LAURENTIAN BANK
FINANCIAL GROUP

THIRD QUARTER 2020

Report to Shareholders

For the period ended July 31, 2020

HIGHLIGHTS OF THIRD QUARTER 2020

- Adjusted net income[1] of $47.1 million, compared with $11.9 million for the second quarter of 2020.
- Reported net income of $36.2 million, compared with $8.9 million for the second quarter of 2020.
- Adjusted return on common shareholders' equity[1] of 7.7%, and reported return on common shareholders' equity of 5.8%, compared with 1.5% and 1.0% respectively for the second quarter of 2020.
- Adjusted efficiency ratio[1] of 68.1%, and reported efficiency ratio of 73.9%, compared with 74.8% and 76.4% respectively for the second quarter of 2020.
- Common Equity Tier 1 ratio at 9.4%, compared with 8.8% as at April 30, 2020.
- Total provision for credit losses of $22.3 million, compared with $54.9 million for the second quarter of 2020.

In millions of Canadian dollars, except per share and percentage amounts (Unaudited)	For the three months ended			For the nine months ended		
	July 31 2020	July 31 2019	Variance	**July 31 2020**	July 31 2019	Variance
Reported basis						
Net income	**$ 36.2**	$ 47.8	(24)%	**$ 77.3**	$ 131.4	(41)%
Diluted earnings per share	**$ 0.77**	$ 1.05	(27)%	**$ 1.58**	$ 2.88	(45)%
Return on common shareholders' equity	**5.8 %**	7.8 %		**3.9 %**	7.2 %	
Efficiency ratio	**73.9 %**	72.7 %		**76.5 %**	75.1 %	
Common Equity Tier 1 capital ratio	**9.4 %**	9.0 %				
Adjusted basis[1]						
Adjusted net income	**$ 47.1**	$ 51.9	(9)%	**$ 95.9**	$ 145.3	(34)%
Adjusted diluted earnings per share	**$ 1.02**	$ 1.15	(11)%	**$ 2.01**	$ 3.20	(37)%
Adjusted return on common shareholders' equity	**7.7 %**	8.5 %		**5.0 %**	8.0 %	
Adjusted efficiency ratio	**68.1 %**	70.6 %		**73.1 %**	72.7 %	

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

Laurentian Bank Financial Group reported net income of $36.2 million and diluted earnings per share of $0.77 for the third quarter of 2020, compared with $47.8 million and $1.05 for the third quarter of 2019. Return on common shareholders' equity was 5.8% for the third quarter of 2020, compared with 7.8% for the third quarter of 2019. On an adjusted basis, net income was $47.1 million and diluted earnings per share were $1.02 for the third quarter of 2020, down from $51.9 million and $1.15 for the third quarter of 2019. Adjusted return on common shareholders' equity was 7.7% for the third quarter of 2020, compared with 8.5% a year ago. Reported results include adjusting items, as detailed in the Non-GAAP and Key Performance Measures section.

For the nine months ended July 31, 2020, reported net income was $77.3 million or $1.58 diluted per share, compared with $131.4 million or $2.88 diluted per share for the nine months ended July 31, 2019. Return on common shareholders' equity was 3.9% for the nine months ended July 31, 2020, compared with 7.2% for the nine months ended July 31, 2019. On an adjusted basis, net income totaled $95.9 million or $2.01 diluted per share for the nine months ended July 31, 2020, down from $145.3 million or $3.20 diluted per share for the nine months ended July 31, 2019. Adjusted return on common shareholders' equity was 5.0% for the nine months ended July 31, 2020, compared with 8.0% for the same period a year ago. Reported results include adjusting items, as detailed in the Non-GAAP and Key Performance Measures section.

Impact of COVID-19 Pandemic

In early 2020, COVID-19 had spread worldwide and on March 11, 2020 was declared a global pandemic by the World Health Organization. The unprecedented nature of COVID-19 has adversely impacted the global economy. We believe our response to date has enabled us to keep our team members and our customers safe. These measures also provided the foundation to support our operations in light of the high level of uncertainty. Our liquidity and capital positions continue to provide all the required flexibility to pursue our mission to help our customers through this difficult period. COVID-19 had an impact on financial performance since March 2020, and, as a result, improvements in certain of our businesses were overshadowed by a significant increase in provision for credit losses. Nonetheless, we remain cautiously optimistic about the future as the economy is showing resilience and is adapting to this new reality. Given the impacts of the pandemic on our operations and results, the management team began a review of the various elements of the strategic plan with the aim of refining it and reassessing timelines.

Stéphane Therrien, Interim President and Chief Executive Officer, commented on the third quarter of 2020 highlights: "From the onset of the pandemic, we have taken measures to preserve the financial strength and stability of the Bank. Capital and liquidity have always been managed prudently and continue to be during these uncertain times. Our track record on the credit front is solid and is supported by our rigorous underwriting."

"We continued to support our customers with numerous programs, including payment deferrals. With the economy gradually re-opening and individuals and businesses adjusting to the new realities, many customers who requested deferrals at the beginning of the pandemic have since resumed payments."

M. Therrien concluded: "As we navigate through these challenging times, we have never lost sight of ensuring the health and safety of our customers and employees who are well protected through the many measures we have put in place and are providing our customers with the financial resources and advice they need."

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) is a narrative explanation which presents management's view of Laurentian Bank of Canada's financial condition as at July 31, 2020 and its operating results for the periods ended July 31, 2020, compared with the corresponding periods shown. This MD&A should be read in conjunction with the Condensed Interim Consolidated Financial Statements as at and for the period ended July 31, 2020 and with the 2019 Annual report. This MD&A is dated September 3, 2020.

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

BASIS OF PRESENTATION

The financial information reported herein is based on the Condensed Interim Consolidated Financial Statements for the periods ended July 31, 2020, and, unless otherwise indicated, has been prepared in accordance with International Financial Reporting standards (IFRS), as issued by the International Accounting Standards Board (IASB), as well as in accordance with IAS 34, Interim Financial Reporting. All amounts are presented in Canadian dollars.

Financial reporting changes

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

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ABOUT LAURENTIAN BANK FINANCIAL GROUP

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

With more than 2,900 employees guided by the values of proximity, simplicity and honesty, the Group provides a broad range of advice-based solutions and services to its personal, business and institutional customers. With pan-Canadian activities and a presence in the U.S., the Group is an important player in numerous market segments.

The Group has $44.3 billion in balance sheet assets and $28.4 billion in assets under administration.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

In this document and in other documents filed with Canadian regulatory authorities or in other communications, we may, from time to time, make written or oral forward-looking statements within the meaning of applicable securities legislation. Forward-looking statements may include, but are not limited to, statements regarding our business plan and financial objectives including statements contained in our 2019 Annual Report under the heading "Outlook". The forward-looking statements contained in this document are used to assist readers in obtaining a better understanding of our financial position and the results of operations as at and for the periods ended on the dates presented and may not be appropriate for other purposes. Forward-looking statements typically are identified with words or phrases such as believe, estimate, forecast, project, expect, anticipate, plan, goal, target, may, should, could, would, will, intend or the negative of these terms, variations thereof or similar terminology.

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

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

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

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

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

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

COVID-19 Pandemic

The global outbreak of the coronavirus (COVID-19) is continuing to raise social and community challenges globally. Governments worldwide have enacted emergency measures including the implementation of travel bans, temporary business and school closures, self-imposed quarantine periods and physical distancing. Since the beginning of the outbreak, governments and central banks have also put in place relief measures for individuals and businesses to alleviate some of the negative effects that this crisis has had on the economy. As of the beginning of the third quarter, Canada's economy started its recovery with a strong bounce-back from the low hit in April, however it is still performing below its pre-COVID-19 level. Since March, we have taken measures to preserve the financial strength and stability of the Bank. Capital and liquidity have always been managed prudently and continue to be during these uncertain times. Our strong track record on the credit front and our rigorous underwriting also position us well for the future.

Team Members and Customers

Our first priority has been to ensure the health and safety of our customers and team members. Management continues to assess the situation on an ongoing basis and is taking action, as necessary. Early on, precautionary measures included:

- Ensuring a safe environment for our customer-facing employees and customers, following procedures prescribed by global public health organizations;
- Increasing the intensity of cleaning and installing hand sanitizer dispensers at our various offices and locations;
- Eliminating business travel and requiring self-isolation following personal travel or for illness;
- Implementing a secure work from home strategy for more than 70% of our team members;
- Implementing physical distancing measures and separating our workforce to minimize the number of individuals at any given location.

Today, we see a strong commitment from our team members and productivity remains high, as we continue to adapt to the new working conditions.

Most of our Financial Clinics, business centers, operations and call centers have remained open. Day-to-day banking continues to be accessible, 24/7, using mobile or online banking, and customers can continue to use ATMs - ours or Interac or the Exchange Network available from coast to coast. Programs to support our customers, such as payment deferrals, detailed below, and credit limit increases have also helped to ease short term concerns.

We also are working in partnership with government entities to further support our business customers. As of April 9, 2020, we began offering the Emergency Business Account for Canadian businesses (CEBA) to eligible customers. This Government of Canada program, for example, provides interest-free loans of up to $40,000 to help businesses and not-for-profit organisations cover their operating costs that could not be deferred during a period where business revenues have been temporarily reduced due to the economic impacts of the COVID-19 pandemic. During the third quarter, we also started to offer loans under the Concerted Temporary Action Program for Businesses (PACTE), introduced by Investissement Québec and which provides emergency funding to eligible businesses operating in Québec.

Operating Results

For the third quarter of 2020, net income was $36.2 million, compared with $8.9 million for the second quarter of 2020. The immediate financial impact of COVID-19 in the second quarter of 2020 was mainly attributed to higher expected credit losses, primarily driven by forward-looking economic scenarios which considered the recent recession. The provision for credit losses for the current third quarter was also impacted, although to a much lesser extent, as the recession has been steeper than initially anticipated at the end of the second quarter and as our forward looking macro-economic scenarios now reflect a slower economic recovery. With regards to revenues, the rebound in economic activity in the third quarter, from a very low base, contributed to the better performance, especially from market driven activities where client activity remained high. Efficiency measures also contributed to lower expenses and improved results for the third quarter. The recent reduction in loan levels, in part due to the pandemic, may however add pressure on revenues in the near future.

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

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

Capital and Liquidity

We are well positioned to manage capital and liquidity risks. Our common equity tier 1 ratio stood at 9.4% as at July 31, 2020, well in excess of the minimum regulatory requirement. As we continue to support our customers, and in accordance with regulatory developments and policy responses, we expect our regulatory capital ratio to remain above regulatory levels.

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

Policy Response

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

In Canada, the Bank of Canada (BoC), the Canadian Government and Provincial governments have all implemented measures to respond to the pandemic to support the economy. At the outset of the crisis, the BoC cut its policy rate by 150 basis points to 0.25%. The BoC also made available several facilities to support financial market liquidity. These programs provided us with added flexibility to further improve our liquidity position, as well as to optimize our funding costs. In particular, we participated in the Bankers' Acceptance Purchase Facility and the new Contingent Term Repo Facility. In addition to these measures, the BoC has also changed its Standing Liquidity Facility Collateral Policy by expanding the list of eligible securities and adding new maturities to its Term Repos operations in light of the COVID-19 imperative.

In March 2020, the Canadian Government launched, through the Canada Mortgage and Housing Corporation (CMHC), an Insured Mortgage Purchased Program (IMPP), which improved the availability of mortgage credit and supported Canada's housing market. This facility provided us an additional source of funding for our mortgage portfolio.

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

As fiscal stimulus, the federal and provincial governments introduced various other measures to support households and businesses. To support individuals, the Canada Emergency Response Benefit, an income support program that is providing a $2,000 monthly allowance for a maximum of 24 weeks until October 2020 to eligible workers, was launched. For businesses, among other measures, the Canada Emergency Wage Subsidy was introduced to provide a 75% wage subsidy to eligible businesses, to encourage firms to maintain employment levels and limit further payroll reductions. Further measures aimed at small businesses and not-for-profit organizations were also launched, such as the CEBA, as noted above, as well as the Canada Emergency Commercial Rent Assistance (CECRA) program, which will cover up to 50% of rents from April to August. Further measures include the PACTE program, introduced by Investissement Québec, which provide financial assistance to eligible businesses that face temporary difficulty as a result of COVID-19.

In the U.S., the Federal Reserve System (the Fed) and the Federal Government have rolled out monetary and fiscal stimulus through rate cuts, various market related programs that support funding markets, and spending measures to provide income support. Local governments and states have also introduced measures to respond to COVID-19. As well, the U.S. Government introduced the CARES Act, which provides a substantial economic assistance to various sectors of the economy impacted by COVID-19, with a number of provisions directly promoting the interests of small businesses. The sweeping legislation also contains relief for individual taxpayers, distressed industries, and the health care sector, among others.

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 2020	April 30 2020	Variance	July 31 2019	Variance	**July 31 2020**	July 31 2019	Variance
Operating results								
Total revenue	**$ 248,609**	$ 240,148	4 %	$ 244,653	2 %	**$ 727,470**	$ 726,872	— %
Net income	**$ 36,217**	$ 8,885	308 %	$ 47,798	(24)%	**$ 77,274**	$ 131,367	(41)%
Adjusted net income[1]	**$ 47,083**	$ 11,912	295 %	$ 51,882	(9)%	**$ 95,895**	$ 145,261	(34)%
Operating performance								
Diluted earnings per share	**$ 0.77**	$ 0.13	492 %	$ 1.05	(27)%	**$ 1.58**	$ 2.88	(45)%
Adjusted diluted earnings per share[1]	**$ 1.02**	$ 0.20	410 %	$ 1.15	(11)%	**$ 2.01**	$ 3.20	(37)%
Return on common shareholders' equity	**5.8 %**	1.0 %		7.8 %		**3.9 %**	7.2 %	
Adjusted return on common shareholders' equity[1]	**7.7 %**	1.5 %		8.5 %		**5.0 %**	8.0 %	
Net interest margin	**1.86 %**	1.88 %		1.85 %		**1.85 %**	1.81 %	
Efficiency ratio	**73.9 %**	76.4 %		72.7 %		**76.5 %**	75.1 %	
Adjusted efficiency ratio[1]	**68.1 %**	74.8 %		70.6 %		**73.1 %**	72.7 %	
Operating leverage	**3.4 %**	3.5 %		4.9 %		**(1.8) %**	(8.7) %	
Adjusted operating leverage[1]	**9.3 %**	2.3 %		4.0 %		**(0.6) %**	(8.5) %	
Financial position ($ millions)								
Loans and acceptances	**$ 32,807**	$ 33,726	(3)%	$ 33,887	(3)%			
Total assets	**$ 44,295**	$ 45,446	(3)%	$ 44,337	— %			
Deposits	**$ 24,570**	$ 25,304	(3)%	$ 26,616	(8)%			
Common shareholders' equity	**$ 2,292**	$ 2,275	1 %	$ 2,293	— %			
Key growth drivers ($ millions)								
Loans to Business customers	**$ 12,704**	$ 13,544	(6)%	$ 12,868	(1)%			
Loans to Personal customers[2]	**$ 20,103**	$ 20,182	— %	$ 21,019	(4)%			
Deposits from clients[3]	**$ 22,045**	$ 22,624	(3)%	$ 22,881	(4)%			
Basel III regulatory capital ratios								
Common Equity Tier 1 (CET1) capital ratio[4]	**9.4 %**	8.8 %		9.0 %				
CET1 risk-weighted assets ($ millions)	**$ 19,927**	$ 20,870		$ 20,445				
Credit quality								
Gross impaired loans as a % of loans and acceptances	**0.84 %**	0.70 %		0.59 %				
Net impaired loans as a % of loans and acceptances	**0.62 %**	0.52 %		0.45 %				
Provision for credit losses as a % of average loans and acceptances	**0.27 %**	0.67 %		0.14 %		**0.37 %**	0.12 %	
Common share information								
Closing share price[5]	**$ 26.55**	$ 31.09	(15)%	$ 45.41	(42)%	**$ 26.55**	$ 45.41	(42)%
Price / earnings ratio (trailing for quarter)	**10.7 x**	11.3 x		11.3 x		**10.7 x**	11.3 x	
Book value per share	**$ 53.15**	$ 52.99	— %	$ 54.00	(2)%	**$ 53.15**	$ 54.00	(2)%
Dividends declared per share	**$ 0.40**	$ 0.67	(40)%	$ 0.66	(39)%	**$ 1.74**	$ 1.96	(11)%
Dividend yield	**6.0 %**	8.6 %		5.8 %		**8.7 %**	5.8 %	
Dividend payout ratio	**52.0 %**	503.6 %		62.7 %		**109.9 %**	68.0 %	
Adjusted dividend payout ratio[1]	**39.1 %**	328.7 %		57.4 %		**86.2 %**	61.0 %	

(1) Refer to the Non-GAAP and Key Performance Measures section.
(2) Including residential mortgage loans. Comparative figures have been reclassified in order to conform with the presentation adopted in the current year.
(3) Including personal deposits from Financial Clinics, Advisors and Brokers, Digital direct to customers offering and Business customers.
(4) Using the Standardized Approach in determining credit risk and operational risk.
(5) Toronto Stock Exchange (TSX) closing market price.

NON-GAAP AND KEY PERFORMANCE MEASURES

NON-GAAP MEASURES

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

IMPACT OF ADJUSTING ITEMS ON REPORTED RESULTS

Thousands of Canadian dollars, except per share amounts (Unaudited)	For the three months ended			For the nine months ended	
	July 31 2020	April 30 2020	July 31 2019	**July 31 2020**	July 31 2019
Impact on income before income taxes					
Reported income before income taxes	**$ 42,405**	$ 1,553	$ 54,359	**$ 78,637**	$ 148,239
Adjusting items, before income taxes					
Restructuring and impairment charges[1]					
Severance charges	**7,047**	183	972	**10,068**	4,739
Other restructuring charges	**4,020**	143	830	**4,059**	2,509
	11,067	326	1,802	**14,127**	7,248
Items related to business combinations					
Amortization of net premium on purchased financial instruments[2]	**127**	179	336	**538**	1,168
Amortization of acquisition-related intangible assets[3]	**3,520**	3,542	3,426	**10,461**	10,295
	3,647	3,721	3,762	**10,999**	11,463
	14,714	4,047	5,564	**25,126**	18,711
Adjusted income before income taxes	**$ 57,119**	$ 5,600	$ 59,923	**$ 103,763**	$ 166,950
Impact on net income					
Reported net income	**$ 36,217**	$ 8,885	$ 47,798	**$ 77,274**	$ 131,367
Adjusting items, net of income taxes					
Restructuring and impairment charges[1]					
Severance charges	**5,178**	134	713	**7,398**	3,478
Other restructuring charges	**2,955**	105	610	**2,984**	1,842
	8,133	239	1,323	**10,382**	5,320
Items related to business combinations					
Amortization of net premium on purchased financial instruments[2]	**93**	131	247	**395**	858
Amortization of acquisition-related intangible assets[3]	**2,640**	2,657	2,514	**7,844**	7,716
	2,733	2,788	2,761	**8,239**	8,574
	10,866	3,027	4,084	**18,621**	13,894
Adjusted net income	**$ 47,083**	$ 11,912	$ 51,882	**$ 95,895**	$ 145,261
Impact on diluted earnings per share					
Reported diluted earnings per share	**$ 0.77**	$ 0.13	$ 1.05	**$ 1.58**	$ 2.88
Adjusting items					
Restructuring and impairment charges	**0.19**	0.01	0.03	**0.24**	0.13
Items related to business combinations	**0.06**	0.06	0.07	**0.19**	0.20
	0.25	0.07	0.10	**0.43**	0.33
Adjusted diluted earnings per share[4]	**$ 1.02**	$ 0.20	$ 1.15	**$ 2.01**	$ 3.20

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

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

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

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

KEY PERFORMANCE MEASURES

Management also uses a number of financial metrics to assess the Bank's performance.
Detailed information on return on common shareholders' equity is provided below. Other performance measures such as the net interest margin, efficiency ratio, operating leverage and dividend payout ratio are defined in the "Non-GAAP and Key Performance Measures" section of our 2019 Annual Report.
Return on common shareholders' equity

Return on common shareholders' equity (ROE) is a profitability measure calculated as the net income available to common shareholders as a percentage of average common shareholders' equity. The Bank's common shareholders' equity is defined as the sum of the value of common shares, retained earnings and accumulated other comprehensive income (AOCI), excluding cash flow hedge reserves.

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

RETURN ON COMMON SHAREHOLDERS' EQUITY

	For the three months ended			For the nine months ended	
Thousands of Canadian dollars, except percentage amounts (Unaudited)	**July 31 2020**	April 30 2020	July 31 2019	**July 31 2020**	July 31 2019
Reported net income available to common shareholders	**$ 33,019**	$ 5,688	$ 44,541	**$ 67,682**	$ 121,597
Adjusting items, net of income taxes	**10,866**	3,027	4,084	**18,621**	13,894
Adjusted net income available to common shareholders	**$ 43,885**	$ 8,715	$ 48,625	**$ 86,303**	$ 135,491
Average common shareholders' equity	**$ 2,276,124**	$ 2,291,177	$ 2,279,133	**$ 2,291,451**	$ 2,264,241
Return on common shareholders' equity	**5.8 %**	1.0 %	7.8 %	**3.9 %**	7.2 %
Adjusted return on common shareholders' equity	**7.7 %**	1.5 %	8.5 %	**5.0 %**	8.0 %

OUTLOOK

ECONOMIC OUTLOOK

COVID-19 continues to inflict personal and economic hardship on individuals and companies worldwide. Global economic activity has been severely impacted by broad-based shutdowns. However, measures taken by governments, central banks and regulators have helped mitigate the impact for individuals and businesses. A gradual recovery started in May and markets improved following the most severe recession post-World War II.

The path to recovery will depend on many factors, including the course of the COVID-19 pandemic, the discovery of effective vaccines, macroeconomic and health policies, the level of consumer and business confidence, innovation, the degree of structural capital damage and society adaptation. Non-economic factors, such as testing, social distancing, teleworking, mandatory wearing of masks and protecting the vulnerable helped contain the viral transmission rate and enabled the economic recovery.

In Canada, to date, the reopening has been more successful than in many other countries as the transmission rate of the virus fell in May and has remained stable and low since June. The unemployment rate fell this Summer as companies began recalling workers on temporary leave and stood at 10.9% in July, compared to the May peak of 13.7%. This compares to the pre-pandemic level of 5.6%. Employment has strongly rebounded this quarter with 55% of job losses since the beginning of the pandemic having been recovered in July. The employment level stands at 93% of the pre-pandemic level. At the federal level, the wage subsidy for businesses has been extended until mid-December and Canada Emergency Response Benefit (CERB) recipients will transition towards an enhanced Employment Insurance program in September, which should support an extended recovery.

The Canadian recovery is uneven across sectors. Household spending bounced back rapidly including housing demand. The rebound in business investment is relatively softer due to the impaired global merchandise trade activity and lower commodity prices excluding precious metals. The lack of supply in the housing market contributed to the rapid rebound in construction, strong resale housing activity and home price appreciation during the reopening. Immigration has declined abruptly this Spring due to health and travel restrictions. Persistently weaker immigration flows could alter the housing outlook in the medium-term. In addition to asset purchases maintaining the functioning of Canadian financial markets and low borrowing costs, the Bank of Canada ('BoC') has committed to keep its policy rate at 0.25% until Consumer Price Index inflation reaches the target.

In the U.S., after a strong reopening start, the recovery slowed in July because of the increasing number of new daily infections. Fortunately, the number of new daily infections has been declining in August including in most U.S. States where we conduct inventory financing activities. As of July, U.S. economic activity recovered about half of what it lost due to the pandemic. U.S. consumer spending in recreational goods and vehicles soared during this period as households have been adapting quickly to the COVID-19 situation and modified their spending behaviors. The Federal Reserve remains committed to help foster the recovery. Also, the Federal Reserve communicated its intention to announce the outcome of its framework review relative to employment maximization and inflation stabilization this Fall, which could affect how monetary policy is conducted and alter the expectations of financial markets.

Finally, the Canadian dollar has appreciated from the low reached in the Spring, trading at approximately US$0.75.

STRATEGIC PLAN

In November 2015, we launched a 7-year plan to become a better and different bank, to take advantage of advancements in technology, but more importantly to better meet our customers' needs. To achieve this, we outlined three strategic objectives: build a stronger foundation; invest in profitable growth; and improve financial performance. Looking forward, in the context of the evolving global pandemic, we have not changed our goal of pursuing the transformation, but anticipate some delays as outlined last quarter and detailed in the sections below. Given the impacts of the pandemic on our operations and results, the management team is reviewing the various elements of the strategic plan with the aim of refining it.

Update on key initiatives

Digital Offering
In the first quarter of 2020, we successfully launched LBC Digital, a direct-to-customer channel, expanding our customer reach from coast to coast. The initial digital offering includes chequing accounts, high-interest savings accounts and guaranteed investment certificates. This pan-Canadian launch provided us with the opportunity to welcome thousands of new customers. Over time, our goal is to broaden and deepen customer relationships and use this platform to build out a high-value and complete product suite. At the end of the third quarter, LBC Digital related demand deposits stood at $0.6 billion.

Core-Banking System Replacement Program
In 2019, we completed Phase 1 of the core banking system replacement program resulting in the migration of all B2B Bank products and most of our loans to business customers to this new system. Phase 2 of the program has begun and encompasses the products offered in our Quebec Retail Network and the remaining Business Services products. Preparations are underway to build out products and features. Given the impacts of COVID-19 on our business and technical priorities we are currently reassessing our implementation timeline. Our current estimate remains at approximately $250 million taking into account our most recent plan. As at July 31, 2020, we have invested about 80% of that amount.

Evolution of 100% Advice Model
After converting the traditional branch network to a 100% advice model over the last few years, and optimizing the footprint, we are working towards developing a fully digital experience. This will provide us with the ability to digitally onboard all new customers and subsequently begin the migration of all our personal banking customers to our new digital platform. We initially anticipated to complete these initiatives by the end of 2021. However, given the current context, this timeline is currently under review. Once completed, this will enable all our customers to enjoy the same experience in managing their accounts and day-to-day transactions combined with the benefit of professional financial advice for more complex banking and investment needs. On that front, our 100% Advice model is maintaining momentum. During the third quarter, we continued to onboard advisors and replaced non-advice-based positions with approximately 70 new Assistant Advisor / Customer Services positions to support the advisor-client relationship and business development, with the clear objective of growing revenues.

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

Other Developments

On June 30, 2020, François Desjardins retired from the Bank and stepped down as President and Chief Executive Officer, and resigned as a director of the Bank. Stéphane Therrien was appointed Interim President and Chief Executive Officer, and director of the Bank.

Update on efficiency measures

Since 2019, we have been identifying opportunities to improve our efficiency. The conversion of our traditional branches to a 100% Advice model in Financial Clinics and the optimization of certain back-office functions in 2019 provided significant savings. As we entered 2020, we maintained our focus on improving efficiency. With this in mind, we merged 14 Financial Clinics in the third quarter and plan to merge an additional 6 in the fourth quarter. This is also a result of recent changes in the economic landscape and the ongoing reduction in the number of branch visits. Customers will continue to be served by our Financial Clinics with locations generally in close proximity to them. Based on our experience, the expected attrition should be relatively low. In May 2020, we also reduced headcount by about 100 people through attrition, retirement and targeted job reductions to realign our workforce with our operational needs, provide leverage to pursue our transformation and improve efficiency. These measures have resulted in severance charges, as well as to an impairment charge related to lease contracts of approximately $11.1 million, which was recorded in the third quarter.

ANALYSIS OF CONSOLIDATED RESULTS

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

CONDENSED CONSOLIDATED RESULTS – REPORTED BASIS

	For the three months ended			For the nine months ended	
In thousands of Canadian dollars, except per share amounts (Unaudited)	**July 31 2020**	April 30 2020	July 31 2019	**July 31 2020**	July 31 2019
Net interest income	**$ 173,546**	$ 170,747	$ 176,042	**$ 513,078**	$ 513,206
Other income	**75,063**	69,401	68,611	**214,392**	213,666
Total revenue	**248,609**	240,148	244,653	**727,470**	726,872
Amortization of net premium on purchased financial instruments	**127**	179	336	**538**	1,168
Provision for credit losses	**22,300**	54,900	12,100	**92,100**	31,800
Non-interest expenses	**183,777**	183,516	177,858	**556,195**	545,665
Income before income taxes	**42,405**	1,553	54,359	**78,637**	148,239
Income taxes	**6,188**	(7,332)	6,561	**1,363**	16,872
Net income	**$ 36,217**	$ 8,885	$ 47,798	**$ 77,274**	$ 131,367
Preferred share dividends, including applicable taxes	**3,198**	3,197	3,257	**9,592**	9,770
Net income available to common shareholders'	**$ 33,019**	$ 5,688	$ 44,541	**$ 67,682**	$ 121,597
Diluted earnings per share	**$ 0.77**	$ 0.13	$ 1.05	**$ 1.58**	$ 2.88

CONDENSED CONSOLIDATED RESULTS – ADJUSTED BASIS[1]

	For the three months ended			For the nine months ended	
In thousands of Canadian dollars, except per share amounts (Unaudited)	**July 31 2020**	April 30 2020	July 31 2019	**July 31 2020**	July 31 2019
Net interest income	**$ 173,546**	$ 170,747	$ 176,042	**$ 513,078**	$ 513,206
Other income	**75,063**	69,401	68,611	**214,392**	213,666
Total revenue	**248,609**	240,148	244,653	**727,470**	726,872
Provision for credit losses	**22,300**	54,900	12,100	**92,100**	31,800
Adjusted non-interest expenses	**169,190**	179,648	172,630	**531,607**	528,122
Adjusted income before income taxes	**57,119**	5,600	59,923	**103,763**	166,950
Adjusted income taxes	**10,036**	(6,312)	8,041	**7,868**	21,689
Adjusted net income	**$ 47,083**	$ 11,912	$ 51,882	**$ 95,895**	$ 145,261
Preferred share dividends, including applicable taxes	**3,198**	3,197	3,257	**9,592**	9,770
Adjusted net income available to common shareholders'	**$ 43,885**	$ 8,715	$ 48,625	**$ 86,303**	$ 135,491
Adjusted diluted earnings per share	**$ 1.02**	$ 0.20	$ 1.15	**$ 2.01**	$ 3.20

THREE MONTHS ENDED JULY 31, 2020 COMPARED WITH THREE MONTHS ENDED JULY 31, 2019

Net income was $36.2 million and diluted earnings per share were $0.77 for the third quarter of 2020, compared with $47.8 million and $1.05 for the third quarter of 2019. Adjusted net income was $47.1 million for the third quarter of 2020, down 9% from $51.9 million for the third quarter of 2019, while adjusted diluted earnings per share were $1.02, down 11% compared with $1.15 for the third quarter of 2019.

Total revenue

Total revenue was $248.6 million for the third quarter of 2020, up 2% compared with $244.7 million for the third quarter of 2019.

Net interest income decreased by $2.5 million or 1% to $173.5 million for the third quarter of 2020, compared with $176.0 million for the third quarter of 2019. The decrease was mainly due to a year-over-year decrease in loan volumes to personal customers, partly offset by higher margins on loans to business customers. As of November 1, 2019, the introduction of IFRS 16, Leases, added a financing cost component, presented as part of interest expense, on the new lease liability which amounted to $1.2 million for the third quarter of 2020 and impacted net interest margin negatively by 1 basis point. Net interest margin was 1.86% for the third quarter of 2020, an increase of 1 basis points compared with the third quarter of 2019, mainly as a result of the change in the loan portfolio mix and higher margins on loans to business customers. During the quarter, we experienced a reduction in loan levels as a result, in part, from the pandemic. This is expected to impact both net interest income and margins in the fourth quarter, until growth resumes.

Other income increased by $6.5 million, or 9% to $75.1 million for the third quarter of 2020, compared with $68.6 million for the third quarter of 2019. The increase was mainly due to the strong contribution from capital markets, which increased by $13.3 million compared with the third quarter of 2019. The increase was partly offset by a decrease of $3.0 million in service charges compared with the third quarter of 2019 due to the ongoing changes to the retail banking environment and the related customers banking behavior, as well as by the decrease in card service revenues of $1.9 million, mostly as Visa credit card transaction volumes declined as a result of the COVID-19 pandemic.

Amortization of net premium on purchased financial instruments

For the third quarter of 2020, amortization of net premium on purchased financial instruments amounted to $0.1 million, compared with $0.3 million for the third quarter of 2019. Refer to the 2019 Annual Consolidated Financial Statements for additional information.

Provision for credit losses

The provision for credit losses amounted to $22.3 million for the third quarter of 2020 compared with $12.1 million for the third quarter of 2019, an increase of $10.2 million year-over-year, essentially as a result of higher allowances on commercial loans. Revisions to our forward-looking economic scenarios, reflecting a slightly more severe recession and a slower recovery than initially anticipated, also contributed to increases in collective allowances.

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

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

Non-interest expenses

Non-interest expenses amounted to $183.8 million for the third quarter of 2020, an increase of $5.9 million, or 3.3% compared with the third quarter of 2019. Adjusted non-interest expenses amounted to $169.2 million for the third quarter of 2020, a decrease of $3.4 million, or 2.0% compared with the third quarter of 2019. We anticipate that expenses will slightly increase for the next quarter.

Salaries and employee benefits amounted to $92.5 million for the third quarter of 2020, an increase of $2.4 million, compared with the third quarter of 2019. This increase is mainly due to higher performance-based compensation related to strong capital market activities. A compensation charge of $2.7 million, related to the Bank's former President and Chief Executive Officer retirement, also contributed to the increase. This increase was mostly offset by a decrease year-over-year in salaries reflecting the headcount reduction implemented in May 2020.

Premises and technology costs were $50.1 million for the third quarter of 2020, an increase of $1.4 million compared with the third quarter of 2019. Technology costs increased year-over-year, and remain elevated as we are currently operating multiple platforms simultaneously. Rent decreased by $5.2 million as a result of the introduction, as of November 1, 2019, of IFRS 16, Leases, as well as from a reduction in the square-footage utilization given the right-sizing of our Financial Clinic network. This decrease was partially offset by a $4.1 million increase in amortization on the newly created right-of-use assets. Including the impact of the interest charge on the new lease liability of $1.2 million, as noted above, overall rental costs remained relatively stable.

Other non-interest expenses were $30.1 million for the third quarter of 2020, a decrease of $7.1 million, compared with the third quarter of 2019. The improvement mainly resulted from lower regulatory costs, as well as lower travel expenses, lower advertising and business development costs, ensuing from efficiency measures and current economic conditions.

Restructuring charges were $11.1 million for the third quarter of 2020 and mainly resulted from measures aimed at improving efficiency as detailed in the "Update on efficiency measures" section under Strategic Plan. Restructuring charges include severance charges, salaries and provisions related to the termination of lease contracts.

Efficiency ratio
The adjusted efficiency ratio was 68.1% for the third quarter of 2020, compared with 70.6% for the third quarter of 2019, as a result of lower expenses and an increase in other income. Adjusted operating leverage was positive year-over-year. The efficiency ratio on a reported basis was higher at 73.9% for the third quarter of 2020, compared with 72.7% for the third quarter of 2019, mainly as a result of higher restructuring costs in fiscal 2020.

Income taxes

For the quarter ended July 31, 2020, the income tax expense was $6.2 million and the effective tax rate was 14.6%. The lower tax rate, compared to the statutory rate, is attributed to a lower taxation level of revenue from foreign operations, as well as from the favourable effect of holding investments in Canadian securities that generate non-taxable dividend income. For the quarter ended July 31, 2019, income tax expense was $6.6 million, and the effective tax rate was 12.1%. Year-over-year, the income tax rate increased slightly.

NINE MONTHS ENDED JULY 31, 2020 COMPARED WITH NINE MONTHS ENDED JULY 31, 2019

Net income was $77.3 million and diluted earnings per share were $1.58 for the nine months ended July 31, 2020, compared with $131.4 million and $2.88 for the nine months ended July 31, 2019. Adjusted net income was $95.9 million for the nine months ended July 31, 2020, down 34% from $145.3 million for the nine months ended July 31, 2019, while adjusted diluted earnings per share were $2.01 for the nine months ended July 31, 2020, down 37% from $3.20 for the nine months ended July 31, 2019. The decrease in net income and diluted earnings per share, compared with the nine months ended July 31, 2019, is further detailed below.

Total revenue

Total revenue increased slightly to $727.5 million for the nine months ended July 31, 2020 compared to $726.9 million for the nine months ended July 31, 2019.

Net interest income was $513.1 million for the nine months ended July 31, 2020, essentially unchanged from $513.2 million for the nine months ended July 31, 2019. As of November 1, 2019, the adoption of IFRS 16, Leases, added a $3.6 million financing cost component related to the new lease liability and impacted NIM negatively by 1 basis point. Also, higher margins on loans to business customers, as well as improved funding costs since the beginning of the year, were mostly offset by lower loan volumes, partly as a result of COVID-19. Net interest margin was 1.85% for the nine months ended July 31, 2020, compared with 1.81% for the nine months ended July 31, 2019. This increase was mainly due to the change in the loan portfolio mix, as well as to the reduction in funding costs.

Other income increased by $0.7 million or 0.3% to $214.4 million for the nine months ended July 31, 2020, compared with $213.7 million for the nine months ended July 31, 2019. The increase was mainly due to the strong contribution from capital markets, which increased by $15.1 million compared with the same period in 2019. The increase was partly offset by a decrease of $6.2 million in Service charges compared with the nine months ended July 31, 2019 due to the ongoing changes to the retail banking environment and the related customer's banking behavior, as noted above. Card service revenues also decreased by $3.6 million, mostly as Visa credit card transaction volumes declined as a result of the COVID-19 pandemic since the second quarter. Insurance income, net of claims, also contributed to the decline of other income by $2.3 million compared with the nine months ended July 31, 2019, mainly driven by higher customer claims.

Amortization of net premium on purchased financial instruments

For the nine months ended July 31, 2020, the amortization of net premium on purchased financial instruments was $0.5 million, compared with $1.2 million for the nine months ended July 31, 2019. Refer to the "Non-GAAP" and "Key Performance Measures" section for additional information.

Provision for credit losses

The provision for credit losses increased by $60.3 million to $92.1 million for the nine months ended July 31, 2020 compared with $31.8 million for the nine months ended July 31, 2019. As mentioned previously, the increase in the provision for credit losses resulted primarily from the impact on expected credit losses of the adverse shift in forward-looking economic scenarios related to COVID-19 and respective probability weighting, as of the second quarter of 2020. Individual allowances in loans to business customers also contributed to the increase.

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

Non-interest expenses

Non-interest expenses increased by $10.5 million or 2% to $556.2 million for the nine months ended July 31, 2020, compared with $545.7 million for the nine months ended July 31, 2019. Adjusted non-interest expenses increased by $3.5 million or 1% to $531.6 million for the nine months ended July 31, 2020, compared with $528.1 million for the nine months ended July 31, 2019.

Salaries and employee benefits increased by $9.1 million to $281.7 million for the nine months ended July 31, 2020, compared with the nine months ended July 31, 2019, mainly due to an increase in performance-based compensation related to brokerage operations, as well as to a special compensation program for employees having to work on premises since the outbreak of the COVID-19 pandemic. A compensation charge of $2.7 million, related to the Bank's former President and Chief Executive Officer retirement during the third quarter of 2020, also contributed to the increase.

Premises and technology costs increased by $2.2 million to $150.6 million for the nine months ended July 31, 2020, compared with the nine months ended July 31, 2019, mainly as a result of higher technology costs.

Other non-interest expenses decreased by $7.7 million at $109.8 million for the nine months ended July 31, 2020, compared with the nine months ended July 31, 2019, mainly due to a decrease in regulatory costs, as well as in advertising and business development costs.

Restructuring charges amounted to $14.1 million for the nine months ended July 31, 2020, compared to $7.2 million for the nine months ended July 31, 2019 and, as mentioned above, mainly resulted from measures aimed at improving efficiency as detailed in the "Update on efficiency measures" section under Strategic Plan. Restructuring charges include severance charges, salaries and provisions related to the termination of lease contracts.

Efficiency ratio
The adjusted efficiency ratio remained relatively stable at 73.1% for the nine months ended July 31, 2020, compared with 72.7% for the nine months ended July 31, 2019. The adjusted operating leverage was slightly negative year-over-year. The efficiency ratio, on a reported basis, was 76.5% for the nine months ended July 31, 2020, compared with 75.1% for the nine months ended July 31, 2019. As the Bank continued to invest in its transformation, this ratio was mainly impacted by higher non-interest expenses due to restructuring charges.

Income taxes

For the nine months ended July 31, 2020, the income tax expense was $1.4 million and the effective tax rate was 1.7%. The lower tax rate, compared to the statutory rate, resulted from the lower level of income from domestic operations following the elevated provision for credit losses in the second and the third quarters, as well as from the lower taxation level of revenue from foreign operations and favourable effect of holding investments in Canadian securities that generate non-taxable dividend income. For the nine months ended July 31, 2019, income tax expense was $16.9 million and the effective tax rate was 11.4%. The higher tax rate for the nine months ended July 31, 2020, when compared with the nine months ended July 31, 2019, is mainly attributed to the lower level of income from domestic operations, as noted above.

THREE MONTHS ENDED JULY 31, 2020 COMPARED WITH THREE MONTHS ENDED APRIL 30, 2020

Net income was $36.2 million and diluted earnings per share were $0.77 for the third quarter of 2020, compared with $8.9 million and $0.13 for the second quarter of 2020. Adjusted net income was $47.1 million and adjusted diluted earnings per share were $1.02 for the third quarter of 2020, compared with $11.9 million and $0.20 for the second quarter of 2020.

Total revenue increased by $8.5 million at $248.6 million for the third quarter of 2020, compared with $240.1 million for the previous quarter.

Net interest income increased by $2.8 million sequentially to $173.5 million. This was mainly due to a wider Prime/BA spread and the additional number of days during this third quarter compared to the second quarter. These positive items were partially offset by the impact of lower loans to business customers, due, in part, to the effect of the pandemic which amplified the seasonality of our inventory financing activities. These lower volumes are expected to impact net interest income at the beginning of the fourth quarter, until growth resumes. Net interest margin was 1.86% for the third quarter of 2020, a decrease of 2 basis points compared with 1.88% for the second quarter of 2020, essentially as a result of the lower proportion of higher-yielding loans to business customers.

Other income increased by $5.7 million to $75.1 million for the third quarter of 2020, compared with $69.4 million for the previous quarter. The increase was mainly due to the strong contribution from capital markets, which increased by $6.4 million compared with the second quarter of 2020.

The line item "Amortization of net premium on purchased financial instruments" amounted to $0.1 million for the third quarter of 2020, essentially unchanged from the second quarter of 2020. Refer to the 2019 Annual Consolidated Financial Statements for additional information.

Provision for credit losses totaled $22.3 million for the third quarter of 2020, a $32.6 million decrease compared with $54.9 million for the second quarter of 2020. As mentioned previously, the increase in the provision for credit losses for the second quarter of 2020 resulted from the impact of the adverse shift in forward-looking economic scenarios related to COVID-19. At $22.3 million for the third quarter of 2020, the provision for credit losses remains high and takes into account our revised economic forecasts, as noted above.

Non-interest expenses increased by $0.3 million to $183.8 million for the third quarter of 2020 from $183.5 million in the second quarter of 2020. Adjusted non-interest expenses decreased by $10.5 million and amounted to $169.2 million in the third quarter of 2020, compared with $179.6 million in the second quarter of 2020. The decrease in adjusted non-interest expenses mainly results from lower regulatory costs, as well as lower professional fees, advertising and business development costs. These savings were partially offset by a $2.7 million compensation charge related to the Bank's former President and Chief Executive Officer retirement. We anticipate that expenses will slightly increase for the next quarter. Restructuring charges, mainly consisting of severance charges and provisions for lease terminations, increased by $10.7 million for the third quarter of 2020, compared to the second quarter of 2020, as we implemented the measures announced at the end of the second quarter.

ANALYSIS OF FINANCIAL CONDITION

CONDENSED BALANCE SHEET

In thousands of Canadian dollars (Unaudited)		As at July 31 2020		As at October 31 2019
Assets				
Cash and deposits with banks	$	**462,134**	$	413,555
Securities		**6,602,618**		6,299,936
Securities purchased under reverse repurchase agreements		**2,790,130**		2,538,285
Loans and acceptances, net		**32,647,100**		33,566,071
Other assets		**1,793,372**		1,535,280
	$	**44,295,354**	$	44,353,127
Liabilities and Shareholders' Equity				
Deposits	$	**24,569,775**	$	25,652,604
Other liabilities		**7,431,775**		6,870,428
Debt related to securitization activities		**9,361,692**		8,913,333
Subordinated debt		**349,356**		349,101
Shareholders' equity		**2,582,756**		2,567,661
	$	**44,295,354**	$	44,353,127

As at July 31, 2020, total assets amounted to $44.3 billion, relatively unchanged compared with $44.4 billion as at October 31, 2019, as the higher level of liquid assets mostly offset the decrease in loan portfolios.

LIQUID ASSETS

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

We continue to very prudently manage our level of liquid assets. During the third quarter, economic activity began to improve as many businesses gradually reopened. Capital markets also recovered from second quarter levels. The Bank's funding sources remained well diversified and sufficient to meet its obligations. Liquid assets represented 22% of total assets as at July 31, 2020, compared with 21% as at October 31, 2019.

LOANS

Loans and bankers' acceptances, net of allowances, stood at $32.6 billion as at July 31, 2020, a decrease of $0.9 billion or 3% compared with $33.6 billion as at October 31, 2019. During the third quarter, the negative impacts of COVID-19 did not allow the Bank to maintain its growth momentum in commercial loan portfolios. Variances are further explained below.

Personal loans amounted to $4.2 billion and decreased by $0.4 billion or 9% since October 31, 2019, mainly as a result of the continued reduction in the investment loan portfolio, reflecting an ongoing consumer behavior to reduce leverage, as well as, to a lesser extent, the decrease in other retail exposures.

Residential mortgage loans amounted to $15.9 billion as at July 31, 2020, a decrease of $0.2 billion or 1% since October 31, 2019. Since the beginning of the year, the acquisition of mortgage loans from third parties, as part of our program to optimize the usage of the National Housing Act mortgage-backed securities allocations, has contributed to mitigate the impact of maturities.

Commercial loans and acceptances amounted to $12.7 billion as at July 31, 2020, down 2% since October 31, 2019. This decrease was mainly due to inventory financing volumes which were negatively impacted by the COVID-19 pandemic in the third quarter as a result of higher repayments due to the increased demand for boats and other recreational vehicles in Canada and the U.S. The inability of dealers to replenish their inventory as a result of the manufacturers production disruption over the earlier months of the pandemic also affected inventory levels. However, growth is expected to resume in the fourth quarter.

OTHER ASSETS

Other assets stood at $1.8 billion as at July 31, 2020, an increase of $0.3 billion compared with October 31, 2019, mainly as a result of the introduction of IFRS 16, Leases, as of November 1, 2019, which led to the recognition of right-of-use assets of $139.4 million.

LIABILITIES

Deposits decreased by $1.1 billion or 4% to $24.6 billion as at July 31, 2020 compared with $25.7 billion as at October 31, 2019, in line with the reduction in loans. Personal deposits stood at $19.3 billion as at July 31, 2020, down $0.5 billion compared with October 31, 2019. The decrease mainly resulted from the lower level of term deposits through intermediaries, partly offset by higher volumes of demand deposits generated through the various distribution channels of the Bank. In the first quarter of 2020, we successfully launched our LBC Digital deposit offering. These deposits, amounting to $582.0 million as at July 31, 2020, further contribute to our well-diversified funding and provide the opportunity to develop new client relationships and cross-selling activities. During the third quarter of 2020, core direct retail deposits sourced through our Financial Clinics network increased by $0.3 billion, while other demand deposits from intermediaries increased by more than $0.4 billion. Business and other deposits decreased by $0.6 billion to $5.3 billion over the same period, mostly due to institutional funding as we optimized our funding sources given the lower asset level.

Personal deposits represented 78% of total deposits as at July 31, 2020, compared with 77% as at October 31, 2019, and contributed to our good liquidity position.

Obligations related to securities sold short stood at $3.1 billion as at July 31, 2020, an increase of $0.5 billion compared to October 31, 2019.

Debt related to securitization activities increased by $0.4 billion compared with October 31, 2019 and stood at $9.4 billion as at July 31, 2020.

SHAREHOLDERS' EQUITY

Shareholders' equity amounted to $2,582.8 million as at July 31, 2020, compared with $2,567.7 million as at October 31, 2019.

As mentioned in the "Basis of Presentation" section of this MD&A, the adoption of IFRS 16 at the outset of the year resulted in a net decrease of $7.3 million of retained earnings as at November 1, 2019. Since the beginning of the year, retained earnings decreased by $36.7 million, as the net income contribution of $77.3 million was more than offset by dividends amounting to $84.0 million, as well as by other charges related to employee benefit plans and equity securities designated at fair value through other comprehensive income (FVOCI) of $22.7 million. Increases in accumulated other comprehensive income (AOCI) of $35.4 million and common share issuance of $15.7 million as part of the Bank's Shareholder Dividend Reinvestment and Share Purchase Plan contributed positively to shareholders' equity. For additional information, please refer to the Consolidated Statement of Changes in Shareholders' Equity in the condensed interim consolidated financial statements for the third quarter of 2020.

The Bank's book value per common share was $53.15 as at July 31, 2020 compared to $54.02 as at October 31, 2019.

There were 43,121,788 common shares outstanding as at August 31, 2020.

CAPITAL MANAGEMENT

REGULATORY CAPITAL

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

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

Regulatory capital developments in support of COVID-19 efforts

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

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

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

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

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

On August 31, 2020, OSFI updated its guidance related to the temporary special capital treatment of loans that have been granted payment deferrals in support of COVID-19 efforts. Under this new guidance, the temporary special capital treatment for payment deferrals granted prior to August 31 will remain limited to a maximum of six months. The guidance also introduces transitional provisions (up to a maximum of 3 months) for payment deferrals granted after this date and until September 30, 2020. The impact of this new guidance should be limited and will be reflected as of and when loans become past due later in 2020 and in 2021.

Other regulatory capital developments

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

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

REGULATORY CAPITAL

In thousands of Canadian dollars, except percentage amounts (Unaudited)	As at July 31 2020 Before Transitional Arrangements[1]	As at July 31 2020 After Transitional Arrangements	As at October 31 2019
Regulatory capital			
Common Equity Tier 1 capital	**$ 1,847,510**	**$ 1,864,811**	$ 1,841,382
Tier 1 capital	**$ 2,091,548**	**$ 2,108,849**	$ 2,085,420
Total capital	**$ 2,537,407**	**$ 2,537,407**	$ 2,497,108
Total risk-weighted assets[2]	**$ 19,927,246**	**$ 19,927,246**	$ 20,406,556
Regulatory capital ratios			
Common Equity Tier 1 capital ratio	**9.3 %**	**9.4 %**	9.0 %
Tier 1 capital ratio	**10.5 %**	**10.6 %**	10.2 %
Total capital ratio	**12.7 %**	**12.7 %**	12.2 %

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

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

The Common Equity Tier 1 capital ratio stood at 9.4% as at July 31, 2020, compared with 8.8% as at April 30, 2020 and 9.0% as at October 31, 2019. The increase, compared to the level as at April 30, 2020 mainly results from the lower level of assets resulting from the current COVID-19 situation. This level of capital provides the Bank with the flexibility to resume growth, as well as to continue the strategic plan, prudently taking into account the economic conditions.

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 4.8% as at July 31, 2020 and exceeded current requirements.

BASEL III LEVERAGE RATIO

In thousands of Canadian dollars, except percentage amounts (Unaudited)	As at July 31 2020 Before Transitional Arrangements[1]	As at July 31 2020 After Transitional Arrangements	As at October 31 2019
Tier 1 capital	**$ 2,091,548**	**$ 2,108,849**	$ 2,085,420
Total exposures	**$ 44,181,248**	**$ 44,181,248**	$ 45,475,982
Basel III leverage ratio	**4.7 %**	**4.8 %**	4.6 %

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

DIVIDENDS

On September 3, 2020, the Board of Directors declared a quarterly dividend of $0.40 per common share, payable on November 1, 2020 to shareholders of record on October 1, 2020. At the end of the second quarter, Management recommended, and the Board of Directors approved, a reduction of the quarterly dividend of $0.27 or 40%. Given the highly uncertain environment, this prudent decision is providing us with additional operational flexibility to resume growth, as well as to pursue our strategic plan. Furthermore, this better aligns with our dividend policy until we reap the anticipated benefits from our transformation. Shares attributed under the Bank's Shareholder Dividend Reinvestment and Share Purchase Plan will continue to be made in common shares issued from the treasury at a 2% discount.

COMMON SHARE DIVIDENDS AND PAYOUT RATIO

	For the three months ended			For the years ended		
In Canadian dollars, except payout ratios (Unaudited)	**July 31 2020**	April 30 2020	July 31 2019	October 31 2019	October 31 2018	October 31 2017
Dividends declared per common share	**$ 0.40**	$ 0.67	$ 0.66	$ 2.62	$ 2.54	$ 2.46
Dividend payout ratio	**52.0 %**	503.6 %	62.7 %	69.3 %	49.6 %	45.7 %
Adjusted dividend payout ratio[1]	**39.1 %**	328.7 %	57.4 %	61.4 %	45.9 %	40.5 %

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

RISK MANAGEMENT

We are exposed to various types of risks owing to our activities, mainly as it relates to the use of financial instruments. In order to manage these risks, various risk management policies and risk limits, as well as other controls have been implemented. These measures aim to optimize the risk/return ratio in all operating segments. Refer to the section "Risk Appetite and Risk Management Framework" on page 47 of our 2019 Annual Report for additional information on the Group's risk management framework.

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

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

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

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

CREDIT RISK

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

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

In line with our disciplined approach to modelling expected credit losses, we updated our economic scenarios to assess collective provisions as at July 31, 2020. These new scenarios take into account the deterioration in economic conditions caused by the spread of the COVID-19 pandemic and the related increase in uncertainty and, compared to our scenarios for the previous quarter, mainly reflect the steeper recession, as well as the slower expected economic recovery. Our three scenarios, "base", "downside" and "upside", were probability weighted as part of our approach to determining the expected credit losses as at July 31, 2020.

In the base scenario, the COVID-19 pandemic remains contained, extending the gradual recovery, both globally and in Canada. In the U.S., recent rollbacks of reopening lead to a gradual decline in new daily cases over time. Social distancing measures are maintained and governments only implement small localized shutdowns. Governments extend financial aid to individuals and companies, further mitigating financial stress. Two thirds of the unemployed return to their previous jobs or find new ones by the end of 2020. The development of an effective and safe vaccine begins before the end of 2020, fostering consumer, business and market confidence for 2021 and beyond. The yield curve slightly steepens over time as central banks signaled their intention to maintain their policy rates at 0.25% even if the recovery is well underway.

In the downside scenario, the pandemic worsens globally and in Canada by the Fall. The rising number of new infections leads to a growing number of partial shutdowns, particularly in the U.S., although less broad-based than last Spring. Economic activity in Canada advances at a weaker pace in late 2020 and briefly stalls in the U.S.. The health restrictions and additional balance sheet stress for individuals and companies lead to some capital stress and lower confidence despite the efforts of governments and central banks. Once the virus transmission rate is brought under control, the reopening and recovery gradually resumes in 2021.

In the upside scenario, the virus transmission rate drops to a new low this Fall, leading to a broad easing of restrictions and fostering conditions for faster economic recovery. Structural economic damage is limited, confidence rises and businesses and individuals quickly resume normal activities. Interest rates begin to gradually increase in 2021.

The degree of uncertainty surrounding the potential impact of COVID-19 implies the possibility of a wide range of economic outcomes. Although early stage trials of vaccines have shown promising results and the implementation of non-economic restrictions has been successful during the reopening, the global daily number of new virus infections was higher late summer than during the Spring. Considering the overall more pessimistic views of our three scenarios, we have recalibrated their respective weighting by decreasing the weight of the pessimistic scenario and increasing the weights of the baseline and optimistic scenarios.

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

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

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

PROVISION (REVERSAL) FOR CREDIT LOSSES

In thousands of Canadian dollars, except percentage amounts (Unaudited)	For the three months ended			For the nine months ended	
	July 31 2020	April 30 2020	July 31 2019	**July 31 2020**	July 31 2019
Personal loans					
Stage 1 and 2	**$ (6,095)**	$ 9,600	$ (2,241)	**$ 537**	$ (6,957)
Stage 3	**8,207**	7,842	5,836	**22,984**	19,260
	2,112	17,442	3,595	**$ 23,521**	$ 12,303
Residential mortgage loans					
Stage 1 and 2	**1,468**	771	(152)	**2,654**	(1,033)
Stage 3	**1,483**	625	2,234	**3,173**	3,568
	2,951	1,396	2,082	**$ 5,827**	$ 2,535
Commercial loans					
Stage 1 and 2	**6,830**	21,029	(801)	**28,786**	1,008
Stage 3	**10,407**	15,033	7,224	**33,966**	15,954
	17,237	36,062	6,423	**$ 62,752**	$ 16,962
Provision for credit losses	**22,300**	54,900	12,100	**$ 92,100**	$ 31,800
As a % of average loans and acceptances	**0.27 %**	0.67 %	0.14 %	**0.37 %**	0.12 %

Provision for credit losses

The provision for credit losses decreased by $32.6 million sequentially to $22.3 million for the third quarter of 2020 but increased by $10.2 million compared with the same quarter a year ago. The provision for credit losses increased by $60.3 million to $92.1 million for the nine months ended July 31, 2020 compared with $31.8 million for the nine months ended July 31, 2019.

The increase in provision for credit losses in 2020 was mainly driven by an adverse shift in forward-looking economic scenarios related to COVID-19 which impacted our commercial and personal loan portfolios since the second quarter.

Credit losses on personal loans for the third quarter ended July 31, 2020 decreased by $15.3 million sequentially. This decrease is mainly related to the increase in allowances recorded at the end of the second quarter of 2020 to reflect the significant increase in credit risk due to COVID-19. In addition, the sharp rebound during the third quarter in the S&P/TSX index, a sensitive factor for modelling allowances for personal loans, prompted a reversal in stage 1 and stage 2 allowances. Compared to the third quarter of 2019, credit losses decreased by $1.5 million, essentially for this same reason. For the nine months ended July 31, 2020, credit losses on personal loans increased by $11.2 million compared with the same period of 2019. This was mainly a result of the significant increase in credit risk due to COVID-19.

Credit losses on residential mortgage loans for the third quarter of 2020 increased by $1.6 million sequentially and by $0.9 million year-over-year. For the nine months ended July 31, 2020, credit losses increased by $3.3 million compared with the same period of 2019, but remained at relatively low levels, owing to strong underwriting criteria and to the robust housing market in Canada.

Credit losses on commercial loans for the third quarter of 2020 decreased by $18.8 million sequentially. This decrease is mainly related to the increase in allowances recorded at the end of the second quarter of 2020 to reflect the significant increase in credit risk due to COVID-19. Compared to the third quarter of 2019, provisions for credit losses increased by $10.8 million, which mainly reflects a slight unfavourable migration of the portfolio, as well as individual allowances on a limited number of newly impaired loans to business customers. For the nine months ended July 31, 2020, credit losses on commercial loans increased by $45.8 million compared with the nine months ended July 31, 2019. The increase was mainly due to the negative impact of COVID-19 on collective allowances, as well as to higher losses on impaired loans, as noted above.

The provision for credit losses expressed as a percentage of average loans and acceptances was 27 bps for the third quarter of 2020 compared to 14 bps for the three months ended July 31, 2019.

IMPAIRED LOANS

In thousands of Canadian dollars, except percentage amounts (Unaudited)		As at July 31 2020		As at October 31 2019
Gross impaired loans				
Personal	$	**32,973**	$	17,642
Residential mortgages		**66,784**		59,236
Commercial[1]		**174,591**		98,283
		274,348		175,161
Allowances for loan losses against impaired loans (Stage 3)		**(71,451)**		(40,942)
Net impaired loans	$	**202,897**	$	134,219
Impaired loans as a % of loans and acceptances				
Gross		**0.84 %**		0.52 %
Net		**0.62 %**		0.40 %
Allowances for loan losses against other loans				
Stage 1	$	**(49,566)**	$	(29,587)
Stage 2		**(38,904)**		(29,928)
	$	**(88,470)**	$	(59,515)

(1) Including customers' liabilities under acceptances.

Gross impaired loans amounted to $274.3 million as at July 31, 2020, up $99.2 million or 57% compared with October 31, 2019, mainly due to an increase in the commercial loan portfolio. Compared with April 30, 2020, gross impaired loans increased by $39.1 million, from $235.2 million. This increase mainly resulted from commercial exposures and also from a slight deterioration in personal loans.

Allowances for loan losses against impaired loans increased by $30.5 million compared with October 31, 2019, mainly with regards to the commercial loan portfolio. Allowances for loan losses against other loans amounted to $88.5 million as at July 31, 2020, up $29.0 million compared with October 31, 2019, driven by the adverse shift in forward-looking economic scenarios related to COVID-19 in the second quarter. See Note 7 to the Condensed Interim Consolidated Financial Statements for additional information.

Payment relief options

In response to COVID-19, we continue to work with our customers who may need flexibility in managing their loans. To that effect, we have been offering up to six months of payment deferral for residential mortgages and some personal loans. Payment relief was generally granted only to customers with good credit records. For commercial loans, customers' requests and deferral programs were mostly reviewed and approved on a case-by-case basis. These payment relief options allowed customers to temporarily stop making their regular payments, while interest continued to accrue on the outstanding balance.

Payment deferrals were not considered to automatically trigger a significant increase in credit risk or result in such loans being moved into stage 2 or stage 3 for the purposes of calculating expected credit losses. For loans with payment deferrals to retail customers, we have performed a careful assessment to consider reasonable and supportable information at an individual level in order to identify customers with higher susceptibility to long-term economic impacts which may indicate a higher probability of default. Expected credit losses were adjusted accordingly to take into account our analysis. For commercial loans, as requests for relief were mainly reviewed and approved on a case-by-case basis, staging and expected credit losses calculation generally followed our normal process. Additional reviews were performed for certain commercial loan portfolios to identify potential increases in the probability of defaults and expected credit losses were also adjusted accordingly.

The following tables provides a summary of the key measures related to deferral requests still outstanding as at July 31, 2020.

Payment deferral

In thousands of Canadian dollars	As at April 30, 2020		during the quarter		**As at July 31, 2020**	
	$ Loan value	As a % of loan portfolio	New relief	Expired	**$ Loan value[1]**	**As a % of loan portfolio**
Personal loans	$ 6,176	0.1 %	$ 3,826	$ 3,756	**$ 6,246**	**0.1 %**
Residential Mortgages	$ 3,060,645	19.3 %	$ 265,462	$ 1,865,883	**$ 1,460,224**	**9.2 %**
Commercial loans	$ 1,373,800	10.5 %	$ 370,635	$ 1,380,196	**$ 364,239**	**2.9 %**
	$ 4,440,621	13.3 %	$ 639,923	$ 3,249,835	**$ 1,830,709**	**5.5 %**

(1) Including personal, residential mortgage and commercial loans where a second three-month deferral was granted for $1.0 million, $785.7 million and $25.4 million, respectively.

Deferred payments on these accounts as of July 31, 2020 amounted to $23.3 million, mostly for residential mortgages, with a very limited impact on our overall liquidity position.

LIQUIDITY AND FUNDING RISK

Liquidity and funding risk is the possibility that the Bank may not be able to gather sufficient cash resources when required and on reasonable conditions, to meet its financial obligations. Financial obligations include obligations to depositors and suppliers, as well as lending commitments, investments and posting collateral requirements.

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

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

We originate deposits from Personal, Business and Institutional customers, and have access to wholesale financing from diversified sources. Our personal deposits are sourced through multiple channels including our Financial Clinics, Advisors and Brokers, as well as our new Digital Direct to Customers channel. Wholesale funding options include loan securitization and the issuance of equity or debt instruments through capital markets. Limits on funding sources are monitored by the Asset-Liability Committee, Executive Committee and the Board of Directors. Funding strategies also includes loan securitization and the issuance of equity or debt instruments through capital markets.

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

The Bank remained compliant with the LAR Guideline throughout the nine months ended July 31, 2020.

Regulatory developments concerning liquidity

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

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

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

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

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

Credit ratings

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

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

The Bank regularly monitors the impact of a hypothetical downgrade of its credit rating on the collateral requirements. As at July 31, 2020, additional collateral that would be required in the event of a one-to-three-notch rating downgrade was not significant.

On June 10, 2020, Standard and Poor's (S&P) reaffirmed our BBB long-term and A-2 short-term issuer credit ratings, while maintaining the negative outlook[1].

On June 4, 2020, DBSR confirmed our A (low) rating on deposits and senior debt and R-1 (low) rating on short-term instruments. In addition, DBRS revised its trends on long-term ratings to negative from stable [2].

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

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

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

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

Contractual maturities of assets and liabilities

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

CONTRACTUAL MATURITIES OF ASSETS AND LIABILITIES

(Thousands of Canadian dollars)									As at July 31, 2020
	TERM								
	0 TO 3 MONTHS	OVER 3 MONTHS TO 6 MONTHS	OVER 6 MONTHS TO 9 MONTHS	OVER 9 MONTHS TO 12 MONTHS	OVER 1 YEAR TO 2 YEARS	OVER 2 YEARS TO 5 YEARS	OVER 5 YEARS	NO SPECIFIC MATURITY	TOTAL
Assets									
Cash and non-interest bearing deposits with banks	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 87,599	$ 87,599
Interest-bearing deposits with banks	254,761	—	—	25,000	—	—	—	94,774	374,535
Securities	813,387	134,459	426,408	103,175	999,366	2,400,069	1,399,640	326,114	6,602,618
Securities purchased under reverse repurchase agreements	1,965,506		543,823		280,801	—	—	—	2,790,130
Loans[1]									
Personal loans	12,407	19,256	14,285	14,853	95,081	131,908	14,027	3,946,612	4,248,430
Residential mortgages	1,112,429	1,216,308	1,029,293	1,264,357	3,797,128	7,296,898	45,275	92,563	15,854,251
Commercial mortgages	1,076,231	690,489	607,119	731,403	1,605,182	940,868	747,429	6,777	6,405,499
Commercial loans	1,071,252	250,705	278,793	271,226	895,052	1,113,130	183,223	2,100,661	6,164,041
Customers' liabilities under acceptances	134,800								134,800
Allowances for loan losses		—	—	—	—	—	—	(159,921)	(159,921)
	3,407,118	2,176,759	1,929,491	2,281,839	6,392,443	9,482,805	989,954	5,986,691	32,647,100
Others	2,992	1,195	879	891	6,085	4,330	48,461	1,728,539	1,793,372
Total assets	$6,443,765	$2,312,413	$2,900,601	$2,410,905	$7,678,695	$11,887,203	$2,438,055	$8,223,718	$44,295,354
Liabilities									
Personal deposits[1]	$1,527,741	$2,138,237	$2,091,954	$1,691,290	$3,426,110	$3,046,775	$ 32,925	$ 5,326,031	$19,281,063
Business, Banks and other deposits[1]	184,998	184,885	164,626	215,706	143,925	45,957	904	1,822,454	2,763,455
Institutional deposits	558,000	34,000	515,366		668,345	749,547	—	—	2,525,257
Obligations related to securities sold short[2]	604,489	69,225	39,109	21,335	276,949	880,628	1,221,933	1,696	3,115,364
Obligations related to securities sold under repurchase agreements	917,333	—	1,115,334	—	566,026	—	—	—	2,598,692
Other Liabilities	134,800	—	—	—	—	—	—	1,582,919	1,717,719
Debt related to securitization activities[3]	285,748	551,860	375,505	726,645	1,603,012	4,798,214	878,253	142,455	9,361,692
Subordinated debt	—	—	—	—	349,356	—	—	—	349,356
Equity	—	—	—	125,000		125,000	—	2,332,756	2,582,756
Total liabilities and equity	$4,213,109	$2,978,206	$4,301,894	$2,779,976	$7,033,722	$9,646,120	$2,134,016	$11,208,311	$44,295,354

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

(Thousands of Canadian dollars)									As at October 31, 2019
	TERM								
	0 TO 3 MONTHS	OVER 3 MONTHS TO 6 MONTHS	OVER 6 MONTHS TO 9 MONTHS	OVER 9 MONTHS TO 12 MONTHS	OVER 1 YEAR TO 2 YEARS	OVER 2 YEARS TO 5 YEARS	OVER 5 YEARS	NO SPECIFIC MATURITY	TOTAL
Assets									
Cash and non-interest bearing deposits with banks	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 90,658	$ 90,658
Interest-bearing deposits with banks	252,325	—	—	—	—	—	—	70,572	322,897
Securities	818,057	754,946	410,771	122,511	672,955	2,031,415	1,091,422	397,859	6,299,936
Securities purchased under reverse repurchase agreements	2,538,285	—	—	—	—	—	—	—	2,538,285
Loans(1)									
Personal loans	16,433	14,320	18,025	11,124	76,995	190,406	18,368	4,314,853	4,660,524
Residential mortgages	987,578	1,027,376	1,309,644	1,189,747	3,974,066	7,421,955	36,266	93,048	16,039,680
Commercial loans	2,063,926	840,242	1,029,731	635,460	2,387,209	2,104,681	792,106	2,792,977	12,646,332
Customers' liabilities under acceptances	319,992	—	—	—	—	—	—	—	319,992
Allowances for loan losses	—	—	—	—	—	—	—	(100,457)	(100,457)
	3,387,929	1,881,938	2,357,400	1,836,331	6,438,270	9,717,042	846,740	7,100,421	33,566,071
Others	1,281	1,588	1,200	1,422	2,180	3,805	79	1,523,725	1,535,280
Total assets	$6,997,877	$2,638,472	$2,769,371	$1,960,264	$7,113,405	$11,752,262	$1,938,241	$9,183,235	$44,353,127
Liabilities									
Personal deposits[1]	$1,912,268	$1,698,393	$1,534,854	$1,539,422	$4,607,963	$ 4,296,013	$ 51,413	$4,106,934	$19,747,260
Business, Banks and other deposits[1], [4]	200,826	119,606	267,181	157,174	358,086	53,150	4,617	1,609,801	$ 2,770,441
Institutional deposits[4]	833,043	147,000	—	300,000	818,673	1,036,187	—	—	$ 3,134,903
Obligations related to securities sold short[2]	499,739	94,645	12,758	3,140	195,115	859,115	930,342	23,293	$ 2,618,147
Obligations related to securities sold under repurchase agreements	2,558,883	—	—	—	—	—	—	—	$ 2,558,883
Other Liabilities	319,992	—	—	—	—	—	—	1,373,406	$ 1,693,398
Debt related to securitization activities[3]	600,757	262,850	559,041	314,816	2,079,666	4,336,901	741,821	17,481	$ 8,913,333
Subordinated debt	—	—	—	—	—	350,000	—	(899)	$ 349,101
Equity	—	—	—	—	125,000	125,000	—	2,317,661	$ 2,567,661
Total liabilities and equity	$6,925,508	$2,322,494	$2,373,834	$2,314,552	$8,184,503	$11,056,366	$1,728,193	$9,447,677	$44,353,127

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

MARKET RISK

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

The purpose of ALM activities is to control structural interest rate risk, which corresponds to the potential negative impact of interest rate movements on the Bank's net interest income and economic value of its capital. Dynamic management of structural interest rate risk is intended to maximize the Bank's profitability while preserving the economic value of common shareholders' equity.

The table below provides a measure of the sensitivity to changes in interest rates of the Bank as at July 31, 2020. As presented, the effect on the economic value of common shareholders' equity and on net interest income before taxes of a sudden and sustained 1% increase in interest rates was as follows.

STRUCTURAL INTEREST RATE SENSITIVITY ANALYSIS

In thousands of Canadian dollars (Unaudited)	**As at July 31 2020**	As at October 31 2019
Effect of a 1% increase in interest rates		
Increase in net interest income before taxes over the next 12 months	**$ 18,224**	$ 3,877
Decrease in the economic value of common shareholders' equity (net of income taxes)	**$ (41,793)**	$ (49,524)

OPERATIONAL RISK

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

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

OTHER RISKS

Proposed class action

In June 2020, a plaintiff commenced a proposed class action in the Superior Court of Québec against the Bank, as well as a current executive and a former executive. The proposed action alleges that the Bank and executives violated the Quebec Securities Act through alleged misrepresentations and non-disclosures relating to the Bank's and a subsidiary's mortgage loan securitization activities, related quality control processes and mortgage underwriting procedures. The defendants to the proposed class action also include lead underwriters and all other securities dealers who underwrote securities offerings of the Bank in May 2017 and January 2018, including Laurentian Bank Securities, a subsidiary of the Bank. The plaintiff instituted this action on behalf of the Bank's shareholders who acquired shares between May 18, 2017 and September 3, 2018 and still held all or part of such shares between December 5, 2017 and September 4, 2018. A date for the court hearing of the application to authorize the proposed class action has not yet been scheduled. The Bank intends to vigorously defend the proceeding.

REPUTATIONAL RISK

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

ADDITIONAL FINANCIAL INFORMATION - QUARTERLY RESULTS

In thousands of Canadian dollars, except per share and percentage amounts (Unaudited)	**July 31 2020**	April 30 2020	January 31 2020	October 31 2019	July 31 2019	April 30 2019	January 31 2019	October 31 2018
Net interest income	**$ 173,546**	$ 170,747	$ 168,785	$ 173,205	$ 176,042	$ 164,564	$ 172,600	$ 173,152
Other income	**75,063**	69,401	69,928	68,433	68,611	75,317	69,738	82,705
Total revenue	**248,609**	240,148	238,713	241,638	244,653	239,881	242,338	255,857
Amortization of net premium on purchased financial instruments	**127**	179	232	284	336	390	442	495
Provision for credit losses	**22,300**	54,900	14,900	12,600	12,100	9,200	10,500	17,600
Non-interest expenses	**183,777**	183,516	188,902	180,828	177,858	183,131	184,676	176,437
Income before income taxes	**42,405**	1,553	34,679	47,926	54,359	47,160	46,720	61,325
Income taxes	**6,188**	(7,332)	2,507	6,583	6,561	3,847	6,464	10,524
Net income	**$ 36,217**	$ 8,885	$ 32,172	$ 41,343	$ 47,798	$ 43,313	$ 40,256	$ 50,801
Earnings per share								
Basic	**$ 0.77**	$ 0.13	$ 0.68	$ 0.90	$ 1.05	$ 0.95	$ 0.88	$ 1.13
Diluted	**$ 0.77**	$ 0.13	$ 0.68	$ 0.90	$ 1.05	$ 0.95	$ 0.88	$ 1.13

CORPORATE GOVERNANCE AND CHANGES TO INTERNAL CONTROL OVER FINANCIAL REPORTING

During the third quarter ended July 31, 2020, there have been no changes to internal control over financial reporting that affected materially, or are reasonably likely to materially affect ICFR.

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

ACCOUNTING POLICIES AND ESTIMATES

The significant accounting policies followed by the Bank are outlined in Notes 2 and 3 of the 2019 Annual Consolidated Financial Statements. The Condensed Interim Consolidated Financial Statements for the third quarter ended July 31, 2020 have been prepared in accordance with these accounting policies, except for the changes described in Note 3 to the Condensed Interim Consolidated Financial Statements, which have been applied since November 1, 2019 following the Bank's adoption of IFRS 16, Leases and amendments to IFRS 9, IAS 39 and IFRS 7 in respect of the IBOR Reform.

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

Use of estimates and judgment

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

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

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

Management has established controls and procedures to ensure these estimates are controlled, reviewed and consistently applied over time. Management believes that the estimates of the value of the Bank's assets and liabilities are appropriate.

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

Payment relief programs
We have established payment relief programs to help some of our customers manage the challenges posed by COVID-19 through payment deferrals for residential mortgages and some personal and commercial loans. In some cases, the original terms of the associated financial asset may be renegotiated or otherwise modified, affecting the contractual cash flows. In the event of a substantial changes in terms from the original financial asset, the financial asset is derecognized and a new financial asset is recognized. If the modification of contractual terms does not result in derecognition of the financial asset, the carrying amount of the financial asset is recalculated according to the present value of the renegotiated or modified contractual cash flows, discounted at the original effective interest rate and a gain or loss is recognized.

Goodwill and other intangible assets
During the second quarter of 2020, as a result of the deterioration in economic conditions caused by the spread of the COVID-19 pandemic and the related changes to the interest rate environment, we determined that it was possible that goodwill and other intangible assets might be impaired. Based on this analysis, we determined that an interim impairment test should be performed as at February 29, 2020. The impairment test leveraged our 2019 annual impairment test and further took into account our assessment of the COVID-19 impact. Projections were reviewed by senior management in connection with the preparation of our second quarter financial statements and it was determined that they represented our current best estimate of future profitability. We performed our interim impairment test using the present value of revised cash flow projections and, based on our updated impairment test, we concluded that the estimated recoverable amounts of all our cash generating units exceeded their carrying value, including goodwill and other intangible assets. After reviewing the Bank financial indicators for the three months ended July 31, 2020 and main macroeconomic factors as at July 31, 2020, as presented in Note 7 to the Condensed Interim Consolidated Financial Statements, we concluded that there were no indicators to question the results of the interim impairment test performed as at February 29, 2020.

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

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

Assets under administration

Government programs
In response to the economic impact of COVID-19, the Canadian government has established, among other financial relief programs, the Canada Emergency Business Account (CEBA) program to provide interest-free loans of up to $40,000 for small and medium-sized businesses and non-profit organizations. The Bank and several other financial institutions are authorized to implement this program in cooperation with Export Development Canada. This program is guaranteed by the Government of Canada and aims to help businesses cope with the economic challenges resulting from the COVID-19 crisis. Loans made by the Bank to its business clients under the CEBA program are not recognized on the Bank's Interim Consolidated Balance Sheet, since the conditions of a qualifying pass-through arrangement have been met and the Bank has determined that substantially all risks and rewards of ownership of the loans have been transferred to the Canadian government.

FUTURE CHANGES TO ACCOUNTING POLICIES

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

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

As at and for the period ended July 31, 2020

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CONSOLIDATED BALANCE SHEET[(1)]

In thousands of Canadian dollars (Unaudited)	Notes	As at July 31 2020	As at October 31 2019
Assets			
Cash and non-interest bearing deposits with banks		**$ 87,599**	$ 90,658
Interest bearing deposits with banks		**374,535**	322,897
Securities	6		
At amortized cost		**3,152,435**	2,744,929
At fair value through profit or loss (FVTPL)		**3,170,769**	3,242,146
At fair value through other comprehensive income (FVOCI)		**279,414**	312,861
		6,602,618	6,299,936
Securities purchased under reverse repurchase agreements		**2,790,130**	2,538,285
Loans	7 and 8		
Personal		**4,248,430**	4,660,524
Residential mortgage		**15,854,251**	16,039,680
Commercial		**12,569,540**	12,646,332
Customers' liabilities under acceptances		**134,800**	319,992
		32,807,021	33,666,528
Allowances for loan losses		**(159,921)**	(100,457)
		32,647,100	33,566,071
Other			
Derivatives		**347,128**	143,816
Premises and equipment		**78,206**	77,802
Right-of-use assets	5	**128,578**	n/a
Software and other intangible assets		**384,966**	391,162
Goodwill		**117,596**	116,649
Deferred tax assets		**63,187**	37,045
Other assets		**673,711**	768,806
		1,793,372	1,535,280
		$ 44,295,354	$ 44,353,127
Liabilities and shareholders' equity			
Deposits			
Personal		**$ 19,281,063**	$ 19,747,260
Business, banks and other		**5,288,712**	5,905,344
		24,569,775	25,652,604
Other			
Obligations related to securities sold short		**3,115,364**	2,618,147
Obligations related to securities sold under repurchase agreements		**2,598,692**	2,558,883
Acceptances		**134,800**	319,992
Derivatives		**160,384**	112,737
Lease liabilities	5	**163,866**	n/a
Deferred tax liabilities		**60,170**	53,102
Other liabilities		**1,198,499**	1,207,567
		7,431,775	6,870,428
Debt related to securitization activities	8	**9,361,692**	8,913,333
Subordinated debt		**349,356**	349,101
Shareholders' equity			
Preferred shares	9	**244,038**	244,038
Common shares	9	**1,154,917**	1,139,193
Retained earnings		**1,125,012**	1,161,668
Accumulated other comprehensive income		**56,357**	20,947
Share-based compensation reserve	10	**2,432**	1,815
		2,582,756	2,567,661
		$ 44,295,354	$ 44,353,127

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

(1) The Consolidated Balance Sheet as at July 31, 2020 reflects the adoption of the IFRS 16, Leases, new accounting standard as at November 1, 2019. Refer to Notes 2, 3 and 5 for further information. The comparative information has not been restated.

CONSOLIDATED STATEMENT OF INCOME[1]

In thousands of Canadian dollars, except per share amounts (Unaudited)	Notes	For the three months ended July 31 2020	April 30 2020	July 31 2019	For the nine months ended July 31 2020	July 31 2019
Interest and dividend income	14					
Loans		**$ 307,888**	$ 335,547	$ 365,422	**$ 998,056**	$ 1,079,735
Securities		**13,230**	16,210	18,887	**47,136**	58,244
Deposits with banks		**152**	1,532	1,899	**4,013**	6,236
Other, including derivatives		**26,604**	10,959	7,465	**42,472**	24,811
		347,874	364,248	393,673	**1,091,677**	1,169,026
Interest expense						
Deposits		**124,809**	140,534	161,570	**419,188**	480,405
Debt related to securitization activities		**43,911**	45,791	43,535	**137,399**	127,458
Subordinated debt		**3,825**	3,742	3,835	**11,398**	11,379
Other, including derivatives and interest on lease liabilities		**1,783**	3,434	8,691	**10,614**	36,578
		174,328	193,501	217,631	**578,599**	655,820
Net interest income		**173,546**	170,747	176,042	**513,078**	513,206
Other income						
Lending fees		**15,607**	14,801	15,499	**45,702**	44,829
Service charges		**7,947**	8,478	10,973	**25,752**	31,924
Card service revenues		**6,464**	6,723	8,351	**21,738**	25,383
Commissions from sales of mutual funds		**10,666**	10,202	10,749	**31,802**	32,186
Fees and securities brokerage commissions		**12,634**	12,226	10,330	**35,460**	31,973
Income from financial instruments		**12,905**	6,935	1,910	**24,646**	13,044
Fees on investment accounts		**3,310**	4,583	4,378	**12,154**	13,638
Insurance income, net		**3,182**	2,087	3,270	**8,331**	10,607
Other		**2,348**	3,366	3,151	**8,807**	10,082
		75,063	69,401	68,611	**214,392**	213,666
Total revenue		**248,609**	240,148	244,653	**727,470**	726,872
Amortization of net premium on purchased financial instruments		**127**	179	336	**538**	1,168
Provision for credit losses	7	**22,300**	54,900	12,100	**92,100**	31,800
Non-interest expenses						
Salaries and employee benefits	10, 11	**92,483**	93,972	90,078	**281,724**	272,641
Premises and technology		**50,091**	50,722	48,705	**150,580**	148,334
Other		**30,136**	38,496	37,273	**109,764**	117,442
Restructuring charges	16	**11,067**	326	1,802	**14,127**	7,248
		183,777	183,516	177,858	**556,195**	545,665
Income before income taxes		**42,405**	1,553	54,359	**78,637**	148,239
Income taxes		**6,188**	(7,332)	6,561	**1,363**	16,872
Net income		**$ 36,217**	$ 8,885	$ 47,798	**$ 77,274**	$ 131,367
Preferred share dividends, including applicable taxes		**3,198**	3,197	3,257	**9,592**	9,770
Net income available to common shareholders		**$ 33,019**	$ 5,688	$ 44,541	**$ 67,682**	$ 121,597
Weighted-average number of common shares outstanding (in thousands)						
Basic		**43,001**	42,812	42,370	**42,826**	42,240
Diluted		**43,001**	42,812	42,429	**42,851**	42,279
Earnings per share	12					
Basic		**$ 0.77**	$ 0.13	$ 1.05	**$ 1.58**	$ 2.88
Diluted		**$ 0.77**	$ 0.13	$ 1.05	**$ 1.58**	$ 2.88
Dividends declared per share						
Common share		**$ 0.40**	$ 0.67	$ 0.66	**$ 1.74**	$ 1.96
Preferred share - Series 13		**$ 0.26**	$ 0.26	$ 0.27	**$ 0.77**	$ 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.

(1) The Consolidated Statement of Income for the period ended July 31, 2020 reflects the adoption of the IFRS 16, ***Leases***, new accounting standard as at November 1, 2019. Refer to Notes 2 , 3 and 5 for further information. The comparative information has not been restated.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME[(1)]

In thousands of Canadian dollars (Unaudited)	For the three months ended **July 31 2020**	April 30 2020	July 31 2019	For the nine months ended **July 31 2020**	July 31 2019
Net income	**$ 36,217**	$ 8,885	$ 47,798	**$ 77,274**	$ 131,367
Other comprehensive income (loss), net of income taxes					
Items that may subsequently be reclassified to the Statement of Income					
Net change in debt securities at FVOCI					
Unrealized net gains (losses) on debt securities at FVOCI	**683**	919	276	**1,585**	2,441
Reclassification of net gains on debt securities at FVOCI to net income	**(57)**	(17)	(392)	**(50)**	(493)
	626	902	(116)	**1,535**	1,948
Net change in value of derivatives designated as cash flow hedges	**(8,345)**	31,756	(274)	**25,653**	35,057
Net foreign currency translation adjustments					
Net unrealized foreign currency translation gains on investments in foreign operations	**(19,119)**	23,860	(6,007)	**7,160**	877
Net gains (losses) on hedges of investments in foreign operations	**6,413**	(5,498)	1,438	**1,062**	(4,916)
	(12,706)	18,362	(4,569)	**8,222**	(4,039)
	(20,425)	51,020	(4,959)	**35,410**	32,966
Items that may not subsequently be reclassified to the Statement of Income					
Remeasurement losses on employee benefit plans	**(801)**	(8,674)	(6,498)	**(12,379)**	(3,373)
Net gains (losses) on equity securities designated at FVOCI	**9,344**	(24,425)	(3,342)	**(10,323)**	(15,073)
	8,543	(33,099)	(9,840)	**(22,702)**	(18,446)
Total other comprehensive income, net of income taxes	**(11,882)**	17,921	(14,799)	**12,708**	14,520
Comprehensive income	**$ 24,335**	$ 26,806	$ 32,999	**$ 89,982**	$ 145,887

INCOME TAXES — OTHER COMPREHENSIVE INCOME

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

In thousands of Canadian dollars (Unaudited)	For the three months ended **July 31 2020**	April 30 2020	July 31 2019	For the nine months ended **July 31 2020**	July 31 2019
Net change in debt securities at FVOCI					
Unrealized net gains (losses) on debt securities at FVOCI	**$ 247**	$ 331	$ (42)	**$ 572**	$ 706
Reclassification of net gains on debt securities at FVOCI to net income	**(21)**	(6)	—	**(18)**	—
	226	325	(42)	**554**	706
Net change in value of derivatives designated as cash flow hedges	**(3,010)**	11,453	(103)	**9,251**	12,673
Net foreign currency translation adjustments					
Net gains (losses) on hedges of investments in foreign operations	**—**	102	(298)	**102**	(142)
Remeasurement losses on employee benefit plans	**(289)**	(3,128)	(2,355)	**(4,464)**	(1,223)
Net gains (losses) on equity securities designated at FVOCI	**3,371**	$ (8,813)	$ (1,212)	**(3,725)**	$ (5,467)
	$ 298	$ (61)	$ (4,010)	**$ 1,718**	$ 6,547

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

(1) The Consolidated Statement of Comprehensive Income for the period ended July 31, 2020 reflects the adoption of the IFRS 16, ***Leases***, new accounting standard as at November 1, 2019. Refer to Notes 2, 3 and 5 for further information. The comparative information has not been restated.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY[1]

									For the nine months ended July 31
				Accumulated Other Comprehensive Income					
In thousands of Canadian dollars (Unaudited)	Preferred shares (Note 9)	Common shares (Note 9)	Retained earnings	Debt securities at FVOCI	Cash flow hedges	Translation of foreign operations	Total	Share-based compensation reserve (Note 10)	Total shareholders' equity
Balance as at October 31, 2019	$ 244,038	$ 1,139,193	$ 1,161,668	$ 328	$ 21,049	$ (430)	$ 20,947	$ 1,815	$ 2,567,661
Impact of adoption of IFRS 16, Leases (Notes 2 and 5)			(7,256)						(7,256)
Balance as at November 1, 2019	244,038	1,139,193	1,154,412	328	21,049	(430)	20,947	1,815	2,560,405
Net income			77,274						77,274
Other comprehensive income (net of income taxes)									
Unrealized net gains on debt securities at FVOCI				1,585			1,585		1,585
Reclassification of net gains on debt securities at FVOCI to net income				(50)			(50)		(50)
Net change in value of derivatives designated as cash flow hedges					25,653		25,653		25,653
Net unrealized foreign currency translation gains on investments in foreign operations						7,160	7,160		7,160
Net gains on hedges of investments in foreign operations						1,062	1,062		1,062
Remeasurement of losses on employee benefit plans			(12,379)						(12,379)
Net losses on equity securities designated at FVOCI			(10,323)						(10,323)
Comprehensive income			54,572	1,535	25,653	8,222	35,410		89,982
Issuance of share capital		15,724							15,724
Share-based compensation								617	617
Dividends									
Preferred shares, including applicable taxes			(9,592)						(9,592)
Common shares			(74,380)						(74,380)
Balance as at July 31, 2020	$ 244,038	$ 1,154,917	$ 1,125,012	$ 1,863	$ 46,702	$ 7,792	$ 56,357	$ 2,432	$ 2,582,756

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

(1) The Consolidated Statement of Changes in Shareholders' Equity for the period ended July 31, 2020 reflects the adoption of the IFRS 16, *Leases*, new accounting standard as at November 1, 2019. Refer to Notes 2, 3 and 5 for further information. The comparative information has not been restated.

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

For the nine months ended July 31

In thousands of Canadian dollars (Unaudited)	Preferred shares (Note 9)	Common shares (Note 9)	Retained earnings	Accumulated other comprehensive income: Debt securities at FVOCI	Accumulated other comprehensive income: Cash flow hedges	Accumulated other comprehensive income: Translation of foreign operations	Accumulated other comprehensive income: Total	Share-based compensation reserve (Note 10)	Total shareholders' equity
Balance as at November 1, 2018	244,038	1,115,416	1,138,383	(1,621)	(12,244)	4,283	(9,582)	268	2,488,523
Net income			131,367						131,367
Other comprehensive income (net of income taxes)									
Unrealized net gains on debt securities at FVOCI				2,441			2,441		2,441
Reclassification of net gains on debt securities at FVOCI to net income				(493)			(493)		(493)
Net change in value of derivatives designated as cash flow hedges					35,057		35,057		35,057
Net unrealized foreign currency translation gains on investments in foreign operations						877	877		877
Net losses on hedges of investments in foreign operations						(4,916)	(4,916)		(4,916)
Remeasurement losses on employee benefit plans			(3,373)						(3,373)
Net losses on equity securities designated at FVOCI			(15,073)						(15,073)
Comprehensive income			112,921	1,948	35,057	(4,039)	32,966		145,887
Issuance of share capital		16,570							16,570
Share-based compensation								1,271	1,271
Dividends									
Preferred shares, including applicable taxes			(9,770)						(9,770)
Common shares			(82,710)						(82,710)
Balance as at July 31, 2019	$ 244,038	$ 1,131,986	$ 1,158,824	$ 327	$ 22,813	$ 244	$ 23,384	$ 1,539	$ 2,559,771

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

CONSOLIDATED STATEMENT OF CASH FLOWS[(1)]

In thousands of Canadian dollars (Unaudited)	Notes	For the three months ended July 31 2020	April 30 2020	July 31 2019	For the nine months ended July 31 2020	July 31 2019
Cash flows relating to operating activities						
Net income		**$ 36,217**	$ 8,885	$ 47,798	**$ 77,274**	$ 131,367
Adjustments to determine net cash flows relating to operating activities:						
Provision for credit losses	7	**22,300**	54,900	12,100	**92,100**	31,800
Deferred income taxes		**(1,849)**	(12,900)	691	**(15,042)**	(3,276)
Depreciation of premises and equipment		**2,240**	1,954	1,763	**6,047**	5,296
Depreciation of right-of-use-assets		**4,066**	3,963	n/a	**12,067**	n/a
Amortization of software and other intangible assets		**10,639**	10,364	9,656	**31,090**	29,393
Change in operating assets and liabilities:						
Loans		**908,177**	(206,677)	219,744	**830,283**	383,084
Acceptances		**(278,790)**	141,079	66,223	**(185,192)**	39,648
Securities at FVTPL		**539,812**	(993,032)	102,068	**71,377**	58,241
Securities purchased under reverse repurchase agreements		**(58,323)**	440,090	13,608	**(251,845)**	816,703
Accrued interest receivable		**38,715**	(22,903)	21,683	**38,469**	(2,760)
Derivative assets		**55,398**	(261,365)	(33,989)	**(203,312)**	(74,168)
Deposits		**(734,491)**	103,313	(463,592)	**(1,082,829)**	(1,390,967)
Obligations related to securities sold short		**(274,206)**	(43,476)	753,118	**497,217**	(86,712)
Obligations related to securities sold under repurchase agreements		**69,927**	405,278	(739,406)	**39,809**	(69,116)
Accrued interest payable		**(13,019)**	11,228	(4,870)	**(26,027)**	(11,692)
Derivative liabilities		**(111,647)**	142,996	(19,730)	**47,647**	(160,392)
Debt related to securitization activities		**83,969**	350,747	118,324	**448,359**	190,054
Other, net		**148,851**	(77,151)	(61)	**128,928**	65,444
		447,986	57,293	105,128	**556,420**	(48,053)
Cash flows relating to financing activities						
Net proceeds from issuance of common shares	9	**12**	(9)	(3)	**23**	(10)
Dividends		**(15,525)**	(26,002)	(25,127)	**(88,929)**	(77,548)
		(15,513)	(26,011)	(25,130)	**(88,906)**	(77,558)
Cash flows relating to investing activities						
Change in securities at amortized cost						
Acquisitions		**(1,431,962)**	(533,867)	(580,427)	**(2,698,914)**	(2,228,041)
Proceeds on sale and at maturity		**916,360**	355,068	789,811	**2,291,401**	2,499,481
Change in securities at FVOCI						
Acquisitions		**(39,663)**	(76,064)	(165,499)	**(200,459)**	(495,009)
Proceeds on sale and at maturity		**83,494**	48,627	189,064	**222,120**	496,134
Proceeds on sale of commercial loan portfolios	7	**—**	—	—	**—**	105,366
Additions to premises and equipment and software and other intangible assets		**(5,739)**	(15,461)	(16,171)	**(37,339)**	(53,922)
Change in interest bearing deposits with banks		**56,564**	183,046	(290,791)	**(51,638)**	(209,844)
		(420,946)	(38,651)	(74,013)	**(474,829)**	114,165
Effect of exchange rate changes on cash and non-interest-bearing deposits with other banks		**(4,632)**	8,800	(1,837)	**4,256**	(1,032)
Net change in cash and non-interest bearing deposits with banks		**6,895**	1,431	4,148	**(3,059)**	(12,478)
Cash and non-interest bearing deposits with banks at beginning of period		**80,704**	79,273	99,864	**90,658**	116,490
Cash and non-interest bearing deposits with banks at end of period		**$ 87,599**	$ 80,704	$ 104,012	**$ 87,599**	$ 104,012
Supplemental disclosure about cash flows relating to operating activities:						
Interest paid during the period		**$ 183,553**	$ 185,748	$ 226,297	**$ 606,304**	$ 663,668
Interest received during the period		**$ 368,510**	$ 331,378	$ 412,006	**$1,100,327**	$ 1,152,727
Dividends received during the period		**$ 3,391**	$ 4,081	$ 3,924	**$ 11,327**	$ 11,268
Income taxes paid (received) during the period		**$ (17,829)**	$ 1,927	$ (172)	**$ (10,831)**	$ 38,729

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

(1) The Consolidated Statement of Cash Flows for the nine months ended July 31, 2020 reflects the adoption of the IFRS 16, *Leases*, new accounting standard as at November 1, 2019. Refer to Notes 2, 3 and 5 for further information. The comparative information has not been restated.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

1. GENERAL INFORMATION

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

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

The Condensed Interim Consolidated Financial Statements for the period ended July 31, 2020 were approved for issuance by the Board of Directors on September 3, 2020.

2. BASIS OF PRESENTATION

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

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

Use of estimates and judgment

The preparation of these consolidated financial statements in accordance with IFRS requires management to make complex judgments that affect the reported amounts of assets, liabilities, net income and other related disclosures, as further described in Note 2 to the Annual Consolidated Financial Statements for the year ended October 31, 2019. New estimates about determining the lease term of contracts with renewal options have been applied since November 1, 2019 following the Bank's adoption of IFRS 16 and are further described in Note 5 to these consolidated financial statements.

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

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

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

Management has established controls and procedures to ensure these estimates are controlled, reviewed and consistently applied over time. Management believes that the estimates of the value of the Bank's assets and liabilities are appropriate.

2. BASIS OF PRESENTATION (CONT'D)

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

Payment relief programs
We have established payment relief programs to help some of our customers manage the challenges posed by COVID-19 through payment deferrals for residential mortgages and some personal and commercial loans. In some cases, the original terms of the associated financial asset may be renegotiated or otherwise modified, affecting the contractual cash flows. In the event of substantial changes in terms from the original financial asset, the financial asset is derecognized and a new financial asset is recognized. If the modification of contractual terms does not result in derecognition of the financial asset, the carrying amount of the financial asset is recalculated according to the present value of the renegotiated or modified contractual cash flows, discounted at the original effective interest rate and a gain or loss is recognized. Refer to Note 7 for further information.

Goodwill and other intangible assets
During the second quarter of 2020, as a result of the deterioration in economic conditions caused by the spread of the COVID-19 pandemic and the related changes to the interest rate environment, we determined that it was possible that goodwill and other intangible assets might be impaired. Based on this analysis, we determined that an interim impairment test should be performed as at February 29, 2020. The impairment test leveraged our 2019 annual impairment test and further took into account our assessment of the COVID-19 impact. Projections were reviewed by senior management in connection with the preparation of our second quarter financial statements and it was determined that they represented our current best estimate of future profitability. We performed our interim impairment test using the present value of revised cash flow projections and, based on our updated impairment test, we concluded that the estimated recoverable amounts of all our cash generating units exceeded their carrying value, including goodwill and other intangible assets. After reviewing the Bank financial indicators for the three months ended July 31, 2020 and main macroeconomic factors as at July 31, 2020, as presented in Note 7 to the Condensed Interim Consolidated Financial Statements, we concluded that there were no indicators to question the results of the interim impairment test performed as at February 29, 2020.

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

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

3. CURRENT ACCOUNTING POLICY CHANGES

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

3.1 LEASES

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

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

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

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

a) Policy applicable from November 1, 2019

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

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

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

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

b) Policy applicable before November 1, 2019

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

On May 28, 2020, the IASB issued an amendment to IFRS 16 to make it easier for lessees to account for COVID-19-related rent concessions such as rent holidays and temporary rent reductions. The amendment exempts lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modification. As we maintained services, we have not benefited from rent concessions and as this amendment had no impact for the Bank.

3. CURRENT ACCOUNTING POLICY CHANGES (CONT'D)

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

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

The Bank's hedging relationships have significant exposure to USD LIBOR benchmark rates. Under IBOR reform, these benchmark rates may be subject to discontinuance, changes in methodology, or become illiquid when the adoption of the reform as established benchmark rates increase. As a result of these developments, significant judgment is required in determining whether certain hedging relationships that hedge the variability of cash flows and interest rate or foreign exchange risk due to changes in IBORs continue to qualify for hedge accounting. Impacted hedging relationships will continue to be monitored for the impact of IBOR reform. As a result of the amendments relating to hedge accounting, existing hedges are still effective and the IBOR reform has had no impact for the current year. The notional amount of cross-currency swaps and interest rate swaps indexed to USD LIBOR, with a maturity date beyond December 31, 2021, is $538,4 million as at July 31, 2020. These instruments are being monitored for the impact of IBOR reform.

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

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

4. FUTURE ACCOUNTING CHANGES

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

5. ADOPTION OF NEW ACCOUNTING STANDARDS

IFRS 16, *Leases*

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

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

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

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

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

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

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

6. SECURITIES

Credit quality

As at July 31, 2020, debt securities at amortized cost and at FVOCI are classified in Stage 1, with their credit rating falling mainly in the "Low risk" category according to the Bank's internal risk-rating categories. As at July 31, 2020, allowances for credit losses amounted to $0.1 million ($0.1 million as at October 31, 2019) for debt securities at amortized cost and $0.1 million ($0.1 million as at October 31, 2019) for debt securities at FVOCI.

Securities at amortized cost

	As at July 31, 2020	As at October 31, 2019
Securities issued or guaranteed		
by Canada[1]	$ 1,050,598	$ 1,415,947
by provinces	1,575,506	1,174,121
by municipalities	151,295	23,336
Other debt securities	375,036	131,525
	$ 3,152,435	$ 2,744,929

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

Securities at FVOCI

Accumulated unrealized gains and losses recognized in other comprehensive income are detailed as follows:

	As at July 31, 2020				As at October 31, 2019			
	Amortized cost	Unrealized gains	Unrealized losses	Fair value	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Securities issued or guaranteed								
by Canada[1]	$ 21,413	$ 552	$ 11	$ 21,954	$ 35,915	$ 124	$ 20	$ 36,019
by provinces	7,513	388	—	7,901	4,954	52	8	4,998
by municipalities	55,759	1,097	—	56,856	55,346	241	58	55,529
Other debt securities	25,330	963	11	26,282	24,970	421	26	25,365
Asset-backed securities	758	14	—	772	1,228	6	—	1,234
Preferred shares	179,791	704	33,154	147,341	192,935	532	31,546	161,921
Common shares and other securities	18,805	909	1,406	18,308	25,648	2,664	517	27,795
	$ 309,369	$ 4,627	$ 34,582	$ 279,414	$ 340,996	$ 4,040	$ 32,175	$ 312,861

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

Equity securities designated at FVOCI

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

For the three months ended July 31, 2020, an amount of $2 4 million in dividend income was recognized in earnings on these investments, $7.7 million for the nine months ended July 31, 2020 ($2.6 million for the three months ended July 31, 2019 and $7.7 million for the nine months ended July 31, 2019), including a negligible amount for investments that were sold during all such periods.

	For the nine months ended	
	July 31, 2020	July 31, 2019
Fair value at beginning of period	$ 189,716	$ 180,058
Change in fair value	(4,105)	(17,746)
Designated at FVOCI	33,234	66,050
Sales or redemptions	(53,196)	(34,129)
Fair value at end of period	$ 165,649	$ 194,233

7. LOANS AND ALLOWANCES FOR CREDIT LOSSES

As at July 31, 2020, loans are recognized on the Consolidated Balance Sheet at amortized cost as outlined in Note 3 to the 2019 Annual Consolidated Financial Statements using the financial asset classification criteria defined in IFRS 9.

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

Determining and measuring expected credit losses (ECL)

Expected Credit Losses

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

- Stage 1: Financial instruments that are not impaired and for which the credit risk has not increased significantly since initial recognition are classified in Stage 1 (see the *Payment relief options in addressing current conditions due to COVID-19* section below).
- Stage 2: Financial instruments that have experienced a significant increase in credit risk between initial recognition and the reporting date but are not impaired are migrated to Stage 2.
- Stage 3: Financial instruments for which there is objective evidence of impairment, for which one or more events have had a detrimental impact on estimated future cash flows at the reporting date and are considered credit impaired, are classified in Stage 3.
- POCI: Financial instruments that are credit-impaired when purchased or originated (POCI) are classified in the POCI category.

Measurement of expected credit losses

For additional information on the measurement of expected credit losses, see Note 7 to the Annual Consolidated Financial Statements for the year ended October 31, 2019.

Credit quality of loans

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

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

Credit risk exposure

				As at July 31, 2020
	Stage 1	Stage 2	Stage 3	Total
Personal loans				
Very low risk	$ 2,899,937	$ 8,671	$ —	$ 2,908,608
Low risk	514,374	120,234	—	634,608
Medium risk	371,335	281,552	—	652,887
High risk	—	19,354	—	19,354
Default	—	—	32,973	32,973
Gross carrying amount	3,785,646	429,811	32,973	4,248,430
Allowances for loan losses	7,173	18,562	14,588	40,323
Net carrying amount	$ 3,778,473	$ 411,249	$ 18,385	$ 4,208,107
Residential mortgage loans				
Very low risk	$ 8,983,086	$ 362	$ —	$ 8,983,448
Low risk	3,805,301	123,091	—	3,928,392
Medium risk	2,070,623	658,276	—	2,728,899
High risk	—	146,728	—	146,728
Default	—	—	66,784	66,784
Gross carrying amount	14,859,010	928,457	66,784	15,854,251
Allowances for loan losses	3,449	2,805	1,546	7,800
Net carrying amount	$ 14,855,561	$ 925,652	$ 65,238	$ 15,846,451
Commercial loans[1]				
Very low risk	$ 2,196,420	$ 5,006	$ —	$ 2,201,426
Low risk	7,163,279	73,947	—	7,237,226
Medium risk	2,591,795	375,325	—	2,967,120
High risk	—	123,977	—	123,977
Default	—	—	174,591	174,591
Gross carrying amount	11,951,494	578,255	174,591	12,704,340
Allowances for loan losses	38,944	17,537	55,317	111,798
Net carrying amount	$ 11,912,550	$ 560,718	$ 119,274	$ 12,592,542
Total loans				
Gross carrying amount	$ 30,596,150	$ 1,936,523	$ 274,348	$ 32,807,021
Allowances for loan losses	49,566	38,904	71,451	159,921
Net carrying amount	$ 30,546,584	$ 1,897,619	$ 202,897	$ 32,647,100
Off-balance sheet exposures[2]				
Very low risk	$ 1,387,363	$ 28,974	$ —	$ 1,416,337
Low risk	1,434,131	60,128	—	1,494,259
Medium risk	507,942	50,277	—	558,219
High risk	—	6,245	—	6,245
Total exposure	3,329,436	145,624	—	3,475,060
Allowances for off-balance sheet exposures losses	6,616	2,667	—	9,283
Total exposure, net	$ 3,322,820	$ 142,957	$ —	$ 3,465,777

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

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

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

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

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

Impaired loans

						As at July 31, 2020
		Gross impaired loans		Allowances against impaired loans		Net impaired loans
Personal loans	$	32,973	$	14,588	$	18,385
Residential mortgage loans		66,784		1,546		65,238
Commercial loans[1]		174,591		55,317		119,274
	$	274,348	$	71,451	$	202,897

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

(1) Including customers' liabilities under acceptances.

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

In response to the COVID-19 pandemic, the Bank is permitting payment deferrals to eligible customers. Payment deferrals have not been granted in connection with loans that have been identified as impaired (Stage 3). The Bank continues to accrue and recognize interest income on loans where payment deferrals were granted.

For loans with payment deferrals to retail customers, we have performed a careful assessment to consider reasonable and supportable information at an individual level in order to identify customers with higher susceptibility to long-term economic impacts which may indicate a higher probability of default. Expected credit losses were adjusted accordingly to take into account our analysis. For commercial loans, as requests for relief were mainly reviewed and approved on a case-by-case basis, staging and expected credit losses calculation generally followed our normal process. Additional reviews were performed for certain commercial loan portfolios to identify potential increases in probability of defaults and expected credit losses were also adjusted accordingly.

The following table provides a summary of the key measures related to deferral requests still outstanding as at July 31, 2020.

Payment deferral

In thousands of Canadian dollars		As at April 30, 2020			during the quarter				**As at July 31, 2020**
		$ Loan value	As a % of loan portfolio		New relief		Expired		**$ Loan value[1]**	**As a % of loan portfolio**
Personal loans	$	6,176	0.1 %	$	3,826	$	3,756	**$**	**6,246**	**0.1 %**
Residential Mortgages	$	3,060,645	19.3 %	$	265,462	$	1,865,883	**$**	**1,460,224**	**9.2 %**
Commercial loans	$	1,373,800	10.5 %	$	370,635	$	1,380,196	**$**	**364,239**	**2.9 %**
	$	4,440,621	13.3 %	$	639,923	$	3,249,835	**$**	**1,830,709**	**5.5 %**

(1) Including personal, residential mortgage and commercial loans where a second three-month deferral was granted for $1.0 million, $785.7 million and $25.4 million, respectively.

Deferred payments on these accounts as of July 31, 2020 amounted to $23.3 million, mostly for residential mortgages, with a very limited impact on our overall liquidity position.

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

Loans past due but not impaired

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

			As at July 31, 2020
	1 day- 31 days	32 days- 90 days	Total
Personal loans	**$ 55,460**	**$ 22,678**	**$ 78,138**
Residential mortgage loans	**129,235**	**34,032**	**163,267**
	$ 184,695	**$ 56,710**	**$ 241,405**

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

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

Reconciliation of allowances for credit losses

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

				For the three months ended July 31, 2020
	Stage 1	Stage 2	Stage 3	Total
Personal loans				
Balance at beginning of period	$ 9,204	$ 26,435	$ 10,042	$ 45,681
Transfers:				
to Stage 1	5,894	(5,760)	(134)	—
to Stage 2	(396)	748	(352)	—
to Stage 3	(31)	(971)	1,002	—
Originations	181	—	—	181
Derecognitions	(114)	(454)	(1,201)	(1,769)
Net remeasurement of allowances	(5,811)	619	8,892	3,700
Provision for (reversal of) credit losses	(277)	(5,818)	8,207	2,112
Write-offs	—	—	(4,482)	(4,482)
Recoveries	—	—	1,042	1,042
Foreign exchange and other	—	—	(221)	(221)
Balance at end of period	$ 8,927	$ 20,617	$ 14,588	$ 44,132
Total allowances for loan losses	$ 7,173	$ 18,562	$ 14,588	$ 40,323
Total allowances for off-balance sheet exposures	1,754	2,055	—	3,809
Total allowances for credit losses	$ 8,927	$ 20,617	$ 14,588	$ 44,132
Residential mortgage loans				
Balance at beginning of period	$ 2,758	$ 2,199	$ 1,056	$ 6,013
Transfers:				
to Stage 1	1,101	(626)	(475)	—
to Stage 2	(66)	159	(93)	—
to Stage 3	(6)	(105)	111	—
Originations	97	—	—	97
Derecognitions	(100)	(149)	(101)	(350)
Net remeasurement of allowances	(198)	1,361	2,041	3,204
Provision for (reversal of) credit losses	828	640	1,483	2,951
Write-offs	—	—	(932)	(932)
Recoveries	—	—	320	320
Foreign exchange and other	—	—	(381)	(381)
Balance at end of period	$ 3,586	$ 2,839	$ 1,546	$ 7,971
Total allowances for loan losses	$ 3,449	$ 2,805	$ 1,546	$ 7,800
Total allowances for off-balance sheet exposures	137	34	—	171
Total allowances for credit losses	$ 3,586	$ 2,839	$ 1,546	$ 7,971

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

	For the three months ended July 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
Commercial loans				
Balance at beginning of period	$ 43,671	$ 11,746	$ 48,577	$ 103,994
Transfers:				
to Stage 1	2,062	(1,995)	(67)	—
to Stage 2	(3,112)	3,433	(321)	—
to Stage 3	(55)	(702)	757	—
Originations	2,324	—	—	2,324
Derecognitions	(4,299)	(829)	(4,651)	(9,779)
Net remeasurement of allowances	3,478	6,525	14,689	24,692
Provision for (reversal of) credit losses	398	6,432	10,407	17,237
Write-offs	—	—	(2,945)	(2,945)
Recoveries	—	—	191	191
Foreign exchange and other	(400)	(63)	(913)	(1,376)
Balance at end of period	$ 43,669	$ 18,115	$ 55,317	$ 117,101
Total allowances for loan losses	$ 38,944	$ 17,537	$ 55,317	$ 111,798
Total allowances for off-balance sheet exposures	4,725	578	—	5,303
Total allowances for credit losses	$ 43,669	$ 18,115	$ 55,317	$ 117,101
Total exposure				
Total allowances for loan losses	$ 49,566	$ 38,904	$ 71,451	$ 159,921
Total allowances for off-balance sheet exposures	6,616	2,667	—	9,283
Total allowances for credit losses	$ 56,182	$ 41,571	$ 71,451	$ 169,204

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

	For the three months ended July 31, 2019			
	Stage 1	Stage 2	Stage 3	Total
Personal loans				
Balance at beginning of period	$ 9,329	$ 19,523	$ 8,587	$ 37,439
Transfers:				
to Stage 1	3,900	(3,735)	(165)	—
to Stage 2	(699)	1,247	(548)	—
to Stage 3	(27)	(1,081)	1,108	—
Originations	139	—	—	139
Derecognitions	(242)	(814)	(1,990)	(3,046)
Net remeasurement of allowances	(3,815)	2,886	7,431	6,502
Provision for (reversal of) credit losses	(744)	(1,497)	5,836	3,595
Write-offs	—	—	(6,615)	(6,615)
Recoveries	—	—	1,500	1,500
Foreign exchange and other	—	—	(221)	(221)
Balance at end of period	$ 8,585	$ 18,026	$ 9,087	$ 35,698
Total allowances for loan losses	$ 6,980	$ 16,602	$ 9,087	$ 32,669
Total allowances for off-balance sheet exposures	1,605	1,424	—	3,029
Total allowances for credit losses	$ 8,585	$ 18,026	$ 9,087	$ 35,698
Residential mortgage loans				
Balance at beginning of period	$ 1,978	$ 1,427	$ 545	$ 3,950
Transfers:				
to Stage 1	383	(379)	(4)	—
to Stage 2	(71)	235	(164)	—
to Stage 3	(9)	(150)	159	—
Originations	108	—	—	108
Derecognitions	(76)	(85)	(96)	(257)
Net remeasurement of allowances	(248)	140	2,339	2,231
Provision for (reversal of) credit losses	87	(239)	2,234	2,082
Write-offs	—	—	(1,570)	(1,570)
Recoveries	—	—	574	574
Foreign exchange and other	—	—	(366)	(366)
Balance at end of period	$ 2,065	$ 1,188	$ 1,417	$ 4,670
Total allowances for loan losses	$ 2,056	$ 1,183	$ 1,417	$ 4,656
Total allowances for off-balance sheet exposures	9	5	—	14
Total allowances for credit losses	$ 2,065	$ 1,188	$ 1,417	$ 4,670

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

	For the three months ended July 31, 2019			
	Stage 1	Stage 2	Stage 3	Total
Commercial loans				
Balance at beginning of period	$ 23,358	$ 8,953	$ 35,451	$ 67,762
Transfers:				
to Stage 1	1,007	(942)	(65)	—
to Stage 2	(417)	492	(75)	—
to Stage 3	(34)	(1,864)	1,898	—
Originations	4,620	—	—	4,620
Derecognitions	(2,869)	(295)	(1,571)	(4,735)
Net remeasurement of allowances	(2,382)	1,883	7,037	6,538
Provision for (reversal of) credit losses	(75)	(726)	7,224	6,423
Write-offs	—	—	(6,340)	(6,340)
Recoveries	—	—	805	805
Foreign exchange and other	(71)	(2)	(646)	(719)
Balance at end of period	$ 23,212	$ 8,225	$ 36,494	$ 67,931
Total allowances for loan losses	$ 20,887	$ 7,617	$ 36,494	$ 64,998
Total allowances for off-balance sheet exposures	2,325	608	—	2,933
Total allowances for credit losses	$ 23,212	$ 8,225	$ 36,494	$ 67,931
Total exposure				
Total allowances for loan losses	$ 29,923	$ 25,402	$ 46,998	$ 102,323
Total allowances for off-balance sheet exposures	3,939	2,037	—	5,976
Total allowances for credit losses	$ 33,862	$ 27,439	$ 46,998	$ 108,299

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

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

	For the nine months ended July 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
Personal loans				
Balance at beginning of period	$ 7,297	$ 21,710	$ 4,732	$ 33,739
Transfers:				
to Stage 1	6,877	(6,753)	(124)	—
to Stage 2	(919)	1,297	(378)	—
to Stage 3	(436)	(1,579)	2,015	—
Originations	1,616	—	—	1,616
Derecognitions	(538)	(2,304)	(2,129)	(4,971)
Net remeasurement of allowances	(4,970)	8,246	23,600	26,876
Provision for (reversal of) credit losses	1,630	(1,093)	22,984	23,521
Write-offs	—	—	(16,484)	(16,484)
Recoveries	—	—	4,020	4,020
Foreign exchange and other	—	—	(664)	(664)
Balance at end of period	$ 8,927	$ 20,617	$ 14,588	$ 44,132
Total allowances for loan losses	$ 7,173	$ 18,562	$ 14,588	$ 40,323
Total allowances for off-balance sheet exposures	1,754	2,055	—	3,809
Total allowances for credit losses	$ 8,927	$ 20,617	$ 14,588	$ 44,132
Residential mortgage loans				
Balance at beginning of period	$ 2,032	$ 1,824	$ 1,050	$ 4,906
Transfers:				
to Stage 1	1,161	(725)	(436)	—
to Stage 2	(226)	390	(164)	—
to Stage 3	(5)	(113)	118	—
Originations	484	—	—	484
Derecognitions	(273)	(301)	(345)	(919)
Net remeasurement of allowances	498	1,764	4,000	6,262
Provision for (reversal of) credit losses	1,639	1,015	3,173	5,827
Write-offs	—	—	(3,485)	(3,485)
Recoveries	—	—	1,954	1,954
Foreign exchange and other	(85)	—	(1,146)	(1,231)
Balance at end of period	$ 3,586	$ 2,839	$ 1,546	$ 7,971
Total allowances for loan losses	$ 3,449	$ 2,805	$ 1,546	$ 7,800
Total allowances for off-balance sheet exposures	137	34	—	171
Total allowances for credit losses	$ 3,586	$ 2,839	$ 1,546	$ 7,971

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

	For the nine months ended July 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
Commercial loans				
Balance at beginning of period	$ 24,160	$ 8,828	$ 35,160	$ 68,148
Transfers:				
to Stage 1	2,059	(1,247)	(812)	—
to Stage 2	(3,082)	3,702	(620)	—
to Stage 3	(334)	(3,019)	3,353	—
Originations	9,615	—	—	9,615
Derecognitions	(4,823)	(2,646)	(7,144)	(14,613)
Net remeasurement of allowances	16,007	12,554	39,189	67,750
Provision for (reversal of) credit losses	19,442	9,344	33,966	62,752
Write-offs	—	—	(13,135)	(13,135)
Recoveries	—	—	1,008	1,008
Foreign exchange and other	67	(57)	(1,682)	(1,672)
Balance at end of period	$ 43,669	$ 18,115	$ 55,317	$ 117,101
Total allowances for loan losses	$ 38,944	$ 17,537	$ 55,317	$ 111,798
Total allowances for off-balance sheet exposures	4,725	578	—	5,303
Total allowances for credit losses	$ 43,669	$ 18,115	$ 55,317	$ 117,101
Total exposure				
Total allowances for loan losses	$ 49,566	$ 38,904	$ 71,451	$ 159,921
Total allowances for off-balance sheet exposures	6,616	2,667	—	9,283
Total allowances for credit losses	$ 56,182	$ 41,571	$ 71,451	$ 169,204

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

	For the nine months ended July 31, 2019			
	Stage 1	Stage 2	Stage 3	Total
Personal loans				
Balance at beginning of period	$ 11,070	$ 22,498	$ 4,934	$ 38,502
Transfers:				
to Stage 1	6,602	(6,340)	(262)	—
to Stage 2	(1,171)	1,402	(231)	—
to Stage 3	(104)	(1,274)	1,378	—
Originations	509	—	—	509
Derecognitions	(772)	(2,432)	(1,588)	(4,792)
Net remeasurement of allowances	(7,549)	4,172	19,963	16,586
Provision for (reversal of) credit losses	(2,485)	(4,472)	19,260	12,303
Write-offs	—	—	(19,070)	(19,070)
Recoveries	—	—	4,647	4,647
Foreign exchange and other	—	—	(684)	(684)
Balance at end of period	$ 8,585	$ 18,026	$ 9,087	$ 35,698
Total allowances for loan losses	$ 6,980	$ 16,602	$ 9,087	$ 32,669
Total allowances for off-balance sheet exposures	1,605	1,424	—	3,029
Total allowances for credit losses	$ 8,585	$ 18,026	$ 9,087	$ 35,698
Residential mortgage loans				
Balance at beginning of period	$ 2,446	$ 1,840	$ 443	$ 4,729
Transfers:				
to Stage 1	634	(565)	(69)	—
to Stage 2	(103)	224	(121)	—
to Stage 3	(30)	(138)	168	—
Originations	238	—	—	238
Derecognitions	(206)	(188)	(241)	(635)
Net remeasurement of allowances	(914)	15	3,830	2,931
Provision for (reversal of) credit losses	(381)	(652)	3,568	2,535
Write-offs	—	—	(3,342)	(3,342)
Recoveries	—	—	1,892	1,892
Foreign exchange and other	—	—	(1,144)	(1,144)
Balance at end of period	$ 2,065	$ 1,188	$ 1,417	$ 4,670
Total allowances for loan losses	$ 2,056	$ 1,183	$ 1,417	$ 4,656
Total allowances for off-balance sheet exposures	9	5	—	14
Total allowances for credit losses	$ 2,065	$ 1,188	$ 1,417	$ 4,670

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

				For the nine months ended July 31, 2019
	Stage 1	Stage 2	Stage 3	Total
Commercial loans				
Balance at beginning of period	$ 22,192	$ 8,252	$ 32,980	$ 63,424
Transfers:				
to Stage 1	1,600	(1,252)	(348)	—
to Stage 2	(1,079)	1,450	(371)	—
to Stage 3	(102)	(975)	1,077	—
Originations	6,830	—	—	6,830
Derecognitions	(4,922)	(2,648)	(2,099)	(9,669)
Net remeasurement of allowances	(1,293)	3,399	17,695	19,801
Provision for (reversal of) credit losses	1,034	(26)	15,954	16,962
Write-offs	—	—	(12,521)	(12,521)
Recoveries	—	—	1,559	1,559
Foreign exchange and other	(14)	(1)	(1,478)	(1,493)
Balance at end of period	$ 23,212	$ 8,225	$ 36,494	$ 67,931
Total allowances for loan losses	$ 20,887	$ 7,617	$ 36,494	$ 64,998
Total allowances for off-balance sheet exposures	2,325	608	—	2,933
Total allowances for credit losses	$ 23,212	$ 8,225	$ 36,494	$ 67,931
Total exposure				
Total allowances for loan losses	$ 29,923	$ 25,402	$ 46,998	$ 102,323
Total allowances for off-balance sheet exposures	3,939	2,037	—	5,976
Total allowances for credit losses	$ 33,862	$ 27,439	$ 46,998	$ 108,299

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

Main macroeconomic factors

The following tables shows the main macroeconomic factors used to estimate the collective allowances for credit losses as at July 31, 2020, as at April 30, 2020 and as at October 31, 2019. For each scenario, namely, the "base", "upside" and "downside", the average values of the factors over the next 12 months (used for Stage 1 credit loss calculations) and the expected variation over the remaining forecast period of two additional years (used for Stage 2 and Stage 3 credit loss calculations) are presented. These scenarios and the interrelated weightings as at July 31, 2020 take into account the deterioration in economic conditions caused by the spread of the COVID-19 pandemic and the related increase in economic uncertainty.

						As at July 31, 2020
	Base scenario		**Upside scenario**		**Downside scenario**	
	Next 12 months	**Remaining forecast period**[1]	**Next 12 months**	**Remaining forecast period**[1]	**Next 12 months**	**Remaining forecast period**[1]
Main macroeconomic factors						
GDP growth	**13.0%**	**3.8%**	**16.3%**	**3.2%**	**9.5%**	**4.4%**
Average unemployment rate (percentage points)	**9.3**	**7.5**	**8.3**	**6.5**	**10.5**	**8.4**
Housing price index growth (decrease)	**(0.4)%**	**3%**	**2.6%**	**3.9%**	**(8.2)%**	**(1.8)%**
S&P/TSX growth[2]	**9.6%**	**10.0%**	**18.3%**	**11.0%**	**2.7%**	**9.0%**

						As at April 30, 2020
	Base scenario		Upside scenario		Downside scenario	
	Next 12 months	Remaining forecast period[1]	Next 12 months	Remaining forecast period[1]	Next 12 months	Remaining forecast period[1]
Main macroeconomic factors						
GDP growth	0.2%	3.0%	1.6%	3.0%	(2.8)%	4.8%
Average unemployment rate (percentage points)	8.6	5.8	7.0	5.5	11.4	7.2
Housing price index growth (decrease)	0.4%	4.8%	2.7%	6.0%	(7.5)%	1.8%
S&P/TSX growth[2]	11.6%	12.1%	21.7%	16.2%	(3.4)%	16.5%

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

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

						As at October 31, 2019
	Base scenario		Upside scenario		Downside scenario	
	Next 12 months	Remaining forecast period[1]	Next 12 months	Remaining forecast period[1]	Next 12 months	Remaining forecast period[1]
Main macroeconomic factors						
GDP growth	1.6%	1.4%	2.3%	1.7%	(3.0)%	2.8%
Average unemployment rate (percentage points)	5.5	5.4	5.3	5.1	7.2	7.0
Housing price index growth (decrease)	3.2%	1.9%	4.5%	3.0%	(7.5)%	1.1%
S&P/TSX growth[2]	3.6%	1.5%	11.3%	7.5%	(22.0)%	8.5%

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

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

Description of scenarios
In the base scenario, the COVID-19 pandemic remains contained, extending the gradual recovery, both globally and in Canada. In the U.S., recent rollbacks of reopening lead to a gradual decline in new daily cases over time. Social distancing measures are maintained and governments only implement small localized shutdowns. Governments extend financial aid to individuals and companies, further mitigating financial stress. Two thirds of the unemployed return to their previous jobs or find new ones by the end of 2020. The development of an effective and safe vaccine begins before the end of 2020, fostering consumer, business and market confidence for 2021 and beyond. The yield curve slightly steepens over time as central banks signaled their intention to maintaining their policy rates at 0.25% even if the recovery is well underway.

In the downside scenario, the pandemic worsens globally and in Canada by the Fall. The rising number of new infections leads to a growing number of partial shutdowns, particularly in the U.S., although less broad-based than last Spring. Economic activity in Canada advances at a weaker pace in late 2020 and briefly stalls in the U.S.. The health restrictions and additional balance sheet stress for individuals and companies lead to some capital stress and lower confidence despite the efforts of governments and central banks. Once the virus transmission rate is brought under control, the reopening and recovery gradually resumes in 2021.

In the upside scenario, the virus transmission rate drops to a new low this Fall, leading to a broad easing of restrictions and fostering conditions for faster economic recovery. Structural economic damage is limited, confidence rises and businesses and individuals quickly resume normal activities. Interest rates begin to gradually increase in 2021.

The degree of uncertainty surrounding the potential impact of COVID-19 implies the possibility of a wide range of economic outcomes. Although early stage trials of vaccines have shown promising results and the implementation of non-economic restrictions has been successful during the reopening, the global daily number of new virus infections was higher late summer than during the Spring. Considering the overall more pessimistic views of our three scenarios, we have recalibrated their respective weighting by decreasing the weight of the pessimistic scenario and increasing the weights of the baseline and optimistic scenarios.

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

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

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

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

Scenarios
The following table shows a comparison of the Bank's allowances for credit losses on non-impaired loans (Stage 1 and 2) as reported under IFRS 9 as at July 31, 2020, including off-balance sheet exposures, with the estimated allowances for credit losses that would result if the base scenario was weighted at 100%.

	Allowances for credit losses on non-impaired loans as at July 31, 2020
Under IFRS 9, as reported	**$ 97,753**
Simulations	
100% base scenario	**$ 74,635**

Migration
The following table shows a comparison of the Bank's allowances for credit losses on non-impaired loans (Stage 1 and 2) as reported under IFRS 9 as at July 31, 2020, including off-balance sheet exposures, with the estimated allowances for credit losses that would result if all these non-impaired loans were in Stage 1.

	Allowances for credit losses on non-impaired loans as at July 31, 2020
Under IFRS 9, as reported	**$ 97,753**
Simulations	
Non-impaired loans if they were all in stage 1	**$ 84,000**

Sale of commercial loans

During the three months ended January 31, 2019 and the nine months ended July 31, 2019, the Bank sold commercial loans amounting to $105.4 million and recognized a net gain of nil in other income. No such sales occurred in 2020.

Finance lease receivables

The Commercial loans line item includes net investment in leases of $1,003.1 million as at July 31, 2020 ($997.8 million as at October 31, 2019).

Transfers of financial assets qualifying for derecognition

Canada Emergency Business Account Program
Under the Canada Emergency Business Account (CEBA) Program, the Bank provides interest-free loans of up to $40,000 to its eligible business customers. The funding for the CEBA Program is provided to the Bank by the Government of Canada. In addition, all loans are guaranteed by the Government of Canada. As such, the Bank is not assuming risks related to the loans and only acts as an administrator of the CEBA Program. The Bank receives an administration fee to recover the costs to administer the program for the Government of Canada. Accordingly, loans issued under the program are not recognized on the Bank's Interim Consolidated Balance Sheet, since the conditions of a qualifying pass-through arrangement have been met and the Bank has determined that substantially all risks and rewards of ownership of the loans have been transferred to the Canadian government. As at July 31, 2020, the Bank had provided 1,534 customers with CEBA loans and had funded $61.4 million in loans under the program.

8. SECURITIZATION AND STRUCTURED ENTITIES

8.1 TRANSFER OF FINANCIAL ASSETS

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

Financial assets not qualifying for derecognition and associated financial liabilities

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

		As at July 31 2020		As at October 31 2019
Residential mortgage loans	**$**	**7,930,798**	$	6,952,703
Replacement Assets[1]		**367,710**		844,926
Debt related to securitization activities	**$**	**(8,513,644)**	$	(7,840,373)

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

As at July 31, 2020, the Bank has also securitized other residential mortgage loans for a total amount of $360.8 million ($530.2 million as at October 31, 2019) as part of the NHA MBS program which remained available to be sold or pledged as collateral. The resulting NHA MBS are presented as part of Residential mortgage loans.

8.2 STRUCTURED ENTITIES SECURITIZATON VEHICLES

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

Financial assets securitized through other structured entities

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

		As at July 31 2020		As at October 31 2019
Personal loans	**$**	**1,198,843**	$	1,087,058
Commercial loans[1]		**500,368**		746,259
Debt related to securitization activities	**$**	**(848,048)**	$	(1,072,960)

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

During the second quarter of 2020, the Bank transferred personal loans to B2B Securitization Limited Partnership, an intermediate partnership used for securitization activities, for a total amount of $250.0 million to provide additional collateral for the outstanding debt. There was no transfer of personal loans to B2B Securitization Limited Partnership during the third quarter of 2020.

9. SHARE CAPITAL

Preferred shares

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

		For the nine months ended		
		July 31 2020		July 31 2019
	Number of shares	**Amount**	Number of shares	Amount
Non-Cumulative Class A Preferred Shares				
Series 13				
Outstanding at beginning and end of period	**5,000,000**	**$ 122,071**	5,000,000	$ 122,071
Series 15				
Outstanding at beginning and end of period	**5,000,000**	**$ 121,967**	5,000,000	$ 121,967
	10,000,000	**$ 244,038**	10,000,000	$ 244,038

There were no outstanding Non-Cumulative Class A Preferred Shares Series 14 and Series 16 as at July 31, 2020 (no outstanding preferred shares Series 14 and Series 16 as at July 31, 2019 and October 31, 2019).

Common shares

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

		For the nine months ended		
		July 31 2020		July 31 2019
	Number of shares	**Amount**	Number of shares	Amount
Common shares				
Outstanding at beginning of period	**42,624,861**	**$ 1,139,193**	42,075,284	$ 1,115,416
Issuance under the employee share purchase option plan	**1,670**	**76**	—	—
Issuance under the Shareholder Dividend Reinvestment and Share Purchase Plan	**494,864**	**15,775**	387,999	16,631
Net issuance costs	**n/a**	**(127)**	n/a	(61)
	43,121,395	**$ 1,154,917**	42,463,283	$ 1,131,986

Shareholder Dividend Reinvestment and Share Purchase Plan

The Bank determined that as of September 3, 2020, reinvestment related to the dividend declared would be made in common shares issued from treasury at a 2% discount.

Dividends declared

On September 3, 2020, the Board of Directors declared the regular dividend on the various series of preferred shares to shareholders of record on September 8, 2020.

On September 3, 2020, the Board of Directors declared a quarterly dividend of $0.40 per common share, payable on November 1, 2020, to shareholders of record on October 1, 2020.

9. SHARE CAPITAL (CONT'D)

Capital management

Regulatory capital
OSFI requires banks to meet minimum risk-based capital ratios drawn on the BCBS capital framework, commonly referred to as Basel III. Under OSFI's Capital Adequacy Requirements guideline, minimum Common Equity Tier 1, Total Tier 1 and Total capital ratios were set at 7.0%, 8.5% and 10.5% respectively for 2020 including the 2.5% capital conservation buffer.

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

The Bank has complied with regulatory capital requirements throughout the nine-month period ended July 31, 2020. Regulatory capital is detailed below.

	As at July 31 2020		As at October 31 2019
	Before Transitional Arrangements[1]	After Transitional Arrangements	
Common shares	$ 1,154,917	$ 1,154,917	$ 1,139,193
Retained earnings	1,125,012	1,125,012	1,161,668
Accumulated other comprehensive income, excluding cash flow hedge reserve	9,655	9,655	(102)
Share-based compensation reserve	2,432	2,432	1,815
Transitional arrangement for expected credit losses in response to COVID-19[1]	—	17,301	—
Deductions from Common Equity Tier 1 capital[2]	(444,506)	(444,506)	(461,192)
Common Equity Tier 1 capital	1,847,510	1,864,811	1,841,382
Qualifying preferred shares	244,038	244,038	244,038
Additional Tier 1 capital	244,038	244,038	244,038
Tier 1 capital	2,091,548	2,108,849	2,085,420
Qualifying subordinated debt	349,356	349,356	349,101
Collective allowances	97,953	80,652	66,052
Deductions from Tier 2 capital[3]	(1,450)	(1,450)	(3,465)
Tier 2 capital	445,859	428,558	411,688
Total capital	$ 2,537,407	$ 2,537,407	$ 2,497,108
Common Equity Tier 1 capital ratio	9.3 %	9.4 %	9.0 %
Tier 1 capital ratio	10.5 %	10.6 %	10.2 %
Total capital ratio	12.7 %	12.7 %	12.2 %

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

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

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

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

10. SHARE-BASED COMPENSATION

Share purchase option plan

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

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

During the quarter, 39,959 share purchase options granted under the Old Stock Option Plan and 250,641 share purchase options granted under the New Stock Option Plan (39,959 share purchase options granted under the Old Stock Option Plan and 272,629 share purchase options granted under the New Stock Option Plan for the nine months ended July 31, 2020) were forfeited.

Information relating to outstanding number of options is as follows. None of these options, as at July 31, 2020, were exercisable.

	As at July 31 2020	As at October 31 2019
Number of share purchase options outstanding under the Old Stock Option Purchase Plan	**85.003**	124,962
Number of share purchase options outstanding under the New Stock Option Plan	**524.366**	375,128

Assumptions related to the stock options valuations are as follows.

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

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

Performance-based share unit plans

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

Restricted share unit plans

During the first quarter of 2020, under the restricted share unit plan, annual bonuses for certain employees amounting to $1.3 million were converted into 28,690 entirely vested restricted share units. Simultaneously, the Bank also granted 173,956 additional restricted share units valued at $45.70 each that will vest in December 2022. During the third quarter of 2020, the Bank granted 1,287 additional restricted share units at $42.73 as well as 252 restricted share units at $39.78 that will vest in December 2022.

During the first quarter of 2020, under the restricted share unit plan for employees of the Capital Markets sector, annual bonuses for certain employees amounting to $0.5 million were converted into 11,323 entirely vested restricted share units. This plan does not provide for any employer contribution and a third of these restricted share units are redeemed in December at each of the first three anniversary dates of the grant.

Share-based compensation plans' expense and related liability

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

	For the three months ended			For the nine months ended	
	July 31 2020	April 30 2020	July 31 2019	**July 31 2020**	July 31 2019
Expense arising from cash-settled share-based compensation transactions	**$ (2,879)**	$ (8,840)	$ 6,323	**$ (8,436)**	$ 15,874
Effect of hedges	**4,770**	11,736	(3,248)	**18,374**	(4,211)
	$ 1,891	$ 2,896	$ 3,075	**$ 9,938**	$ 11,663

10. SHARE-BASED COMPENSATION (CONT'D)

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

The carrying amount of the liability relating to the cash-settled plans was $27.2 million as at July 31, 2020 ($47.3 million as at October 31, 2019). The intrinsic value of the total liability related to fully vested rights and units was $14.2 million as at July 31, 2020 ($27.1 million as at October 31, 2019).

11. POST-EMPLOYMENT BENEFITS

Expense for post-employment benefits

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

	For the three months ended			For the nine months ended	
	July 31 2020	April 30 2020	July 31 2019	**July 31 2020**	July 31 2019
Defined benefit pension plans	**$ 4,486**	$ 3,117	$ 3,241	**$ 10,789**	$ 9,979
Defined contribution pension plans	**2,021**	2,027	2,005	**6,048**	6,040
Other plans	**156**	153	218	**465**	646
	$ 6,663	$ 5,297	$ 5,464	**$ 17,302**	$ 16,665

(1) Including a $1.3 million charge for the three months ended July 31, 2020 ($1.3 million for the nine months ended July 31, 2020) related to the pension plan of a former member of senior management.

12. EARNINGS PER SHARE

Basic and diluted earnings per share is detailed as follows.

	For the three months ended			For the nine months ended	
	July 31 2020	April 30 2020	July 31 2019	**July 31 2020**	July 31 2019
Earnings per share – basic					
Net income	**$ 36,217**	$ 8,885	$ 47,798	**$ 77,274**	$ 131,367
Preferred share dividends, including applicable taxes	**3,198**	3,197	3,257	**9,592**	9,770
Net income available to common shareholders	**$ 33,019**	$ 5,688	$ 44,541	**$ 67,682**	$ 121,597
Average number of outstanding common shares (in thousands)	**43,001**	42,812	42,370	**42,826**	42,240
Earnings per share – basic	$ 0.77	$ 0.13	$ 1.05	**$ 1.58**	$ 2.88
Earnings per share – diluted					
Net income available to common shareholders	**$ 33,019**	$ 5,688	$ 44,541	**$ 67,682**	$ 121,597
Average number of outstanding common shares (in thousands)	**43,001**	42,812	42,370	**42,826**	42,240
Dilutive share purchase options (in thousands)	**—**	—	59	**25**	39
Diluted weighted average number of outstanding common shares (in thousands)	**43,001**	42,812	42,429	**42,851**	42,279
Earnings per share – diluted	**$ 0.77**	$ 0.13	$ 1.05	**$ 1.58**	$ 2.88

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

13. FINANCIAL INSTRUMENTS – FAIR VALUE

Determining fair value

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The fair value of financial instruments is best evidenced by an independent quoted market price for the same instrument in an active market when available. Otherwise, fair value is measured using valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. Fair value measurements are categorized into levels within a fair value hierarchy based on the nature of valuation inputs (Level 1, 2 or 3). Additional information on the fair value hierarchy and the valuation methodologies used by the Bank to measure the fair value of financial instruments can be found in Note 23 of the 2019 Annual Consolidated Financial Statements. There were no changes in fair value measurement methods in the period.

Financial instruments recorded at fair value in the financial statements are classified in Level 2 of the fair value hierarchy, except for securities of $293.6 million which are classified in Level 1 as at July 31, 2020 ($393.0 million as at October 31, 2019). Financial instruments recorded at fair value classified in Level 3 are not significant. There were no significant transfers between Level 1 and Level 2 of the hierarchy in the period.

14. INCOME RELATED TO FINANCIAL INSTRUMENTS

Net interest income from financial instruments

	For the three months ended			For the nine months ended	
	July 31 2020	April 30 2020	July 31 2019	**July 31 2020**	July 31 2019
Interest and similar income					
Interest income calculated using the effective interest method					
Financial instruments measured at amortized cost	**$ 317,518**	$ 346,930	$ 380,484	**$ 1,033,053**	$ 1,128,634
Financial instruments measured at FVOCI	**5**	1,539	604	**1,998**	2,942
Interest and similar income for financial instruments not measured at amortized cost[1]	**30,351**	15,779	12,585	**56,626**	37,450
	347,874	364,248	393,673	**1,091,677**	1,169,026
Interest and similar expense					
Interest expenses calculated using the effective interest method					
Financial instruments measured at amortized cost	**173,995**	192,379	207,455	**569,876**	614,559
Interest expense and derivative expense for financial instruments that are measured at FVTPL	**333**	1,122	10,176	**8,723**	41,261
	174,328	193,501	217,631	**578,599**	655,820
Net interest income	**$ 173,546**	$ 170,747	$ 176,042	**$ 513,078**	$ 513,206

(1) Includes interest income, derivative income and dividend income for financial instruments that are measured at FVTPL and from equity securities designated at FVOCI. Dividend income is $3.5 million for the three months ended July 31, 2020 ($3.9 million for the three months ended April 30, 2020 and $3.9 million for the three months ended July 31, 2019) and $11.8 million for the nine months ended July 31, 2020 ($11.7 million for the nine months ended July 31, 2019).

15. CONTINGENT LIABILITIES

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

Proposed class action

In June 2020, a plaintiff commenced a proposed class action in the Superior Court of Québec against the Bank, as well as a current executive and a former executive. The proposed action alleges that the Bank and executives violated the Quebec Securities Act through alleged misrepresentations and non-disclosures relating to the Bank's and a subsidiary's mortgage loan securitization activities, related quality control processes and mortgage underwriting procedures. The defendants to the proposed class action also include lead underwriters and all other securities dealers who underwrote securities offerings of the Bank in May 2017 and January 2018, including Laurentian Bank Securities, a subsidiary of the Bank. The plaintiff instituted this action on behalf of the Bank's shareholders who acquired shares between May 18, 2017 and September 3, 2018 and still held all or part of such shares between December 5, 2017 and September 4, 2018. A date for the court hearing of the application to authorize the proposed class action has not yet been scheduled. The Bank intends to vigorously defend the proceeding.

16. RESTRUCTURING CHARGES

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

	For the nine months ended	
	July 31 2020	July 31 2019
Balance at beginning of the period	**$ 9,322**	$ 4,754
Restructuring charges incurred during the period [1]	**14,127**	12,057
Payments made during the period	**(14,529)**	(13,213)
Balance at end of the period	**$ 8,920**	$ 3,598

(1) Excluding a $4.8 million curtailment gain on pension plans and other post-employment benefits obligations presented on the Restructuring charges line-item in the Consolidated Statements of Income for the nine months ended July 31, 2019.

In 2019, we reiterated our intention to optimize our Financial Clinic operations and announced the streamlining of certain back-office and corporate functions. As part of this plan, in May 2020, we decided to merge fourteen additional Financial Clinics, over the next two quarters, and to reduce headcount by about 100 people through attrition, retirement and targeted job reductions to realign our workforce with our operational needs. As part of these initiatives, restructuring charges of $11.1 million were incurred during the third quarter of 2020 and mainly included severance charges and costs related to lease contracts.

SHAREHOLDER INFORMATION

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

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

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

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

Change of address

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

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

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

Media
Journalists may contact the Bank's Executive Office at media@lbcfg.ca or by calling 514-284-4500 ext. 40015.

Social media

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

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

STOCK SYMBOL AND DIVIDEND RECORD AND PAYMENT DATES

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

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