Laurentian Bank Quarterly Results Conference Call

Wednesday, December 10, 2014 – 2:00 PM ET

C O R P O R A T E P A R T I C I P A N T S

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P R E S E N T A T I O N

Operator

Bienvenue à la conférence de la Banque Laurentienne. Welcome to the Laurentian Bank conference call.

Je cède maintenant la parole à Madame Gladys Caron. I would now like to turn the meeting over to Ms. Gladys Caron.

À vous la parole. Please go ahead, Ms. Caron.

Gladys Caron, Vice President, Public Affairs, Communications and Investor Relations

Merci. Bienvenue. Good afternoon everyone. Our press release was issued today on Canada Newswire and is posted on our Web site. As well, our 2014 financial statements, MD&A and annual report can be found on our Web site. This afternoon's overview of our results for the year and for the fourth quarter will be provided by our President and CEO, Réjean Robitaille and our CFO, Michel C. Lauzon.

Other members of our senior management team are also present on this call to answer any questions. You will find their names and titles on Slide 21 of the presentation available on our Website. Réjean Robitaille and Michel Lauzon will refer to that presentation throughout their speeches.

During this conference call, forward-looking statements may be made, and it is possible that actual results may differ materially 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 floor over to Réjean Robitaille.

Réjean Robitaille, President and Chief Executive Officer, Laurentian Bank

Thank you, Gladys. Good afternoon ladies and gentlemen.

It is with enthusiasm that we announced our results this morning for 2014. With adjusted net income and earnings per share up by 5% compared with last year, 2014 has been the 8th consecutive year of record profitability for Laurentian Bank.

I am particularly proud of these results as they were obtained during a year of transition. Finalizing the integration of our two acquired businesses was one of our priority, which was completed successfully. Furthermore, I am pleased to show that we were also able at the same time to generate solid growth in our prioritized activities.

More specifically, our commercial loan and BA's portfolio grew substantially again this year — rising by 15% over the previous year. This marks the 6th consecutive quarter where our commercial loan portfolio's annual growth rate was at a mid to high double-digit level. For their part, commercial mortgage loans also posted a solid increase of 11%.

Mortgage loans at B2B Bank — another high potential segment —grew by 3% over the previous year and mostly in the second half of 2014. It is only since late last spring that we reactivated our distribution strategies in the mortgage channel, including our line of alternative mortgages.
As such, we are very satisfied with the results obtained in this short timeframe.

In addition, our focus on other income continues as revenue from credit cards, insurance and mutual funds were up 16% year-over-year.
Thanks to our disciplined cost control, we also succeeded in substantially improving our adjusted efficiency ratio, which dropped by 180 basis points, net of integration and restructuring charges.

Furthermore, our solid track record in the area of credit management testifies of our ability to grow while maintaining sound portfolios.

Our progress over the last several years has led DBRS to increase the Bank's deposit and senior debt ratings from BBB (high) to A (low) in 2014. This upgrade, one of the few to any Canadian bank since 2008, is of particular interest as it improves the Bank's access to the institutional investors market.

As shown on slide 4, these positive results, the Bank's solid capital position and our confidence in the Bank's business plan have led the Board to raise the quarterly dividend by 4% —bringing it to 54¢ per share. This represents the 9th dividend increase in five years. Since 2010, the dividend has grown by 50%.

With this performance, the Bank has reached all of its financial objectives and results have significantly increased from last year, as presented on page 5. Our common equity tier 1 capital ratio also posted significant growth during the quarter and over the course of the year to now attain the level of 7.9%.

When we announced our objectives for 2014 last year, we mentioned that we would prioritize a certain number of strategies during the year. And this is what we did. Completing the integrations of MRS Companies and AGF Trust was certainly at the top of our priorities. As planned, these integrations were finalized during the year. We also posted very positive growth within our Business Services. In addition, our efforts to diversify our activities towards noninterest rate-related sources of other income proved successful, with, for example, our revenues generated from mutual funds having grown by 30%. For its part, our team specialized in the area of institutional brokerage achieved a number of milestones in its development and is now covering close to 100 small-cap companies in specific sectors. Finally, from a cost control standpoint, we succeeded in reducing our expenses compared to last year, through the disciplined expense management across the organization and via the planned cost synergies at B2B Bank.

Thanks to all of these initiatives, the year just ended was marked by solid achievements.

I will now call upon Michel to review our 2014 financial results.

Michel C. Lauzon, Executive Vice-President and Chief Financial Officer, Laurentian Bank

Thank you Réjean.

As Réjean mentioned, 2014 was a strong year for Laurentian Bank, as shown on slide 8. Before getting into the details of our performance, I would like to highlight that the adjusted results we disclose today exclude, as usual, items related to the acquisition and integration of MRS Companies and AGF Trust, as well as restructuring charges of $7.6 million, pre-tax, incurred in the fourth quarter. This restructuring initiative is aimed at further optimising certain retail and corporate activities to bolster efficiency. The main impact was in Retail Services, where we have changed the management structure to a lighter and more efficient one.

Net income for the 2014 financial year totalled $140.4 million, or $4.50 per share, representing increases of 17% and 18% year-over-year respectively. Adjusted net income for 2014 increased by 5%, to $163.6 million, while diluted earnings per share increased to $5.31, also a 5% increase from last year. Adjusted ROE for 2014 stood at 11.9%, while the adjusted efficiency ratio improved to 71.0%, a 180 bps decrease compared to last year.

On a quarterly basis, our adjusted net income for the fourth quarter of 2014 totaled $42.6 million, or $1.39 per share, an 11% and 10% increase respectively compared with last year. Our adjusted

ROE also improved by 50 bps, to 12.2%, and the adjusted efficiency ratio decreased to 70.3%.

Turning to the drivers of our performance on Page 9, net interest income for 2014 decreased slightly to $561 million. The decrease was mainly due to the expected margin compression, the reduced level of investment loans as well as lower prepayment penalties on residential mortgages, which were partly offset by a better loan portfolio mix, representing an overall 1 basis point decline in NIM.

For the fourth quarter of 2014, NIM was down 4 basis points sequentially, owing to seasonally lower prepayment penalties, shaving 2 basis points, and to a higher level of liquidity maintained during the quarter as the Bank raised additional institutional funding in anticipation of stronger loan demand in upcoming quarters. While not impacting net interest income, this did compress NIM by an additional 2 basis points in the quarter.

Other income for 2014 rose by 6% year over year. Several items contributed to this increase: income from sales of mutual funds were up by 30%, lending fees increased by 16%, insurance income grew by 14% while brokerage operations were up by 5%, largely fuelled by improved underwriting activity in small-cap securities. These strong improvements were partly offset by lower income from treasury and financial market operations and income from investment accounts.

Credit quality remained solid throughout the year, as shown on slide 10. The provision for loan losses increased by $6.0 million to $42.0 million for 2014, reflecting growth in the underlying portfolios. Loan losses in the commercial mortgage and commercial loan portfolios increased from the very low levels of 2013, which had benefitted from favourable settlements and improvements. These increases were partly offset by lower loan losses on personal loans and residential mortgages.

In the fourth quarter of 2014, the loan loss provision was $10.5 million, unchanged sequentially, and $0.5 million higher than for the fourth quarter of 2013. Loan losses on personal loans decreased by $2.4 million from the fourth quarter of 2013, reflecting lower provisions on point-of sale and investment loan portfolios. Loan losses on the combined commercial mortgage and commercial loan portfolios remained very low, at less than $1 million in the quarter.

At 15 basis points for the year 2014, on page 11, Laurentian Bank's ratio of loan losses as a percentage of average loans and BA's continues to stand out among the major Canadian banks. Credit quality remains a strength in Laurentian Bank's business model.

Turning to non-interest expenses, we have continued to work diligently to reduce our costs in 2014. Consequently, adjusted non-interest expenses, which exclude T&I Costs and restructuring charges, decreased by 1% year-over-year to $620.8 million in 2014. The adjusted efficiency ratio improved from 72.8% in 2013 to 71.0% in 2014. The significant improvement when compared to last year reflects the full impact of integration synergies at B2B Bank, rigorous cost control and continuous efforts to improve efficiency.

For the fourth quarter of 2014, non-interest expenses excluding T&I Costs and restructuring charges decreased to $155.7 million when compared to the corresponding quarter last year. Moreover, in line with our 2014 financial objectives, adjusted operating leverage for the quarter continued to be positive year-over-year.

We will now turn to the performance of our business segments.

Slide 13 shows the strong performance of the Personal & Commercial business segment. Its contribution to adjusted net income was $121.9 million for 2014, an increase of 15% compared to a year earlier. A better portfolio mix combined with solid organic growth in the commercial portfolios contributed to the $8.1 million increase in net interest income, partly offset by margin compression and lower retail mortgage prepayment penalties. Solid growth in several other income items also positively impacted results with a 6% overall increase compared to last year. Sustained efforts and strategies to increase the sale of mutual funds, combined with higher insurance income and lending fees, contributed to the increase. Loan losses increased by $11.8 million to $33.2 million, from $21.4 million for 2013, as losses last year had been abnormally low, especially in the business portfolios which had witnessed net recoveries. Excluding restructuring charges, non-interest expenses decreased by 3% from a year earlier. While we continue to invest in the Business Services sector, lower salaries and other expenses, as a result of the earlier optimization of certain retail processes as well as disciplined control over discretionary expenses, largely accounted for this improvement.

As shown on Slide 14, B2B Bank's contribution to adjusted net income was $57.6 million for 2014, compared with $59.3 million for 2013, a 3% decline, mainly due to lower net interest income. Deleveraging by investors, which puts pressure on the investment loan portfolio, as well as margin compression from certain deposits and mortgages, were the main factors contributing to the decrease. The B2B business segment deposits declined 3% on average during 2014 as a result of the Bank's ongoing funding strategy which focusses on direct client deposits, increasing its access to institutional funding sources, and reducing the overall contribution of Broker-sourced funding in order to minimize overall funding costs.

As explained last year, 2014 being a transition year, focus has been on completing the integration of the MRS Companies and of AGF Trust, in order to maximize expense synergies. Ramping-up efforts to generate revenue synergies will be the priority of next year.

The provision for loan losses improved significantly to $8.8 million, compared with $14.6 million in 2013. Excluding T&I Costs of $12.9 million for all of 2014, non-interest expenses decreased by 5%, reflecting the full impact of integration synergies, as the integration of both the MRS Companies and AGF Trust are now complete.

As shown on Slide 15, Laurentian Bank Securities & Capital Markets' contribution to net income reached $10.3 million in 2014, a level similar to the previous year. Total revenue increased to $68.4 million mainly as a result of higher underwriting fees on small-cap equity securities, while non-interest expenses rose by $0.9 million due to higher performance-based compensation, commissions and transaction fees.

Our capital ratios continue to strengthen, with the CET 1 ratio now at 7.9%, compared to 7.6% at the end of 2013. Is it however important to note that, in contrast to several Canadian banks that use the advanced internal rating-based approach, we use the Standardized Methodology to calculate regulatory capital. In order to give a better understanding of the impact of the Standardized Methodology versus AIRB, we compare on slide 16 the CET1 ratios of the 6 larger banks with the proforma CET1 of Laurentian Bank. Based on certain assumptions and on current Basel rules, our CET1 ratio would increase by more than 200 bps and would exceed 10%. However, with discussions at the international level regarding these methodologies still ongoing, it remains preferable for the time being to maintain our decision to manage the pace of the implementation of the AIRB approach until clearer rules emerge.

In addition to our results, we have published this morning our financial objectives for 2015. The slide 17 highlights some of the key assumptions behind our financial targets for 2015. The Bank expects to generate low-single digit loan growth in 2015. Continuing double-digit business loan growth should be tapered by low single digit growth in our retail mortgage portfolio, with growth stemming mostly from B2B Bank. Investment loans at B2B Bank should decline further as investors continue to deleverage, albeit at a slower rate thanks to stronger gross sales.

We expect that the net interest margin in 2015 should be stable at approximately the 2014 level of 1.65%, with some fluctuations due to shifting liquidity levels and normal seasonal patterns in mortgage prepayment penalties. Loan losses as a percentage of average loans and BA's should remain stable during 2015, while the efficiency ratio should remain below 71% on average in 2015, thanks to positive operating leverage. However, the recently announced increase In the Québec payroll taxes will impact eps by approximately 8 cents per share.

As a result of the above, we expect adjusted EPS growing at 5 to 8% from its $5.31 adjusted base earned in 2014, with adjusted ROE to reach 12% or better in 2015.

This concludes my comments. Now Réjean will offer some closing remarks.

Réjean Robitaille, President and Chief Executive Officer, Laurentian Bank

Thank you Michel.

We are very proud of our 2014 results and we know that we can still do better and accelerate our growth now that the integrations are behind us.

This growth will be fuelled by the multiple strengths and assets of our business activities. Laurentian Bank has a unique business model, and we enjoy the benefits of significant competitive advantages within niche markets where we are present — and that enables us to continue to expand our activities and increase our profitability.

In addition to the annual objectives we have set for the year and that Michel explained earlier, as presented on slide 19, the medium-term objectives we had announced last year still stay the course. On an adjusted basis, we are aiming at growing our profitability per share by 5% to 10% annually, and to gradually bring our efficiency ratio to below 68%. We are also aiming at generating positive operational leverage year over year, while maintaining strong capital ratios.

In order to achieve these medium-term objectives, we intend to employ structuring strategies that we are confident will bear fruit in the coming years. First of all, we will continue to concentrate on growing our Business Services, a major asset within our strategy. In fact, we anticipate doubling the volume of our business portfolios to $10 billion in 2018, with $1 billion coming from equipment financing.

Secondly, now that the integration of the MRS Companies and AGF Trust into B2B Bank is completed, we can take full advantage of the combined strength of these entities. It is on our mortgage financing activities that we are focusing the greatest priority in this segment — particularly with our new line of alternative products. Globally, we are aiming at doubling B2B Bank's mortgage loans to $8 billion in the next 5 years. On the investment loan side, portfolios are still impacted by deleveraging among investors. Nevertheless, sales are beginning to pick up.

As these activities are pan-Canadian, our growth will unfold across the country. Consequently, we will continue to build the geographic diversification of our loans and profitability.

With respect to our activities aimed at Québec consumers, we intend to consolidate our gains among the 500,000 or so clients who do business with our people in Retail Services. Referring to this sector, we have made some changes recently, by nominating François Desjardins at the head of our Retail activities. I would like to thank Gilles Godbout, who had taken the interim responsibility of the sector. As testified by the Personal and Commercial results mentioned by Michel, Gilles did a great job at improving its efficiency. He can now concentrate on optimizing our IT operations. While continuing to lead the activities of B2B Bank, François will have the mandate to pursue Gilles' work of increasing the efficiency and of further distinguishing the Bank's positioning in this market. Given his past experience at Laurentian Bank in the Retail area, I am sure François' contribution will be significant.

When it comes to Laurentian Bank Securities and Capital Markets, we will be pursuing our development by way of our institutional brokerage activities. Recognized over many years for our expertise in the area of fixed income products, we are also occupying an increasingly important position within the small cap company market segment.

In conclusion, as underlined in our Annual Report, Laurentian Bank is unique. We are more committed than ever to building an even more solid, efficient and profitable bank. The recent years have demonstrated our dedication to grow the Bank on a sustainable basis. Every day, we are all pursuing this goal.

I will now turn the floor back to Gladys.

Gladys Caron, Vice President, Public Affairs, Communications and Investor Relations

Thank you, Réjean.

At this point, I would like to turn the call over to the conference operator for the question-and-answer session. Please feel free to ask your questions in English or in French.

QUESTION & ANSWER SESSION

Operator

Thank you. Ladies and gentlemen, if you would like to ask a question please press Star 1 on your touchtone phone. If you are using a speakerphone please pick up the handset before pressing any keys.

Once again if you would like to ask a question please press Star 1.

And our first question comes from Scott Chan of Canaccord Genuity. Please go ahead.

Scott Chan of Canaccord Genuity

Good afternoon guys. Just on the increased liquidity this quarter that affected - you talked a little stronger loan growth in coming quarters, what areas are you seeing strong loan growth?

Réjean Robitaille, President and Chief Executive Officer, Laurentian Bank

Well mainly as Michel explained and Michel if you could talk a little bit more after that on the liquidities. Mainly coming from the business services. We have 15% growth this year and 11% growth in our commercial mortgages.

We expect double digit growth in these areas in 2015 as Michel mentioned. And also on the fact that we launched our alternative mortgage capacity earlier this year, we expect to have also significant growth on that portfolio.

We already mentioned that we expect that in the next five years that portfolio should double from 4 to $8 billion. So in terms of the overall growth that will come mainly from B2B Bank and from our commercial activities. And as for the liquidity side Michel if you want to put more color on this.

Michel C. Lauzon, Executive Vice-President and Chief Financial Officer, Laurentian Bank

Okay thanks for the question, Scott. We saw an opportunity to raise institutional funding during the quarter as pricing was favorable, and so we took an opportunity to come into the market build-ups of liquidity and prefund some of the mortgage growth and loan growth we're seeing coming.

At the same time, if deposit retention becomes too expensive we have the buffers to be able to manage our funding costs as a result. And so we're happy that the markets were very receptive, and I will reiterate it affected NIM only because we neutralized the impact on net interest income in the quarter.

Scott Chan of Canaccord Genuity

Okay. And Michel maybe just on the payroll tax and the 2015 EPS guidance, does that 8-cents is that included in your 5-day percent EPS guidance target?

Michel C. Lauzon, Executive Vice-President and Chief Financial Officer, Laurentian Bank

Yes, it is.

Scott Chan of Canaccord Genuity

It is included, okay.

Michel C. Lauzon, Executive Vice-President and Chief Financial Officer, Laurentian Bank

Yes, it is.

Scott Chan of Canaccord Genuity

Okay. And then maybe just one last question for Francois on B2B Bank, you know the quarter was kind of lackluster revenue continues to decline.

You know when you talk about revenues synergies and we look into 2015, can you give us some sort of sense you know are you seeing - do you expect a revenue growth you know as a whole at B2B Bank in 2015, or are you going to continue to see you know revenue contract because of investment loans and other areas?

François Desjardins, President and Chief Executive Officer, B2B Bank; Executive Vice-President, Laurentian Bank

Thanks for the question. 2015 for B2B Bank will be important in terms of its reinvestment in organic growth and sales activities. So we're going to see some really important growth in our mortgage portfolio mostly which will outpace negatives in its investment lending portfolio.

But that beingsaid, there's also the decision to change our funding strategies at Laurentian overall that will impact B2B Bank negatively financially for 2015. As we're not - we're moving away from some of the broker-raised deposits to some lower cost instruments. This is a reaction to our capacity now to raise funding on the institutional side.

So overall the bottom line for B2B will be flat or slightly higher, but the impact of that on Laurentian overall will be positive. And we're still seeing some return of organic growth and for the years to come, revenue synergies.

Scott Chan of Canaccord Genuity

Okay that's very helpful. Thanks guys.

François Desjardins, President and Chief Executive Officer, B2B Bank; Executive Vice-President, Laurentian Bank

You're welcome.

Operator

Our next question comes from the line Meny Grauman of Cormark Securities. Please go ahead.

Meny Grauman of Cormark Securities

Hi good afternoon. Going back to those investment loans. I'm wondering what proportion of the investment loans are still below water if you have any information you can share with us on that.

François Desjardins, President and Chief Executive Officer, B2B Bank; Executive Vice-President, Laurentian Bank

Thanks for the question. The investment loan portfolio that B2B Bank has put together including the ones that were purchased were all done based on the capacity to pay of the clients.

So this is not margin accounts like you would find at Securities Firm. These are true personal loans that are given with a credit score and et cetera. So the collateral that we would hold regardless of it being over water or under water which we have never disclosed by the way is just an additional security.

And we have seen so far through two crises that the losses in this portfolio are, you know, equivalent or lower than some of our mortgage portfolio. So for personal loan portfolios excessively low, and we're really proud of that.

Meny Grauman of Cormark Securities

Another question I had was just on the lending fees, a big jump up and there's some seasonality there, but even on a year-over-year basis. I'm wondering if you could give us any outlook into that. Is that - is a big part of the increase something that you think is going to slow moderate or is this strength something that we'll see going forward?

Michel C. Lauzon, Executive Vice-President and Chief Financial Officer, Laurentian Bank

Thank for the question. The increase is related to the overall increase in the activities in the business services sector. So a lot of it is sustainable and core. There were some prepayment penalties on some commercial portfolios that were earned during the quarter which helped bump up the number in the quarter, but those occur from time to time, and so they're part of the normal business operation.

So it's hard to say whether or not those will recur in 2015, but the base trend in the increase is in line with the overall increase in the activities in the business services sector.

Meny Grauman of Cormark Securities

Thanks for that. And then just one final question just on your 2015 EPS growth outlook, I'm wondering what's the main reason that you see growth in 2015 sort of coming in below your medium term target?

Réjean Robitaille, President and Chief Executive Officer, Laurentian Bank

Our medium term outlook is at 5 to 10 % eps growth. For 2015 ,it is 5 to 8 % and as Michel mentioned mainly because that's including the Quebec tax salary tax that we just - has been announced last week.

Operator

Our next question comes from the line Sumit Malhotra of Scotia Capital. Please go ahead.

Sumit Malhotra of Scotia Capital

Thanks good afternoon.

Sumit Malhotra of Scotia Capital

First question is for Michel. I wanted to take a little bit of a closer look at the capital ratio this quarter. So just looking at page 7 of your supplement.

So the CET1 ratio was up almost 20 basis points sequentially. When I look at the key metrics here, your RWA growth was consistent to the last couple of quarters, versus Q3 your reported earnings were actually lower yet the move in the ratio was quite a big stronger.

So on page 7, I see here that the regulatory adjustments line seemed to move down around $10 million. So just hoping you could give me some color on what drove that line if that was particularly the factor that knocked the CET1 up 20 beats or so.

Michel C. Lauzon, Executive Vice-President and Chief Financial Officer, Laurentian Bank

Thanks for the question, Sumit. That regulatory adjustment line is a hodgepodge of many different factors which were all favorable this quarter, well mostly favorable.

We had unrealized security gains which were a bit higher. We had a deduction for software which were lower because of amortization of some of the capitalized software line, and also some year-end pension adjustments which happen to be favorable which reduced the pension liabilities and the net liabilities and reduced the other comprehensive income deduction from capital.

Sumit Malhotra of Scotia Capital

So the hodgepodge is really - easier term is really the big factor here. When I look at that line the last couple of quarters or you know frankly going back a couple of years, you've been pretty flattish in the 755 to 765 range.

Looking forward particularly since you're targeting growth in loan portfolios that are higher in the risk waiting side, is it fair to say that it's going to be back to where it was maybe a more slower pace of appreciation in the ratios, is that the right way to think about it?

Michel C. Lauzon, Executive Vice-President and Chief Financial Officer, Laurentian Bank

Well in terms of my hodgepodge just to correct the - we did have a significant increase in earnings albeit we did have some restructuring charges in the quarter. In terms of risk-weighted asset growth because of the way we're tilting our growth strategies we will see, I think, you know, hopefully an acceleration of risk-weighted assets but that will be accompanied by the fact that we have better retained earnings profile which should fund the increase in risk-weighted assets relatively comfortably.

I'll remind you that we're still under standard methodology, so one day once we're on AIRB we should get a pretty good lift in the ratio as we mentioned in my slide.

So at the same time we took several steps this year and last to improve the dynamics of our ratio. One, we've actively managed the volatility or pension fund. We've reduced some of the expenses or capitalized expenses on the software side to reduce the impact of capitalized software. We've had a good performance on our discretionary investment accounts, and so we expect those things to continue so they should provide a lift all in all.

However we expect the CET1 ratio to remain where it is plus or minus a few basis points depending on how the earnings and RWA growth line up, but we're pretty comfortable where it is right now.

Sumit Malhotra of Scotia Capital

I have one more for you on the standardized and ((inaudible)). Just to be clear my comment on the net income was more quarter over quarter - the fact that your ratio moved a lot even though versus Q3 here your net income on a reported basis was lower, so that's what I was referring to.

But on the standardized and advanced, you mentioned in your prepared remarks, and I think the bank has been giving us some hints on this for a few quarters now the fact that maybe you've slowed the pace of some of the processes required to get you to compliant with the advance approach.

How do we read this? Is that your waiting to see what comes out of some of the regulatory bodies as to whether you want to continue on that process and how important has this tapping the breaks if I can use that term on the advanced approach processes been to the expense metrics of the bank?

Réjean Robitaille, President and Chief Executive Officer, Laurentian Bank

I'll let Pierre answer this question.

Pierre Minville
Executive Vice President and Chief Risk Officer

In fact we decided to slow down the project because the last investment required depends on rules that are not finalized at the Basel level. So we are expecting those rules somewhere at the end of 2015.

As soon as we get those clarifications then we should be able to invest at the right spot and system or a process, that's why we decided to slow down.

Michel C. Lauzon, Executive Vice-President and Chief Financial Officer, Laurentian Bank

And to your follow up questions, this is Michel, we have delivered several milestones this year which - so we did have significant ((inaudible)) systems investments in capitalized investments that we made this year, and with deliverable whether it is onboarding technologies or credit scoring methodologies which are lined up with the AIRB approach. And we are using those in our day-to-day risk management business.

And so this year it has had no impact. Next year it should be the pace of expenses should slow because we're waiting to find out what Basel has in mind in terms of both the standardized and advanced approaches.

Sumit Malhotra of Scotia Capital

All right thank you for that. This one is probably for Réjean. I know you've given us a few hints here on how the 5 to 8% target that's achieved in earnings for next year. What I wanted to focus in on specifically was revenue, and again you've given us an idea of what you're thinking about NIM and loan growth which obviously sounds more positive than we had this year.

When you think about the aggregate topline for the bank, the operating leverage this year had a lot more to do with expenses than it did with revenue. Do you think that picture on the revenue side changes in 2015 for Laurentian?

Réjean Robitaille, President and Chief Executive Officer, Laurentian Bank

Well the answer is yes comparing to 2014. We mentioned a year earlier that we expected a positive operating leverage that's also our expectations for next year. But in terms of the story should be - I would say half and half, coming from the revenue side with the investment that we have made with the fact that this year we had to put in place several things including our equipment financing capacity, including our ((inaudible)) mortgage capacity.

On those two things we could say check, we did that. So based on this, we are in a very better position in 2015 to see an increase of our topline. But at the same time it's always also important to look at our processes and look at the way that we do things. So we will also continue to work on the expense side and both of them as I said should bring positive operating leverage for 2015.

Sumit Malhotra of Scotia Capital

Last question for me, and it may be for you again is going to be on credit quality and maybe - because you can't have a conference call without talking about it these days. We'll bring in the energy environment as well.

So your credit quality obviously has been quite favorable for a number of years, and frankly there's nothing in the numbers that looks particularly worrisome at this point.

Now on some of the other conference calls maybe we've talked about how energy could hurt aspects of the loan portfolio. The other side of the coin has been there's been the view that for central Canada lower oil prices should be somewhat positive for consumers, and I know specifically for Ontario and Quebec the metrics economy-wise haven't been the strongest in the country.

So if you could just maybe tie in those two factors together on what this current energy price environment if it sustains itself means to Laurentian and perhaps the Quebec economy, and then if you could tie in your aggregate views on the credit outlook for the bank.

Réjean Robitaille, President and Chief Executive Officer, Laurentian Bank

Okay in terms of the overall oil and gas exposure at the bank, we don't have any. So in terms of loan on that side it's not significant for us. But the fact now that we're seeing a lower gas price I totally agree with some of the comments saying that it should be beneficial for the central provinces mainly Quebec and Ontario.

At the same time, we are seeing a lower canadian dollar. And in terms of exportation which was one of the strengths of the Quebec economy and also the Ontario economy, we expect that we - there's a current acceleration of economy growth in those two provinces that's taking hold. So the 2013 real GDP was at 1% for Quebec should be at 1.5 this year, it should be close to 2% in 2015.

And also in terms of the overall lower prices of the gas bump while our sales should benefit from that, and so we expect that the household spending will be sustained in 2015, and mostly I would say in those two provinces.

As for the Western part of the country, we don't have - say a lot of exposures overall in terms of loans. And we do expect that our credit quality for next year will remain very, very low. Michel already mentioned that on page 17, but just to give you a little bit more color on this I could ask Louis Marquis out of Credit to put some comments on this on the credit quality side.

Louis Marquis, Senior Vice-President Credit, Laurentian bank

It's been a very favorable credit cycle that we're going through, and it remains the case. And certainly there's no signs of deterioration in the portfolios. We do stress the portfolios and I expect loan losses to be pretty stable in the short term.

Operator

Thank you. We'll now take our next question from Sohrab Movahedi of BMO Capital Market, please go ahead.

Sohrab Movahedi of BMO Capital Market

Thank you. Just a couple of questions. I wanted to just follow on Summit there is no chance just can you confirm there's no chance that the outcome of the Basel pronouncement that you're waiting for is going to alter the strategy of the bank is it?

Pierre Minville
Executive Vice President and Chief Risk Officer

Good question. In fact the first information that we've got from Basel indicate that the models will stay. And there will be some adjustment type such as floors or LGDs that are regulatory monitored.

So even with those adjustments we still think that the advanced methodology will be beneficial to the banks. For now we believe that this strategy will be maintained, but we still need wait for those clarifications.

Sohrab Movahedi of BMO Capital Market

So far the only thing - the only chance that we're seeing to stop this will be to bring back all financial institutions under the standard methodology.

What does OSFI has to say on that?

Réjean Robitaille, President and Chief Executive Officer, Laurentian Bank

We can't mention and there's still discussions at the Basel level so even there's still uncertainty concerning that and as Pierre mentioned, we do expect that the model approach is there to stay. So that's why we have spent and continue to spend in 2014 and to look at that.

The overall outcome of that, but is still uncertain… our expectations and that's why we are still continuing to talk about the AIRB, is that the model approach will stay and that it should be beneficial for our bank as you could see in some of our slides in terms of the overall impact.

Sohrab Movahedi of BMO Capital Market

Okay just two more questions quickly. Michel did I hear correctly that the benefit, if you will, of the upgrade by DBRS is consumed basically by competition on the deposit side? In other words you've had to resort to institutional or wholesale funding because there's deposit competition?

Michel C. Lauzon, Executive Vice-President and Chief Financial Officer, Laurentian Bank

There's always been deposit competition. It's just that we saw an opportunity to raise a little more institutional funding at favorable rates because for a certain period during the 4th quarter we could raise institutional money on a matched funded basis cheaper than broker deposits. And it's not because broker deposits became more expensive, it's only because institutional funding became cheaper.

And so even though we're still very active on the broker deposit market we didn't want to bid up deposits, and in order to do that we just felt it was cheaper to do it on the institutional side. And this is something we review all the time every week in terms of what's our funding strategy and how we can optimize funding costs and help the business units fund themselves and grow. While at the same time keeping the overall balance sheet cost of the bank at a minimum. ((inaudible)) did help but not significantly.

Sohrab Movahedi of BMO Capital Market

Okay so now that you have a better rating, do you think wholesale funding is going to be a more prominent part of the liability management at the bank?

Michel C. Lauzon, Executive Vice-President and Chief Financial Officer, Laurentian Bank

I'd say not because of the rating, but it becomes a more significant tool that we're using. Obviously the higher rating helps but it hasn't been this significant factor per say so far.

Sohrab Movahedi **of BMO Capital Market**

Okay. And then just one last question just on the growth prospects, EPS growth prospects next year. What would you think would be the key risks in you not being able to meet the low end of that?

Réjean Robitaille, President and Chief Executive Officer, Laurentian Bank

Well it's always a part of the overall economy and that could be something let's say mostly external. So the situation in Russia, and Europe, in China or whatever that could have an impact on the overall economy.

But that said, when we looked at those factors and we're looking at the rigorous US economy, thefact that we are expecting an acceleration of economy growth in central provinces, I think that it should be just a matter of execution on our side.

Sohrab Movahedi **of BMO Capital Market**

Okay. Thank you very much.

Operator

Our next question comes from the line of Bradley Romain from Desjardins Securities. Please go ahead.

Bradley Romain from Desjardins Securities

Yes good afternoon. I just wanted to clarify following Summit's question. The CET1 ratio - did you say we should continue looking at building in a range of 10 to 20 basis points on a quarterly basis?

Réjean Robitaille, President and Chief Executive Officer, Laurentian Bank

Probably not because of risk-weighted assets growing strongly because of our tilt towards mortgages and commercial loans. We feel that with room to grow the dividend, we will be able maintain comfortable capital ratios while still funding organic growth imperatives.

Bradley Romain from Desjardins Securities

Okay. And then just turning to the mutual funds as you mentioned at the start. I think you guys had really great growth of 30% in the quarter, can you elaborate where that growth is coming from and your expectations for growth going forward.

Réjean Robitaille, President and Chief Executive Officer, Laurentian Bank

Thanks for the question, Bradley. I don't have hard numbers in front of me, but I would expect half comes from markets and half from net sales.

Bradley Romain from Desjardins Securities

Okay. And then just finally with regards to LaurentianBank securities obviously, with the markets being hit as hard as they are at this point in time, do you expect any impact on revenue within that business segment so with regards to equity raises etc? Any comments that you can provide on that side.

Réjean Robitaille, President and Chief Executive Officer, Laurentian Bank

I'll ask Michel to do it Laurentian Bank Securities to answer this question.

Michel C. Trudreau
Executive Vice President, Capital Markets and President and CEO of Laurentian Bank Securities Inc.

Thank you. Good question actually. We're following the markets closely but we've looked at last year and Michel alluded to it during his comments. During last quarter of our treasury in the financial markets operations, we were down a bit. We've had low rates, we've had low volatility, fewer accounts opportunities but we've invested prudently to diversify our revenue. You alluded to that in your question, our small cap equity made up a lot of short fall last year. As we look at it right now we're not at oil and gas. We've not been impacted by it, of course it means more volatility but the pipeline remains solid and as markets stabilize we expect to continue in the right path.

Bradley Romain from Desjardins Securities

Great. Thank you very much.

Operator

And we have no further questions at this time. You may continue.

Gladys Caron
Vice President, Public Affairs, Communications and Investor Relations

So thank you all for joining us today. If you have any further questions don't hesitate to contact us. Thank you.

Operator

Ladies and gentlemen this concludes the conference call for today. We thank you for your participation, you may now disconnect your line and have a great day.