INVESTOR PRESENTATION

Third Quarter 2020

LAURENTIAN BANK
FINANCIAL GROUP

Caution Regarding Forward-Looking Statements

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

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

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

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

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

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

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

Operator

Welcome to the Laurentian Bank Financial Group conference call. Please note that this call is being recorded. I would now like to turn the meeting over to Ms. Susan Cohen. Please go ahead, Ms. Cohen.

Susan Cohen, Director, Investor Relations

Good morning and thank you for joining us.

Today's review of the third quarter of 2020 results will be presented by Stéphane Therrien, Interim President and CEO, and François Laurin, Executive Vice President and CFO. All documents pertaining to the quarter, including Laurentian Bank Financial Group's Report to Shareholders, investor presentation and financial supplement can be found on our website in the Investor Center.

Following our formal comments, the senior management team will be available to answer questions.

Before we begin, let me remind you that during this conference call, forward-looking statements may be made, and it is possible that actual results may differ materially from those projected in such statements. For the complete cautionary note regarding forward-looking statements, please refer to our press release or to Slide 2 of the presentation.

It is now my pleasure to turn the call over to Stéphane Therrien.

Stéphane Therrien, Interim President and Chief Executive Officer

Thank you, Susan, and good morning.

Today, we reported financial results for the third quarter of 2020. Adjusted net income was $47.1 million, about 3 times higher than in the second quarter and 9% lower than a year ago. Adjusted EPS and ROE were $1.02 and 7.7% respectively. When compared to last quarter, a reduction in provision for credit losses from the elevated second quarter level and adjusted lower non-interest expenses reflecting the current environment and the cost control measures we have been implementing, contributed to the improvement. Revenues from capital markets were also higher, resulting from strong client activity in fixed income and good market performance. When compared to last year, higher model-driven PCLs, reflecting a deterioration in macroeconomic variables used in forward-looking scenarios, overshadowed improvements on other fronts.

The pandemic impacted our growth. In particular, loans to business customers fell by 6% sequentially, mainly due to lower inventory financing volumes. With many Canadians and Americans staying close to home, demand increased for RVs and boats. Dealers were unable to replenish their inventory as manufacturers were impacted by production disruptions. While favorable from a credit perspective, as dealers' repayments were faster than in the past, it was unfavorable from a growth perspective, as the utilization rates of our customers' credit facilities were significantly lower. Growth is expected to resume in the fourth quarter, but lower inventory financing balances are expected to slightly impact net interest income and margins.

Mortgage loans were stable during the quarter. Furthermore, the proportion of insured mortgages increased to 53% and the average loan to value was 59%, underlining the strong credit quality of the portfolio.

As we navigate through these challenging times, we have never lost sight of ensuring the health and safety of our customers and employees. More than 70% of our workforce continues to productively work from home where most will remain into 2021. Those in our branches, business centers, operations and call centers 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.

We continue 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. At the end of the third quarter, the loan value of deferred payments stood at $1.8 billion, $2.6 billion lower than at the end of the second quarter. This represents 5.5% of the loan portfolio compared with 13.3% last quarter.

Over the course 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. The CET1 ratio, at 9.4% on a standardized basis, is strong and is 240 basis points above the regulatory minimum. Our track record on the credit front is solid and is supported by our rigorous underwriting. We have minimal exposure to sectors most impacted by COVID-19 such as restaurants, travel, hotels and office towers.

With respect to our transformation plan, our 100% Advice model continues to gain momentum. We took the next step during the quarter and replaced non-advice-based positions with 70 new Assistant Advisor/Customer Service positions. These employees support the client-advisor relationship and business development. We also continued to right-size our Quebec retail network as we aim to improve efficiency. We merged 14 branches, with an additional 6 to be merged in the fourth quarter. At the same time, we opened the third Laurentian Bank Financial Group service point in Laval, just north of Montreal, the second most populous city in Quebec. All service points, or hubs, host a multidisciplinary team of retail advisors, private bankers, commercial account managers and securities brokers. By helping our customers improve their financial health, we are sowing the seeds for growth.

In addition to keeping the Bank and our customers safe and secure, we aim to continue our transformation and we need to improve profitability. We have started to review our cost structure and our operations, as well as all our lines of business and their products, segments and niches. All this to improve our performance and generate profitable growth for the Bank.

To all of our employees, I would like to express my gratitude for their resilience during these challenging times and their dedication to serving our customers.

Merci à tous nos employés pour leur dévouement à bien servir nos clients pendant cette crise.

And now, I will ask François Laurin to provide a more in-depth review of our third quarter financial results.

François Laurin, Executive Vice President, Finance, Treasury and Chief Financial Officer

Thank you, Stéphane and good morning.

I would like to begin by turning to slide 5. As Stéphane mentioned, third quarter net income increased from the prior period as the provision for credit losses declined and efficiency improved.

As outlined on slide 6, adjusting items for the third quarter totalled $0.25 per share, mostly related to severance costs and provisions for lease terminations.

Slide 7 highlights total revenue in the third quarter of 2020 of $248.6 million or 4% higher sequentially.

Net interest income increased by $2.8 million compared to last quarter, mainly due to a wider Prime/BA spread and the additional days in the quarter. This was 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.

As shown on Slide 8, NIM in the third quarter of 2020 was 1.86%, down 2 basis points sequentially, reflecting the lower volume of higher yielding loans to business customers. The proportion of commercial loans in the portfolio stood at 39% compared to 40% last quarter.

Other income, as presented on Slide 9, totaled $75.1 million. The increase from last quarter reflected the strong contribution from capital markets, which increased by $6.4 million. In particular, the fixed income business performed very well due to strong new issuances and a high level of client activity. Capital markets revenues also benefited from the strong market recovery experienced in the third quarter.

Slide 10 highlights adjusted non-interest expenses of $169.2 million. The 6% sequential decrease was mainly due to lower regulatory costs, as well as lower professional fees, advertising and business development costs ensuing from efficiency measures and the current economic conditions. Partially offsetting these savings was a compensation charge of $2.7 million related to the Bank's former President and CEO's retirement. We expect that non-interest expenses in the fourth quarter will be slightly higher than in the third quarter.

The adjusted efficiency ratio of 68.1% in the third quarter of 2020 improved by 670 basis points from the second quarter. We expect this ratio to be slightly higher in the fourth quarter, as revenues are anticipated to be slightly lower due to a lower level of loans to business customers and potentially lower revenues from capital markets, and as expenses may be slightly higher.

Slide 11 highlights our well diversified sources of funds. In the third quarter of 2020 deposits stood at $24.6 billion, down 3% from the second quarter and in line with the reduction in loans. Personal deposits in our branches continued to gradually increase. Term deposits from brokers and advisors declined as we adjust rates according to our funding needs. Digital direct to customer deposits stood at about $600 million, relatively in line with expectations.

Slide 12 presents the CET1 ratio, under the Standardized Approach, of 9.4% at July 31st, 2020 compared to 8.8% at April 30th. The increase mainly reflects the one-billion-dollar reduction in risk weighted assets resulting from COVID-19. CET1 also includes 10 basis points resulting from the application of OSFI's transitional arrangements for the provisioning of expected credit losses, in line with the second quarter. This level of capital provides the Bank with the flexibility to resume growth and support the strategic plan, while prudently taking into account economic conditions.

Our diversified loan portfolio is shown on Slide 14 and stands at $32.8 billion. This 3% decline compared with the end of the second quarter mainly reflects the impact of COVID-19 on inventory financing activities.

Slide 15 highlights our residential mortgage portfolio. At July 31, 2020, 53% of our mortgages were insured. Our Alt-A portfolio represented 8% of the total mortgage book and 4% of the total loan portfolio.

Slide 16 highlights our well diversified commercial loan portfolio which is pan-Canadian with a U.S. presence and stood at $12.7 billion at the end of July. During the quarter, loans to business customers declined by $800 million, mostly related to the reduction in inventory financing volumes.

In response to COVID-19, we continue to work with our customers who may need flexibility in managing their loans. As shown on Slide 17, during the third quarter, new relief of $640 million was authorized, $812 million was extended for up to an additional 3 months, and $3.3 billion of relief expired. Payment deferrals accounted for 5.5% of the loan portfolio at the end of July compared to 13.3% at the end of April.

Turning to slide 18, in the third quarter of 2020, the provision for credit losses was $22.3 million compared with $54.9 million in the second quarter and $12.1 million a year ago. In line with our disciplined approach to modelling expected credit losses, we updated our forward-looking economic scenarios to assess collective provisions as at July 31, 2020. These new scenarios consider the deterioration in economic conditions caused by the spread of the COVID-19 pandemic. They mainly reflect the steeper recession and the slower expected economic recovery. Our three scenarios - base, upside and downside - were probability weighted, with high weights assigned to the base and downside scenarios and a small residual weight assigned to the upside scenario, as part of our approach to determining the expected credit losses as at July 31, 2020.

Specifically, credit losses on personal loans in the third quarter of 2020 decreased by $15.3 million. This mainly relates to the increase in allowances recorded in the second quarter 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, which is a sensitive factor for modelling allowances for personal investment loans, prompted a reversal in stage 1 and 2 allowances. Compared to a year ago, credit losses decreased by $1.5 million.

Credit losses on residential mortgage loans increased by $1.6 million sequentially and by $0.9 million year over year reflecting the steeper recession and the slower expected economic recovery. However, they remained at relatively low levels, reflecting strong underwriting criteria and the robust Canadian housing market.

Credit losses on commercial loans in the third quarter decreased by $18.9 million sequentially. This decrease is mainly related to the increase in allowances recorded in the second quarter to reflect the higher credit risk due to COVID-19. Compared to the third quarter of 2019, PCL increased by $10.8 million, reflecting a slight unfavourable migration of the portfolio, as well as individual allowances on a limited number of newly impaired loans to business customers.

As shown on Slide 19, the provision for credit losses as a percentage of average loans was 27 basis points for the third quarter of 2020 compared to 67 basis points in the previous period. This ratio continues to compare favorably to the industry, reflecting our disciplined underwriting standards and the strength of the collateral.

The magnitude of the COVID-19 impact on the Canadian and U.S. economies is highly uncertain. 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.

Impaired loans are shown on Slide 20. Gross impaired loans totalled $274.3 million, up $39.1 million sequentially. The increase mainly resulted from a few commercial exposures, as well as from a slight deterioration in personal loans.

Short-term, a lot of uncertainty remains regarding the future course of the pandemic and the performance of the economy. But, as the pandemic wanes and we gain greater clarity, we will update our medium-term objectives.

Thank you for your attention and I will now turn the call back to Susan.

Susan Cohen, Director, Investor Relations

At this point, I would like to turn the call over to Nicole for the question and answer period.

Operator

Thank you. Ladies and gentlemen, if you would like to ask a question today, please press star and then one on your touch tone telephone. If you are using a speaker phone, you might have to pick up the handset or de-press the mute function so the signal can reach our equipment. Again, that is star and then one, if you would like to ask a question today. And we'll take our first question from Meny Grauman from Scotia Bank.

Meny Grauman, Scotiabank

Hi, good morning. In the MD&A, there's a line that talks about how the reduction in loan levels may add revenue pressure in the near future. And I'm just wondering if you could elaborate on that and what kind of revenue pressure are you anticipating?

Stéphane Therrien, Interim President and Chief Executive Officer

The revenue pressures.

I'll ask François Laurin to answer.

François Laurin, Executive Vice President, Finance, Treasury and Chief Financial Officer

Good morning, Meny, given the lower level of business loans in Q3, we expect a rebound in this, but because of the lower level, we expect lower NII in Q4 for that reason.

Meny Grauman, Scotiabank

As you look out to 2021, is it also the expectation that revenues will be impacted by lower loan levels next year?

Stéphane Therrien, Interim President and Chief Executive Officer

It's Stephane. As we explained, a lot of this is coming from Northpoint. And right now, just to give a bit more flavor, our dealer lines of utilization are lower. Northpoint is seasonal with average utilization in the summers of 2018 and 2019 were ranging between 53% and 56%. Winter season utilization for 2018 and 19 ranged between 59% and 63% respectively. This summer season was strongly impacted, as we said, by COVID-19 changing customer behaviors with increased discretionary spending, being redirected toward RVs, trailers, Marine - set driving line utilization to an historical low for Northpoint of 37.4%. So, with the OEM manufacturer efforts and production response with this increased demand, as well as an expectation that the fall season will slow down the purchase cycle, we can expect credit line utilization increasing to a more normalized level in Q1 of 2021.

Meny Grauman, Scotiabank

Thanks for that. And just as a follow up and talk about the seasonality, I am wondering about how you're thinking about the fall off in government support, especially in the US, and also just as the tax payments are due. What impact do you think that will have on demand? And if you could address that from a credit point of view, how you're thinking about the risks from those events?

Stéphane Therrien, Interim President and Chief Executive Officer

I'll ask Liam Mason to comment.

William Mason, Executive Vice President and Chief Risk Officer

Good morning, Meny. So, as you – as you rightly point out the government support was appreciable. We had over 8 million Canadians receiving the CERB they just obviously recently announced a slight extension to that. So, we have taken into account that government support as we evaluate our credit perspective with our retail customers. I would note that we are adequately reserved for that drop off. We do look, as part of our adjudication framework and our disciplined underwriting standards, at which customers receive that support. And we factor that into our considerations around the reserves. What I would say though, is that, and I would note the OSFI announcement on guidance for the banks, recently released speaks to keeping your loans that have deferrals in stage two. What we have done in terms of the clients receiving deferrals is that we have factored in a migration of those loans within our reserves. And we have an overlay to address that migration. So, I would not anticipate a material impact on our reserves from that migration, assuming the economic scenarios play out as expected.

Meny Grauman, Scotiabank

Thank you for that. And then if I can just ask about the branch closures, I think you talk about six more for Q4. And so, I'm just wondering on the timing there. And then in terms of the outlook going forward beyond that - is the intention to keep the branch count stable after that, or is it still an open question? I'm curious about that.

Stéphane Therrien, Interim President and Chief Executive Officer

This is Stéphane, I'll take this one. As we mentioned before, the bank regularly reviews its financial planning network in order to optimize our geographic presence to better respond to its customer behaviors who are moving away from branch visits to a self-service platform. This as you mentioned, this has resulted in the decision to reduce the number of clinics by 14 to 69. And we expect to merge an additional six in the fourth quarter. All these mergers that we have announced represent locations that are within two or three kilometers from each other. So far, clients are reacting very well to our 100% advice focus and going forward, we're taking individual decisions based on leases that need to be renewed, and also a desire to change the design of our branches to a more modern look. So, this is what we are doing right now.

Meny Grauman, Scotiabank

In terms of the ability to retain those customers and specifically those deposits. Do you have any data that you can share on that? You have closed a lot of branches and merged a lot of branches. So, I am wondering if there is any sort of insights you can provide on how that has gone and what the experience has been.

Stéphane Therrien, Interim President and Chief Executive Officer

In the last year, I would say that the experience has been very positive in terms of the retention of our deposits and clients. Again, we're doing this in line with the desire of our clients to visit the branches less and do more transactions over the phone and with the self-service platform that we have. I don't know if, François, if you have anything to add on this one?

François Laurin, Executive Vice President, Finance, Treasury and Chief Financial Officer

I don't have anything else to add to this, Stéphane

Meny Grauman, Scotiabank

Okay. Thank you very much.

Operator

Okay. Our next question comes from Gabriel Dechaine from National Bank Financial.

Gabriel Dechaine, National Bank Financial

Good morning. Just want to talk about the loan growth issue there, and thanks for all the detail on what is going on the inventory finance business, it makes sense. And I am just wondering about the rest of the portfolio, because where you see commercial growth evolving here. Because we saw flat growth quarter over quarter after a year of double-digit growth. And it seems to be obvious that, you know, businesses have confidence issues right now. And then that is the pressing demand. Is that something that could weigh on your growth into 2021?

Stéphane Therrien, Interim President and Chief Executive Officer

We are not immune, right. I think the particularity of our portfolio is definitely Northpoint, as you pointed out. The growth we are seeing – we're seeing a pipeline being built up right now in commercial real estate. So, we feel good about this portfolio. In our leasing arm, we will build it, as the economy stabilizes. So, we feel good with this portfolio as well. For the rest of the bank, with respect to our residential mortgages, our portfolio has been stable for the last past two quarters. The environment has been highly competitive, and our appetite is for profitable growth, but still, it has been stable for the last two quarters. So, we feel good about this. But as we navigate through the pandemic, all lines of business are focusing on where they can win in order to resume growth. And for your question, in terms of business services, we still feel very positive about our current portfolio. We are not active in industries that that had been most impacted by COVID-19, obviously with Northpoint, but it's kind of a negative. So, we feel good about our future ability to grow in business services, but also stabilizing the rest of our portfolio.

Gabriel Dechaine, National Bank Financial

Okay. Now, moving on to the credit discussion here, and you mentioned a few commercial accounts that drove those formations in the quarter, can you tell me what sectors they were exposed to? Or operating?

Stéphane Therrien, Interim President and Chief Executive Officer

Let us get Liam to answer this one.

William Mason, Executive Vice President and Chief Risk Officer

Gabriel when we look at the uptick in GIL's and the specific files that drove individual provisions, there is no specific sector. I think you asked some questions last quarter. It is similar considerations, it is one off - they're driven by commercial accounts, largely cashflow files impacted in terms of their revenues by COVID. And that's really what is driving it, but no specific sector. It is rather diversified.

Gabriel Dechaine, National Bank Financial

Okay. So, how many accounts are we talking about then?

William Mason, Executive Vice President and Chief Risk Officer

In terms of the individual allowance, it was two or three files.

Gabriel Dechaine, National Bank Financial

Okay. So those belong to a specific sector, don't they?

William Mason, Executive Vice President and Chief Risk Officer

Yes. You know, we've talked in the past about some stuff in biomass and we've also there's some stuff in pharma that have impacted. But again, these are in terms of the aggregate – it being an aggregate theme beyond those individual files in the broader portfolio or allowances. I am not seeing it.

Gabriel Dechaine, National Bank Financial

Okay. And then the other – I wanted to ask question here is on the classification of loans. So, I'm hearing when you're talking about the provision, the performing provision expense and how you're increasing the probability of the worst case and base case scenarios, and, you know, that's building conservatism. But when I look at how you are classifying your loan book, I see total commercial and personal total stage two balances, which are the higher risk performing loans. They are down sequentially. And like, that makes sense you know, some reflection of government support programs. But they are down materially from last year and last year COVID wasn't even on the radar. Does not seem to make sense, and it does diverge with what I am seeing elsewhere.

Stéphane Therrien, Interim President and Chief Executive Officer

I'll ask Liam.

William Mason, Executive Vice President and Chief Risk Officer

Thanks, Stéphane. Gabriel, we are very comfortable with where we are. Obviously, the government advice in Q2 had us putting loans which skipped payments into stage one. We have reserved for a migration of those accounts into stage two and thinking about it longer term and business deferrals right now are really quite good. They are only 3% of, or about $360 million in terms of skipped payments. You know, we have a very strong portfolio, it is 98% collateralized. You know, also you know, we have seen in terms of the blip last quarter, it was really driven, as François described in his remarks, on the volatility in the equity markets and the investment loan piece. But overall, the stages reflect the high credit quality of our portfolio.

Gabriel Dechaine, National Bank Financial

I get that, but we hear about management overlay in this area it seems, where you could proactively put some accounts into the stage two take, compels you to take a higher provision, but I'm seeing the opposite here.

William Mason, Executive Vice President and Chief Risk Officer

Well said Gabriel. And I would note that as I just said, we have taken provisions for 100% of the clients in the mortgage book on a second deferral. And we, unlike some of the other banks did sort of a two stage, we gave three months' worth of skipped payment capability. And then we allowed another three for those that met the criteria. But we have reserved for 100% of the clients that are on their second deferral migrating to stage two. It may not show up in stage two, but we have applied an overlay. And for 50% of the mortgages that are insured and in – sorry, are in stage one, we have taken a reserve against those. I also would note that our loan to value on our mortgages is in the mid-fifties as was described. So, we are already taking a management overlay against that, away from that on the personal book, we do not have a lot of deferrals mind you – our visa book and the rest is slight. And as I said, our business deferrals are really quite small and only 3% of outstanding. So yes, it is important to take an overlay. We do not want a cliff effect. We have done that within our reserves and feel comfortable about them.

Gabriel Dechaine, National Bank Financial

Yeah. Maybe we talk about that offline, because it is interesting to see though. I mean, you can't really see that overlay in these numbers, but I get what you're saying.

William Mason, Executive Vice President and Chief Risk Officer

No, we have to, we have to follow the OSFI guidance and on keeping them at stage one, but we have, so that you're right – Gabriel, the stages do not really reflect that, but we have taken an overlay.

Gabriel Dechaine, National Bank Financial

Okay. Thanks!

Operator

And our next question comes from Doug Young with Desjardins Capital Markets.

Doug Young, Desjardins Capital Markets

Hi, good morning. And maybe Liam, just on that point, can you actually, and one of the other banks has done this, but can you actually describe or quantify the percentage of your performing loan ECL that is from the overlay? Is it 10%, 15%? Can you, is there any way to kind of give a quantification of that?

William Mason, Executive Vice President and Chief Risk Officer

I do not have that at hand Doug, but just to give you context, within the mortgage portfolio, our loan to value is in the mid-fifties. And 50% of the mortgages that are deferred are insured. So, it is not big numbers, right. It is not big numbers for us. And, you know, even with the modest piece that we have in all our loan to values is well below 50. And so, we are not, we are not talking big numbers.

Doug Young, Desjardins Capital Markets

And then just kind of keeping on with the ECL theme, like the impact from migration sounds like you've looked at the deferral book and you've kind of put aside into the performing loan ECLs your expectation that, you know, there's going to be migration down to stage two for those, those loans that are in deferral. Have you gone through your entire corporate book, your business loan book and updated your expectations for that book as well?

William Mason, Executive Vice President and Chief Risk Officer

Oh, absolutely. We have, our process involves both models and obviously you know, some of the challenges the industries had, I'm sure all of you would agree. So, it is back to Meny's question on the government support. You know, you have to layer in that government support into your models. We think about it in terms of the impact to unemployment and impact in terms of how things play out. So, we have absolutely looked at the commercial book – we're highly collateralized and our process involved driving out the model, which we did a business by business overview with the business, with credit going file by file. We have done some rerating of a lot of our commercial accounts over the past while that that's reflected in our numbers and we're very comfortable with the reserves. So, absolutely. And in this environment, you have to do that. It is only prudent. The key question is really how it plays out from here. And if the economic scenarios play out as expected, we will be fine, if not, we'll have to adjust our reserves accordingly.

Doug Young, Desjardins Capital Markets

And then just on this last one on the ECL side, and what would your ECL be for performing loans if you were a hundred percent downside scenario. The same kind of disclosure as the other banks?

William Mason, Executive Vice President and Chief Risk Officer

Yeah. you know, the key to this question is not normally information that we disclose, but I want to give you a sense of the quantum. And I think I believe this is in our MD&A. If you look at the actual weighted scenario results and you compared them to the results on the base scenario, and as François Laurin described, we had very high weights on the pessimistic and base scenario and a low weight on the optimistic. But that difference is about $23 million or one third higher. Now that does not give you the 100% pessimistic scenario, but it does give you a view of the quantum.

Doug Young, Desjardins Capital Markets

Okay. Yeah. It is just, other banks give it, and I just find that to be a useful way to kind of look at the banks across the group. I know that all the models are different and whatnot – but. And then just, François just a few number questions. The 2.7 million related to the severance, or not – to the president leaving, was that backed out in the unusual items or is that 2.7 million in the adjusted mix?

François Laurin, Executive Vice President, Finance, Treasury and Chief Financial Officer

No, it is in the core and it stays in the core numbers, Doug.

Doug Young, Desjardins Capital Markets

It stayed in the core. And then you mentioned that you expected NIX to go up next quarter. I get the whole lower; you know – lower capital market revenue and all the other items, but I did not get a sense of why NIX would go up in the fourth quarter. It is just this a seasonal adjustment as we head into Q4 that there are some true ups to be made, or is there other items that are going to weigh on expenses in the fourth quarter?

François Laurin, Executive Vice President, Finance, Treasury and Chief Financial Officer

First, the revenue side, because of the lower level of the book, especially commercial, will bring a lower NII in Q4 until inventory finance gets rebuilt. So, that is one part. And the other part on the expense side, it is mostly the seasonality on the salaries and benefits that we see an uptick in Q4 for certain elements from Q3. So, when you combine the whole, we foresee a slight uptick on the efficiency ratio for Q4.

Doug Young, Desjardins Capital Markets

An increase in the efficiency ratio, but you expect yours – You also expect NIX to be higher. Is that right?

François Laurin, Executive Vice President, Finance, Treasury and Chief Financial Officer

Yeah, the expense side will be a bit higher because of the seasonality, especially on the salary and benefits line.

Doug Young, Desjardins Capital Markets

Okay. Thank you very much.

François Laurin, Executive Vice President, Finance, Treasury and Chief Financial Officer

You're welcome.

Doug Young, Desjardins Capital Markets

Okay. Thank you.

Operator

And our next question comes from Sohrab Movahedi with BMO Capital Markets.

Sohrab Movahedi, BMO Capital Markets

Thank you. Just a couple of quickies hopefully, maybe for Liam, I do not know. Can you give a little bit more color around geographic breakdown of the mortgage relief and specifically more details around, I think the 250-60 that you say where the new relief is in the quarter?

William Mason, Executive Vice President and Chief Risk Officer

So, I do not have on hand the geographic distribution, Sohrab, on the relief file, but I would say predominantly most of our mortgage business is in Ontario and Quebec. We have a very small part of our aggregate portfolio in Alberta and across the country. And what I would say is the likely distribution is commensurate with that concentration in Ontario and Quebec. And we are predominantly focused on urban areas with our mortgage lending. So, the deferrals, I think, reflect that demographic,

Sohrab Movahedi, BMO Capital Markets

So, just to be clear, you're saying you're not seeing any of this disproportionality, if you will, geographically around the relief mortgages.

William Mason, Executive Vice President and Chief Risk Officer

That's right. I mean, obviously with the COVID situation, one of the things we talked about with the real estate team was it's going to slow immigration and that will have an impact potentially looking forward on growth, say in the Vancouver market. It is something we're looking at, but there's nothing necessarily in terms of the relief geographically. I think it is more affecting individuals in certain industries as you know, as certainly hospitality has been more impacted.

Sohrab Movahedi, BMO Capital Markets

And Liam, that would, those comments would, would also apply to the new relief provided during the quarter?

William Mason, Executive Vice President and Chief Risk Officer

Yes, they would. They would.

Sohrab Movahedi, BMO Capital Markets

Okay. And then I just wanted to go back to the balance sheet trends generally speaking. I think aside from the Northpoint dynamics that you were talking about, if I just look at the residential mortgage balances, I guess I think you said something along the lines of, stable is comfortable for you, but the market is growing. I think the markets you participate in are growing. So, I was just curious to get a sense of how much more, I guess, market share you're willing to give up, or what will it take for you to want to start growing with the marketing?

Stéphane Therrien, Interim President and Chief Executive Officer

This is Stéphane, I will take this one. This is a very competitive market as well. And we have appetite for profitable growth in certain areas of this market. So, for us short term, having been able to stabilize the portfolio is a first step. I am not saying that we will not want to grow, but we want this growth to be profitable.

Sohrab Movahedi, BMO Capital Markets

So, it's not inconceivable that the balance sheet trends that we've been seeing or outside of the Northpoint, could continue to see stable, maybe even shrinking balance sheets still while, until it's until you get that, I guess the profitability that you're targeting.

Stéphane Therrien, Interim President and Chief Executive Officer

Well, my comment on the profitability – what might – the comments that I made on profitability were aimed at the mortgage business. I would expect that all of business services will soon go back to the pace that they grew before. The other segments that we have, including investment loans, have been stabilizing a bit in the last quarter or so, so that is another area that we would like to grow. But at the end of the day, we want to grow where we can win, and we want to have profitable growth. But obviously our goal at the end will be to grow our overall portfolio.

Sohrab Movahedi, BMO Capital Markets

Okay. Thank you. And one last, just one last one on the net interest margin. I apologize if you've mentioned this and I missed it, but did you comment as to what the outlook for that line item is you know, call it foreseeable quarters?

Stéphane Therrien, Interim President and Chief Executive Officer

I'll ask François Laurin.

François Laurin, Executive Vice President, Finance, Treasury and Chief Financial Officer

That's around in terms of the NIM you're referring to NIM for Q4 - we expect it to be slightly lower than Q3, because of the situation we explained with the lower yielding and vendor refinancing volume at the end of Q3 to start Q4.

Sohrab Movahedi, BMO Capital Markets

And then I guess, François, just to put a finer point on it hopefully eventually when maybe next year you start growing the mortgage books again, that will be a net positive to NIM, correct?

François Laurin, Executive Vice President, Finance, Treasury and Chief Financial Officer

We expect, well – it's a bit premature to make a bet for next year with this low interest environment, but we have been able to maintain our margin sequentially. And if the portfolio mix improves for the higher yield and the business growth, as Stéphane mentioned, that definitely will help. That should be a positive factor on NIM going forward in `21 and beyond.

Sohrab Movahedi, BMO Capital Markets

And if the mix of the growth, if the secured loans start growing, which obviously is lower risk, but lower margin, I guess that would be an offset as far as margin expansion, or NIM expansion?

François Laurin, Executive Vice President, Finance, Treasury and Chief Financial Officer

Yeah, but we foresee more growth in the business service book than in the other books.

Sohrab Movahedi, BMO Capital Markets

Okay, perfect. Thank you very much.

François Laurin, Executive Vice President, Finance, Treasury and Chief Financial Officer

You're welcome.

Operator

And ladies and gentlemen, once again, as a reminder, that is star, and then one, if you would like to ask a question over the phone today. We'll move on to our next question from Darko Mihelic with RBC Capital Markets.

Darko Mihelic, RBC Capital Markets

Hi. Good morning. Sorry about that. I have a number of questions. So, what I will do is maybe just ask a couple and then I'll re-queue just to be fair. The first very simple question – Stéphane is could you remind me the status of the CEO search? You have – you have the interim title. What is the – when is the board going to announce the forever CEO?

Stéphane Therrien, Interim President and Chief Executive Officer

Thanks for the question. I'm not sure about the 'forever', but I'll comment on the interim. The board of directors is progressing within the search of a permanent CEO, as you, as you mentioned, and their intent is to take the time needed to select its next leader. It could be an internal candidate as well as an external candidate. So more to come, I would say.

Darko Mihelic, RBC Capital Markets

Okay, but there is no, there's no timeframe?

Stéphane Therrien, Interim President and Chief Executive Officer

There's no timeframe.

Darko Mihelic, RBC Capital Markets

Okay, thank you. And I just wanted to pick up on the commercial growth. So, if we exclude Northpoint you know, you mentioned that you expect commercial growth to come back. When would that be? What does the pipeline look like? What are your expectations around that kind of growth in terms of timing and magnitude?

Stéphane Therrien, Interim President and Chief Executive Officer

Thanks. I'll take this one, Darko. We expect growth to come back next year and we are seeing pipelines being built. The real estate, which is more than half of the portfolio and business services has had a decent, I would say last three months. There is a pipeline, it went back to the level it was pre COVID-19. So, that is positive. In terms of the other half of the portfolio in commercial, obviously Northpoint, we have commented on. The leasing portfolio -50% of this portfolio is in transport. So, obviously right now it is a big headwind in that sense. And the rest, so the SME and the syndication portfolio, because we're not active in the most affected industries by COVID-19, we feel that growth should come back in 2021.

Darko Mihelic, RBC Capital Markets

Okay. And what kind of growth do you think you could, you could reasonably target for 2021?

Stéphane Therrien, Interim President and Chief Executive Officer

I will be glad to share it at the next call, I will give all guidance at our next call.

Darko Mihelic, RBC Capital Markets

Okay. Fair enough. Thank you. Maybe just a question on deferrals. Is the proportion of deferrals, more or less – also representative of the amount of insured versus uninsured mortgages?

Stéphane Therrien, Interim President and Chief Executive Officer

I'll ask Liam to comment?

William Mason, Executive Vice President and Chief Risk Officer

Yeah, Darko in the mortgage space, we have got 50% of the deferral is insured and 50% uninsured and it is down, as François alluded - down to a – it's only 9.2% of our portfolio. We are very comfortable with the reserves on this. And we are factoring those deferrals into our allowances. And on the commercial side, sorry, what?

François Laurin, Executive Vice President, Finance, Treasury and Chief Financial Officer

That's similar to our existing portfolio. We are insured 53% in the portfolio, so, there is not much difference between the different books and the total book, Darko.

William Mason, Executive Vice President and Chief Risk Officer

And then on the commercial side, Darko, as I mentioned business deferrals are only about 3% of our book at an outstanding 364 million. Those were down 80% from the Q2 number, and we have only seen sort of 25.4 million of those on a second deferral. So, I am very comfortable with that. 70-80% are in equipment finance with the balance in real estate, as I mentioned. So, the business deferrals are in real good shape.

Darko Mihelic, RBC Capital Markets

Okay. And maybe just on the mortgage portfolio, a couple of other questions around it, and I promise not to hog the call anymore, but how many are actually unemployed and receiving CERB?

William Mason, Executive Vice President and Chief Risk Officer

It is a good question. I had been talking to the team over the past while in terms of it you know, I have got a variety of numbers from the business. I do not want to give specifics. What I will tell you though, is that we have looked at it and factored it into our evaluation of the potential migration of those customers, but I'm sure you appreciate for the industry overall, as you know, you guys have asked questions to the other banks – how the CERB plays out, how the relief plays out and how we, the industry deals with the migration back to business as usual are key issues for us. But what I would say is with our underwriting standards and the approach to the deferrals and reserves, we feel we have appropriately positioned for that migration. And we do take that into account when evaluating the credit quality of our customers.

Darko Mihelic, RBC Capital Markets

Okay. Fair enough. And I will promise to ask just one last question, and then I'll move on. There is another cohort that, another cohort of mortgage borrowers where I have a little concern. And that would be the group of people that have asked for a deferral. They have not lost their job, but they are earning significantly less than before. I think of small business owners, maybe some entrepreneurs and maybe just others that are simply trying to struggle through this but have not lost their job and therefore are not on CERB. Any idea how big that cohort is within the referral program?

William Mason, Executive Vice President and Chief Risk Officer

I don't. When you talk about you know, business for self-type people again, we factor that in, when we're looking at a person, small business, their ability to operate within COVID, if they're making their payments - we're going to have to look how it plays out based on the economic scenario and how it works. But I do not have that to hand, Darko.

Darko Mihelic, RBC Capital Markets

Okay. No, I appreciate that. Thanks very much.

Operator

And there are no further questions in the queue at the moment. So, I would like to turn the call back over to Stéphane Therrien for any concluding remarks.

Stéphane Therrien, Interim President and Chief Executive Officer

As we navigate through these challenging times, I, along with the management team, am most appreciative of our employees for their dedication, our customers for their loyalty and our investors for their support.

To conclude, Laurentian Bank's capital position is strong, and it holds a healthy level of liquidity.

Its credit quality is sound, with disciplined underwriting, well collateralized portfolios and no material exposure to sectors most impacted by COVID-19. As such, the level of provisions is prudent.

The operational flexibility that we have built is allowing us to continue our transformation and progress towards our goal of improving the Bank's performance.

Susan Cohen, Director, Investor Relations

Thank you for joining us today. Should you have any further questions, our contact information is included at the end of the presentation. Our fourth quarter 2020 conference call will be held on December 4 and we look forward to speaking with you then. Have a good day.

Operator

And this concludes today's call. We thank you for your participation. You may now disconnect your lines and have a wonderful day everyone.