LAURENTIAN BANK
FINANCIAL GROUP

THIRD QUARTER 2018

Report to Shareholders

For the period ended July 31, 2018

HIGHLIGHTS OF THIRD QUARTER 2018

- Adjusted net income [1] down 1% year-over-year, and reported net income essentially unchanged
- Adjusted return on common shareholders' equity [1] of 10.0% and 9.2% on a reported basis
- Adjusted efficiency ratio of 69.7% and reported efficiency ratio of 71.8%
- Net interest margin up 14 basis points year-over-year
- Common Equity Tier 1 (CET1) ratio at 8.8%
- Loans to business customers up 14% year-over-year, from both organic growth and the acquisition of NCF [2]
- Mortgage loan portfolio review resolved within the guidance given last quarter

In millions of Canadian dollars, except per share and percentage amounts (Unaudited)	For the three months ended July 31 2018	July 31 2017	Variance	For the nine months ended July 31 2018	July 31 2017	Variance
Reported basis						
Net income	**$ 54.9**	$ 54.8	— %	**$ 173.8**	$ 147.8	18 %
Diluted earnings per share	**$ 1.23**	$ 1.48	(17)%	**$ 3.97**	$ 3.97	— %
Return on common shareholders' equity	**9.2%**	11.8%		**10.2%**	10.8%	
Efficiency ratio	**71.8%**	67.9%		**68.6%**	69.3%	
Common Equity Tier 1 capital ratio – All-in basis	**8.8%**	7.9%				
Adjusted basis [1]						
Adjusted net income	**$ 59.4**	$ 59.9	(1)%	**$ 187.2**	$ 164.3	14 %
Adjusted diluted earnings per share	**$ 1.34**	$ 1.63	(18)%	**$ 4.30**	$ 4.46	(4)%
Adjusted return on common shareholders' equity	**10.0%**	13.0%		**11.0%**	12.1%	
Adjusted efficiency ratio	**69.7%**	65.6%		**66.5%**	66.7%	

(1) Certain measures presented throughout this document exclude the effect of certain amounts designated as adjusting items due to their nature or significance. Refer to the Non-GAAP and Key Performance Measures section for further details.
(2) Northpoint Commercial Finance

Laurentian Bank Financial Group reported net income of $54.9 million or $1.23 diluted per share for the third quarter of 2018, compared with net income of $54.8 million or $1.48 diluted per share for the same period last year. Return on common shareholders' equity was 9.2% for the third quarter of 2018, compared with 11.8% for the third quarter of 2017. On an adjusted basis, net income totalled $59.4 million or $1.34 diluted per share for the third quarter of 2018, down 1% and 18% respectively, compared with $59.9 million or $1.63 diluted per share for the same period in 2017. Adjusted return on common shareholders' equity was 10.0% for the third quarter of 2018, compared with 13.0% a year ago. Reported results included adjusting items for the third quarter of 2018 and for the third quarter of 2017, as detailed in the Non-GAAP and Key Performance Measures section.

For the nine months ended July 31, 2018, net income was $173.8 million or $3.97 diluted per share, compared with $147.8 million or $3.97 diluted per share for the nine months ended July 31, 2017. Return on common shareholders' equity was 10.2% for the nine months ended July 31, 2018, compared with 10.8% for the nine months ended July 31, 2017. On an adjusted basis, net income totalled $187.2 million or $4.30 diluted per share for the nine months ended July 31, 2018, up 14% and down 4% respectively, compared with $164.3 million or $4.46 diluted per share for the nine months ended July 31, 2017. Adjusted return on common shareholders' equity was 11.0% for the nine months ended July 31, 2018, compared with 12.1% for the same period a year ago. Reported results for the nine months ended July 31, 2018 and for the nine months ended July 31, 2017 included adjusting items, as detailed in the Non-GAAP and Key Performance Measures section.

François Desjardins, President and Chief Executive Officer, commented on the resolution of the mortgage loan portfolio review: "We have now completed our mortgage loan portfolio review and have resolved the situation with both CMHC and the third-party purchaser, with no impact on our customers. The review was completed within the guidance given last quarter. This has been a tremendous learning experience and in the end, makes us stronger and more determined than ever to become a renewed financial institution, committed to being different and better and to deliver value to our customers." Mr. Desjardins added: "We are maintaining strong liquidity and capital positions to allow us to withstand market volatility and execute our plan. All this will ensure the financial strength of this organization."

HIGHLIGHTS

In thousands of Canadian dollars, except per share and percentage amounts (Unaudited)	For the three months ended					For the nine months ended		
	July 31 2018	April 30 2018	Variance	July 31 2017	Variance	**July 31 2018**	July 31 2017	Variance
Profitability								
Total revenue	**$ 260,664**	$ 259,887	—%	$ 248,002	5%	**$ 787,553**	$ 728,442	8 %
Net income	**$ 54,903**	$ 59,195	(7%)	$ 54,798	—%	**$ 173,845**	$ 147,826	18 %
Diluted earnings per share	**$ 1.23**	$ 1.34	(8)%	$ 1.48	(17%)	**$ 3.97**	$ 3.97	— %
Return on common shareholders' equity [1]	**9.2%**	10.5%		11.8%		**10.2 %**	10.8%	
Net interest margin	**1.77%**	1.82%		1.63%		**1.78 %**	1.65%	
Efficiency ratio	**71.8%**	67.6%		67.9%		**68.6 %**	69.3%	
Operating leverage	**(6.4%)**	(1.5)%		4.2%		**1.1 %**	1.5%	
Per common share								
Share price – Close	**$ 46.62**	$ 49.31	(5)%	$ 54.17	(14)%	**$ 46.62**	$ 54.17	(14)%
Price / earnings ratio (trailing four quarters)	**8.6x**	8.7x		12.3x		**8.6x**	12.3x	
Book value	**$ 53.43**	$ 52.67	1%	$ 50.54	6%	**$ 53.43**	$ 50.54	6 %
Market to book value	**87%**	94%		107%		**87 %**	107%	
Dividends declared	**$ 0.64**	$ 0.63	2%	$ 0.62	3%	**$ 1.90**	$ 1.84	3 %
Dividend yield	**5.5%**	5.1%		4.6%		**5.4 %**	4.5%	
Dividend payout ratio	**51.8%**	47.0%		41.8%		**47.6 %**	46.3%	
Adjusted financial measures [1]								
Adjusted net income	**$ 59,374**	$ 64,625	(8)%	$ 59,906	(1%)	**$ 187,216**	$ 164,265	14 %
Adjusted diluted earnings per share	**$ 1.34**	$ 1.47	(9)%	$ 1.63	(18%)	**$ 4.30**	$ 4.46	(4)%
Adjusted return on common shareholders' equity	**10.0%**	11.6%		13.0%		**11.0 %**	12.1%	
Adjusted efficiency ratio	**69.7%**	65.1%		65.6%		**66.5 %**	66.7%	
Adjusted operating leverage	**(7.1)%**	(0.4%)		2.5%		**0.4 %**	5.5%	
Adjusted dividend payout ratio	**47.7%**	42.8%		38.0%		**44.0 %**	41.3%	
Financial position (in millions of Canadian dollars)								
Balance sheet assets	**$ 46,631**	$ 47,565	(2%)	$ 45,212	3%			
Loans and acceptances	**$ 35,392**	$ 36,339	(3%)	$ 34,917	1%			
Deposits	**$ 29,085**	$ 29,479	(1%)	$ 28,232	3%			
Average earning assets	**$ 39,652**	$ 39,983	(1%)	$ 38,419	3%	**$ 39,914**	$ 37,381	7 %
Key growth drivers (in millions of Canadian dollars)								
Loans to business customers	**$ 12,311**	$ 12,362	—%	$ 10,795	14%			
Residential mortgage loans through independent brokers and advisors	**$ 8,092**	$ 8,453	(4%)	$ 8,087	—%			
Assets under management at Laurentian Bank Securities	**$ 4,200**	$ 3,982	5%	$ 3,730	13%			
Assets under management from Retail Services clients [2]	**$ 10,784**	$ 10,885	(1)%	$ 11,056	(2)%			
Total deposits from clients [3]	**$ 25,346**	$ 25,570	(1%)	$ 24,779	2%			
Basel III regulatory capital ratios — All-in basis								
Common Equity Tier 1	**8.8%**	8.6%		7.9%				
Total	**12.1%**	11.8%		13.0%				
Leverage ratio	**4.4%**	4.3%		4.1%				
Other information								
Number of full-time equivalent employees	**3,739**	3,834		3,598				
Number of branches	**103**	103		104				
Number of automated banking machines	**281**	308		343				

(1) Refer to the Non-GAAP and Key Performance Measures section.
(2) Including deposits and mutual funds from Retail clients.
(3) Including deposits through branches, independent brokers and advisors and commercial clients.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) is a narrative explanation, through the eyes of management, of our financial condition as at July 31, 2018 and performance during the three-month and nine-month periods then ended. This MD&A, dated September 4, 2018, should be read in conjunction with the condensed interim consolidated financial statements (unaudited) for the period ended July 31, 2018, prepared in accordance with IAS 34 *Interim financial reporting*, as issued by the International Accounting Standards Board (IASB) and set out in the CPA Canada Handbook. Supplemental information on risk management, critical accounting policies and estimates, and off-balance sheet arrangements is also provided in our 2017 Annual Report.

Additional information about us, including the Annual Information Form, is available on our website at www.lbcfg.ca and on SEDAR at www.sedar.com.

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

With more than 3,700 employees guided by the values of proximity, simplicity and honesty, the Group provides a broad range of advice-based solutions and services to its retail, business and institutional customers. With pan-Canadian activities and a presence in the U.S., the Group is an important player in numerous market segments.

The Group has $47 billion in balance sheet assets and $31 billion in assets under administration.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

In this document and in other documents filed with Canadian regulatory authorities or in other communications, we may from time to time make written or oral forward-looking statements within the meaning of applicable securities legislation. Forward-looking statements include, but are not limited to, statements regarding our business plan and financial objectives including statements contained in our 2017 Annual Report and in this report under the heading "Outlook". The forward-looking statements contained in this document are used to assist readers in obtaining a better understanding of our financial position and the results of operations as at and for the periods ended on the dates presented and may not be appropriate for other purposes. Forward-looking statements typically use the conditional, as well as words such as prospect, believe, estimate, forecast, project, expect, anticipate, plan, may, should, could and would, or the negative of these terms, variations thereof or similar terminology.

By their very nature, forward-looking statements are based on assumptions and involve inherent risks and uncertainties, both general and specific in nature. It is therefore possible that the forecasts, projections and other forward-looking statements will not be achieved or will prove to be inaccurate. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we can give no assurances that these expectations will prove to be correct. Certain important assumptions by us in making forward-looking statements include, but are not limited to, our estimates and statements regarding our business plan and financial objectives including statements contained in our 2017 Annual Report under the heading "Outlook".

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

We further caution that the foregoing list of factors is not exhaustive. For more information on the risks, uncertainties and assumptions that would cause our actual results to differ from current expectations, please also refer to the "Risk Appetite and Risk Management Framework" on page 44 of our Management's Discussion and Analysis as contained in our 2017 Annual Report, as well as to other public filings available at www.sedar.com.

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

NON-GAAP AND KEY PERFORMANCE MEASURES

NON-GAAP MEASURES

Management uses both generally accepted accounting principles (GAAP) and certain non-GAAP measures to assess performance. Non-GAAP measures presented throughout this document exclude the effect of certain amounts designated as adjusting items due to their nature or significance. These non-GAAP measures are considered useful to readers in obtaining a better understanding of how management analyzes 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 presents the impact of adjusting items on reported results.

IMPACT OF ADJUSTING ITEMS

In thousands of Canadian dollars, except per share amounts (Unaudited)	For the three months ended			For the nine months ended	
	July 31 2018	April 30 2018	July 31 2017	**July 31 2018**	July 31 2017
Impact on net income					
Reported net income	**$ 54,903**	$ 59,195	$ 54,798	**$ 173,845**	$ 147,826
Adjusting items, net of income taxes					
Restructuring charges [1]	**1,645**	1,283	1,584	**3,601**	3,524
Items related to business combinations					
Amortization of net premium on purchased financial instruments [2]	**402**	442	563	**1,324**	1,968
Amortization of acquisition-related intangible assets [3]	**2,424**	2,418	181	**6,720**	545
Other costs related to business combinations [4]	**—**	1,287	2,780	**1,726**	10,402
	2,826	4,147	3,524	**9,770**	12,915
	4,471	5,430	5,108	**13,371**	16,439
Adjusted net income	**$ 59,374**	$ 64,625	$ 59,906	**$ 187,216**	$ 164,265
Impact on diluted earnings per share					
Reported diluted earnings per share	**$ 1.23**	$ 1.34	$ 1.48	**$ 3.97**	$ 3.97
Adjusting items					
Restructuring charges	**0.04**	0.03	0.05	**0.09**	0.10
Items related to business combinations	**0.07**	0.10	0.10	**0.24**	0.39
	0.11	0.13	0.15	**0.33**	0.48
Adjusted diluted earnings per share [5]	**$ 1.34**	$ 1.47	$ 1.63	**$ 4.30**	$ 4.46

(1) Restructuring charges result from the optimization of our Retail Services activities and mostly relate to salaries, provisions related to the termination of lease contracts, communication expenses and professional fees. They have been designated as adjusting items due to their nature and the significance of the amounts.
(2) The amortization of net premium on purchased financial instruments arose as a result of a one-time gain on acquisition and is considered an adjusting item since it represents, according to management, a significant non-cash and non-recurring adjustment.
(3) The amortization of intangible assets related to the acquisitions of CIT Canada and NCF is considered as an adjusting item since it represents, according to management, a significant non-cash and non-recurring adjustment. The amortization of acquisition-related intangible assets is included in the line item Other non-interest expenses in the Consolidated Statement of Income.
(4) Costs related to the integration of CIT Canada and transaction costs related to the acquisition of NCF.
(5) The impact of adjusting items on a per share basis does not add due to rounding for the nine months ended July 31, 2017.

KEY PERFORMANCE MEASURES

Management also uses a number of financial metrics to assess performance. Detailed information on return on common shareholders' equity is provided below. Other performance measures such as the efficiency ratio and the net interest margin are defined in the "Non-GAAP and Key Performance Measures" section on page 19 of our 2017 Annual Report.

Return on common shareholders' equity

Return on common shareholders' equity is a profitability measure calculated as the net income available to common shareholders as a percentage of average common shareholders' equity. 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 presents additional information about return on common shareholders' equity.

RETURN ON COMMON SHAREHOLDERS' EQUITY

	For the three months ended			For the nine months ended	
In thousands of Canadian dollars, except percentage amounts (Unaudited)	**July 31 2018**	April 30 2018	July 31 2017	**July 31 2018**	July 31 2017
Reported net income available to common shareholders	**$ 51,650**	$ 55,942	$ 50,525	**$ 163,060**	$ 135,006
Adjusting items, net of income taxes	**4,471**	5,430	5,108	**13,371**	16,439
Adjusted net income available to common shareholders	**$ 56,121**	$ 61,372	$ 55,633	**$ 176,431**	$ 151,445
Average common shareholders' equity	**$ 2,218,543**	$ 2,178,112	$ 1,702,068	**$ 2,143,375**	$ 1,667,397
Return on common shareholders' equity	**9.2%**	10.5%	11.8%	**10.2%**	10.8%
Adjusted return on common shareholders' equity	**10.0%**	11.6%	13.0%	**11.0%**	12.1%

EXTERNAL REPORTING CHANGES

COMMERCIAL LOANS

As at November 1, 2017, commercial mortgage loans and commercial and other loans previously presented separately on the consolidated balance sheet are presented together under the line item commercial loans. This change in presentation better reflects the nature of our business activities.

OUTLOOK

ECONOMIC OUTLOOK

Global economic growth is expected to remain solid in the short-term due to further acceleration in the U.S. economy and despite heightening trade tensions. As the business cycle ages and inflation pressures increase, central banks continue to gradually withdraw some monetary stimulus, contributing to increases in interest rates globally. In the U.S., the Federal Reserve continues to raise its policy rate to prevent the U.S. economy, at full employment, from overheating. Financial markets expect the gradual pace of increase in the federal funds rate target to continue during the second half of 2018 and in 2019.

Previously announced tariffs by the U.S. are only expected to have a modest impact on global economic growth and inflation, in part as consumers, businesses and governments are adjusting to targeted tariffs. However, further escalation in trade tensions remains a concern and provide the largest downside risk. Nevertheless, and despite uncertainty relative to U.S. trade policy, including the North American Free Trade Agreement, stronger commodity prices and solid growth in the U.S. underpin an above-trend rate for Canadian economic growth.

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

With increasing momentum in both real gross domestic product (GDP) and consumer inflation, the Bank of Canada raised its policy rate by 25 basis points in July 2018, following three similar increases since the summer of 2017. Notwithstanding, market participants still expect further monetary tightening measures in Canada during the second half of 2018 and in 2019. The target for the overnight rate stands at 1.50%, the highest level since late 2008, and the Canadian dollar is currently trading at around US$0.77. Canadian real GDP is expected to grow at a respectable pace of 2.0% in 2018, 1.8% in 2019 and 1.7% in 2020.

STRATEGIC PLAN

Strengthening our foundation

As announced at the beginning of the year, we have been investing in our people, processes and technologies. As well, over the past nine months we have strengthened the Bank's financial foundation. We are well positioned to continue progressing towards our transformation, including the implementation of our core banking system, the development of our digital solutions and the adoption of the Advanced Internal Ratings-Based Approach. As we deliver on these initiatives, we are maintaining a higher level of liquidity and continuing to manage the balance sheet conservatively to allow us to withstand market volatility and to meet increased industry requirements. While this is weighing on short term performance, it also ensures the financial strength of the Bank and sustainable profitability.

Core-banking system and Digital Banking Solutions
At the beginning of the year, we initiated the implementation of our new core-banking system. Toward the end of the year, we will migrate the remaining B2B Bank products and most Business Services loans onto the new platform. This new platform will provide the necessary tool to improve our product offering and advance our transformation to digital banking. During the transition period, we will be running concurrent platforms for our core-banking systems.

Furthermore, in March of this year, LBC Capital deployed its new financing and leasing system which provides improved scalability and greater flexibility to address customers' needs.

Advanced Internal Rating-Based Approach to credit risk
We are also progressing on our project to adopt in late 2020, pending regulatory approval, the Advanced Internal Rating-Based Approach to credit risk used to determine the Bank's regulatory capital ratios. In addition, we continue to improve compliance and regulatory frameworks to better manage risks.

Optimization of Retail Services activities

At the beginning of 2016, we announced our strategic plan, which included optimizing and simplifying retail operations. This strategy led to the decision, in September 2016, to reorganize the branch network. By the end of 2017, we had merged 46 branches and have converted an additional 23 branches into advice-only branches. During the first quarter of 2018, we merged another branch, and by the end of fiscal 2018 we will merge 7 more branches. We continue to monitor the impact of these actions on our core client base. The response has been largely positive and the impact on operations and results are in line with expectations. Building on this positive outcome, we decided to focus on delivering financial advice through our branch network, and on migrating customers to electronic and web-based platforms, thus progressing toward our objective to further digitize services. However, the uncertainty associated with the renewal of the collective bargaining agreement, which expired on December 31, 2017, is impacting this portion of the plan and, for now, is forcing us to review the pace of the conversion to advice-only branches. We are still committed to achieve this transformation progressively throughout 2019. As we continue to simplify the Bank's retail branch operations, we are progressing toward our goal of becoming a renewed financial institution by 2022.

MANAGEMENT CHANGES

Last June, Deborah Rose was promoted to Chief Operating Officer. Her extensive experience and many accomplishments over her 25-year career in the financial industry have prepared her for this new role where she will be overseeing the administration, technology and operation activities for the Group. Up until this point, Ms. Rose held combined roles of President and Chief Executive Officer, B2B Bank, Executive Vice President, Intermediary Banking and Chief Information Officer, Laurentian Bank and President and Chief Executive Officer of LBC Tech. She will continue to assume the role of the Group's Chief Information Officer.

Craig Backman was hired to fill the newly created role of Executive Vice President, Personal Digital Banking. Mr. Backman will be responsible for the Group's digital retail banking product development and distribution across Canada. He will also oversee the continued business growth and development of the pan-Canadian network of independent financial advisors and brokers and as such he becomes President and CEO of B2B Bank. Mr. Backman comes to the Bank from a long career in consumer products and financial services industries, most recently in charge of digital strategy across the Canadian business lines at TD Bank.

Liam Mason has been appointed Executive Vice President and Chief Risk Officer. A seasoned executive and highly regarded in the financial industry, he brings strategic insight and a comprehensive understanding of risk management in the evolving Canadian landscape. Since 2016, Mr. Mason held the position of Managing Director in a Lead Supervisor role at the Office of the Superintendent of Financial Institutions. Previously, he spent 28 years in various senior roles with large Canadian and international banks.

ANALYSIS OF CONSOLIDATED RESULTS

CONDENSED CONSOLIDATED RESULTS

In thousands of Canadian dollars, except per share amounts (Unaudited)	For the three months ended			For the nine months ended	
	July 31 2018	April 30 2018	July 31 2017	**July 31 2018**	July 31 2017
Net interest income	**$ 177,013**	$ 177,112	$ 157,707	**$ 532,760**	$ 461,870
Other income	**83,651**	82,775	90,295	**254,793**	266,572
Total revenue	**260,664**	259,887	248,002	**787,553**	728,442
Amortization of net premium on purchased financial instruments	**547**	601	766	**1,801**	2,676
Provision for credit losses	**4,900**	9,500	6,400	**26,400**	25,500
Non-interest expenses [1]	**187,245**	175,554	168,364	**540,344**	504,994
Income before income taxes	**67,972**	74,232	72,472	**219,008**	195,272
Income taxes	**13,069**	15,037	17,674	**45,163**	47,446
Net income	**$ 54,903**	$ 59,195	$ 54,798	**$ 173,845**	$ 147,826
Preferred share dividends, including applicable taxes	**3,253**	3,253	4,273	**10,785**	12,820
Net income available to common shareholders	**$ 51,650**	$ 55,942	$ 50,525	**$ 163,060**	$ 135,006
Diluted earnings per share	**$ 1.23**	$ 1.34	$ 1.48	**$ 3.97**	$ 3.97
Adjusted net income [2]	**$ 59,374**	$ 64,625	$ 59,906	**$ 187,216**	$ 164,265
Adjusted diluted earnings per share [2]	**$ 1.34**	$ 1.47	$ 1.63	**$ 4.30**	$ 4.46

(1) Non-interest expenses include certain adjusting items, as detailed in the Non-GAAP and Key Performance Measures section.
(2) Refer to the Non-GAAP and Key Performance Measures section.

THREE MONTHS ENDED JULY 31, 2018 COMPARED WITH THREE MONTHS ENDED JULY 31, 2017

Net income was $54.9 million or $1.23 diluted per share for the third quarter of 2018, compared with $54.8 million or $1.48 diluted per share for the third quarter of 2017. Adjusted net income was $59.4 million for the third quarter of 2018, down 1% from $59.9 million for the third quarter of 2017, while adjusted diluted earnings per share were $1.34, down 18% compared with $1.63 in the third quarter of 2017. The decrease in earnings per share, compared with the third quarter of 2017, reflects the common share issuance completed at the beginning of the year.

Total revenue

Total revenue increased by $12.7 million or 5% to $260.7 million for the third quarter of 2018 from $248.0 million for the third quarter of 2017. This increase was driven by growth in net interest income stemming from volume growth in the commercial loan portfolio resulting mainly from the acquisition of NCF.

Net interest income increased by $19.3 million or 12% to $177.0 million for the third quarter of 2018, from $157.7 million for the third quarter of 2017. The increase was due to strong volume growth in the commercial loan portfolio, resulting mainly from the acquisition of NCF, as well as from the higher margins earned on these loans. Net interest margin stood at 1.77% for the third quarter of 2018, an increase of 14 basis points compared with the third quarter of 2017, mainly due to the higher proportion of higher-yielding loans to business customers, as well as to recent increases in the prime rate, partly offset by the higher level of lower yielding liquid assets.

Other income decreased by $6.6 million to $83.7 million for the third quarter of 2018, compared with $90.3 million for the third quarter of 2017. Fees and commissions on loans and deposits decreased by $2.2 million compared with the third quarter of 2017, mainly driven by lower transaction fees and service charges as clients continue to modify their banking behavior and as a result of product simplification. Income from brokerage operations decreased by $2.1 million compared with the third quarter of 2017, mostly as a result of a lower activity level. Insurance income also decreased by $0.7 million compared with the third quarter of 2017, mainly as a result of lower premiums and higher claims.

Amortization of net premium on purchased financial instruments

For the third quarter of 2018, the amortization of net premium on purchased financial instruments amounted to $0.5 million, compared with $0.8 million for the third quarter of 2017. Refer to the Non-GAAP and Key Performance Measures section for additional information.

Provision for credit losses

The provision for credit losses amounted to $4.9 million for the third quarter of 2018 compared with $6.4 million for the third quarter of 2017. During the quarter, the Bank continued to benefit from the ongoing favorable economic conditions, as well as from the overall underlying good credit quality of the loan portfolios. Refer to the Risk Management section for additional information.

Non-interest expenses

Non-interest expenses amounted to $187.2 million for the third quarter of 2018, an increase of $18.9 million compared with the third quarter of 2017. Adjusted non-interest expenses increased by 12% to $181.6 million for the third quarter of 2018, compared with $162.7 million for the third quarter of 2017, mainly due to the acquisition of NCF, regular salary increases and higher other non-interest expenses.

Salaries and employee benefits increased by $3.9 million or 4% to $93.0 million for the third quarter of 2018, compared with the third quarter of 2017, mainly due to regular annual salary increases and the addition of employees from NCF.

Premises and technology costs increased by $3.7 million or 8% to $48.8 million for the third quarter of 2018 compared with the third quarter of 2017, mainly as a result of higher technology costs related to the costs incurred to run concurrent core-banking platforms, as well as to ongoing activities to enhance IT service levels and security.

Other non-interest expenses amounted to $43.2 million for the third quarter of 2018, an increase of $14.4 million or 50% compared with the third quarter of 2017. This increase was mainly due to the newly acquired NCF business, including the amortization charge related to acquisition-related intangibles, as well as advisory service expenses to support our plan. Furthermore, the Bank incurred additional regulatory expenses, including increases in deposit insurance costs and other costs related to various compliance projects such as the conversion to IFRS 9, anti-money laundering process upgrades, business continuity plan updates, as well as costs related to the review of the Bank's mortgage loan portfolio. During the quarter, we also recorded a $1.5 million write-off resulting from the cancellation of mortgage portfolio insurance in light of the aforementioned review. We anticipate that the ongoing costs will remain at a similar level over the next few quarters.

Restructuring charges amounted to $2.2 million for the third quarter of 2018 and mainly included provisions related to the termination of lease contracts in light of the reorganization of the retail operations.

Costs related to business combinations were nil for the third quarter of 2018 as the integration of CIT Canada's operations was substantially completed in the second quarter of 2018.

Adjusted efficiency ratio
The adjusted efficiency ratio was 69.7% for the third quarter of 2018, compared with 65.6% for the third quarter of 2017. The adjusted operating leverage was negative year-over-year, mainly as other non-interest expenses increased at a faster pace than revenue growth. As previously mentioned, we expect that this ratio will remain volatile and high over the next few quarters.

Income taxes

For the quarter ended July 31, 2018, the income tax expense was $13.1 million and the effective tax rate was 19.2%. The lower tax rate, compared to the statutory rate, mainly resulted from the favourable effect of holding investments in Canadian securities that generate non-taxable dividend income, as well as from the lower taxation level on revenues from foreign operations. For the quarter ended July 31, 2017, the income tax expense was $17.7 million and the effective tax rate was 24.4%. The lower tax rate, compared to the statutory rate, resulted from the same items as mentioned above. The lower tax rate for the third quarter of 2018, when compared to the third quarter of 2017, mainly resulted from the proportionally lower domestic revenue.

NINE MONTHS ENDED JULY 31, 2018 COMPARED WITH NINE MONTHS ENDED JULY 31, 2017

Net income was $173.8 million or $3.97 diluted per share for the nine months ended July 31, 2018, compared with $147.8 million or $3.97 diluted per share for the nine months ended July 31, 2017. Adjusted net income was $187.2 million for the nine months ended July 31, 2018, up 14% from $164.3 million for the nine months ended July 31, 2017, while adjusted diluted earnings per share were $4.30 for the nine months ended July 31, 2018, down 4% from $4.46 for the nine months ended July 31, 2017. The decrease in earnings per share, compared with the nine months ended July 31, 2017, reflects the common share issuance completed at the beginning of the year.

Total revenue

Total revenue increased by $59.1 million or 8% to $787.6 million for the nine months ended July 31, 2018 from $728.4 million for the nine months ended July 31, 2017, mainly driven by growth in net interest income stemming from strong volume growth in the commercial loan portfolio, in part from the acquisition of NCF.

Net interest income increased by $70.9 million or 15% to $532.8 million for the nine months ended July 31, 2018, from $461.9 million for the nine months ended July 31, 2017. The increase was mainly due to strong volume growth in the commercial loan portfolios, both organic and from the acquisition of NCF, as well as the higher margins earned on these loans. Net interest margin stood at 1.78% for the nine months ended July 31, 2018, an increase of 13 basis points compared with the nine months ended July 31, 2017, essentially due to the higher proportion of higher-yielding loans to business customers and partly offset by the higher level of lower yielding liquid assets.

Other income decreased by $11.8 million to $254.8 million for the nine months ended July 31, 2018, compared with $266.6 million for the nine months ended July 31, 2017. Income from brokerage operations decreased by $7.2 million compared with the nine months ended July 31, 2017, mostly as a result of a lower activity level. Income from treasury and financial market operations also decreased by $2.7 million, mainly as a result of lower net securities gains compared to the nine months ended July 31, 2017. Fees and commissions on loans and deposits decreased by $3.3 million compared with the nine months ended July 31, 2017, mainly driven by lower transaction fees and service charges as clients continue to modify their banking behavior and as a result of product simplification. These decreases were partly offset by the $5.3 million net gain on the sale of the $380 million agricultural commercial loan portfolio during the second quarter of 2018.

Amortization of net premium on purchased financial instruments

For the nine months ended July 31, 2018, the amortization of net premium on purchased financial instruments amounted to $1.8 million, compared with $2.7 million for the nine months ended July 31, 2017. Refer to the Non-GAAP and Key Performance Measures section for additional information.

Provision for credit losses

The provision for credit losses amounted to $26.4 million for the nine months ended July 31, 2018 compared with $25.5 million for the nine months ended July 31, 2017. The slight increase reflects the evolution of the mix and overall growth in the loan portfolio. Losses for both periods also included the favorable impact of reviews of allowance models. Notwithstanding, the continued low level of credit losses reflects the overall underlying good credit quality of the loan portfolios. Refer to the Risk Management section for additional information.

Non-interest expenses

Non-interest expenses increased by $35.4 million to $540.3 million for the nine months ended July 31, 2018, compared with $505.0 million for the nine months ended July 31, 2017. Adjusted non-interest expenses increased by $37.5 million or 8% to $523.7 million for the nine months ended July 31, 2018, compared with $486.2 million for the nine months ended July 31, 2017. This increase was mainly due to the newly acquired NCF business, including the amortization charge related to acquisition-related intangibles, as well as advisory service expenses to support our plan. Furthermore, the Bank incurred additional regulatory expenses, including increases in deposit insurance costs and other costs related to various compliance projects such as the conversion to IFRS 9, anti-money laundering process upgrades, business continuity plan updates, as well as costs related to the review of the Bank's mortgage loan portfolio.

Salaries and employee benefits increased by $11.4 million or 4% to $278.2 million for the nine months ended July 31, 2018, compared with the nine months ended July 31, 2017, mainly due to regular annual salary increases, and the addition of employees from NCF.

Premises and technology costs increased by $7.1 million to $144.0 million for the nine months ended July 31, 2018, compared with the nine months ended July 31, 2017 mainly as a result of higher technology costs related to the core-banking platforms, as well as ongoing activities to enhance IT service levels and security.

Other non-interest expenses increased by $27.6 million to $110.8 million for the nine months ended July 31, 2018, compared with the nine months ended July 31, 2017. This increase is mainly due to the amortization of acquisition-related intangibles, higher regulatory expenses including increases in deposit insurance costs, a $1.5 million write-off resulting from the cancellation of mortgage portfolio insurance incurred in the third quarter of 2018, as well as higher advisory service expenses, as noted above.

Restructuring charges amounted to $4.9 million for the nine months ended July 31, 2018 and, as mentioned above, mainly included severance charges, provisions related to the termination of lease contracts and communication costs in light of the reorganization of the retail operations.

Costs related to business combinations amounted to $2.4 million for the nine months ended July 31, 2018 and mainly included technology costs for the integration of CIT Canada's operations.

Adjusted efficiency ratio
The adjusted efficiency ratio was 66.5% for the nine months ended July 31, 2018, compared with 66.7% for the nine months ended July 31, 2017. The adjusted operating leverage was positive year-over-year, mostly driven by revenue growth.

Income taxes

For the nine months ended July 31, 2018, the income tax expense was $45.2 million and the effective tax rate was 20.6%. The lower tax rate, compared to the statutory rate, mainly resulted from the favourable effect of holding investments in Canadian securities that generate non-taxable dividend income and the lower taxation level on revenues from foreign operations. For the nine months ended July 31, 2017, the income tax expense was $47.4 million and the effective tax rate was 24.3%. The lower tax rate, compared to the statutory rate, resulted mainly from the aforementioned factors. The lower tax rate for the nine months ended July 31, 2018, when compared to the same period of 2017, mainly resulted from the proportionally lower level of domestic revenue.

On December 22, 2017, the U.S. government enacted new comprehensive tax legislation, which made significant changes to the U.S. tax code. The enacted reduction of the U.S. corporate tax rate has resulted in a decrease of $0.5 million of the Bank's U.S. net deferred tax assets during the first quarter of 2018 and an equivalent charge to the income statement. This charge is gradually being offset, as of the beginning of 2018, by the positive effect on earnings of the lower U.S. corporate tax rate.

Following the 2018 Canadian federal budget and the proposed legislation released in July 2018, we expect that the new measures will impact future income earned on foreign insurance operations as of fiscal 2019. As a result, the Bank's income tax charge could increase by approximately $4.0 million annually, as previously disclosed in the second quarter of 2018.

THREE MONTHS ENDED JULY 31, 2018 COMPARED WITH THREE MONTHS ENDED APRIL 30, 2018

Net income was $54.9 million or $1.23 diluted per share for the third quarter of 2018 compared with $59.2 million or $1.34 diluted per share for the second quarter of 2018. Adjusted net income was $59.4 million or $1.34 diluted per share for the third quarter of 2018, compared with $64.6 million or $1.47 diluted per share for the second quarter of 2018. Reported and adjusted results for the second quarter of 2018 included a net gain of $5.3 million ($4.6 million after income taxes) or $0.11 per share for the sale of the agricultural commercial loan portfolio.

Total revenue increased by $0.8 million to $260.7 million for the third quarter of 2018, compared with $259.9 million for the previous quarter. Net interest income decreased by $0.1 million sequentially to $177.0 million, essentially due to the higher level of liquid assets, partly offset by the positive impact of three additional days in the third quarter, as well as from the seasonally higher level of prepayment penalties on residential mortgage loans. Net interest margin stood at 1.77% for the third quarter of 2018, a decrease of 5 basis points compared with 1.82% for the second quarter of 2018, essentially due to the higher level of liquid assets compared with the previous quarter.

Other income increased by $0.9 million to $83.7 million for the third quarter of 2018, compared with $82.8 million for the previous quarter. Income from treasury and financial markets increased by $3.9 million, mainly due to improved performance from treasury operations. Income from brokerage operations also increased by $1.9 million, mainly as a result of higher fixed income activities. Fees and commissions on loans and deposits further contributed and increased by $1.7 million, mainly driven by higher lending fees due to increased activity in the commercial portfolios. In the second quarter of 2018, other income included a net gain of $5.3 million for the sale of the agricultural commercial loan portfolio.

The line-item "Amortization of net premium on purchased financial instruments" amounted to $0.5 million for the third quarter of 2018, essentially unchanged from the second quarter of 2018. Refer to the Non-GAAP and Key Performance Measures section for additional information.

Provision for credit losses totalled $4.9 million for the third quarter of 2018, a $4.6 million decrease compared with $9.5 million for the second quarter of 2018. During the quarter, the Bank continued to benefit from the ongoing favorable economic conditions, as well as from the overall underlying good credit quality of the loan portfolios. Refer to the Risk Management section for additional information.

Non-interest expenses increased by $11.7 million to $187.2 million for the third quarter of 2018 from $175.6 million in the second quarter of 2018. Adjusted non-interest expenses increased by $12.6 million and amounted to $181.6 million in the current quarter, compared with $169.1 million in the second quarter of 2018. The increase, as noted above, is mainly due to higher regulatory expenses, including deposit insurance costs and other costs related to various compliance projects, as well as to the $1.5 million write-off resulting from the cancellation of mortgage portfolio insurance. The higher salaries given the three additional days in the third quarter also contributed to the increase in non-interest expenses for the quarter.

FINANCIAL CONDITION

CONDENSED BALANCE SHEET

In thousands of Canadian dollars (Unaudited)	**As at July 31 2018**	As at October 31 2017	As at July 31 2017
Assets			
Cash and deposits with other banks	**$ 543,019**	$ 327,362	$ 260,280
Securities	**6,054,557**	5,586,014	5,969,125
Securities purchased under reverse repurchase agreements	**3,572,495**	3,107,841	3,291,871
Loans and acceptances, net	**35,304,914**	36,596,971	34,817,852
Other assets	**1,155,714**	1,064,470	872,780
	$ 46,630,699	$ 46,682,658	$ 45,211,908
Liabilities and Shareholders' Equity			
Deposits	**$ 29,084,535**	$ 28,930,360	$ 28,232,129
Other liabilities	**6,898,835**	6,842,540	6,515,109
Debt related to securitization activities	**7,814,589**	8,230,921	7,863,984
Subordinated debt	**348,677**	348,427	548,842
Shareholders' equity	**2,484,063**	2,330,410	2,051,844
	$ 46,630,699	$ 46,682,658	$ 45,211,908

As at July 31, 2018, total assets amounted to $46.6 billion, a decrease of $0.1 billion compared with $46.7 billion as at October 31, 2017. This mainly reflects a decrease in loans of $1.3 billion, partly offset by an increase in liquid assets of $1.1 billion as well as an increase in other assets of $91.2 million, as explained below. As at April 30, 2018, total assets amounted to $47.6 billion.

LIQUID ASSETS

Liquid assets consist of cash, deposits with other banks, securities and securities purchased under reverse repurchase agreements. As at July 31, 2018, these assets totalled $10.2 billion, an increase of $1.1 billion compared with October 31, 2017. Overall, we continue to prudently manage the level of liquid assets as we are progressing on our various initiatives. The Bank benefits from well diversified funding sources and the current level of cash resources is sufficient to meet obligations, under both normal and stressed conditions.

LOANS

Loans and bankers' acceptances, net of allowances, stood at $35.3 billion as at July 31, 2018, a decrease of $1.3 billion since October 31, 2017. The decrease mainly occurred over the last quarter as we were optimizing our portfolio mix in order to better position the Bank to foster profitable growth, and as further explained by the items outlined below.

Personal loans amounted to $5.5 billion and decreased by $493.8 million since October 31, 2017, mainly due to net repayments in the investment loan portfolio, reflecting consumer behaviour to accelerate repayment following strong capital market performance.

Residential mortgage loans stood at $17.5 billion as at July 31, 2018, a decrease of $1.0 billion since October 31, 2017. This mostly reflects a gradual decrease in origination as we focus on higher yielding commercial loans in order to optimize product mix. The decision of Retail Services to solely originate residential mortgages through the branch network and no longer through the mortgage broker channel in Quebec as of November 1, 2017 also contributed to the decrease in volumes. Furthermore, as expected, since January 1, 2018 growth was slowed by the newly applicable Office of the Superintendent of Financial Institutions' B-20 mortgage underwriting regulation and the ensuing challenging prime mortgage market conditions. The decrease was partly offset by the acquisition of mortgage loans originated by third-parties as part of our program initiated in 2016 to optimize the usage of National Housing Act mortgage-backed securities (NHA MBS) allocations.

Commercial loans amounted to $12.3 billion as at July 31, 2018, up 1% since October 31, 2017. This increase is mainly due to strong growth in inventory financing loans stemming from our recently acquired NCF business, as well as from real estate financing, partly offset by the $380 million agricultural commercial loan portfolio sale during the second quarter of 2018.

OTHER ASSETS

Other assets increased by $91.2 million as at July 31, 2018, compared with October 31, 2017, primarily reflecting the increase in cash reserve deposits related to securitization activities, as detailed below, as well as additions to intangibles as we completed the deployment of LBC Capital's financing and leasing system and continued to progress on the development of our new core banking system and project to adopt the AIRB Approach to credit risk. Additions to premises and equipment related to our new Montreal corporate office also contributed to the increase.

LIABILITIES

Deposits increased by $0.2 billion to $29.1 billion as at July 31, 2018, compared with October 31, 2017. Personal deposits stood at $21.9 billion as at July 31, 2018, up $0.7 billion compared with October 31, 2017. The increase was mainly driven by higher term deposits sourced through independent brokers and advisors, partly offset by lower demand deposits sourced through the branch network and from independent brokers and advisors. Retail deposits sourced through the branch network have slightly decreased by 2% since the beginning of the year and were down marginally by 1% over the last three months. Business and other deposits decreased by $544.3 million to $7.2 billion since the beginning of the year, mainly as we optimized our funding and in light of the reduction in total assets. Personal deposits represented 75% of total deposits as at July 31, 2018, compared with 73% as at October 31, 2017, and contribute to our good liquidity position.

Debt related to securitization activities decreased by $0.4 billion compared with October 31, 2017 and stood at $7.8 billion as at July 31, 2018. The decrease mostly stems from maturities of liabilities related to the Canada Mortgage Bond program, as well as the repurchase of certain mortgage loans as detailed in the Review of Mortgage Portfolio section below and normal repayments. During the quarter, the Bank securitized $135.7 million mortgage loans.

SHAREHOLDERS' EQUITY

Shareholders' equity stood at $2,484.1 million as at July 31, 2018, compared with $2,330.4 million as at October 31, 2017. The increase results in part from the 2,624,300 common share public offering completed in January 2018 for gross proceeds of $143.8 million (net proceeds of $139.2 million), which was partially offset by the $100.0 million Class A Preferred Shares Series 11 redemption in December 2017. Shareholders' equity also increased as a result of the net income contribution, net of declared dividends, as well as by the issuance of common shares under the Shareholder Dividend Reinvestment and Share Purchase Plan.

Our book value per common share appreciated to $53.43 as at July 31, 2018 from $51.18 as at October 31, 2017. There were 41,995,699 common shares outstanding as at August 23, 2018.

MORTGAGE LOAN PORTFOLIO REVIEW

This section provides an update on the mortgage loans sold to (i) the Canada Mortgage and Housing Corporation's ("CMHC") securitization programs (previously referred to as the "Other Third-Party Purchaser") and (ii) a third-party purchaser (the "TPP").

All identified issues related to mortgages sold into CMHC's securitization programs and to the TPP have now been resolved, with no impact on our customers.

Since November 1, 2017, we have implemented improved quality control and origination processes throughout the Bank along with additional employee training. We are confident that these enhanced measures significantly strengthen the Bank's mortgage loan origination and securitization activities.

CMHC PROGRAMS

Update

During the third quarter of 2018, the Bank completed, within the guidance given last quarter, the previously announced review of all B2B Bank and branch-originated mortgage loan portfolio insured by CMHC to identify and repurchase mortgage loans that were inadvertently portfolio insured and sold into CMHC's securitization programs. Further to the review, we have identified and repurchased mortgage loans inadvertently portfolio insured and sold into CMHC's securitization programs amounting to $135 million, as detailed below.

The Bank does not believe that the repurchase of these mortgage loans has a material impact on the Bank's business, capital, operations, liquidity and funding.

The CMHC's securitization programs remain available and the Bank has been securitizing mortgage loans as usual during 2018.

Summary of events

As previously disclosed, CMHC completed an audit of a sample of the Bank's portfolio insured mortgage loans during the second quarter of 2018. The audit highlighted similar issues as those identified in the fourth quarter of 2017, as certain mortgage loans were inadvertently portfolio insured while they did not meet CMHC portfolio insurance eligibility criteria.

During the third quarter of 2018, the Bank completed a review of all B2B Bank and branch-originated mortgage loan portfolios insured by CMHC. In addition, an independent third-party issued a report to the Bank on the review process and results. Further to our review and taking into account the independent third-party findings, we have identified and repurchased mortgage loans inadvertently portfolio insured and sold into CMHC's securitization programs amounting to $135 million. The amount of this repurchase is in line with our estimate of approximately $125 million to $150 million, as reported at the end of the second quarter of 2018. CMHC insurance on mortgage loans inadvertently portfolio insured by CMHC but not sold to, as well as on portfolio insured mortgage loans sold into

CMHC's securitization programs was cancelled concurrently. Further to the completion of the review and repurchase of the mortgage loans by the Bank, CMHC has agreed to release during the fourth quarter of 2018 the $20 million cash reserve deposit previously made by the Bank.

We continue to work with CMHC on reviewing and ensuring solid controls are in place, in addition to our continued engagement in the normal course audits by CMHC from time to time. In that respect and as previously announced, an independent third-party validation of the adequacy and efficiency of new controls implemented by the Bank with respect to the eligibility of its mortgage loans for securitization and portfolio insurance purposes will be provided to CMHC before the end of this year.

As previously indicated, these mortgage loans do not represent a credit issue as they are all performing in line with the Bank's overall mortgage portfolio and are secured by valid collateral on a property.

Consequently, the identified issues with the mortgage loans inadvertently portfolio insured and sold into CMHC's securitization programs are now resolved.

The following table summarizes the review of the CMHC mortgage loan portfolio.

REVIEW OF THE CMHC MORTGAGE LOAN PORTFOLIO

In millions of Canadian dollars (Unaudited)		Total
Total mortgage loans sold [1]	$	5,157
Mortgage loans inadvertently sold and identified as at January 31, 2018 [2] [3]	$	88
Mortgage loans inadvertently sold and identified during the third quarter of 2018 [2] [4]		135
Total mortgage loans inadvertently sold and identified	$	223

(1) As at September 30, 2017, as reported in our 2017 Annual Report, excluding the impact of repurchases, and new securitizations to CMHC. As at July 31, 2018, mortgage loans sold into CMHC's securitization programs totaled $4,711 million. The variation from what was previously disclosed is due to new securitizations, net repayments and the aforementioned repurchases.
(2) Loans inadvertently sold relate to low LTV mortgage loans which did not meet CMHC criteria.
(3) Repurchased in the second quarter of 2018.
(4) Repurchased in the third quarter of 2018.

THIRD-PARTY PURCHASER PROGRAM

Update

During the third quarter of 2018 and as previously indicated, the Bank repurchased certain ineligible mortgage loans originated through the Bank's branch network for an additional $115 million, as further detailed below. The identified issues related to mortgage loans sold to the TPP were resolved at the end of the second quarter of 2018.

Summary of events

In late September 2017, we were advised by the TPP, following a normal course audit, that certain mortgage loans previously sold to the TPP did not meet their documentation and eligibility criteria.

B2B Bank-originated mortgage loans
In regards to the B2B Bank-originated mortgage loans sold to the TPP, we completed a full review of these mortgage loans in 2017. This review led to the Bank repurchasing certain ineligible mortgage loans in the first quarter of 2018, as detailed in the table below. In addition, the Bank provided a cash reserve deposit to the TPP in relation to these mortgage loans, of which $23 million has been retained by the TPP as credit enhancement for the program. The cash reserve deposit is being remitted to the Bank over time as the B2B Bank originated mortgage loans amortize. The identified issues with the B2B Bank originated mortgage loans sold to the TPP were therefore resolved at the end of the first quarter of 2018, as previously stated.

Branch-originated mortgage loans
In regards to the branch-originated mortgage loans sold to the TPP, a comprehensive internal review of approximately 1,900 mortgage loans was completed during the second quarter of 2018. The mortgage loans not forming part of the sample reviewed will only be assessed at the time of their renewal or will not be subject to any review. Based on this internal review, the Bank had identified certain ineligible mortgage loans amounting to $115 million.

During the second quarter of 2018, we came to an agreement with the TPP which resolves the identified issues with regard to certain ineligible mortgage loans purchased by the TPP. As agreed to with the TPP, these loans were repurchased by the Bank during the third quarter of 2018 for an additional $115 million. The TPP has also agreed to continue to consider future purchases, subject to terms and conditions to be agreed upon at the time of each purchase, including a prefunding audit of the mortgages to be purchased. In all, we do not believe that this agreement will have a material impact to the Bank's business, capital, operations and funding.

In addition, in the first quarter of 2018, the Bank provided the TPP an additional cash reserve deposit in the amount of $61 million in relation to these mortgage loans. As part of the agreement with the TPP, $6 million of this cash reserve deposit was released to the Bank. The remainder of this cash reserve deposit was retained by the TPP as additional credit enhancement to the program. The cash reserve deposit is currently being remitted to the Bank over time as the branch-originated mortgage loans amortize.

As part of our internal review and as previously disclosed, we also had identified certain low loan-to-value (LTV) mortgage loans that were sold to the TPP and that did not meet the program eligibility criteria amounting to $91 million. These mortgage loans were repurchased by the Bank in the first quarter of 2018.

Consequently, the identified issues with the branch underwritten mortgage loans sold to the TPP were resolved at the end of the second quarter of 2018.

The following table summarizes the review of the TPP mortgage loan portfolio.

REVIEW OF THE TPP MORTGAGE LOAN PORTFOLIO

In millions of Canadian dollars (Unaudited)	B2B Bank	Branch network	Total
Total mortgage loans sold [1]	$ 655	$ 1,157	$ 1,812
Ineligible mortgage loans identified [2] [4]	$ 89	$ —	$ 89
Mortgage loans inadvertently sold [3] [4]	1	90	91
Ineligible mortgage loans identified during the second quarter of 2018 [5]	—	115	115
Total ineligible mortgage loans inadvertently sold or identified and repurchased	$ 90	$ 205	$ 295

(1) As at September 30, 2017, as reported in our 2017 Annual Report, excluding the impact of repurchases. As at July 31, 2018, mortgage loans sold to the TPP by B2B Bank and the branch network totaled $504 million and $742 million respectively. The variations from what was previously disclosed are due net repayments and the aforementioned repurchases.
(2) Mortgage loans with documentation issues ineligible for securitization.
(3) Loans inadvertently sold relate to low LTV mortgage loans which did not meet the TPP criteria for securitization.
(4) Repurchased in the first half of 2018.
(5) Repurchased in the third quarter of 2018.

CAPITAL MANAGEMENT

REGULATORY CAPITAL

The Office of the Superintendent of Financial Institutions Canada (OSFI) requires banks to meet minimum risk-based capital ratios drawn on the Basel Committee on Banking Supervision (BCBS) capital framework, commonly referred to as Basel III. Under OSFI's *Capital Adequacy Requirements* (CAR) Guideline, our minimum Common Equity Tier 1, Tier 1 and Total capital ratios are set at 7.0%, 8.5% and 10.5%, respectively, including capital conservation buffers. Refer to the section 'Capital Management" on page 39 of our 2017 Annual Report for additional information on our regulatory capital.

As detailed in the table below, the Common Equity Tier 1 (CET1), Tier 1 and Total capital ratios stood at 8.8%, 10.0% and 12.1%, respectively, as at July 31, 2018. These ratios exceeded all current requirements.

REGULATORY CAPITAL [1]

In thousands of Canadian dollars, except percentage amounts (Unaudited)	**As at July 31 2018**	As at October 31 2017	As at July 31 2017
Regulatory capital			
Common Equity Tier 1 capital	**$ 1,812,182**	$ 1,612,299	$ 1,505,149
Tier 1 capital	**$ 2,056,220**	$ 1,953,899	$ 1,846,749
Total capital	**$ 2,479,434**	$ 2,364,589	$ 2,459,507
Total risk-weighted assets [2]	**$ 20,570,668**	$ 20,426,719	$ 18,972,055
Regulatory capital ratios			
Common Equity Tier 1 capital ratio	**8.8%**	7.9%	7.9%
Tier 1 capital ratio	**10.0%**	9.6%	9.7%
Total capital ratio	**12.1%**	11.6%	13.0%

(1) The amounts and ratios are presented on an "all-in" basis.
(2) Using the Standardized Approach to determine credit risk and to account for operational risk.

The CET1 ratio stood at 8.8% as at July 31, 2018, compared with 7.9% as at October 31, 2017 and 7.9% as at July 31, 2017. The common share offering completed in January 2018 for net proceeds of $139.2 million contributed to the improvement in capital ratios since the beginning of the year. As the Bank moves through an evolving economic environment, we replaced the preferred share issue that was redeemed on December 15, 2017 with common equity. This strengthened the Bank's capital base and provided greater 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 Advanced Internal Ratings-Based Approach to credit risk. Over the last six months, we also gradually managed

asset growth more tightly to balance the product mix profitability maximization and the related risk-weighted exposures to maintain strong capital ratios. These measures were only partly offset by the additional deductions to capital for intangible assets related to ongoing projects.

Regulatory capital developments

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

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

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

Revisions to the Pillar 3 disclosure
The Pillar 3 disclosure framework seeks to promote market discipline through regulatory disclosure requirements. In March 2017, the BCBS issued the "Pillar 3 disclosure requirements - consolidated and enhanced framework", which represents the second phase of the BCBS's review of the Pillar 3 disclosure framework and builds on the first phase of revisions published in January 2015. In February 2018, the BCBS issued the consultative document "Pillar 3 disclosure requirements – updated framework", which sets out the proposals for the third phase review of the Pillar 3 disclosure framework. Together with the first phase and second phase of the revised Pillar 3 disclosure requirements, the proposed disclosure requirements would comprise the single Pillar 3 framework. We are currently reviewing the final March 2017 and proposed February 2018 framework and awaiting OSFI's related guidance.

Canadian Bank Recapitalization (Bail-in) Regime
Bail-in regimes are being implemented in a number of jurisdictions in an effort to limit taxpayer exposure to losses of a failing institution and ensure the institution's shareholders and creditors remain responsible for bearing such losses. On June 22, 2016, legislation came into force, amending certain federal statutes pertaining to banks to create a bank recapitalization, or "bail-in" regime, for the six domestic systemically important banks in Canada (D-SIBs). On April 18, 2018, the Department of Finance published bail-in regulations under the Canada Deposit Insurance Corporation (CDIC) Act and the Bank Act. Under these regulations, in circumstances when OSFI has determined that a bank may no longer be viable, the Governor in Council may, upon a recommendation of the Minister of Finance that he or she is of the opinion that it is in the public interest to do so, grant an order directing the CDIC to convert all or a portion of certain shares and liabilities of that bank into common shares. The regulations are effective September 23, 2018. As the Bank has not been designated as a D-SIB, these changes do not apply and are not expected to have any effect on the Bank.

Total Loss Absorbing Capacity (TLAC)
On April 18, 2018, OSFI released its final guideline on TLAC, which apply to Canadian D-SIBs as part of the Federal Government's bail-in regime. The guideline is consistent with the TLAC standard released on November 9, 2015 by the Financial Stability Board for institutions designated as global systemically important banks (G-SIBs), but tailored to the Canadian context. The standards are intended to address the sufficiency of a systemically important bank's loss absorbing capacity in supporting its recapitalization in the event of its failure. TLAC is defined as the aggregate of Tier 1 capital, Tier 2 capital, and other TLAC instruments (such as unsecured notes), which allow conversion in whole or in part into common shares under the CDIC Act and meet all of the eligibility criteria under the guideline. D-SIBs are expected to comply with the disclosure requirements beginning the first quarter of 2019 and the remaining TLAC standard requirements by November 1, 2021. As the Bank has not been designated as a D-SIB, the TLAC requirements do not apply and are not expected to have any effect on the Bank.

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 4.4% as at July 31, 2018 and exceeded current requirements.

BASEL III LEVERAGE RATIO

In thousands of Canadian dollars, except percentage amounts (Unaudited)		**As at July 31 2018**		As at October 31 2017		As at July 31 2017
Tier 1 capital	**$**	**2,056,220**	$	1,953,899	$	1,846,749
Total exposures	**$**	**46,865,874**	$	46,673,239	$	45,334,399
Basel III leverage ratio		**4.4%**		4.2%		4.1%

DIVIDENDS

On August 14, 2018, the Board of Directors declared the regular dividend on the various series of preferred shares to shareholders of record on September 7, 2018.

On September 4, 2018, the Board of Directors declared a quarterly dividend of $0.64 per common share, payable on November 1, 2018, to shareholders of record on October 1, 2018. This quarterly dividend is up 3% compared with the dividend declared one year ago. The Board of Directors also determined that shares attributed under the Shareholder Dividend Reinvestment and Share Purchase Plan will be made in common shares issued from treasury at a 2% discount.

COMMON SHARE DIVIDENDS AND PAYOUT RATIO

In Canadian dollars, except payout ratios (Unaudited)	For the three months ended			For the years ended		
	July 31 2018	April 30 2018	July 31 2017	October 31 2017	October 31 2016	October 31 2015
Dividends declared per common share	**$ 0.64**	$ 0.63	$ 0.62	$ 2.46	$ 2.36	$ 2.20
Dividend payout ratio	**51.8%**	47.0%	41.8%	45.7%	53.1%	68.6%
Adjusted dividend payout ratio [1]	**47.7%**	42.8%	38.0%	40.5%	42.4%	39.2%

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

RISK MANAGEMENT

We are exposed to various types of risks owing to the nature of our activities. These risks are mainly related to the use of financial instruments. In order to manage these risks, controls such as risk management policies and various risk limits have been implemented. These measures aim to optimize the risk/return ratio in all operating segments. Refer to the section "Risk Appetite and Risk Management Framework" on page 44 of our 2017 Annual Report for additional information.

CREDIT RISK

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

PROVISION FOR CREDIT LOSSES

In thousands of Canadian dollars, except percentage amounts (Unaudited)	For the three months ended			For the nine months ended	
	July 31 2018	April 30 2018	July 31 2017	**July 31 2018**	July 31 2017
Personal	**$ 4,394**	$ 5,697	$ 4,524	**$ 17,061**	$ 20,972
Residential mortgage	**1,102**	(201)	40	**2,485**	2,239
Commercial [1]	**(596)**	4,004	1,836	**6,854**	2,289
	$ 4,900	$ 9,500	$ 6,400	**$ 26,400**	$ 25,500
As a % of average loans and acceptances	**0.05%**	0.11%	0.07%	**0.10%**	0.10%

(1) Including customers' liabilities under acceptances.

The provision for credit losses amounted to $4.9 million in the third quarter of 2018, decreasing by $1.5 million when compared with the same quarter a year ago and $4.6 million sequentially. Loan losses for the third quarter of 2018 reflected the solid overall quality of the Bank's loan portfolio and took into account the favorable impact of updates to risk model parameters amounting to $0.6 million. During the third quarter of 2017, as part of the Bank's ongoing project to implement the AIRB Approach to credit risk, the review of allowance models had resulted in the release of approximately $3.0 million in provision for credit losses. In addition, in the third quarter of 2017, the completion and delivery of certain real estate development projects and improving economic indicators in Alberta had prompted the release of allowances of approximately $2.0 million.

For the nine months ended July 31, 2018, the provision for credit losses increased by $0.9 million and amounted to $26.4 million compared with $25.5 million for the same period in 2017. The increase mainly results from the aforementioned adjustment to loan losses recorded in 2017. During the second quarter of 2018, loan losses included the favorable impact of the reduction in allowances resulting from the sale of the agricultural commercial loan portfolio, as well as updates to risk model parameters for $2.8 million.

At 5 basis points, compared to average loans and acceptances, the current level of provisions for the third quarter of 2018 continues to reflect the underlying good credit quality of our loan portfolios, as well as the very favorable credit conditions in all our markets.

Personal loans

Credit losses on personal loans remained relatively stable at $4.4 million in the third quarter of 2018, compared with the third quarter of 2017. On a sequential basis, credit losses on personal loans decreased by $1.3 million mainly as a result of lower losses related to the investment loan portfolio, in part due to lower volumes. For the nine months ended July 31, 2018, credit losses on personal loans decreased by $3.9 million year-over-year, mainly as a result of the lower charges on the investment loan portfolio.

Residential mortgage loans

Credit losses on residential mortgage loans amounted to $1.1 million for the third quarter of 2018, reflecting a sequential increase of $1.3 million and an increase of $1.1 million compared with the third quarter of 2017. For the nine months ended July 31, 2018, credit losses on residential mortgages increased by $0.2 million year-over-year. Loan losses on the Bank's residential mortgage portfolio remain at historic low levels as the portfolio continues to benefit from favourable credit conditions and the Bank's strong credit underwriting.

Commercial loans

Credit losses on commercial loans amounted to negative $0.6 million in the third quarter of 2018, compared with $1.8 million in the third quarter of 2017. The decrease mainly reflect the overall quality of the portfolio, as well as improvements to underlying assets. On a sequential basis, credit losses in this portfolio decreased by $4.6 million as a result of higher losses on certain accounts recorded in the second quarter. For the nine months ended July 31, 2018, credit losses on commercial loans increased by $4.6 million year-over-year, mainly as a result of the NCF acquisition and also as losses for 2017 included favorable improvements on certain accounts. Credit losses on the commercial portfolios tend to fluctuate more as they can relate, in part, to isolated larger exposures.

IMPAIRED LOANS

In thousands of Canadian dollars, except percentage amounts (Unaudited)		**As at July 31 2018**		As at October 31 2017		As at July 31 2017
Gross impaired loans						
Personal	$	**19,700**	$	20,874	$	21,470
Residential mortgages		**34,678**		30,326		28,085
Commercial [1]		**104,536**		100,691		68,944
		158,914		151,891		118,499
Allowances for loan losses against impaired loans						
Individual allowances		**(15,725)**		(24,801)		(19,146)
Collective allowances		**(12,642)**		(17,828)		(17,569)
		(28,367)		(42,629)		(36,715)
Net impaired loans	$	**130,547**	$	109,262	$	81,784
Impaired loans as a % of loans and acceptances						
Gross		**0.45%**		0.41%		0.34%
Net		**0.37%**		0.30%		0.23%
Collective allowances against other loans	$	**(58,537)**	$	(56,557)	$	(62,023)

(1) Including customers' liabilities under acceptances.

Gross impaired loans amounted to $158.9 million as at July 31, 2018, up $7.0 million or 5% compared with October 31, 2017. Since the beginning of the year, individual allowances on commercial loans decreased by $9.1 million to $15.7 million, mainly as a result of the settlement of a limited number of accounts since the beginning of the year, whereas the recent evolution has been favorable. Collective allowances against impaired loans also decreased by $5.2 million over the same period, essentially in personal loans. Collective allowances against other loans amounted to $58.5 million as at July 31, 2018, up $2.0 million compared with October 31, 2017, essentially in personal loans. Despite the lower level of allowances, the Bank remains comfortably provisioned as overall credit conditions continue to provide a strong support to lending activities. In addition, the Bank's loan portfolio is well collateralized, which reduces potential exposures.

LIQUIDITY AND FUNDING RISK

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

Management monitors cash resources daily and ensures that liquidity indicators are within established limits. It pays particular attention to deposit and loan maturities, as well as to funding availability and demand when planning financing. A reserve of unencumbered liquid assets that are readily available to face contingencies is maintained and constitutes our liquidity buffer. This reserve does not factor in the availability of the central bank's emergency liquidity facilities. Requirements are based on scenarios evaluating required liquid assets necessary to cover predetermined rates of withdrawal of wholesale financing and retail deposits over specified periods.

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

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

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

Regulatory requirements concerning liquidity

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

The Bank remained compliant with the LAR Guideline throughout the three months ended July 31, 2018.

The aforementioned Basel III liquidity framework also outlines the Net Stable Funding Ratio (NSFR) as a minimum regulatory standard. On February 6, 2018, OSFI revised the target NSFR implementation date from January 2019 to January 2020. The NSFR measures the proportion of long-term assets which are funded by long-term, stable funding. The Bank monitors these developments as they unfold.

Maturity of financial liabilities

The following table summarizes the remaining contractual maturity for significant financial liabilities as at July 31, 2018 and October 31, 2017.

MATURITY OF FINANCIAL LIABILITIES

As at July 31, 2018

In thousands of Canadian dollars (Unaudited)	Demand and notice	Term: Under 1 year	Term: 1 to 3 years	Term: 3 to 5 years	Term: Over 5 years	Total
Deposits						
Personal	$ 4,555,562	$ 7,892,332	$ 6,937,195	$ 2,450,178	$ 108,145	$ 21,943,412
Business, banks and other	1,970,473	2,708,389	1,838,006	763,129	3,097	7,283,094
Obligations related to securities sold short	—	3,141,612	—	—	—	3,141,612
Obligations related to securities sold under repurchase agreements	—	2,164,916	—	—	—	2,164,916
Debt related to securitization activities	—	1,466,150	3,571,605	2,497,729	371,003	7,906,487
Subordinated debt	—	—	—	350,000	—	350,000
Derivatives [1]	—	22,105	27,564	11,702	6,030	67,401
	$ 6,526,035	$ 17,395,504	$ 12,374,370	$ 6,072,738	$ 488,275	$ 42,856,922

(1) The obligations related to derivatives represent solely the theoretical payments related to derivatives designated as cash flow hedges and used for interest rate risk management whose net fair values were negative as at July 31, 2018 and October 31, 2017.

As at October 31, 2017

In thousands of Canadian dollars (Unaudited)	Demand and notice	Term				Total
		Under 1 year	1 to 3 years	3 to 5 years	Over 5 years	
Deposits						
Personal	$ 5,026,606	$ 7,695,011	$ 6,626,628	$ 1,802,599	$ 88,988	$ 21,239,832
Business, banks and other	2,199,952	3,314,089	1,579,623	660,771	2,745	7,757,180
Obligations related to securities sold short	—	2,165,097	—	—	—	2,165,097
Obligations related to securities sold under repurchase agreements	—	2,678,629	—	—	—	2,678,629
Debt related to securitization activities	—	1,519,688	3,436,269	2,780,775	436,394	8,173,126
Subordinated debt	—	—	—	350,000	—	350,000
Derivatives [1]	—	16,889	18,430	8,292	5,913	49,524
	$ 7,226,558	$ 17,389,403	$ 11,660,950	$ 5,602,437	$ 534,040	$ 42,413,388

(1) The obligations related to derivatives represent solely the theoretical payments related to derivatives designated as cash flow hedges and used for interest rate risk management whose net fair values were negative as at July 31, 2018 and October 31, 2017.

Credit ratings

On December 11, 2017, DBRS confirmed our A (low) rating on deposits and senior debt and R-1 (low) rating on short-term instruments. In addition, DBRS revised its trends on long-term ratings to negative from stable.

On April 27, 2018, Standard and Poor's (S&P) removed the ratings from CreditWatch[1] with negative implications, where they had been placed on December 20, 2017 and affirmed our BBB long-term and A-2 short-term issuer credit ratings, while maintaining the negative outlook.

(1) CreditWatch highlights S&P's opinion regarding the potential direction of a short-term or long-term rating, and focuses on identifiable events and short-term trends that cause ratings to be placed under special surveillance.

MARKET RISK

Market risk represents the financial losses that we could incur following unfavourable fluctuations in the value of financial instruments subsequent to changes in the underlying factors used to measure them, such as interest rates, exchange rates or equity prices. This risk is inherent to our 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 our net interest income and economic value of its capital. Dynamic management of structural risk is intended to maximize our profitability while preserving the economic value of common shareholders' equity. As at July 31, 2018, 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 July 31 2018**	As at October 31 2017
Effect of a 1% increase in interest rates		
Increase in net interest income before taxes over the next 12 months	**$ 8,014**	$ 21,149
Decrease in the economic value of common shareholders' equity (net of income taxes)	**$ (42,898)**	$ (49,266)

As shown above, as at July 31, 2018, the net interest income sensitivity to sudden changes in interest rates and the corresponding negative impact on the economic value of common shareholders' equity have decreased compared with October 31, 2017. Given the anticipated increase in interest rates, we have shortened the Bank's duration, while still positioning the Bank to benefit from fluctuations in interest rates and maintaining the risk within approved limits. Management continues to expect that long-term rates will remain within a narrow range for the foreseeable future.

RISK RELATED TO LABOUR RELATIONS

Approximately 38% of our employees are represented by a union and are covered by a collective bargaining agreement which expired on December 31, 2017. The majority of these employees work in Laurentian Bank branches in the Province of Quebec, and certain of them are employed in Corporate Offices in Montreal. Renegotiating the expired collective bargaining agreement could result in higher costs which could have a material effect on our business, results of operations and financial condition. In addition, should we be unable to reach an acceptable negotiated collective bargaining agreement on a timely basis, a strike by affected employees, lock-out or other work disruption may occur which could adversely affect services to our Retail Services clients and operations and, in turn, financial performance.

ADDITIONAL FINANCIAL INFORMATION - QUARTERLY RESULTS

In thousands of Canadian dollars, except per share and percentage amounts (Unaudited)	July 31 2018	April 30 2018	January 31 2018	October 31 2017	July 31 2017	April 30 2017	January 31 2017	October 31 2016
Net interest income	**$ 177,013**	$ 177,112	$ 178,635	$ 176,220	$ 157,707	$ 150,476	$ 153,687	$ 148,727
Other income	**83,651**	82,775	88,367	91,748	90,295	88,331	87,946	87,642
Total revenue	**260,664**	259,887	267,002	267,968	248,002	238,807	241,633	236,369
Amortization of net premium on purchased financial instruments	**547**	601	653	707	766	878	1,032	1,181
Provision for credit losses	**4,900**	9,500	12,000	11,500	6,400	10,100	9,000	10,300
Non-interest expenses	**187,245**	175,554	177,545	184,365	168,364	168,934	167,696	201,998
Income before income taxes	**67,972**	74,232	76,804	71,396	72,472	58,895	63,905	22,890
Income taxes	**13,069**	15,037	17,057	12,761	17,674	14,323	15,449	4,507
Net income	**$ 54,903**	$ 59,195	$ 59,747	$ 58,635	$ 54,798	$ 44,572	$ 48,456	$ 18,383
Earnings per share								
Basic	**$ 1.23**	$ 1.34	$ 1.41	$ 1.42	$ 1.48	$ 1.19	$ 1.30	$ 0.45
Diluted	**$ 1.23**	$ 1.34	$ 1.41	$ 1.42	$ 1.48	$ 1.19	$ 1.30	$ 0.45

CORPORATE GOVERNANCE AND CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

In November 2017, we initiated the first phase of the core banking system implementation. The evaluation of the ensuing changes to the internal control over financial reporting supported that the design is appropriate with respect to financial reporting.

During the third quarter ended July 31, 2018 there have been no other changes to internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

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

ACCOUNTING POLICIES AND ESTIMATES

Our significant accounting policies and estimates are outlined in Notes 2 and 3 of the 2017 Annual Consolidated Financial Statements. The Condensed Interim Consolidated Financial Statements (Unaudited) for the third quarter of 2018 have been prepared in accordance with these accounting policies.

Some of these accounting policies are deemed critical as they require management to apply judgement in order to make particularly significant estimates that, by their very nature, involve uncertainties. Changes in these estimates could materially affect our consolidated financial statements. Refer to the section "Critical Accounting Policies and Estimations" on pages 65 to 68 of our 2017 Annual Report for additional information.

FUTURE CHANGES TO ACCOUNTING POLICIES

There are no significant updates to the future changes to accounting policies disclosed in Note 4 of the 2017 Annual Consolidated Financial Statements and in the section "Future Changes to Accounting Policies" on pages 68 to 70 of our 2017 Annual Report, except for the future accounting change detailed below.

Conceptual framework

In March 2018, the International Accounting Standards Board (IASB) issued a comprehensive set of concepts for financial reporting, the revised Conceptual Framework for Financial Reporting (Conceptual Framework). The revised Conceptual Framework is effective immediately for the IASB and has an effective date of November 1, 2020 for the Bank. The Bank is currently assessing the impact of the adoption of the revised Conceptual Framework on its consolidated financial statements.

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CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

As at and for the period ended July 31, 2018

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CONSOLIDATED BALANCE SHEET

In thousands of Canadian dollars (Unaudited)	Notes	**As at July 31 2018**	As at October 31 2017	As at July 31 2017
ASSETS				
Cash and non-interest-bearing deposits with other banks		**$ 142,137**	$ 111,978	$ 140,128
Interest-bearing deposits with other banks		**400,882**	215,384	120,152
Securities	4			
Available-for-sale		**3,243,393**	3,032,159	3,658,586
Held-to-maturity		**444,642**	405,088	159,832
Held-for-trading		**2,366,522**	2,148,767	2,150,707
		6,054,557	5,586,014	5,969,125
Securities purchased under reverse repurchase agreements		**3,572,495**	3,107,841	3,291,871
Loans	5 and 6			
Personal		**5,544,853**	6,038,692	6,185,606
Residential mortgage		**17,535,808**	18,486,449	17,935,597
Commercial [1]		**11,920,113**	11,464,007	10,101,189
Customers' liabilities under acceptances		**391,044**	707,009	694,198
		35,391,818	36,696,157	34,916,590
Allowances for loan losses		**(86,904)**	(99,186)	(98,738)
		35,304,914	36,596,971	34,817,852
Other				
Derivatives		**99,832**	104,426	153,370
Premises and equipment		**68,802**	35,214	31,826
Software and other intangible assets		**343,609**	293,422	186,387
Goodwill		**115,713**	118,100	59,623
Deferred tax assets		**33,117**	38,702	31,947
Other assets		**494,641**	474,606	409,627
		1,155,714	1,064,470	872,780
		$ 46,630,699	$ 46,682,658	$ 45,211,908
LIABILITIES AND SHAREHOLDERS' EQUITY				
Deposits				
Personal		**$ 21,897,410**	$ 21,198,982	$ 20,634,873
Business, banks and other		**7,187,125**	7,731,378	7,597,256
		29,084,535	28,930,360	28,232,129
Other				
Obligations related to securities sold short		**3,141,612**	2,165,097	1,541,405
Obligations related to securities sold under repurchase agreements		**2,164,916**	2,678,629	3,217,738
Acceptances		**391,044**	707,009	694,198
Derivatives		**240,606**	217,785	211,840
Deferred tax liabilities		**18,701**	22,112	28,521
Other liabilities		**941,956**	1,051,908	821,407
		6,898,835	6,842,540	6,515,109
Debt related to securitization activities	6	**7,814,589**	8,230,921	7,863,984
Subordinated debt		**348,677**	348,427	548,842
Shareholders' equity				
Preferred shares	7	**244,038**	341,600	341,600
Common shares	7	**1,112,204**	953,536	715,935
Retained earnings		**1,131,742**	1,035,770	1,011,629
Accumulated other comprehensive income		**(3,921)**	(496)	(17,320)
		2,484,063	2,330,410	2,051,844
		$ 46,630,699	$ 46,682,658	$ 45,211,908

(1) Comparative figures have been reclassified to conform to the current year presentation. Refer to Note 2 for further information.
The accompanying notes are an integral part of the condensed interim consolidated financial statements (unaudited).

CONSOLIDATED STATEMENT OF INCOME

In thousands of Canadian dollars, except per share amounts (Unaudited)	Notes	For the three months ended July 31 2018	April 30 2018	July 31 2017	For the nine months ended July 31 2018	July 31 2017
Interest income						
Loans		**$ 355,302**	$ 344,870	$ 289,335	**$ 1,040,801**	$ 844,138
Securities		**16,391**	13,342	11,411	**43,354**	30,878
Deposits with other banks		**714**	675	232	**1,940**	452
Other, including derivatives		**7,958**	6,444	11,772	**20,108**	34,694
		380,365	365,331	312,750	**1,106,203**	910,162
Interest expense						
Deposits		**151,632**	139,221	116,039	**424,913**	340,486
Debt related to securitization activities		**42,064**	41,038	34,241	**123,628**	98,120
Subordinated debt		**3,835**	3,709	3,268	**11,379**	6,462
Other, including derivatives		**5,821**	4,251	1,495	**13,523**	3,224
		203,352	188,219	155,043	**573,443**	448,292
Net interest income		**177,013**	177,112	157,707	**532,760**	461,870
Other income						
Fees and commissions on loans and deposits		**37,624**	35,967	39,861	**111,668**	114,944
Income from brokerage operations		**16,227**	14,366	18,316	**49,179**	56,397
Income from sales of mutual funds		**11,907**	11,843	12,184	**35,979**	34,846
Income from investment accounts		**4,769**	5,139	5,060	**15,638**	16,924
Income from treasury and financial market operations		**5,358**	1,486	5,291	**12,466**	15,169
Insurance income, net		**3,808**	4,217	4,523	**11,572**	13,695
Other		**3,958**	9,757	5,060	**18,291**	14,597
		83,651	82,775	90,295	**254,793**	266,572
Total revenue		**260,664**	259,887	248,002	**787,553**	728,442
Amortization of net premium on purchased financial instruments		**547**	601	766	**1,801**	2,676
Provision for credit losses	5	**4,900**	9,500	6,400	**26,400**	25,500
Non-interest expenses						
Salaries and employee benefits		**93,010**	91,550	89,157	**278,222**	266,798
Premises and technology		**48,761**	47,952	45,017	**144,019**	136,931
Other		**43,231**	32,543	28,819	**110,834**	83,224
Restructuring charges	12	**2,243**	1,751	2,163	**4,912**	4,812
Costs related to business combinations	13	**—**	1,758	3,208	**2,357**	13,229
		187,245	175,554	168,364	**540,344**	504,994
Income before income taxes		**67,972**	74,232	72,472	**219,008**	195,272
Income taxes		**13,069**	15,037	17,674	**45,163**	47,446
Net income		**$ 54,903**	$ 59,195	$ 54,798	**$ 173,845**	$ 147,826
Preferred share dividends, including applicable taxes		**3,253**	3,253	4,273	**10,785**	12,820
Net income available to common shareholders		**$ 51,650**	$ 55,942	$ 50,525	**$ 163,060**	$ 135,006
Average number of common shares outstanding (in thousands)						
Basic		**41,894**	41,762	34,112	**41,030**	33,991
Diluted		**41,894**	41,762	34,112	**41,030**	33,991
Earnings per share						
Basic		**$ 1.23**	$ 1.34	$ 1.48	**$ 3.97**	$ 3.97
Diluted		**$ 1.23**	$ 1.34	$ 1.48	**$ 3.97**	$ 3.97
Dividends declared per share						
Common share		**$ 0.64**	$ 0.63	$ 0.62	**$ 1.90**	$ 1.84
Preferred share - Series 11		**$ —**	$ —	$ 0.25	**$ 0.25**	$ 0.75
Preferred share - Series 13		**$ 0.27**	$ 0.27	$ 0.27	**$ 0.81**	$ 0.81
Preferred share - Series 15		**$ 0.37**	$ 0.37	$ 0.37	**$ 1.10**	$ 1.10

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In thousands of Canadian dollars (Unaudited)	For the three months ended July 31 2018	April 30 2018	July 31 2017	For the nine months ended July 31 2018	July 31 2017
Net income	**$ 54,903**	$ 59,195	$ 54,798	**$ 173,845**	$ 147,826
Other comprehensive income, net of income taxes					
Items that may subsequently be reclassified to the statement of income					
Net change in available-for-sale securities					
Unrealized net gains (losses) on available-for-sale securities	**722**	(4,582)	(2,174)	**(2,875)**	5,745
Reclassification of net gains on available-for-sale securities to net income	**(107)**	(53)	(759)	**(2,062)**	(5,410)
	615	(4,635)	(2,933)	**(4,937)**	335
Net change in value of derivatives designated as cash flow hedges	**(748)**	3,974	(24,112)	**240**	(29,528)
Net foreign currency translation adjustments					
Net unrealized foreign currency translations gains on investments in foreign operations	**4,742**	14,802	—	**4,608**	—
Unrealized net losses on hedges of investments in foreign operations	**(3,466)**	(7,529)	—	**(3,336)**	—
	1,276	7,273	—	**1,272**	—
	1,143	6,612	(27,045)	**(3,425)**	(29,193)
Items that may not subsequently be reclassified to the statement of income					
Remeasurement gains on employee benefit plans	**7,573**	246	6,768	**12,965**	14,238
Comprehensive income	**$ 63,619**	$ 66,053	$ 34,521	**$ 183,385**	$ 132,871

INCOME TAXES — OTHER COMPREHENSIVE INCOME

The following table presents the income taxes for each component of other comprehensive income.

In thousands of Canadian dollars (Unaudited)	For the three months ended July 31 2018	April 30 2018	July 31 2017	For the nine months ended July 31 2018	July 31 2017
Income tax expense (recovery) on:					
Net change in available-for-sale securities					
Unrealized net gains (losses) on available-for-sale securities	**$ 191**	$ (1,519)	$ (671)	**$ (914)**	$ 2,319
Reclassification of net gains on available-for-sale securities to net income	**(39)**	(78)	(278)	**(704)**	(1,982)
	152	(1,597)	(949)	**(1,618)**	337
Net change in value of derivatives designated as cash flow hedges	**(274)**	1,440	(4,567)	**84**	(6,532)
Net foreign currency translation adjustments					
Unrealized net losses on hedges of investments in foreign operations	**(20)**	(1,163)	—	**—**	—
Remeasurement gains on employee benefit plans	**2,756**	89	2,473	**4,718**	5,203
	$ 2,614	$ (1,231)	$ (3,043)	**$ 3,184**	$ (992)

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the nine months ended July 31

In thousands of Canadian dollars (Unaudited)	Preferred shares (Note 7)	Common shares (Note 7)	Retained earnings	Accumulated other comprehensive income: Available-for-sale securities	Cash flow hedges	Translation of foreign operations	Total	Total shareholders' equity
Balance as at October 31, 2017	$ 341,600	$ 953,536	$ 1,035,770	$ 4,849	$ (7,293)	$ 1,948	$ (496)	$ 2,330,410
Net income			173,845					173,845
Other comprehensive income (net of income taxes)								
Unrealized net losses on available-for-sale securities				(2,875)			(2,875)	(2,875)
Reclassification of net gains on available-for-sale securities to net income				(2,062)			(2,062)	(2,062)
Net change in value of derivatives designated as cash flow hedges					240		240	240
Net unrealized foreign currency translation gains on investments in foreign operations						4,608	4,608	4,608
Unrealized net losses on hedges of investments in foreign operations						(3,336)	(3,336)	(3,336)
Remeasurement of gains on employee benefit plans			12,965					12,965
Comprehensive income			186,810	(4,937)	240	1,272	(3,425)	183,385
Issuance of share capital		158,668						158,668
Repurchase of share capital	(97,562)		(2,438)					(100,000)
Dividends								
Preferred shares, including applicable taxes			(10,785)					(10,785)
Common shares			(77,615)					(77,615)
Balance as at July 31, 2018	$ 244,038	$ 1,112,204	$ 1,131,742	$ (88)	$ (7,053)	$ 3,220	$ (3,921)	$ 2,484,063
Balance as at October 31, 2016	$ 341,600	$ 696,493	$ 924,861	$ 203	$ 11,670	$ —	$ 11,873	$ 1,974,827
Net income			147,826					147,826
Other comprehensive income (net of income taxes)								
Unrealized net gains on available-for-sale securities				5,745			5,745	5,745
Reclassification of net gains on available-for-sale securities to net income				(5,410)			(5,410)	(5,410)
Net change in value of derivatives designated as cash flow hedges					(29,528)		(29,528)	(29,528)
Remeasurement of gain on employee benefit plans			14,238					14,238
Comprehensive income			162,064	335	(29,528)	—	(29,193)	132,871
Issuance of share capital		19,442						19,442
Dividends								
Preferred shares, including applicable taxes			(12,820)					(12,820)
Common shares			(62,476)					(62,476)
Balance as at July 31, 2017	$ 341,600	$ 715,935	$ 1,011,629	$ 538	$ (17,858)	$ —	$ (17,320)	$ 2,051,844

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	For the three months ended			For the nine months ended	
In thousands of Canadian dollars (Unaudited)	**July 31 2018**	April 30 2018	July 31 2017	**July 31 2018**	July 31 2017
Cash flows relating to operating activities					
Net income	**$ 54,903**	$ 59,195	$ 54,798	**$ 173,845**	$ 147,826
Adjustments to determine net cash flows relating to operating activities:					
Provision for credit losses	**4,900**	9,500	6,400	**26,400**	25,500
Net gains on disposal of available-for-sale securities	**(146)**	(130)	(1,037)	**(2,766)**	(8,000)
Net gain on sale of agricultural commercial loan portfolio	**—**	(5,330)	—	**(5,330)**	—
Deferred income taxes	**396**	(595)	2,181	**(1,245)**	7,163
Depreciation of premises and equipment	**1,660**	1,667	1,784	**4,995**	5,586
Amortization of software and other intangible assets	**9,286**	8,825	6,048	**26,496**	18,650
Change in operating assets and liabilities:					
Loans	**934,117**	23,369	(748,815)	**889,114**	(1,579,307)
Change in acceptances	**(305,970)**	4,210	26,410	**(315,965)**	64,373
Securities at fair value through profit and loss	**(21,926)**	(277,462)	168,991	**(217,755)**	283,800
Securities purchased under reverse repurchase agreements	**658,224**	(327,633)	1,357,850	**(464,654)**	(411,885)
Accrued interest receivable	**2,706**	(5,762)	4,828	**1,820**	85
Derivative assets	**2,541**	38,056	10,171	**4,594**	79,421
Deposits	**(394,278)**	49,540	787,203	**160,021**	658,784
Obligations related to securities sold short	**716,245**	(523,033)	(195,664)	**976,515**	(165,888)
Obligations related to securities sold under repurchase agreements	**(301,135)**	350,234	(1,265,111)	**(513,713)**	692,297
Accrued interest payable	**5,118**	23,706	(10,776)	**19,480**	(12,544)
Derivative liabilities	**6,359**	(19,544)	72,189	**22,821**	61,341
Change in debt related to securitization activities	**(636,278)**	207,908	134,240	**(416,332)**	619,530
Other, net	**(11,460)**	3,330	(157,313)	**(136,563)**	(81,592)
	725,262	(379,949)	254,377	**231,778**	405,140
Cash flows relating to financing activities					
Net proceeds from issuance of subordinated debt	**—**	—	348,871	**—**	348,871
Repurchase of preferred shares	**—**	—	—	**(100,000)**	—
Net proceeds from issuance of common shares	**(11)**	(89)	2	**139,123**	16
Dividends	**(23,604)**	(20,972)	(17,517)	**(65,691)**	(56,220)
	(23,615)	(21,061)	331,356	**(26,568)**	292,667
Cash flows relating to investing activities					
Change in available-for-sale securities					
Acquisitions	**(1,135,943)**	(1,128,788)	(1,458,244)	**(3,543,845)**	(3,075,180)
Proceeds on sale and at maturity	**715,817**	1,172,093	821,262	**3,328,520**	2,144,694
Change in held-to-maturity securities					
Acquisitions	**(179,955)**	(170,781)	(231,547)	**(581,619)**	(503,522)
Proceeds at maturity	**110,721**	246,581	270,791	**542,065**	846,125
Proceeds on sale of commercial loans	**—**	380,106	—	**380,106**	12,487
Additions to premises and equipment and intangible assets	**(43,914)**	(42,053)	(31,749)	**(114,780)**	(59,035)
Cash paid for business combinations	**—**	—	—	**—**	9,805
Change in interest-bearing deposits with other banks	**(168,576)**	(45,930)	76,516	**(185,498)**	(56,769)
	(701,850)	411,228	(552,971)	**(175,051)**	(681,395)
Net change in cash and non-interest-bearing deposits with other banks	**(203)**	10,218	32,762	**30,159**	16,412
Cash and non-interest-bearing deposits with other banks at beginning of period	**142,340**	132,122	107,366	**111,978**	123,716
Cash and non-interest-bearing deposits with other banks at end of period	**$ 142,137**	$ 142,340	$ 140,128	**$ 142,137**	$ 140,128
Supplemental disclosure about cash flows relating to operating activities:					
Interest paid during the period	**$ 199,725**	$ 165,475	$ 173,566	**$ 555,118**	$ 467,554
Interest received during the period	**$ 381,424**	$ 355,001	$ 317,541	**$ 1,105,103**	$ 911,248
Dividends received during the period	**$ 2,772**	$ 2,675	$ 2,376	**$ 7,893**	$ 6,427
Income taxes paid during the period	**$ 10,375**	$ 25,482	$ 11,264	**$ 70,148**	$ 53,849

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

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

1. GENERAL INFORMATION

Laurentian Bank of Canada and its subsidiaries (the Bank) provide banking services to individuals and small and medium-sized enterprises, as well as to independent advisors across Canada, and operate as a full-service brokerage firm. The Bank is the ultimate parent of the group. The Bank is a chartered bank under Schedule 1 of the Bank Act (Canada) and has its head office in Montreal, Canada. The Bank's common shares (stock symbol: LB) are listed on the Toronto Stock Exchange.

The condensed interim consolidated financial statements (unaudited) for the period ended July 31, 2018 were approved for issuance by the Board of Directors on September 4, 2018.

2. BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance 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 International Financial Reporting Standards (IFRS). These consolidated financial statements have been prepared under IFRS as issued by the International Accounting Standards Board (IASB) in accordance with IAS 34, *Interim Financial Reporting*.

These consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements for the year ended October 31, 2017 prepared in accordance with IFRS. The accounting policies described in Note 3 to the audited annual consolidated financial statements have been applied consistently to all periods presented within these financial statements.

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. 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.

Current presentation changes

Commercial loans

As at November 1, 2017, commercial mortgage loans and commercial and other loans previously presented separately on the consolidated balance sheet are presented together under the line item commercial loans. This change in presentation was applied retrospectively, and better reflects the nature of the Bank's business activities.

3. FUTURE ACCOUNTING CHANGES

There are no significant updates to the future accounting changes disclosed in Note 4 of the audited annual consolidated financial statements, except for the future accounting change detailed below.

Conceptual Framework for Financial Reporting

In March 2018, the IASB issued a comprehensive set of concepts for financial reporting, the revised Conceptual Framework for Financial Reporting (Conceptual Framework), replacing the previous version of the Conceptual Framework issued in 2010. The Conceptual Framework sets out the fundamental concepts for financial reporting that guide the IASB in developing IFRS Standards. It helps to ensure that the Standards are conceptually consistent and that similar transactions are treated the same way, so as to provide useful information for investors, lenders and other creditors. The revised Conceptual Framework is effective immediately for the IASB and the IFRS Interpretations Committee.

The revised Conceptual Framework has an effective date of January 1, 2020—with earlier application permitted—for companies that use the Conceptual Framework to develop accounting policies when no IFRS Standard applies to a particular transaction. The Bank is currently assessing the impact of the adoption of the revised Conceptual Framework on its consolidated financial statements.

4. SECURITIES

Gains and losses recognized in comprehensive income

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

	For the three months ended			For the nine months ended	
	July 31 2018	April 30 2018	July 31 2017	**July 31 2018**	July 31 2017
Realized net gains	**$ 146**	$ 130	$ 1,037	**$ 2,766**	$ 8,000
Write-downs for impairment	**—**	—	—	**—**	(608)
	$ 146	$ 130	$ 1,037	**$ 2,766**	$ 7,392

Accumulated unrealized gains and losses recognized in other comprehensive income on the portfolio of available-for-sale securities
Accumulated unrealized gains and losses on available-for-sale securities result mainly from fluctuations in market prices as well as changes in interest and exchange rates. The Bank considers that no objective evidence of impairment related to the securities in an unrealized loss position exists based on the market conditions at the reporting date and monitors these investments and market conditions on an ongoing basis.

				As at July 31, 2018
	Amortized cost	**Unrealized gains**	**Unrealized losses**	**Fair value**
Securities issued or guaranteed				
by Canada [1]	**$ 1,167,572**	**$ 20**	**$ 490**	**$ 1,167,102**
by provinces	**1,751,200**	**1,506**	**534**	**1,752,172**
by municipalities	**127,454**	**—**	**1,551**	**125,903**
Other debt securities	**40,146**	**22**	**818**	**39,350**
Asset-backed securities	**2,848**	**—**	**—**	**2,848**
Preferred shares	**144,717**	**4,121**	**1,839**	**146,999**
Common shares and other securities	**8,782**	**263**	**26**	**9,019**
	$ 3,242,719	**$ 5,932**	**$ 5,258**	**$ 3,243,393**

				As at October 31, 2017
	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Securities issued or guaranteed				
by Canada [1]	$ 1,391,378	$ 818	$ 495	$ 1,391,701
by provinces	1,200,864	3,829	280	1,204,413
by municipalities	208,423	100	1,174	207,349
Other debt securities	64,294	513	636	64,171
Asset-backed securities	3,393	9	—	3,402
Preferred shares	141,761	4,828	843	145,746
Common shares and other securities	14,515	912	50	15,377
	$ 3,024,628	$ 11,009	$ 3,478	$ 3,032,159

				As at July 31, 2017
	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Securities issued or guaranteed				
by Canada [1]	$ 1,904,101	$ 360	$ 1,627	$ 1,902,834
by provinces	1,052,315	2,581	766	1,054,130
by municipalities	195,319	—	1,374	193,945
Other debt securities	361,129	526	813	360,842
Asset-backed securities	3,980	17	—	3,997
Preferred shares	129,312	3,748	1,716	131,344
Common shares and other securities	11,253	345	104	11,494
	$ 3,657,409	$ 7,577	$ 6,400	$ 3,658,586

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

5. LOANS

Allowances for credit losses

						For the nine months ended July 31, 2018
	Balance at beginning of period	Provision for credit losses	Write-offs	Recoveries and other [1]	Interest accrued on impaired loans	Balance at end of period
Personal	$ 30,600	$ 17,061	$ (24,552)	$ 5,090	$ (776)	$ 27,423
Residential mortgage	10,818	2,485	(760)	(922)	(1,106)	10,515
Commercial [2] [3]	63,474	6,854	(16,668)	242	(1,578)	52,324
Total allowances for credit losses	$ 104,892	$ 26,400	$ (41,980)	$ 4,410	$ (3,460)	$ 90,262
Individual allowances	$ 24,801	$ 7,361	$ (15,622)	$ (5)	$ (810)	$ 15,725
Collective allowances against impaired loans	17,828	19,407	(26,358)	4,415	(2,650)	12,642
Collective allowances against other loans	56,557	1,980	—	—	—	58,537
Total allowances for loan losses	99,186	28,748	(41,980)	4,410	(3,460)	86,904
Allowances for off-balance sheet exposures [4]	5,706	(2,348)	—	—	—	3,358
Total allowances for credit losses	$ 104,892	$ 26,400	$ (41,980)	$ 4,410	$ (3,460)	$ 90,262

						For the nine months ended July 31, 2017
	Balance at beginning of period	Provision for credit losses	Write-offs	Recoveries and other	Interest accrued on impaired loans	Balance at end of period
Personal	$ 36,452	$ 20,972	$ (28,188)	$ 5,415	$ (514)	$ 34,137
Residential mortgage	11,018	2,239	(1,174)	(389)	(983)	10,711
Commercial [2] [3]	63,094	2,289	(6,964)	597	(807)	58,209
Total allowances for credit losses	$ 110,564	$ 25,500	$ (36,326)	$ 5,623	$ (2,304)	$ 103,057
Individual allowances	$ 19,208	$ 6,468	$ (6,863)	$ 594	$ (261)	$ 19,146
Collective allowances against impaired loans	15,977	28,069	(29,463)	5,029	(2,043)	17,569
Collective allowances against other loans	69,824	(7,801)	—	—	—	62,023
Total allowances for loan losses	$ 105,009	$ 26,736	$ (36,326)	$ 5,623	$ (2,304)	$ 98,738
Allowances for off-balance sheet exposures [4]	5,555	(1,236)	—	—	—	4,319
Total allowances for credit losses	$ 110,564	$ 25,500	$ (36,326)	$ 5,623	$ (2,304)	$ 103,057

(1) Includes impact of foreign exchange movements.
(2) Including customers' liabilities under acceptances.
(3) Comparative figures have been reclassified to conform to the current year presentation. Refer to Note 2 for further information.
(4) The allowances for off-balance sheet exposures, such as letters of guarantee and certain undrawn amounts under approved credit facilities, are recognized in other liabilities.

Impaired loans

				As at July 31, 2018
	Gross amount	Individual allowances	Collective allowances against impaired loans	Net amount
Personal	$ 19,700	$ —	$ 6,845	$ 12,855
Residential mortgage	34,678	—	2,368	32,310
Commercial [1] [2]	104,536	15,725	3,429	85,382
	$ 158,914	$ 15,725	$ 12,642	$ 130,547

(1) Including customers' liabilities under acceptances.
(2) Comparative figures have been reclassified to conform to the current year presentation. Refer to Note 2 for further information.

5. LOANS (CONT'D)

								As at October 31, 2017
		Gross amount		Individual allowances		Collective allowances against impaired loans		Net amount
Personal	$	20,874	$	—	$	11,462	$	9,412
Residential mortgage		30,326		—		2,703		27,623
Commercial [1][2]		100,691		24,801		3,663		72,227
	$	151,891	$	24,801	$	17,828	$	109,262

								As at July 31, 2017
		Gross amount		Individual allowances		Collective allowances against impaired loans		Net amount
Personal	$	21,470	$	—	$	11,774	$	9,696
Residential mortgage		28,085		—		2,225		25,860
Commercial [1][2]		68,944		19,146		3,570		46,228
	$	118,499	$	19,146	$	17,569	$	81,784

(1) Including customers' liabilities under acceptances.
(2) Comparative figures have been reclassified to conform to the current year presentation. Refer to Note 2 for further information.

Loans past due but not impaired

Personal and residential mortgage loans past due shown in the table below are not classified as impaired because they are less than 90 days past due or they are secured such as to reasonably expect full recovery. Commercial loans past due but not impaired are not significant.

								As at July 31, 2018
		1 day-31 days		**32 days-90 days**		**Over 90 days**		**Total**
Personal	**$**	**72,398**	**$**	**18,266**	**$**	**6,902**	**$**	**97,566**
Residential mortgage		**269,503**		**44,833**		**16,814**		**331,150**
	$	**341,901**	**$**	**63,099**	**$**	**23,716**	**$**	**428,716**

								As at October 31, 2017
		1 day-31 days		32 days-90 days		Over 90 days		Total
Personal	$	78,031	$	26,903	$	7,702	$	112,636
Residential mortgage		259,395		40,490		19,051		318,936
	$	337,426	$	67,393	$	26,753	$	431,572

								As at July 31, 2017
		1 day-31 days		32 days-90 days		Over 90 days		Total
Personal	$	81,245	$	24,243	$	6,945	$	112,433
Residential mortgage		265,917		40,298		17,668		323,883
	$	347,162	$	64,541	$	24,613	$	436,316

Finance lease receivables

The Commercial loans line item includes net investment in leases of $880.9 million as at July 31, 2018 ($808.3 million as at October 31, 2017 and $901.3 million as at July 31, 2017).

Sale of commercial loans

During the quarter ended April 30, 2018, the Bank sold a $380 million agricultural commercial loan portfolio and recognized a $5.3 million gain in other income.

6. SECURITIZATION AND STRUCTURED ENTITIES

6.1 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, 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 in the consolidated balance sheet.

	As at July 31 2018	As at October 31 2017	As at July 31 2017
Residential mortgage loans	**$ 6,398,996**	$ 7,063,929	$ 7,172,931
Replacement Assets			
Cash and deposits with other banks	**3,813**	10,069	2,825
Securities purchased under reverse repurchase agreements	**271,858**	1,118	—
Other securities	**444,642**	405,088	159,832
Debt related to securitization activities	**$ (7,260,576)**	$ (7,524,885)	$ (7,404,535)

In addition, as at July 31, 2018, the Bank has also securitized other residential mortgage loans for a total amount of $497.2 million as part of the NHA MBS program, of which $237.2 million were pledged as collateral with the Bank of Canada and $260.0 million was available as collateral. The resulting NHA MBS are presented as part of residential mortgage loans.

The following table summarizes the securitization activities carried out by the Bank.

	For the three months ended			For the nine months ended	
	July 31 2018	April 30 2018	July 31 2017	**July 31 2018**	July 31 2017
Carrying amounts of mortgages transferred during the period related to new financing	**$ 135,693**	$ 373,627	$ 673,449	**$ 1,014,178**	$ 1,910,578
Carrying amounts of mortgages transferred during the period as Replacement Assets	**$ 121,831**	$ 169,239	$ 276,751	**$ 440,334**	$ 563,515

Securitized Mortgage Loan Review

Canadian Mortgage and Housing Corporate (CMHC) Programs

During the second quarter of 2018, CMHC completed an audit of a sample of the Bank's portfolio insured mortgage loans. The audit highlighted similar issues as those identified in the fourth quarter of 2017, whereas certain mortgage loans were inadvertently portfolio insured while they did not meet CMHC portfolio insurance eligibility criteria.

During the third quarter of 2018, the Bank completed a review of all B2B Bank and branch-originated mortgage loan portfolios insured by CMHC. Further to the review, mortgage loans inadvertently portfolio insured and sold into CMHC's securitization programs amounting to $135 million were identified. As a result, in addition to those mortgage loans already repurchased from the CMHC securitization programs at the beginning of 2018 for an amount of $88 million, all such identified mortgage loans were repurchased during the third quarter of 2018. CMHC insurance on mortgage loans inadvertently portfolio insured by CMHC but not sold to, as well as on portfolio insured mortgage loans sold into CMHC's securitization programs was cancelled concurrently. Further to the completion of the review and repurchase of the mortgage loans by the Bank, CMHC has agreed to release during the fourth quarter of 2018 the $20 million cash reserve deposit previously made by the Bank. The cash reserve deposit is presented as part of other assets.

Third Party Purchaser Program

In late September 2017, the Bank was advised by a third-party purchaser (the "TPP"), following a normal course audit, that certain mortgage loans previously sold to the TPP did not meet their documentation and eligibility criteria.

In regards to the B2B Bank-originated mortgage loans sold to the TPP, we completed a full review of these mortgage loans in 2017. This review led to the Bank repurchasing certain ineligible mortgage loans in the first quarter of 2018 for a total amount of $89 million. In addition, the Bank provided a cash reserve deposit to the TPP in relation to these mortgage loans, of which $23 million has been retained by the TPP as credit enhancement for the program. The cash reserve deposit is currently being remitted to the Bank over time as the B2B Bank originated mortgage loans amortize. The cash reserve deposit is presented as part of other assets.

6. SECURITIZATION AND STRUCTURED ENTITIES (CONT'D)

In regards to the branch-originated mortgage loans sold to the TPP, a comprehensive internal review of approximately 1,900 mortgage loans was completed during the second quarter of 2018. Based on this internal review, the Bank has identified certain ineligible mortgage loans amounting to $115 million which, as agreed to with the TPP, were repurchased by the Bank during the third quarter of 2018. In addition, in the first quarter of 2018, the Bank provided the TPP an additional cash reserve deposit in the amount of $61 million in relation to these mortgage loans. As part of the agreement with the TPP, $6 million of this cash reserve deposit was released to the Bank during the third quarter of 2018. The remainder of this cash reserve deposit was retained by the TPP as additional credit enhancement to the program and is currently being remitted to the Bank over time as the branch-originated mortgage loans amortize. The cash reserve deposit is presented as part of other assets.

As part of our internal review and as previously disclosed, we also had identified certain low loan-to-value (LTV) mortgage loans that were sold to the TPP and that did not meet the program eligibility criteria amounting to $91 million. These mortgage loans were repurchased by the Bank in the first quarter of 2018.

6.2 STRUCTURED ENTITIES SECURITIZATON VEHICLES

Financial assets securitized through structured entities

The following table summarizes the carrying amounts of financial assets securitized through structured entities and their associated financial liabilities included in the consolidated balance sheet.

		As at July 31 2018		As at October 31 2017		As at July 31 2017
Personal loans	**$**	**1,061,988**	$	949,104	$	977,804
Commercial loans [1]		**399,421**		562,421		280,957
Debt related to securitization activities involving structured entities	**$**	**(554,013)**	$	(706,036)	$	(459,449)

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

The following table summarized the securitization activities carried out by the Bank's consolidated structured entities.

	For the three months ended					For the nine months ended		
		July 31 2018		April 30 2018		July 31 2017		**July 31 2018**		July 31 2017

		July 31 2018		April 30 2018		July 31 2017		**July 31 2018**		July 31 2017
		For the three months ended						For the nine months ended		
Carrying amounts of personal loans transferred during the period related to financing	**$**	**230,262**	$	—	$	1,000,001	**$**	**230,262**	$	1,000,001

7. SHARE CAPITAL

Preferred shares

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

	For the nine months ended					
			July 31 2018			July 31 2017
	Number of shares		**Amount**	Number of shares		Amount
Non-Cumulative Class A Preferred Shares						
Series 11						
Outstanding at beginning of period	**4,000,000**	**$**	**97,562**	4,000,000	$	97,562
Repurchase of shares	**(4,000,000)**		**(97,562)**	—		—
Outstanding at the end of period	**—**		**—**	4,000,000		97,562
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**	14,000,000	$	341,600

7. SHARE CAPITAL (CONT'D)

There were no outstanding Non-Cumulative Class A Preferred Shares Series 14 and Series 16 as at July 31, 2018 (no outstanding preferred shares Series 12, Series 14 and Series 16 as at July 31, 2017).

Repurchase of preferred shares

On December 15, 2017 the Bank repurchased 4,000,000 Non-cumulative Class A Preferred Shares, Series 11 at a price of $25.00 per share, for an aggregate amount of $100.0 million.

Common shares

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

	For the nine months ended			
	July 31 2018		July 31 2017	
	Number of shares	**Amount**	Number of shares	Amount
Common shares				
Outstanding at beginning of period	**38,966,473**	**$ 953,536**	33,842,170	$ 696,493
Issuance under a public offering	**2,624,300**	**143,812**	—	—
Issuance under the Shareholder Dividend Reinvestment and Share Purchase Plan	**404,861**	**19,594**	348,311	19,487
Net issuance costs	**n.a.**	**(4,738)**	n.a.	(45)
	41,995,634	**$ 1,112,204**	34,190,481	$ 715,935

Issuance under a public offering

On January 16, 2018, the Bank completed the issuance of 2,282,000 common shares for gross proceeds of $125.1 million. In connection with this share issuance, on January 18, 2018, the Bank issued an additional 342,300 common shares related to an over-allotment option. Including the over-allotment option, the Bank issued 2,624,300 common shares for gross proceeds of $143.8 million.

Dividend reinvestment and share purchase plan

The Bank determined that as of December 4, 2017, reinvestments related to the dividend declared would be made in common shares issued from treasury at a 2% discount.

Dividends declared

On August 14, 2018, the Board of Directors declared the regular dividend on the various series of preferred shares to shareholders of record on September 7, 2018.

On September 4, 2018, the Board of Directors declared a quarterly dividend of $0.64 per common share, payable on November 1, 2018, to shareholders of record on October 1, 2018.

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 6.375%, 7.875% and 9.875% respectively for 2018. These ratios include the phase-in of the capital conservation buffer and of certain regulatory adjustments through 2019 and phase-out of non-qualifying capital instruments through 2022 (the "transitional" basis). The guideline also provides for annual increases in minimum capital ratio requirements, which will reach 7.0%, 8.5% and 10.5% respectively in 2019, including the 2.5% capital conservation buffer.

Furthermore, OSFI expects deposit-taking institutions to maintain target capital ratios without transition arrangements equal to or greater than the 2019 minimum capital ratios plus a conservation buffer (the "all-in" basis), including a minimum 7.0% Common Equity Tier 1 ratio target. The "all-in" basis includes all of the regulatory adjustments that will be required by 2019 but retains the phase-out rules for non-qualifying capital instruments.

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.

7. SHARE CAPITAL (CONT'D)

The Bank has complied with regulatory capital requirements throughout the nine-month period ended July 31, 2018. Regulatory capital on an "all-in basis" is detailed below.

	As at July 31 2018	As at October 31 2017
Common shares	$ 1,112,204	$ 953,536
Retained earnings	1,131,742	1,035,770
Accumulated other comprehensive income, excluding cash flow hedge reserve	3,132	6,797
Deductions from Common Equity Tier 1 capital [1]	(434,896)	(383,804)
Common Equity Tier 1 capital	1,812,182	1,612,299
Non-qualifying preferred shares [2]	—	97,562
Qualifying preferred shares	244,038	244,038
Additional Tier 1 capital	244,038	341,600
Tier 1 capital	2,056,220	1,953,899
Qualifying subordinated debt	348,677	348,427
Collective allowances	74,537	62,263
Deductions from Tier 2 capital	—	—
Tier 2 capital	423,214	410,690
Total capital	$ 2,479,434	$ 2,364,589
Common Equity Tier 1 capital ratio	8.8%	7.9%
Tier 1 capital ratio	10.0%	9.6%
Total capital ratio	12.1%	11.6%

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

8. SHARE-BASED COMPENSATION

Performance-based share unit plans

Performance-based share units

During the first quarter of 2018, under the performance-based share unit plan, the Bank granted 157,854 performance-based share units valued at $56.40 each. The rights to these units will vest in December 2020 and upon meeting certain financial objectives. During the second quarter of 2018, the Bank granted 3,328 additional performance-based share units valued at $52.00 each. The rights to these units will vest in December 2020 and upon meeting certain financial objectives. There were no new grants during the third quarter of 2018.

Transformation performance-based share units

During the first quarter of 2018, in line with the decision to reset the Bank's mid-term objectives from 2019 to 2020 while keeping the 2022 targets intact, 25,413 units related to the 2017 Transformation performance-based cash settled share unit plan were canceled and replaced by 57,173 units of the new 2018 Transformation performance-based share unit plan. The rights to the 2018 Transformation performance-based share units (the Transformation PSUs) will vest after three years and only if the Bank attains the following performance targets at the end of fiscal 2020: an adjusted return on equity (ROE) no worse than 300 basis points below the average ROE of the six major Canadian banks for fiscal 2020 (relative performance); or an adjusted ROE of 14% or better for fiscal 2020 (absolute performance). On January 10, 2018, the grant date, the value of the units granted was $56.40 per unit. During the second quarter of 2018, the Bank granted 1,238 additional units valued at $52.00 each. There were no new grants during the third quarter of 2018.

Restricted share unit plans

During the first quarter of 2018, under the restricted share unit plan, annual bonuses for certain employees amounting to $3.0 million were converted into 53,168 entirely vested restricted share units. Simultaneously, the Bank also granted 37,875 additional restricted share units valued at $56.40 each that will vest in December 2020. There were no new grants during the second quarter of 2018. During the third quarter of 2018, the Bank granted 3,103 entirely vested units valued at $47.73 each.

During the first quarter of 2018, under the restricted share unit plan for employees of the Capital Markets sector, annual bonuses for certain employees amounting to $1.8 million were converted into 32,599 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. There were no new grants during the second and third quarters of 2018.

8. SHARE-BASED COMPENSATION (CONT'D)

Share-based compensation plans expense and related liability

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

	For the three months ended			For the nine months ended	
	July 31 2018	April 30 2018	July 31 2017	**July 31 2018**	July 31 2017
Expense arising from cash-settled share-based compensation transactions	**$ (398)**	$ (1,058)	$ 1,056	**$ (5,170)**	$ 11,862
Effect of hedges	**1,867**	2,582	808	**9,347**	(5,515)
	$ 1,469	$ 1,524	$ 1,864	**$ 4,177**	$ 6,347

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 payment 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 $35.9 million as at July 31, 2018 ($49.4 million as at October 31, 2017 and $42.4 million as at July 31, 2017). The intrinsic value of the total liability related to fully vested rights and units was $22.4 million as at July 31, 2018 ($25.9 million as at October 31, 2017 and $22.9 million as at July 31, 2017).

9. 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 nine months ended	
	July 31 2018	April 30 2018	July 31 2017	**July 31 2018**	July 31 2017
Defined benefit pension plans	**$ 4,330**	$ 4,189	$ 4,798	**$ 12,850**	$ 14,237
Defined contribution pension plans	**2,037**	1,966	1,909	**5,928**	5,663
Other plans	**219**	212	218	**650**	648
	$ 6,586	$ 6,367	$ 6,925	**$ 19,428**	$ 20,548

10. FINANCIAL INSTRUMENTS – FAIR VALUE

Determining fair value

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The fair value of financial instruments is best evidenced by an independent quoted market price for the same instrument in an active market when available. Otherwise, fair value is measured using valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. Fair value measurements are categorized into levels within a fair value hierarchy based on the nature of valuation inputs (Level 1, 2 or 3). Additional information on the fair value hierarchy and the valuation methodologies used by the Bank to measure the fair value of financial instruments can be found in Note 22 of the 2017 audited annual consolidated financial statements. There were no changes in fair value measurement methods in the period.

Financial instruments recorded at fair value in the financial statements are classified in Level 2 of the fair value hierarchy, except for securities of $304.0 million which are classified in Level 1 as at July 31, 2018. Financial instruments recorded at fair value classified in Level 3 are not significant. There were no significant transfers between Level 1 and Level 2 of the hierarchy in the period.

11. 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.

12. RESTRUCTURING CHARGES

In September 2016, the Bank announced that it would reorganize its branch network. This decision resulted from the strategic analysis initiated in 2015, as well as changes to the economic landscape. As part of the planned restructuring, provisions related to lease contracts of $11.9 million and severance charges of $4.4 million were initially recorded on the Restructuring charges line item in 2016. In 2017, the Bank incurred additional charges of $10.5 million including salaries, communication expenses and professional fees related to the optimization of the Bank's Retail Services activities and branch mergers. In addition, charges of $2.2 million were recorded for the third quarter of 2018 ($4.9 million for the nine months ended July 31, 2018) related to the termination of lease contracts and to service costs to reorganize the branch network product offering in light of the transition to the advice-only model.

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

	For the nine months ended	
	July 31 2018	July 31 2017
Balance at beginning of the period	**$ 9,411**	$ 16,231
Restructuring charges incurred during the period	**4,912**	4,812
Payments made during the period	**(8,429)**	(11,103)
Balance at end of the period	**$ 5,894**	$ 9,940

13. BUSINESS COMBINATIONS

Acquisition of Northpoint Commercial Finance

On May 18, 2017, the Bank entered into a definitive agreement under which it agreed to acquire 100% of the ownership interests in Northpoint Commercial Finance ("NCF"), a U.S. based non-bank inventory finance lender with a portfolio of US$819 million (C$1,039 million). The transaction closed on August 11, 2017. The final purchase price of US$257 million (C$325 million) was based on the book value of the net assets of NCF as at the closing date. As part of the transaction, the Bank has also reimbursed previous credit facilities of NCF for US$668 million (C$848 million).The Bank acquired NCF to further develop its equipment financing business and diversify revenue streams.

During the second quarter of 2018, the Bank updated the preliminary estimated fair values of the assets acquired and liabilities assumed on August 11, 2017, as detailed in the table below. The updated fair values did not change materially from the initial valuation, therefore comparative figures have not been restated. The final validations were completed during the third quarter of 2018 and did not lead to any further changes. As such, the allocation of the purchase price for NCF is completed.

	NCF Final Valuation	NCF Initial Valuation
Assets		
Loans	**$ 1,038,887**	$ 1,038,650
Software and other intangible assets	**80,997**	81,000
Goodwill	**53,629**	56,437
Other	**89,895**	94,257
	$ 1,263,408	$ 1,270,344
Liabilities		
Other	**$ 937,979**	$ 944,710
Total identifiable net assets acquired	**$ 325,429**	$ 325,634
Cash paid - estimated purchase consideration	**$ 325,429**	$ 325,634
Reimbursement of previous credit facilities	**847,759**	847,787
Total	**$ 1,173,188**	$ 1,173,421

In the fourth quarter of 2017, the Bank incurred acquisition-related professional fees and other expenses of $1.7 million in relation with this transaction. These costs were recognized directly in net income, under Costs related to business combinations. No additional costs were incurred in 2018.

Acquisition of CIT Canada

On October 1, 2016, the Bank acquired from CIT Group Inc. ("CIT") their Canadian equipment financing and corporate financing activities ("CIT Canada"). In relation to this transaction, the Bank incurred integration related technology costs, professional fees and salaries of $2.4 million in the first half of 2018. No additional costs were incurred in the third quarter of 2018 as the integration was completed at the end of the second quarter of 2018. These costs were recognized directly in net income, under Costs related to business combinations.

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SHAREHOLDER INFORMATION

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Our Montréal office is moving to new premises in September 2018. Please update your records:
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Transfer agent and registrar
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Suite 700
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service@computershare.com
Tel.: 514-982-7888
or 1-800-564-6253

Change of address and inquiries
Shareholders should notify the transfer agent of any change of address. Inquiries or requests may be directed to the Corporate Secretary's Office at secretary.office@lbcfg.ca or by calling 514-284-4500 ext. 4375.

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 Investor Relations Department at investor.relations@lbcfg.ca or by calling 514-284-4500 ext. 4926.

Media
Journalists may contact the Executive Office at media@lbcfg.ca or by calling 514-284-4500 ext. 4695.

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 and registrar, 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 common and preferred 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.