Laurentian Bank reports its second quarter of 2016 results

Jun 1, 2016

The financial information reported herein is based on the unaudited condensed interim consolidated financial statements for the period ended April 30, 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 Second 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 second quarter of 2016

- Adjusted return on common shareholders' equity of 12.8% and reported return on common shareholders' equity of 12.5%
- Adjusted net income of $46.7 million or $1.46 per share, up 10% and 6% year-over-year, respectively
- Reported net income of $45.7 million or $1.43 per share, up 11% and 7% year-over-year, respectively
- Good credit quality with credit losses of $5.8 million, 28% lower than last year
  - No direct exposure to the oil and gas industry
- Strong organic loan growth:
  - Loans to business customers up 12% year-over-year
  - Residential mortgage loans through B2B Bank independent brokers and advisors up 46% year-over-year
- CET1 capital ratio at 7.9%
- Preferred share issuance of $125.0 million in March to strengthen capital
- Quarterly common share dividend raised by $0.02 to $0.60

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	FOR THE THREE MONTHS ENDED			FOR THE SIX MONTHS ENDED		
In millions of Canadian dollars, except per share and percentage amounts (Unaudited)	**APRIL 30 2016**	APRIL 30 2015	VARIANCE	**APRIL 30 2016**	APRIL 30 2015	VARIANCE
Reported basis						
Net income	**$ 45.7**	$ 41.2	11 %	**$ 88.4**	$ 77.0	15 %
Diluted earnings per share	**$ 1.43**	$ 1.34	7 %	**$ 2.79**	$ 2.49	12 %
Return on common shareholders' equity	**12.5 %**	11.8 %		**12.0 %**	10.9 %	

Efficiency ratio	**70.6 %**	71.9 %		**70.5 %**	72.8 %	
Common Equity Tier I capital ratio – All-in basis	**7.9 %**	7.8 %				
Adjusted basis [1]						
Adjusted net income	**$ 46.7**	$ 42.3	10 %	**$ 90.4**	$ 82.8	9 %
Adjusted diluted earnings per share	**$ 1.46**	$ 1.38	6 %	**$ 2.86**	$ 2.69	6 %
Adjusted return on common shareholders' equity	**12.8 %**	12.1 %		**12.3 %**	11.7 %	
Adjusted efficiency ratio	**70.6 %**	71.9 %		**70.5 %**	71.7 %	

[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 Adjusted Financial Measures section for further details.

MONTREAL, June 1, 2016 /CNW Telbec/ - Laurentian Bank of Canada (the Bank) disclosed net income of $46.7 million on an adjusted basis or $1.46 diluted per share for the second quarter of 2016, up 10% and 6% respectively, compared with $42.3 million or $1.38 diluted per share for the same period in 2015. Adjusted return on common shareholders' equity was 12.8% for the second quarter of 2016, compared with 12.1% a year ago. On a reported basis, net income totalled $45.7 million or $1.43 diluted per share for the second quarter of 2016, compared with net income of $41.2 million or $1.34 diluted per share for the same period last year. On a reported basis, return on common shareholders' equity was 12.5% for the second quarter of 2016, compared with 11.8% for the second quarter of 2015. Reported results for the second quarter of 2016 and for the second quarter of 2015 included adjusting items, as detailed in the Adjusted Financial Measures section.

François Desjardins, President and Chief Executive Officer, commented on the Bank's results and financial condition: "We delivered strong earnings this quarter, as we took advantage of better capital market conditions and continued to benefit from the sustained credit quality of our loan portfolio. Furthermore, we exercised tight control over expenses to improve efficiency in this challenging interest rate environment. Our focus on our growth targets generated tangible returns, with our loans to business customers increasing by 12% and residential mortgage loans through B2B Bank independent brokers and advisors increasing by 46% over the last twelve months. Looking ahead, we are actively working on rebuilding our account management platform, an important element of our strategic plan. Given our solid financial performance and the support that our Board of Directors has in our transformation plan, I am pleased to announce that the Board has approved an increase in our quarterly common share dividend of $0.02 to $0.60 per share."

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 due to their nature or significance. 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			FOR THE SIX MONTHS ENDED	
In thousands of Canadian dollars, except per share amounts (Unaudited)	**APRIL 30 2016**	JANUARY 31 2016	APRIL 30 2015	**APRIL 30 2016**	APRIL 30 2015
Impact on net income					
Reported net income	**$ 45,714**	$ 42,676	$ 41,188	**$ 88,390**	$ 77,023
Adjusting items, net of income taxes					
Retirement compensation charge [1]	**—**	—	—	**—**	3,550
Amortization of net premium on purchased financial instruments [2]	**982**	1,032	1,125	**2,014**	2,208
	982	1,032	1,125	**2,014**	5,758
Adjusted net income	**$ 46,696**	$ 43,708	$ 42,313	**$ 90,404**	$ 82,781
Impact on diluted					

earnings per share					
Reported diluted earnings per share	**$ 1.43**	$ 1.36	$ 1.34	**$ 2.79**	$ 2.49
Adjusting items					
Retirement compensation charge [1]	**—**	—	—	**—**	0.12
Amortization of net premium on purchased financial instruments [2]	**0.03**	0.03	0.04	**0.07**	0.08
	0.03	0.03	0.04	**0.07**	0.20
Adjusted diluted earnings per share	**$ 1.46**	$ 1.39	$ 1.38	**$ 2.86**	$ 2.69

[1] 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.

[2] 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.

Three months ended April 30, 2016 performance

Net income was $45.7 million or $1.43 diluted per share for the second quarter of 2016, compared with $41.2 million or $1.34 diluted per share for the second quarter of 2015. Adjusted net income was $46.7 million for the second quarter of 2016, up 10% from $42.3 million for the second quarter of 2015, while adjusted diluted earnings per share were $1.46, up 6% compared with $1.38 in the second quarter of 2015.

Total revenue

Total revenue increased by $6.1 million or 3% to $226.8 million for the second quarter of 2016 from $220.7 million for the second quarter of 2015, driven by growth in net interest income.

Net interest income increased by $5.7 million or 4% to $143.4 million for the second quarter of 2016, from $137.7 million for the second quarter of 2015. The increase was mainly generated by strong volume growth in loan portfolios, which was partly offset by tighter margins stemming from the very low interest rate environment. Net interest margin (as a percentage of average earning assets) stood at 1.71% for the second quarter of 2016, a decrease of 13 basis points compared with the second quarter of 2015, due to the persistent pressure on lending rates, higher proportion of lower-yielding residential mortgage loans, higher funding costs and higher liquid assets held throughout the quarter.

Other income increased by $0.4 million amounting to $83.4 million for the second quarter of 2016, compared with $83.0 million for the second quarter of 2015, essentially as a result of an increase of $3.6 million in income from brokerage operations. This was partly offset by a decrease of $2.9 million in income from treasury and financial markets and by a $0.9 million lower contribution from investment accounts.

Amortization of net premium on purchased financial instruments

For the second quarter of 2016, the amortization of net premium on purchased financial instruments amounted to $1.3 million, down marginally compared with the second quarter of 2015.

Provision for credit losses

The provision for credit losses decreased by 28% to $5.8 million for the second quarter of 2016 from $8.0 million for the second quarter of 2015. This very low level of credit losses reflects the overall underlying quality of the loan portfolios, including a net favourable adjustment of $2.7 million resulting from the regular review of collective allowance models.

Non-interest expenses

Non-interest expenses increased by $1.3 million or 1% to $160.1 million for the second quarter of 2016, compared with $158.8 million for the second quarter of 2015.

Salaries and employee benefits increased by $1.8 million or 2% to $85.3 million for the second quarter of 2016, compared with the second quarter of 2015, in part due to higher performance-based compensation in line with higher brokerage income as well as regular annual salary increases. This was partly offset by lower headcount due to the restructuring of certain activities in the fourth quarter of 2015.

Premises and technology costs decreased by $2.0 million to $46.8 million compared with the second quarter of 2015. The decrease mostly stems from the lower depreciation expense resulting from the impairment charge on assets recorded in the fourth quarter of 2015.

Other non-interest expenses increased by $1.5 million to $27.9 million compared with the second quarter of 2015, essentially due to higher professional fees incurred to support the Bank's transformation.

The adjusted efficiency ratio was 70.6% for the second quarter of 2016, compared with 71.9% for the second quarter of 2015. The adjusted operating leverage was positive year-over-year.

Income taxes

For the quarter ended April 30, 2016, the income tax expense was $13.9 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 April 30, 2015, the income tax expense was $11.2 million and the effective tax rate was 21.4%. Year-over-year, the higher effective tax rate for the quarter ended April 30, 2016 resulted from the relatively higher level of domestic taxable income.

Financial condition

Balance sheet assets amounted to $41.0 billion as at April 30, 2016, up $1.4 billion or 3% from $39.7 billion as at October 31, 2015. This increase mainly reflects loan growth of $1.3 billion as explained below.

Liquid assets

Liquid assets, including cash, deposits with other banks, securities and securities purchased under reverse repurchase agreements, totalled $8.9 billion as at April 30, 2016, an increase of $0.3 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. The preferred share capital issuance also impacted the level of liquid assets during the quarter.

Loans

Loans and bankers' acceptances, net of allowances, stood at $31.3 billion as at April 30, 2016, up $1.3 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 loans to business customers.

Commercial loans, including acceptances, increased by $320.9 million or 8% since October 31, 2015, led by syndication activities. Commercial mortgage loans increased by $94.4 million or 2% over the same period. When combined, these loans to business customers amounted to $8.4 billion as at April 30, 2016, up 12% year-over-year.

The $1.0 billion increase in the residential mortgage loan portfolio from October 31, 2015 was led by continued growth in residential mortgage loans distributed through B2B Bank independent brokers and advisors. The B2B Bank mortgage portfolio amounted to $6.7 billion as at April 30, 2016, up 46% year-over-year. Personal loans decreased by $132.0 million or 2% 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 $114.8 million as at April 30, 2016, down $23.9 million compared with October 31, 2015. This decrease was mainly due to the settlement of impaired commercial mortgage 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.

Shareholders' equity and regulatory capital

Shareholders' equity stood at $1,787.4 million as at April 30, 2016, compared with $1,587.0 million as at October 31, 2015. This $200.3 million increase is mainly explained by the $125.0 million preferred share issuance completed in the second quarter and the $67.5 million common share offering completed during the first quarter, as well as the net income contribution for the six-month period, net of declared dividends.

The Common Equity Tier 1 capital ratio increased to 7.9% as at April 30, 2016, compared with 7.7% as at January 31, 2016 and 7.6% as at October 31, 2015. The increase in the first quarter of 2016 was driven by the $67.5 million common share issuance that closed in December 2015, offset by growth in risk-weighted exposures, as well as losses on available-for-sale securities, and pension benefit plans stemming from market conditions. The 0.2% sequential increase in the second quarter of 2016 was mainly driven by proactive risk-weighted asset management and favourable changes in the value of available-for-sale-securities, partly offset by further actuarial losses on pension benefit plans.

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 prospect, 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 Second 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 Second Quarter 2016 conference call to be held at 2:00 p.m. Eastern Time on June 1, 2016. The live, listen-only, toll-free, call-in number is 1-800-499-4035, code 6482302. 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 June 1, 2016 until 5:00 p.m. on June 30, 2016, by dialing the following playback number: 1-647-436-0148 (Canada) or 1-888-203-1112 (USA), code 6482302. 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 3,600 people whose talent and dedication have made it a major player in numerous market segments. The Bank has more than $41 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.

SOURCE Laurentian Bank of Canada

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