LAURENTIAN BANK

Laurentian Bank reports its first quarter of 2016 results

Feb 25, 2016

The financial information reported herein is based on the unaudited condensed interim consolidated financial statements for the period ended January 31, 2016, prepared in accordance with IAS 34 *Interim financial reporting*, as issued by the *International Accounting Standards Board* (IASB). All amounts are denominated in Canadian dollars. The complete First Quarter 2016 Report to Shareholders is available on the Laurentian Bank's website at www.laurentianbank.ca and on SEDAR at www.sedar.com.

Highlights of the first quarter of 2016

- Adjusted net income of $43.7 million or $1.39 per share, up 8% and 5% year-over-year, respectively
- Reported net income of $42.7 million or $1.36 per share, up 19% and 18% year-over-year, respectively
- Good credit quality with credit losses of $9.1 million, 13% lower than last year
- Strong organic loan growth with total loans up $602 million since the beginning of the year:
  - Loans to business customers up 11% year-over-year
  - Residential mortgage loans through B2B Bank independent brokers and advisors up 45% year-over-year
- Realized market-related losses on securities of $3.1 million ($2.3 million after income taxes) or $(0.08) per share
- Closing of a $67.5 million common share issuance in December
- CET1 capital ratio at 7.7%, impacted by market related issues

In millions of Canadian dollars, except per share and percentage amounts (Unaudited)		FOR THE THREE MONTHS ENDED **JANUARY 31 2016**	JANUARY 31 2015	VARIANCE
Reported basis				
	Net income	**$ 42.7**	$ 35.8	19 %
	Diluted earnings per share	**$ 1.36**	$ 1.15	18 %
	Return on common shareholders' equity	**11.6 %**	9.9 %	
	Efficiency ratio	**70.3 %**	73.7 %	
	Common Equity Tier I capital ratio – All-in basis	**7.7 %**	7.8 %	
Adjusted basis [1]				
	Adjusted net income	**$ 43.7**	$ 40.5	8 %
	Adjusted diluted earnings per share	**$ 1.39**	$ 1.32	5 %
	Adjusted return on common shareholders' equity	**11.9 %**	11.3 %	

	Adjusted efficiency ratio	**70.3**	**%**	71.4	%

[1] Certain analyses presented throughout this document are based on the Bank's core activities and therefore exclude charges designated as adjusting items. Refer to the Adjusting Items section for further details.

MONTREAL, Feb. 25, 2016 /CNW Telbec/ - Laurentian Bank of Canada (the Bank) disclosed net income of $43.7 million on an adjusted basis or $1.39 diluted per share for the first quarter of 2016, up 8% and 5% respectively, compared with $40.5 million or $1.32 diluted per share for the same period in 2015. Adjusted return on common shareholders' equity was 11.9% for the first quarter of 2016, compared with 11.3% a year ago. On a reported basis, net income totalled $42.7 million or $1.36 diluted per share for the first quarter of 2016, compared with net income of $35.8 million or $1.15 diluted per share for the same period last year. On a reported basis, return on common shareholders' equity was 11.6% for the first quarter of 2016, compared with 9.9% for the first quarter of 2015. Reported results for the first quarter of 2016 and for the first quarter of 2015 included adjusting items, as detailed in the Adjusting Items section.

François Desjardins, President and Chief Executive Officer, commented on the Bank's results and financial condition: "Our focus on our growth targets has generated tangible returns over the last twelve months. Loans to business customers increased by 11% fueled by strong origination and residential mortgage loans through B2B Bank independent brokers and advisors increased by 45%. Results for the quarter reflected our ability to leverage our strengths, with the credit quality of our loan portfolio further contributing to our low credit losses and good financial performance.Furthermore, we continue to exercise tight control over expenses to improve efficiency."

Consolidated Results

Adjusted financial measures

Certain analyses presented throughout this document are based on the Bank's core activities and therefore exclude the effect of certain amounts designated as adjusting items. The Bank presents adjusted results to facilitate understanding of its underlying business performance and related trends.

The Bank assesses performance on a generally accepted accounting principles (GAAP) basis and non-GAAP basis and considers both measures to be useful to investors and analysts in obtaining a better understanding of the Bank's financial results and analyzing its growth and profit potential more effectively. Adjusted results and adjusted measures are non-GAAP measures. Comments on the uses and limitations of such measures are disclosed in the Non-GAAP Financial Measures section in the Report to Shareholders.

IMPACT OF ADJUSTING ITEMS ON REPORTED RESULTS

	FOR THE THREE MONTHS ENDED		
In thousands of Canadian dollars, except per share amounts (Unaudited)	**JANUARY 31 2016**	OCTOBER 31 2015	JANUARY 31 2015
Impact on net income			
Reported net income (loss)	**$ 42,676**	$ (18,719)	$ 35,835
Adjusting items, net of income taxes	**—**	57,245	—

Restructuring charges [2]			
Severance charges	**—**	3,372	—
Impairment charges related to IT projects	**—**	1,153	—
Impairment of goodwill, software and intangible assets, and premises and equipment [1]	**—**	4,525	—
Retirement compensation charge [3]	**—**	—	3,550
Amortization of net premium on purchased financial instruments [4]	**1,032**	1,076	1,083
	1,032	62,846	4,633
Adjusted net income	**$ 43,708**	$ 44,127	$ 40,468
Impact on diluted earnings per share			
Reported diluted earnings (loss) per share	**$ 1.36**	$ (0.73)	$ 1.15
Adjusting items			
Impairment of goodwill, software and intangible assets, and premises and equipment [1]	**—**	1.98	—
Restructuring charges [2]	**—**	0.16	—
Retirement compensation charge [3]	**—**	—	0.12
Amortization of net premium on purchased financial instruments [4]	**0.03**	0.04	0.04
	0.03	2.17	0.16
Adjusted diluted earnings per share [5]	**$ 1.39**	$ 1.44	$ 1.32

[1] Impairment of goodwill, software and intangible assets, and premises and equipment follows the comprehensive strategic review of the Bank's retail activities completed during the fourth quarter of 2015. These charges have been designated as adjusting items due to their nature and the significance of the amounts.

[2] Restructuring charges result from a realignment of strategic priorities and are comprised of severance charges and impairment charges related to IT projects. These charges have been designated as adjusting items due to their nature and the significance of the amounts. Severance charges are included in the line item Salaries and employee benefits in the consolidated statement of income. Impairment charges related to IT projects are included in the line item Premises and technology in the consolidated statement of income.

[3] The retirement compensation charge is related to the adjustment to the employment contract of the Bank's former CEO following his retirement announcement. This charge has been designated as an adjusting item due to its nature and the significance of the amount. The retirement compensation charge is included in the line item Salaries and employee benefits in the consolidated statement of income.

[4] The amortization of net premium on purchased financial instruments arose as a result of a one-time gain on acquisition and is considered an adjusting item since it represents, according to management, a significant non-cash and non-recurring adjustment.

[5] The impact of adjusting items on a per share basis does not add due to rounding for the quarter ended January 31, 2015.

Three months ended January 31, 2016 performance

Net income was $42.7 million or $1.36 diluted per share for the first quarter of 2016, compared with $35.8 million or $1.15 diluted per share for the first quarter of 2015. Adjusted net income was $43.7 million for the first quarter of 2016, up 8% from $40.5 million for the first quarter of 2015, while adjusted diluted earnings per share were $1.39, up 5% compared with $1.32 in the first quarter of 2015.

Total revenue

Total revenue increased by $5.0 million or 2% to $223.2 million for the first quarter of 2016 from $218.2 million for the first quarter of 2015, driven by growth in net interest income.

Net interest income increased by $10.0 million or 7% to $149.5 million for the first quarter of 2016, from $139.5 million for the first quarter of 2015. The increase was mainly generated by strong volume growth in loan portfolios. Net interest margin (as a percentage of average earning assets) stood at 1.78% for the first quarter of 2016, a decrease of 5 basis points compared with the first quarter of 2015, due to tighter margins stemming from the very low interest rate environment and growth in the lower-yielding residential mortgage loan portfolio.

Other income decreased by $5.0 million amounting to $73.7 million for the first quarter of 2016, compared with $78.7 million for the first quarter of 2015, essentially as a result of challenging financial market conditions. Income from treasury and financial markets decreased by $4.7 million, mainly due to $3.1 million net losses on securities, compared with net gains of $3.7 million in the first quarter of 2015, partly offset by a higher contribution from trading activities. Income from brokerage operations also decreased by $1.9 million mainly reflecting poor market conditions. This was partly offset by an increase of $1.8 million or 22% in mutual fund commissions compared with the first quarter of 2015, largely driven by new sales and additional fee-based revenues earned on the co-branded LBC-Mackenzie mutual fund assets under administration, as well as higher lending fees.

Amortization of net premium on purchased financial instruments

For the first quarter of 2016, the amortization of net premium on purchased financial instruments amounted to $1.4 million, down marginally compared with the first quarter of 2015.

Provision for credit losses

The provision for credit losses decreased by 13% to $9.1 million for the first quarter of 2016 from $10.5 million for the first quarter of 2015. This low level of credit losses continues to reflect the good overall underlying quality of the loan portfolios.

Non-interest expenses

Non-interest expenses decreased by $3.7 million to $157.0 million for the first quarter of 2016, compared with $160.7 million for the first quarter of 2015, essentially as a result of a retirement compensation charge of $4.9 million incurred in the first quarter of 2015. Adjusted non-interest expenses increased by $1.2 million or 1%.

Salaries and employee benefits decreased by $3.5 million or 4% to $84.8 million for the first quarter of 2016, compared with the first quarter of 2015. As noted above, salaries for the first quarter of 2015 included a retirement compensation charge of $4.9 million. On an adjusted basis, salaries and employee benefits increased by $1.4 million in part due to higher severance charges, as well as regular annual salary increases and higher staffing levels in business services. This was partly offset by lower performance-based compensation and a lower headcount due to the restructuring of certain activities in the fourth quarter of 2015 as a step of the transformation plan towards a simpler and more efficient operating model.

Premises and technology costs decreased by $3.1 million to $45.3 million compared with the first quarter of 2015. The decrease mostly stems from lower depreciation charges resulting from the impairment of software and intangible assets, and premises and equipment recorded in the fourth quarter of 2015.

Other non-interest expenses increased by $2.9 million to $26.9 million compared with the first quarter of 2015, essentially due to higher professional fees incurred to support the Bank's transformation. Higher regulatory costs also contributed to the increase.

The adjusted efficiency ratio was 70.3% for the first quarter of 2016, compared with 71.4% for the first quarter of 2015. The adjusted operating leverage was positive year-over-year, mainly driven by total revenue growth.

Income taxes

For the quarter ended January 31, 2016, the income tax expense was $13.0 million and the effective tax rate was 23.4%. The lower tax rate, compared to the statutory rate, mainly resulted from the favourable effect of holding investments in Canadian securities that generate non-taxable dividend income and the lower taxation level on revenues from foreign insurance operations. For the quarter ended January 31, 2015, the income tax expense was $9.7 million and the effective tax rate was 21.2%. Year-over-year, the higher effective tax rate for the quarter ended January 31, 2016 resulted from the relatively higher level of domestic taxable income.

Financial condition

Liquid assets

Liquid assets, including cash, deposits with other banks, securities and securities purchased under reverse repurchase agreements, totalled $8.8 billion as at January 31, 2016, an increase of $0.2 billion compared with October 31, 2015. This reflects deposit gathering from multiple sources as well as securitization activities, mainly used to finance the Bank's expected loan growth, particularly in loans to business customers and residential mortgage loans sourced through B2B Bank. Capital management activities also impacted the level of liquid assets during the quarter.

Loans

Loans and bankers' acceptances, net of allowances, stood at $30.6 billion as at January 31, 2016, up $0.6 billion from October 31, 2015. This increase was mainly driven by the Bank's key growth drivers, namely residential mortgage loans through B2B Bank independent brokers and advisors, and the higher-margin portfolio of loans to business customers.

Commercial loans, including acceptances, increased by $147.1 million or 4% since October 31, 2015, led by syndication activities. Commercial mortgage loans were relatively unchanged over the same period. When combined, these loans to business customers amounted to $8.2 billion as at January 31, 2016, up 11% year-over-year.

Growth of $0.5 billion in the residential mortgage loan portfolio from October 31, 2015 was led in part by residential mortgage loans through B2B Bank independent brokers and advisors, as B2B Bank continues to focus on developing its alternative mortgage solutions. The B2B Bank mortgage portfolio amounted to

$6.3 billion as at January 31, 2016, up 45% year-over-year. Personal loans decreased by $95.0 million or 1% since October 31, 2015, mainly due to net repayments in the investment loan portfolio, reflecting expected attrition.

Gross impaired loans

Gross impaired loans amounted to $106.7 million as at January 31, 2016, down $31.9 million compared with October 31, 2015. This decrease was mainly due to the settlement of impaired commercial mortgage loans and commercial loans. Over the same period, impaired loans in the personal loan and residential mortgage loan portfolios were relatively unchanged and remained at low levels, as borrowers continued to benefit from the favourable low interest rate environment.

Regulatory capital

The Common Equity Tier 1 capital ratio increased to 7.7% as at January 31, 2016, compared with 7.6% as at October 31, 2015. The increase was driven by the common share issuance closed in December 2015. However, growth in higher risk-weighted exposures and unfavourable changes in the value of available-for-sale securities, as well as losses on pension benefit plans stemming from poor market conditions and changes to actuarial assumptions had a negative impact at the end of the quarter.

Caution Regarding Forward-looking Statements

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

By their very nature, forward-looking statements are based on assumptions and involve inherent risks and uncertainties, both general and specific in nature. It is therefore possible that the forecasts, projections and other forward-looking statements will not be achieved or will prove to be inaccurate. Although the Bank believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to be correct.

The Bank cautions readers against placing undue reliance on forward-looking statements when making decisions, as the actual results could differ considerably from the opinions, plans, objectives, expectations, forecasts, estimates and intentions expressed in such forward-looking statements due to various material factors. Among other things, these factors include: changes in capital market conditions, changes in government monetary, fiscal and economic policies, changes in interest rates, inflation levels and general economic conditions, legislative and regulatory developments, changes in competition, modifications to credit ratings, scarcity of human resources, developments in the technological environment, the ability to realize the anticipated benefits from the purchase of an investment loan portfolio and the reaction of the seller's customers to the transaction, as well as, the ability to operate the Bank's transformation plan. The Bank further cautions that the foregoing list of factors is not exhaustive. For more information on the risks, uncertainties and assumptions that would cause the Bank's actual results to differ from current expectations, please also refer to the Management's Discussion and Analysis under the title "Risk Appetite and Risk Management Framework" in the Bank's Annual Report, as well as to other public filings available at www.sedar.com.

The Bank does not undertake to update any forward-looking statements, whether oral or written, made by itself or on its 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, the Bank's First Quarter 2016 Report to Shareholders (which includes unaudited condensed interim consolidated financial statements), presentation to investors and supplementary financial information on the Bank's website at www.laurentianbank.ca, under the Laurentian Bank tab, Investors, Quarterly Results.

Conference Call

Laurentian Bank invites media representatives and the public to listen to the First Quarter 2016 conference call to be held at 2:00 p.m. Eastern Time on Thursday, February 25, 2016. The live, listen-only, toll-free, call-in number is 416 340-2217 or 1 888-789-9572. A live webcast will also be available on the Bank's website under the Laurentian Bank tab, Investors, Quarterly Results.

You can listen to the call on a delayed basis at any time from 5:00 p.m. on Thursday, February 25, 2016 until 11:59 p.m. on March 25, 2016, by dialing the following playback number: 905 694 9451 or 1 800 408-3053 Code 6309149. The conference call playback can also be heard through the Bank's website under the Laurentian Bank tab, Investors, Quarterly Results.

The presentation material referenced during the call will be available on the Bank's website under the Laurentian Bank tab, Investors, Quarterly Results.

About Laurentian Bank

Laurentian Bank of Canada is a banking institution whose activities extend across Canada. The Bank serves one and a half million clients throughout the country and employs more than 3,700 people whose talent and dedication have made it a major player in numerous market segments. The Bank has more than $40 billion in balance sheet assets and $42 billion in assets under administration.

Laurentian Bank distinguishes itself through the excellence and simplicity of its services. The Bank caters to the needs of retail clients via its branch network. The Bank has also earned a solid reputation among small and medium-sized enterprises and real estate developers thanks to its specialized teams across Canada, namely in Ontario, Québec, Alberta, British Columbia and Nova Scotia. For their part, B2B Bank is a Canadian leader in providing banking and investment products and services to financial advisors and brokers, while the expertise and effectiveness of Laurentian Bank Securities' integrated brokerage services are known nationwide.

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