	5,372,468	
Residential mortgage	Loans and receivables	Amortized cost	16,986,338	—	—	16,986,338	
Commercial	Loans and receivables	Amortized cost	11,839,106	—	—	11,839,106	
Customers' liabilities under acceptances	Loans and receivables	Amortized cost	196,776	—	—	196,776	
			34,394,688	—	—	34,394,688	
Allowances for loan losses			(93,026)	—	(6,578)	(99,604)	(5)
			34,301,662	—	(6,578)	34,295,084	
Derivatives	FVTPL	FVTPL	94,285	—	—	94,285	
Other financial assets	Loans and receivables	Amortized cost	$ 226,674	$ —	$ —	$ 226,674	

(1) As at October 31, 2018, these debt securities were classified as available-for-sale. They were being recognized at fair value with changes in fair value being recorded in Other comprehensive income. On November 1, 2018, under IFRS 9, the Bank reclassified these debt securities as at amortized cost, since (1) the financial assets are held within a business model whose objective is achieved by collecting contractual cash flows and (2) the contractual terms of these debt securities give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. The fair value of these debt securities as at October 31 2018 was treated as their new gross carrying amount or amortized cost, respectively, as at November 1, 2018. Had the Bank not reclassified these debt securities as at amortized cost, the change in fair value that would have been recognized in Other comprehensive income for the three months ended January 31, 2019 would have been a gain of $0.9 million.

(2) As at October 31, 2018, these equity securities were classified as available-for-sale. They were being recognized at fair value with changes in fair value being recorded in Other comprehensive income. On November 1, 2018, and as permitted by the IFRS 9 transitional provisions, the Bank made an irrevocable election to designate these equity securities held in non-trading portfolios at FVOCI with no subsequent reclassification of gains and losses to net income.

(3) As at October 31, 2018, these debt securities were classified as available-for-sale. They were being recognized at fair value with changes in fair value being recorded in Other comprehensive income. On November 1, 2018, under IFRS 9, the Bank reclassified these debt securities as at FVTPL, since the financial assets are not held within a "hold to collect" business model nor a "hold to collect and sell" business model.

(4) As at October 31, 2018, these debt securities were classified as held-for-trading. They were being recognized at fair value with changes in fair value being recorded in profit or loss. On November 1, 2018, under IFRS 9, the Bank reclassified these debt securities as at amortized cost, since (1) the financial assets are now held within a business model whose objective is achieved by collecting contractual cash flows and (2) the contractual terms of these debt securities give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. The fair value of these debt securities as at October 31 2018 was treated as their new gross carrying amount or amortized cost, respectively, as at November 1, 2018. Had the Bank not reclassified these debt securities as at amortized cost, the change in fair value that would have been recognized in the Consolidated Statement of Income for the three months ended January 31, 2019 would have been negligible.

(5) Refer to the Reconciliation of allowances for credit losses at transition date table below for further details.

5. ADOPTION OF NEW ACCOUNTING STANDARDS (CONT'D)

Impact of IFRS 9 adoption on financial liabilities and shareholders' equity

As at November 1, 2018	IAS 39 measurement category	IFRS 9 measurement category	Carrying amount under IAS 39	Classification	Measurement	Carrying amount under IFRS 9	
Financial liabilities							
Deposits	Amortized cost	Amortized cost	$ 28,006,572	$ —	$ —	$ 28,006,572	
Obligations related to securities sold short	FVTPL	FVTPL	3,008,666	—	—	3,008,666	
Obligations related to securities sold under repurchase agreements	Amortized cost	Amortized cost	2,515,823	—	—	2,515,823	
Acceptances	Amortized cost	Amortized cost	196,776	—	—	196,776	
Derivatives	FVTPL	FVTPL	285,492	—	—	285,492	
Other financial liabilities	Amortized cost	Amortized cost	628,822	—	3,655	632,477	(1)
Debt related to securitization activities	Amortized cost	Amortized cost	7,787,753	—	—	7,787,753	
Subordinated debt	Amortized cost	Amortized cost	348,762	—	—	348,762	
Total impact of IFRS 9 adoption, before income taxes			n/a	—	(10,433)	n/a	
Total Accumulated other comprehensive income, after income taxes			(15,990)	6,408	—	(9,582)	(2)
Total Retained earnings, after income taxes			1,152,470	(6,408)	(7,679)	1,138,383	(2),(3)
Total Shareholders' equity, after income taxes			$ 2,496,202	$ —	$ (7,679)	$ 2,488,523	(3)

(1) Refer to the Reconciliation of allowances for credit losses at transition date table below for further details.
(2) Classification amount represents the impact after income taxes ($8.5 million before income taxes) that resulted from the reclassification of debt securities from available-for-sale under IAS 39 to amortized cost under IFRS 9.
(3) Measurement amount represents the impact after income taxes ($10.4 million before income taxes) of the adoption of the impairment provisions of IFRS 9.

Reconciliation of allowances for credit losses at transition date

The following table presents a reconciliation of the allowances for credit losses amounts established in accordance with IAS 39 as at October 31, 2018 with those established in accordance with IFRS 9 as at November 1, 2018.

	IAS 39/IAS 37				IFRS 9			
As at November 1, 2018	Individual Allowances	Collective Allowances[1]	Total	Transition Adjustments	Stage 1	Stage 2	Stage 3	Total
Debt securities								
At amortized cost[2]	$ —	$ —	$ —	$ 140	$ 140	$ —	$ —	$ 140
At FVOCI[3]	—	—	—	60	60	—	—	60
	—	—	—	200	200	—	—	200
Loans at amortized cost								
Personal	—	23,509	23,509	11,215	9,214	20,582	4,928	34,724
Residential mortgage	—	9,920	9,920	(5,214)	2,435	1,828	443	4,706
Commercial[4]	28,442	31,155	59,597	577	19,536	8,004	32,634	60,174
	28,442	64,584	93,026	6,578	31,185	30,414	38,005	99,604
Off-balance sheet exposures[5]	—	3,396	3,396	3,655	4,523	2,176	352	7,051
Total allowances for credit losses	$ 28,442	$ 67,980	$ 96,422	$ 10,433	$ 35,908	$ 32,590	$ 38,357	$ 106,855

(1) Includes collective allowances for impaired loans and for other loans.
(2) Previously available-for-sale and held-to-maturity securities under IAS 39.
(3) Previously available-for-sale debt securities under IAS 39.
(4) Including customers' liabilities under acceptances.
(5) Including letters of guarantee and certain undrawn amounts under approved credit facilities, established under IAS 37 as at October 31, 2018.

5. ADOPTION OF NEW ACCOUNTING STANDARDS (CONT'D)

5.2 IFRS 15, *REVENUE FROM CONTRACTS WITH CUSTOMERS*

IFRS 15, *Revenue from Contracts with Customers* establishes a comprehensive framework for the recognition, measurement and disclosure of revenues. IFRS 15 applies to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments) and replaces, among others, the previous revenue standard IAS 18, *Revenue* and the related interpretation on revenue recognition IFRIC 13, *Customer Loyalty Programmes*.

IFRS 15 requires that revenue recognised from contracts with customers must be disclosed separately from its other sources of revenue. As such, income from brokerage operations previously presented on a single line item on the consolidated statement of income is now presented separately under two line items: Fees and commissions – brokerage operations and Securities gains (losses) – brokerage operations. This change in presentation was applied retrospectively.

The adoption of IFRS 15 had no significant impact on the Bank's Consolidated Financial Statements as at November 1, 2018.

6. SECURITIES

Credit quality

As at January 31, 2019, debt securities at amortized cost and at FVOCI are classified in Stage 1, with their credit facility falling mainly in the "Low risk" category according the Bank's internal risk-rating categories. As at January 31, 2019, allowances for credit losses amounted to $0.1 million for debt securities at amortized cost and $0.1 million for debt securities at FVOCI.

Securities at amortized cost

	As at January 31, 2019
Securities issued or guaranteed	
by Canada[1]	$ 1,705,094
by provinces	1,171,973
by municipalities	46,066
Other debt securities	32,815
	$ 2,955,948

(1) Including mortgage-backed securities that are fully guaranteed by the Canada Mortgage and Housing Corporation pursuant to the National Housing Act.

Securities at FVOCI

Accumulated unrealized gains and losses recognized in other comprehensive income

				As at January 31, 2019
	Amortized cost	Unrealized gains	Unrealized losses	Fair value[1]
Securities issued or guaranteed				
by Canada[2]	$ 38,340	$ 114	$ 6	$ 38,448
by provinces	8,420	54	30	8,444
by municipalities	78,985	11	541	78,455
Other debt securities	31,244	175	272	31,147
Asset-backed securities	2,037	3	—	2,040
Preferred shares	202,811	26	25,126	177,711
Common shares and other securities	23,989	575	385	24,179
	$ 385,826	$ 958	$ 26,360	$ 360,424

(1) The allowances for credit losses on debt securities at FVOCI, amounting to $0.1 million as at January 31, 2019, are reported in Accumulated other comprehensive income.
(2) Including mortgage-backed securities that are fully guaranteed by the Canada Mortgage and Housing Corporation pursuant to the National Housing Act.

6. SECURITIES (CONT'D)

Equity securities designated at FVOCI
The Bank designated certain equity securities, the business objective of which is mainly to generate dividend income, at FVOCI without subsequent reclassification of gains and losses to net income.

During the three months ended January 31, 2019, an amount of $2.4 million in dividend income was recognized on these investments, including a negligible amount for investments that were sold during the three months ended January 31, 2019.

	For the three months ended January 31, 2019
Fair value as at November 1, 2018	**$ 180,058**
Change in fair value	**(17,587)**
Designated at FVOCI	**46,075**
Sales or redemptions	**(6,656)**
Fair value as at January 31, 2019	**$ 201,890**

Available-for-sale securities

Gains and losses recognized in income from treasury and financial market operations on the portfolio of available-for-sale securities

	For the three months ended	
	October 31 2018	January 31 2018
Realized net gains	$ 4,876	$ 2,490

Accumulated unrealized gains and losses recognized in other comprehensive income on the portfolio of available-for-sale securities

				As at October 31, 2018
	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Securities issued or guaranteed				
by Canada[1]	$ 1,028,739	$ 351	$ 445	$ 1,028,645
by provinces	1,327,856	181	618	1,327,419
by municipalities	127,212	—	1,997	125,215
Other debt securities	39,342	5	1,027	38,320
Asset-backed securities	2,453	—	2	2,451
Preferred shares	184,651	8	7,350	177,309
Common shares and other securities	10,658	256	24	10,890
	$ 2,720,911	$ 801	$ 11,463	$ 2,710,249

(1) Including mortgage-backed securities that are fully guaranteed by the Canada Mortgage and Housing Corporation pursuant to the National Housing Act.

7. LOANS AND ALLOWANCES FOR CREDIT LOSSES

As at January 31, 2019, loans are recognized on the Consolidated Balance Sheet at amortized cost as outlined in Note 3 using the financial asset classification criteria defined in IFRS 9. The following information is presented in accordance with IFRS 9 as at January 31, 2019 and in accordance with IAS 39 as at October 31, 2018. For additional information on the adoption of IFRS 9, see Note 5 to these consolidated financial statements.

Determining and measuring expected credit losses (ECL)

Expected Credit Losses

Expected credit losses are determined using a three-stage approach that is based on the change in the credit quality of assets since initial recognition.

- Stage 1: Financial instruments that are not impaired and for which the credit risk has not increased significantly since initial recognition are classified in Stage 1.
- Stage 2: Financial instruments that have experienced a significant increase in credit risk between initial recognition and the reporting date but are not impaired are migrated to Stage 2.
- Stage 3: Financial instruments for which there is objective evidence of impairment, for which one or more events have had a detrimental impact on estimated future cash flows at the reporting date and are considered credit impaired, are classified in Stage 3.
- POCI: Financial instruments that are credit-impaired when purchased or originated (POCI) are classified in the POCI category.

Governance and controls

The Bank's risk management framework is applied to the determination of expected credit losses. The Bank has policies and procedures that govern impairments arising from credit risk. These policies are documented and periodically reviewed by the risk management function. A validation team independent of the team that prepares the calculations reviews the expected credit losses calculations. Complex questions on measurement methodologies and assumptions are reviewed by a group of experts from various functions. Furthermore, the inputs and assumptions used to determine expected credit losses are reviewed on a regular basis by the risk management function.

Measurement of expected credit losses

Expected credit losses are estimated using three main variables: (1) probability of default (PD), (2) loss given default (LGD) and (3) exposure at default (EAD). For accounting purposes, 12-month expected credit losses are estimated by multiplying 12-month PD by LGD and by EAD. Lifetime expected credit losses are estimated using the lifetime PD.

Expected credit losses are measured either on a collective or an individual basis. Financial instruments that have credit losses measured on a collective basis are allocated to groups that share similar credit risk characteristics.

Inputs, assumptions and estimation techniques used

The Bank's approach to calculating expected credit losses for IFRS 9 purposes leverages credit risk models based on the internal risk rating of credit facilities by adjusting parameters.

<u>PD estimates</u>

PD is an estimate of the likelihood that a loan will not be repaid over a given time horizon. The resulting PD estimates are built based on historical data, current market conditions and are estimated by incorporating reasonable and supportable forward-looking economic conditions at the balance sheet date. Some adjustments are made to Basel parameters to transform them into parameters compliant with IFRS 9 requirements, including the conversion of through-the-cycle parameters to point-in-time inputs that consider supportable and relevant information about future economic conditions.

<u>LGD estimates</u>

LGD represents the amount that may not be recovered in the case where a default occurs. LGD estimates are determined based on historical data, facility-specific characteristics such as collateral, direct costs and relevant information about future economic conditions, where appropriate.

<u>EAD estimates</u>

EAD represents an estimate of the exposure at the time a default may occur. Depending on the type of exposure, EAD includes forward-looking expectations about amounts to be drawn on a committed facility, if applicable, or expectations about repayments of drawn balances.

<u>Expected life</u>

For most financial instruments, the expected life used when measuring expected credit losses is the remaining contractual life. For revolving financial instruments where there is no contractual maturity, such as credit cards or lines of credit, the expected life is based on the behavioral life of the product.

7. LOANS AND ALLOWANCES FOR CREDIT LOSSES (CONT'D)

Incorporation of forward-looking information

The Bank's Economy and Strategy group is responsible for developing three macroeconomic scenarios (base scenario, upside scenario and downside scenario) and for recommending probability weights for each scenario. Macroeconomic scenarios are not developed for specific portfolios, as the Economy and Strategy group provides a set of variables for each of the defined scenarios. ECL inputs and models rely on forward-looking macroeconomic factors (interest rates, unemployment rates, GDP forecasts, housing price indices, etc.). The Bank considers other relevant factors that may not be adequately reflected in the information used to calculate the ECL (including late payments and whether the financial asset is subject to additional monitoring such as the watch list for commercial loan portfolios).

Assessment of significant changes in credit risk

To assess whether the credit risk of a financial instrument has increased significantly, the 12-month PD at the reporting date is compared with the 12-month PD at the date of initial recognition, and reasonable and supportable information indicative of significant increases in credit risk since initial recognition is considered. The Bank has included relative and absolute thresholds in the definition of significant increase in credit risk and a backstop of 30 days past due. All financial instruments that are 30 days past due are migrated to stage 2 even if other metrics do not indicate that a significant increase in credit risk has occurred.

Similarly, the Bank determines whether credit risk has decreased significantly for loans that have been migrated to stage 2 or stage 3, using those same factors.

Determination of credit impairment

The Bank considers a financial asset to be impaired when one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred or when contractual payments are 90 days past due.

Credit quality of loans

The following tables present information about credit risk rating grades in accordance with credit risk management.

Credit risk rating grades

Personal credit exposures

The Bank uses behaviour scoring models to manage and monitor personal credit exposures. The table below shows the PD categories along with the associated credit qualities of the personal credit portfolios.

PD (%)	Description
0.00-0.33	Very low risk
0.34-0.84	Low risk
0.85-14.98	Medium risk
14.99-99.99	High risk
100	Default

Commercial credit exposures

For internal credit risk management, the Bank uses a 19-level risk rating system to evaluate commercial credit exposures. This risk rating system used by the Bank is similar to the systems used by major external rating agencies. The following table presents a grouping of the grades by major risk category and compares them with the ratings of two major rating agencies.

Ratings	PD (%)	Standard & Poor's	DBRS	Description
1-7	0.00-0.43	AAA to BB+	AAA to BB (high)	Very low risk
8-10	0.44-1.63	BB to BB-	BB to B (high)	Low risk
11-13	1.64-11.38	B+ to B-	B to CCC (high)	Medium risk
14-16	11.39-99.99	CCC+ to C	CC (high) to CCC	High risk
17-19	100	D	D	Default

7. LOANS AND ALLOWANCES FOR CREDIT LOSSES (CONT'D)

Credit risk exposure

The table below presents the gross and net carrying amounts of loans and acceptances and off-balance sheet exposures as at January 31, 2019, according to credit quality and ECL impairment stage of each loan category at amortized cost.

				As at January 31, 2019
	Stage 1	Stage 2	Stage 3[1]	Total
Personal loans				
Very low risk	$ 3,009,664	$ 100,951	$ —	$ 3,110,615
Low risk	736,013	283,504	—	1,019,517
Medium risk	617,985	406,672	1	1,024,658
High risk	3,704	34,527	83	38,314
Default	2	19	25,320	25,341
Gross carrying amount	4,367,368	825,673	25,404	5,218,445
Allowances for loan losses	8,208	19,349	7,136	34,693
Net carrying amount	$ 4,359,160	$ 806,324	$ 18,268	$ 5,183,752
Residential mortgage loans				
Very low risk	$ 7,065,366	$ 3,305	$ —	$ 7,068,671
Low risk	5,118,755	281,784	—	5,400,539
Medium risk	3,004,742	967,317	—	3,972,059
High risk	6,328	76,144	—	82,472
Default	—	47	49,488	49,535
Gross carrying amount	15,195,191	1,328,597	49,488	16,573,276
Allowances for loan losses	1,965	1,591	632	4,188
Net carrying amount	$ 15,193,226	$ 1,327,006	$ 48,856	$ 16,569,088
Commercial loans[2]				
Very low risk	$ 1,975,626	$ 49,301	$ —	$ 2,024,927
Low risk	7,243,747	144,548	—	7,388,295
Medium risk	2,298,274	364,632	—	2,662,906
High risk	12	119,047	3	119,062
Default	1,720	2	114,691	116,413
Gross carrying amount	11,519,379	677,530	114,694	12,311,603
Allowances for loan losses	18,989	10,092	33,782	62,863
Net carrying Amount	$ 11,500,390	$ 667,438	$ 80,912	$ 12,248,740
Total loans				
Gross carrying amount	$ 31,081,938	$ 2,831,800	$ 189,586	$ 34,103,324
Allowances for loan losses	29,162	31,032	41,550	101,744
Net carrying amount	$ 31,052,776	$ 2,800,768	$ 148,036	$ 34,001,580
Off-balance sheet exposures[3]				
Very low risk	$ 1,126,472	$ 44,364	$ —	$ 1,170,836
Low risk	1,120,918	54,098	—	1,175,016
Medium risk	423,525	66,812	—	490,337
High risk	45	2,738	—	2,783
Default	—	—	—	—
Total exposure	2,670,960	168,012	—	2,838,972
Allowances for off-balance sheet exposures losses	3,772	2,262	—	6,034
Total exposure, net	$ 2,667,188	$ 165,750	$ —	$ 2,832,938

(1) Given the adoption of IFRS 9, all loans classified in Stage 3 of the ECL model as at January 31, 2019 are impaired loans, including $15.0M of insured residential mortgage loans. Under IAS 39, loans were considered impaired according to different criteria.
(2) Including customers' liabilities under acceptances.
(3) Including letters of guarantee and certain undrawn amounts under approved credit facilities.

7. LOANS AND ALLOWANCES FOR CREDIT LOSSES (CONT'D)

Impaired loans[1]

		As at January 31, 2019				
		Gross impaired loans		Allowances against impaired loans		Net impaired loans
Personal loans	$	25,404	$	7,136	$	18,268
Residential mortgage loans		49,488		632		48,856
Commercial loans[2]		114,694		33,782		80,912
	$	189,586	$	41,550	$	148,036

		As at October 31, 2018						
		Gross impaired loans		Individual allowances		Collective allowances against impaired loans		Net impaired loans
Personal loans	$	19,805	$	—	$	4,844	$	14,961
Residential mortgage loans		37,134		—		2,104		35,030
Commercial loans[2]		124,331		28,442		2,788		93,101
	$	181,270	$	28,442	$	9,736	$	143,092

(1) Given the adoption of IFRS 9, all loans classified in Stage 3 of the ECL model are impaired loans, including $15.0M of insured residential mortgage loans. Under IAS 39, loans were considered impaired according to different criteria.
(2) Including customers' liabilities under acceptances.

Loans past due but not impaired

The following table shows personal and residential mortgage loans that are past due but not classified as impaired. Commercial loans past due but not impaired are not significant.

		As at January 31, 2019						
		1 day-31 days		32 days-90 days		Over 90 days[1]		Total
Personal loans	$	105,005	$	26,760	$	6,441	$	138,206
Residential mortgage loans		252,947		55,429		17,916		326,292
	$	357,952	$	82,189	$	24,357	$	464,498

		As at October 31, 2018						
		1 day-31 days		32 days-90 days		Over 90 days		Total
Personal loans	$	64,649	$	21,856	$	6,301	$	92,806
Residential mortgage loans		252,403		48,542		16,642		317,587
	$	317,052	$	70,398	$	22,943	$	410,393

(1) Given the adoption of IFRS 9, loans more than 90 days past due are considered impaired (Stage 3).

7. LOANS AND ALLOWANCES FOR CREDIT LOSSES (CONT'D)

Reconciliation of allowances for credit losses

The following table presents the reconciliation of allowances for credit losses for each exposure category at amortized cost according to ECL impairment stage.

				For the three months ended January 31, 2019
	Stage 1	Stage 2	Stage 3	Total
Personal				
Balance at beginning of period	$ 11,070	$ 22,498	$ 4,934	$ 38,502
Transfers:				
to Stage 1	4,454	(4,347)	(107)	—
to Stage 2	(933)	1,215	(282)	—
to Stage 3	(21)	(1,178)	1,199	—
Originations	124	—	—	124
Derecognitions	(166)	(376)	(766)	(1,308)
Net remeasurements of allowances	(4,694)	3,050	7,271	5,627
Provision for (reversal of) credit losses	(1,236)	(1,636)	7,315	4,443
Write-offs	—	—	(5,852)	(5,852)
Recoveries	—	—	981	981
Foreign exchange and other	—	—	(242)	(242)
Balance at the end of period	$ 9,834	$ 20,862	$ 7,136	$ 37,832
Total allowances for loan losses	$ 8,208	$ 19,349	$ 7,136	$ 34,693
Total allowances for off-balance sheet exposures	1,626	1,513	—	3,139
Total allowances for credit losses	$ 9,834	$ 20,862	$ 7,136	$ 37,832
Residential mortgage				
Balance at beginning of period	$ 2,446	$ 1,840	$ 443	$ 4,729
Transfers:				
to Stage 1	357	(334)	(23)	—
to Stage 2	(86)	257	(171)	—
to Stage 3	(1)	(86)	87	—
Originations	8	—	—	8
Derecognitions	(332)	(300)	(59)	(691)
Net remeasurements of allowances	(417)	233	815	631
Provision for (reversal of) credit losses	(471)	(230)	649	(52)
Write-offs	—	—	(122)	(122)
Recoveries	—	—	41	41
Foreign exchange and other	—	—	(379)	(379)
Balance at end of period	$ 1,975	$ 1,610	$ 632	$ 4,217
Total allowances for loan losses	$ 1,965	$ 1,591	$ 632	$ 4,188
Total allowances for off-balance sheet exposures	10	19	—	29
Total allowances for credit losses	$ 1,975	$ 1,610	$ 632	$ 4,217

7. LOANS AND ALLOWANCES FOR CREDIT LOSSES (CONT'D)

				For the three months ended January 31, 2019
	Stage 1	Stage 2	Stage 3	Total
Commercial				
Balance at beginning period	$ 22,192	$ 8,252	$ 32,980	$ 63,424
Transfers:				
to Stage 1	1,713	(1,399)	(314)	—
to Stage 2	(686)	604	82	—
to Stage 3	(14)	(228)	242	—
Originations	2,786	—	—	2,786
Derecognitions	(3,493)	(285)	(1,079)	(4,857)
Net remeasurements	(1,361)	3,878	5,663	8,180
Provision for (reversal of) credit losses	(1,055)	2,570	4,594	6,109
Write-offs	—	—	(2,546)	(2,546)
Recoveries	—	—	(65)	(65)
Foreign exchange and other	(12)	—	(1,181)	(1,193)
Balance at end of period	$ 21,125	$ 10,822	$ 33,782	$ 65,729
Total allowances for loan losses	$ 18,989	$ 10,092	$ 33,782	$ 62,863
Total allowances for off-balance sheet exposures	2,136	730	—	2,866
Total allowances for credit losses	$ 21,125	$ 10,822	$ 33,782	$ 65,729
Total exposure				
Total allowances for loan losses	$ 29,162	$ 31,032	$ 41,550	$ 101,744
Total allowances for off-balance sheet exposures	3,772	2,262	—	6,034
Total allowances for credit losses	$ 32,934	$ 33,294	$ 41,550	$ 107,778

						For the three months ended January 31, 2018
	Balance at beginning of period	Provision for credit losses	Write-offs	Recoveries and other[1]	Interest accrued on impaired loans	Balance at end of period
Personal	$ 30,600	$ 6,970	$ (9,492)	$ 1,842	$ (208)	$ 29,712
Residential mortgage	10,818	1,584	(135)	(147)	(381)	11,739
Commercial[2]	63,474	3,446	(2,988)	48	(337)	63,643
Total allowances for credit losses	$ 104,892	$ 12,000	$ (12,615)	$ 1,743	$ (926)	$ 105,094
Individual allowances	$ 24,801	$ 7	$ (2,978)	$ 90	$ (88)	$ 21,832
Collective allowances against impaired loans	17,828	9,199	(9,637)	1,653	(838)	18,205
Collective allowances against other loans	56,557	2,672	—	—	—	59,229
Total allowances for loan losses	$ 99,186	$ 11,878	$ (12,615)	$ 1,743	$ (926)	$ 99,266
Allowances for off-balance sheet exposures[3]	5,706	122	—	—	—	5,828
Total allowances for credit losses	$ 104,892	$ 12,000	$ (12,615)	$ 1,743	$ (926)	$ 105,094

(1) Includes impact of foreign exchange movements.
(2) Including customers' liabilities under acceptances.
(3) The allowances for off-balance sheet exposures, such as letters of guarantee and certain undrawn amounts under approved credit facilities, are recognized in other liabilities.

7. LOANS AND ALLOWANCES FOR CREDIT LOSSES (CONT'D)

Sale of commercial loans

During the three months ended January 31, 2019, the Bank sold commercial loans amounting to $105.4 million and recognized a net gain of nil in other income. During the three months ended October 31, 2018, the Bank sold commercial loans amounting to $327.1 million and recognized a $1.1 million net loss in other income. No such sales occurred during the three months ended January 31, 2018.

Finance lease receivables

The Commercial loans line item includes net investment in leases of $887.0 million as at January 31, 2019 ($878.7 million as at October 31, 2018).

8. SECURITIZATION AND STRUCTURED ENTITIES

8.1 TRANSFER OF FINANCIAL ASSETS

The Bank sells mortgage loans to the Canada Mortgage Bond (CMB) program and to third-party investors under the National Housing Act (NHA) Mortgage-Backed Securities (MBS) program set-up by the Canada Mortgage and Housing Corporation (CMHC), as well as through a multi-seller conduit set up by another Canadian bank.

Financial assets not qualifying for derecognition and associated financial liabilities

The following table summarizes the carrying amounts of financial assets that do not qualify for derecognition and their associated financial liabilities included on the Consolidated Balance Sheet.

		As at January 31 2019		As at October 31 2018
Residential mortgage loans	$	**6,097,319**	$	6,238,035
Replacement Assets[1]		**802,399**		1,111,898
Debt related to securitization activities	$	**(6,868,807)**	$	(7,276,779)

(1) Includes cash and deposits with banks, securities purchased under reverse repurchase agreements and securities acquired as part of the principal reinvestment account that is required to be maintained for the Bank to participate in the program.

In addition, as at January 31, 2019, the Bank has also securitized other residential mortgage loans for a total amount of $587.5 million ($599.7 million as at October 31, 2018) as part of the NHA MBS program, of which $232.5 million ($244.7 million as at October 31, 2018) were pledged as collateral with the Bank of Canada and $355.0 million ($355.0 as at October 31, 2018) was available as collateral. The resulting NHA MBS are presented as part of residential mortgage loans.

8.2 STRUCTURED ENTITIES SECURITIZATON VEHICLES

The Bank sells loans and finance lease receivables to intermediate partnerships, B2B Securitization Limited Partnership and LBC Leasing Limited Partnership (the Partnerships), respectively. To fund these purchases, the Partnerships issue interest-bearing liabilities to securitization conduits of other Canadian banks. These Partnerships are consolidated and the related interest-bearing liabilities issued by the Partnerships are recorded as debt related to securitization activities involving structured entities.

Financial assets securitized through other structured entities

The following table summarizes the carrying amounts of financial assets securitized through other structured entities that do not qualify for derecognition and their associated financial liabilities included in the consolidated balance sheet.

		As at January 31 2019		As at October 31 2018
Personal loans	$	**992,994**	$	1,022,791
Commercial loans[1]		**297,149**		351,943
Debt related to securitization activities involving structured entities	$	**(470,473)**	$	(510,974)

(1) The Bank securitizes finance lease receivables which are included in the Commercial loans line item.

9. SHARE CAPITAL

Preferred shares

The variation and outstanding number and amounts of preferred shares was as follows.

	For the three months ended			
	January 31 2019		January 31 2018	
	Number of shares	**Amount**	Number of shares	Amount
Non-Cumulative Class A Preferred Shares				
Series 11				
Outstanding at beginning of period	**—**	**$ —**	4,000,000	$ 97,562
Repurchase of shares	**—**	**—**	(4,000,000)	(97,562)
Outstanding at the end of period	**—**	**—**	—	—
Series 13				
Outstanding at beginning and end of period	**5,000,000**	**$ 122,071**	5,000,000	$ 122,071
Series 15				
Outstanding at beginning and end of period	**5,000,000**	**$ 121,967**	5,000,000	121,967
	10,000,000	**$ 244,038**	10,000,000	$ 244,038

There were no outstanding Non-Cumulative Class A Preferred Shares Series 14 and Series 16 as at January 31, 2019 (no outstanding preferred shares Series 14 and Series 16 as at January 31, 2018).

Common shares

The variation and outstanding number and amounts of common shares was as follows.

	For the three months ended			
	January 31 2019		January 31 2018	
	Number of shares	**Amount**	Number of shares	Amount
Common shares				
Outstanding at beginning of period	**42,075,284**	**$ 1,115,416**	38,966,473	$ 953,536
Issuance under a public offering	**—**	**—**	2,624,300	143,812
Issuance under the Shareholder Dividend Reinvestment and Share Purchase Plan	**114,722**	**4,954**	129,914	6,793
Net issuance costs	**n/a**	**(18)**	n/a	(4,608)
	42,190,006	**$ 1,120,352**	41,720,687	$ 1,099,533

Shareholder Dividend Reinvestment and Share Purchase Plan

The Bank determined that as of December 4, 2018, reinvestments related to the dividend declared would be made in common shares issued from treasury at a 2% discount.

Dividends declared

On February 19, 2019, the Board of Directors declared the regular dividend on the various series of preferred shares to shareholders of record on March 7, 2019.

On February 26, 2019, the Board of Directors declared a quarterly dividend of $0.65 per common share, payable on May 1, 2019, to shareholders of record on April 1, 2019.

Capital management

Regulatory capital
OSFI requires banks to meet minimum risk-based capital ratios drawn on the BCBS capital framework, commonly referred to as Basel III. Under OSFI's Capital Adequacy Requirements guideline, minimum Common Equity Tier 1, Total Tier 1 and Total capital ratios were set at 7.0%, 8.5% and 10.5% respectively for 2019 including the 2.5% capital conservation buffer.

Under OSFI's Leverage Requirements Guideline, federally regulated deposit-taking institutions are expected to maintain a Basel III leverage ratio that meets or exceeds 3% at all times. The leverage ratio is defined as the Tier 1 capital divided by unweighted on-balance sheet assets and off-balance sheet commitments, derivatives and securities financing transactions, as defined within the requirements.

9. SHARE CAPITAL (CONT'D)

The Bank has complied with regulatory capital requirements throughout the three-month period ended January 31, 2019. Regulatory capital is detailed below.

		As at January 31 2019		As at October 31 2018
Common shares	$	**1,120,352**	$	1,115,416
Retained earnings		**1,132,718**		1,152,470
Accumulated other comprehensive income, excluding cash flow hedge reserve		**756**		(3,746)
Share-based compensation reserve		**783**		268
Deductions from Common Equity Tier 1 capital[1]		**(436,079)**		(452,401)
Common Equity Tier 1 capital		**1,818,530**		1,812,007
Non-qualifying preferred shares[2]		**—**		—
Qualifying preferred shares		**244,038**		244,038
Additional Tier 1 capital		**244,038**		244,038
Tier 1 capital		**2,062,568**		2,056,045
Qualifying subordinated debt		**348,848**		348,762
Collective allowances		**77,178**		67,981
Deductions from Tier 2 capital		**(107)**		—
Tier 2 capital		**425,919**		416,743
Total capital	$	**2,488,487**	$	2,472,788
Common Equity Tier 1 capital ratio		**8.9%**		9.0%
Tier 1 capital ratio		**10.1%**		10.2%
Total capital ratio		**12.2%**		12.2%

(1) Comprised of deductions for software and other intangible assets, goodwill, pension plan assets and other.
(2) There is currently no deduction related to the non-qualifying capital instruments under Basel III.

10. SHARE-BASED COMPENSATION

Share purchase option plan

Old Stock Option Purchase Plan
On October 31, 2018, the Bank awarded 124,962 stock options under the Old Stock Option Purchase Plan. The average fair value of the options of $5.64 per option was determined as at December 6, 2018 upon the determination of the exercise price of $38.97. The average fair value of the options awarded was estimated using the Black-Scholes model, as well as the assumptions presented in the table below.

As at January 31, 2019, there were 124,962 stock options outstanding under the Old Stock Option Purchase Plan (124,962 stock options as at October 31, 2018).

New Stock Option Plan
In December 2018, the Bank created the New Stock Option Plan to replace the Old Stock Option Purchase Plan. The New Stock Option Plan is subject to approval at the Annual General Meeting of shareholders on April 9, 2019. The terms and conditions of the new Stock Option Plan will govern the stock options granted by the Board of Directors on December 4, 2018 described thereafter. Should shareholders fail to approve the New Stock Option Plan, this grant will be cancelled forthwith.

Officers, senior executives and other employees of the Bank or its subsidiaries are eligible participants in the New Stock Option Plan. Under this plan, the exercise price of options for the purchase of common shares cannot be below the market value of the Bank's share at the date of grant. Stock options granted will vest 50% after three years and 50% after four years and the options may be exercised at any time up to ten years after they have been granted. The Bank reserved 1,666,000 common shares under this New Stock Option Plan, of which 1,282,674 were still available as at January 31, 2019.

On December 4, 2018, the Bank awarded 383,326 stock options under this New Stock Option Plan with an exercise price of $38.97. In accordance with applicable accounting guidance, the fair value of the options will be adjusted upon the approval by shareholders on April 9, 2019. The fair value of the stock options was preliminarily estimated at $7.72 using the Black-Scholes model, as well as the assumptions presented in the table below.

Information relating to outstanding number of options is as follows. None of these options were exercisable.

	As at January 31 2019	As at October 31 2018
Number of share purchase options outstanding under the Old Stock Option Purchase Plan	**124,962**	124,962
Number of share purchase options outstanding under the New Stock Option Plan	**383,326**	n/a

10. SHARE-BASED COMPENSATION (CONT'D)

Assumptions related to the stock options valuations are as follows.

	2019 grant	2018 grant
Risk free interest rate	**1.80%**	2.05%
Expected life of options	**8 years**	8 years
Expected volatility	**20%**	20%
Expected dividend yield	**5.20%**	5.20%

Performance-based share unit plans

Effective November 1, 2018, the Bank modified the characteristics of its performance-based share unit (PSU) plan for eligible members of its senior management. All rights to the new PSUs vest over three years with no guaranteed minimum vesting. The number of units vesting will be based on the Bank's total shareholder return relative to the average of a peer group of Canadian financial institutions and on the adjusted return on equity of the Bank relative to budgets. During the vesting period, dividend equivalents accrue to the participants in the form of additional share units. All PSUs are cash settled at fair value at the maturity date. A deferred version of the plan exists under which the participant is paid on termination of employment rather than at the end of the three-year period.

During the first quarter of 2019, the Bank granted 130,620 new PSUs valued at $40.88 each. The rights to these units will vest in December 2021 and upon meeting the aforementioned criteria.

Restricted share unit plans

During the first quarter of 2019, under the restricted share unit plan, annual bonuses for certain employees amounting to $1.9 million were converted into 45,451 entirely vested restricted share units. Simultaneously, the Bank also granted 152,544 additional restricted share units valued at $40.88 each that will vest in December 2021.

During the first quarter of 2019, under the restricted share unit plan for employees of the Capital Markets sector, annual bonuses for certain employees amounting to $1.4 million were converted into 33,057 entirely vested restricted share units. This plan does not provide for any employer contribution and a third of these restricted share units are redeemed in December at each of the first three anniversary dates of the grant.

Share-based compensation plans' expense and related liability

The following table shows the expense related to share-based compensation plans, net of the effect of related hedging transactions.

	For the three months ended		
	January 31 2019	October 31 2018	January 31 2018
Expense arising from share-based compensation plans	**$ 7,406**	$ (1,818)	$ (3,714)
Effect of hedges	**(2,362)**	3,928	4,898
	$ 5,044	$ 2,110	$ 1,184

With a view to reducing volatility in the share-based compensation plans' expense, the Bank enters into total return swap contracts with third parties, the value of which is linked to the Bank's share price. Changes in fair value of these derivative instruments partially offset the share-based compensation plans' expense related to the share price variations over the period in which the swaps are in effect.

The carrying amount of the liability relating to the cash-settled plans was $37.9 million as at January 31, 2019 ($33.4 million as at October 31, 2018). The intrinsic value of the total liability related to fully vested rights and units was $25.4 million as at January 31, 2019 ($20.7 million as at October 31, 2018).

11. POST-EMPLOYMENT BENEFITS

Expense for post-employment benefits

The total expense recognized for post-employment benefit plans was as follows:

	For the three months ended		
	January 31 2019	October 31 2018	January 31 2018
Defined benefit pension plans	**$ 3,461**	$ 4,283	$ 4,331
Defined contribution pension plans	**2,030**	1,997	1,925
Other plans	**218**	(841)	219
	$ 5,709	$ 5,439	$ 6,475

12. EARNINGS PER SHARE

Basic and diluted earnings per share is detailed as follows.

	For the three months ended		
	January 31 2019	October 31 2018	January 31 2018
Earnings per share – basic			
Net income	**$ 40,256**	$ 50,801	$ 59,747
Preferred share dividends, including applicable taxes	**3,257**	3,253	4,279
Net income attributable to common shareholders	**$ 36,999**	$ 47,548	$ 55,468
Average number of outstanding common shares (in thousands)	**42,114**	42,023	39,459
Earnings per share – basic	**$ 0.88**	$ 1.13	$ 1.41
Earnings per share – diluted			
Net income attributable to common shareholders	**$ 36,999**	$ 47,548	$ 55,468
Average number of outstanding common shares (in thousands)	**42,114**	42,023	39,459
Dilutive share purchase options (in thousands)	**19**	—	—
Diluted weighted average number of outstanding common shares (in thousands)	**42,133**	42,023	39,459
Earnings per share – diluted	**$ 0.88**	$ 1.13	$ 1.41

There has been no transaction involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these consolidated financial statements which would require the restatement of earnings per share.

13. FINANCIAL INSTRUMENTS – FAIR VALUE

Determining fair value

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The fair value of financial instruments is best evidenced by an independent quoted market price for the same instrument in an active market when available. Otherwise, fair value is measured using valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. Fair value measurements are categorized into levels within a fair value hierarchy based on the nature of valuation inputs (Level 1, 2 or 3). Additional information on the fair value hierarchy and the valuation methodologies used by the Bank to measure the fair value of financial instruments can be found in Note 22 of the 2018 audited annual consolidated financial statements. There were no changes in fair value measurement methods in the period.

Financial instruments recorded at fair value in the financial statements are classified in Level 2 of the fair value hierarchy, except for securities of $349.5 million which are classified in Level 1 as at January 31, 2019 ($355.1 million as at October 31, 2018). Financial instruments recorded at fair value classified in Level 3 are not significant. There were no significant transfers between Level 1 and Level 2 of the hierarchy in the period.

14. INTEREST AND DIVIDEND INCOME FROM SECURITIES

Interest and dividend income arising from selected securities for the three months ended January 31, 2019 is detailed as follows.

		For the three months ended **January 31, 2019**
Interest income - debt securities		
At amortized cost	**$**	**14,153**
At FVOCI	**$**	**852**
Dividend income - equity securities	**$**	**3,788**

15. CONTINGENT LIABILITIES

In the ordinary course of business, the Bank and its subsidiaries are involved in various legal and regulatory actions and claims. These matters mainly relate to class actions involving numerous other financial institutions and pertaining to charges on credit cards and banking accounts and to mortgage prepayment fees, as well as other claims in respect to portfolio administration by trustee and cross-claims from clients following the Bank's recovery actions on loans. While there is inherent difficulty in predicting the outcome of legal proceedings, based on current knowledge and in consultation with legal counsel, the outcome of these matters is not expected to have a material adverse effect on the consolidated financial statements. However, the outcome of these matters, individually or in aggregate, may be material to operating results for a particular reporting period.

16. RESTRUCTURING CHARGES

The following table shows the change in the provision for restructuring charges, included in the Other liabilities line item in the Consolidated Balance Sheet.

	For the three months ended			
		January 31 2019		January 31 2018
Balance at beginning of the period	**$**	**4,754**	$	9,411
Restructuring charges incurred during the period		**2,006**		918
Payments made during the period		**(2,170)**		(2,414)
Balance at end of the period	**$**	**4,590**	$	7,915

Restructuring charges incurred during the three-month period ended January 31, 2019 resulted from the optimization of the Bank's Retail Services activities, as well as from the reorganization of retail brokerage activities completed during the first quarter of 2019.

17. SUBSEQUENT EVENT

As part of the strategic initiative to optimize and simplify Retail Services operations, at the end of February, the decision was taken to streamline certain back-office functions, mostly related to supporting Retail Services, and to complete the transformation of all remaining branches to the advice-only model by the end of the year. As a result, additional costs are expected to be incurred over the next 12 months as the changes are implemented.

SHAREHOLDER INFORMATION

Corporate offices
Montreal
1360 René-Lévesque Blvd West,
Suite 600
Montreal, Quebec H3G 0E5
www.lbcfg.ca

Toronto
199 Bay St, Suite 600
Toronto, Ontario M5L 0A2
www.lbcfg.ca

Transfer agent and registrar
Computershare
Investor Services Inc.
1500 Robert-Bourassa Blvd,
Suite 700
Montreal, Quebec H3A 3S8
service@computershare.com
Tel.: 514-982-7888
or 1-800-564-6253

Change of address and inquiries
Shareholders must notify the Bank's transfer agent and registrar of any change of address. Inquiries or requests may be directed to the Bank's Corporate Secretariat's Office at secretary.office@lbcfg.ca or by calling 514-284-4500 ext. 40448.

Investors and analysts
Investors and analysts may contact the Bank's Investor Relations Department at investor.relations@lbcfg.ca or by calling 514-284-4500 ext. 40452.

Media
Journalists may contact the Bank's Executive Office at media@lbcfg.ca or by calling 514-284-4500 ext. 40019.

Dividend reinvestment and share purchase plan
The Bank has a dividend reinvestment and share purchase plan for Canadian holders of its common and preferred shares under which they can acquire common shares of the Bank without paying commissions or administration fees. Participants acquire shares through the reinvestment of cash dividends paid on the shares they hold or through optional cash payments of a minimum amount of $500 per payment, up to an aggregate amount of $20,000 in each 12 month period ending October 31.

For more information, shareholders may contact the Bank's transfer agent, Computershare Trust Company of Canada, at service@computershare.com or at 1-800-564-6253. To participate in the plan, the Bank's non-registered shareholders must contact their financial institution or broker.

Ombudsman's office
1360 René-Lévesque Blvd West
Suite 600
Montreal, Quebec H3G 0E5
ombudsman@lbcfg.ca
Tel.: 514-284-7192
or 1-800-479-1244

Direct deposit service
Shareholders of the Bank may, by advising the transfer agent in writing, have their dividends deposited directly into an account held at any financial institution member of the Payments Canada.

Social media

STOCK SYMBOL AND DIVIDEND RECORD AND PAYMENT DATES

The common and preferred shares indicated below are listed on the Toronto Stock Exchange.	CUSIP CODE / STOCK SYMBOL	RECORD DATE*	DIVIDEND PAYMENT DATE*
Common shares	51925D 10 6 / LB	First business day of:	
		January	February 1
		April	May 1
		July	August 1
		October	November 1
Preferred shares			
Series 13	51925D 82 5 / LB.PR.H	March 7	March 15
Series 15	51925D 79 1 / LB.PR.J	June 7	June 15
		September 7	September 15
		December 7	December 15

* Subject to the approval of the Board of Directors.