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Laurentian Bank reports first quarter 2017 results

MONTREAL, QUEBEC--(Marketwired - Feb. 28, 2017) - Laurentian Bank of Canada (TSX:LB)

The financial information reported herein is based on the condensed interim consolidated financial statements (unaudited) for the period ended January 31, 2017, 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 2017 Report to Shareholders is available on the Laurentian Bank's website at http://www.laurentianbank.ca/ and on SEDAR at http://www.sedar.com/.

Highlights of first quarter 2017

- Adjusted return on common shareholders' equity [1] of 11.8% and 10.7% on a reported basis
- Adjusted net income [1] up 21% year-over-year, and reported net income up 14%
- Adjusted efficiency ratio of 67.4%, an improvement of 290 bps year-over-year
- Common Equity Tier 1 ratio at 8.2%
- Loans to business customers up 23% year-over-year
- Residential mortgage loans through independent brokers and advisors up 16% year-over-year
- Credit losses of $9.0 million, stable year-over-year

In millions of Canadian dollars, except per share and percentage amounts (Unaudited)	FOR THE THREE MONTHS ENDED **JANUARY 31 2017**	JANUARY 31 2016	VARIANCE
Reported basis			
Net income	**$ 48.5**	$ 42.7	14 %
Diluted earnings per share	**$ 1.30**	$ 1.36	(4)%
Return on common shareholders' equity	**10.7 %**	11.6 %	
Efficiency ratio	**69.4 %**	70.3 %	
Common Equity Tier I capital ratio - All-in basis	**8.2 %**	7.7 %	
Adjusted basis [1]			
Adjusted net income	**$ 52.7**	$ 43.7	21 %
Adjusted diluted earnings per share	**$ 1.43**	$ 1.39	3 %
Adjusted return on common shareholders' equity	**11.8 %**	11.9 %	
Adjusted efficiency ratio	**67.4 %**	70.3 %	

(1) Certain measures presented throughout this document exclude the effect of certain amounts designated as adjusting items due to their nature or significance. Refer to the Non-GAAP Measures section for further details.

Laurentian Bank of Canada (the "Bank") reported net income of $52.7 million on an adjusted basis or $1.43 diluted per share for the first quarter of 2017, up 21% and 3% respectively, compared with $43.7 million or $1.39 diluted per share for the same period in 2016. Adjusted return on common shareholders' equity was 11.8% for the first quarter of 2017, compared with 11.9% a year ago. On a reported basis, net income totalled $48.5 million or $1.30 diluted per share for the first quarter of 2017, compared with net income of $42.7 million or $1.36 diluted per share for the same period last year. On a reported basis, return on common shareholders' equity was 10.7% for the first quarter of 2017, compared with 11.6% for the first quarter of 2016. Reported results for the first quarter of 2017 and for the first quarter of 2016 included adjusting items, such as costs related to the integration of the Canadian equipment financing and corporate financing activities of CIT Group Inc. ("CIT Canada"), as detailed in the Non-GAAP Measures section.

François Desjardins, President and Chief Executive Officer, commented on the Bank's results and financial condition: "This quarter we made great progress on the effective integration of CIT Canada into LBC Capital and continued to focus on the optimization of our Retail activities. Furthermore, our efforts to improve execution and efficiency, as well as our low credit losses contributed to strengthening our financial position. We are actively working towards our 2019 financial goals and are progressing in key elements of our transformation plan."

Consolidated Results

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.

The following table presents the impact of adjusting items on reported results.

IMPACT OF ADJUSTING ITEMS

	FOR THE THREE MONTHS ENDED		
In thousands of Canadian dollars, except per share amounts (Unaudited)	**JANUARY 31 2017**	OCTOBER 31 2016	JANUARY 31 2016
Impact on net income			
Reported net income	**$ 48,456**	$ 18,383	$ 42,676
Adjusting items, net of income taxes			
Impairment and restructuring charges (1)			
Impairment of goodwill, software and intangible assets, and premises and equipment	**-**	16,178	-
Provisions related to lease contracts	**-**	8,675	-
Severance charges	**-**	3,200	-
Other restructuring charges	**692**	-	-
	692	28,053	-
Items related to business combinations			
Amortization of net premium on purchased financial instruments (2)	**758**	868	1,032
Amortization of acquisition-related intangible assets (3)	**178**	-	-
Costs related to business combinations (4)	**2,657**	3,238	-
	3,593	4,106	1,032
	4,285	32,159	1,032
Adjusted net income	**$ 52,741**	$ 50,542	$ 43,708
Impact on diluted earnings per share			
Reported diluted earnings per share	**$ 1.30**	$ 0.45	$ 1.36
Adjusting items			
Impairment and restructuring charges	**0.02**	0.89	-
Items related to business combinations	**0.11**	0.13	0.03

	0.13	1.02	0.03
Adjusted diluted earnings per share	**$ 1.43**	$ 1.47	$ 1.39

(1) Impairment and restructuring charges result from the realignment of strategic priorities of the Bank's retail activities. They are comprised of impairment of goodwill, software and intangible assets, and premises and equipment, as well as provisions related to lease contracts, severance charges and other restructuring charges. These charges have been designated as adjusting items due to their nature and the significance of the amounts.

(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.

(3) The amortization of intangible assets related to the acquisition of CIT Canada is considered an adjusting item since it represents, according to management, a significant non-cash and non-recurring adjustment. The amortization of acquisition-related intangible assets is included in the line item Other non-interest expenses in the Consolidated Statement of Income.

(4) Costs related to the integration of CIT Canada and transaction costs.

Three months ended January 31, 2017 financial performance

Net income was $48.5 million or $1.30 diluted per share for the first quarter of 2017, compared with $42.7 million or $1.36 diluted per share for the first quarter of 2016. Adjusted net income was $52.7 million for the first quarter of 2017, up 21% from $43.7 million for the first quarter of 2016, while adjusted diluted earnings per share were $1.43, up 3% compared with $1.39 in the first quarter of 2016. Growth in adjusted diluted earnings per share compared with the first quarter of 2016 was impacted by the common share issuance at the end of fiscal 2016, as well as by higher dividends on the new series of preferred shares issued in March 2016.

Total revenue

Total revenue increased by $18.4 million or 8% to $241.6 million for the first quarter of 2017 from $223.2 million for the first quarter of 2016, mainly driven by growth in other income, as detailed below.

Net interest income increased by $4.2 million or 3% to $153.7 million for the first quarter of 2017, from $149.5 million for the first quarter of 2016. The increase was mainly due to strong volume growth in the loan portfolios, both organic and from acquisitions, partly offset by tighter margins stemming from the very low interest rate environment. Net interest margin stood at 1.66% for the first quarter of 2017, a decrease of 12 basis points compared with the first quarter of 2016, due to the persistent pressure on lending rates and the higher proportion of lower-yielding residential mortgage loans, partly offset by strong organic growth in loans to business customers and by the newly acquired commercial loan and equipment financing portfolios.

Other income increased by $14.2 million amounting to $87.9 million for the first quarter of 2017, compared with $73.7 million for the first quarter of 2016. Income from brokerage operations increased by $6.6 million, reflecting growth in underwriting activities and improved market conditions compared with the first quarter of 2016. Income from treasury and financial markets operations increased by $3.4 million from $1.7 million in the first quarter of 2016, mainly as a result of higher net securities gains, partly offset by a lower contribution from trading activities. Fees and commissions on loans and deposits increased by $1.7 million, mainly driven by higher lending fees due to increased activity in the commercial portfolios compared with the first quarter of 2016. Other income in the first quarter of 2017 also included a $2.9 million contribution stemming from the newly acquired CIT Canada operations.

Amortization of net premium on purchased financial instruments

For the first quarter of 2017, the amortization of net premium on purchased financial instruments amounted to $1.0 million, compared with $1.4 million for the first quarter of 2016. Refer to Note 13 in the condensed interim consolidated financial statements (unaudited) for additional information.

Provision for credit losses

The provision for credit losses remained relatively stable at $9.0 million compared with $9.1 million for the first quarter of 2016. This low level of credit losses continues to reflect the overall underlying good credit quality of the loan portfolios.

Non-interest expenses

Non-interest expenses amounted to $167.7 million for the first quarter of 2017, an increase of $10.7 million compared with the first quarter of 2016. Adjusted non-interest expenses increased by $5.9 million or 4% to $162.9

million for the first quarter of 2017, compared with $157.0 million for the first quarter of 2016, mainly as a result of the acquisition of CIT Canada.

Salaries and employee benefits increased by $4.8 million or 6% to $89.6 million for the first quarter of 2017, compared with the first quarter of 2016, due to regular annual salary increases, higher performance-based compensation, higher pension costs and the addition of employees from CIT Canada.

Premises and technology costs increased by $1.0 million to $46.3 million compared with the first quarter of 2016. The increase mostly stems from an increase in technology and rental costs from the CIT Canada acquisition, partly offset by the lower amortization expense resulting from impairment charges on assets recorded in the fourth quarter of 2016.

Other non-interest expenses slightly increased by $0.4 million to $27.2 million compared with the first quarter of 2016, as a result of continued focus on cost control.

Impairment and restructuring charges amounted to $0.9 million for the first quarter of 2017 and included salaries, communication expenses and professional fees related to the optimization of the Bank's Retail activities and planned branch mergers, as previously announced.

Costs related to business combinations amounted to $3.6 million for the first quarter of 2017 and included severance charges, technology costs and professional fees for the integration of CIT Canada operations.

The adjusted efficiency ratio was 67.4% for the first quarter of 2017, compared with 70.3% for the first quarter of 2016. The adjusted operating leverage was positive year-over-year, driven by both revenue growth and expense control.

Income taxes

For the quarter ended January 31, 2017, the income tax expense was $15.4 million and the effective tax rate was 24.2%. 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, as well as the lower taxation level on revenues from insurance operations. For the quarter ended January 31, 2016, the income tax expense was $13.0 million and the effective tax rate was 23.4%. Year-over-year, the higher effective tax rate for the quarter ended January 31, 2017 resulted from the higher level of domestic taxable income.

Financial Condition

As at January 31, 2017, the Bank's total assets amounted to $43.1 billion, an increase of $0.1 billion compared with $43.0 billion as at October 31, 2016. The increase mainly reflects loan growth of $0.4 billion, partly offset by a decrease in other assets of $0.2 billion as explained below.

Liquid assets

Liquid assets consist of cash, deposits with other banks, securities and securities purchased under reverse repurchase agreements. As at January 31, 2017, these assets totalled $8.7 billion, essentially unchanged compared with October 31, 2016.

Overall, the Bank continues to prudently manage the level of liquid assets and to hold sufficient cash resources from various sources in order to meet its current and future financial obligations, under both normal and stressed conditions.

Loans

Loans and bankers' acceptances, net of allowances, stood at $33.6 billion as at January 31, 2017, up $0.4 billion or 1% from October 31, 2016.

Personal loans amounted to $6.4 billion and decreased by $0.2 billion since October 31, 2016, mainly due to net repayments in the investment loan portfolio, reflecting expected attrition.

Residential mortgage loans stood at $17.2 billion as at January 31, 2017, an increase of $0.4 billion or 3% since October 31, 2016. This reflected continued growth in residential mortgage loans distributed through independent brokers and advisors, as well as the acquisition of insured mortgage loans originated by third-parties as part of a program initiated by the Bank in 2016 to optimize the usage of National Housing Act mortgage-backed securities (NHA MBS) allocations.

Commercial loans, including acceptances, increased by $49.8 million or 1% since October 31, 2016, mainly due to increased volumes from syndication activities. Commercial mortgage loans increased by $30.1 million or 1% over the same period. When combined, these loans to business customers amounted to $10.1 billion as at

January 31, 2017, up 23% year-over-year as a result of strong organic growth and due to the acquisition of CIT Canada's $0.9 billion net commercial loan portfolios in the fourth quarter of 2016.

Other assets

Other assets decreased by $0.2 billion as at January 31, 2017, compared with October 31, 2016, primarily reflecting a decrease in cheques and other items in transit and lower derivatives.

Liabilities

Deposits decreased by $0.9 billion or 3.2% to $26.7 billion as at January 31, 2017, compared with October 31, 2016. During the quarter, the Bank actively worked to gradually reduce its excess liquidity levels and to optimize its funding mix. Personal deposits stood at $20.5 billion as at January 31, 2017, down $0.5 billion compared with October 31, 2016, mainly driven by lower term deposits sourced through independent brokers and advisors. Business and other deposits decreased by $0.4 billion to $6.2 billion over the same period. Personal deposits represented 77% of total deposits as at January 31, 2017, compared with 76% as at October 31, 2016, and contributed to the Bank's good liquidity position.

Debt related to securitization activities was essentially unchanged compared with October 31, 2016 and stood at $7.3 billion as at January 31, 2017. During the quarter, the Bank continued to optimize this preferred source of term funding for residential mortgages.

Subordinated debt stood at $199.9 million as at January 31, 2017, compared with $199.8 million as at October 31, 2016. The subordinated debt is an integral part of the Bank's regulatory capital and affords its depositors additional protection.

Shareholders' equity and regulatory capital

Shareholders' equity stood at $2,007.8 million as at January 31, 2017, compared with $1,974.8 million as at October 31, 2016. This $33.0 million increase is mainly explained by the net income contribution for the three-month period, net of declared dividends.

The Bank's book value per common share appreciated to $48.87 as at January 31, 2017 from $47.92 as at October 31, 2016. There were 33,941,531 common shares outstanding as at February 22, 2017.

The Common Equity Tier 1 capital ratio stood at 8.2% as at January 31, 2017, compared with 8.0% as at October 31, 2016 and 7.7% as at January 31, 2016. The increase compared with October 31, 2016 was mainly driven by internal capital generation, lower growth in risk-weighted exposures, as well as by actuarial gains on pension plans.

Optimization of Retail Activities

As part of the announcement in September 2016 to merge 50 of its branches, going from 150 to 100 branches over the next 18 months, the Bank has launched several initiatives to advance and accelerate the transformation. One branch was merged in December 2016, while 33 branches will be merged at the end of April 2017 and another 7 branches at the end of June 2017. In addition, 23 branches will become advice-only at the end of April 2017 to further optimize Retail activities. These actions are in line with customer preferences towards online banking over branch visits. The Bank's physical branch network is evolving and will be more focused on delivering financial advice to customers seeking to improve their overall financial health.

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 readers 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, as well as developments in the technological environment. Furthermore, these factors include the ability to execute the Bank's 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 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, reputational risks and the reaction of the Bank's and CIT Canada's customers to the transaction, and diversion of management time on acquisition-related issues.

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 "Risk Appetite and Risk Management Framework" on page 37 of the Bank's Management's Discussion and Analysis as contained in the Bank's 2016 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 2017 Report to Shareholders (which includes the condensed interim consolidated financial statements (unaudited)), 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 conference call to be held at 3:30 p.m. Eastern Time on February 28, 2017. The live, listen-only, toll-free, call-in number is 1-800-263-0877, code 3493742. A live webcast will also be available on the Bank's website under the Laurentian Bank tab, Investors, Quarterly Results.

The conference call playback will be available on a delayed basis at any time from 6:30 p.m. on February 28, 2017 until 6:30 p.m. on March 30, 2017, on 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 financial institution whose activities extend across Canada. Founded in 1846, its mission is to help customers improve their financial health and it is guided by values of proximity, simplicity and honesty.

The Bank serves one and a half million clients throughout the country and employs more than 3,600 individuals, which makes it a major player in numerous market segments. The Bank caters to the needs of retail clients via its branch network based in Quebec. The Bank also stands out for its know-how among small and medium-sized enterprises and real estate developers owing to its specialized teams across Canada. Its subsidiary B2B Bank is, for its part, one of the major Canadian leaders in providing banking products and services and investment accounts through financial advisors and brokers. Laurentian Bank Securities offers integrated brokerage services to a clientele of institutional and retail investors.

The Bank has more than $43 billion in balance sheet assets and more than $32 billion in assets under administration.

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