Mortgage Review Conference Call

May 30, 2018

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 include our estimate of the total amount of CMHC portfolio insured mortgage loans to be repurchased and statements regarding our business plan and financial objectives including statements contained in our 2017 Annual Report under the headings "Outlook" and "Off-Balance Sheet Arrangements - Securitization Activities". 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 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 we believe that the expectations reflected in these forward-looking statements are reasonable, we can give no assurances that these expectations will prove to be correct. Certain important assumptions by us in making forward-looking statements include, but are not limited to, our assumption that the in-depth review of CMHC portfolio insured mortgage loans will reveal a level of inadvertently portfolio insured and sold mortgage loans in line with those discovered through the normal course audit and our estimates and statements regarding our business plan and financial objectives including statements contained in our 2017 Annual Report under the headings "Outlook" and "Off-Balance Sheet Arrangements - Securitization Activities".

We caution 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, assumptions pertaining to the conduit requirements, scarcity of human resources, developments with respect to labour relations, as well as developments in the technological environment. Furthermore, these factors include the ability to execute our transformation plan and in particular the successful reorganization of retail branches, the modernization of the core banking system and the adoption of the Advanced Internal Ratings-Based Approach to credit risk (the AIRB Approach).

With respect to the anticipated benefits from the acquisition of Northpoint Commercial Finance ("NCF") and statements with regards to this transaction being accretive to earnings, such factors also include, but are not limited to: the ability to promptly and effectively integrate the businesses, reputational risks and the reaction of our and NCF's customers to the transaction; the failure to realize, in the timeframe anticipated or at all, the anticipated benefits and synergies of the acquisition of NCF; our limited experience in the U.S. market and in inventory financing; and diversion of management time on acquisition-related issues.

With respect to the anticipated benefits from the acquisition of CIT Canada and statements with regards to this transaction being accretive to earnings, such factors also include, but are not limited to: the ability to realize synergies in the anticipated time frame, the ability to promptly and effectively integrate the businesses, and diversion of management time on integration-related issues.

We further caution that the foregoing list of factors is not exhaustive. For more information on the risks, uncertainties and assumptions that would cause our actual results to differ from current expectations, please also refer to the “Risk Appetite and Risk Management Framework” on page 44 of our Management's Discussion and Analysis as contained in our 2017 Annual Report, as well as to other public filings available at www.sedar.com.

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

NON-GAAP MEASURES

Management uses both generally accepted accounting principles (GAAP) and certain non-GAAP measures to assess the Bank's performance. The Bank's non-GAAP measures presented throughout this document exclude the effect of certain amounts designated as adjusting items due to their nature or significance. These non-GAAP measures are considered useful to readers in obtaining a better understanding of how management analyzes the Bank's results and in assessing underlying business performance and related trends. Non-GAAP measures do not have any standardized meaning prescribed by GAAP and are unlikely to be comparable to any similar measures presented by other issuers.

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 evening and thank you for joining us.

We just issued a press release providing an update on our mortgage review. Following a short presentation by François Desjardins, President and CEO, François and other members of 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. Actual results may differ 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.

I will now turn the call over to François Desjardins.

François Desjardins, President and Chief Executive Officer

Thank you, Susan. Good evening everyone. Thank you for being with us on such a short notice.

As you have read in the press release, we have made significant progress towards the successful resolution of the mortgage loan review.

First, we have successfully reached an agreement with the third-party purchaser resolving the identified issues related to mortgage loans purchased by the TPP.

As part of this agreement, and after a comprehensive internal review of branch-originated mortgage loans, the Bank will repurchase 115 million dollars of mortgage loans during the third quarter of 2018. This is slightly lower than previously disclosed.

In the first quarter of 2018, as part of the resolution process, the Bank provided an additional cash reserve deposit of 61 million dollars with respect to branch-originated mortgage loans. Further to the TPP review, 6 million dollars will be returned to the Bank. The remainder will be kept by the TPP as additional credit enhancement to the program and it will be remitted to the Bank over time as these mortgage loans amortize. The TPP has agreed to continue to consider future purchases, subject to terms and conditions to be agreed upon at the time of each purchase, including a pre-funding audit of the mortgages to be purchased.

We now consider this matter resolved, although, as we have mentioned in the past, our 2018 funding plan does not currently include any securitization activities with the TPP.

Second and turning now to the CMHC securitization program. As part of a recent normal course audit of their insurance program, CMHC noted issues similar to those identified by the Bank in the fourth quarter, as certain additional mortgage loans were inadvertently portfolio insured. As a result, in addition to mortgage loans already repurchased from CMHC in the second quarter, the Bank has agreed to repurchase other mortgage loans that were inadvertently sold to CMHC. Insurance on the mortgage loans that were inadvertently portfolio insured will also be cancelled concurrently by CMHC.
I would like to specify that this has no impact on our clients in any way, as it does not pertain to individually insured mortgage loans. Therefore, it is business as usual for our clients.

To put this mortgage situation behind us, we have proposed to complete a review of all B2B Bank and branch-originated mortgage loans portfolio insured by CMHC but not sold as well as of all mortgage loans portfolio insured and sold to CMHC. The Bank estimates the total amount of mortgage loans still to be repurchased at between 125 and 150 million dollars. Although these mortgage loans are in good order, and have low loan to value ratios below 50% or below 65%, as they relate to our Equity 50, Equity 65 or self-employed programs, they were not eligible for the CMHC securitization programs. As previously indicated, these mortgage loans do not represent a credit issue as they are all performing in line with the bank's overall mortgage portfolio and are secured by valid collateral on a property.

The review, which includes an independent third-party review of process and sample results, is expected to be concluded before the end of the fiscal year. Furthermore, the Bank has also provided CMHC with a $20 million cash reserve deposit pending the conclusion of the review.

These transactions are not expected to have any material impact on operations, funding or capital.

This conduit remains available and we have been securitizing a few hundred million dollars in mortgage loans as usual in 2018.

Finally, as for new loan origination, as we had previously indicated, we have and will continue to implement improved processes and quality control measures. Additionally, changes in processes related to B20 are on track.

All in all, I am satisfied with the progress we have made and although not yet complete, management is confident about a full resolution. Again, managing this file has been a learning experience that will help us better manage our business. Implementing improved quality control and origination processes throughout the Group strengthens our compliance and risk management practices – in fact, it strengthens our foundation. It is also a reminder of why we have embarked on a path towards transformation – simplifying product lines and channels, eliminating paper processes and such not only lowers costs, they also improve the quality of our processes.

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 the conference operator for the question-and-answer session.

Q & A Session

Operator

I will now return the call to François Desjardins.

François Desjardins, President and Chief Executive Officer

Thank you for being with us today. We will speak again this Friday when we discuss our second quarter earnings results.