FINAL TRANSCRIPT

Street Capital Group Inc.

2015 Fourth Quarter and Year-End 2015 Financial Results Conference Call

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CORPORATE PARTICIPANTS

Jonathan Ross
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Ed Gettings
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Marissa Lauder
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CONFERENCE CALL PARTICIPANTS

Dylan Steuart
Industrial Alliance — Analyst

Shubha Khan
National Bank Financial — Analyst

Jeff Fenwick
Cormark Securities — Analyst

PRESENTATION

Operator

Hi, everyone. Welcome to Street Capital Group's 2015 fourth quarter and year-end 2015 financial results conference call.

As a reminder, this conference is being recorded on Wednesday, March 9, 2016, and at this time, all participants are in a listen-only mode.

Following the presentation, we will conduct a question-and-answer session. Instructions will be provided at that time for research analysts to queue up for questions.

If anyone has any difficulty hearing the conference, please press *, 0 for Operator assistance at any time.

I will now turn the call over to Jonathan Ross, Head of Investor Relations for Street Capital Group. Please go ahead, Mr. Ross.

Jonathan Ross — Head of Investor Relations, Street Capital Group Inc.

Thanks, Sharon (phon). Good morning, everyone, and thanks for joining us today.

Street Capital Group's fourth quarter and year-end 2015 financial results were released today. The press release, financial statements, and MD&A are available on SEDAR, as well as on our website, streetcapitalgroup.ca.

Before passing the call over to management, I would like to remind listeners that portions of today's discussions contain forward-looking statements that reflect current views with respect to future events, such as Street Capital's outlook for future performance. Any such statements involve risks and uncertainties, and undue reliance should not be placed on such statements.

Certain material facts or assumptions are implied in making forward-looking statements, and actual results may differ materially from those expressed or implied in these statements.

Factors that could cause actual results or events to differ materially from current expectations include, among other things, risks related to market factors, no assurance that Street Capital will receive regulatory approval to operate as a Schedule I bank, and other factors discussed in materials filed with applicable securities regulatory authorities from time to time, including matters discussed under Risk Factors in the Company's Annual Information Form for the year ended December 31, 2015.

Street Capital Group does not undertake to update any forward-looking statements, except as required.

I will now pass the call over to Ed Gettings, Chief Executive Officer of Street Capital.

Ed Gettings — Chief Executive Officer, Street Capital Group Inc.

Thanks, Jon. Good morning, everyone, and thank you for participating on today's call. I'm joined on the call today by Lazaro DaRocha, President of Street Capital, and Marissa Lauder, Chief Financial Officer.

2015 was our eighth straight year of growth in mortgages under administration and strong top line performance. We continued to invest prudently, balancing cost control and investing for the future banking platform.

Our mortgages under administration exiting the quarter were $24.8 billion, representing a roughly 15 percent increase compared to Q4 last year. During Q4, we sold $2.1 billion worth of mortgages, of which 1.6 billion of those were new originations.

Our market share for the full year of 2015 was 8.8 percent, placing us at the number three position in the mortgage broker channel.

We are well positioned for a productive 2016. Our focus is on maintaining our market position in the broker channel to generate new loan originations, to maximize our renewals retention, and on driving future growth through our Schedule I bank licence.

For 2016 we expect that we will see similarly strong levels of mortgage sales to what we generated in 2015, with renewals lower, as Marissa will describe later. This will lead to slightly lower overall net gains on sale of mortgages next year versus 2015.

As we grow and work towards becoming a Schedule I bank, we are investing in a number of areas, including personnel and office space, and we will continue to invest in 2016. As a result, we expect to generate slightly lower net income in 2016 compared to 2015.

In 2017, we expect to return to solid earnings growth as we maintain our share of the growing broker channel, and as renewal volumes increase compared to both 2015 and 2016.

And finally, we don't feel the public markets are currently reflecting the earnings power of our business. As a result, we feel that buying back stock represents a positive use of capital.

This morning we announced that our Board of Directors has approved an application to make a normal course issuer bid to purchase up to 2 percent of Street Capital's common shares outstanding for cancellation.

I'll now turn the call over to Marissa for additional commentary.

Marissa Lauder — Chief Financial Officer, Street Capital Group Inc.

Thanks, Ed, and good morning, everyone. I'm pleased to present the 2015 fourth quarter and year-end financial results. All comparisons I make here are on a year-over-year basis.

Adjusted diluted earnings per share in Q4 2015 was $0.04, flat with last year. For the year, adjusted diluted EPS was $0.21, up 24 percent from $0.17 in 2014.

Adjusted return on equity was 16 percent in Q4 compared to 14.1 percent last year, and for the full year was a strong 20.5 percent compared to 16.7 percent in 2014. ROE is above last year's levels, primarily driven by strong revenue growth this year due to higher loan volumes, both funded and renewals, as well as a slight uptick in gain on sale rate.

We sold 2.1 billion of mortgages during Q4 2015, marginally lower than the 2.2 billion we sold in the same period last year. Mortgages sold for the year were 9 billion, up 17 percent over 2014.

While the gain on sale revenue declined 6.7 percent in Q4 2015 to 35.7 million, net gains on sale, which are net of acquisition expenses, were 16.4 million, up 9 percent over Q4 last year. The higher net gains reflect higher levels of renewals that have lower acquisition expenses.

For the year, gain on sale revenue was 164.8 million, up 19 percent from last year, and net gains on sale were 76.1 million, up 34.7 from last year.

Our gain on sale as a percentage of mortgages sold in Q4 2015 was 167 basis points, which is slightly lower than the margin realized in Q4 2014 of 176 basis points. The modest decrease in gain on sale percentage is due to tighter spreads in Q4 of this year compared to Q4 last year and product mix.

For the full year, our gain on sale percentage of mortgages sold was 182 basis points compared to 179 basis points in 2014.

Our acquisition expense ratio was 90 basis points in Q4 compared to 106 basis points last year, reflecting higher renewals. For the year, the ratio was 98 basis points compared to 106 basis points in 2014.

Renewals accounted for 27.5 percent of loan sales in the current quarter versus 12.4 percent last year. For the full year, renewals were 19.6 percent of loan sales versus 11.5 percent for the full year last year.

Renewals are above trend this year, as we previously discussed, because they reflect both five-year terms originated in 2014 and the higher than usual renewals of four- and three-year terms originated in 2011 and 2012, respectively. This is a result of promotions we implemented in those years to meet investor demand for the three- and the four-year product.

Moving into 2016, renewal volumes will revert to normalized trends, limited to primarily five-year terms originated in 2011. We expect this to translate into approximately 15 percent lower renewals in 2016 compared to 2015.

With that, I'll pass the call over to Lazaro.

Lazaro DaRocha — President, Street Capital Group Inc.

Thanks, Marissa. I'm going to take a few minutes to discuss portfolio performance and conclude with an update on the bank application process.

As you know, at Street Capital we are focused on credit quality as our number one priority. As discussed on our last call, during Q3 we made some normal course credit underwriting adjustments to maintain our strong credit performance. It had a short-term impact on volume as brokers adjusted to those changes, and as I projected on our last call volumes have returned to normal seasonally adjusted levels.

Our credit quality continues to be very strong. At December 31st the serious arrears rate on our portfolio of mortgages was 14 basis points. This is well below the high 20s/low 30s reported in the CBA stats. This is well below last year, which at 23 basis points was also a very good rate on a well-seasoned portfolio.

At the end of the year the average Beacon score of our portfolio was 742, the average loan to value ratio was 74.4 percent, and the average total debt service ratio was 36.2 percent.

Now turning to the status of our bank application. As previously disclosed, we are in the pre-commencement phase of the application. This phase, which is one of the last stages in the process, included an on-site review by OSFI in Q4.

The Company is currently implementing various operational changes in order to address OSFI observations resulting from that on-site review.

There is no denying that this process has taken longer than we anticipated. Recent publicly disclosed developments and concerns in the broker channel associated with mortgage fraud has heightened the level of awareness and expectations associated with robust fraud prevention policies and procedures. However, we want to be 100 percent clear in stating that there was absolutely no fraud findings in any mortgage files reviewed by OSFI during their on-site review of Street Capital.

That being said, we fully expect to receive approval to operate as a Schedule I bank in fiscal 2016. However, we have not built any meaningful contribution to profitability into our expectations until 2017.

Repeating what Ed had said earlier, we have built a valuable platform. We don't feel the public markets are reflecting this value currently, but are confident that this will change over time as we continue to deliver on our strategic objectives, especially as it relates to obtaining the bank licence.

At this point, I'd like to ask the Operator to open the lines for questions. Thank you.

Q&A

Operator

If you would like to ask a question, please press *, then the number 1 on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

Your first question comes from Dylan Steuart from Industrial Alliance. Your line is open.

Dylan Steuart — Industrial Alliance

Just first a quick question on the normal course issuer bid. You feel pretty confident in that you have excess capital to take advantage of that? Even with the bank licence application hopeful approval looming?

Marissa Lauder

Dylan, it's Marissa. Yes. We do.

Dylan Steuart

Okay. And I guess just a question on the new originations of 1.6 billion; down a little bit year over year. Is that more a reflection of you guys continuing to tighten up credit, as we saw most of the peers in the overall market pretty strong year over year?

Ed Gettings

Dylan, it's a function of two things. We definitely in Q3 made some adjustments to our product mix, as well as our underwriting guidelines. But I'd like to point out that in 2014 our fourth quarter was the strongest fourth quarter ever, so we're comparing to a very exceptional fourth quarter against last year's results.

Dylan Steuart

Okay. And I guess it's still a little bit of a drag from the cancellation of the loyalty program, though?

Ed Gettings

No, I think our fourth quarter was a good quarter. We bounced back, as we said in our Q3 call; that our pipeline for Q4 was coming on stream. We picked up market share in the quarter, so it's—I think we're headed in the right direction.

Dylan Steuart

Okay. And just on the SG&A, the operating expenses. You mentioned in your disclosures that a little bit of an uptick expected just with the expansion of office property. Is there anything else as far as infrastructure or hirings that you guys need to do in the coming year that we would expect an escalation of that line?

Lazaro DaRocha

Well, I think I would say that we are certainly more than 90 percent of the way there in terms of having everything in place for the bank. So I would suggest to you that between 2014 and 2015 those were the big investments years, and at this point we're pretty much there on the expense side to be ready to operate as a bank.

Dylan Steuart

Okay. Perfect. I'll let somebody else take over, but thanks very much.

Operator

Your next question comes from Shubha Khan from National Bank Financial. Your line is open.

Shubha Khan — National Bank Financial

Yeah. Thanks. Good morning. So first question I had was on the gain in sale margin. And I appreciate the colour that you gave us in the call, but—and the fact that market rates move around—but given how much lower it was compared to the first nine months of the year it certainly makes forecasting a little more difficult. So how would you think about gain on sale margin for 2016?

Lazaro DaRocha

I think when—if you look at Street Capital over several years you'll find that on an annualized basis the gain on sale rate has actually been quite consistent in the low 1.8 percent range. So we have built our plans based on that consistency.

That doesn't mean that there isn't fluctuation throughout the year; there always is. There are tight spread months and quarters and there are wider spread ones. Certainly we are seeing that through Q4 and into the early part of Q1 spreads have been tight, but we're already seeing them start to normalize and expand.

Shubha Khan

Okay. So you're not expecting a material shift from long-term averages; would that be fair to say?

Lazaro DaRocha

Absolutely. Not on an annualized basis, no.

Shubha Khan

Okay. So with respect to the bank update then you mentioned that you're implementing a couple of operational changes, I guess, in view of OSFI's—whatever OSFI's observations were. So I'm just wondering whether these operational changes entail processes to better protect against fraud, given that that's been a—there's been heightened concern around that issue?

Lazaro DaRocha

Well, it covered several items.

Shubha Khan

Okay.

Lazaro DaRocha

That was certainly one of the items, but that's why I wanted to be explicit in my statement that if you step back there is a very widely known market concern around fraud in the broker channel that arose probably over a year ago now, and OSFI and other regulators are all very focused on this.

So while OSFI, when they came on site and did their file reviews they found not one single file with any instance of fraud, they still are asking all lenders to tighten up policies as preventative measures. So that is what we are focused on doing.

It isn't anything that's insurmountable in any way, shape, or form. It's just a matter of a little bit of elbow grease and getting it done, and we're quite a ways along the way of completing that.

Ed Gettings

Shubha, I'd also point—it's Ed—I'd also point out that our serious arrears rate continue to perform exceptionally well at 14 basis points. That's probably half of what the CBA rate is in the marketplace. So we're very confident about our operational robustness in terms of getting very good credit quality as an outlook.

Shubha Khan

Okay. So it sounds like generally the industry is being asked to tighten up fraud prevention measures. It doesn't sound like a big process, or at least in your case given your arrears rate is so low and there's been no fraud issues that have crept up it doesn't sound like there's much involved in terms of implementing these operational changes. So how long do you expect—how soon do you expect to fully implement these operational changes before the ball is back in OSFI's court?

Lazaro DaRocha

Certainly I would feel comfortable that by the time we're talking about our Q1 results that we'll have fully implemented everything we needed to.

Shubha Khan

Okay. That's helpful. And then just finally on the NCIB, I guess the question is should we assume that you're doing an NCIB rather than a dividend mainly to retain balance sheet flexibility until you get a bank licence and then only thereafter will you consider a dividend? Is that a fair way of characterizing...

Marissa Lauder

Yeah. Shubha, it's Marissa. I think that's a fair way to look at it.

Shubha Khan

Okay. Perfect. Thanks.

Operator

Once again, if you would like to ask a question, please press *, then the number 1 on your telephone keypad.

Your next question comes from Jeff Fenwick from Cormark Securities. Your line is open.

Jeff Fenwick — Cormark Securities

Hello. Good morning. Just wanted to follow up some of the questions on the origination performance in the quarter. With respect to the interaction you've been having with your funding partners, you did make some mention that you're in constant contact with them with respect with their views on risk and market conditions, and are they shaping also where you're writing and how much you're writing across different geographies or different types of borrower?

Lazaro DaRocha

Well, our funding arrangements with our funders are pretty broad in nature. So if you're asking me is there, to be clear, talking about Alberta for instance that I think the entire country is concerned about, if you’re asking me has any of our liquidity arrangements changed specifically around that, the answer is no. They're not that detailed.

I would repeat what Ed said earlier in the call that while the Q4 this year was down from Q4 last year, we actually—our Q4 market share went up. So we did make progress in market share. And our volume was not impeded or limited in any way, shape, or form due to liquidity issues. We are 100 percent fine in terms of availability of liquidity.

Jeff Fenwick

Okay. And I guess that's what I was driving at. And along with that you do mention that you're working on new funding relationships. So can you give us any update on that?

Lazaro DaRocha

I would be surprised if this year will go by without us bringing at least one other large FI online, given where we are in talks with a couple of them.

Jeff Fenwick

Okay. And then wanted to touch on the fair value gains. I know they're part of the discontinued operations, but they did make a pretty meaningful swing on equity and reported book value. And is that something that OSFI takes into consideration when they're looking at your balance sheet? Or are you able to segment or structure the capital that would be within a bank separate from that?

Marissa Lauder

Yeah. So the bank capital is in the operating company and the fair value gains and losses are in the parent company, so they're segregated already by legal entity. So it's not affecting the bank capital.

Jeff Fenwick

Okay. And I guess I thought we were coming to a point here where this had run off so much that the swings wouldn't really be very much of a factor anymore. So just, I guess, maybe a little surprising that, as you mentioned, they're carried at a very low value on your balance sheet, but you had a very substantial swing there in the quarter. Can you just kind of walk me through that a little bit?

Marissa Lauder

Yeah. So the swing in the quarter reflects primarily a fair value adjustment to zero of one of our legacy investments in a furniture company. And my best judgement in my review of the valuation of that company led to the conclusion at the end of the year that it was in our best interest and from an accounting perspective that the value was zero.

So with that being gone out of the private equity investments we have very little left on our balance sheet related to the private equity investment, which is about $1.6 million, which really could fluctuate marginally, and it's primarily in publicly traded shares in the US. And we plan to liquidate that in 2016. So there's minor fluctuations that may occur with that $1.6 million, but the majority of it has now flushed through the income statement.

Jeff Fenwick

Okay. That's it for me. Thank you.

Marissa Lauder

Okay.

Ed Gettings

Thanks, Jeff.

Operator

We have no further questions at this time. Mr. Ross, I turn the call over to you.

Jonathan Ross

Great. Thanks, everyone, for participating today. And if there are any questions, as always, feel free to call us at any point during the day.

Thanks, and have a great one.

Operator

This concludes today's conference call. You may now disconnect.

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