

Laurentian Bank Financial Group 4th Quarter 2017 Results
Tuesday, 5th December 2017

Operator: Good day, bonjour, and welcome to Laurentian Bank Financial Group Fourth Quarter 2017 Results Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Susan Cohen, Director, Investor Relations. Please go ahead ma'am.

Susan Cohen: Good afternoon, and thank you for joining us. This afternoon's review of fourth quarter and fiscal 2017 results will be presented by François Desjardins, President and CEO; and François Laurin, Executive Vice President and CFO. All documents pertaining to the quarter, including the press release and investor presentation, as well as the 2017 Annual Report, can be found on our website in the Investors section. Following our formal comments, 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 and it's 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 two of the presentation.

It is now my pleasure to turn the call over to François Desjardins.

François Desjardins: Thank you, Susan, and good afternoon, everyone. Two years ago, Laurentian Bank announced its seven-year transformation plan with clear goals to accomplish by 2022. Achieve a return on equity that is comparable to the Canadian banking industry, double the size of the organisation and build a solid foundation. Well, I'm very happy to report that 2017 has been a successful year, in which we have made significant progress in our transformation plan.

As such, the Board has approved an increase in the quarterly common share dividend of \$0.01 to \$0.63 per share. Our performance was strong. We reduced the gap in ROE compared to the Canadian banking industry average from 450 basis points in 2015 to 360 basis points now. We improved our efficiency ratio from 71% to 66%, two years ahead of our 2019 target. This is a result of a combination of revenue and efficiency initiatives, including the merger of 46 branches.

In terms of growth, we have successfully moved forward on three of our four growth objectives. In fact, we are one year ahead of our targets for loans to business customers, residential mortgages through independent brokers and advisors and assets under management at Laurentian Bank Securities. Although there has been growth in the mutual fund portfolio distributed by retail services, we are behind on our target. This is because we have not been able to grow the number of advisors as planned.

We concentrated our efforts on loans to business customers and with the acquisitions of CIT Canada and Northpoint Financial Corporation, we accelerated the change in the mix of the business and the margin improvement. From a foundational perspective, our move from traditional to digital banking is well underway with the implementation of the first wave of core banking. We have also made great progress in terms of strengthening key areas of the bank such as risk management, compliance, human resources and technology.

But I must admit that these very positive two years have also seen more than their share of economic challenges, market disruption and new regulatory requirements. What this means for us as a largest of the small and medium-sized banks, is that to continue progressing 2018 will be a year of investment in people, processes and technologies. These investments will ensure disciplined growth, strengthen the foundation and simplify the organisation.

Looking forward, the next two years will be pivotal because of the implementation that will occur and the changes that will be fundamental to our bank. Taking this into account, we have reset

our mid-term performance and growth targets from 2019 to 2020, and are keeping the 2022 objectives intact.

In 2018 and into '19, we will continue to roll out our core banking system, as well as launch our digital offerings. This will mean a simpler product suite straight through processing and fully mobile distribution. The end of 2019 will also bring the implementation of our AIRB program, which will positively impact our capital in '20, '21 and 2022. It is fully expected that the governance processes and procedures, documentation and technologies will be at the forefront of our efforts, as required by the AIRB program.

Going forward, optimising financial resources, including funding and capital, will lead to improved RWA management and is a consideration when resetting our growth targets. As well, the changing economic and regulatory environment could impact our targets. As such, we plan to manage the growth in residential mortgages to mid-single digits and until the implementation of AIRB approach, we expect similar growth overall in loans to business customers.

We are also introducing two new 2020 growth targets; assets under administrations at retail services and total deposits from clients, which we think reflect a more holistic investment profile of our clients. In addition to tracking AUM at Laurentian Bank Securities, going forward these five indicators will constitute measures of our success.

Furthermore, we estimate that solely through organic growth, that is, without taking any advantage of future acquisition opportunities, our total assets are expected to reach \$55 billion in 2022. In terms of our financial performance, in 2018, we expect that revenues and margins will benefit from the full impact of Northpoint acquisition and ROE will be relatively stable. We will need an extra year to narrow the ROE gap to 300 basis points but we should be able to close it completely and on time for 2022.

With efficiency gains anticipated in '19, our efficiency ratio should stay south of 65% by 2020 and South of 60% by 2022. With respect to CET-1, it is at the lower end of our range of 7.9, given that our growth over the last two years has been ahead of our plan and as we have been investing in initiatives to build our foundation. The implementation of AIRB and RWA management should result in capital gradually strengthening over the course of 2021 and '22. Our projections suggest an improvement of 200 basis points of ROE once capital is redeployed.

Nonetheless, we must also plan for the anticipated implementation of revised standardised methodology, even though we expect to adopt the AIRB before that implementation. Before I close, I know that you may have some questions today about mortgage securitisation, and in full transparency, we disclosed earlier that we will need to buyback loans from a third-party purchaser because they were deemed not eligible.

François Laurin will give some more colour on the situation. But let me first say that this is largely a documentation and securitisation eligibility issue, that it is not material for the bank, its operations, its funding nor its capital, and we have worked to change processes to ensure that this issue is resolved.

So a lot of work is behind us but there is still more in front of us, and as our organisation evolves, so too has our name. To better reflect the diverse nature of our business and the sum of our parts, our businesses and legal entities are now collectively referred to as Laurentian Bank Financial Group. This new name embodies who we really are today. We are very proud of the progress that we have made here at Laurentian Bank and invite you to read our Annual Report and have a look at the LBCFG website. There you can find our results and accomplishments for 2017 and our plans for 2018 and beyond.

I would also like to thank you for your continued interest. Our shareholders and investors for your continuous support, and our dedicated team members for your efforts and successes.

And now, I would like to turn the floor over to François Laurin to provide a more in-depth review of our fourth quarter and 2017 financial results. François...

François Laurin: Thank you, François. Good afternoon, everyone. I would like to begin by turning to slide 16, which highlights the bank's financial performance. Adjusted EPS in the fourth quarter was \$1.63, up 11% compared with a year earlier. Fourth quarter EPS was impacted by 21% more shares outstanding. As outlined on slide 17, reported earnings for the fourth quarter included adjusted items totalling \$7.8 million after-tax or \$0.21 per share related to restructuring charges and business combinations.

The drivers of our performance are presented on slide 18. Total revenue for the fourth quarter of 2017 reached \$268 million, an increase of 13% compared to a year earlier. Net interest income rose 18% due to strong volume growth in the commercial loan portfolio from organic growth and from the full quarter of the acquisition of CIT Canada and the recent acquisition of Northpoint. Other income increased by 5%.

For the full-year, revenue grew 9%, reflecting the positive impact of our strategic acquisitions. Net interest margin shown on Slide 19 was 1.75%. The main factor contributing to the 12 basis point sequential increase is the higher proportion of higher yielding loans to business customers, mainly due to the recent acquisition of Northpoint driving a 30% year-over-year increase in average earning assets. As such, the growth in loans to business customers of 22% and the growth in residential mortgage loans generated through independent brokers and advisors was 22% as well.

Looking ahead, we expect margins to trend higher in 2018 due to the shift in the bank's portfolio mix, including the full-year impact of the Northpoint acquisition and the recent increase in lending rates.

Other income, as presented on slide 20, totalled \$91.7 million, an increase of \$4.1 million or 5% year-over-year. The increase was broad-based with particular strength in lending fees, reflecting the higher activity in the commercial portfolios and income from sales of mutual funds, reflecting the bank's focus on financial advice. As well, in the fourth quarter of 2017, the other categories included a \$5.9 million gain on the sale of the bank's participation in a mortgage broker company, Verico Financial Group. This amounted to \$5.3 million after tax or \$0.14 per share.

Slide 21 presents adjusted non-interest expenses that increased by 8% in the fourth quarter compared to a year earlier, mainly due to the additional employees from CIT Canada and Northpoint and higher performance-based compensation. For 2017, adjusted non-interest expense growth was 3%. Reported non-interest expenses were impacted by restructuring charges as mentioned before.

Reflecting our efforts to control expenses and grow revenues, the adjusted efficiency ratio in the fourth quarter was 64.3%. For the full-year, this ratio stood at 66.1%, an improvement of 350 basis points compared to 2016. As well, adjusted operating leverage was positive for both the quarter and the year.

Slide 22 presents the continued progress towards optimising our sources of funding. To this end, in 2018, we may seek US dollar facilities to better align the funding of Northpoint's US dollar portfolio. With respect to deposit growth in the fourth quarter, it was strong, up 2% and 5% quarter-over-quarter and year-over-year, respectively. Attrition in branch deposits was in line with expectations given our branch mergers. Personal deposits sourced through independent brokers and advisors increased 4% quarter-over-quarter and 3% year-over-year despite a competitive environment.

Growth in business and institutional deposits was strong. As well, securitisation activities increased sequentially, reflecting additional lease financing receivables that were securitised. With respect to our mortgage securitisations, during the fourth quarter of 2017, as explained in our MD&A, we identified some mortgages that were inadvertently sold to a third-party purchaser. These identified mortgages amount to \$180 million and are in the process of being repurchased by the bank in the first quarter of 2018.

These mortgages equate to 1% of the bank's residential mortgage portfolio and 0.5% of its total loan portfolio. As such, this is not expected to be material to the bank's operation, funding or capital. Furthermore, these identified mortgages do not represent a credit issue as they are all performing in line with the bank's overall mortgage portfolio.

I would like to add that no employees were implicated in any misrepresentation and the bank found no significant concentration of mortgages with misrepresentation within any single broker.

Finally, as of 1st November, we began to enhance our quality control functions and underwriting procedures, including introducing new internal monitoring processes and reorganising employees, who deal with mortgage in-take and processing.

Turning to slide 23. The CET1 ratio of 7.9% is presented under the standardised approach and is unchanged from the prior period. This slide also highlights the evolution of the CET1 ratio over the year. Our diversified loan portfolio is highlighted on slide 25. Loans to business customers have increased to 33% of the portfolio from 30% a year ago and residential mortgages remain unchanged at 50%.

Within the residential mortgage portfolio, Alt A mortgages totalled \$1.5 billion and represented 8% of the total mortgage book and 4% of the total loan portfolio. As well, mortgages in the GTA

represent about 20% of the portfolio and the GVA accounts for 4%. LTVs remain low and credit scores remain high.

Turning to slide 28. Credit quality remains good. In the fourth quarter of 2017, the provision for credit losses was \$11.5 million, \$5.1 million higher than in the prior quarter, which included the release of allowances and provisions of about \$5 million. The loss ratio remained unchanged from a year ago at 13 basis points.

Slide 29 highlights that the net impaired loans are relatively stable from a year ago, while gross impaired loans are \$19.6 million higher. This increase is in line with the strong growth in the bank's loan portfolios, including the impact of the recent acquisitions. Sequentially, impaired loans increased by \$33.4 million, reflecting two distinct commercial loans totalling \$31.9 million and the addition of Northpoint impaired loans of \$8.5 million. Overall, we continue to believe that the underlying credit quality of the portfolios remained good.

While we have been stating this for several quarters, we continue to expect that over the medium term, the loss ratio will gradually move higher as our business mix changes, but it should be more than offset by higher net interest income. Nonetheless, with our current portfolio mix, conservative provisioning and disciplined adjudication process, we expect that the loss ratio will remain below other Canadian banks.

To conclude, we are very pleased with the core earnings performance in the fourth quarter and fiscal 2017 and the progress that we are making as we continue to execute our transformation plan. Thank you for your attention and I will now turn the call back to Susan.

Susan Cohen: At this point, I would like to turn the call over to the conference call operator for the question-and-answer session.

Operator: Thank you. Ladies and gentlemen, if you'd like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speakerphone today, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, please press star one to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal for question. And we'll take the first question in queue from the line of Robert Sedran with CIBC Capital Markets. Please go ahead.

Robert Sedran: Hi, good afternoon. I wanted to ask about the mortgages that both François and François talked about. When were the problems discovered and when were these loans originated?

Susan Kudzman: Hi there. Thanks for the question. This is Susan. We were informed of the results of the third-party audits, the sample at the end of September and have been working on it, investigating and doing audits since then. The mortgages have an average duration over two to 2.5 years approximately.

Robert Sedran: And so, it was the third-party that brought these to your attention. This wasn't part of a regular review of your own book that you were doing?

Susan Kudzman: Well, it was part of a normal course audit by the third-party, yes, and then we obviously took these results and took our own look at it.

Robert Sedran: Okay. And just following on – as you continue to look into it you found problems. I mean, I'm not exactly sure how loans that were not eligible for portfolio insurance ended up getting portfolio insurance. Can you add a little bit more colour to that as well, please?

Susan Kudzman: I'll just step back and there are two issues here. One is related to documentation, and I can speak to that a little bit, if you wish, and the second portion is really related to your question, then yes, they were ineligible. They were products that are in line with

our underwriting criteria and that should not have been eligible as per their characteristics and it was really a systems issue. Our systems were not sufficiently refined and missed some characteristics – the adequate flagging mechanisms were missing and then just the manual error there. So that has been remedied with some workarounds and our new core bank system has the functionality to avoid this type of issue but that's really how it happened.

Robert Sedran: Okay. I'm sorry, I know others will have some other questions, I'm not looking to monopolise. Just one point of clarification. What was it about the loans that did not make them eligible for portfolio insurance?

Susan Kudzman: Okay, as I said, there are really the two issues, so the first – ones that didn't have proper documentation, and as a result should not have qualified for the securitisation. We can talk about that if you wish. But the ineligible ones are products that we call Equity 50, Equity 65 and products that are in line with our underwriting criteria and then we sell outright. The Equity 50s have a very low loan to value, so the loan to value is 50% and has no income verification as the loan to value is very low. And Equity 65 is somewhat a variation on that. It's a loan to value 65%. and with a total debt service ratio below 50%.

Robert Sedran: I'll leave it there for now. Thank you.

François Desjardins: The third-party purchaser has a securitisation conduit which has rules around what can go into the conduit or not, and these loans by definition were not allowed into this conduit even though they are perfectly good credits.

Operator: We'll now take the next question from the line of Meny Grauman with Cormark Securities. Please go ahead.

Meny Grauman: Hi, just following up on that line of questioning, I guess the fundamental issue or question is, what was the issue – I mean, is it the case or one would say potentially that you're just growing too quickly and do you see any – do you see that as valid and is there any credence to that that these errors come out when you're going so quickly, those kinds of errors have the potential to creep up?

François Desjardins: That might be a part of it but in all fairness the – as Susan said, it's really two separate issues and it has to do with – the first issue is documentation. These are clients that want to get a loan and might misrepresent themselves and then there is just documentation itself or the proofs of the representation from the clients. I think that overall growth might be an issue but also just process in terms of validation and we've remedied those processes by recombining these teams together.

The second issue is eligibility. So that is a completely separate issue, where the credits were done perfectly fine and there is no issue in terms of documentation or anything otherwise but they just should have not been portfolio insured or it should not have been put into the conduit. So going back to previous questions, of course we were looking at these and once we were advised of the issues, we went back to look at all of the other portfolios that we have in the bank and that is our disclosure today.

Just to make sure, as François might have said, this is worth about 0.5% of the total book. So we deem that to be non-material to the operations or to the funding. What we have to do is two things. First, buyback the loans that were mistakenly put into the conduit and of course ensure that that doesn't happen again and we have already changed processes to ensure that documentation is what it needs to be from the intake perspective.

Meny Grauman: Is it correct that you're still going through a broader review, or is that all done? You've checked everything that you intended to check?

François Desjardins: François here again. As we disclosed in the MD&A, we went through the whole valuation on the B2B Bank side, so that is completely behind us, and what is left to do - is on the branch banking side. And therefore, we still have that to do, but applying the same rules. That's how we came up with the disclosure numbers. Our indications to-date is that it wouldn't be any other way than what we disclosed so far.

Meny Grauman: When do you expect that review of the branch network to be completed?

Susan Cohen: Over the coming months.

François Desjardins: Next two months.

Meny Grauman: And I'll let others go. Just a final question. You talked about no employees were implicated. Is it your belief that that's going to remain that way or do you still leave that open? How definitive is that conclusion?

François Desjardins: At this point, I would say very definitive. We have no indication whatsoever that these things were intentional by any of our employees, nor any concentration around the brokers whatsoever.

Meny Grauman: Thank you.

François Desjardins: You're welcome.

Operator: We'll now take our next question from the line of Gabriel Dechaine with National Bank Financial. Please go ahead.

Gabriel Dechaine: All right, good afternoon. So, I just want to clarify something. The top of the page 38 of the MD&A here, the top half, like you got two issues here. One is you sold some mortgages to a third-party and it turns out there was documentation issues and client misrepresentations. I know those aren't paperwork issues. And then the second issue, I guess, is what went into these securitisation conduits? That might be more of our paperwork issue. I guess I'll go after both areas I guess. The top one, what are client misrepresentations? Can you clarify what that means? And is it normal course audit or what happened in normal course implies once a year, twice a year, I have no idea. So what changed in the past six months or a year to uncover these things?

Susan Kudzman: Okay, so I'll take them in order. So first of all, you're right that there are two different issues, the documentation and the ineligible mortgages that found their way into the conduits, that should not have. So let's go back to the documentation issues. That is a paperwork issue also. The vast majority are lack of proper documentation and it does include some potential client misrepresentations as well as client misrepresentations, and maybe that's what your question was. And what are the client representation? It's a situation where the client has provided or we suspect has provided inaccurate information with the objective obtaining a mortgage to be able to purchase a home – the credit is still very good and they are paying.

So the vast majority of that first category is paperwork and the lack of proper documentation. So I don't know if that fully answered your question.

Gabriel Dechaine: It's terminology here, but it's a different type of paperwork issue. The other one sounds like you just mistakenly shifted some mortgages into the securitization.

Susan Kudzman: Yeah, that would be the case. Process issue, if you will, the first one, and the second one we can just maybe summarise it as a mistake, systems mistake or an operational

mistake. But yes, the vast majority were the lack of proper documentation that disqualifies them from the conduit and we are repurchasing them.

Gabriel Dechaine: So the second one, the process issue, \$5.2 billion of mortgages there and this says no internal audit on such loans has been conducted, meaning that's only \$6 million of ineligible mortgages were ineligible for insurance. You don't need to audit it or is that something that is still coming perhaps?

Susan Kudzman: Well, we've notified this third-party purchaser, and at this point no indication that there will be an issue there, and if there is, well, we'll resolve it.

Gabriel Dechaine: Okay, and then I guess you're repurchasing \$180 million of mortgages and that would be from the, I guess, the paperwork – the misrepresentation part of the issues here. What is the number of ineligibles?

Susan Cohen: So both.

François Desjardins: Both.

Susan Kudzman: They would be on the half on documentation and half on the mistake, if you will, of the administrative ineligible mortgages.

Gabriel Dechaine: Okay, and then what happens if – like is this primarily broker deposits, what are you going to – what funding are you going to – you haven't purchased them yet, I take it, and what funding – are you going to be stepping up your broker channel activity? It looks like your branch channel deposits are still shrinking.

François Laurin: Gabriel, François Laurin. We've started already. We've already repurchased \$35 million out of the \$180 million. The rest will be done by the end of this quarter. We have – as usual – a healthy excess liquidity balance and various sources of funding to be able to repurchase without any materiality and impact on our books as of now.

François Desjardins: And just to be clear on that, we have the funds already to purchase these loans back as we speak. Our funding is diversified and strong. We don't need to go and get extra funding. We have it already.

Gabriel Dechaine: Okay. And are you reviewing because we got \$5.2 billion, \$1.2 billion. That's well below a half of your total mortgage book. Is there more? Are you undertaking a broader review than just these two buckets I guess?

François Desjardins: Let's be clear. When we did the review, and this is how François explained it, of course we've agreed to purchase \$180 million back already from the third-party purchaser. Obviously, these are the loans that had documentation issues or were not eligible for the conduit, and we've already made that determination. We have no need to repurchase the whole securitisation conduit, nor the second – no indication that we need to do anything else than finish the audits that we have already started for the branch network and validate that our numbers are there, which we believe they are clear and work to resolve those issues as well. So just in full transparency, when you add up \$180 million plus \$124 million, that's how you get to the \$304 million number that we disclosed.

Susan Kudzman: And obviously as we've changed our processes, our policies, procedures and made changes in the teams, that will not just affect mortgages that are securitised but it's the entire process that has been modified.

Gabriel Dechaine: That's very clear. And then last one I swear. You talked about no concentration on mortgage issues with a single broker, no issues with employees. Is this – have you noticed a trend between all in Alt A and conventional mortgages, like where are you seeing these issues?

Susan Cohen: This is all conventional and there is no trend, neither with the employees or with the brokers.

Gabriel Dechaine: Thank you.

François Desjardins: You're welcome.

François Laurin: You're welcome, Gabriel.

Operator: We'll now take the next question from Sumit Malhotra with Scotia Capital. Please go ahead.

François Desjardins: Hey Sumit.

Sumit Malhotra: Thanks. Hi, good afternoon. We got to maybe tag in a couple of things just in terms of your outlook and this issue as well. François, when you were starting off talking about the transformation plan what's been accomplished and where things are going, you did mention that in both mortgage, residential mortgages and then your commercial book, you are expecting a moderating pace of growth. Let's just play that out a bit. I look at your numbers, mortgages are up 10% year-over-year, one of the better rates in the Canadian banking industry. Commercial, obviously, you've had some acquisition benefit this quarter but the growth has still been double-digit. So, in talking about – I think I heard you say mid-single digits was more realistic in the near-term. Is that a combination of factors at play here, B20, economic outlook, as well as some of the

things we are talking about today, or do you think it's just a reflection of where your business is right now?

François Desjardins: Well, first of all, it's a reflection of the size of the book today because as the size goes bigger, the percentages of the book intake goes smaller.

Sumit Malhotra: Really large numbers.

François Desjardins: Exactly. But no, we felt that going forward, we need to manage our RWA better and we need to have profitable growth, not just growth. As you know, we've been challenged with regulations and new B20 during the past two years and we are awaiting the impacts of that in the next year. Of course that's coming in January, so all things considered, that is really the reason for the moderation of the growth and that has nothing to do with the disclosure that we did today.

Sumit Malhotra: And then in one of the comments that you brought up is that you said there isn't any issue related to specific mortgage brokers that you deal with or anything on employee front. As you've gone through your review, are there any relationships, whether it's within B2B or some of the brokers you deal with that have suggested to you that perhaps there are some counterparties you shouldn't be doing business with?

François Desjardins: I'll just take that. Over the course of the normal process of QA and on a regular basis, the quality control teams identify all the time, brokers that we don't want to do business with and that we will not do business with again for all kinds of reasons, including they send us loans that we don't want to do or other reasons. This is like an ongoing process and everyone that does business with mortgage brokers does that on a regular course. The disclosure that we did today is over and above that. It was a more in-depth review, where we saw that we needed to get a lot better still than we were in ensuring that we have the proper docs but also from a

system's perspective that we don't put into conduits things that are just by the rules of the conduits not eligible.

Sumit Malhotra: Last one from me, and I hope I'm not mixing a few items together here. But you did push some of these mid-term objectives back a year to 2020, which is also supposed to be the year in which you start reporting under AIRB. As you have indicated a step-up in investment spend over the next couple of years and certainly AIRB always does give credit for your credit risk management. Are there any changes to that timeline as far as AIRB adoption is concerned and is there anything – as you mentioned today, maybe the speed of growth for the mortgage book is one of the factors for some of these issues not being captured. Is there anything that gives you pause in terms of the ability of your systems to adapt to the AIRB adoption?

François Desjardins: No. One is not linked to the other. The reset to 2020 was really to align all of the objectives mid-term and started with the fact that knowing what we need to do in the next two years from an investment perspective and I had discussed this at the last call. We really need to invest, and of course we are running systems side-by-side. We've started implementing our core banking system and we are also running the old systems and that will be in parallel with of course technology cost and people until we get everyone off the old system.

That's made our 300 basis points target one year later than what we thought and that was the basis for the reset in the year. From the efficiency perspective or growth etc, we just recalibrated those to align to the same year.

As for IRB, that project is actually going very well. We are expecting that to be implemented at the end of 2019 and to start getting some benefits in '19, '20, '21 – sorry, in '20, '21, '22. And of course, as I stated in my speech, we are still expecting to have the benefits of about 200 basis points of ROE lift once it's fully implemented. So no, the reset of the targets had nothing to do with AIRB.

Sumit Malhotra: I appreciate your comments. Thank you for your time.

François Desjardins: Thanks.

Operator: We'll now take the next question from the line of Nick Stogdill with Credit Suisse. Please go ahead.

Nick Stogdill: Hi, good afternoon. Just on back to the mortgage topic. Is there any specific – I guess, are these mortgages concentrated in Quebec? Is there a specific geographic concentration for these?

François Desjardins: No.

Nick Stogdill: But the ones in the branch network will be mostly through Quebec, that's fair?

François Laurin: Clearly yes, but the one – the repurchase we're making so far are diversified portfolios across the country.

Nick Stogdill: And the documentation issues you called out. Is it an issue with respect to your standard or was the client standard higher than yours? And more broadly, do they meet the original B20 standards, where – I guess I'm just trying to understand, is it an issue for you or the client more so?

Susan Kudzman: It was in line. The audit was done and we've been pursuing in line with our own standards.

Nick Stogdill: So these mortgages meet your own standards but they don't meet the third-party purchaser standards?

Susan Kudzman: No, the mortgages we will be repurchasing were lacking documentation as per our own standards.

Nick Stogdill: Okay. Thank you. And then just on the restructuring charges, a clarification here. Last quarter you indicated you were at \$5 million on the retail side and you were thinking of getting to \$6 million. I think there was about \$4 million going through this quarter and then in the release I saw you expect to incur additional costs over the next 12 months. So should we be kind of adjusting our forecast here? Is there more to do, is that changed?

François Laurin: François Laurin here. On the CIT integration, we said that so far we're close to \$16 million that has been taken into the integration and we have less than \$2 million to go before the end of Q2 for the integration. We are moving to our software system for the portfolio and we may have another close to \$2 million of OpEx and restructuring charge to take by the end of February – by the end of January. Not January, so by the end of April, sorry. So less than \$2 million over the next two quarters. And then on the retail side, it was a little higher than we expected just by a few million dollars and we expect about \$4 million potentially over the next year.

Nick Stogdill: Okay, so that's incremental from what we had last quarter.

François Laurin: Yeah.

Nick Stogdill: Okay, thank you very much.

François Laurin: You're welcome.

Operator: We'll now take the next question from the line of Darko Mihelic with RBC Capital Markets.
Please go ahead.

Darko Mihelic: Hi, thank you. A number of questions here. Going to the review of the mortgage portfolios and some of the issues here. The Equity 50 and Equity 65 products that were inadvertently sold into the conduit. I mean, those are relatively easy to find, right. So, I guess the question here is that is unlikely to grow from the current \$91 million that you're going to purchase back. Is that correct?

Susan Cohen: That's correct.

François Laurin: It's correct. It's fine as established and determined.

Darko Mihelic: Okay. So then the only issue here is as you go through the branch system, we are looking for other issues of documentation and misrepresentation, and I guess what I find very strange in the commentary is that typically if you're lacking documentation, it usually will be something around income verification but you mentioned there is no trend, so I'm a little bit confused by a lack of documentation but no trend. Can you maybe speak more? Can you give me some examples of what it was that was lacking that the audit caught in terms of documentation? Or client misrepresentation?

Susan Kudzman: To clarify a point that there is no trend among certain brokers or specific employees or specific branches, if you will, at this point. Lack of documentation, you're quite right. Client misrepresentation is when a client is trying to obtain a mortgage and not defraud anything else but are paying the mortgage to purchase a home will give inaccurate information, which is mostly surrounding income and source of down payment, etc. That would be, if you were to call it a trend, the main places where there is lack of documentation.

Darko Mihelic: Okay, understood. And then what – at this stage, does the third-party purchaser need to open up the conduit again?

François Desjardins: We need to go over a confirmatory audit that they need to come back to confirm the full audit that we've done, and then as we mentioned, when complete – move on with the branch audit and then have their sort of blessing and then the results that we will have determined based on that review to come in the next few months.

Darko Mihelic: And did they commit to opening up the conduit once this was over and once you repurchased all of the mortgages that have these issues?

François Desjardins: Yes.

Darko Mihelic: Okay, thank you. Maybe moving onto something else but I'd like to ask about the MD&A. It is with respect to Northpoint and the disclosure of its impact in the quarter and what it would have been for the entire year. So the first question is, was there something in the quarter for Northpoint that would have either suppressed or helped earnings in the quarter that would not be expected to continue going forward?

François Laurin: Darko, François Laurin here. I guess, just to make sure you're referring to the note to the financial statement as if we – the results of their operation that's disclosed there are over \$3 million, less than \$4 million of net income?

Darko Mihelic: Yes.

François Laurin: Okay. So that net income is really on a reported basis per legal entity of NCF itself as we purchased that entity. So it does take into account the amortisation of the intangibles

which is over \$3 million pre-tax that we take out of adjusted earnings, so that's – you would have to take that out and it doesn't take into account the tax structure that's more efficient globally for that investment. So basically this is closer to \$7 million rather than \$3 million-something that you see in the financial statement, which makes it neutral and slightly positive for the quarter even on an EPS basis. Even if we have mentioned at the acquisition that it would be only accretive in 2019. It is clear to us it will be accretive in 2018 going forward. I don't know if that helps.

Darko Mihelic: Okay, that's helpful, and I guess – that's very helpful. Thank you for that disclosure. And just further on that topic, is the funding structure for NCF optimal right now? And if you could optimise it, how much would that improve the earnings?

François Laurin: There is not much difference at the moment between funding it in Canadian dollars, swapping it into US versus having direct access to US funding at this point. But we still will be looking at the US funding again for diversification and full hedging and to simplify it going forward. So it wouldn't be a noticeable difference, Darko.

Darko Mihelic: Okay, great. Thanks very much.

François Desjardins: You're welcome.

Operator: We'll now take the next question from the line of Lemar Persaud with TD Securities. Please go ahead.

Lemar Persaud: Thanks. Just continuing on the mortgage issue.

François Desjardins: Hi Lemar.

Lemar Persaud: Hi guys. François, is it fair to say that in pushing out your residential mortgage growth target from \$9 billion by 2019 to \$10 billion by 2020, you're not expecting to hit the brakes on mortgage originations as a result of this issue. Is that a fair comment?

François Desjardins: That is a fair comment. The comment I made early on the call is that we do have to take into consideration a new B20 impact though, and of course the rising rate environment. So we were expecting – we are expecting to have less of an intake than in the past and that's pretty universal, the comments that the other banks have given are similar in that regard.

Lemar Persaud: Okay, thanks. And then my next question is could the review of the branch underwritten mortgages that you guys are still undergoing result in lift to NIE in Q1 '18? It sounds like you're going to be substantially complete by the time you guys report Q1 '18 results. Is that correct, and is there going to be any lift in NIE that we can see?

François Laurin: Sorry, Lemar, you're referring to the mortgage review timing?

Lemar Persaud: Yeah.

François Laurin: Well –

Susan Kudzman: We would – yes, it would be complete. I think it will complete by the end of Q1 2018 but your question is, will that create a lift in NII?

François Laurin: Do you mean net interest and margin?

Lemar Persaud: No, like expenses. Will there be any rise in expenses.

François Laurin: Non-interest expenses. Clearly, it is an element, but it doesn't detract us from our targets to meet the efficiency ratio going forward.

Lemar Persaud: Okay. My next question then is, François, when you're talking about higher margins for 2018, are you talking about higher margins relative to 2017 as a whole or higher margins relative to Q4 '17?

François Laurin: Well, both, but clearly the higher of the two is Q4. We definitely believe the acquisition of Northpoint will bring that margin up going forward from Q4 results you see, the 175.

Lemar Persaud: Okay. I'll leave it there. Thanks guys.

François Desjardins: Thank you.

François Laurin: Thanks Lemar.

Operator: We'll now take the next question from the line of Sohrab Movahedi with BMO Capital Markets. Please go ahead.

Sohrab Movahedi: Hey thanks. Just a few clarifying questions. Hopefully when the securitisation conduit reopens, will there be any pricing repercussions? Will you have to pay a higher premium?

François Desjardins: We don't expect that all.

Sohrab Movahedi: Okay. And when you move to the AIRB, François, there is going to be an operating risk RWA component. You don't expect this mortgage issue to have any regulatory capital implications with respect to op risk RWAs?

François Desjardins: I'll ask Susan to give some colour on that.

Susan Kudzman: As you probably well know, the AIRB accreditation process is very formalised and very supervised by our regulator and albeit operational risk processes count in the accreditation as well as charge to capital. But we've been moving on very well through their process and refining our process as we go forward – we'll address this immediately as we were notified and feel that it won't be an impediment to the AIRB process.

Sohrab Movahedi: And you would expect to get the full benefits still, in other words, part of the explanation or part of the rationale here is we are going to close the gap from an ROE perspective because we'll have less capital intensity and you think that formula still holds?

Susan Kudzman: Yes, we do.

Sohrab Movahedi: Okay. And then just lastly on the Northpoint, given the hurricanes and the extreme weather that had impacted some of their key markets, is the – let's call it the equipment replacement cycle. Is that going to be something that is going to be a net positive to the Northpoint business?

François Desjardins: Stéphane?

Stéphane Therrien: We obviously follow the hurricane and the impact, but frankly there would be no impact positive or negative. Northpoint will continue to grow at the level that we are expecting them, but this would not be the main driver of their growth.

Sohrab Movahedi: Okay, thank you.

François Desjardins: You're welcome.

Operator: Once again, ladies and gentlemen, as a reminder, if you do have a question, please press the star followed by the one. We'll now take the next question from the line of Gabriel Dechaine with National Bank Financial. Please go ahead.

Gabriel Dechaine: Hi, just had a quick follow-up. My last question was in hurried I guess. I just wanted to confirm what you meant by conventional mortgages, so the issues that you've uncovered in the documentation side that was not in the Alt A book. It was in the prime book?

François Desjardins: Yes, prime book. No Alt A involved at all.

Gabriel Dechaine: That's it. Thanks.

François Desjardins: You're welcome. And if I would add on that just to make sure that everybody walks away with the correct information here, these are good credits. We like these credits. These are credits that we like that are outperforming to the levels that we expect from the bank. Therefore, in summary, we have found an issue. We have to resolve it and buyback some loans, which we're in the process of doing and this will be resolved in the coming months or so. And of course, as I said in my initial comments, this represents about 0.5% of the total book of the bank for which we have the capability of buying back today. So, this is why we view this as a securitisation issue and not material to any of the operations, credit, funding nor capital.

Susan Cohen: Thank you very much for joining us today. Should you have any further questions, our contact information is included at the end of the presentation. We look forward to speaking with you again at our first quarter of 2018 conference call on 27th February. Happy holidays to all of you.

Operator: Ladies and gentlemen, this does conclude today's call. Thank you for your participation and you may now disconnect your line.