Laurentian Bank reports third quarter 2016 results

Highlights of third quarter 2016

- Solid results for the quarter, showing good progression on several fronts of the strategic plan
  - Adjusted net income of $46.1 million (reported $45.1 million) or $1.37 per share (reported $1.34), up 2% and down 7% year-over-year, respectively
  - Charge for the strategic decision to terminate a technology agreement for an amount of $3.1 million ($2.3 million after income taxes) or $0.07 per share
  - Adjusted return on common shareholders' equity of 11.4% for the third quarter of 2016, or 12.0% excluding the aforementioned charge
- Good credit quality with credit losses of $8.2 million
- Strong organic loan growth:
  - Loans to business customers up 16% year-over-year
  - Residential mortgage loans through B2B Bank independent brokers and advisors up 36% year-over-year
- CET1 capital ratio at 7.9%
- Announcement of the proposed acquisition of CIT Canada and concurrent issuance of subscription receipts

	FOR THE THREE MONTHS ENDED			FOR THE NINE MONTHS ENDED		
In millions of Canadian dollars, except per share and percentage amounts (Unaudited)	**JULY 31 2016**	JULY 31 2015	VARIANCE	**JULY 31 2016**	JULY 31 2015	VARIANCE
Reported basis						
Net income	**$ 45.1**	$ 44.2	2 %	**$ 133.5**	$ 121.2	10 %
Diluted earnings per share	**$ 1.34**	$ 1.44	(7) %	**$ 4.13**	$ 3.94	5 %
Return on common shareholders' equity	**11.2 %**	12.1 %		**11.7 %**	11.3 %	
Efficiency ratio	**70.1 %**	71.1 %		**70.3 %**	72.2 %	
Common Equity Tier I capital ratio – All-in basis	**7.9 %**	7.7 %				
Adjusted basis [1]						
Adjusted	**$ 46.**	$ 45.	2 %	**$ 136.**	$ 128.	7 %

net income	**1**	3		**5**	1	
Adjusted diluted earnings per share	**$ 1.37**	$ 1.48	(7) %	**$ 4.23**	$ 4.17	1 %
Adjusted return on common shareholders' equity	**11.4 %**	12.4 %		**12.0 %**	12.0 %	
Adjusted efficiency ratio	**70.1 %**	71.1 %		**70.3 %**	71.5 %	

[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, Aug. 31, 2016 /CNW Telbec/ - Laurentian Bank of Canada (the Bank) reported net income of $46.1 million on an adjusted basis or $1.37 diluted per share for the third quarter of 2016, up 2% and down 7% respectively, compared with $45.3 million or $1.48 diluted per share for the same period in 2015. Adjusted return on common shareholders' equity was 11.4% for the third quarter of 2016, compared with 12.4% a year ago. On a reported basis, net income totalled $45.1 million or $1.34 diluted per share for the third quarter of 2016, compared with net income of $44.2 million or $1.44 diluted per share for the same period last year. On a reported basis, return on common shareholders' equity was 11.2% for the third quarter of 2016, compared with 12.1% for the third quarter of 2015. Reported results for the third quarter of 2016 and for the third quarter of 2015 included adjusting items, as detailed in the Adjusted Financial Measures section. In addition, results for the third quarter of 2016 include a $3.1 million charge for the strategic decision to terminate a technology agreement ($2.3 million after income taxes) or $0.07 per share.

François Desjardins, President and Chief Executive Officer, commented on the Bank's results and financial condition: "The proposed acquisition of CIT Canada announced this quarter will contribute directly towards increasing the percentage of revenue generated by our Business Services activities. Furthermore, our focus on our growth targets continues to generate tangible returns, as evidenced by the strong growth in our loans to business customers and residential mortgage loans from B2B Bank through independent brokers and advisors during the quarter. Looking ahead, we are diligently working towards our 2019 financial goals and are progressing in key elements of our strategic plan. In this regard, we have entered into a new outsourcing agreement with IBM Canada to manage our infrastructure and storage operations. This will provide us with significant savings going forward, as well as additional flexibility."

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.

LAURENTIAN BANK

IMPACT OF ADJUSTING ITEMS ON REPORTED RESULTS

In thousands of Canadian dollars, except per share amounts (Unaudited)	FOR THE THREE MONTHS ENDED			FOR THE NINE MONTHS ENDED	
	JULY 31 2016	APRIL 30 2016	JULY 31 2015	**JULY 31 2016**	JULY 31 2015
Impact on net income					
Reported net income	**$ 45,137**	$ 45,714	$ 44,166	**$ 133,527**	$ 121,189
Adjusting items, net of income taxes					
Amortization of net premium on purchased financial instruments [1]	**930**	982	1,125	**2,944**	3,333
Retirement compensation charge [2]	**—**	—	—	**—**	3,550
	930	982	1,125	**2,944**	6,883
Adjusted net income	**$ 46,067**	$ 46,696	$ 45,291	**$ 136,471**	$ 128,072
Impact on diluted earnings per share					
Reported diluted earnings per share	**$ 1.34**	$ 1.43	$ 1.44	**$ 4.13**	$ 3.94
Adjusting items					
Amortization of net premium on purchased financial instruments [1]	**0.03**	0.03	0.04	**0.10**	0.12
Retirement compensation charge [2]	**—**	—	—	**—**	0.12
	0.03	0.03	0.04	**0.10**	0.24
Adjusted diluted earnings per share [3]	**$ 1.37**	$ 1.46	$ 1.48	**$ 4.23**	$ 4.17

[1] 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.
[2] 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.
[3] The impact of adjusting items on a per share basis does not add due to rounding for the nine months ended July 31, 2015.

Three months ended July 31, 2016 financial performance

Net income was $45.1 million or $1.34 diluted per share for the third quarter of 2016, compared with $44.2 million or $1.44 diluted per share for the third quarter of 2015. Adjusted net income was $46.1 million for the third quarter of 2016, up 2% from $45.3 million for the third quarter of 2015, while adjusted diluted earnings per share were $1.37, down 7% compared with $1.48 in the third quarter of 2015. Net income available to common shareholders in the third quarter of 2016 included the initial partial dividend on the Preferred Shares Series 15 issued in March 2016 amounting to $1.8 million (or $0.06 per share).

Total revenue

Total revenue increased by $2.4 million or 1% to $229.1 million for the third quarter of 2016 from $226.6 million for the third quarter of 2015, driven by growth in other income.

Net interest income increased by $0.8 million or 1% to $148.0 million for the third quarter of 2016, from $147.2 million for the third 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 1.69% for the third quarter of 2016, a decrease of 16 basis points compared with the third quarter of 2015, due to the persistent pressure on lending rates, higher proportion of lower-yielding residential mortgage loans and higher liquid assets held throughout the quarter.

Other income increased by $1.7 million amounting to $81.1 million for the third quarter of 2016, compared with $79.4 million for the third quarter of 2015, essentially as a result of an increase of $3.2 million in income from brokerage operations. This was partly offset by a decrease of $0.5 million in income from treasury and financial markets and by a $0.7 million lower contribution from investment accounts.

Amortization of net premium on purchased financial instruments

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

Provision for credit losses

The provision for credit losses increased to $8.2 million for the third quarter of 2016 from $7.0 million for the third quarter of 2015. This low level of credit losses continues to reflect the overall underlying good quality of the loan portfolios.

Non-interest expenses

Non-interest expenses amounted to $160.5 million for the third quarter of 2016, a decrease of $0.6 million compared with the third quarter of 2015.

Salaries and employee benefits decreased by $2.3 million or 3% to $82.4 million for the third quarter of 2016, compared with the third quarter of 2015, in part due to lower headcount from the restructuring of certain activities in the fourth quarter of 2015, lower share-based compensation and higher capitalized project costs as the Bank is actively working on rebuilding its account management platform. This was partly offset by regular annual salary increases.

Premises and technology costs decreased by $0.8 million to $49.3 million compared with the third 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. This was partly offset by a $3.1 million charge for the strategic decision to terminate a technology agreement. As part of its transformation plan, the Bank is optimizing its technology architecture and entered into a new outsourcing agreement with IBM Canada. This is expected to generate significant savings over the next five years and will provide added flexibility in line with the Bank's strategies.

Other non-interest expenses increased by $2.6 million to $28.7 million compared with the third quarter of 2015, mainly due to the annual increase of CDIC premiums and other miscellaneous items.

The adjusted efficiency ratio was 70.1% for the third quarter of 2016, compared with 71.1% for the third quarter of 2015. The adjusted operating leverage was positive year-over-year.

Income taxes

For the quarter ended July 31, 2016, the income tax expense was $14.0 million and the effective tax rate was 23.7%. 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 July 31, 2015, the income tax expense was $12.9 million and the effective tax rate was 22.6%. Year-over-year, the higher effective tax rate for the quarter ended July 31, 2016 resulted from the lower level of non-taxable dividend income.

Financial Condition

Balance sheet assets amounted to $40.3 billion as at July 31, 2016, up $0.6 billion or 2% from $39.7 billion as at October 31, 2015. This increase mainly reflects loan growth of $2.0 billion, partly offset by a decrease in liquid assets, as explained below.

Liquid assets

Liquid assets, including cash, deposits with other banks, securities and securities purchased under reverse repurchase agreements, totalled $7.6 billion as at July 31, 2016, a decrease of $1.0 billion compared with October 31, 2015. The decrease mostly stems from the repayment of matured debt related to securitization activities, as well as, to a lesser extent, to lower trading assets. Over the last nine months, the Bank has increased its securitization activities to improve its funding mix and raised broker-sourced deposits to meet additional liquidity needs, including in part to fund the anticipated CIT Canada transaction.

Loans

Loans and bankers' acceptances, net of allowances, stood at $31.9 billion as at July 31, 2016, up $2.0 billion or 7% 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 $543.2 million or 14% since October 31, 2015, led by syndication activities. Commercial mortgage loans increased by $348.8 million or 8% over the same period. When combined, these loans to business customers amounted to $8.9 billion as at July 31, 2016, up 16% year-over-year.

The $1.4 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 $6.9 billion as at July 31, 2016, up 36% year-over-year. Personal loans decreased by $299.2 million or 4% 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 $127.8 million as at July 31, 2016, down $10.9 million compared with October 31, 2015. This decrease was due to the settlement of impaired commercial mortgage loans during the first quarter of the year. Over the last three months, impaired commercial loans have increased by $13.0 million, mainly due to a well-secured single account. Since the beginning of the year, 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 $1,823.4 million as at July 31, 2016, compared with $1,587.0 million as at October 31, 2015. This $236.4 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 nine-month period, net of declared dividends. In addition, unfavourable changes in pension benefit plans stemming from market conditions and changes to actuarial assumptions particularly in the first quarter of the year partly offset this increase in shareholders' equity. The Bank's book value per common share was $48.23 as at July 31, 2016, up $0.89 compared with $47.34 as at October 31, 2015. There were 30,496,379 common shares outstanding as at August 25, 2016.

Furthermore, as part of the proposed acquisition of CIT Canada, the Bank issued 3,247,600 subscription receipts on July 20, 2016, at a price of $47.85 per receipt. The proceeds of the offering have been placed in escrow until closing of the acquisition, at which point the subscription receipts will be automatically exchanged, on a one-for-one basis, for common shares of the Bank. This offering will provide net proceeds of $149.2 million, which will be recorded upon closing of the acquisition.

The Common Equity Tier 1 capital ratio stood at 7.9% as at July 31, 2016, compared with 7.9% as at April 30, 2016 and 7.6% as at October 31, 2015. The increase compared with October 31, 2015 was driven by the $67.5 million common share issuance that closed in December 2015, internal capital generation and favourable changes in the value of available-for-sale securities. This was partly offset by growth in risk-weighted exposures, as well as by actuarial losses on pension benefit plans stemming from the decline of the discount rate.

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, as well as, the ability to execute the Bank's transformation plan.

With respect to the proposed acquisition of the Canadian equipment financing and corporate financing activities of CIT Group Inc. ("CIT Canada"), the Bank also cautions readers regarding: the conditions in the acquisition agreement not being satisfied on a timely basis or at all, failure to receive regulatory approvals or other approvals on a timely basis or at all and changes in the terms of the proposed transaction that may need to be modified to satisfy such approvals or conditions.

With respect to the anticipated benefits from the acquisition and statements with regards to this transaction being accretive to earnings, such factors also include, but are not limited to: synergies may not be realized in the time frame anticipated, 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 Annual Report for the year ended October 31, 2015, 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 Third 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 Third Quarter 2016 conference call to be held at 2:00 p.m. Eastern Time on August 31, 2016. The live, listen-only, toll-free, call-in number is 1-800-505-9573, code 8701784. 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 5:00 p.m. on August 31, 2016 until 5:00 p.m. on September 30, 2016, 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 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 $40 billion in balance sheet assets and more than $43 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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