Laurentian Bank Financial Group reports first quarter 2020 results

The financial information reported herein is based on the condensed interim consolidated statements as at and for the three-month period ended January 31, 2020, and has been prepared in accordance with International Financial Reporting standards (IFRS), as issued by the International Accounting Standards Board (IASB). All amounts are denominated in Canadian dollars. The Laurentian Bank of Canada and its entities are collectively referred to as Laurentian Bank Financial Group (the “Group” or the “Bank”) and provide deposit, investment, loan, securities, trust and other products or services.

François Desjardins, President and Chief Executive Officer, commented on the first quarter of 2020 highlights: "With the successful launch of LBC Digital, our newest direct to customer channel, we expanded our reach from coast to coast, welcoming thousands of new personal customers and accumulating over a billion dollars in deposits.” “We are disappointed with this quarter’s financial results and are addressing both the revenue and expense sides of this equation. However, we did see continued growth in Business Services and progress towards stabilizing our loan portfolio to Personal customers. Capital Markets had a good quarter, with strength in fixed income and improved activity in equities.” M. Desjardins concluded: “We have completed a substantial part of the transformation and we are beginning to see real progress in foundational work, growth in our customer base and concrete advancements towards improving customer experience.” Highlights of first quarter 2020 Adjusted net income (1) of $36.9 million, and reported net income of $32.2 million. Adjusted return on common shareholders' equity (1) of 5.8%, and reported return on common shareholders' equity of 5.0%. Adjusted efficiency ratio (1) of 76.6%, and reported efficiency ratio of 79.1%. Common Equity Tier 1 ratio at 9.0%. Successful launch of our pan-Canadian digital offering, with deposit balance of $1.0 billion at quarter-end. For the three months ended In millions of Canadian dollars, except per share and percentage amounts (Unaudited) January 31 2020 January 31 2019 Variance Reported basis Net income $ 32.2 $ 40.3 (20)% Diluted earnings per share $ 0.68 $ 0.88 (23)% Return on common shareholders’ equity 5.0% 6.5% Efficiency ratio 79.1% 76.2% Common Equity Tier 1 capital ratio 9.0% 8.9% Adjusted basis (1) Adjusted net income $ 36.9 $ 44.7 (17)% Adjusted diluted earnings per share $ 0.79 $ 0.98 (19)% Adjusted return on common shareholders’ equity 5.8% 7.3% Adjusted efficiency ratio 76.6% 74.0% (1) Certain measures presented throughout this document exclude amounts designated as adjusting items, and are Non-GAAP measures. Refer to the Non-GAAP measures section for further details. MONTREAL, Feb. 28, 2020 (GLOBE NEWSWIRE) -- Laurentian Bank Financial Group reported net income of $32.2 million and diluted earnings per share of $0.68 for the first quarter of 2020, compared with $40.3 million and $0.88 for the first quarter of 2019. Return on common shareholders' equity was 5.0% for the first quarter of 2020, compared with 6.5% for the first quarter of 2019. On an adjusted basis, net income was $36.9 million and diluted earnings per share were $0.79 for the first quarter of 2020, down 17% and 19% respectively, compared with $44.7 million and $0.98 for the first quarter of 2019. Adjusted return on common shareholders' equity was 5.8% for the first quarter of 2020, compared with 7.3% a year ago. Reported results include adjusting items, as detailed in the Non-GAAP measures section. Financial Reporting Changes 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. 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. NonGAAP measures presented throughout this document are referred to as “adjusted” measures and exclude amounts designated as adjusting items. Adjusting items relate to restructuring plans and to business combinations and have been designated as such as management does not believe they are indicative of underlying business performance. Non-GAAP measures are considered useful to readers in obtaining a better understanding of how management analyzes the Bank’s results and in assessing underlying business performance and related trends. Non-GAAP measures do not have any standardized meaning prescribed by GAAP and are unlikely to be comparable to any similar measures presented by other issuers. The following table shows adjusting items and their impact on reported results. IMPACT OF ADJUSTING ITEMS ON REPORTED RESULTS For the three months ended In thousands of Canadian dollars, except per share amounts (Unaudited) January 31 2020 October 31 2019 January 31 2019 Impact on income before income taxes Reported income before income taxes $ 34,679 $ 47,926 $ 46,720 Adjusting items, before income taxes Impairment and restructuring charges (1) Severance charges 2,838 1,735 1,347 Other restructuring charges (104) 3,696 659 2,734 5,431 2,006 Items related to business combinations Amortization of net premium on purchased financial instruments (2) 232 284 442 Amortization of acquisition-related intangible assets (3) 3,399 3,416 3,433 3,631 3,700 3,875 6,365 9,131 5,881 Adjusted income before income taxes $ 41,044 $ 57,057 $ 52,601 Impact on net income Reported net income $ 32,172 $ 41,343 $ 40,256 Adjusting items, net of income taxes Impairment and restructuring charges (1) Severance charges 2,086 1,274 989 Other restructuring charges (76) 2,712 483 2,010 3,986 1,472 Items related to business combinations Amortization of net premium on purchased financial instruments (2) 171 209 325 Amortization of acquisition-related intangible assets (3) 2,547 2,428 2,600 2,718 2,637 2,925 4,728 6,623 4,397 Adjusted net income $ 36,900 $ 47,966 $ 44,653 Impact on diluted earnings per share Reported diluted earnings per share $ 0.68 $ 0.90 $ 0.88 Adjusting items Impairment and restructuring charges 0.05 0.09 0.03 Items related to business combinations 0.06 0.06 0.07 0.11 0.15 0.10 Adjusted diluted earnings per share (4) $ 0.79 $ 1.05 $ 0.98 (1)Restructuring charges mainly result from the optimization of our Financial Clinic operations and the related streamlining of certain back-office and corporate functions. Restructuring charges also result from the reorganization of retail brokerage activities and other measures aimed at improving efficiency. Restructuring charges include severance charges, salaries, provisions related to the termination of lease contracts before the adoption of IFRS 16, communication expenses and professional fees. Restructuring charges are included in Non-interest expenses. (2)Amortization of net premium on purchased financial instruments results from a one-time gain on a business acquisition in 2012 and is included in the Amortization of net premium on purchased financial instruments line item. (3)Amortization of acquisition-related intangible assets results from business acquisitions and is included in the Non-interest expenses line item. (4)The impact of adjusting items on a per share basis may not add due to rounding. Strategic Plan In November 2015, we launched a 7-year plan to become a better and different bank, to take advantage of advancements in technology, to address the globalization of banking and to better meet our customers' needs. To achieve this, we outlined three strategic objectives: build a stronger foundation; invest in profitable growth; and improve financial performance. We strive to execute on these strategic objectives with the ultimate goal – to improve the Bank’s performance and achieve a profitability level similar to that of the major Canadian banks once the AIRB approach is fully implemented. At the end of 2020, much of the heavy-lifting on upgrading our customerfacing technology is expected to be behind us and this should allow the Bank to pursue growth, cost efficiencies and performance. Update on key initiatives Digital Offering We successfully launched LBC Digital in the first quarter of 2020, 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. Since this pan-Canadian launch, we welcomed thousands of new customers and accumulated over a billion dollars in deposits. Over time, our goal is to broaden and deepen customer relationships and use this platform to build out a high-value and complete product suite, with the next product being a credit card. Evolution of 100% Advice Model After successfully converting the traditional branch network to a 100% advice model, we are now working towards developing a fully-digital experience and preparations to migrate customer accounts to the new core banking system. By the end of 2020, all new 100% advice model customers should be onboarded digitally and by mid-2021, all our personal banking customers would 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. Core-Banking System Replacement Program In 2019, we completed Phase 1 of the core banking system replacement program resulting in the migration of all B2B Bank products and most of our loans to business customers to this new system. Phase 2 of the program has already begun and encompasses the products offered in Financial Clinics and the remaining Business Services products. Preparations are underway to build out products and features and we expect that we will gradually migrate all remaining existing personal and business customer accounts onto the new platform starting in the fall of 2020. Phase 2 should be completed by mid-2021 after which we should be able to progressively decommission our legacy systems throughout calendar 2021, gradually eliminating the operating costs associated with maintaining them. The overall investment in the core banking system is now estimated at approximately $225 million. Efficiency measures In 2019, as we converted our traditional branches to a 100% Advice model, we began the optimization of certain back-office functions. The $15 million cost saving initiatives were substantially completed over the last twelve months. However, despite the implementation of these measures, the efficiency ratio remains high as we pursue our investments in our foundation, processes and technology. Nonetheless, we are striving to improve both revenues and expenses in order to make tangible efficiency gains throughout the remainder of 2020. 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 2022. Consolidated Results Three months ended January 31, 2020 financial performance Net income was $32.2 million and diluted earnings per share were $0.68 for the first quarter of 2020, compared with $40.3 million and $0.88 for the first quarter of 2019. Adjusted net income was $36.9 million for the first quarter of 2020, down 17% from $44.7 million for the first quarter of

2019, while adjusted diluted earnings per share were $0.79, down 19% compared with $0.98 for the first quarter of 2019. Total revenue Total revenue decreased by $3.6 million or 1% to $238.7 million for the first quarter of 2020 from $242.3 million for the first quarter of 2019. Net interest income decreased by $3.8 million or 2% to $168.8 million for the first quarter of 2020, from $172.6 million for the first quarter of 2019. The decrease was mainly due to lower year-over-year loan and deposit volumes and, in part, due to the introductory rate on the newly launched digital high-interest savings accounts, in the first quarter of 2020. This decrease was partly offset by the higher proportion of higher-yielding loans to business customers. A wider Prime/BA spread and a normalized level of liquidity also mitigated the impact of lower volumes. 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 first quarter of 2020. Net interest margin was 1.81% for the first quarter of 2020, an increase of 1 basis point compared with the first quarter of 2019, mainly as a result of the change in mix in the loan portfolio. Other income increased by $0.2 million relatively unchanged at $69.9 million for the first quarter of 2020, compared with $69.7 million for the first quarter of 2019. Market related revenues, including securities gains and income from treasury and financial market operations, increased by a combined $1.5 million compared with the first quarter of 2019. This increase was mostly driven by stronger results on capital market fixed income operations. Recovery in Advisory and other Equity revenues also contributed positively to income. Service charges decreased by $1.2 million compared with the first quarter of 2019, mostly as a result of the ongoing changes to the retail banking environment and the related client banking behavior. Amortization of net premium on purchased financial instruments For the first quarter of 2020, amortization of net premium on purchased financial instruments amounted to $0.2 million, compared with $0.4 million for the first 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 $14.9 million for the first quarter of 2020 compared with $10.5 million for the first quarter of 2019. The increase year-over-year was mainly due to provisions in the commercial loan portfolio. However, economic conditions, as well as the good overall underlying credit quality of our loan portfolios, continue to result in an industry-low loss ratio of 18 basis points. Non-interest expenses Non-interest expenses amounted to $188.9 million for the first quarter of 2020, an increase of $4.2 million or 2% compared with the first quarter of 2019. Adjusted non-interest expenses similarly increased to $182.8 million for the first quarter of 2020. Salaries and employee benefits increased by $3.2 million to $95.3 million for the first quarter of 2020, compared with the first quarter of 2019, in part as a result of share-based and performance-based compensation, including a portion related to brokerage operations, as well as other sales driven compensation. Premises and technology costs were $49.8 million for the first quarter of 2020, an increase of $0.7 million compared with the first quarter of 2019, mostly as a result of higher infrastructure costs related to supporting the transformation plan and as we are currently operating multiple platforms simultaneously. For the first quarter of 2020, the rent and property taxes decreased by $5.8 million. This decrease mainly relates to the introduction, as of November 1, 2019, of IFRS 16, Leases, as well as a reduction in our square-footage utilization given the rightsizing of our Financial Clinic network. This was partially offset by a $4.0 million increase in amortization on the newly created right-of-use assets. Including the impact of the interest charge on the new lease liability of $1.2 million, as noted above, overall rental costs improved slightly. Other non-interest expenses were $41.1 million for the first quarter of 2020, a decrease of $0.4 million or 1% compared with the first quarter of 2019. This decrease was mainly due to lower advertising costs, as well as lower professional fees. Restructuring charges were $2.7 million for the first quarter of 2020 and mainly reflected expenses for the optimization of the Financial Clinic operations and the related streamlining of certain back-office and corporate functions. Efficiency ratio The adjusted efficiency ratio was 76.6% for the first quarter of 2020, compared with 74.0% for the first quarter of 2019, mainly as a result of lower revenue. Adjusted operating leverage was negative year-over-year. The efficiency ratio on a reported basis was 79.1% for the first quarter of 2020, compared with 76.2% for the first quarter of 2019, essentially for the same reason. Income taxes For the quarter ended January 31, 2020, income tax expense was $2.5 million, and the effective tax rate was 7.2%. The lower tax rate, compared to the statutory rate, is attributed to a lower taxation level of revenues from foreign operations, as well as from the favourable effect of holding investments in Canadian securities that generate non-taxable dividend income. For the quarter ended January 31, 2019, income tax expense was $6.5 million, and the effective tax rate was 13.8%. The lower tax rate for the first quarter of 2020, when compared with the first quarter of 2019, is mainly attributed to the proportionally lower domestic income. Financial Condition As at January 31, 2020, total assets amounted to $44.3 billion, slightly lower than as at October 31, 2019 when it stood at $44.4 billion. The decrease essentially results from the lower level of loans. Liquid assets Liquid assets consist of cash, deposits with banks, securities and securities purchased under reverse repurchase agreements. As at January 31, 2020, these assets totalled $9.4 billion, an increase of $0.1 billion compared with $9.3 billion as at October 31, 2019. Overall, we continued to prudently manage the level of liquid assets as we are progressing on our various initiatives. The Bank benefits from well-diversified funding sources and the current level of cash resources is sufficient to meet obligations, under both normal and stressed conditions. Liquid assets represented 21% of total assets as at January 31, 2020 , the same level as at

October 31, 2019. Loans Loans and bankers' acceptances, net of allowances, stood at $33.4 billion as at January 31, 2020, down $0.1 billion from October 31, 2019. This decrease mainly results from repayments on personal and residential mortgage loans, whereas we continue to focus on higher-yielding commercial loans. Variances are further explained by the items outlined below. Personal loans amounted to $4.4 billion and decreased by $0.2 billion or 5% since October 31, 2019, mainly as a result of the continued reduction in the investment loan portfolio, reflecting an ongoing consumer behavior to reduce leverage. Residential mortgage loans stood at $15.9 billion as at January 31, 2020, a decrease of $0.1 billion or 1% since October 31, 2019. Since the beginning of the year, the acquisition of mortgage loans from third parties, as part of our program to optimize the usage of National Housing Act mortgage-backed securities allocations, has contributed to mitigate the impact of maturities. Commercial loans and acceptances amounted to $13.2 billion as at January 31, 2020, up 2% since October 31, 2019. This increase is mainly due to inventory financing volumes, as well as to equipment financing operations, partly offset by repayments of commercial real estate loans. Other assets Other assets remained stable at $1.5 billion as at January 31, 2020, compared with October 31, 2019. Liabilities Deposits decreased by $0.5 billion or 2% to $25.2 billion as at January 31, 2020 compared with $25.7 billion as at October 31, 2019 mainly driven by the reduction in institutional funding as a result of the lower asset level. Personal deposits stood at $20.1 billion as at January 31, 2020, up $0.3 billion compared with October 31, 2019. Lower term deposits sourced through the Advisors and Brokers channel were offset by higher demand deposits generated following the successful launch of LBC Digital offering in the first quarter of 2020. Business and other deposits decreased by $0.8 billion to $5.1 billion over the same period, mostly in institutional funding. Personal deposits represented 80% of total deposits as at January 31, 2020, compared with 77% as at October 31, 2019, and contributed to our good liquidity position. Shareholders' equity and regulatory capital Shareholders' equity stood at $2,573.4 million as at January 31, 2020, compared with $2,567.7 million as at January 31, 2019. As mentioned in the "Financial Reporting Changes" section, the adoption of IFRS 16 resulted in a net decrease of $7.3 million of retained earnings as at November 1, 2019. This was offset by the net income contribution, net of declared dividends, as well as by increases in AOCI and common shares. For additional information, please refer to the Consolidated Statement of Changes in Shareholders' Equity. The Bank's book value per common share was $53.95 as at January 31, 2020 compared to $54.02 as at October 31, 2019. There were 42,747,740 common shares outstanding as at February 24, 2020. The Common Equity Tier 1 capital ratio stood at 9.0% as at January 31, 2020, unchanged compared with October 31, 2019. This level of capital provides the Bank with the flexibility to pursue organic growth, as well as to continue to invest in the implementation of our core banking system, the development of our digital solutions and the project to adopt the AIRB approach to credit risk. During the first quarter, we continued to manage capital, as well as to optimize the product mix with a view to improving profitability as we redeploy capital.

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, 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. 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 also refer to the “Risk Appetite and Risk Management Framework” section of our 2019 Annual Report, as well as to other public filings available at www.sedar.com. We do not undertake to update any forward-looking statements, whether oral or written, made by us or on our behalf, except to the extent required by securities regulations.

Access to Quarterly Results Materials

Interested investors, the media and others may review this press release on our website at www.lbcfg.ca, under the Press Room tab, and our report to shareholders, presentation to investors and supplementary financial information under the Investor Centre tab, Financial Results.

Conference Call

Laurentian Bank Financial Group invites media representatives and the public to listen to the conference call to be held at 9:00 a.m. Eastern Time on February 28, 2020. The live, listen-only, toll-free, call-in number is 1-866-548- 4713, code 2736667. A live webcast will also be available on the Group’s website under the Investor Centre tab, Financial Results. The conference call playback will be available on a delayed basis at any time from 12:00 p.m. on February 28, 2020 until 12:00 p.m. on March 29, 2020, on our website under the Investor Centre tab, Financial Results. The presentation material referenced during the call will be available on our website under the Investor Centre tab, Financial Results.

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About Laurentian Bank Financial Group

Founded in 1846, Laurentian Bank Financial Group is a diversified financial services provider whose mission is to help its customers improve their financial health. The Laurentian Bank of Canada and its entities are collectively referred to as Laurentian Bank Financial Group (the “Group” or the “Bank”). With more than 3,200 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 billion in balance sheet assets and $29 billion in assets under administration.
