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Laurentian Bank Financial Group reports second quarter 2021 results

The financial information reported herein is based on the condensed interim consolidated (unaudited) information for the three-month period ended April 30, 2021, 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.

Highlights of second quarter 2021 (compared with second quarter 2020)

- Adjusted net income(1) of $56.7 million, compared with $11.9 million.
- Reported net income of $53.1 million, compared with $8.9 million.
- Adjusted diluted earnings per share(1) of $1.23, compared with $0.20.
- Diluted earnings per share of $1.15, compared with $0.13.

MONTREAL, June 02, 2021 (GLOBE NEWSWIRE) -- Laurentian Bank Financial Group reported net income of $53.1 million and diluted earnings per share of $1.15 for the second quarter of 2021, compared with $8.9 million and $0.13 for the second quarter of 2020. Return on common shareholders' equity was 8.6% for the second quarter of 2021, compared with 1.0% for the second quarter of 2020. On an adjusted basis(1), net income was $56.7 million and diluted earnings per share were $1.23 for the second quarter of 2021, up from $11.9 million and $0.20 for the second quarter of 2020. Adjusted return on common shareholders' equity was 9.2% for the second quarter of 2021, compared with 1.5% a year ago.

For the six months ended April 30, 2021, reported net income was $97.9 million and diluted earnings per share were $2.11, compared with $41.1 million and $0.81 for the six months ended April 30, 2020. Return on common shareholders' equity was 7.8% for the six months ended April 30, 2021, compared with 3.0% for the six months ended April 30, 2020. On an adjusted basis(1), net income was $104.3 million and diluted earnings per share were $2.26 for the six months ended April 30, 2021, up from $48.8 million and $0.99 for six months ended April 30, 2020. Adjusted return on common shareholders' equity was 8.4% for the six months ended April 30, 2021, compared with 3.7% for the same period a year ago.

“The momentum we built in the first quarter of 2021 continued into the second quarter with strong performance in capital markets, lower provision for credit losses and our continued focus on cost discipline. We are excited to be celebrating Laurentian Bank’s 175th anniversary over the next year with our customers, employees, investors, and our communities. This historic milestone is an opportunity to reflect on our remarkable past and to leverage our strong roots to build sustainable growth and profitability.” said Rania Llewellyn, President and Chief Executive Officer.

In millions of Canadian dollars, except per share and percentage amounts (Unaudited)	For the three months ended			For the six months ended		
	April 30, 2021	April 30, 2020	Variance	**April 30, 2021**	April 30, 2020	Variance
Reported basis						
Net income	**$ 53.1**	$ 8.9	497 %	**$ 97.9**	$ 41.1	138 %
Diluted earnings per share	**$ 1.15**	$ 0.13	785 %	**$ 2.11**	$ 0.81	160 %

Return on common shareholders' equity	**8.6%**	1.0%		**7.8%**	3.0%	
Efficiency ratio	**71.9%**	76.4%		**71.1%**	77.8%	
Common Equity Tier 1 capital ratio	**10.1%**	8.8%				
Adjusted basis(1)						
Adjusted net income	**$ 56.7**	$ 11.9	376%	**$ 104.3**	$ 48.8	114%
Adjusted diluted earnings per share	**$ 1.23**	$ 0.20	515%	**$ 2.26**	$ 0.99	128%
Adjusted return on common shareholders' equity	**9.2%**	1.5%		**8.4%**	3.7%	
Adjusted efficiency ratio	**69.9%**	74.8%		**69.4%**	75.7%	

(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

Consolidated Results

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 charges and 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.

	For the three months ended			For the six months ended	
In thousands of Canadian dollars, except per share amounts (Unaudited)	**April 30, 2021**	January 31, 2021	April 30, 2020	**April 30, 2021**	April 30, 2020
Impact on income before income taxes					
Reported income before income taxes	**$ 67,807**	$ 56,511	$ 1,553	**$ 124,318**	$ 36,232
Adjusting items, before income taxes					
Restructuring charges(1)					
Severance charges (recovery)	**(792)**	262	183	**(530)**	3,021
Other restructuring charges	**2,682**	359	143	**3,041**	39
	1,890	621	326	**2,511**	3,060
Items related to business combinations					
Amortization of net premium on purchased financial instruments(2)	**—**	—	179	**—**	411
Amortization of acquisition-related intangible assets(3)	**3,014**	3,073	3,542	**6,087**	6,941
	3,014	3,073	3,721	**6,087**	7,352
	4,904	3,694	4,047	**8,598**	10,412

Adjusted income before income taxes	**$ 72,711**	$ 60,205	$ 5,600	**$ 132,916**	$ 46,644
Impact on net income					
Reported net income	**$ 53,062**	$ 44,819	$ 8,885	**$ 97,881**	$ 41,057
Adjusting items, net of income taxes					
Restructuring charges(1)					
Severance charges (recovery)	**(582)**	193	134	**(389)**	2,220
Other restructuring charges	**1,972**	264	105	**2,236**	29
	1,390	457	239	**1,847**	2,249
Items related to business combinations					
Amortization of net premium on purchased financial instruments(2)	**—**	—	131	**—**	302
Amortization of acquisition-related intangible assets(3)	**2,252**	2,296	2,657	**4,548**	5,204
	2,252	2,296	2,788	**4,548**	5,506
	3,642	2,753	3,027	**6,395**	7,755
Adjusted net income	**$ 56,704**	$ 47,572	$ 11,912	**$ 104,276**	$ 48,812
Impact on diluted earnings per share					
Reported diluted earnings per share	**$ 1.15**	$ 0.96	$ 0.13	**$ 2.11**	$ 0.81
Adjusting items					
Restructuring charges(1)	**0.03**	0.01	0.01	**0.04**	0.05
Items related to business combinations	**0.05**	0.05	0.06	**0.10**	0.13
	0.08	0.06	0.07	**0.15**	0.18
Adjusted diluted earnings per share(4)	**$ 1.23**	$ 1.03	$ 0.20	**$ 2.26**	$ 0.99

(1) Restructuring charges in the second quarter of 2021 mainly consist of charges associated with the resolution of the union grievances and unfair labour practice complaints, including complaints relating to the revocation of the union certification, as well as charges associated with the continued optimization of the Quebec branch network. In prior quarters, restructuring charges were attributed to the optimization of the Quebec branch network and the related streamlining of certain back-office and corporate functions. In 2020, restructuring charges related mainly to the reorganization of retail brokerage activities and other measures aimed at improving efficiency. Restructuring charges are included in Non-interest expenses and include severance charges, salaries, legal fees, communication expenses, professional fees and charges related to lease contracts.

(2) Amortization of net premium on purchased financial instruments resulted 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.

Three months ended April 30, 2021 financial performance

Net income was $53.1 million and diluted earnings per share were $1.15 for the second quarter of 2021, compared with $8.9 million and $0.13 for the second quarter of 2020. Adjusted net income was $56.7 million for the second quarter of 2021 up from $11.9 million for the second quarter of 2020, and adjusted diluted earnings per share were $1.23, compared with $0.20 for the second quarter of 2020.

Total revenue

Total revenue was $249.8 million for the second quarter of 2021, up 4% compared with $240.1 million for the second quarter of 2020.

Net interest income increased by $0.7 million to $171.5 million for the second quarter of 2021, compared with $170.7 million for the second quarter of 2020. The increase was mainly due to improved funding costs, mostly as the utilization of secured funding increased year-over-year. Net interest margin was 1.88% for the second quarter of 2021, unchanged compared with the second quarter of 2020, essentially for the same reasons, and despite the lower interest rate environment.

Other income increased by $8.9 million or 13% to $78.3 million for the second quarter of 2021, compared with $69.4 million for the second quarter of 2020. The increase was mainly due to the strong contribution from capital market and treasury activities, which improved by $4.5 million compared with the second quarter of 2020. Higher lending fees stemming from increased commercial activity also contributed to the increase.

Provision for credit losses

The provision for credit losses was$2.4 million for the second quarter of 2021 compared with $54.9 million for the second quarter of 2020, a decrease of $52.5 million as the prior year reflected higher provisions on performing loans due to the impact of the COVID-19 pandemic. Releases of provisions on performing loans of $9.9 million and lower provisions on impaired loans in the quarter also contributed to the improvement. While uncertainty over the impact of the COVID-19 pandemic remains, the releases were largely due to improvements of the economic outlook.

Refer to the “Risk Management” section of the MD&A and to Note 5 to the Condensed Interim Consolidated Financial Statements for more information on provision for credit losses and allowances for credit losses.

Non-interest expenses

Non-interest expenses amounted to $179.6 million for the second quarter of 2021, a decrease of $4.0 million or 2% compared with the second quarter of 2020. Adjusted non-interest expenses amounted to $174.7 million for the second quarter of 2021, a decrease of $5.0 million or 3% compared with the second quarter of 2020.

Salaries and employee benefits amounted to $97.5 million for the second quarter of 2021 an increase of $3.5 million compared with the second quarter of 2020. Year-over-year, higher performance-based compensation related to the Bank's improved performance more than offset a decrease in salaries reflecting the headcount reduction implemented in 2020.

Premises and technology costs were $49.9 million for the second quarter of 2021, a decrease of $0.9 million compared with the second quarter of 2020, mainly as a result of cost discipline.

Other non-interest expenses were $30.3 million for the second quarter of 2021, a decrease of $8.1 million compared with the second quarter of 2020. The improvement mainly resulted from lower regulatory costs, as well as lower advertising, business development and travel expenses, ensuing from efficiency measures and the current economic condition

Restructuring charges were $1.9 million for the second quarter of 2021, an increase of $1.6 million compared with the second quarter of 2020. Refer to the Non-GAAP Measures section for further details.

Efficiency ratio

The adjusted efficiency ratio was 69.9% for the second quarter of 2021, down from 74.8% for the second quarter of 2020, as a result of an increase in total revenue and lower adjusted non-interest expenses. Adjusted operating leverage was positive year-over-year. The efficiency ratio on a reported basis was 71.9% for the second quarter of 2021, down from 76.4% for the second quarter of 2020.

Income taxes

For the quarter ended April 30, 2021, the income tax expense was $14.7 million, and the effective tax rate was 21.7%. The lower tax rate, compared to the statutory rate, is attributed to a lower taxation level of income 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 April 30, 2020, the income tax recovery was $7.3 million, and the effective tax rate was not meaningful given the results of that quarter.

Financial Condition

As at April 30, 2021, total assets amounted to $44.6 billion, a 1% increase from $44.2 billion as at October 31, 2020, mostly due to the higher level of liquid assets.

Liquid assets

Liquid assets consist of cash, deposits with banks, securities and securities purchased under reverse repurchase agreements. As at April 30, 2021, these assets amounted to $10.0 billion, an increase of $0.3 billion compared with $9.6 billion as at October 31, 2020.

The Bank continues to prudently manage its level of liquid assets. The Bank's funding sources remain well diversified and sufficient to meet all liquidity requirements. Liquid assets represented 22% of total assets as at April 30, 2021, in line with 22% October 31, 2020.

Loans

Loans and bankers' acceptances, net of allowances, stood at $32.8 billion as at April 30, 2021, a decrease of $0.2 billion or 1% since October 31, 2020. During the first half of 2021, commercial loan growth resumed, while personal loans and residential mortgage loans declined.

Commercial loans and acceptances amounted to $13.2 billion as at April 30, 2021, an increase of 4% since October 31, 2020. Real estate lending accounted for most of the increase and continued to show resilience during the COVID-19 pandemic amidst the lower interest rate environment. Growth in inventory financing volumes since October 31, 2020 also contributed to the increase, reflecting seasonality as dealers restocked some of their inventories despite continued supply chain challenges to sustain the high consumer demand for recreational goods.

Personal loans amounted to $3.9 billion as at April 30, 2021, a decrease of $0.2 billion or 5% since October 31, 2020, mainly as a result of the continued reduction in the investment loan portfolio, reflecting the continued reduction in the use of leverage by consumers.

Residential mortgage loans amounted to $15.9 billion as at April 30, 2021, a decrease of $0.5 billion or 3% since October 31, 2020. The acquisition of mortgage loans from third parties, as part of the Bank's program to optimize the usage of the National Housing Act mortgage-backed securities allocations, has contributed to mitigating the impact of repayments.

Deposits

Deposits decreased by $0.9 billion or 4% to $23.0 billion as at April 30, 2021 compared with $23.9 billion as at October 31, 2020, mainly as the Bank optimized its funding sources to align with its asset levels. Personal deposits stood at $18.3 billion as at April 30, 2021, down $0.5 billion compared with October 31, 2020. The decrease resulted mainly from lower term deposits sourced through intermediaries, managed down as the Bank increased its debt related to securitization activities to optimize funding costs as described below, partly offset by growth in personal notice and demand deposits of $0.5 billion or 10% over the same period.

Business and other deposits decreased by $0.4 billion over the same period to $4.7 billion, mostly due to a decrease in wholesale funding as the Bank optimized its funding costs as outlined above.

Personal deposits represented 80% of total deposits as at April 30, 2021, compared with 79% as at October 31, 2020, and contributed to the Bank's good liquidity position.

Debt related to securitization activities

Debt related to securitization activities increased by $0.7 billion or 7% compared with October 31, 2020 and stood at $10.9 billion as at April 30, 2021, contributing to the improvement in funding costs. Since the beginning of the year, mortgage loan securitization through the CMHC programs, supplemented by other secured funding, more than offset maturities of liabilities related to the Canada Mortgage Bond program, as well as normal repayments.

Shareholders' equity and regulatory capital

Shareholders' equity amounted to $2,701.5 million as at April 30, 2021, compared with $2,611.2 million as at October 31, 2020.

Compared to October 31, 2020, retained earnings increased by $101.1 million as the net income contribution of $97.9 million and other gains related to employee benefit plans and equity securities designated at fair value through other comprehensive income of $44.1 million were partly offset by dividends amounting to $40.9 million. Accumulated other comprehensive income decreased by $18.1 million, essentially as a result of a reduction in the cumulative foreign currency translation amount. For additional information, please refer to the Consolidated Statement of Changes in Shareholders' Equity in the Condensed Interim Consolidated Financial Statements.

The Bank's book value per common share was $55.37 as at April 30, 2021 compared to $53.74 as at October 31, 2020.

The Common Equity Tier 1 capital ratio stood at 10.1% as at April 30, 2021, compared with 9.6% as at October 31, 2020. The increase compared with October 31, 2020 mainly results from internal capital generation and other gains related to employee benefit plans and equity securities designated at fair value through other comprehensive income. This level of capital provides the Bank with the necessary operational flexibility to resume growth and to pursue key initiatives prudently, considering economic conditions.

Caution Regarding Forward-Looking Statements

The Bank may, from time to time, make written or oral forward-looking statements within the meaning of applicable securities legislation, including in this document and the documents incorporated by reference herein, and in other documents filed with Canadian regulatory authorities or in other written or oral communications. Forward-looking statements include, but are not limited to, statements regarding business plans and strategies, priorities and financial objectives, the regulatory environment in which the Bank operates, the anticipated impact of the coronavirus ("COVID-19") pandemic on the Bank's operations, earnings results and financial performance and statements under the headings "Outlook", "COVID-19 Pandemic" and "Risk Appetite and Risk Management Framework" contained in the Bank's 2020 Annual Report, including the Management's Discussion and Analysis for the fiscal year ended October 31, 2020 and other statements that are not historical facts. Forward-looking statements typically are identified with words or phrases such as "believe", "assume", "estimate", "forecast", "outlook", "project", "vision", "expect", "foresee", "anticipate", "plan", "goal", "aim", "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. Material economic assumptions underlying the forward-looking statements contained in this document are set out in the 2020 Annual Report under the heading "Outlook". There is significant risk that the predictions, forecasts, projections or conclusions will prove to be inaccurate, that the Bank's assumptions may not be correct, and that actual results may differ materially from such predictions, forecasts, projections or conclusions.

The Bank cautions readers against placing undue reliance on forward-looking statements, as a number of factors, many of which are beyond its control and the effects of which can be difficult to predict, could influence, individually or collectively, the accuracy of the forward-looking statements and cause actual future results to differ significantly from the targets, expectations, estimates or intentions expressed in the forward-looking statements. These factors include, but are not limited to risks relating to: the impacts of the COVID-19 pandemic on the Bank, its business, financial condition and prospects; technology, information systems and cybersecurity; technological disruption, competition and its ability to execute on its strategic objectives; the economic climate in the U.S. and Canada; accounting policies, estimates and developments; legal and regulatory compliance; fraud and criminal activity; human capital; insurance; business continuity; business infrastructure; environmental and social risk and climate change; and its ability to manage operational, regulatory, legal, strategic, reputational and model risks, all of which are described in more detail in the section titled "Risk Appetite and Risk Management Framework" beginning on page 43 of the 2020 Annual Report including the Management's Discussion and Analysis for the fiscal year ended October 31, 2020.

The Bank further cautions that the foregoing list of factors is not exhaustive. Additional risks and uncertainties not currently known to us or that the Bank currently deems to be immaterial may also have a material adverse effect on its financial position, financial performance, cash flows, business or reputation. Any forward-looking statements contained in this document represent the views of Management only as at the date hereof, are presented for the purposes of assisting investors and others in understanding certain key elements of the Bank's current objectives, strategic priorities, expectations and plans, and in obtaining a better understanding of the Bank's business and anticipated operating environment and may not be appropriate for other purposes. The Bank does not undertake to update any forward-looking statements, whether oral or written, made by the Bank or on its behalf whether as a result of new information, future events or otherwise, except to the extent required by securities regulations. Additional information relating to the Bank can be located on the SEDAR website at www.sedar.com.

Access to Quarterly Results Materials

This press release can be found on our website at www.lbcfg.ca, under the Press Room tab, and our Report to Shareholders, Investor Presentation 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. (ET) on June 2, 2021. The live, listen-only, toll-free, call-in number is 1-800-289-0438, code 9609738. 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 from 1:00 p.m. (ET) on June 2, 2021 until 12:00 p.m. (ET) on July 2, 2021, 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 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 $44.6 billion in balance sheet assets and $30.9 billion in assets under administration.