LAURENTIAN BANK
FINANCIAL GROUP

# SECOND QUARTER 2020

## Report to Shareholders

For the period ended April 30, 2020

## HIGHLIGHTS OF SECOND QUARTER 2020

- Adjusted net income[1] of $11.9 million, and reported net income of $8.9 million.
- Adjusted return on common shareholders' equity[1] of 1.5%, and reported return on common shareholders' equity of 1.0%.
- Adjusted efficiency ratio[1] of 74.8%, and reported efficiency ratio of 76.4%.
- Common Equity Tier 1 ratio at 8.8%.
- Total provision for credit losses of $54.9 million.
- Quarterly dividend prudently reduced to $0.40 per share, improving operational flexibility to support growth and pursue our strategic plan.

| In millions of Canadian dollars, except per share and percentage amounts (Unaudited) | For the three months ended | | | For the six months ended | | |
|---|---|---|---|---|---|---|
| | **April 30 2020** | April 30 2019 | Variance | **April 30 2020** | April 30 2019 | Variance |
| **Reported basis** | | | | | | |
| Net income | **$ 8.9** | $ 43.3 | (79)% | **$ 41.1** | $ 83.6 | (51)% |
| Diluted earnings per share | **$ 0.13** | $ 0.95 | (86)% | **$ 0.81** | $ 1.83 | (56)% |
| Return on common shareholders' equity | **1.0%** | 7.3% | | **3.0%** | 6.9% | |
| Efficiency ratio | **76.4%** | 76.3% | | **77.8%** | 76.3% | |
| Common Equity Tier 1 capital ratio | **8.8%** | 9.0% | | | | |
| **Adjusted basis[1]** | | | | | | |
| Adjusted net income | **$ 11.9** | $ 48.7 | (76)% | **$ 48.8** | $ 93.4 | (48)% |
| Adjusted diluted earnings per share | **$ 0.20** | $ 1.08 | (81)% | **$ 0.99** | $ 2.06 | (52)% |
| Adjusted return on common shareholders' equity | **1.5%** | 8.3% | | **3.7%** | 7.8% | |
| Adjusted efficiency ratio | **74.8%** | 73.5% | | **75.7%** | 73.7% | |

(1) Certain measures presented throughout this document exclude 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 $8.9 million and diluted earnings per share of $0.13 for the second quarter of 2020, compared with $43.3 million and $0.95 for the second quarter of 2019. Return on common shareholders' equity was 1.0% for the second quarter of 2020, compared with 7.3% for the second quarter of 2019. On an adjusted basis, net income was $11.9 million and diluted earnings per share were $0.20 for the second quarter of 2020, down from $48.7 million and $1.08 for the second quarter of 2019. Adjusted return on common shareholders' equity was 1.5% for the second quarter of 2020, compared with 8.3% a year ago. Reported results include adjusting items, as detailed in the Non-GAAP and Key Performance Measures section.

For the six months ended April 30, 2020, net income was $41.1 million or $0.81 diluted per share, compared with $83.6 million or $1.83 diluted per share for the six months ended April 30, 2019. Return on common shareholders' equity was 3.0% for the six months ended April 30, 2020, compared with 6.9% for the six months ended April 30, 2019. On an adjusted basis, net income totalled $48.8 million or $0.99 diluted per share for the six months ended April 30, 2020, down from $93.4 million or $2.06 diluted per share for the six months ended April 30, 2019. Adjusted return on common shareholders' equity was 3.7% for the six months ended April 30, 2020, compared with 7.8% for the same period a year ago. Reported results include adjusting items, as detailed in the Non-GAAP and Key Performance Measures section.

### Impact of COVID-19 Pandemic

In December 2019, a novel strain of the coronavirus disease, COVID-19, was identified. Since then, COVID-19 has spread worldwide, and was declared a global pandemic by the World Health Organization on March 11, 2020. The unprecedented nature of COVID-19 has adversely impacted the global economy. We believe our response to date has enabled us to keep our team members and our customers safe and provided the foundation for us to be better prepared for the uncertainties to come. Our liquidity and capital positions also provide the flexibility to pursue our mission to help our customers and support them through this difficult period. COVID-19 had an impact on financial performance in the second quarter, and, as a result, improvements on certain fronts were overshadowed by the sharp increase in provision for credit losses. Nonetheless, we remain optimistic for the future and are looking ahead. We have reviewed our key initiatives and reset deliverables, but we have not changed the end goal of completing the transformation, setting a strong foundation, working on profitable growth and enhancing performance.

François Desjardins, President and Chief Executive Officer, commented on the second quarter of 2020 highlights: "COVID-19 has had profound impacts on our economy, customers and communities. Despite the many hardships that have resulted from this crisis, it has also demonstrated our ability to proactively manage through and adapt to the situation in order to provide service to our customers. I am particularly proud of our team members who were able to quickly take charge of the work required to ensure that our customers received the support and advice they need - now more than ever."

"We have a strong capital and liquidity position, and disciplined risk management, but it is a time for prudence. Although we believe that current earnings are not reflective of the future earnings power of the organisation, we have reduced the dividend to $0.40 per share which improves operational flexibility until we reap the anticipated benefits of our strategic plan."

M. Desjardins concluded: "This week marks the beginning of our 175th year of operation. Throughout this time, we have always stayed true to our mission of helping our customers improve their financial health. We are proud of our history and optimistic about our future."

# MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) is a narrative explanation which presents management's view of Laurentian Bank of Canada's financial condition as at April 30, 2020 and its operating results for the periods ended April 30, 2020, compared with the corresponding periods shown. This MD&A should be read in conjunction with the Condensed Interim Consolidated Financial Statements as at and for the period ended April 30, 2020 and with the 2019 Annual report. This MD&A is dated May 28, 2020.

Additional information about Laurentian Bank of Canada, including our 2019 Annual Information Form, is available on our website at www.lbcfg.ca and on the Canadian Securities Administrators' website at www.sedar.com.

## BASIS OF PRESENTATION

The financial information reported herein is based on the Condensed Interim Consolidated Financial Statements for the periods ended April 30, 2020, and, unless otherwise indicated, has 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*. All amounts are presented in Canadian dollars.

### Financial reporting changes

*Adoption of New Accounting Standards*
The Bank adopted IFRS 16, *Leases* (IFRS 16) as at November 1, 2019. The adoption of IFRS 16 resulted in a decrease of $7.3 million of shareholders' equity as at November 1, 2019, or a decrease of 10 basis points of the CET1 capital ratio. As permitted by IFRS 16, the Bank did not restate comparative amounts for prior periods. For details on this accounting policy change and on the impact of adoption as at November 1, 2019, refer to Notes 3 and 5 to the Condensed Interim Consolidated Financial Statements.

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## 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 to as Laurentian Bank Financial Group (the "Group" or the "Bank").

With more than 3,100 employees guided by the values of proximity, simplicity and honesty, the Group provides a broad range of advice-based solutions and services to its personal, 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 $45.4 billion in balance sheet assets and $27.1 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 may include, but are not limited to, statements regarding our business plan and financial objectives including statements contained in our 2019 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 are identified with words or phrases such as believe, estimate, forecast, project, expect, anticipate, plan, goal, target, may, should, could, would, will, intend or the negative of these terms, variations thereof or similar terminology.

By their very nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties, both general and specific in nature. There is significant risk that the predictions, forecasts, projections or conclusions will prove to be inaccurate, that our assumptions may not be correct, and that actual results may differ materially from such predictions, forecasts, projections or conclusions.

We caution readers against placing undue reliance on forward-looking statements, as a number of factors, many of which are beyond our control and the effects of which can be difficult to predict, could cause our actual results to differ materially from the targets, plans, objectives, expectations, forecasts, estimates and intentions expressed in such forward-looking statements.

The future outcomes that relate to forward-looking statements may be influenced by many factors, including but not limited to: general economic and market conditions; changes in government monetary, fiscal or economic policies; changes in currency and interest rates; legislative and regulatory developments, including tax legislation and interpretation; critical accounting estimates and the effect of changes to accounting standards, rules and interpretations on these estimates; changes in competition; modifications to credit ratings; scarcity of human resources; developments with respect to labour relations; information technology and cyber security; developments in the technological environment; environmental risk including changes to global environmental policy and the effects of climate change; the possible effects of global conflicts and terrorism, natural disasters, public health emergencies, including the direct and indirect impacts of the novel coronavirus (COVID-19) pandemic, disruptions to public infrastructure and other catastrophic events; our ability to execute our strategic plans including the reorganization of our retail branches, the modernization of our core banking system and the implementation of the Advanced Internal Ratings-Based (AIRB) Approach to credit risk; as well as our ability to anticipate and effectively manage risks arising from the foregoing.

Since December 31, 2019, the outbreak of COVID-19 has resulted in governments worldwide enacting emergency measures to contain the spread of the virus. These measures, which include the implementation of travel bans, temporary business and school closures, self-imposed quarantine periods and physical distancing, have caused considerable financial and social disruption resulting in economic weakness and market volatility. Governments and central banks have reacted with monetary and fiscal interventions and proposed measures and subsidies designed to stabilize economic conditions. The magnitude, duration and outcome of the outbreak, including its impact on customers, team members and third-party providers; the efficacy of government and central bank interventions; and the related financial and social impacts are uncertain, and could have a material and adverse effect on our business. Such adverse effect could be rapid and unexpected. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Bank.

We further caution that the foregoing list of factors is not exhaustive. Other factors and risks could adversely affect our results. For more information on the risks, uncertainties and assumptions that would cause our actual results to differ from current expectations, please see the more detailed description of the risks associated with COVID-19 pandemic and related impacts in the Risk Management section below, the "Risk Appetite and Risk Management Framework" section of our 2019 Annual Report, as well as our 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.

# COVID-19 Pandemic

In March 2020, the World Health Organization declared a pandemic in relation to the global outbreak of a novel coronavirus (COVID-19). To contain the spread of the virus, governments worldwide have enacted emergency measures including the implementation of travel bans, temporary business and school closures, self-imposed quarantine periods and physical distancing. Governments and central banks have also put in place relief measures for individuals and businesses to alleviate some of the negative effects that this crisis has had on the economy, such as job losses, market volatility and a downturn in business. Please refer to the "Policy Response" section below for more information on governmental programs.

The COVID-19 pandemic has precipitated unprecedented market conditions with equally unprecedented social and community challenges. We have taken active measures to preserve the financial strength and stability of LBCFG. Capital, liquidity and credit have always been managed prudently and continue to be during these uncertain times. Banking in Canada is deemed an essential service and, as such, we activated our Business Continuity Plan ('BCP') to maintain services and support for customers across all our lines of business.

### Team Members

Our priority is to ensure the health and safety of our team members. Our senior management team assessed the situation as it evolved and acted rapidly. Early on, we implemented precautionary measures including:

- Eliminating business travel and requiring self-isolation due to personal travel or illness;
- Increasing the intensity of cleaning and installing hand sanitizer dispensers at our various offices and locations;
- Implementing a secure work from home strategy for approximately 80% of our team members;
- Implementing physical distancing measures and separating our workforce to minimize the number of individuals at any given location.
- Ensuring a safe working environment for our customer facing employees, following procedures prescribed by global public health organizations.

### Customers

Most of our Financial Clinics, business centres, operations and call centres have remained open throughout these difficult times. Day-to-day banking continues to be accessible, 24/7, using mobile or online banking, and customers can continue to use ATMs - ours or Interac or the Exchange Network available from coast to coast.

We also initiated programs to support our customers, such as payment deferrals, credit limit increases and are working in partnership with government entities to further support our business customers. As of April 9, 2020, we began offering to eligible customers the Emergency Business Account for Canadian businesses (CEBA). This Government of Canada program, as example, helps businesses and not-for-profit organisations cover their operating costs that cannot be deferred during a period where business revenues have been temporarily reduced due to the economic impacts of the COVID-19 pandemic.

### Operating Results

For the second quarter of 2020, net income was $8.9 million, compared with $43.3 million for the second quarter of 2019. The immediate financial impact of COVID-19 in the second quarter of 2020 is mainly attributed to higher expected credit losses, primarily driven by new forward-looking economic scenarios which now consider the sudden and steep recession and its anticipated recovery. This is described in greater detail in the Risk Management section. Results from financial market activities were also impacted by declining equity prices. While partial recoveries in April provided some relief, market volatility remains high.

As we are taking actions to mitigate the impact of COVID-19 on our daily operations and financial results, the pandemic has and is expected to continue to impact our operating results until it subsides and likely for a period thereafter. Numerous unpredictable and evolving factors will have to be considered such as the duration and spread of the pandemic; its impact on customers, team members and third-party providers; the response of government authorities to the crisis and the global social and economic impacts. As such, it is too early to adequately predict the effects of COVID-19 on the Bank's future results.

The allowance for credit losses is sensitive to the inputs used in models, including macroeconomic variables used in the forward-looking scenarios and their respective weights. The magnitude of the impact of COVID-19 on the Canadian and U.S. economies remains highly uncertain including assessments of the impact of government and/or regulatory responses to the outbreak. Therefore, it is difficult to predict whether the increase in expected credit losses will result in significant write-offs and if the Bank will recognize additional increases in expected credit losses in subsequent periods.

### Capital and Liquidity

We are well positioned to manage these risks. Our common equity tier 1 ratio stood at 8.8% as at April 30, 2020, well in excess of the minimum regulatory requirement. As we continue to support our customers, and in accordance with regulatory developments and policy responses, we expect our regulatory capital ratio to remain above regulatory levels.

Our liquidity coverage ratio remains above industry levels. We came into this COVID-19 crisis with a healthy liquidity position. Measures put in place by the Canadian government for banks in response to the pandemic, as further detailed below, have improved our ability to raise liquid assets to ensure that we are able to both support ongoing business for the foreseeable future and continue to meet forecast liquidity needs.

We will continue to prudently monitor capital and liquidity levels.

### Policy Response

Policymakers have responded quickly to the shocks that have hit the Canadian and U.S. economies.

In Canada, the Bank of Canada (BoC), the Canadian Government and provincial governments have all implemented measures to respond to the pandemic. For example, in March, the BoC cut its policy rate by 150 basis points to 0.25%. The BoC also made available several facilities to support financial and credit market liquidity. In particular, it launched the following programs: a Bankers' Acceptance Purchase Facility, a Commercial Paper Purchase Facility, a Provincial Money Market Purchase Program, a Canada Mortgage bond Purchase Program, a new Standing Term Liquidity Facility and activated its Contingent Term Repo Facility. In addition to these measures, the BoC has also changed its Standing Liquidity Facility Collateral Policy by expanding the list of eligible securities and adding new maturities to its Term Repos operations in light of the COVID-19 imperative. As part of the Quantitative Easing program, the BoC also announced that it will purchase Government of Canada bonds "as required to maintain proper functioning of the government bond market", representing an enhancement from an earlier guidance of buying $5 billion per week. The BoC further noted that it will buy $50 billion of provincial bonds and $10 billion of corporate bonds to support those markets.

Furthermore, the Office of the Superintendent of Financial Institutions (OSFI) announced a series of regulatory adjustments to support the financial and operational resilience of federally regulated banks, including adjusting a number of regulatory capital, liquidity and reporting requirements. Please refer to "Regulatory capital developments" and "Liquidity and funding risk" sections for further details regarding OSFI measures.

Concurrently, the Canadian Government launched, through the Canada Mortgage and Housing Corporation (CMHC), an Insured Mortgage Purchased Program (IMPP) pursuant to which it is prepared to purchase up to $150 billion of insured mortgage pools. This measure is expected to help boost the availability of mortgage credit and support Canada's housing market.

As fiscal stimulus, the Canadian Government introduced a package of $274 billion, to support households and businesses. The package includes several measures for individuals such as the Canada Emergency Response Benefit, an income support program that will provide $2,000 every 4 weeks for up to 16 weeks to eligible workers whose income has been negatively affected by COVID-19, increases in the Canada Child Benefit, and a special payment through the Goods and Services Tax credit. For businesses, the Federal Government has introduced, amongst other measures, the Canada Emergency Wage Subsidy to provide a 75% wage subsidy to eligible businesses, to encourage firms to maintain employment levels and limit further payroll reductions. To facilitate access to capital, the Government of Canada has also launched the Canada Emergency Business Account, which has been implemented by eligible financial institutions, including LBCFG, in cooperation with Export Development Canada (EDC). This $25 billion program provides small businesses and not-for-profit organizations with interest-free loans of up to $40,000 to cover their operating costs during a period where their revenues have been temporarily reduced due to the economic impact of COVID-19. In addition, the Federal Government has deferred business taxes, as well as GST and customs duty remittances.

Provincial governments have also responded, quickly announcing support for individuals and businesses, in the form of income support and tax deferrals either in addition to, or to enhance federal programs, as well as other targeted programs. These include several measures such as the Concerted Temporary Action Program for Businesses (PACTE), introduced by Investissement Québec, which provide financial assistance to eligible businesses that face temporary difficulty as a result of COVID-19 and additional exemptions to the Employer Health Tax introduced by the Ontario government to provide immediate financial relief to employers.

In the U.S., the Federal Reserve System (the Fed) and the Federal Government have rolled out monetary and fiscal stimulus through rate cuts, various market related programs that support funding markets, and spending measures to provide income support. Local governments and states have also introduced measures to respond to COVID-19.

As well, the U.S. Government introduced the CARES Act, which provides a total of approximately $2 trillion in economic assistance to various sectors of the economy impacted by COVID-19, with a number of provisions directly promoting the interests of small businesses. The sweeping legislation also contains relief for individual taxpayers, distressed industries, and the health care sector, among others. Stimulus funding is more widely available and can be accessed by both businesses and consumers. Also, lender forbearance has been widespread and provided mainly via the new Paycheck Protection Program, which offers forgivable loans to small businesses to keep workers on the payroll, as well as to cover rent, mortgage interest, or utilities.

# HIGHLIGHTS

| In thousands of Canadian dollars, except per share and percentage amounts (Unaudited) | For the three months ended | | | | | For the six months ended | | |
|---|---|---|---|---|---|---|---|---|
| | **April 30 2020** | January 31 2020 | Variance | April 30 2019 | Variance | **April 30 2020** | April 30 2019 | Variance |
| **Operating results** | | | | | | | | |
| Total revenue | **$ 240,148** | $ 238,713 | 1 % | $ 239,881 | — % | **$ 478,861** | $ 482,219 | (1)% |
| Net income | **$ 8,885** | $ 32,172 | (72)% | $ 43,313 | (79)% | **$ 41,057** | $ 83,569 | (51)% |
| Adjusted net income[1] | **$ 11,912** | $ 36,900 | (68)% | $ 48,726 | (76)% | **$ 48,812** | $ 93,379 | (48)% |
| **Operating performance** | | | | | | | | |
| Diluted earnings per share | **$ 0.13** | $ 0.68 | (81)% | $ 0.95 | (86)% | **$ 0.81** | $ 1.83 | (56)% |
| Adjusted diluted earnings per share[1] | **$ 0.20** | $ 0.79 | (75)% | $ 1.08 | (81)% | **$ 0.99** | $ 2.06 | (52)% |
| Return on common shareholders' equity | **1.0 %** | 5.0 % | | 7.3 % | | **3.0 %** | 6.9 % | |
| Adjusted return on common shareholders' equity[1] | **1.5 %** | 5.8 % | | 8.3 % | | **3.7 %** | 7.8 % | |
| Net interest margin | **1.88 %** | 1.81 % | | 1.77 % | | **1.85 %** | 1.78 % | |
| Efficiency ratio | **76.4 %** | 79.1 % | | 76.3 % | | **77.8 %** | 76.3 % | |
| Adjusted efficiency ratio[1] | **74.8 %** | 76.6 % | | 73.5 % | | **75.7 %** | 73.7 % | |
| Operating leverage | **3.5 %** | (5.7)% | | (0.2)% | | **(2.0) %** | (12.6) % | |
| Adjusted operating leverage[1] | **2.3 %** | (7.5)% | | 0.6 % | | **(2.6) %** | (12.4 )% | |
| **Financial position ($ millions)** | | | | | | | | |
| Loans and acceptances | **$ 33,726** | $ 33,527 | 1 % | $ 34,118 | (1)% | | | |
| Total assets | **$ 45,446** | $ 44,283 | 3 % | $ 44,693 | 2 % | | | |
| Deposits | **$ 25,304** | $ 25,201 | — % | $ 27,079 | (7)% | | | |
| Common shareholders' equity | **$ 2,275** | $ 2,306 | (1)% | $ 2,284 | — % | | | |
| **Key growth drivers ($ millions)** | | | | | | | | |
| Loans to Business customers | **$ 13,544** | $ 13,184 | 3 % | $ 12,733 | 6 % | | | |
| Loans to Personal customers[2] | **$ 20,182** | $ 20,343 | (1)% | $ 21,386 | (6)% | | | |
| Deposits from clients[3] | **$ 22,624** | $ 22,609 | — % | $ 23,526 | (4)% | | | |
| **Basel III regulatory capital ratios** | | | | | | | | |
| Common Equity Tier 1 (CET1) capital ratio[4] | **8.8 %** | 9.0 % | | 9.0 % | | | | |
| CET1 risk-weighted assets ($ millions) | **$ 20,870** | $ 20,619 | | $ 20,476 | | | | |
| **Credit quality** | | | | | | | | |
| Gross impaired loans as a % of loans and acceptances | **0.70 %** | 0.56 % | | 0.55 % | | | | |
| Net impaired loans as a % of loans and acceptances | **0.52 %** | 0.42 % | | 0.42 % | | | | |
| Provision for credit losses as a % of average loans and acceptances | **0.67 %** | 0.18 % | | 0.11 % | | **0.42 %** | 0.12 % | |
| **Common share information** | | | | | | | | |
| Closing share price[5] | **$ 31.09** | $ 42.95 | (28)% | $ 42.44 | (27)% | **$ 31.09** | $ 42.44 | (27)% |
| Price / earnings ratio (trailing for quarter) | **11.3x** | 12.0x | | 10.1x | | **11.3x** | 10.1x | |
| Book value per share | **$ 52.99** | $ 53.95 | (2)% | $ 53.97 | (2)% | **$ 52.99** | $ 53.97 | (2)% |
| Dividends declared per share | **$ 0.67** | $ 0.67 | — % | $ 0.65 | 3 % | **$ 1.34** | $ 1.30 | 3 % |
| Dividend yield | **8.6 %** | 6.2 % | | 6.1 % | | **8.6 %** | 6.1 % | |
| Dividend payout ratio | **503.6 %** | 98.6 % | | 68.5 % | | **165.0 %** | 71.1 % | |
| Adjusted dividend payout ratio[1] | **328.7 %** | 84.7 % | | 60.3 % | | **134.9 %** | 63.1 % | |

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

(2) Including residential mortgage loans. Comparative figures have been reclassified in order to conform with the presentation adopted in the current year.

(3) Including personal deposits from Financial Clinics, Advisors and Brokers, Digital direct to customers offering and Business customers.

(4) Using the Standardized Approach in determining credit risk and operational risk.

(5) Toronto Stock Exchange (TSX) closing market price.

# 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 amounts designated as adjusting items. Adjusting items relate 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

| | For the three months ended | | | For the six months ended | |
|---|---|---|---|---|---|
| Thousands of Canadian dollars, except per share amounts (Unaudited) | **April 30 2020** | January 31 2020 | April 30 2019 | **April 30 2020** | April 30 2019 |
| **Impact on income before income taxes** | | | | | |
| Reported income before income taxes | **$ 1,553** | $ 34,679 | $ 47,160 | **$ 36,232** | $ 93,880 |
| **Adjusting items, before income taxes** | | | | | |
| Impairment and restructuring charges[1] | | | | | |
| Severance charges | **183** | 2,838 | 2,420 | **3,021** | 3,767 |
| Other restructuring charges | **143** | (104) | 1,020 | **39** | 1,679 |
| | **326** | 2,734 | 3,440 | **3,060** | 5,446 |
| Items related to business combinations | | | | | |
| Amortization of net premium on purchased financial instruments[2] | **179** | 232 | 390 | **411** | 832 |
| Amortization of acquisition-related intangible assets[3] | **3,542** | 3,399 | 3,436 | **6,941** | 6,869 |
| | **3,721** | 3,631 | 3,826 | **7,352** | 7,701 |
| | **4,047** | 6,365 | 7,266 | **10,412** | 13,147 |
| Adjusted income before income taxes | **$ 5,600** | $ 41,044 | $ 54,426 | **$ 46,644** | $ 107,027 |
| **Impact on net income** | | | | | |
| Reported net income | **$ 8,885** | $ 32,172 | $ 43,313 | **$ 41,057** | $ 83,569 |
| **Adjusting items, net of income taxes** | | | | | |
| Impairment and restructuring charges[1] | | | | | |
| Severance charges | **134** | 2,086 | 1,776 | **2,220** | 2,765 |
| Other restructuring charges | **105** | (76) | 749 | **29** | 1,232 |
| | **239** | 2,010 | 2,525 | **2,249** | 3,997 |
| Items related to business combinations | | | | | |
| Amortization of net premium on purchased financial instruments[2] | **131** | 171 | 286 | **302** | 611 |
| Amortization of acquisition-related intangible assets[3] | **2,657** | 2,547 | 2,602 | **5,204** | 5,202 |
| | **2,788** | 2,718 | 2,888 | **5,506** | 5,813 |
| | **3,027** | 4,728 | 5,413 | **7,755** | 9,810 |
| Adjusted net income | **$ 11,912** | $ 36,900 | $ 48,726 | **$ 48,812** | $ 93,379 |
| **Impact on diluted earnings per share** | | | | | |
| Reported diluted earnings per share | **$ 0.13** | $ 0.68 | $ 0.95 | **$ 0.81** | $ 1.83 |
| **Adjusting items** | | | | | |
| Impairment and restructuring charges | **0.01** | 0.05 | 0.06 | **0.05** | 0.09 |
| Items related to business combinations | **0.06** | 0.06 | 0.07 | **0.13** | 0.14 |
| | **0.07** | 0.11 | 0.13 | **0.18** | 0.23 |
| Adjusted diluted earnings per share[4] | **$ 0.20** | $ 0.79 | $ 1.08 | **$ 0.99** | $ 2.06 |

(1) Restructuring charges mainly result from the optimization of our Financial Clinic operations and the related streamlining of certain back-office and corporate functions. Restructuring charges also result from the reorganization of retail brokerage activities and other measures aimed at improving efficiency as detailed in the efficiency measure topic in the "Outlook" section. Restructuring charges include severance charges, salaries, provisions related to the termination of lease contracts before the adoption of IFRS 16, communication expenses and professional fees. Restructuring charges are included in Non-interest expenses.

(2) Amortization of net premium on purchased financial instruments results from a one-time gain on a business acquisition in 2012 and is included in the Amortization of net premium on purchased financial instruments line item.

(3) Amortization of acquisition-related intangible assets results from business acquisitions and is included in the Non-interest expenses line item.

(4) The impact of adjusting items on a per share basis may not add due to rounding.

## KEY PERFORMANCE MEASURES

Management also uses a number of financial metrics to assess the Bank's 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 of our 2019 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 and accumulated other comprehensive income (AOCI), excluding cash flow hedge reserves.

The following table shows additional information about return on common shareholders' equity.

**RETURN ON COMMON SHAREHOLDERS' EQUITY**

| | For the three months ended | | | For the six months ended | |
|---|---|---|---|---|---|
| Thousands of Canadian dollars, except percentage amounts (Unaudited) | **April 30 2020** | January 31 2020 | April 30 2019 | **April 30 2020** | April 30 2019 |
| Reported net income available to common shareholders | **$ 5,688** | $ 28,975 | $ 40,057 | **$ 34,663** | $ 77,056 |
| Adjusting items, net of income taxes | **3,027** | 4,728 | 5,413 | **7,755** | 9,810 |
| Adjusted net income available to common shareholders | **$ 8,715** | $ 33,703 | $ 45,470 | **$ 42,418** | $ 86,866 |
| Average common shareholders' equity | **$ 2,291,177** | $ 2,307,045 | $ 2,256,503 | **$ 2,299,198** | $ 2,256,672 |
| Return on common shareholders' equity | **1.0%** | 5.0% | 7.3% | **3.0%** | 6.9% |
| Adjusted return on common shareholders' equity | **1.5%** | 5.8% | 8.3% | **3.7%** | 7.8% |

# OUTLOOK

## ECONOMIC OUTLOOK

The global economy was performing well in late 2019 and early 2020, supported by accommodative central bank policies globally as well as a de-escalation of global trade tensions. However, the onset of the COVID-19 pandemic and efforts to slow infection rates led to widespread deterioration in global economic and financial conditions this quarter. As a result of the shutdowns implemented mid-March, U.S. and Canadian real GDP is now expected to decline at a faster pace in 2020 than during the 2008-09 global financial crisis.

Efforts to control the pandemic appear to be having success slowing down the pandemic and as of May 2020, most countries, including Canada and the U.S., are beginning to lift containment measures at varying rates. Measures announced by governments, central banks and regulators to promote liquidity and ease financial stress supported the recent rebound in equity markets and are expected to contribute to mitigating loan losses in the banking industry. Notwithstanding the active steps taken by governmental authorities to mitigate the impact of the pandemic, it is too early to assess with certainty the strength and sustainability of the recovery. As such, there is a wide range of possible outcomes due to the elevated degree of uncertainty related to the COVID-19 pandemic, medical treatments, future macro policies, structural economic damage and impact on confidence levels.

In Canada, the negative economic impact is exacerbated by the imbalance of supply and demand in world oil markets. Canadian labour market conditions deteriorated significantly this quarter. In April, the increase in the unemployment rate matched the highest level observed in a recession post-World War II and labour market conditions remain extremely challenging. Almost a quarter of the labour force has been permanently laid off or temporarily furloughed. However, several support programs announced by governments should support household incomes and partially offsetting companies' loss of cash flow. Before the COVID-19 pandemic, there was insufficient supply in most segments of the Canadian housing market. Now the resale market is impacted, as both resale transactions and listings have fallen abruptly. The pace of residential homebuilding has slowed but not ceased. Potential revisions to immigration policies could alter housing demand in the medium-term. Considering this deterioration in economic and financial conditions, the BoC reduced the overnight target by 150 basis points in March to the effective lower bound of 0.25%. Several asset purchases have led to a large expansion of the BoC balance sheet, but have helped markets function smoothly during the crisis.

In the U.S., most states have been impacted by containment measures. The loosening of restrictions is generally occurring faster in U.S. states where LBCFG has inventory financing activities. In addition to the large fiscal package enacted in March to support consumers and companies, the U.S. Federal Reserve reduced its policy rate to 0.25%, launched credit facilities and purchased publicly traded fixed income assets at an unprecedented pace to support financial conditions and market liquidity. The diversified U.S. economy is composed of some sectors resilient to the pandemic and as such, has seen a slightly less severe contraction and is expected to produce a marginally stronger recovery relative to its industrialized peers.

Finally, the Canadian dollar has depreciated due to lower crude oil prices and the safe haven status of the U.S. dollar, and was at US$0.72 on April 30, 2020.

## STRATEGIC PLAN

In November 2015, we launched a 7-year plan to become a better and different bank, to take advantage of advancements in technology, to address the globalization of banking and to better meet our customers' needs. To achieve this, we outlined three strategic objectives: build a stronger foundation; invest in profitable growth; and improve financial performance. Looking forward, in the context of the evolving global pandemic, we have not changed our goal of completing the transformation. We strive to execute on these strategic objectives with the ultimate goal – to improve the Bank's performance and achieve a profitability level similar to that of the major Canadian banks once the AIRB approach is fully implemented. Much of the heavy-lifting on upgrading our customer-facing technology to allow the Bank to pursue growth, cost efficiency and performance was expected to be behind us by the end of 2020. We are reviewing the timetable of transformation initiatives as the current situation is expected to cause delays. However, it is still too early to fully assess to what extent.

### Update on key initiatives

*Digital Offering*
In the first quarter of 2020, we successfully launched LBC Digital, a direct-to-customer channel, expanding our customer reach from coast to coast. The initial digital offering includes chequing accounts, high-interest savings accounts and guaranteed investment certificates. This pan-Canadian launch provided us with the opportunity to welcome thousands of new customers. Over time, our goal is to broaden and deepen customer relationships and use this platform to build out a high-value and complete product suite, with the next product being a credit card which is now expected to be launched in 2021. At the end of the second quarter, LBC Digital related demand deposits stood at $0.7 billion, in line with our expectations.

*Core-Banking System Replacement Program*
In 2019, we completed Phase 1 of the core banking system replacement program resulting in the migration of all B2B Bank products and most of our loans to business customers to this new system. Phase 2 of the program has already begun and encompasses the products offered in Financial Clinics and the remaining Business Services products. Preparations are underway to build out products and features. Given the current situation with COVID-19, we now expect that we will gradually migrate all existing personal customer accounts onto the new platform starting mid-2021. The migration of all remaining commercial banking customers is now scheduled to start in November 2021. Phase 2 should be completed by early 2022, after which we should be able to progressively decommission our legacy systems, gradually eliminating the operating costs. The overall investment in the core banking system is now estimated at approximately $250 million. As at April 30, 2020 we have invested about 75% of that amount.

*Evolution of 100% Advice Model*
After converting the traditional branch network to a 100% advice model over the last few years, and optimizing the footprint, we are now working towards developing a fully digital experience. By mid-2021, all new customers will be onboarded digitally and we will begin the migration of all our personal banking customers to our digital platform with the objective of completing the process by the end of 2021. This will enable all our customers to enjoy the same experience in managing their accounts and day-to-day transactions combined with the benefit of professional financial advice for more complex banking and investment needs. On that front, our Financial Clinic 100% Advice model is gaining momentum and we have onboarded 25 new advisors since the beginning of the year, for a total 400.

*Advanced Internal Ratings-Based approach to credit risk*
As part of our plan to improve the Bank's foundation, we are pursuing our initiative to adopt, subject to regulatory approval, the AIRB approach to credit risk. Last quarter, we had targeted the adoption of AIRB for the end of 2022 but, in the current context of the pandemic, we are currently reviewing this timing and expect to delay the implementation by at least 12 months.

### Update on efficiency measures

Since 2019, we have been identifying opportunities to improve our efficiency. The conversion of our traditional branches to a 100% Advice model in Financial Clinics and the optimization of certain back-office functions in 2019 provided significant savings toward our objective to reduce costs by $15 million. As we entered 2020, we maintained our focus on improving efficiency. With this in mind, we decided in May to merge fourteen additional Financial Clinics, bringing this to a total of twenty to be merged over the next two quarters, taking into account previously scheduled mergers. This is also a consequence of recent changes in the economic landscape and the ongoing reduction in the number of branch visits. Customers will continue to be served by Financial Clinics generally located in close proximity to them and based on our experience, the expected attrition should be relatively low. In May 2020, we also reduced headcount by about 100 people through attrition, retirement and targeted job reductions to realign our workforce with our operational needs. These strategic decisions will contribute to providing the necessary leverage to pursue our transformation and will improve our efficiency ratio. These measures will result in an impairment charge related to lease contracts and severance charges of approximately $6 million, which will be recorded in the third quarter of 2020. With these actions, we will have completed this phase of optimization.

# 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<br>**April 30 2020** | January 31 2020 | April 30 2019 | For the six months ended<br>**April 30 2020** | April 30 2019 |
|---|---|---|---|---|---|
| Net interest income | **$ 170,747** | $ 168,785 | $ 164,564 | **$ 339,532** | $ 337,164 |
| Other income | **69,401** | 69,928 | 75,317 | **139,329** | 145,055 |
| Total revenue | **240,148** | 238,713 | 239,881 | **478,861** | 482,219 |
| Amortization of net premium on purchased financial instruments | **179** | 232 | 390 | **411** | 832 |
| Provision for credit losses | **54,900** | 14,900 | 9,200 | **69,800** | 19,700 |
| Non-interest expenses | **183,516** | 188,902 | 183,131 | **372,418** | 367,807 |
| Income before income taxes | **1,553** | 34,679 | 47,160 | **36,232** | 93,880 |
| Income taxes | **(7,332)** | 2,507 | 3,847 | **(4,825)** | 10,311 |
| Net income | **$ 8,885** | $ 32,172 | $ 43,313 | **$ 41,057** | $ 83,569 |
| Preferred share dividends, including applicable taxes | **3,197** | 3,197 | 3,256 | **6,394** | 6,513 |
| Net income available to common shareholders' | **$ 5,688** | $ 28,975 | $ 40,057 | **$ 34,663** | $ 77,056 |
| Diluted earnings per share | **$ 0.13** | $ 0.68 | $ 0.95 | **$ 0.81** | $ 1.83 |

### CONDENSED CONSOLIDATED RESULTS – ADJUSTED BASIS[1]

| In thousands of Canadian dollars, except per share amounts (Unaudited) | For the three months ended<br>**April 30 2020** | January 31 2020 | April 30 2019 | For the six months ended<br>**April 30 2020** | April 30 2019 |
|---|---|---|---|---|---|
| Net interest income | **$ 170,747** | $ 168,785 | $ 164,564 | **$ 339,532** | $ 337,164 |
| Other income | **69,401** | 69,928 | 75,317 | **139,329** | 145,055 |
| Total revenue | **240,148** | 238,713 | 239,881 | **478,861** | 482,219 |
| Provision for credit losses | **54,900** | 14,900 | 9,200 | **69,800** | 19,700 |
| Adjusted non-interest expenses | **179,648** | 182,769 | 176,255 | **362,417** | 355,492 |
| Adjusted income before income taxes | **5,600** | 41,044 | 54,426 | **46,644** | 107,027 |
| Adjusted income taxes | **(6,312)** | 4,144 | 5,700 | **(2,168)** | 13,648 |
| Adjusted net income | **$ 11,912** | $ 36,900 | $ 48,726 | **$ 48,812** | $ 93,379 |
| Preferred share dividends, including applicable taxes | **3,197** | 3,197 | 3,256 | **6,394** | 6,513 |
| Adjusted net income available to common shareholders' | **$ 8,715** | $ 33,703 | $ 45,470 | **$ 42,418** | $ 86,866 |
| Adjusted diluted earnings per share | **$ 0.20** | $ 0.79 | $ 1.08 | **$ 0.99** | $ 2.06 |

## THREE MONTHS ENDED APRIL 30, 2020 COMPARED WITH THREE MONTHS ENDED APRIL 30, 2019

Net income was $8.9 million and diluted earnings per share were $0.13 for the second quarter of 2020, compared with $43.3 million and $0.95 for the second quarter of 2019. Adjusted net income was $11.9 million for the second quarter of 2020, down 76% from $48.7 million for the second quarter of 2019, while adjusted diluted earnings per share were $0.20, down 81% compared with $1.08 for the second quarter of 2019.

### Total revenue

Total revenue remained relatively stable at $240.1 million for the second quarter of 2020, compared to $239.9 million for the second quarter of 2019.

***Net interest income*** increased by $6.2 million or 4% to $170.7 million for the second quarter of 2020, from $164.6 million for the second quarter of 2019. The increase was mainly due to a higher proportion of higher-yielding loans to business customers and an improvement in funding costs through the greater use of secured funding. The increase was partly offset by a year-over-year decrease in loan volumes to personal customers, as well as by the unfavorable impact of the decrease in the Prime/BA spread. As of November 1, 2019, the introduction of IFRS 16, Leases, added a financing cost component, presented as part of interest expense, on the new lease liability which amounted to $1.2 million for the second quarter of 2020 and impacted NIM negatively by 1 basis point. Net interest margin was 1.88% for the second quarter of 2020, an increase of 11 basis points compared with the second quarter of 2019, mainly as a result of the change in the loan portfolio mix, as well as the reduction in funding costs, which was partly offset by the decrease in the Prime/BA spread, as noted above.

***Other income*** decreased by $5.9 million, or 8% to $69.4 million for the second quarter of 2020, compared with $75.3 million for the second quarter of 2019. Service charges decreased by $1.9 million compared with the second quarter of 2019 due to the ongoing changes to the retail banking environment and the related customers banking behavior. Card service revenues decreased by $1.7 million, mostly as Visa credit card transaction volumes declined as a result of the COVID-19 pandemic. Insurance income (net of claims) also contributed to the decline of other income by $1.6 million compared with the second quarter of 2019, driven by higher customer claims.

### Amortization of net premium on purchased financial instruments

For the second quarter of 2020, amortization of net premium on purchased financial instruments amounted to $0.2 million, compared with $0.4 million for the second quarter of 2019. Refer to the 2019 Annual Consolidated Financial Statements for additional information.

### Provision for credit losses

The provision for credit losses amounted to $54.9 million for the second quarter of 2020 compared with $9.2 million for the second quarter of 2019, an increase of $45.7 million year-over-year, mainly as a result of higher collective allowances. Individual allowances on a limited number of loans to business customers also contributed to the increase. Net write-offs were $9.0 million and represented 0.03% of gross loans compared to 0.02% in the second quarter of 2019.

Collective allowances are sensitive to model inputs, including macroeconomic variables in the forward-looking scenarios and their respective probability weighting, among other factors. The outbreak of COVID-19 led to changes to this forward-looking information during the second quarter of 2020, resulting in a significant increase in expected credit losses. As the full extent of the COVID-19 impact on the Canadian and U.S. economies, including government and/or regulatory responses to the outbreak, remains highly uncertain, it is difficult to predict at this time how the increase in expected credit losses will translate into write-offs and whether we will be required to recognize additional increases in expected credit losses in subsequent periods.

Refer to the "Risk Management" section for additional information relating to the COVID-19 impact on credit risk and measurement uncertainty on expected credit losses estimates and Note 7, Loans and allowances for credit losses, to the unaudited interim consolidated financial statements for more information on provision for credit losses and continuity of the allowance for credit losses for the quarter.

### Non-interest expenses

Non-interest expenses amounted to $183.5 million for the second quarter of 2020, an increase of $0.4 million compared with the second quarter of 2019. Adjusted non-interest expenses amounted to $179.6 million for the second quarter of 2020, an increase of $3.4 million compared with the second quarter of 2019.

***Salaries and employee benefits*** increased by $3.5 million to $94.0 million for the second quarter of 2020, compared with the second quarter of 2019, mainly due to higher wages and special compensation paid to team members whose position required them to work in our Financial Clinics or in our corporate offices during the COVID-19 pandemic. An increase in performance-based compensation related to brokerage operations, as well as other sales driven compensation in the growing segments of Business Services also contributed to the higher level of expense.

***Premises and technology costs*** were $50.7 million for the second quarter of 2020, an increase of $0.1 million compared with the second quarter of 2019. Rent decreased by $4.8 million as a result of the introduction, as of November 1, 2019, of IFRS 16, Leases, as well as of a reduction in the square-footage utilization given the right-sizing of our Financial Clinic network. This decrease was partially offset by a $4.0 million increase in amortization on the newly created right-of-use assets. Including the impact of the interest charge on the new lease liability of $1.2 million, as noted above, overall rental costs increased slightly. Technology costs increased year-over-year, and remain elevated as we are currently operating multiple platforms simultaneously. Premises and technology costs also include costs of $0.5 million associated with precautionary measures such as increasing the intensity of cleaning and reinforcing security measures required to work remotely in accordance with social distancing and separating the workforce.

***Other non-interest expenses*** were $38.5 million for the second quarter of 2020, a slight decrease of $0.1 million, compared with the second quarter of 2019.

***Restructuring charges*** were $0.3 million for the second quarter of 2020 and mainly reflected expenses for the optimization of the Financial Clinic operations and the related streamlining of certain back-office and corporate functions.

*Efficiency ratio*
The adjusted efficiency ratio was 74.8% for the second quarter of 2020, compared with 73.5% for the second quarter of 2019, as a result of higher expenses and a decrease in other income. Adjusted operating leverage was negative year-over-year. The efficiency ratio on a reported basis was 76.4% for the second quarter of 2020, compared with 76.3% for the second quarter of 2019, essentially unchanged as the aforementioned items were offset by lower restructuring costs in fiscal 2020.

### Income taxes

For the quarter ended April 30, 2020, the income tax recovery was $7.3 million. The recovery resulted from losses incurred in domestic operations following the increase in provision for credit losses, while income from foreign operations remains subject to a lower taxation level. The favourable effect of holding investments in Canadian securities that generate non-taxable dividend income also contributed to the recovery in the second quarter. For the quarter ended April 30, 2019, income tax expense was $3.8 million, and the effective tax rate was 8.2%. The lower tax rate for the quarter ended April 30, 2019, when compared with the statutory rate was mainly driven by the lower taxation level of income from foreign operations.

## SIX MONTHS ENDED APRIL 30, 2020 COMPARED WITH SIX MONTHS ENDED APRIL 30, 2019

Net income was $41.1 million and diluted earnings per share were $0.81 for the six months ended April 30, 2020, compared with $83.6 million and $1.83 for the six months ended April 30, 2019. Adjusted net income was $48.8 million for the six months ended April 30, 2020, down 48% from $93.4 million for the six months ended April 30, 2019, while adjusted diluted earnings per share were $0.99 for the six months ended April 30, 2020, down 52% from $2.06 for the six months ended April 30, 2019. The decrease in net income and diluted earnings per share, compared with the six months ended April 30, 2019, is further detailed below.

### Total revenue

Total revenue decreased by $3.4 million or 1% to $478.9 million for the six months ended April 30, 2020 from $482.2 million for the six months ended April 30, 2019.

***Net interest income*** increased by $2.4 million or 1% to $339.5 million for the six months ended April 30, 2020, from $337.2 million for the six months ended April 30, 2019. The increase was mainly due to a higher proportion of higher-yielding loans to business customers, as well as an improvement in funding costs through the greater use of secured funding. This increase was partly offset by a year-over-year decrease in loan volumes to personal customers. As of November 1, 2019, the introduction of IFRS 16, Leases, added a financing cost component, presented as part of interest expense, on the new lease liability which amounted to $2.4 million for the six months ended April 30, 2020 and impacted NIM negatively by 1 basis point. Net interest margin was 1.85% for the six months ended April 30, 2020, compared with 1.78% for the six months ended April 30, 2019. This increase was mainly due to the change in the loan portfolio mix, as well as to the reduction in funding costs, which was partly offset by the decrease in the Prime/BA spread, as noted above.

***Other income*** decreased by $5.7 million or 4% to $139.3 million for the six months ended April 30, 2020, compared with $145.1 million for the six months ended April 30, 2019. Service charges decreased by $3.1 million compared with the six months ended April 30, 2019 due to the ongoing changes to the retail banking environment and the related customers banking behavior. Card service revenues also decreased by $1.8 million, mostly as Visa credit card transaction volumes declined as a result of the COVID-19 pandemic in the second quarter, as noted above. Insurance income, net of claims, also contributed to the decline of other income by $2.2 million compared with the six months ended April 30, 2019, mainly driven by higher customer claims. Market related revenues, including securities gains, brokerage commissions and other income from treasury and financial market operations, increased by $1.8 million compared with the six months ended April 30, 2019, mainly due to a better contribution from brokerage operations.

### Amortization of net premium on purchased financial instruments

For the six months ended April 30, 2020, the amortization of net premium on purchased financial instruments was $0.4 million, compared with $0.8 million for the six months ended April 30, 2019. Refer to the "Non-GAAP" and "Key Performance Measures" section for additional information.

### Provision for credit losses

The provision for credit losses increased by $50.1 million to $69.8 million for the six months ended April 30, 2020 compared with $19.7 million for the six months ended April 30, 2019. As mentioned previously, the increase in the provision for credit losses for the second quarter of 2020 resulted primarily from the impact on expected credit losses of the adverse shift in forward-looking economic scenarios related to COVID-19 and respective probability weighting. Individual allowances on a limited number of loans to business customers also contributed to the increase. Net write-offs were $19.3 million and represented 0.06% of gross loans for the six months ended April 30, 2020 compared to 0.04% for the six months ended April 30, 2019.

Refer to the "Risk Management" section for additional information for the COVID-19 impact on credit risk and measurement uncertainty on expected credit losses estimates and Note 7, Loans and allowances for credit losses, to the unaudited interim consolidated financial statements for more information on provision for credit losses and continuity of the allowance for credit losses.

### Non-interest expenses

Non-interest expenses increased by $4.6 million or 1% to $372.4 million for the six months ended April 30, 2020, compared with $367.8 million for the six months ended April 30, 2019. Adjusted non-interest expenses increased by $6.9 million or 2% to $362.4 million for the six months ended April 30, 2020, compared with $355.5 million for the six months ended April 30, 2019.

***Salaries and employee benefits*** increased by $6.7 million or 4% to $189.2 million for the six months ended April 30, 2020, compared with the six months ended April 30, 2019, mainly due to an increase in performance-based compensation related to brokerage operations as well as other sales driven compensation in the growing segments of Business Services.

***Premises and technology costs*** increased by $0.9 million and were relatively unchanged at $100.5 million for the six months ended April 30, 2020, compared with the six months ended April 30, 2019.

***Other non-interest expenses*** decreased by $0.5 million and were relatively unchanged at $79.6 million for the six months ended April 30, 2020, compared with the six months ended April 30, 2019.

***Restructuring charges*** amounted to $3.1 million for the six months ended April 30, 2020, compared to $5.4 million for the six months ended April 30, 2019 and, as mentioned above, mainly included expenses for the optimization of the Financial Clinics operations and the related streamlining of certain back-office and corporate functions.

*Efficiency ratio*

The adjusted efficiency ratio was 75.7% for the six months ended April 30, 2020, compared with 73.7% for the six months ended April 30, 2019. As the Bank continued to invest in its transformation, this ratio was mainly impacted by lower other income, as well as performance-based compensation related to brokerage activities and sales driven compensation in Business Services as noted above. The adjusted operating leverage was negative year-over-year. The efficiency ratio, on a reported basis, was 77.8% for the six months ended April 30, 2020, compared with 76.3% for the six months ended April 30, 2019, essentially for the same reasons as noted above.

### Income taxes

For the six months ended April 30, 2020, the income tax recovery was $4.8 million. The recovery mainly resulted from losses incurred in domestic operations following the increase in provision for credit losses in the second quarter, while income from foreign operations remains subject to a lower taxation level. The favourable effect of holding investments in Canadian securities that generate non-taxable dividend income also contributed to the recovery during the six months ended April 30, 2020. For the six months ended April 30, 2019, the income tax expense was $10.3 million and the effective tax rate was 11.0%.

## THREE MONTHS ENDED APRIL 30, 2020 COMPARED WITH THREE MONTHS ENDED JANUARY 31, 2020

Net income was $8.9 million and diluted earnings per share were $0.13 for the second quarter of 2020, compared with $32.2 million and $0.68 for the first quarter of 2020. Adjusted net income was $11.9 million and adjusted diluted earnings per share were $0.20 for the second quarter of 2020, compared with $36.9 million and $0.79 for the first quarter of 2020.

Total revenue increased by $1.4 million at $240.1 million for the second quarter of 2020, compared with $238.7 million for the previous quarter.

Net interest income increased by $2.0 million sequentially to $170.7 million. This was mainly due to a higher proportion of higher-yielding loans to business customers, in part due to growth in our inventory financing activities, and an improvement in funding costs through the greater use of secured funding. Net interest margin was 1.88% for the second quarter of 2020, an increase of 7 basis points compared with 1.81% for the first quarter of 2020, essentially for the same reasons as noted above.

Other income decreased by $0.5 million to $69.4 million for the second quarter of 2020, compared with $69.9 million for the previous quarter. This was mainly driven by the decrease in Visa credit card service revenues of $1.8 million, as card transaction volumes declined as a result of the COVID-19 pandemic, and by the decrease in insurance income, net of claims, of $1.0 million due to higher claims. The decrease was partly offset by an increase of $1.6 million in fees and securities brokerage commissions mainly due to strong fixed income operations.

The line item "Amortization of net premium on purchased financial instruments" amounted to $0.2 million for the second quarter of 2020, essentially unchanged from the first quarter of 2020. Refer to the 2019 Annual Consolidated Financial Statements for additional information.

Provision for credit losses totalled $54.9 million for the second quarter of 2020, a $40.0 million increase compared with $14.9 million for the first quarter of 2020. As mentioned previously, the increase in the provision for credit losses for the second quarter of 2020 resulted primarily from the impact of the adverse shift in forward-looking economic scenarios related to COVID-19 and respective probability weighting.

Non-interest expenses decreased by $5.4 million to $183.5 million for the second quarter of 2020 from $188.9 million in the first quarter of 2020. Adjusted non-interest expenses decreased by $3.1 million and amounted to $179.6 million in the second quarter of 2020, compared with $182.8 million in the first quarter of 2020. The decrease in adjusted non-interest expenses is mainly due to lower share-based compensation, lower advertising and business development costs, as well as overall expense control measures, despite COVID-19 pandemic related costs.

# ANALYSIS OF FINANCIAL CONDITION

## CONDENSED BALANCE SHEET

| In thousands of Canadian dollars (Unaudited) | | **As at April 30 2020** | | As at October 31 2019 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and deposits with banks | $ | **511,803** | $ | 413,555 |
| Securities | | **6,657,081** | | 6,299,936 |
| Securities purchased under reverse repurchase agreements | | **2,731,807** | | 2,538,285 |
| Loans and acceptances, net | | **33,576,439** | | 33,566,071 |
| Other assets | | **1,969,067** | | 1,535,280 |
| | $ | **45,446,197** | $ | 44,353,127 |
| **Liabilities and Shareholders' Equity** | | | | |
| Deposits | $ | **25,304,266** | $ | 25,652,604 |
| Other liabilities | | **7,940,399** | | 6,870,428 |
| Debt related to securitization activities | | **9,277,723** | | 8,913,333 |
| Subordinated debt | | **349,270** | | 349,101 |
| Shareholders' equity | | **2,574,539** | | 2,567,661 |
| | $ | **45,446,197** | $ | 44,353,127 |

As at April 30, 2020, total assets amounted to $45.4 billion, an increase of 2% compared with $44.4 billion as at October 31, 2019. The increase essentially results from the higher level of liquid assets and the increase in fair value of derivatives.

## LIQUID ASSETS

Liquid assets consist of cash, deposits with banks, securities and securities purchased under reverse repurchase agreements. As at April 30, 2020, these assets totalled $9.9 billion, an increase of $0.6 billion compared with $9.3 billion as at October 31, 2019.

In the context of the evolving global pandemic, we very prudently managed our level of liquid assets. In March 2020, financial markets became extremely volatile, causing severe disruption to business and economic activity and, to support our customers and provide the bank with necessary buffers, we participated in various BoC programs introduced in the wake of the crisis which has enabled us to diversify our funding sources at lower cost and maintain higher liquid assets. During this period, the Bank also benefitted from a significant increase in core direct retail deposits, as we leveraged our Financial Clinics network, further contributing to our well-diversified funding sources. Liquid assets represented 22% of total assets as at April 30, 2020, compared with 21% as at October 31, 2019.

## LOANS

Loans and bankers' acceptances, net of allowances, stood at $33.6 billion as at April 30, 2020, relatively unchanged compared with October 31, 2019. Since the beginning of the year, the decrease in loans to personal customers was offset by growth in commercial loan portfolios, in line with our aim to focus on higher-yielding commercial loans. Variances are further explained below.

Personal loans amounted to $4.3 billion and decreased by $0.3 billion or 7% since October 31, 2019, mainly as a result of the continued reduction in the investment loan portfolio, reflecting an ongoing consumer behavior to reduce leverage.

Residential mortgage loans stood at $15.8 billion as at April 30, 2020, a decrease of $0.2 billion or 1% since October 31, 2019. Since the beginning of the year, the acquisition of mortgage loans from third parties, as part of our program to optimize the usage of National Housing Act mortgage-backed securities allocations, has contributed to mitigate the impact of maturities.

Commercial loans and acceptances amounted to $13.5 billion as at April 30, 2020, up 4% since October 31, 2019. This increase is mainly due to inventory and equipment financing volumes.

## OTHER ASSETS

Other assets stood at $2.0 billion as at April 30, 2020, an increase of $0.4 billion compared with October 31, 2019.

### LIABILITIES

Deposits decreased by $0.3 billion or 1% to $25.3 billion as at April 30, 2020 compared with $25.7 billion as at October 31, 2019. Personal deposits stood at $19.8 billion as at April 30, 2020, up $0.1 billion compared with October 31, 2019. The increase mainly results from the higher level of demand deposits generated through the various distribution channels of the Bank. At the end of the first quarter, following the successful launch of LBC Digital, related demand deposits had raised to $1.0 billion. With the decrease in the offered interest rates during the second quarter, outstanding volumes have decreased to $0.7 billion as at April 30, 2020, in line with our expectations. These deposits are further contributing to our well diversified funding. During the second quarter, core direct retail deposits sourced through our Financial Clinics network increased by close to $200 million, while other demand deposits from intermediaries increased by more than $340 million. Since the beginning of the year, these increases have been offset by a lower level of term deposits sourced through the Advisors and Brokers channel, as well as by a decrease in institutional funding. Personal deposits represented 78% of total deposits as at April 30, 2020, compared with 77% as at October 31, 2019, and contributed to our good liquidity position.

Obligations related to securities sold short stood at $3.4 billion as at April 30, 2020, an increase of $0.8 billion compared to October 31, 2019.

Debt related to securitization activities increased by $0.4 billion compared with October 31, 2019 and stood at $9.3 billion as at April 30, 2020.

### SHAREHOLDERS' EQUITY

Shareholders' equity stood at $2,574.5 million as at April 30, 2020, compared with $2,567.7 million as at October 31, 2019.

As mentioned in the "Basis of Presentation" section of this MD&A, the adoption of IFRS 16 at the outset of the year resulted in a net decrease of $7.3 million of retained earnings as at November 1, 2019. Since the beginning of the year, retained earnings decreased by $61.0 million, as the net income contribution of $41.1 million was more than offset by dividends amounting to $63.6 million, as well as by other charges related to employee benefit plans and equity securities designated at fair value through other comprehensive income (FVOCI) of $31.2 million. Increases in accumulated other comprehensive income (AOCI) of $55.8 million and common share issuances of $10.9 million as part of the Bank's Shareholder Dividend Reinvestment and Share Purchase Plan contributed positively to shareholders' equity. For additional information, please refer to the Consolidated Statement of Changes in Shareholders' Equity in the condensed interim consolidated financial statements for the second quarter of 2020.

The Bank's book value per common share was $52.99 as at April 30, 2020 compared to $54.02 as at October 31, 2019.

There were 42,939,557 common shares outstanding as at May 25, 2020.

## CAPITAL MANAGEMENT

### REGULATORY CAPITAL

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" guideline, the Bank must maintain minimum levels of capital depending on various criteria. Tier 1 capital, the most permanent and subordinated forms of capital, consists of two components: Common Equity Tier 1 capital and Additional Tier 1 capital. Tier 1 capital must be more predominantly composed of common equity to ensure that risk exposures are backed by a high-quality capital base. Tier 2 capital consists of supplementary capital instruments and contributes to the overall strength of a financial institution as a going concern. Under OSFI's guideline, minimum Common Equity Tier 1, Tier 1 and Total capital ratios are set at 7.0%, 8.5% and 10.5% respectively including the 2.5% capital conservation buffer. Refer to the section "Capital Management" of our 2019 Annual Report for additional information on our regulatory capital.

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 most favourable AIRB approach.

### Regulatory capital developments

Over the months of March and April 2020, OSFI announced several measures to afford financial institutions further flexibility in addressing current conditions due to COVID-19, including notably:

- treating as performing loans (under the Capital Adequacy Requirements Guideline) all mortgages and certain types of loans (e.g. small business loans, retail loans, including credit cards, and mid-market commercial loans) where payment deferrals are granted by the financial institution, up to a maximum of 6 months;
- recognizing as Common Equity Tier 1 (CET1) capital a portion of the credit allowances that would otherwise be included in Tier 2 capital [(1)];

  and
- excluding from the leverage ratio calculation the central bank reserves and the sovereign-issued securities that qualify as High-Quality Liquid Assets (HQLA) under the Liquidity Adequacy Requirements Guideline, until April 30, 2021.

(1) An adjustment to CET1 capital will be dynamically measured each quarter as the increase in Stage 1 and Stage 2 expected credit loss allowances relative to the baseline level. The baseline level is the amount of Stage 1 and Stage 2 allowances as at the quarter ending January 31, 2020. This increased amount is adjusted for tax effects and subject to a scaling factor that will decrease over time. The scaling factor will be set at 70% in fiscal 2020, 50% in fiscal 2021 and 25% in fiscal 2022.

OSFI released on January 17, 2020 a consultative document titled SMSB Capital and Liquidity Requirements which proposes changes to the capital and liquidity requirements for Small and Medium-Sized Deposit-Taking Institutions (SMSB). The purpose of this consultative document is to provide stakeholders with an overview of feedback that was received in response to the July 2019 Discussion Paper (Advancing Proportionality: Tailoring Capital and Liquidity Requirements for Small and Medium-Sized Deposit-Taking Institutions) and an update regarding the development of the Pillar 1 SMSB capital and liquidity frameworks. The document outlines changes which are proposed to the framework, and seeks further feedback from stakeholders in advance of the publication of draft SMSB capital and liquidity requirements. However, in order to provide additional operational capacity for banks and supervisors to respond to the immediate financial stability priorities resulting from the impact of COVID-19 on the global banking system, OSFI delayed the timing for the implementation of the Small and Medium Sized Banks (SMSB) Capital and Liquidity framework to the beginning of Q1 2023. OSFI has also delayed the consultation work on Pillar 2 and Pillar 3 capital and liquidity requirements for SMSBs.

The implementation of the AIRB Approach remains one of our key initiatives that will strengthen our credit risk management, optimize regulatory capital and provide a level playing field for credit underwriting activities. As previously mentioned, we were targeting the implementation in the first half of 2022. In the context of the evolving global pandemic, we are currently reviewing this timetable and expect a delay of at least 12 months.

#### REGULATORY CAPITAL

| | **As at April 30 2020** | | As at October 31 2019 |
|---|---|---|---|
| In thousands of Canadian dollars, except percentage amounts (Unaudited) | **Before Transitional Arrangements[(1)]** | **After Transitional Arrangements** | |
| **Regulatory capital** | | | |
| Common Equity Tier 1 capital | **$ 1,818,315** | **$ 1,834,720** | $ 1,841,382 |
| Tier 1 capital | **$ 2,062,353** | **$ 2,078,758** | $ 2,085,420 |
| Total capital | **$ 2,506,707** | **$ 2,506,707** | $ 2,497,108 |
| **Total risk-weighted assets[(2)]** | **$ 20,869,680** | **$ 20,869,680** | $ 20,406,556 |
| **Regulatory capital ratios** | | | |
| Common Equity Tier 1 capital ratio | **8.7%** | **8.8%** | 9.0% |
| Tier 1 capital ratio | **9.9%** | **10.0%** | 10.2% |
| Total capital ratio | **12.0%** | **12.0%** | 12.2% |

(1) Calculation of regulatory capital and regulatory capital ratios excluding the application of transitional arrangements given by OSFI for expected credit losses provisioning, in response to the COVID-19 pandemic, as detailed above.

(2) Using the Standardized approach in determining credit risk and operational risk.

Additionally, OSFI communicated that measured declines in bank capital ratios (by using the Pillar II capital buffer and/or the leverage ratio operating buffer held above the authorized leverage ratio) are acceptable in the current circumstances and entirely consistent with the functioning of a well-capitalized and prudent institution.

OSFI expects that banks will use the additional lending capacity arising from the measures described above to support Canadian businesses and households and should not use these measures to increase distributions to shareholders or employees or to undertake share buybacks. Consistent with this, OSFI has communicated, on March 13, the expectation for all federally regulated financial institutions that dividend increases and share buybacks should be halted for the time being.

The Common Equity Tier 1 capital ratio stood at 8.8% as at April 30, 2020, compared with 9.0% as at October 31, 2019. This level of capital provides the Bank with the flexibility to pursue organic growth, as well as to continue to invest in the implementation of our core banking system, the development of our digital solutions and the project to adopt the AIRB approach to credit risk.

As we will continue to support our customers, and in accordance with regulatory developments and policy response, we expect that our regulatory capital ratios will remain below the level observed over the recent quarters.

## 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 4.6% as at April 30, 2020 and exceeded current requirements.

### BASEL III LEVERAGE RATIO

| In thousands of Canadian dollars, except percentage amounts (Unaudited) | **As at April 30 2020** Before Transitional Arrangements[1] | **As at April 30 2020** After Transitional Arrangements | As at October 31 2019 |
|---|---|---|---|
| Tier 1 capital | **$ 2,062,353** | **$ 2,078,758** | $ 2,085,420 |
| Total exposures | **$ 45,630,858** | **$ 45,630,858** | $ 45,475,982 |
| Basel III leverage ratio | **4.5%** | **4.6%** | 4.6% |

(1) Calculation of leverage ratio excluding the application of transitional arrangements given by OSFI for expected credit losses provisioning, in response to the COVID-19 pandemic.

## DIVIDENDS

On May 28, 2020, the Board of Directors declared a quarterly dividend of $0.40 per common share, payable on August 1, 2020 to shareholders of record on July 2, 2020. Although we believe that current earnings are not reflective of the future earnings power of the organisation, given the highly uncertain environment, Management recommended, and the Board of Directors approved, a reduction of the quarterly dividend by $0.27 or 40%. This prudent decision will provide us with additional operational flexibility to ensure continued growth, as well as the pursuit of our strategic plan. Furthermore, this will better align with our dividend policy until we reap the anticipated benefits from our transformation. Management and the Board of Directors also determined that shares attributed under the Bank's Shareholder Dividend Reinvestment and Share Purchase Plan will continue to be made in common shares issued from the treasury at a 2% discount.

### COMMON SHARE DIVIDENDS AND PAYOUT RATIO

| | For the three months ended | | | For the years ended | | |
|---|---|---|---|---|---|---|
| In Canadian dollars, except payout ratios (Unaudited) | **April 30 2020** | January 31 2020 | April 30 2019 | October 31 2019 | October 31 2018 | October 31 2017 |
| Dividends declared per common share | **$ 0.67** | $ 0.67 | $ 0.65 | $ 2.62 | $ 2.54 | $ 2.46 |
| Dividend payout ratio | **503.6%** | 98.6% | 68.5% | 69.3% | 49.6% | 45.7% |
| Adjusted dividend payout ratio[1] | **328.7%** | 84.7% | 60.3% | 61.4% | 45.9% | 40.5% |

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

# RISK MANAGEMENT

We are exposed to various types of risks owing to our activities, mainly as it relates to the use of financial instruments. In order to manage these risks, various risk management policies and risk limits, as well as other controls 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 47 of our 2019 Annual Report for additional information on the Group's risk management framework.

### Impact of COVID-19 on the Bank's risk profile

On March 11th, 2020 the World Health Organization declared COVID 19 as a global pandemic. Governments have implemented emergency measures such as travel restrictions, border restrictions, business closures and physical distancing in order to reduce the spread of the virus. These measures have resulted in a significant impact to business activities and the economy. Governments and other regulatory entities have introduced various personal and business relief programs and changes to the monetary policy in order to stabilize the economy.

These measures, as well as the uncertainty related to both the scope and duration of the mitigation actions deemed necessary to limit the spread of the virus, will likely heighten some of our risks. As the pandemic continues, and until the virus has been brought under control, its impact on the global economy could worsen, threatening our customers' solvency, and bring back volatility in the financial markets. Deteriorating credit and market conditions may also adversely impact our strategic position, expected credit losses and earnings.

The Bank's risk management framework provides the necessary mechanisms to manage the impact of the crisis on its business and operations. The core risk factors relating to the Bank's operations are described in the section entitled "Risk Appetite and Risk Management Framework" of our Annual Report. In addition to other impacts identified under the heading COVID-19 Pandemic of this report to shareholders and in the section Economic Outlook, the pandemic has altered the Bank's risk profile, as further described below.

## CREDIT RISK

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

### COVID-19 impact on credit risk and measurement uncertainty on expected credit losses estimates

As per our disciplined approach to modeling expected credit losses, we updated our economic scenarios, which took into account the deterioration in economic conditions caused by the spread of the COVID-19 pandemic and the related increase in uncertainty: the "base", "downside" and "upside" scenarios. These scenarios were probability weighted as part of our approach to determining the expected credit losses as at April 30, 2020.

In the base scenario, the COVID-19 pandemic spread leads to a relatively short and steep recession. Economic activity first resumes in sectors not constrained by social distancing and broadens overtime, leading to a moderate rebound. A new normal in activity brings back GDP to its pre-pandemic level in early 2021. Government measures contribute to mitigating financial stress. Home prices decline gradually and temporarily. Unemployment peaks to the early 1990s recession level and two thirds of the shock is reversed by the end of 2020 as individuals gradually return to work. Market risk appetite rebounds in the Summer of 2020 due to improving economic expectations, but the yield curve stays relatively flat and rates remain at historical lows as central banks accommodate the recovery.

In the downside scenario, the recession is more pronounced due to expected prolonged shutdowns. The weaker economic rebound reflects a slower easing in restrictions and additional balance sheet stress for individuals and companies leading to some capital destruction and lower confidence. Unemployment reaches an all-time high post-WWII, contributing to a moderate correction in home prices. Interest rates across the yield curve remain low for a prolonged period. GDP returns to its pre-pandemic level only in 2022.

In the upside scenario, the recession is milder as the virus is brought under control within a short time frame, leading to a broad easing of restrictions and fostering conditions for economic recovery. Structural economic damage is limited, as businesses and individuals return to normal activities. Equity Markets return to pre COVID-19 levels and interest rates rebound gradually starting in 2021.

The degree of uncertainty surrounding the potential impact of COVID-19 implies the possibility of a wide range of economic outcomes. The most recent information leans in favor of a gradual reopening of the economy contingent on improving health outcomes. Accordingly, high weights were assigned to the base and downside scenarios, with a small residual weight assigned to the upside scenario.

When possible, our ECL models were adapted to consider the recently announced measures introduced by governments, central banks and regulators to promote liquidity and ease financial stress to individuals and businesses. To better assess loan losses, we also applied expert judgement given this unprecedented situation.

The magnitude of the impact of COVID-19 on the Canadian and U.S. economies remains highly uncertain including assessments of the impact of government and/or regulatory responses to the outbreak. Therefore, it is difficult to predict whether the increase in expected credit losses will result in significant write-offs and if the Bank will recognize additional increases in expected credit losses in subsequent periods.

Refer to the Note 7 to the Condensed Interim Consolidated Financial Statements for additional information on expected credit losses.

## PROVISION (REVERSAL) FOR CREDIT LOSSES

| In thousands of Canadian dollars, except percentage amounts (Unaudited) | For the three months ended April 30 2020 | January 31 2020 | April 30 2019 | For the six months ended April 30 2020 | April 30 2019 |
|---|---|---|---|---|---|
| **Personal loans** | | | | | |
| Stage 1 and 2 | **$ 9,600** | $ (2,968) | $ (1,844) | **$ 6,632** | $ (4,716) |
| Stage 3 | **7,842** | 6,935 | 6,109 | **14,777** | 13,424 |
| | **17,442** | 3,967 | 4,265 | **$ 21,409** | $ 8,708 |
| **Residential mortgage loans** | | | | | |
| Stage 1 and 2 | **771** | 415 | (180) | **1,186** | (881) |
| Stage 3 | **625** | 1,065 | 685 | **1,690** | 1,334 |
| | **1,396** | 1,480 | 505 | **$ 2,876** | $ 453 |
| **Commercial loans** | | | | | |
| Stage 1 and 2 | **21,029** | 927 | 294 | **21,956** | 1,809 |
| Stage 3 | **15,033** | 8,526 | 4,136 | **23,559** | 8,730 |
| | **36,062** | 9,453 | 4,430 | **$ 45,515** | $ 10,539 |
| Provision for credit losses | **54,900** | 14,900 | 9,200 | **$ 69,800** | $ 19,700 |
| As a % of average loans and acceptances | **0.67%** | 0.18% | 0.11% | **0.42%** | 0.12% |

### Provision for credit losses

The provision for credit losses increased by $40 million sequentially to $54.9 million for the second quarter of 2020 and by $45.7 million compared with the same quarter a year ago. The provision for credit losses increased by $50.1 million to $69.8 million for the six months ended April 30, 2020 compared with $19.7 million for the six months ended April 30, 2019.

The increase in provision for credit losses in 2020 was mainly driven by an adverse shift in forward-looking economic scenarios related to COVID-19 and respective probability weights which impact our commercial and personal loan portfolios in the second quarter and for the six months ended April 30, 2020.

Refer to the "Risk Appetite and Risk Management" section in our Annual Report for additional information.

Credit losses on personal loans for the second quarter ended April 30, 2020 increased by $13.5 million sequentially and by $13.2 million year-over-year. For the six months ended April 30, 2020, credit losses on personal loans increased by $12.7 million compared with the same period of 2019. This was mainly a result of the significant increase in credit risk due to COVID-19, as noted above.

Credit losses on residential mortgage loans for the second quarter of 2020 decreased by $0.1 million sequentially but increased by $0.9 million year-over-year. For the six months ended April 30, 2020, credit losses increased by $2.4 million compared with the same period of 2019, but remained at relatively low levels, owing to strong underwriting criteria.

Credit losses on commercial loans for the second quarter of 2020 increased by $26.6 million sequentially and by $31.6 million year-over-year. For six months ended April 30, 2020, credit losses on commercial loans increased by $35.0 million compared with the six months ended April 30, 2019. The increase was mainly due to negative impact of COVID-19 on collective allowances, as well as to individual allowances on a limited number of loans to business customers.

The provision for credit losses expressed as a percentage of average loans and acceptances was 67 bps for the second quarter of 2020 compared to 11 bps for the three months ended April 30, 2019.

### IMPAIRED LOANS

| In thousands of Canadian dollars, except percentage amounts (Unaudited) | | **As at April 30 2020** | | As at October 31 2019 |
|---|---|---|---|---|
| **Gross impaired loans** | | | | |
| Personal | **$** | **23,607** | $ | 17,642 |
| Residential mortgages | | **58,739** | | 59,236 |
| Commercial[1] | | **152,902** | | 98,283 |
| | | **235,248** | | 175,161 |
| **Allowances for loan losses against impaired loans (Stage 3)** | | **(59,675)** | | (40,942) |
| **Net impaired loans** | **$** | **175,573** | $ | 134,219 |
| **Impaired loans as a % of loans and acceptances** | | | | |
| Gross | | **0.70%** | | 0.52% |
| Net | | **0.52%** | | 0.40% |
| **Allowances for loan losses against other loans** | | | | |
| Stage 1 | **$** | **(51,408)** | $ | (29,587) |
| Stage 2 | | **(38,296)** | | (29,928) |
| | **$** | **(89,704)** | $ | (59,515) |

(1) Including customers' liabilities under acceptances.

Gross impaired loans amounted to $235.2 million as at April 30, 2020, up $60.1 million or 34% compared with October 31, 2019, mainly due to an increase in the commercial loan portfolio.

Allowances for loan losses against impaired loans increased by $18.7 million compared with October 31, 2019, mainly with regards to the commercial loan portfolio. Allowances for loan losses against other loans amounted to $89.7 million as at April 30, 2020, up $30.2 million compared with October 31, 2019, driven by the adverse shift in forward-looking economic scenarios related to COVID-19 in the second quarter, as mentioned above. See Note 7 to the Condensed Interim Consolidated Financial Statements for additional information.

### Payment relief options

In response to COVID-19, we continue to work with our customers who may need flexibility in managing their loans. To that effect, we are offering up to six months of payment deferral for residential mortgages and some personal loans. For commercial loans, customers' requests and deferral programs are reviewed and approved on a case-by-case basis. These payment relief options allow customers to temporarily stop making their regular payments, while interest continues to accrue on the outstanding balance.

For loan agreements with payment deferrals, we have performed a careful assessment to consider reasonable and supportable information at an individual level and/or at a collective level in order to identify customers with higher susceptibility to long-term economic impacts which may indicate significant increase in credit risk. Payment deferrals are not considered to automatically trigger a significant increase in credit risk or result in such loans being moved into stage 2 or stage 3 for the purposes of calculating expected credit losses.

The following table provides a summary of the number of deferral requests processed during the second quarter of 2020, as well as the aggregate loan value approved.

#### Payment deferrals

| In thousand of Canadian dollars | | | | | **As at April 30, 2020** |
|---|---|---|---|---|---|
| | | $ Deferred payments | | $ Loan value | As a % of loan portfolio |
| Personal loans | $ | 624 | $ | 6,176 | 0.1% |
| Residential Mortgages | | 50,594 | | 3,060,645 | 19.3% |
| Commercial loans[1] | | 57,734 | | 1,373,800 | 10.5% |
| | **$** | **108,952** | **$** | **4,440,621** | **13.3%** |

(1) Including customers' liabilities under acceptances

## LIQUIDITY AND FUNDING RISK

Liquidity and funding risk is 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 maintain liquidity and funding that is appropriate for the execution of our strategy, with liquidity and funding risk remaining well within our approved limits.

We monitor cash resources daily and ensure that liquidity indicators are within established limits, paying 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.

We maintain a stable volume of deposits originating from our Personal, Business and Institutional customers, as well as diversified wholesale financing sources. Furthermore, we can rely on a stable personal deposits base sourced through our Financial Clinics, Advisors and Brokers, as well as our new Digital Direct to Customers channels. 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.

The Bank also manages its 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 six months ended April 30, 2020.

### Regulatory developments concerning liquidity

On March 27, 2020, as mentioned in the Capital Management section above, OSFI delayed the timing for the implementation of the Small and Medium Sized Banks (SMSB) Capital and Liquidity framework to the beginning of Q1 2023. Similarly, OSFI will also delay the consultation work on Pillar 2 and Pillar 3 capital and liquidity requirements for SMSBs.

Also, on March 27, OSFI introduced several measures to afford financial institutions further flexibility in addressing current conditions due to COVID-19, including:

- excluding the bankers' acceptances (BAs) sold to the Bank of Canada under the BA Purchase Facility (BAPF) from the calculation of the outflow of the Liquidity Coverage Ratio (LCR); and
- expanding the LCR treatment of term deposits for retail and small business under hardship situations borne out of current circumstances (e.g., reduced income for a depositor).

Finally, OSFI reiterated that institutions may use their stock of unencumbered high-quality liquid assets (HQLA) they hold within the Liquidity Coverage Ratio (LCR) as a defense both against the potential onset of liquidity stress and during a period of liquidity stress (such as a liquidity stress resulting from COVID-19). LCR falling below 100% is permitted under such circumstances, as maintaining the LCR at 100% could produce undue negative effects on the institution and other market participants.

On December 5, 2019, OSFI released the final version of Guideline B-6: Liquidity Principles, which sets out OSFI's expectations for how deposit-taking institutions (DTIs) should manage liquidity risk. The final guideline provides DTIs with further clarity on how to manage liquidity risk and ensures that OSFI's expectations are current and appropriate for the scale and complexity of these institutions. The final guideline took effect January 1, 2020 and had limited consequences on how the Bank manages its liquidities.

### Credit ratings

Personal deposits, collected through Financial Clinics and the Advisors and Brokers channel, constitute the most important source of financing for the Bank. The Bank also relies on the wholesale markets to obtain financing through securitization and unsecured financing. The Bank's capacity to obtain such financing, particularly with regard to wholesale funding, as well as the related conditions, are tied to the credit ratings set by rating agencies such as DBRS and Standard & Poor's Rating Services (S&P). Revisions of the Bank's credit ratings may therefore influence financing operations, as well as other collateral obligations.

Changes to credit ratings could also impact the Bank involvement with other operational banking arrangements.

The Bank monitors weekly the impact of a hypothetical downgrade of its credit rating on the collateral requirements. As at April 30, 2020, additional collateral that would be required in the event of a one-to-three-notch rating downgrade was not significant.

On April 29, 2020, Standard and Poor's (S&P) reaffirmed our BBB long-term and A-2 short-term issuer credit ratings, while maintaining the negative outlook[1].

On August 30, 2019, DBSR 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 [2].

The following table presents the Bank's credit ratings as established by the rating agencies.

| | DBRS | STANDARD & POOR'S |
|---|---|---|
| Deposits and senior debt | A (low) | BBB |
| Short-term instruments | R-1 (low) | A-2 |
| Non-Viability Contingent Capital (NVCC) Subordinated debt | BBB (low) | BB+ |
| NVCC Preferred shares | Pfd-3 | BB- |

(1) The S&P rating outlook assesses the potential direction of a long-term credit rating over the intermediate term (typically six months to two years). In determining a rating outlook, consideration is given to any changes in the economic and/or fundamental business conditions. An outlook is not necessarily a precursor of a rating change or future action. The S&P rating outlooks have the following meanings: "Positive" means that a rating may be raised; "Negative" means that a rating may be lowered; "Stable" means that a rating is not likely to change; "Developing" means a rating may be raised or lowered.

(2) Each DBRS rating category is appended with one of three rating trends —"Positive," "Stable," "Negative"— in addition to "Under Review." The rating trend helps to give investors an understanding of DBRS's opinion regarding the outlook for the rating in question. However, investors must not assume that a positive or negative trend necessarily indicates that a rating change is imminent.

## Contractual maturities of assets and liabilities

The following tables provide remaining contractual maturity profiles of assets and liabilities at their carrying value (e.g., amortized cost or fair value) as at the following balance sheet dates. Details of contractual maturities are a source of information for the management of liquidity risk.

### CONTRACTUAL MATURITIES OF ASSETS AND LIABILITIES

| (Thousands of Canadian dollars) | | | | | | | | | As at April 30, 2020 |
|---|---|---|---|---|---|---|---|---|---|
| | TERM | | | | | | | | |
| | 0 TO 3 MONTHS | OVER 3 MONTHS TO 6 MONTHS | OVER 6 MONTHS TO 9 MONTHS | OVER 9 MONTHS TO 12 MONTHS | OVER 1 YEAR TO 2 YEARS | OVER 2 YEARS TO 5 YEARS | OVER 5 YEARS | NO SPECIFIC MATURITY | TOTAL |
| **Assets** | | | | | | | | | |
| **Cash and non-interest bearing deposits with banks** | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ 80,704 | $ 80,704 |
| **Interest-bearing deposits with banks** | 327,158 | — | — | — | — | — | — | 103,941 | 431,099 |
| **Securities** | 513,942 | 479,106 | 75,824 | 453,196 | 953,799 | 2,775,427 | 1,084,887 | 320,900 | 6,657,081 |
| **Securities purchased under reverse repurchase agreements** | 2,294,334 | 164,389 | — | 273,085 | — | — | — | — | 2,731,807 |
| **Loans**[1] | | | | | | | | | |
| Personal loans | 19,263 | 16,016 | 15,562 | 14,402 | 92,394 | 147,346 | 16,111 | 4,015,931 | 4,337,025 |
| Residential mortgages | 1,222,703 | 1,233,689 | 1,164,156 | 1,050,254 | 3,767,823 | 7,280,822 | 36,081 | 89,694 | 15,845,223 |
| Commercial loans | 2,093,288 | 800,078 | 840,969 | 812,019 | 2,453,867 | 2,235,654 | 821,635 | 3,072,470 | 13,129,980 |
| Customers' liabilities under acceptances | 413,590 | | | | | | | | 413,590 |
| Allowances for loan losses | | — | — | — | — | — | — | (149,379) | (149,379) |
| | 3,748,844 | 2,049,783 | 2,020,687 | 1,876,675 | 6,314,084 | 9,663,822 | 873,827 | 7,028,716 | 33,576,439 |
| **Others** | 2,220 | 1,536 | 779 | 454 | 4,165 | 1,488 | 15 | 1,958,410 | 1,969,067 |
| **Total assets** | $ 6,886,498 | $2,694,814 | $2,097,290 | $2,603,410 | $7,272,048 | $12,440,737 | $1,958,729 | $9,492,671 | $45,446,197 |
| **Liabilities** | | | | | | | | | |
| **Personal deposits**[1] | $ 1,548,241 | $1,505,322 | $2,142,063 | $2,104,555 | $ 3,758,760 | $ 3,423,809 | $ 37,824 | $ 5,282,581 | $19,803,155 |
| **Business, Banks and other deposits**[1] | 319,162 | 138,631 | 187,427 | 170,149 | 243,304 | 49,112 | 1,011 | 1,712,298 | 2,821,094 |
| **Institutional deposits** | 224,038 | 348,000 | 4,000 | 512,909 | 522,790 | 1,068,280 | — | — | 2,680,017 |
| **Obligations related to securities sold short**[2] | 442,796 | 139,763 | 7,233 | 59,152 | 474,523 | 1,337,684 | 927,373 | 1,046 | 3,389,570 |
| **Obligations related to securities sold under repurchase agreements** | 799,515 | 632,822 | — | 1,096,428 | — | — | — | — | 2,528,765 |
| **Other Liabilities** | 413,590 | — | — | — | — | — | — | 1,608,474 | 2,022,064 |
| **Debt related to securitization activities**[3] | 530,737 | 309,935 | 561,543 | 385,490 | 2,033,697 | 4,389,762 | 949,619 | 116,940 | 9,277,723 |
| **Subordinated debt** | — | — | — | — | — | 349,270 | — | — | 349,270 |
| **Equity** | — | — | — | — | 125,000 | 125,000 | — | 2,324,539 | 2,574,539 |
| **Total liabilities and equity** | $ 4,278,079 | $3,074,473 | $2,902,266 | $4,328,683 | $ 7,158,074 | $10,742,917 | $ 1,915,827 | $ 11,045,878 | $45,446,197 |

(1) Amounts collectible on demand are considered to have no specific maturity.
(2) Amounts are disclosed according to the remaining contractual maturity of the underlying security.
(3) Personal loan securitization cash flows are based on a behavioral prepayment model.

(Thousands of Canadian dollars) — As at October 31, 2019

| | TERM | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 0 TO 3 MONTHS | OVER 3 MONTHS TO 6 MONTHS | OVER 6 MONTHS TO 9 MONTHS | OVER 9 MONTHS TO 12 MONTHS | OVER 1 YEAR TO 2 YEARS | OVER 2 YEARS TO 5 YEARS | OVER 5 YEARS | NO SPECIFIC MATURITY | TOTAL |
| **Assets** | | | | | | | | | |
| Cash and non-interest bearing deposits with banks | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ 90,658 | $ 90,658 |
| Interest-bearing deposits with banks | 252,325 | — | — | — | — | — | — | 70,572 | 322,897 |
| Securities | 818,057 | 754,946 | 410,771 | 122,511 | 672,955 | 2,031,415 | 1,091,422 | 397,859 | 6,299,936 |
| Securities purchased under reverse repurchase agreements | 2,538,285 | — | — | — | — | — | — | — | 2,538,285 |
| Loans[1] | | | | | | | | | |
| Personal loans | 16,433 | 14,320 | 18,025 | 11,124 | 76,995 | 190,406 | 18,368 | 4,314,853 | 4,660,524 |
| Residential mortgages | 987,578 | 1,027,376 | 1,309,644 | 1,189,747 | 3,974,066 | 7,421,955 | 36,266 | 93,048 | 16,039,680 |
| Commercial loans | 2,063,926 | 840,242 | 1,029,731 | 635,460 | 2,387,209 | 2,104,681 | 792,106 | 2,792,977 | 12,646,332 |
| Customers' liabilities under acceptances | 319,992 | — | — | — | — | — | — | — | 319,992 |
| Allowances for loan losses | — | — | — | — | — | — | — | (100,457) | (100,457) |
| | 3,387,929 | 1,881,938 | 2,357,400 | 1,836,331 | 6,438,270 | 9,717,042 | 846,740 | 7,100,421 | 33,566,071 |
| Others | 1,281 | 1,588 | 1,200 | 1,422 | 2,180 | 3,805 | 79 | 1,523,725 | 1,535,280 |
| **Total assets** | $6,997,877 | $2,638,472 | $2,769,371 | $1,960,264 | $7,113,405 | $11,752,262 | $1,938,241 | $9,183,235 | $44,353,127 |
| **Liabilities** | | | | | | | | | |
| Personal deposits[1] | $1,912,268 | $1,698,393 | $1,534,854 | $1,539,422 | $4,607,963 | $ 4,296,013 | $ 51,413 | $4,106,934 | $19,747,260 |
| Business, Banks and other deposits [1], [4] | 200,826 | 119,606 | 267,181 | 157,174 | 358,086 | 53,150 | 4,617 | 1,609,801 | $ 2,770,441 |
| Institutional deposits[4] | 833,043 | 147,000 | — | 300,000 | 818,673 | 1,036,187 | — | — | $ 3,134,903 |
| Obligations related to securities sold short[2] | 499,739 | 94,645 | 12,758 | 3,140 | 195,115 | 859,115 | 930,342 | 23,293 | $ 2,618,147 |
| Obligations related to securities sold under repurchase agreements | 2,558,883 | — | — | — | — | — | — | — | $ 2,558,883 |
| Other Liabilities | 319,992 | — | — | — | — | — | — | 1,373,406 | $ 1,693,398 |
| Debt related to securitization activities[3] | 600,757 | 262,850 | 559,041 | 314,816 | 2,079,666 | 4,336,901 | 741,821 | 17,481 | $ 8,913,333 |
| Subordinated debt | — | — | — | — | — | 350,000 | — | (899) | $ 349,101 |
| Equity | — | — | — | — | 125,000 | 125,000 | — | 2,317,661 | $ 2,567,661 |
| **Total liabilities and equity** | $6,925,508 | $2,322,494 | $2,373,834 | $2,314,552 | $8,184,503 | $11,056,366 | $1,728,193 | $9,447,677 | $44,353,127 |

(1) Amounts collectible on demand are considered to have no specific maturity.
(2) Amounts are disclosed according to the remaining contractual maturity of the underlying security.
(3) Personal loan securitization cash flows are based on a behavioral prepayment model.
(4) Comparative figures for Business, Banks and other deposits have been reclassified in order to conform with the presentation adopted in the current year.

## MARKET RISK

Market risk is the financial loss that the Bank could incur due to unfavourable fluctuations in the value of financial instruments as a result of 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 interest rate risk is intended to maximize the Bank's profitability while preserving the economic value of common shareholders' equity.

The table below provides a measure of the sensitivity to changes in interest rates of the Bank as at April 30, 2020. As presented, 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 April 30 2020** | | As at October 31 2019 |
|---|---|---|---|---|
| **Effect of a 1% increase in interest rates** | | | | |
| Increase in net interest income before taxes over the next 12 months | **$** | **16,929** | $ | 3,877 |
| Decrease in the economic value of common shareholders' equity (net of income taxes) | **$** | **(34,937)** | $ | (49,524) |

## OPERATIONAL RISK

In order to ensure the Bank's operational resilience during the pandemic and implement the recommended actions prescribed by health authorities, the Bank set in motion its crisis management protocol. Business continuity plans were activated to use our alternate site strategy for critical functions and a significant ramp up in remote access to allow more of our workforce to work from home. Senior executives frequently convene to assess the impact of the crisis on the Bank and ensure that necessary actions are promptly initiated.

The large-scale migration of employees to a remote-work environment may potentially increase our risk posture around information security, fraud and technology risks. In addition, key operational dependencies with third parties are further magnified in this environment due to reliance on the effectiveness of their respective continuity plans. The Operational Risk Management Framework is being used to oversee and monitor these key risks along through the governance processes in place through our various internal committees.

## REPUTATIONAL RISK

Implementation of the recommended actions, most notably the social distancing requirement, has led the bank to review all its contact points between staff members and with customers and adjust its related business processes. Combined with the simultaneous increase in customers' needs during this difficult period, these adjustments may have an impact on the customer experience.

# ADDITIONAL FINANCIAL INFORMATION - QUARTERLY RESULTS

| In thousands of Canadian dollars, except per share and percentage amounts (Unaudited) | **April 30 2020** | January 31 2020 | October 31 2019 | July 31 2019 | April 30 2019 | January 31 2019 | October 31 2018 | July 31 2018 |
|---|---|---|---|---|---|---|---|---|
| Net interest income | **$ 170,747** | $ 168,785 | $ 173,205 | $ 176,042 | $ 164,564 | $ 172,600 | $ 173,152 | $ 177,013 |
| Other income | **69,401** | 69,928 | 68,433 | 68,611 | 75,317 | 69,738 | 82,705 | 83,651 |
| Total revenue | **240,148** | 238,713 | 241,638 | 244,653 | 239,881 | 242,338 | 255,857 | 260,664 |
| Amortization of net premium on purchased financial instruments | **179** | 232 | 284 | 336 | 390 | 442 | 495 | 547 |
| Provision for credit losses | **54,900** | 14,900 | 12,600 | 12,100 | 9,200 | 10,500 | 17,600 | 4,900 |
| Non-interest expenses | **183,516** | 188,902 | 180,828 | 177,858 | 183,131 | 184,676 | 176,437 | 187,245 |
| Income before income taxes | **1,553** | 34,679 | 47,926 | 54,359 | 47,160 | 46,720 | 61,325 | 67,972 |
| Income taxes | **(7,332)** | 2,507 | 6,583 | 6,561 | 3,847 | 6,464 | 10,524 | 13,069 |
| Net income | **$ 8,885** | $ 32,172 | $ 41,343 | $ 47,798 | $ 43,313 | $ 40,256 | $ 50,801 | $ 54,903 |
| Earnings per share | | | | | | | | |
| Basic | **$ 0.13** | $ 0.68 | $ 0.90 | $ 1.05 | $ 0.95 | $ 0.88 | $ 1.13 | $ 1.23 |
| Diluted | **$ 0.13** | $ 0.68 | $ 0.90 | $ 1.05 | $ 0.95 | $ 0.88 | $ 1.13 | $ 1.23 |

# CORPORATE GOVERNANCE AND CHANGES TO INTERNAL CONTROL OVER FINANCIAL REPORTING

During the second quarter ended April 30, 2020, there have been no changes to internal control over financial reporting that affected materially, or are reasonably likely to materially affect ICFR.

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

# ACCOUNTING POLICIES AND ESTIMATES

The significant accounting policies followed by the Bank are outlined in Notes 2 and 3 of the 2019 Annual Consolidated Financial Statements. The Condensed Interim Consolidated Financial Statements for the second quarter ended April 30, 2020 have been prepared in accordance with these accounting policies, except for the changes described in Note 3 to the Condensed Interim Consolidated Financial Statements, which have been applied since November 1, 2019 following the Bank's adoption of IFRS 16, *Leases* and amendments to IFRS 9, IAS 39 and IFRS 7 in respect of the IBOR Reform.

Some of these accounting policies are deemed critical as they require management to apply judgment in order to make particularly significant estimates that, by their very nature, involve uncertainties. Changes in these estimates could materially affect the Bank's Consolidated Financial Statements. Refer to the section "Critical Accounting Policies and Estimations" of our 2019 Annual Report, as well as to Notes 2 and 3 of the Condensed Interim Consolidated Financial Statements for additional information.

### Use of estimates and judgment

The preparation of financial information requires the use of estimates and judgments about future conditions. The global pandemic related to an outbreak of COVID-19 has amplified uncertainty on the assumptions used by management in making its judgments and estimates. The full extent of the impact that COVID-19, including government and/or regulatory responses to the outbreak, will have on the Canadian economy and the Bank's business is highly uncertain and difficult to predict at this time. Accordingly, there is a higher level of uncertainty with respect to management's judgments and estimates.

In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items listed below, it is possible that the outcomes in future reporting periods could differ from those on which management's estimates are based. This could result in materially different estimates and judgments from those reached by management for the purposes of the consolidated financial statements. Management's selection of the Bank's accounting policies which contain critical estimates and judgments are listed below and are described further in the 'Critical accounting estimates and judgments' section of Management's Discussion and Analysis of the bank's Annual Report and Accounts 2019. It reflects the materiality of the items to which the policies are applied and the high degree of judgment and estimation uncertainty involved.

- Allowances for credit losses;
- Goodwill and other intangible assets
- Post-employment benefits;
- Income taxes; and
- Provisions and contingent liabilities.

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.

*Allowances for credit losses*
The allowance for credit losses is sensitive to the inputs used in models including macroeconomic variables used in the forward-looking scenarios and their respective weights. As the magnitude of the COVID-19, including government and/or regulatory responses to the outbreak, on the U.S. and Canadian economies remains highly uncertain, it is difficult to predict whether the increase in expected credit losses will materialize into a significant level of write-offs and whether the Bank will recognize additional increases in expected credit losses in subsequent periods. Refer to Note 7 for further information.

*Goodwill and other intangible assets*
As a result of the deterioration in economic conditions caused by the spread of the COVID-19 pandemic and the related changes to the interest rate environment, we determined that it was possible that goodwill and other intangible assets might be impaired. Based on this analysis, we determined that an interim impairment test should be performed as at February 29, 2020. The impairment test leveraged our 2019 annual impairment test and further took into account our assessment of the COVID-19 impact. Projections were reviewed by senior management in connection with the preparation of our second quarter financial statements and it was determined that they represented our current best estimate of future profitability. We performed our interim impairment test using the present value of revised cash flow projections and, based on our updated impairment test, we concluded that the estimated recoverable amounts of all our cash generating units exceeded their carrying value, including goodwill and other intangible assets.

Refer to Notes 9, 10, 11 and 33 to the Annual Consolidated Financial Statements for the year ended October 31, 2019 for additional information.

*Other Judgments and Estimates*
Other key areas where management has applied judgement and made estimates include post-employment benefits, Income taxes and provisions and contingent liabilities. The magnitude, duration and outcome of the outbreak are uncertain and could have a material and adverse effect on those estimates.

## FUTURE CHANGES TO ACCOUNTING POLICIES

Except for the adoption of IFRS 16 as at November 1, 2019, and the ongoing process related to the Phase two of the IASB's work to respond to the IBOR reform, as noted in Note 4 to the Condensed Interim Consolidated Financial Statements, there have been no significant updates to the future accounting changes disclosed in Note 4 of the 2019 Annual Consolidated Financial Statements and in the section "Future Accounting Changes" of our 2019 Annual Report.

LAURENTIAN BANK
FINANCIAL GROUP

# CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**As at and for the period ended April 30, 2020**

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# CONSOLIDATED BALANCE SHEET(1)

| In thousands of Canadian dollars (Unaudited) | Notes | As at April 30 2020 | As at October 31 2019 |
|---|---|---|---|
| **Assets** | | | |
| **Cash and non-interest bearing deposits with banks** | | $ 80,704 | $ 90,658 |
| **Interest bearing deposits with banks** | | 431,099 | 322,897 |
| **Securities** | 6 | | |
| At amortized cost | | 2,636,833 | 2,744,929 |
| At fair value through profit or loss (FVTPL) | | 3,710,581 | 3,242,146 |
| At fair value through other comprehensive income (FVOCI) | | 309,667 | 312,861 |
| | | 6,657,081 | 6,299,936 |
| **Securities purchased under reverse repurchase agreements** | | 2,731,807 | 2,538,285 |
| **Loans** | 7 and 8 | | |
| Personal | | 4,337,025 | 4,660,524 |
| Residential mortgage | | 15,845,223 | 16,039,680 |
| Commercial | | 13,129,980 | 12,646,332 |
| Customers' liabilities under acceptances | | 413,590 | 319,992 |
| | | 33,725,818 | 33,666,528 |
| Allowances for loan losses | | (149,379) | (100,457) |
| | | 33,576,439 | 33,566,071 |
| **Other** | | | |
| Derivatives | | 402,526 | 143,816 |
| Premises and equipment | | 80,399 | 77,802 |
| Right-of-use assets | 5 | 131,798 | n/a |
| Software and other intangible assets | | 392,554 | 391,162 |
| Goodwill | | 119,836 | 116,649 |
| Deferred tax assets | | 53,802 | 37,045 |
| Other assets | | 788,152 | 768,806 |
| | | 1,969,067 | 1,535,280 |
| | | $ 45,446,197 | $ 44,353,127 |
| **Liabilities and shareholders' equity** | | | |
| **Deposits** | | | |
| Personal | | $ 19,803,155 | $ 19,747,260 |
| Business, banks and other | | 5,501,111 | 5,905,344 |
| | | 25,304,266 | 25,652,604 |
| **Other** | | | |
| Obligations related to securities sold short | | 3,389,570 | 2,618,147 |
| Obligations related to securities sold under repurchase agreements | | 2,528,765 | 2,558,883 |
| Acceptances | | 413,590 | 319,992 |
| Derivatives | | 272,031 | 112,737 |
| Lease liabilities | 5 | 166,193 | n/a |
| Deferred tax liabilities | | 60,923 | 53,102 |
| Other liabilities | | 1,109,327 | 1,207,567 |
| | | 7,940,399 | 6,870,428 |
| **Debt related to securitization activities** | 8 | 9,277,723 | 8,913,333 |
| **Subordinated debt** | | 349,270 | 349,101 |
| **Shareholders' equity** | | | |
| Preferred shares | 9 | 244,038 | 244,038 |
| Common shares | 9 | 1,150,134 | 1,139,193 |
| Retained earnings | | 1,100,627 | 1,161,668 |
| Accumulated other comprehensive income | | 76,782 | 20,947 |
| Share-based compensation reserve | 10 | 2,958 | 1,815 |
| | | 2,574,539 | 2,567,661 |
| | | $ 45,446,197 | $ 44,353,127 |

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

(1) The Consolidated Balance Sheet as at April 30, 2020 reflects the adoption of the IFRS 16, *Leases*, new accounting standard as at November 1, 2019. Refer to Notes 2, 3 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 April 30 2020 | January 31 2020 | April 30 2019 | For the six months ended April 30 2020 | April 30 2019 |
|---|---|---|---|---|---|---|
| **Interest and dividend income** | 14 | | | | | |
| Loans | | **$ 335,547** | $ 354,621 | $ 352,775 | **$ 690,168** | $ 714,313 |
| Securities | | **16,210** | 17,696 | 19,877 | **33,906** | 39,357 |
| Deposits with banks | | **1,532** | 2,329 | 2,216 | **3,861** | 4,337 |
| Other, including derivatives | | **10,959** | 4,909 | 6,910 | **15,868** | 17,346 |
| | | **364,248** | 379,555 | 381,778 | **743,803** | 775,353 |
| **Interest expense** | | | | | | |
| Deposits | | **140,534** | 153,845 | 160,339 | **294,379** | 318,835 |
| Debt related to securitization activities | | **45,791** | 47,697 | 41,514 | **93,488** | 83,923 |
| Subordinated debt | | **3,742** | 3,831 | 3,709 | **7,573** | 7,544 |
| Other, including derivatives and interest on lease liabilities | | **3,434** | 5,397 | 11,652 | **8,831** | 27,887 |
| | | **193,501** | 210,770 | 217,214 | **404,271** | 438,189 |
| **Net interest income** | | **170,747** | 168,785 | 164,564 | **339,532** | 337,164 |
| **Other income** | | | | | | |
| Lending fees | | **14,801** | 15,294 | 14,749 | **30,095** | 29,330 |
| Service charges | | **8,478** | 9,327 | 10,408 | **17,805** | 20,951 |
| Card service revenues | | **6,723** | 8,551 | 8,438 | **15,274** | 17,032 |
| Commissions from sales of mutual funds | | **10,202** | 10,934 | 10,726 | **21,136** | 21,437 |
| Fees and securities brokerage commissions | | **12,226** | 10,600 | 11,622 | **22,826** | 21,643 |
| Income (loss) from financial instruments | | **6,935** | 4,806 | 7,825 | **11,741** | 11,134 |
| Fees on investment accounts | | **4,583** | 4,261 | 4,657 | **8,844** | 9,260 |
| Insurance income, net | | **2,087** | 3,062 | 3,702 | **5,149** | 7,337 |
| Other | | **3,366** | 3,093 | 3,190 | **6,459** | 6,931 |
| | | **69,401** | 69,928 | 75,317 | **139,329** | 145,055 |
| **Total revenue** | | **240,148** | 238,713 | 239,881 | **478,861** | 482,219 |
| **Amortization of net premium on purchased financial instruments** | | **179** | 232 | 390 | **411** | 832 |
| **Provision for credit losses** | 7 | **54,900** | 14,900 | 9,200 | **69,800** | 19,700 |
| **Non-interest expenses** | | | | | | |
| Salaries and employee benefits | 10, 11 | **93,972** | 95,269 | 90,474 | **189,241** | 182,563 |
| Premises and technology | | **50,722** | 49,767 | 50,583 | **100,489** | 99,629 |
| Other | | **38,496** | 41,132 | 38,634 | **79,628** | 80,169 |
| Restructuring charges | 16 | **326** | 2,734 | 3,440 | **3,060** | 5,446 |
| | | **183,516** | 188,902 | 183,131 | **372,418** | 367,807 |
| **Income before income taxes** | | **1,553** | 34,679 | 47,160 | **36,232** | 93,880 |
| Income taxes | | **(7,332)** | 2,507 | 3,847 | **(4,825)** | 10,311 |
| **Net income** | | **$ 8,885** | $ 32,172 | $ 43,313 | **$ 41,057** | $ 83,569 |
| Preferred share dividends, including applicable taxes | | **3,197** | 3,197 | 3,256 | **6,394** | 6,513 |
| **Net income available to common shareholders** | | **$ 5,688** | $ 28,975 | $ 40,057 | **$ 34,663** | $ 77,056 |
| **Weighted-average number of common shares outstanding (in thousands)** | | | | | | |
| Basic | | **42,812** | 42,666 | 42,235 | **42,738** | 42,173 |
| Diluted | | **42,812** | 42,740 | 42,274 | **42,775** | 42,202 |
| **Earnings per share** | 12 | | | | | |
| Basic | | **$ 0.13** | $ 0.68 | $ 0.95 | **$ 0.81** | $ 1.83 |
| Diluted | | **$ 0.13** | $ 0.68 | $ 0.95 | **$ 0.81** | $ 1.83 |
| **Dividends declared per share** | | | | | | |
| Common share | | **$ 0.67** | $ 0.67 | $ 0.65 | **$ 1.34** | $ 1.30 |
| Preferred share - Series 13 | | **$ 0.26** | $ 0.26 | $ 0.27 | **$ 0.52** | $ 0.54 |
| Preferred share - Series 15 | | **$ 0.37** | $ 0.37 | $ 0.37 | **$ 0.73** | $ 0.73 |

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

(1) The Consolidated Statement of Income for the period ended April 30, 2020 reflects the adoption of the IFRS 16, *Leases*, new accounting standard as at November 1, 2019. Refer to Notes 2 , 3 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 April 30 2020 | January 31 2020 | April 30 2019 | For the six months ended April 30 2020 | April 30 2019 |
|---|---|---|---|---|---|
| **Net income** | **$ 8,885** | $ 32,172 | $ 43,313 | **$ 41,057** | $ 83,569 |
| **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 | **919** | (17) | 1,129 | **902** | 2,165 |
| Reclassification of net (gains) losses on debt securities at FVOCI to net income | **(17)** | 24 | (32) | **7** | (101) |
| | **902** | 7 | 1,097 | **909** | 2,064 |
| Net change in value of derivatives designated as cash flow hedges | **31,756** | 2,242 | 11,347 | **33,998** | 35,331 |
| Net foreign currency translation adjustments | | | | | |
| Net unrealized foreign currency translation gains on investments in foreign operations | **23,860** | 2,419 | 7,847 | **26,279** | 6,884 |
| Net gains (losses) on hedges of investments in foreign operations | **(5,498)** | 147 | (4,444) | **(5,351)** | (6,354) |
| | **18,362** | 2,566 | 3,403 | **20,928** | 530 |
| | **51,020** | 4,815 | 15,847 | **55,835** | 37,925 |
| Items that may not subsequently be reclassified to the Statement of Income | | | | | |
| Remeasurement gains (losses) on employee benefit plans | **(8,674)** | (2,904) | 5,156 | **(11,578)** | 3,125 |
| Net gains (losses) on equity securities designated at FVOCI | **(24,425)** | 4,758 | 1,552 | **(19,667)** | (11,731) |
| | **(33,099)** | 1,854 | 6,708 | **(31,245)** | (8,606) |
| Total other comprehensive income, net of income taxes | **17,921** | 6,669 | 22,555 | **24,590** | 29,319 |
| **Comprehensive income** | **$ 26,806** | $ 38,841 | $ 65,868 | **$ 65,647** | $ 112,888 |

## INCOME TAXES — OTHER COMPREHENSIVE INCOME

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

| In thousands of Canadian dollars (Unaudited) | For the three months ended April 30 2020 | January 31 2020 | April 30 2019 | For the six months ended April 30 2020 | April 30 2019 |
|---|---|---|---|---|---|
| Net change in debt securities at FVOCI | | | | | |
| Unrealized net gains (losses) on debt securities at FVOCI | **$ 331** | $ (6) | $ 170 | **$ 325** | $ 748 |
| Reclassification of net (gains) losses on debt securities at FVOCI to net income | **(6)** | 9 | — | **3** | — |
| | **325** | 3 | 170 | **328** | 748 |
| Net change in value of derivatives designated as cash flow hedges | **11,453** | 808 | 4,103 | **12,261** | 12,776 |
| Net foreign currency translation adjustments | | | | | |
| Net gains (losses) on hedges of investments in foreign operations | **102** | — | 156 | **102** | 156 |
| Remeasurement gains (losses) on employee benefit plans | **(3,128)** | (1,047) | 1,868 | **(4,175)** | 1,132 |
| Net gains (losses) on equity securities designated at FVOCI | **(8,813)** | $ 1,717 | $ 563 | **(7,096)** | $ (4,255) |
| | **$ (61)** | $ 1,481 | $ 6,860 | **$ 1,420** | $ 10,557 |

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

(1) The Consolidated Statement of Comprehensive Income for the period ended April 30, 2020 reflects the adoption of the IFRS 16, *Leases*, new accounting standard as at November 1, 2019. Refer to Notes 2, 3 and 5 for further information. The comparative information has not been restated.

# CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY[1]

For the six months ended April 30

| In thousands of Canadian dollars (Unaudited) | Preferred shares (Note 9) | Common shares (Note 9) | Retained earnings | Accumulated Other Comprehensive Income: Debt securities at FVOCI | Cash flow hedges | Translation of foreign operations | Total | Share-based compensation reserve (Note 10) | Total shareholders' equity |
|---|---|---|---|---|---|---|---|---|---|
| Balance as at October 31, 2019 | $ 244,038 | $ 1,139,193 | $ 1,161,668 | $ 328 | $ 21,049 | $ (430) | $ 20,947 | $ 1,815 | $ 2,567,661 |
| Impact of adoption of IFRS 16, Leases (Notes 2 and 5) | | | (7,256) | | | | | | (7,256) |
| Balance as at November 1, 2019 | 244,038 | 1,139,193 | 1,154,412 | 328 | 21,049 | (430) | 20,947 | 1,815 | 2,560,405 |
| Net income | | | 41,057 | | | | | | 41,057 |
| Other comprehensive income (net of income taxes) | | | | | | | | | |
| Unrealized net gains (losses) on debt securities at FVOCI | | | | 902 | | | 902 | | 902 |
| Reclassification of net (gains) losses on debt securities at FVOCI to net income | | | | 7 | | | 7 | | 7 |
| Net change in value of derivatives designated as cash flow hedges | | | | | 33,998 | | 33,998 | | 33,998 |
| Net unrealized foreign currency translation gains (losses) on investments in foreign operations | | | | | | 26,279 | 26,279 | | 26,279 |
| Net gains (losses) on hedges of investments in foreign operations | | | | | | (5,351) | (5,351) | | (5,351) |
| Remeasurement of gains (losses) on employee benefit plans | | | (11,578) | | | | | | (11,578) |
| Net gains (losses) on equity securities designated at FVOCI | | | (19,667) | | | | | | (19,667) |
| Comprehensive income | | | 9,812 | 909 | 33,998 | 20,928 | 55,835 | | 65,647 |
| Issuance of share capital | | 10,941 | | | | | | | 10,941 |
| Share-based compensation | | | | | | | | 1,143 | 1,143 |
| Dividends | | | | | | | | | |
| Preferred shares, including applicable taxes | | | (6,394) | | | | | | (6,394) |
| Common shares | | | (57,203) | | | | | | (57,203) |
| Balance as at April 30, 2020 | $ 244,038 | $ 1,150,134 | $ 1,100,627 | $ 1,237 | $ 55,047 | $ 20,498 | $ 76,782 | $ 2,958 | $ 2,574,539 |

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

(1) The Consolidated Statement of Changes in Shareholders' Equity for the period ended April 30, 2020 reflects the adoption of the IFRS 16, *Leases*, new accounting standard as at November 1, 2019. Refer to Notes 2, 3 and 5 for further information. The comparative information has not been restated.

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

For the six months ended April 30

| In thousands of Canadian dollars (Unaudited) | Preferred shares (Note 9) | Common shares (Note 9) | Retained earnings | Accumulated other comprehensive income: Debt securities at FVOCI | Cash flow hedges | Translation of foreign operations | Total | Share-based compensation reserve (Note 10) | Total shareholders' equity |
|---|---|---|---|---|---|---|---|---|---|
| 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 | | | 83,569 | | | | | | 83,569 |
| Other comprehensive income (net of income taxes) | | | | | | | | | |
| Unrealized net gains (losses) on debt securities at FVOCI | | | | 2,165 | | | 2,165 | | 2,165 |
| Reclassification of net (gains) losses on debt securities at FVOCI to net income | | | | (101) | | | (101) | | (101) |
| Net change in value of derivatives designated as cash flow hedges | | | | | 35,331 | | 35,331 | | 35,331 |
| Net unrealized foreign currency translation (gains) losses on investments in foreign operations | | | | | | 6,884 | 6,884 | | 6,884 |
| Net gains (losses) on hedges of investments in foreign operations | | | | | | (6,354) | (6,354) | | (6,354) |
| Remeasurement gains (losses) on employee benefit plans | | | 3,125 | | | | | | 3,125 |
| Net gains (losses) on equity securities designated at FVOCI | | | (11,731) | | | | | | (11,731) |
| Comprehensive income | | | 74,963 | 2,064 | 35,331 | 530 | 37,925 | | 112,888 |
| Issuance of share capital | | 10,393 | | | | | | | 10,393 |
| Share-based compensation | | | | | | | | 907 | 907 |
| Dividends | | | | | | | | | |
| Preferred shares, including applicable taxes | | | (6,513) | | | | | | (6,513) |
| Common shares | | | (54,775) | | | | | | (54,775) |
| Balance as at April 30, 2019 | $ 244,038 | $ 1,125,809 | $ 1,152,058 | $ 443 | $ 23,087 | $ 4,813 | $ 28,343 | $ 1,175 | $ 2,551,423 |

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

# CONSOLIDATED STATEMENT OF CASH FLOWS[1]

| | | For the three months ended | | | For the six months ended | |
|---|---|---|---|---|---|---|
| In thousands of Canadian dollars (Unaudited) | Notes | **April 30 2020** | January 31 2020 | April 30 2019 | **April 30 2020** | April 30 2019 |
| **Cash flows relating to operating activities** | | | | | | |
| Net income | | **$ 8,885** | $ 32,172 | $ 43,313 | **$ 41,057** | $ 83,569 |
| Adjustments to determine net cash flows relating to operating activities: | | | | | | |
| Provision for credit losses | 7 | **54,900** | 14,900 | 9,200 | **69,800** | 19,700 |
| Deferred income taxes | | **(12,900)** | (293) | (2,572) | **(13,193)** | (3,967) |
| Depreciation of premises and equipment | | **1,954** | 1,853 | 1,770 | **3,807** | 3,533 |
| Depreciation of right-of-use-assets | | **3,963** | n/a | n/a | **8,001** | n/a |
| Amortization of software and other intangible assets | | **10,364** | 10,087 | 10,264 | **20,451** | 19,737 |
| Change in operating assets and liabilities: | | | | | | |
| Loans | | **(206,677)** | 128,783 | (22,029) | **(77,894)** | 163,340 |
| Acceptances | | **141,079** | (47,481) | (3,209) | **93,598** | (26,575) |
| Securities at FVTPL | | **(993,032)** | 524,597 | (207,133) | **(468,435)** | (43,827) |
| Securities purchased under reverse repurchase agreements | | **440,090** | (633,612) | 495,948 | **(193,522)** | 803,095 |
| Accrued interest receivable | | **(22,903)** | 22,657 | (23,415) | **(246)** | (24,443) |
| Derivative assets | | **(261,365)** | 2,655 | (9,637) | **(258,710)** | (40,179) |
| Deposits | | **103,313** | (451,651) | (1,137,345) | **(348,338)** | (927,375) |
| Obligations related to securities sold short | | **(43,476)** | 814,899 | (928,769) | **771,423** | (839,830) |
| Obligations related to securities sold under repurchase agreements | | **405,278** | (435,396) | 975,274 | **(30,118)** | 670,290 |
| Accrued interest payable | | **11,228** | (24,236) | 20,757 | **(13,008)** | (6,822) |
| Derivative liabilities | | **142,996** | 16,298 | (22,091) | **159,294** | (140,662) |
| Debt related to securitization activities | | **350,747** | 13,643 | 520,203 | **364,390** | 71,730 |
| Other, net | | **(77,151)** | 57,228 | 78,324 | **(19,923)** | 65,505 |
| | | **57,293** | 51,141 | (201,147) | **108,434** | (153,181) |
| **Cash flows relating to financing activities** | | | | | | |
| Net proceeds from issuance of common shares | 9 | **(9)** | 20 | (3) | **11** | (7) |
| Dividends | | **(26,002)** | (47,402) | (25,584) | **(73,404)** | (52,421) |
| | | **(26,011)** | (47,382) | (25,587) | **(73,393)** | (52,428) |
| **Cash flows relating to investing activities** | | | | | | |
| Change in securities at amortized cost | | | | | | |
| Acquisitions | | **(533,867)** | (733,085) | (688,738) | **(1,266,952)** | (1,647,614) |
| Proceeds on sale and at maturity | | **355,068** | 1,019,973 | 704,086 | **1,375,041** | 1,709,670 |
| Change in securities at FVOCI | | | | | | |
| Acquisitions | | **(76,064)** | (84,732) | (90,682) | **(160,796)** | (329,510) |
| Proceeds on sale and at maturity | | **48,627** | 89,999 | 108,217 | **138,626** | 307,070 |
| Proceeds on sale of commercial loan portfolios | 7 | **—** | — | — | **—** | 105,366 |
| Additions to premises and equipment and software and other intangible assets | | **(15,461)** | (16,139) | (19,756) | **(31,600)** | (37,751) |
| Change in interest bearing deposits with banks | | **183,046** | (291,248) | 204,172 | **(108,202)** | 80,947 |
| | | **(38,651)** | (15,232) | 217,299 | **(53,883)** | 188,178 |
| Effect of exchange rate changes on cash and non-interest-bearing deposits with other banks | | **8,800** | 88 | 1,160 | **8,888** | 805 |
| Net change in cash and non-interest bearing deposits with banks | | **1,431** | (11,385) | (8,275) | **(9,954)** | (16,626) |
| Cash and non-interest bearing deposits with banks at beginning of period | | **79,273** | 90,658 | 108,139 | **90,658** | 116,490 |
| **Cash and non-interest bearing deposits with banks at end of period** | | **$ 80,704** | $ 79,273 | $ 99,864 | **$ 80,704** | $ 99,864 |
| **Supplemental disclosure about cash flows relating to operating activities:** | | | | | | |
| Interest paid during the period | | **$ 185,748** | $ 237,003 | $ 196,443 | **$ 422,751** | $ 437,371 |
| Interest received during the period | | **$ 331,378** | $ 400,439 | $ 356,987 | **$ 731,817** | $ 740,721 |
| Dividends received during the period | | **$ 4,081** | $ 3,855 | $ 3,897 | **$ 7,936** | $ 7,344 |
| Income taxes paid (received) during the period | | **$ 1,927** | $ 5,071 | $ 19,722 | **$ 6,998** | $ 38,901 |

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

(1) The Consolidated Statement of Cash Flows for the six months ended April 30, 2020 reflects the adoption of the IFRS 16, *Leases*, new accounting standard as at November 1, 2019. Refer to Notes 2, 3 and 5 for further information. The comparative information has not been restated.

# NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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 personal, business and institutional customers. The Bank operates across Canada primarily 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, with a registered office in Toronto. The Bank's common shares (stock symbol: LB) are listed on the Toronto Stock Exchange.

The Condensed Interim Consolidated Financial Statements for the period ended April 30, 2020 were approved for issuance by the Board of Directors on May 28, 2020.

## 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 Annual Consolidated Financial Statements for the year ended October 31, 2019 prepared in accordance with IFRS. The accounting policies described in Note 3 to the 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, 2019 following the Bank's adoption of IFRS 16, *Leases* (IFRS 16) and amendments to IFRS 9, *Financial instruments* (IFRS 9), IAS 39, *Financial instruments: recognition and measurement* (IAS 39) and IFRS 7, *Financial instruments: disclosures* (IFRS 7) in respect of the IBOR Reform. Note 5 to these consolidated financial statements shows the impacts of the adoption of new accounting standards as at November 1, 2019. As permitted by IFRS 16, the Bank did not restate comparative amounts for prior periods.

### 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 Annual Consolidated Financial Statements for the year ended October 31, 2019. New estimates about determining the lease term of contracts with renewal options have been applied since November 1, 2019 following the Bank's adoption of IFRS 16 and are further described in Note 5 to these consolidated financial statements.

The preparation of financial information also requires the use of estimates and judgments about future conditions. The global pandemic related to an outbreak of COVID-19 has amplified uncertainty on the assumptions used by management in making its judgments and estimates. The full extent of the impact that COVID-19, including government and/or regulatory responses to the outbreak, will have on the Canadian and U.S. economies and the Bank's business is highly uncertain and difficult to predict at this time. Accordingly, there is a higher level of uncertainty with respect to management's judgments and estimates.

In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items listed below, it is possible that the outcomes in future reporting periods could differ from those on which management's estimates are based. This could result in materially different estimates and judgments from those reached by management for the purposes of the consolidated financial statements. Management's selection of the Bank's accounting policies which contain critical estimates and judgments are listed below and are described further in the 'Use of estimates and assumptions' and 'Significant judgments' sections of the Annual Consolidated Financial Statements for the year ended October 31, 2019. It reflects the materiality of the items to which the policies are applied and the high degree of judgment and estimation uncertainty involved.

- Allowances for credit losses;
- Goodwill and other intangible assets
- Post-employment benefits;
- Income taxes; and
- Provisions and contingent liabilities.

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.

## 2. BASIS OF PRESENTATION (CONT'D)

*Allowances for credit losses*
The allowance for credit losses is sensitive to the inputs used in models including macroeconomic variables used in the forward-looking scenarios and their respective weights. As the magnitude of the COVID-19, including government and/or regulatory responses to the outbreak, on the U.S. and Canadian economies remains highly uncertain, it is difficult to predict whether the increase in expected credit losses will materialize into a significant level of write-offs and whether the Bank will recognize additional increases in expected credit losses in subsequent periods. Refer to Note 7 for further information.

*Goodwill and other intangible assets*
As a result of the deterioration in economic conditions caused by the spread of the COVID-19 pandemic and the related changes to the interest rate environment, we determined that it was possible that goodwill and other intangible assets might be impaired. Based on this analysis, we determined that an interim impairment test should be performed as at February 29, 2020. The impairment test leveraged our 2019 annual impairment test and further took into account our assessment of the COVID-19 impact. Projections were reviewed by senior management in connection with the preparation of our second quarter financial statements and it was determined that they represented our current best estimate of future profitability. We performed our interim impairment test using the present value of revised cash flow projections and, based on our updated impairment test, we concluded that the estimated recoverable amounts of all our cash generating units exceeded their carrying value, including goodwill and other intangible assets.

Refer to Notes 9, 10, 11 and 33 to the Annual Consolidated Financial Statements for the year ended October 31, 2019 for additional information.

*Other Judgments and Estimates*
Other key areas where management has applied judgement and made estimates include post-employment benefits, Income taxes as well as provisions and contingent liabilities. The magnitude, duration and outcome of the outbreak are uncertain and could have a material and adverse effect on those estimates.

## 3. CURRENT ACCOUNTING POLICY CHANGES

The accounting policies hereafter have been applied as at November 1, 2019 following the adoption of IFRS 16 and amendments to IFRS 9, IAS 39 and IFRS 7 in respect of the IBOR Reform.

### 3.1 LEASES

On November 1, 2019, the Bank adopted IFRS 16, *Leases* which replaces, IAS 17, *Leases*, and related interpretations. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases. The Bank adopted IFRS 16 using the modified retrospective approach, under which the cumulative effect of the adoption was recognized in opening Retained Earnings as at November 1, 2019. The comparative information was not restated and continues to be reported under IAS 17, Leases and related interpretations.

Under IFRS 16, a lease is a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For the lessor, the standard does not provide for any significant changes. Therefore, there was no impact on the Bank for leases where it is the lessor.

For leases previously classified as operating leases, as a lessee, the Bank elected to apply the following transitional expedients as at November 1, 2019 :

- Contracts existing as at November 1, 2019 and ending during fiscal 2020 will be recognized as lease expense (short term leases).
- Low value leases will be recognized as lease expense.
- Use of hindsight to determine lease term.

a) Policy applicable from November 1, 2019

On the lease commencement date, a right-of-use asset and a lease liability are recognized. The right-of-use asset is initially measured at cost, which corresponds to the value of the lease liability adjusted for any lease payment made at or before the commencement date, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method over the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Bank's incremental borrowing rate for a similar asset. Lease payments included in the measurement of the lease liability comprise fixed payments, reduced by any incentive receivables, and exclude operational costs and variable lease payments. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

Short-term leases are leases with a lease term of 12 months or less. For short-term leases and leases of low-value assets, we record the lease payments as an operating expense on a straight-line basis over the lease term.

The Bank presents right-of-use assets in Other assets and lease liabilities in Other liabilities in the Consolidated Balance Sheet. The interest expense is presented under Interest expense and the depreciation is presented in Non-interest expenses in the Consolidated Statement of Income.

b) Policy applicable before November 1, 2019

Leases which did not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items were operating leases. Payments made under operating leases were recognized on a straight-line basis over the lease term and reported in Non-interest expenses under Premises and technology.

### 3.2 IBOR REFORM (Amendments to IFRS 9, IAS 39 and IFRS 7)

As a result of the effects of Interbank Offered Rates (IBOR) reform, on September 26, 2019, the IASB issued Interest Rate Benchmark Reform, Amendments to IFRS 9, IAS 39, and IFRS 7, of which the Bank adopted the applicable amendments relating to hedge accounting. The amendments provide temporary exceptions from applying specific hedge accounting requirements to all hedging relationships directly affected by interest rate benchmark reform. Under the amendments, entities would apply hedge accounting requirements assuming that the interest rate benchmark is not altered, thereby enabling hedge accounting to continue during the period of uncertainty prior to the replacement of an existing interest rate benchmark with an alternative benchmark rate. The amendments also provide an exception from the requirement to discontinue hedge accounting if the actual results of the hedge do not meet the effectiveness requirements as a result of interest rate benchmark reform. Amendments were also made to IFRS 7 introducing additional disclosures related to amended IAS 39.

The Bank's hedging relationships have significant exposure to USD LIBOR benchmark rates. Under IBOR reform, these benchmark rates may be subject to discontinuance, changes in methodology, or become illiquid when the adoption of the reform as established benchmark rates increase. As a result of these developments, significant judgment is required in determining whether certain hedging relationships that hedge the variability of cash flows and interest rate or foreign exchange risk due to changes in IBORs continue to qualify for hedge accounting. Impacted hedging relationships will continue to be monitored for the impact of IBOR reform. As a result of the amendments relating to hedge accounting, existing hedges are still effective and the IBOR reform has had no impact for the current year. The notional amount of cross-currency swaps and interest rate swaps indexed to USD LIBOR, with a maturity date beyond December 31, 2021, is $420,4 million as at April 30, 2020. These instruments are being monitored for the impact of IBOR reform.

## 3. CURRENT ACCOUNTING POLICY CHANGES (CONT'D)

### 3.3 IFRS INTERPRETATIONS COMMITTEE INTERPRETATION 23, *Uncertainty over income tax treatments* (IFRIC 23)

During the first quarter of 2020, we adopted IFRIC 23 which provides guidance on the recognition and measurement of tax assets and liabilities under IAS 12, Income taxes, when there is uncertainty over income tax treatments, replacing our application of IAS 37, Provisions, contingent liabilities and contingent assets, for uncertain tax positions. The adoption of IFRIC 23 had no impact to our consolidated financial statements.

## 4. FUTURE ACCOUNTING CHANGES

Except for the adoption of IFRS 16 as at November 1, 2019 and the Interest Rate Benchmark Reform amendments to IFRS 9, IAS 39, and IFRS 7, of which the Bank adopted as at November 1, 2019 the applicable amendments relating to hedge accounting, there have been no significant updates to the future accounting changes disclosed in Note 4 of the Annual Consolidated Financial Statements for the year ended October 31, 2019.

## 5. ADOPTION OF NEW ACCOUNTING STANDARDS

### IFRS 16, *Leases*

The adoption of IFRS 16 resulted in the recognition of real estate operating leases on the Bank's Consolidated Balance Sheet as right-of-use assets with the corresponding lease liabilities.

At the transition date, right-of-use assets were measured on a lease-by-lease basis at either:

- their carrying amount as if IFRS 16 had been applied since the lease commencement date, discounted using the Bank's incremental borrowing rate as at November 1, 2019; or
- an amount equal to the lease liability as at November 1, 2019.

Lease liabilities were measured at the present value of the remaining lease payments, using the Bank's incremental borrowing rate as at November 1, 2019. The weighted-average rate applied was 2.96%.

The Bank used hindsight when determining the lease term if the contract contained options to extend or terminate the lease, which is a practical expedient permitted upon transitioning to IFRS 16.

On November 1, 2019, the Bank recognized right-of-use assets of $139.4 million and lease liabilities of $171.3 million, eliminated net liabilities recognized under IAS 17 of $21.9 million and, as a result, recognized a reduction of shareholders' equity of $7.3 million, net of income taxes. The adoption of IFRS 16 reduced the CET1 capital ratio by 10 basis points.

Commitments under operating leases as at October 31, 2019, as reported in the Annual Consolidated Financial Statements for the year ended October 31, 2019, differ from the lease liability recognized as at November 1, 2019 mainly as a result of excluding future variable lease payments and future payments for short-term leases and low value leases, as well as from the effect of discounting the lease liability.

## 6. SECURITIES

### Credit quality

As at April 30, 2020, 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 April 30, 2020, allowances for credit losses amounted to $0.1 million ($0.1 million as at October 31, 2019) for debt securities at amortized cost and $0.1 million ($0.1 million as at October 31, 2019) for debt securities at FVOCI.

### Securities at amortized cost

| | **As at April 30, 2020** | As at October 31, 2019 |
|---|---|---|
| Securities issued or guaranteed | | |
| by Canada[1] | **$ 1,177,945** | $ 1,415,947 |
| by provinces | **1,346,062** | 1,174,121 |
| by municipalities | **15,371** | 23,336 |
| Other debt securities | **97,455** | 131,525 |
| | **$ 2,636,833** | $ 2,744,929 |

(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 are detailed as follows:

| | **As at April 30, 2020** | | | | As at October 31, 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Amortized cost** | **Unrealized gains** | **Unrealized losses** | **Fair value** | Amortized cost | Unrealized gains | Unrealized losses | Fair value |
| Securities issued or guaranteed | | | | | | | | |
| by Canada[1] | **$ 62,163** | **$ 515** | **$ 22** | **$ 62,656** | $ 35,915 | $ 124 | $ 20 | $ 36,019 |
| by provinces | **7,618** | **108** | **98** | **7,628** | 4,954 | 52 | 8 | 4,998 |
| by municipalities | **55,614** | **1,123** | **5** | **56,732** | 55,346 | 241 | 58 | 55,529 |
| Other debt securities | **24,867** | **551** | **48** | **25,370** | 24,970 | 421 | 26 | 25,365 |
| Asset-backed securities | **799** | **17** | **—** | **816** | 1,228 | 6 | — | 1,234 |
| Preferred shares | **185,868** | **349** | **46,937** | **139,280** | 192,935 | 532 | 31,546 | 161,921 |
| Common shares and other securities | **18,232** | **669** | **1,716** | **17,185** | 25,648 | 2,664 | 517 | 27,795 |
| | **$ 355,161** | **$ 3,332** | **$ 48,826** | **$ 309,667** | $ 340,996 | $ 4,040 | $ 32,175 | $ 312,861 |

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

*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.

For the three months ended April 30, 2020, an amount of $2.7 million in dividend income was recognized in earnings on these investments, $5.3 million for the six months ended April 30, 2020 ($2.7 million for the three months ended April 30, 2019 and $5.1 million for the six months ended April 30, 2019), including a negligible amount for investments that were sold during all such periods.

| | For the six months ended | |
|---|---|---|
| | **April 30, 2020** | April 30, 2019 |
| Fair value at beginning of period | **$ 189,716** | $ 180,058 |
| Change in fair value | **(18,759)** | (14,749) |
| Designated at FVOCI | **29,282** | 53,312 |
| Sales or redemptions | **(43,774)** | (19,865) |
| Fair value at end of period | **$ 156,465** | $ 198,756 |

## 7. LOANS AND ALLOWANCES FOR CREDIT LOSSES

As at April 30, 2020, loans are recognized on the Consolidated Balance Sheet at amortized cost as outlined in Note 3 to the 2019 Annual Consolidated Financial Statements using the financial asset classification criteria defined in IFRS 9.

As indicated in Note 2, the outbreak of COVID-19 has resulted in significant changes to the forward-looking macroeconomic inputs and the probability weights assigned to the forward-looking scenarios used in the Bank's measurement of expected credit losses. The following disclosures are typically provided on an annual basis. However, given the significant level of change in the forward-looking information since the end of October 31, 2019, a disclosure covering the main macroeconomic factors used to estimate the allowances for credit losses has been provided as an update to information in the Bank's 2019 Annual Report.

### 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.

### Credit quality of loans

The following tables present information on credit risk, according to credit quality and ECL impairment stage of each loan category.

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

*Credit risk exposure*

| | | | | As at April 30, 2020 |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| **Personal loans** | | | | |
| Very low risk | $ 2,511,898 | $ 11,015 | $ — | $ 2,522,913 |
| Low risk | 602,494 | 204,892 | — | 807,386 |
| Medium risk | 468,833 | 477,986 | — | 946,819 |
| High risk | — | 36,300 | — | 36,300 |
| Default | — | — | 23,607 | 23,607 |
| Gross carrying amount | 3,583,225 | 730,193 | 23,607 | 4,337,025 |
| Allowances for loan losses | 7,887 | 24,892 | 10,042 | 42,821 |
| Net carrying amount | $ 3,575,338 | $ 705,301 | $ 13,565 | $ 4,294,204 |
| **Residential mortgage loans** | | | | |
| Very low risk | $ 8,479,075 | $ 7,497 | $ — | $ 8,486,572 |
| Low risk | 3,586,036 | 206,435 | — | 3,792,471 |
| Medium risk | 2,453,961 | 884,235 | — | 3,338,196 |
| High risk | — | 169,245 | — | 169,245 |
| Default | — | — | 58,739 | 58,739 |
| Gross carrying amount | 14,519,072 | 1,267,412 | 58,739 | 15,845,223 |
| Allowances for loan losses | 2,612 | 2,123 | 1,056 | 5,791 |
| Net carrying amount | $ 14,516,460 | $ 1,265,289 | $ 57,683 | $ 15,839,432 |
| **Commercial loans**(1) | | | | |
| Very low risk | $ 2,406,088 | $ 6,353 | $ — | $ 2,412,441 |
| Low risk | 7,530,933 | 267,934 | — | 7,798,867 |
| Medium risk | 2,783,160 | 241,620 | — | 3,024,780 |
| High risk | — | 154,580 | — | 154,580 |
| Default | — | — | 152,902 | 152,902 |
| Gross carrying amount | 12,720,181 | 670,487 | 152,902 | 13,543,570 |
| Allowances for loan losses | 40,909 | 11,281 | 48,577 | 100,767 |
| Net carrying amount | $ 12,679,272 | $ 659,206 | $ 104,325 | $ 13,442,803 |
| **Total loans** | | | | |
| Gross carrying amount | $ 30,822,478 | $ 2,668,092 | $ 235,248 | $ 33,725,818 |
| Allowances for loan losses | 51,408 | 38,296 | 59,675 | 149,379 |
| Net carrying amount | $ 30,771,070 | $ 2,629,796 | $ 175,573 | $ 33,576,439 |
| **Off-balance sheet exposures**(2) | | | | |
| Very low risk | $ 939,769 | $ 31,151 | $ — | $ 970,920 |
| Low risk | 1,280,961 | 77,266 | — | 1,358,227 |
| Medium risk | 481,538 | 74,411 | — | 555,949 |
| High risk | — | 3,980 | — | 3,980 |
| Total exposure | 2,702,268 | 186,808 | — | 2,889,076 |
| Allowances for off-balance sheet exposures losses | 4,225 | 2,084 | — | 6,309 |
| Total exposure, net | $ 2,698,043 | $ 184,724 | $ — | $ 2,882,767 |

(1) Including customers' liabilities under acceptances.
(2) Including letters of guarantee and certain undrawn amounts under approved credit facilities.

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

| | | | | As at October 31, 2019 |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3[1] | Total |
| **Personal loans** | | | | |
| Very low risk | $ 2,811,585 | $ 13,126 | $ — | $ 2,824,711 |
| Low risk | 581,736 | 208,745 | — | 790,481 |
| Medium risk | 502,264 | 479,692 | — | 981,956 |
| High risk | 3,736 | 41,998 | — | 45,734 |
| Default | — | — | 17,642 | 17,642 |
| Gross carrying amount | 3,899,321 | 743,561 | 17,642 | 4,660,524 |
| Allowances for loan losses | 5,347 | 19,568 | 4,732 | 29,647 |
| Net carrying amount | $ 3,893,974 | $ 723,993 | $ 12,910 | $ 4,630,877 |
| **Residential mortgage loans** | | | | |
| Very low risk | $ 8,131,829 | $ 2,477 | $ — | $ 8,134,306 |
| Low risk | 3,743,129 | 273,476 | — | 4,016,605 |
| Medium risk | 2,601,941 | 1,034,080 | — | 3,636,021 |
| High risk | 4,616 | 188,896 | — | 193,512 |
| Default | — | — | 59,236 | 59,236 |
| Gross carrying amount | 14,481,515 | 1,498,929 | 59,236 | 16,039,680 |
| Allowances for loan losses | 2,021 | 1,802 | 1,050 | 4,873 |
| Net carrying amount | $ 14,479,494 | $ 1,497,127 | $ 58,186 | $ 16,034,807 |
| **Commercial loans[1]** | | | | |
| Very low risk | $ 2,338,807 | $ 3,596 | $ — | $ 2,342,403 |
| Low risk | 7,590,362 | 90,310 | — | 7,680,672 |
| Medium risk | 2,464,196 | 223,084 | — | 2,687,280 |
| High risk | — | 157,686 | — | 157,686 |
| Default | — | — | 98,283 | 98,283 |
| Gross carrying amount | 12,393,365 | 474,676 | 98,283 | 12,966,324 |
| Allowances for loan losses | 22,219 | 8,558 | 35,160 | 65,937 |
| Net carrying Amount | $ 12,371,146 | $ 466,118 | $ 63,123 | $ 12,900,387 |
| **Total loans** | | | | |
| Gross carrying amount | $ 30,774,201 | $ 2,717,166 | $ 175,161 | $ 33,666,528 |
| Allowances for loan losses | 29,587 | 29,928 | 40,942 | 100,457 |
| Net carrying amount | $ 30,744,614 | $ 2,687,238 | $ 134,219 | $ 33,566,071 |
| **Off-balance sheet exposures[2]** | | | | |
| Very low risk | $ 1,362,719 | $ 78,717 | $ — | $ 1,441,436 |
| Low risk | 1,207,286 | 95,355 | — | 1,302,641 |
| Medium risk | 398,580 | 95,143 | — | 493,723 |
| High risk | 48 | 5,426 | — | 5,474 |
| Total exposure | 2,968,633 | 274,641 | — | 3,243,274 |
| Allowances for off-balance sheet exposures losses | 3,902 | 2,434 | — | 6,336 |
| Total exposure, net | $ 2,964,731 | $ 272,207 | $ — | $ 3,236,938 |

(1) Including customers' liabilities under acceptances.
(2) Including letters of guarantee and certain undrawn amounts under approved credit facilities.

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

### Impaired loans

| | | | | | | **As at April 30, 2020** |
|---|---|---|---|---|---|---|
| | | **Gross impaired loans** | | **Allowances against impaired loans** | | **Net impaired loans** |
| Personal loans | **$** | **23,607** | **$** | **10,042** | **$** | **13,565** |
| Residential mortgage loans | | **58,739** | | **1,056** | | **57,683** |
| Commercial loans[1] | | **152,902** | | **48,577** | | **104,325** |
| | **$** | **235,248** | **$** | **59,675** | **$** | **175,573** |

| | | | | | | As at October 31, 2019 |
|---|---|---|---|---|---|---|
| | | Gross impaired loans | | Allowances against impaired loans | | Net impaired loans |
| Personal loans | $ | 17,642 | $ | 4,732 | $ | 12,910 |
| Residential mortgage loans | | 59,236 | | 1,050 | | 58,186 |
| Commercial loans[1] | | 98,283 | | 35,160 | | 63,123 |
| | $ | 175,161 | $ | 40,942 | $ | 134,219 |

(1) Including customers' liabilities under acceptances.

### Payment relief options in addressing current conditions due to COVID-19

The Bank is permitting payment deferrals to eligible customers. Payment deferrals have not been granted in connection with loans that have been identified as impaired (Stage 3) and the Bank continues to accrue and recognize interest income on such loans.

For loan agreements with payment deferrals, we have performed an assessment to consider reasonable and supportable information at an individual level and/or at a collective level in order to identify customers with higher susceptibility to long-term economic impacts which may indicate significant increase in credit risk. Payment deferrals are not considered to automatically trigger a significant increase in credit risk or result in such loans being moved into stage 2 or stage 3 for the purposes of calculating expected credit losses.

The following table provides a summary of the deferral requests processed during the second quarter of 2020.

### Payment deferrals

In thousand of Canadian dollars , except percentages

| | | | | | **As at April 30, 2020** |
|---|---|---|---|---|---|
| | | **$ Deferred payments** | | **$ Loan value** | **As a % of loan portfolio** |
| Personal loans | **$** | **624** | **$** | **6,176** | **0.1%** |
| Residential Mortgages | | **50,594** | | **3,060,645** | **19.3%** |
| Commercial loans[1] | | **57,734** | | **1,373,800** | **10.5%** |
| | **$** | **108,952** | **$** | **4,440,621** | **13.3%** |

(1) Including customers' liabilities under acceptances

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

### Loans past due but not impaired

The following table shows personal and residential mortgage loans that are past due but not classified as impaired. The Commercial loans past due but not impaired are not significant. Loans granted payment deferrals are not considered past due if the new contractual terms are respected.

| | | | | As at April 30, 2020 |
|---|---|---|---|---|
| | | 1 day-<br>31 days | | 32 days-<br>90 days | | Total |
| **Personal loans** | $ | **83,761** | $ | **50,212** | $ | **133,973** |
| **Residential mortgage loans** | | **190,019** | | **65,824** | | **255,843** |
| | $ | **273,780** | $ | **116,036** | $ | **389,816** |

| | | | | | | As at October 31, 2019 |
|---|---|---|---|---|---|---|
| | | 1 day-<br>31 days | | 32 days-<br>90 days | | Total |
| Personal loans | $ | 80,924 | $ | 27,330 | $ | 108,254 |
| Residential mortgage loans | | 213,697 | | 53,474 | | 267,171 |
| | $ | 294,621 | $ | 80,804 | $ | 375,425 |

## 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 April 30, 2020 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| **Personal loans** | | | | |
| Balance at beginning of period | $ 7,277 | $ 18,762 | $ 6,069 | $ 32,108 |
| Transfers: | | | | |
| to Stage 1 | 3,905 | (3,806) | (99) | — |
| to Stage 2 | (1,038) | 1,360 | (322) | — |
| to Stage 3 | (31) | (1,060) | 1,091 | — |
| Originations | 410 | — | — | 410 |
| Derecognitions | (149) | (564) | (1,037) | (1,750) |
| Net remeasurements of allowances | (1,170) | 11,743 | 8,209 | 18,782 |
| Provision for (reversal of) credit losses | 1,927 | 7,673 | 7,842 | 17,442 |
| Write-offs | — | — | (4,788) | (4,788) |
| Recoveries | — | — | 1,140 | 1,140 |
| Foreign exchange and other | — | — | (221) | (221) |
| Balance at end of period | $ 9,204 | $ 26,435 | $ 10,042 | $ 45,681 |
| Total allowances for loan losses | $ 7,887 | $ 24,892 | $ 10,042 | $ 42,821 |
| Total allowances for off-balance sheet exposures | 1,317 | 1,543 | — | 2,860 |
| Total allowances for credit losses | $ 9,204 | $ 26,435 | $ 10,042 | $ 45,681 |
| **Residential mortgage loans** | | | | |
| Balance at beginning of period | $ 2,389 | $ 1,797 | $ 1,076 | $ 5,262 |
| Transfers: | | | | |
| to Stage 1 | 394 | (383) | (11) | — |
| to Stage 2 | (127) | 241 | (114) | — |
| to Stage 3 | (2) | (67) | 69 | — |
| Originations | 51 | — | — | 51 |
| Derecognitions | (93) | (83) | (117) | (293) |
| Net remeasurements of allowances | 146 | 694 | 798 | 1,638 |
| Provision for (reversal of) credit losses | 369 | 402 | 625 | 1,396 |
| Write-offs | — | — | (1,186) | (1,186) |
| Recoveries | — | — | 924 | 924 |
| Foreign exchange and other | — | — | (383) | (383) |
| Balance at end of period | $ 2,758 | $ 2,199 | $ 1,056 | $ 6,013 |
| Total allowances for loan losses | $ 2,612 | $ 2,123 | $ 1,056 | $ 5,791 |
| Total allowances for off-balance sheet exposures | 146 | 76 | — | 222 |
| Total allowances for credit losses | $ 2,758 | $ 2,199 | $ 1,056 | $ 6,013 |

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

| | For the three months ended April 30, 2020 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| **Commercial loans** | | | | |
| Balance at beginning of period | $ 23,951 | $ 9,968 | $ 38,767 | $ 72,686 |
| Transfers: | | | | |
| to Stage 1 | 1,097 | (630) | (467) | — |
| to Stage 2 | (592) | 903 | (311) | — |
| to Stage 3 | (158) | (1,602) | 1,760 | — |
| Originations | 2,905 | — | — | 2,905 |
| Derecognitions | (3,408) | (3,972) | (1,063) | (8,443) |
| Net remeasurements | 19,413 | 7,073 | 15,114 | 41,600 |
| Provision for (reversal of) credit losses | 19,257 | 1,772 | 15,033 | 36,062 |
| Write-offs | — | — | (5,372) | (5,372) |
| Recoveries | — | — | 322 | 322 |
| Foreign exchange and other | 463 | 6 | (173) | 296 |
| Balance at end of period | $ 43,671 | $ 11,746 | $ 48,577 | $ 103,994 |
| Total allowances for loan losses | $ 40,909 | $ 11,281 | $ 48,577 | $ 100,767 |
| Total allowances for off-balance sheet exposures | 2,762 | 465 | — | 3,227 |
| Total allowances for credit losses | $ 43,671 | $ 11,746 | $ 48,577 | $ 103,994 |
| **Total exposure** | | | | |
| Total allowances for loan losses | $ 51,408 | $ 38,296 | $ 59,675 | $ 149,379 |
| Total allowances for off-balance sheet exposures | 4,225 | 2,084 | — | 6,309 |
| Total allowances for credit losses | $ 55,633 | $ 40,380 | $ 59,675 | $ 155,688 |

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

| | For the three months ended April 30, 2019 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| **Personal loans** | | | | |
| Balance at beginning of period | $ 9,834 | $ 20,862 | $ 7,136 | $ 37,832 |
| Transfers: | | | | |
| to Stage 1 | 5,128 | (4,932) | (196) | — |
| to Stage 2 | (841) | 1,272 | (431) | — |
| to Stage 3 | (28) | (836) | 864 | — |
| Originations | 375 | 85 | — | 460 |
| Derecognitions | (196) | (774) | (1,776) | (2,746) |
| Net remeasurements of allowances | (4,943) | 3,846 | 7,648 | 6,551 |
| Provision for (reversal of) credit losses | (505) | (1,339) | 6,109 | 4,265 |
| Write-offs | — | — | (6,603) | (6,603) |
| Recoveries | — | — | 2,166 | 2,166 |
| Foreign exchange and other | — | — | (221) | (221) |
| Balance at end of period | $ 9,329 | $ 19,523 | $ 8,587 | $ 37,439 |
| Total allowances for loan losses | $ 7,695 | $ 18,102 | $ 8,587 | $ 34,384 |
| Total allowances for off-balance sheet exposures | 1,634 | 1,421 | — | 3,055 |
| Total allowances for credit losses | $ 9,329 | $ 19,523 | $ 8,587 | $ 37,439 |
| **Residential mortgage loans** | | | | |
| Balance at beginning of period | $ 1,975 | $ 1,610 | $ 632 | $ 4,217 |
| Transfers: | | | | |
| to Stage 1 | 399 | (379) | (20) | — |
| to Stage 2 | (79) | 155 | (76) | — |
| to Stage 3 | (3) | (94) | 97 | — |
| Originations | 7 | 3 | — | 10 |
| Derecognitions | (45) | (50) | (128) | (223) |
| Net remeasurements of allowances | (276) | 182 | 812 | 718 |
| Provision for (reversal of) credit losses | 3 | (183) | 685 | 505 |
| Write-offs | — | — | (1,650) | (1,650) |
| Recoveries | — | — | 1,277 | 1,277 |
| Foreign exchange and other | — | — | (399) | (399) |
| Balance at end of period | $ 1,978 | $ 1,427 | $ 545 | $ 3,950 |
| Total allowances for loan losses | $ 1,967 | $ 1,412 | $ 545 | $ 3,924 |
| Total allowances for off-balance sheet exposures | 11 | 15 | — | 26 |
| Total allowances for credit losses | $ 1,978 | $ 1,427 | $ 545 | $ 3,950 |

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

| | For the three months ended April 30, 2019 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| **Commercial loans** | | | | |
| Balance at beginning of period | $ 21,125 | $ 10,822 | $ 33,782 | $ 65,729 |
| Transfers: | | | | |
| to Stage 1 | 2,088 | (2,065) | (23) | — |
| to Stage 2 | (1,291) | 1,291 | — | — |
| to Stage 3 | (9) | (129) | 138 | — |
| Originations | 4,093 | 844 | — | 4,937 |
| Derecognitions | (2,577) | (2,054) | (617) | (5,248) |
| Net remeasurements | (140) | 243 | 4,638 | 4,741 |
| Provision for (reversal of) credit losses | 2,164 | (1,870) | 4,136 | 4,430 |
| Write-offs | — | — | (3,635) | (3,635) |
| Recoveries | — | — | 819 | 819 |
| Foreign exchange and other | 69 | 1 | 349 | 419 |
| Balance at end of period | $ 23,358 | $ 8,953 | $ 35,451 | $ 67,762 |
| Total allowances for loan losses | $ 20,901 | $ 8,268 | $ 35,451 | $ 64,620 |
| Total allowances for off-balance sheet exposures | 2,457 | 685 | — | 3,142 |
| Total allowances for credit losses | $ 23,358 | $ 8,953 | $ 35,451 | $ 67,762 |
| **Total exposure** | | | | |
| Total allowances for loan losses | $ 30,563 | $ 27,782 | $ 44,583 | $ 102,928 |
| Total allowances for off-balance sheet exposures | 4,102 | 2,121 | — | 6,223 |
| Total allowances for credit losses | $ 34,665 | $ 29,903 | $ 44,583 | $ 109,151 |

Comparative figures for write-offs, recoveries and foreign exchange and other in Stage 3 have been reclassified in order to conform with the presentation adopted in the current year.

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

| | For the six months ended April 30, 2020 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| **Personal loans** | | | | |
| Balance at beginning of period | $ 7,297 | $ 21,710 | $ 4,732 | $ 33,739 |
| Transfers: | | | | |
| to Stage 1 | 4,807 | (4,710) | (97) | — |
| to Stage 2 | (1,169) | 1,520 | (351) | — |
| to Stage 3 | (120) | (1,422) | 1,542 | — |
| Originations | 1,201 | — | — | 1,201 |
| Derecognitions | (382) | (1,839) | (1,991) | (4,212) |
| Net remeasurements of allowances | (2,430) | 11,176 | 15,674 | 24,420 |
| Provision for (reversal of) credit losses | 1,907 | 4,725 | 14,777 | 21,409 |
| Write-offs | — | — | (12,002) | (12,002) |
| Recoveries | — | — | 2,978 | 2,978 |
| Foreign exchange and other | — | — | (443) | (443) |
| Balance at end of period | $ 9,204 | $ 26,435 | $ 10,042 | $ 45,681 |
| Total allowances for loan losses | $ 7,887 | $ 24,892 | $ 10,042 | $ 42,821 |
| Total allowances for off-balance sheet exposures | 1,317 | 1,543 | — | 2,860 |
| Total allowances for credit losses | $ 9,204 | $ 26,435 | $ 10,042 | $ 45,681 |
| **Residential mortgage loans** | | | | |
| Balance at beginning of period | $ 2,032 | $ 1,824 | $ 1,050 | $ 4,906 |
| Transfers: | | | | |
| to Stage 1 | 610 | (564) | (46) | — |
| to Stage 2 | (259) | 441 | (182) | — |
| to Stage 3 | (2) | (91) | 93 | — |
| Originations | 288 | — | — | 288 |
| Derecognitions | (176) | (174) | (279) | (629) |
| Net remeasurements of allowances | 350 | 763 | 2,104 | 3,217 |
| Provision for (reversal of) credit losses | 811 | 375 | 1,690 | 2,876 |
| Write-offs | — | — | (2,553) | (2,553) |
| Recoveries | — | — | 1,634 | 1,634 |
| Foreign exchange and other | (85) | — | (765) | (850) |
| Balance at end of period | $ 2,758 | $ 2,199 | $ 1,056 | $ 6,013 |
| Total allowances for loan losses | $ 2,612 | $ 2,123 | $ 1,056 | $ 5,791 |
| Total allowances for off-balance sheet exposures | 146 | 76 | — | 222 |
| Total allowances for credit losses | $ 2,758 | $ 2,199 | $ 1,056 | $ 6,013 |

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

| | For the six months ended April 30, 2020 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| **Commercial loans** | | | | |
| Balance at beginning of period | $ 24,160 | $ 8,828 | $ 35,160 | $ 68,148 |
| Transfers: | | | | |
| to Stage 1 | 1,567 | (927) | (640) | — |
| to Stage 2 | (789) | 1,125 | (336) | — |
| to Stage 3 | (311) | (1,986) | 2,297 | — |
| Originations | 5,691 | — | — | 5,691 |
| Derecognitions | (4,327) | (2,447) | (1,861) | (8,635) |
| Net remeasurements | 17,213 | 7,147 | 24,099 | 48,459 |
| Provision for (reversal of) credit losses | 19,044 | 2,912 | 23,559 | 45,515 |
| Write-offs | — | — | (10,190) | (10,190) |
| Recoveries | — | — | 817 | 817 |
| Foreign exchange and other | 467 | 6 | (769) | (296) |
| Balance at end of period | $ 43,671 | $ 11,746 | $ 48,577 | $ 103,994 |
| Total allowances for loan losses | $ 40,909 | $ 11,281 | $ 48,577 | $ 100,767 |
| Total allowances for off-balance sheet exposures | 2,762 | 465 | — | 3,227 |
| Total allowances for credit losses | $ 43,671 | $ 11,746 | $ 48,577 | $ 103,994 |
| **Total exposure** | | | | |
| Total allowances for loan losses | $ 51,408 | $ 38,296 | $ 59,675 | $ 149,379 |
| Total allowances for off-balance sheet exposures | 4,225 | 2,084 | — | 6,309 |
| Total allowances for credit losses | $ 55,633 | $ 40,380 | $ 59,675 | $ 155,688 |

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

| | For the six months ended April 30, 2019 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| **Personal loans** | | | | |
| Balance at beginning of period | $ 11,070 | $ 22,498 | $ 4,934 | $ 38,502 |
| Transfers: | | | | |
| to Stage 1 | 6,139 | (5,931) | (208) | — |
| to Stage 2 | (1,077) | 1,296 | (219) | — |
| to Stage 3 | (61) | (1,122) | 1,183 | — |
| Originations | 455 | 143 | — | 598 |
| Derecognitions | (443) | (1,517) | (1,405) | (3,365) |
| Net remeasurements of allowances | (6,754) | 4,156 | 14,073 | 11,475 |
| Provision for (reversal of) credit losses | (1,741) | (2,975) | 13,424 | 8,708 |
| Write-offs | — | — | (12,455) | (12,455) |
| Recoveries | — | — | 3,147 | 3,147 |
| Foreign exchange and other | — | — | (463) | (463) |
| Balance at end of period | $ 9,329 | $ 19,523 | $ 8,587 | $ 37,439 |
| Total allowances for loan losses | $ 7,695 | $ 18,102 | $ 8,587 | $ 34,384 |
| Total allowances for off-balance sheet exposures | 1,634 | 1,421 | — | 3,055 |
| Total allowances for credit losses | $ 9,329 | $ 19,523 | $ 8,587 | $ 37,439 |
| **Residential mortgage loans** | | | | |
| Balance at beginning of period | $ 2,446 | $ 1,840 | $ 443 | $ 4,729 |
| Transfers: | | | | |
| to Stage 1 | 563 | (518) | (45) | — |
| to Stage 2 | (102) | 263 | (161) | — |
| to Stage 3 | (6) | (117) | 123 | — |
| Originations | 12 | 4 | — | 16 |
| Derecognitions | (117) | (134) | (178) | (429) |
| Net remeasurements of allowances | (818) | 89 | 1,595 | 866 |
| Provision for (reversal of) credit losses | (468) | (413) | 1,334 | 453 |
| Write-offs | — | — | (1,772) | (1,772) |
| Recoveries | — | — | 1,318 | 1,318 |
| Foreign exchange and other | — | — | (778) | (778) |
| Balance at end of period | $ 1,978 | $ 1,427 | $ 545 | $ 3,950 |
| Total allowances for loan losses | $ 1,967 | $ 1,412 | $ 545 | $ 3,924 |
| Total allowances for off-balance sheet exposures | 11 | 15 | — | 26 |
| Total allowances for credit losses | $ 1,978 | $ 1,427 | $ 545 | $ 3,950 |

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

| | For the six months ended April 30, 2019 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| **Commercial loans** | | | | |
| Balance at beginning of period | $ 22,192 | $ 8,252 | $ 32,980 | $ 63,424 |
| Transfers: | | | | |
| to Stage 1 | 1,389 | (1,069) | (320) | — |
| to Stage 2 | (1,675) | 1,675 | — | — |
| to Stage 3 | (24) | (277) | 301 | — |
| Originations | 4,677 | 803 | — | 5,480 |
| Derecognitions | (4,271) | (2,111) | (1,031) | (7,413) |
| Net remeasurements | 1,013 | 1,679 | 9,780 | 12,472 |
| Provision for (reversal of) credit losses | 1,109 | 700 | 8,730 | 10,539 |
| Write-offs | — | — | (6,181) | (6,181) |
| Recoveries | — | — | 754 | 754 |
| Foreign exchange and other | 57 | 1 | (832) | (774) |
| Balance at end of period | $ 23,358 | $ 8,953 | $ 35,451 | $ 67,762 |
| Total allowances for loan losses | $ 20,901 | $ 8,268 | $ 35,451 | $ 64,620 |
| Total allowances for off-balance sheet exposures | 2,457 | 685 | — | 3,142 |
| Total allowances for credit losses | $ 23,358 | $ 8,953 | $ 35,451 | $ 67,762 |
| Total exposure | | | | |
| Total allowances for loan losses | $ 30,563 | $ 27,782 | $ 44,583 | $ 102,928 |
| Total allowances for off-balance sheet exposures | 4,102 | 2,121 | — | 6,223 |
| Total allowances for credit losses | $ 34,665 | $ 29,903 | $ 44,583 | $ 109,151 |

Comparative figures for write-offs, recoveries, foreign exchange and other in Stage 3 have been reclassified in order to conform with the presentation adopted in the current year.

### Main macroeconomic factors

The following table shows the main macroeconomic factors used to estimate the collective allowances for credit losses as at April 30, 2020. For each scenario, namely, the "base", "upside" and "downside", the average values of the factors over the next 12 months (used for Stage 1 credit loss calculations) and the expected variation over the remaining forecast period of two additional years (used for Stage 2 and Stage 3 credit loss calculations) are presented. These scenarios and the interrelated weightings take into account the deterioration in economic conditions caused by the spread of the COVID-19 pandemic and the related increase in economic uncertainty.

| | Base scenario | | Upside scenario | | Downside scenario | |
|---|---|---|---|---|---|---|
| | Next 12 months | Remaining forecast period[1] | Next 12 months | Remaining forecast period[1] | Next 12 months | Remaining forecast period[1] |
| **Main macroeconomic factors** | | | | | | |
| GDP growth | **0.2%** | **3.0%** | **1.6%** | **3.0%** | **(2.8)%** | **4.8%** |
| Average unemployment rate (percentage points) | **8.6** | **5.8** | **7.0** | **5.5** | **11.4** | **7.2** |
| Housing price index growth | **0.4%** | **4.8%** | **2.7%** | **6%** | **(7.5)%** | **1.8%** |
| S&P/TSX growth[2] | **11.6%** | **12.1%** | **21.7%** | **16.2%** | **(3.4)%** | **16.5%** |

(1) Expected variation over the remaining forecast period for growth indicators and average unemployment rate over the remaining forecast period
(2) Main stock index in Canada.

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

The main macroeconomic factors used for the personal and residential mortgage loan portfolios are the unemployment rate, the housing price index and the S&P/TSX growth. The main macroeconomic factors used for the commercial loan portfolio is the GDP growth. An increase in unemployment will generally correlate with higher allowances for credit losses, whereas an increase in the other macroeconomic factors (GDP growth, S&P/TSX growth and housing price index growth) will generally correlate with lower allowances for credit losses.

*Description of scenarios*

In the base scenario, the COVID-19 pandemic spread leads to a relatively short and steep recession. Economic activity first resumes in sectors not constrained by social distancing and broadens overtime, leading to a moderate rebound. A new normal in activity brings back Gross domestic product (GDP) to its pre-pandemic level in early 2021. Government measures contribute to mitigating financial stress. Home prices decline gradually and temporarily. Unemployment peaks to the early 1990s recession level and two thirds of the shock is reversed by the end of 2020 as individuals gradually return to work. Market risk appetite rebounds in the Summer of 2020 due to improving economic expectations, but the yield curve stays relatively flat and rates remain at historical lows as central banks accommodate the recovery.

In the downside scenario, the recession is more pronounced due to expected prolonged shutdowns. The weaker economic rebound reflects a slower easing in restrictions and additional balance sheet stress for individuals and companies leading to some capital destruction and lower confidence. Unemployment reaches an all-time high post-WWII, contributing to a moderate correction in home prices. Interest rates across the yield curve remain low for a prolonged period. GDP returns to its pre-pandemic level only in 2022.

In the upside scenario, the recession is milder as the virus is brought under control within a short time frame, leading to a broad easing of restrictions and fostering conditions for economic recovery. Structural economic damage is limited, as businesses and individuals return to normal activities. Equity Markets return to pre COVID-19 levels and interest rates rebound gradually starting in 2021.

The degree of uncertainty surrounding the potential impact of COVID-19 implies the possibility of a wide range of economic outcomes. The most recent information leans in favor of a gradual reopening of the economy contingent on improving health outcomes. Accordingly, high weights were assigned to the base and downside scenarios, with a small residual weight assigned to the upside scenario.

When possible, our ECL models were adapted to consider recently announced measures introduced by governments, central banks and regulators to promote liquidity and ease financial stress to individuals and businesses. Certain overlays (up or down) using expert credit judgement were made when inputs and models used for calculating expected credit losses did not capture all characteristics of the market or risk factors at the date of the financial statements.

The magnitude of the impact of COVID-19 on the Canadian and U.S. economies remains highly uncertain including assessments of the impact of government and/or regulatory responses to the outbreak. Therefore, it is difficult to predict whether the increase in expected credit losses will result in significant write-offs and if the Bank will recognize additional increases in expected credit losses in subsequent periods.

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

### Sensitivity analysis of allowances for credit losses on non-impaired loans

*Scenarios*
The following table shows a comparison of the Bank's allowances for credit losses on non-impaired loans (Stage 1 and 2) as reported under IFRS 9 as at April 30, 2020, including off-balance sheet exposures, with the estimated allowances for credit losses that would result if the base scenario was weighted at 100%.

| | Allowances for credit losses on non-impaired loans as at April 30, 2020 |
|---|---|
| **Under IFRS 9, as reported** | **$ 96,013** |
| **Simulations** | |
| 100% base scenario | **$ 60,045** |

*Migration*
The following table shows a comparison of the Bank's allowances for credit losses on non-impaired loans (Stage 1 and 2) as reported under IFRS 9 as at April 30, 2020, including off-balance sheet exposures, with the estimated allowances for credit losses that would result if all these non-impaired loans were in Stage 1.

| | Allowances for credit losses on non-impaired loans as at April 30, 2020 |
|---|---|
| **Under IFRS 9, as reported** | **$ 96,013** |
| **Simulations** | |
| Non-impaired loans if they were all in stage 1 | **$ 77,608** |

### 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 (no such sales occurred during the three months ended April 30, 2019). No such sales occurred in 2020.

### Finance lease receivables

The Commercial loans line item includes net investment in leases of $1,017.4 million as at April 30, 2020 ($997.8 million as at October 31, 2019).

# 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 April 30 2020** | | As at October 31 2019 |
|---|---|---|---|---|
| Residential mortgage loans | **$** | **7,692,902** | $ | 6,952,703 |
| Replacement Assets[1] | | **482,332** | | 844,926 |
| Debt related to securitization activities | **$** | **(8,343,801)** | $ | (7,840,373) |

(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 CMB program.

For the six months ended April 30, 2020, the Bank has also securitized other residential mortgage loans for a total amount of $429.1 million ($530.2 million as at October 31, 2019) as part of the NHA MBS program. The resulting NHA MBS are presented as part of Residential mortgage loans. These NHA MBS were pledged as collateral with the Bank of Canada.

## 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.

### 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 on the Consolidated Balance Sheet.

| | | **As at April 30 2020** | | As at October 31 2019 |
|---|---|---|---|---|
| Personal loans | **$** | **1,235,791** | $ | 1,087,058 |
| Commercial loans[1] | | **599,693** | | 746,259 |
| Debt related to securitization activities | **$** | **(933,922)** | $ | (1,072,960) |

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

During the second quarter of 2020, the Bank transferred personal loans to B2B Securitization Limited Partnership, an intermediate partnership used for securitization activities, for a total amount of $250.0 million to provide additional collateral for the outstanding debt.

## 9. SHARE CAPITAL

### Preferred shares

The variation and outstanding number and amount of preferred shares were as follows.

| | For the six months ended | | | | | |
|---|---|---|---|---|---|---|
| | | | April 30 2020 | | | April 30 2019 |
| | Number of shares | | Amount | Number of shares | | Amount |
| **Non-Cumulative Class A Preferred Shares** | | | | | | |
| 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 April 30, 2020 (no outstanding preferred shares Series 14 and Series 16 as at April 30, 2019 and October 31, 2019).

### Common shares

The variation and outstanding number and amount of common shares were as follows.

| | For the six months ended | | | | | |
|---|---|---|---|---|---|---|
| | | | April 30 2020 | | | April 30 2019 |
| | Number of shares | | Amount | Number of shares | | Amount |
| **Common shares** | | | | | | |
| Outstanding at beginning of period | **42,624,861** | **$** | **1,139,193** | 42,075,284 | $ | 1,115,416 |
| Issuance under the employee share purchase option plan | **1,670** | | **76** | — | | — |
| Issuance under the Shareholder Dividend Reinvestment and Share Purchase Plan | **312,717** | | **10,968** | 247,344 | | 10,429 |
| Net issuance costs | **n/a** | | **(103)** | n/a | | (36) |
| | **42,939,248** | **$** | **1,150,134** | 42,322,628 | $ | 1,125,809 |

### Shareholder Dividend Reinvestment and Share Purchase Plan

The Bank determined that as of May 28, 2020, reinvestments related to the dividend declared would be made in common shares issued from treasury at a 2% discount.

### Dividends declared

On May 28, 2020, the Board of Directors declared the regular dividend on the various series of preferred shares to shareholders of record on June 8, 2020.

On May 28, 2020, the Board of Directors declared a quarterly dividend of $0.40 per common share, payable on August 1, 2020, to shareholders of record on July 2, 2020.

# 9. SHARE CAPITAL (CONT'D)

## 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 2020 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.

The Bank has complied with regulatory capital requirements throughout the six-month period ended April 30, 2020. Regulatory capital is detailed below.

| | As at April 30 2020 | | As at October 31 2019 |
|---|---|---|---|
| | Before Transitional Arrangements[1] | After Transitional Arrangements | |
| Common shares | $ 1,150,134 | $ 1,150,134 | $ 1,139,193 |
| Retained earnings | 1,100,627 | 1,100,627 | 1,161,668 |
| Accumulated other comprehensive income, excluding cash flow hedge reserve | 21,735 | 21,735 | (102) |
| Share-based compensation reserve | 2,958 | 2,958 | 1,815 |
| Transitional arrangement for expected credit losses in response to COVID-19[1] | — | 16,405 | — |
| Deductions from Common Equity Tier 1 capital[2] | (457,139) | (457,139) | (461,192) |
| Common Equity Tier 1 capital | 1,818,315 | 1,834,720 | 1,841,382 |
| Qualifying preferred shares | 244,038 | 244,038 | 244,038 |
| Additional Tier 1 capital | 244,038 | 244,038 | 244,038 |
| Tier 1 capital | 2,062,353 | 2,078,758 | 2,085,420 |
| Qualifying subordinated debt | 349,270 | 349,270 | 349,101 |
| Collective allowances | 96,213 | 79,808 | 66,052 |
| Deductions from Tier 2 capital[3] | (1,129) | (1,129) | (3,465) |
| Tier 2 capital | 444,354 | 427,949 | 411,688 |
| Total capital | $ 2,506,707 | $ 2,506,707 | $ 2,497,108 |
| Common Equity Tier 1 capital ratio | 8.7% | 8.8% | 9.0% |
| Tier 1 capital ratio | 9.9% | 10.0% | 10.2% |
| Total capital ratio | 12.0% | 12.0% | 12.2% |

(1) Calculation of regulatory capital and regulatory capital ratios excluding the application of transitional arrangements given by OSFI for expected credit losses provisioning, in response to the COVID-19 pandemic, as detailed below.
(2) Comprised of deductions for software and other intangible assets, goodwill, pension plan assets and other.
(3) Investments in own Tier 2 capital instruments.

During the quarter, OSFI announced several measures to afford financial institutions further flexibility in addressing current conditions due to COVID-19, including notably:

- treating as performing loans all mortgages and certain types of loans where payment deferrals are granted by the financial institution, up to a maximum of 6 months; and
- recognizing as Common Equity Tier 1 (CET1) capital a portion of the credit allowances that would otherwise be included in Tier 2 capital.

The Bank has applied these relief measures as at April, 30, 2020. The adjustment to the CET1 capital ratio will be dynamically measured each quarter as the increase in Stage 1 and Stage 2 expected credit loss allowances relative to the baseline level. The baseline level is the amount of Stage 1 and Stage 2 allowances as at the quarter ending January 31, 2020. This increased amount is adjusted for tax effects and subject to a scaling factor that will decrease over time. The scaling factor will be set at 70% in fiscal 2020, 50% in fiscal 2021 and 25% in fiscal 2022.

## 10. SHARE-BASED COMPENSATION

### Share purchase option plan

During the first quarter, the Bank awarded 423,537 stock options (383,326 stock options on December 4, 2018) under the New Stock Option Plan with an exercise price of $43.68 ($38.97 for the December 4, 2018 grant). The weighted-average fair value of the stock options was estimated at $5.27 ($6.78 for the December 4, 2018 grant) using the Black-Scholes model, as well as the assumptions presented in the table below. There was no award of stock options during the second quarter of 2020.

During the quarter ended January 31, 2020, 1,670 common shares were issued under the employee share purchase option plan for a cash consideration of $0.1 million as part of a particular agreement with an employee.

Information relating to outstanding number of options is as follows. None of these options, as at April 30, 2020, were exercisable.

| | **As at April 30 2020** | As at October 31 2019 |
|---|---|---|
| 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 | **775,007** | 375,128 |

Assumptions related to the stock options valuations are as follows.

| | **2020 grant** | 2019 grant |
|---|---|---|
| Risk free interest rate | **1.71%** | 1.61% |
| Expected life of options | **8 years** | 8 years |
| Expected volatility[1] | **19%** | 22% |
| Expected dividend yield | **5.00%** | 5.20% |

(1) Expected volatility is extrapolated from the implied volatility of the Bank's share price and observable market inputs, which are not necessarily representation of actual results.

### Performance-based share unit plans

During the first quarter of 2020, the Bank granted 113,956 PSUs valued at $45.70 each. The rights to these units will vest in December 2022 and upon meeting the related performance criteria. There was no grant of PSUs during the second quarter of 2020.

### Restricted share unit plans

During the first quarter of 2020, under the restricted share unit plan, annual bonuses for certain employees amounting to $1.3 million were converted into 28,690 entirely vested restricted share units. Simultaneously, the Bank also granted 173,956 additional restricted share units valued at $45.70 each that will vest in December 2022.There was no grant of restricted shares units during the second quarter of 2020.

During the first quarter of 2020, under the restricted share unit plan for employees of the Capital Markets sector, annual bonuses for certain employees amounting to $0.5 million were converted into 11,323 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 | | | For the six months ended | |
|---|---|---|---|---|---|
| | **April 30 2020** | January 31 2020 | April 30 2019 | **April 30 2020** | April 30 2019 |
| Expense arising from cash-settled share-based compensation transactions | **$ (8,840)** | $ 3,283 | $ 2,145 | **$ (5,557)** | $ 9,551 |
| Effect of hedges | **11,736** | 1,868 | 1,399 | **13,604** | (963) |
| | **$ 2,896** | $ 5,151 | $ 3,544 | **$ 8,047** | $ 8,588 |

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 $32.3 million as at April 30, 2020 ($47.3 million as at October 31, 2019). The intrinsic value of the total liability related to fully vested rights and units was $19.1 million as at April 30, 2020 ($27.1 million as at October 31, 2019).

## 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 | | | For the six months ended | |
|---|---|---|---|---|---|
| | **April 30 2020** | January 31 2020 | April 30 2019 | **April 30 2020** | April 30 2019 |
| Defined benefit pension plans | **$ 3,117** | $ 3,186 | $ 3,277 | **$ 6,303** | $ 6,738 |
| Defined contribution pension plans | **2,027** | 2,000 | 2,005 | **4,027** | 4,035 |
| Other plans | **153** | 156 | 210 | **309** | 428 |
| | **$ 5,297** | $ 5,342 | $ 5,492 | **$ 10,639** | $ 11,201 |

## 12. EARNINGS PER SHARE

Basic and diluted earnings per share is detailed as follows.

| | For the three months ended | | | For the six months ended | |
|---|---|---|---|---|---|
| | **April 30 2020** | January 31 2020 | April 30 2019 | **April 30 2020** | April 30 2019 |
| **Earnings per share – basic** | | | | | |
| Net income | **$ 8,885** | $ 32,172 | $ 43,313 | **$ 41,057** | $ 83,569 |
| Preferred share dividends, including applicable taxes | **3,197** | 3,197 | 3,256 | **6,394** | 6,513 |
| Net income available to common shareholders | **$ 5,688** | $ 28,975 | $ 40,057 | **$ 34,663** | $ 77,056 |
| Average number of outstanding common shares (in thousands) | **42,812** | 42,666 | 42,235 | **42,738** | 42,173 |
| Earnings per share – basic | **$ 0.13** | $ 0.68 | $ 0.95 | **$ 0.81** | $ 1.83 |
| **Earnings per share – diluted** | | | | | |
| Net income available to common shareholders | **$ 5,688** | $ 28,975 | $ 40,057 | **$ 34,663** | $ 77,056 |
| Average number of outstanding common shares (in thousands) | **42,812** | 42,666 | 42,235 | **42,738** | 42,173 |
| Dilutive share purchase options (in thousands) | **—** | 74 | 39 | **37** | 29 |
| Diluted weighted average number of outstanding common shares (in thousands) | **42,812** | 42,740 | 42,274 | **42,775** | 42,202 |
| Earnings per share – diluted | **$ 0.13** | $ 0.68 | $ 0.95 | **$ 0.81** | $ 1.83 |

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 23 of the 2019 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 $263.2 million which are classified in Level 1 as at April 30, 2020 ($393.0 million as at October 31, 2019). 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. INCOME RELATED TO FINANCIAL INSTRUMENTS

### Net interest income from financial instruments

| | For the three months ended | | | For the six months ended | |
|---|---|---|---|---|---|
| | **April 30 2020** | January 31 2020 | April 30 2019 | **April 30 2020** | April 30 2019 |
| **Interest and similar income** | | | | | |
| Interest income calculated using the effective interest method | | | | | |
| Financial instruments measured at amortized cost | **$ 346,930** | $ 368,605 | $ 370,466 | $ 715,535 | $ 748,150 |
| Financial instruments measured at FVOCI | **1,539** | 454 | 501 | 1,993 | 2,338 |
| Interest and similar income for financial instruments not measured at amortized cost[1] | **15,779** | 10,496 | 10,811 | 26,275 | 24,865 |
| | **364,248** | 379,555 | 381,778 | 743,803 | 775,353 |
| **Interest and similar expense** | | | | | |
| Interest expenses calculated using the effective interest method | | | | | |
| Financial instruments measured at amortized cost | **192,379** | 203,502 | 204,131 | 395,881 | 407,104 |
| Interest expense and derivative expense for financial instruments that are measured at FVTPL | **1,122** | 7,268 | 13,083 | 8,390 | 31,085 |
| | **193,501** | 210,770 | 217,214 | 404,271 | 438,189 |
| Net interest income | **$ 170,747** | $ 168,785 | $ 164,564 | $ 339,532 | $ 337,164 |

(1) Includes interest income, derivative income and dividend income for financial instruments that are measured at FVTPL and from equity securities designated at FVOCI. Dividend income is $3.9 million for the three months ended April 30, 2020 ($4.4 million for the three months ended January 31, 2020 and $4 million for the three months ended April 30, 2019) and $8.3 million for the six months ended April 30, 2020 ($7.8 million for the six months ended April 30, 2019).

## 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 on the Consolidated Balance Sheet.

| | For the six months ended | |
|---|---|---|
| | **April 30 2020** | April 30 2019 |
| Balance at beginning of the period | **$ 9,322** | $ 4,754 |
| Restructuring charges incurred during the period [1] | **3,060** | 10,255 |
| Payments made during the period | **(8,118)** | (4,056) |
| Balance at end of the period | **$ 4,264** | $ 10,953 |

(1) Excluding a $4.8 million curtailment gain on pension plans and other post-employment benefits obligations presented on the Restructuring charges line-item in the Consolidated Statements of Income for the six months ended April 30, 2019.

In 2019, we reiterated our intention to optimize our Financial Clinic operations and announced the streamlining of certain back-office and corporate functions. As part of these initiatives, restructuring charges of $0.3 million were incurred during the second quarter of 2020 and mainly included severance charges. Additional costs are expected to be incurred as the changes are implemented.

In May 2020, we decided to merge fourteen additional Financial Clinics, over the next two quarters, and to reduce headcount by about 100 people through attrition, retirement and targeted job reductions to realign our workforce with our operational needs. These measures will generate an impairment charge related to lease contracts and severance charges of approximately $6 million, which will be recorded in the third quarter of 2020.

# 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

**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

**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.

**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.

**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. 40015.

**Social media**

**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.

## 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 15 |
| Series 15 | 51925D 79 1 / LB.PR.J | ** | June 15 |
| | | ** | September 15 |
| | | ** | December 15 |

* Subject to the approval of the Board of Directors.
** On such day (which shall not be more than 30 days preceding the date fixed for payment of such dividend) as may be determined from time to time by the Board of Directors of the Bank.

LAURENTIAN BANK
FINANCIAL GROUP