FINAL TRANSCRIPT

Street Capital Group

Third Quarter 2016 Financial Results Conference Call

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PRESENTATION

Operator

Hi, everyone. Welcome to Street Capital Group's third quarter 2016 financial results conference call.

As a reminder, this call is being recorded on Wednesday, November 9, 2016.

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, Lindsay (phon). Good morning, everyone, and thanks for joining us today. I'm joined on the call by Ed Gettings, Chief Executive Officer of Street Capital; Lazaro DaRocha, President; and Marissa Lauder, Chief Financial Officer.

Street Capital Group's third quarter 2016 financial results were released today. The press release, financial statements, and MD&A are available on SEDAR, as well as our website, streetcapitalgroup.ca.

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Before passing the call over to management, we would like to remind listeners that portions of today's discussion 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 factors 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 approvals 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 Group.

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

Thanks, Jon. Good morning, everyone, and thank you for participating on today's call.

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Before I begin, I'd like to take this opportunity to thank all of our long-term shareholders. We are right on the cusp of another significant period of growth for Street Capital.

Management is heavily invested in the future of the Company, and we are focused on creating shareholder value. Since we initiated our normal course issuer bid in March, we've been active in the market and to October 31st have repurchased almost 511,000 common shares. We will continue to be active in the market at these prices.

As we discussed on our call last quarter, in Q3 our underwriting service returned to normalized levels following the underwriting adjustments we made in Q1 of this year. As a result, we generated strong performance during the quarter driven by higher new funded sales volumes.

We are looking forward to continued strength during Q4, as we target to remain number three or number four in the broker channel. During Q3, we regained our number three position in the channel with a market share of 9.6 percent, up 1.2 percent from Q2.

This year we are focused on putting the pieces in place to drive sustainable revenue and earnings growth starting in 2017.

We laid out three primary objectives for 2016, and we on track to hit each of them by the end of this year.

Our first objective is to advance our Schedule I bank application through to completion. We are confident that we will receive approval this year, and Lazaro will update you on this ongoing process later in the call.

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Our second objective is to continue to grow our mortgages under administration and hold our market share in the mortgage broker channel. As I said earlier, we achieved a market share of 9.6 percent in the quarter, placing us third overall in the channel.

Our third objective for 2016 was to continue to generate renewal volumes of 75 to 80 percent of loans eligible for renewal. Year to date, we have renewed $1.07 billion of mortgages, which is close to the 75 percent of those available for renewal. Moving into next year and 2018, we will drive solid earnings growth as loans underwritten in past years come up for renewal.

While the recent announcement of new mortgage insurance rules by the Department of Finance will have a modest impact on our business in 2017, we expect that this will be more than offset by higher renewal volumes and our transition to a Schedule I banking platform.

We have built a substantial brand in the industry with 130,000 mortgage customers and strong broker relationships as a broad distribution base. The shifting regulatory environment further validates our long-term strategy to leverage our leading brand into a multiproduct, multichannel opportunity. We expect to use this platform as a lever to drive significant value for our shareholders in the coming years.

I'd like to also note that we plan to hold an Investor Day in the spring, which will enable us to articulate some of our plans for the bank platform for the coming years.

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

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

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Thanks, Ed, and good morning, everyone. I'm pleased to present the third quarter 2016 key financial highlights.

Adjusted diluted earnings per share were $0.05 in Q3 2016 compared to $0.06 last year. We sold a record 2.85 billion in mortgages in Q3 2016 compared to 2.28 billion in the same period last year. Of the Q3 2016 total, 360 million were renewals, and as expected, this was lower than 410 million last year.

Net gains on sale mortgages were 22 million compared to 19.2 million last year. Gains as a percentage of mortgages sold was 184 basis points in the quarter, higher than the 180 basis points last year, and above our normally expected range of 178 to 182 basis points. We continue to expect that on a full year basis the gains on sales percentage will be in the range of 178 to 182 basis points.

Our acquisition expense ratio was 107 basis points in the quarter compared to 96 basis points last year. This increase reflects lower relative renewal volumes year over year, and a broker incentive program launched late in Q1 2016 that increased acquisition costs into Q3. This program was discontinued at the end of Q3.

In 2017, as Ed discussed, we expect the upward trend in renewal volumes to resume, with renewal volumes expected to exceed 2016 renewal volumes by 30 to 35 percent while 2018 renewal volumes are expected to increase by 35 to 40 percent over a very strong 2017.

While we continued to manage expenses tightly in the quarter, as anticipated, expenses were up year over year and sequentially from Q2 2016. The increase reflects growth in our people

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from 197 to 238 year over year as we continue to advance our Schedule I bank application, and also reflects the staff additions we made in Q1 2016 to support our bank application.

Give our current primary business model of originate to sell, we measure our expense efficiency by the ratio of operating expenses as a percentage of mortgages originated and renewed. In Q3 this ratio was 46 basis points, and as anticipated, was up from 45 basis points last year.

Given the seasonal nature of mortgage originations and renewals, this measure will vary by quarter. We expect this ratio to stabilize in the range of 50 to 52 basis points over 12 months in 2017, and we are targeting to improve operating leverage in 2018 with a range of 46 to 50 basis points in 2018 over the 12 months, as most of our bank platform expenses are now fully baked into our operations.

Before I close, I would also like to remind our listeners about our tax loss carryforward balance, which was 325.9 million at September 30th. This represents a real and sustainable advantage for the Company.

We are currently not paying any cash taxes, and will not pay cash taxes for many years to come. As a result, the net income after-tax measure underestimates the true earnings available to the Company.

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

Lazaro DaRocha — President, Street Capital Group Inc.

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Thanks, Marissa. At Street Capital we are focused on credit quality as our number one priority.

As in the past, our credit quality continues to be strong. At September 30th, the serious arrears rate on our portfolio of mortgages was 11 basis points, well below the CBA performance. This is also below last year, which at 14 basis points was also a very good rate on a well-seasoned portfolio.

As at the end of September, at time of origination the average beacon score on our portfolio was 745, the average loan to value ratio was 81 percent, and the average TDS ratio was 36.2 percent.

As you know, critical to the Company's current business model is availability of liquidity through loan sales agreements with institutional investors. Street Capital currently sells most of its mortgages to several institutional investors.

In Q3, Street Capital came to an agreement in principle to sell mortgages to two more Canadian Schedule I banks. We completed our first sale with one investor in October, and we anticipate completing the first sale with a second investor before the end of the year.

Now turning to the recent Department of Finance mortgage changes and their impact on Street Capital. In our view, the most material items announced by the Department of Finance are the changes to the qualifying rate and the elimination of mortgage insurance on most refinance transactions.

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We have reviewed these changes in detail, and believe they will have a relatively modest impact on our 2017 results. In fact, we anticipate 2017 adjusted net income to be between 4 percent and 7 percent higher than 2016 for the following reasons.

The results of these changes are expected to reduce new originations in 2017 by less than 10 percent. We have liquidity options that will mute the impact of reduced insurance availability.

The modest reduction in new originations will be more than offset by a strong growth in renewals. Renewal volume is expected to be between 30 and 35 percent higher in 2017, with net profit approximately 2.5 times higher than the net profit on new originations.

Utilizing our bank platform, we anticipate launching our uninsured mortgage product before the end of Q1 2017.

That said, the risks of government-backed insurance availability continued to increase. Most recently, the Department of Finance issued a consultation paper on the concept of risk sharing.

While the final structure that this will take is yet to be determined, we believe that some form of loan loss risk sharing will be implemented.

In our opinion, this will likely result in increasing costs, capital, and ultimately rates for consumers. Obviously, this will add even greater pressure to mono-line unregulated mortgage lenders.

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However, at the same time, there are some tailwinds on the horizon. Recently, the government of Canada announced a material increase to immigration targets for 2017 focused on economic immigration. The target has been set at 300,000 for 2017, which ignoring the onetime refugee increase in 2016, represents about a 20 percent increase. As been noted in the past, immigration is a key driver of housing activity in Canada.

Approximately four years ago, Street Capital undertook a strategic review of its operations, and concluded that the mono-line unregulated lending business model faced limited growth prospects and increasing risks.

We saw not only risks to the availability of insurance, but also risks associated with the declining availability of government-sponsored securitization programs. As a result, we saw significant risks associated with a revenue stream limited to an insured mortgage product. To that end, Street Capital decided to embark on the long and arduous path to becoming a Schedule I bank.

Since this time, over the past four years, various regulatory changes have indeed reduced the availability of government-backed insurance and government-sponsored securitization programs, culminating with the most recent Department of Finance changes and the impending risk-sharing model to come.

We are confident that the bank platform will not only allow Street Capital to diversify its funding sources, but more importantly, allow it to raise its own funding for the expansion of products beyond an insured mortgage, thereby diversifying its revenue streams and allowing it to

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more dynamically address any future disruptions to market conditions, be they regulatory or otherwise.

As we have been saying for some time, Street Capital's strategic imperative is not to materially increase its market share of insured mortgages in the broker channel. We will seek to maintain our number three or number four position in that channel while focusing our energy and capital on building our bank platform, and in the coming years, expanding into a full-suite retail-lending financial institution.

To that end, as discussed, we anticipate launching our various GIC products to fund uninsured mortgages before the end of Q1 2017. This will be followed shortly thereafter by the launch of our credit card products at the beginning of 2018.

Now to the status of our bank application. As you know, we are in the Pre-Commencement Review Phase of our application to the Minister of Finance to continue as a Schedule I bank. In Q1, we informed you that we expected OSFI to return on site during the summer to confirm that the changes made by the Company had been adequately implemented.

In Q2, we informed you that OSFI did in fact return in July, and we were awaiting the results of that visit. We are pleased to inform you that the Company believes that it has now addressed all of OSFI's material concerns, and the Company anticipates that OSFI will make a recommendation to the Minister of Finance for Letters Patent of Continuation and to the Superintendent of Financial Institutions for an order to commence and carry on business before the

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end of November. The Company is confident that it will receive approval before the end of calendar 2016.

In closing, we feel very excited about the future. Street Capital is about to embark on the next phase of its life cycle, a phase that will see it grow from its inception as an unregulated mono-lined lender to a full-suite retail-lending federally regulated financial institution in the coming years.

While headwinds will always arise in the market, we close 2016 and enter 2017 confident that we have set Street Capital up to tackle those headwinds straight on from a position of strength.

Thank you.

Jonathan Ross

We'd now to open the call up for questions. Lindsay?

Q&A

Operator

And at this time, ladies and gentlemen, if you would like to ask a question, please press *, followed by the number 1 on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

Our first question comes from the line of Dylan Steuart with Industrial Alliance Securities. Your line is now open.

Dylan Steuart — Industrial Alliance Securities

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Good morning, everybody.

Marissa Lauder

Good morning, Dylan.

Dylan Steuart

Just hoping for a bit more colour on the strong originations we saw in the quarter. Just maybe if you can touch on what you saw on the competitive landscape? And it sounds like, I guess, you had a broker incentive program running through the quarter that was cancelled subsequent? So just maybe just a bit more colour on that as well?

Ed Gettings

So, Dylan, you know that we had I'll say challenges in Q1 and Q2 around implementing our revised underwriting platform, which did affect our services levels and did affect our volumes in both of those quarters. So we came back with that temporary promotion, which we do from time to time, to sort of restart the deal pipeline, and we were successful in terms of doing that.

We also held a number of broker feedback sessions across the country, and got good input in terms of what we were doing well, what we could do to improve. Fundamentally it was around service levels, and we focused our efforts from an underwriting perspective on getting our service levels back on track. And that's where the benefits were.

So I would say that we're optimistic certainly in Q3 and Q4 that we're back on track and, we've reestablished very strong relationships with those brokers.

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Dylan Steuart

Okay. Perfect. If you could just touch on I know you talked a lot about the impact of the new mortgage rules, but just maybe a bit more comfort on what your funders are saying just regarding the low-ratio mortgages that might not be eligible for insurance going forward. Do you feel pretty confident that the funding will hold up on that side of things?

Lazaro DaRocha

Well as we stated in our financials, we do anticipate a drop in new insured originations next year. We believe it will be less than 10 percent from what we originated this year.

We are comfortable that we have not only expanded our funders in terms of the numbers, but also in terms of the magnitude of volume they will take. We are in negotiations with a couple of them to get them to take more of the conventional low ratio; that's always a continuing process for us. As I said, we do anticipate a decline, but it'll be less than 10 percent.

Dylan Steuart

Okay. Perfect. And I guess just on the operating expenses, I know well within the range of the percentage of mortgages sold, but I guess the increase that we saw quarter over quarter, is that just a reflection of the increased business you saw in the quarter? Or how much—just remind me how much variability, I guess, is in that number?

Marissa Lauder

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There's a little bit of variability, Dylan—it's Marissa—associated with our variable compensation. So when we see volumes increase, obviously we have salespeople and people who are compensated on a variable basis on a continuous basis, so there is a little bit there.

There's also just some of the people that we brought in in Q1 were not in the Company for all of Q2, so that's a full quarter of our full-staff complement.

Dylan Steuart

Okay. That's great. That's it for me. I'll re-queue. Thanks, everybody.

Operator

And again, ladies and gentlemen, that is *, 1, on your telephone keypad to ask a question.

Our next question comes from the line of Jaeme Gloyne with National Bank Financial. Your line is now open.

Jaeme Gloyne — National Bank Financial

Yeah. Good morning, guys.

Ed Gettings

Hi, Jaeme.

Jaeme Gloyne

Good morning. First question is related to the agreement with the Schedule I banks. Have you actually completed any or executed any transactions with these two additional banks as yet?

Lazaro DaRocha

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Yes. As I noted in my discussion, we've actually done one loan sale with one of them already, and we do anticipate doing a loan sale with a second one before the end of the year.

Jaeme Gloyne

Okay. And pardon me if I missed this in your remarks as well. Your current funding partners, have they had any, I guess, change in their demand for insured mortgages or uninsured mortgages or what have you? I'm speaking—

Lazaro DaRocha

No.

Jaeme Gloyne

—specifically about the two to three North American ones that you have right now.

Lazaro DaRocha

Yeah. The answer to that is yes, but yes in a positive sense. Those that are changing are moving upward.

Jaeme Gloyne

Okay. And then I noticed on the NHA MBS front there was a bit more securitization done in this quarter after taking a pause. Can you just sort of give us a bit more colour on the strategy around that?

Lazaro DaRocha

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We use MBS solely as an operational necessity from time to time when all of a sudden our funding will—funding ratio or close ratios spike at the end of the month and we don't anticipate—didn't anticipate that. We don't have time to turn around the requests from funders, and so we'll just fund it ourselves.

It's purely a reflection of magnitude of funding from a day-to-day perspective. It's not a program that we will anticipate using wholeheartedly due to the capital issues.

Jaeme Gloyne

Right. And then so, I guess, that's related as well to the over 70 million held on balance sheet of mortgage loans this quarter almost double from Q2, and quite substantially higher than sort of like your typical run rate for mortgage loans on the balance sheet, we should expect to see that sort of come back down to more normal levels?

Lazaro DaRocha

Well that may. One of the different elements to the new funders that we have is that we sell them funded mortgages, so we actually fund it on our warehouse and turn it around and sell them. So a portion of that 70 million, that number that you're referring to, would have been intentionally held by us because we intended to sell it to that one funder and we did.

So you will see balances at month-end purely based on the inventory build-up in our warehouse before we sell them to other funders.

Jaeme Gloyne

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Right. So should we expect any, I guess, uptick in any income earned off of these mortgages? Will you be carrying them at a like a higher level for most of—like within the quarter as well? Or—

Lazaro DaRocha

Well, certainly, a, I wouldn't focus on that for next year—

Jaeme Gloyne

Yeah.

Lazaro DaRocha

—because our three funders are still our primary funders. However, in theory and in practice on an individual loan sale basis, obviously the gain on sale one makes from a funded mortgage is higher than selling a commitment.

So that's certainly the case. But I don't envision that the magnitude will be so much that you'll see a noticeable difference next year.

Jaeme Gloyne

Okay. Great. And I just want to just clarify a couple of the comments then, first around the temporary promotion. I understand that it's now over. Did it carry into Q4 at all? Or should we see any carryover from that promotion in Q4? Or do you have any plans to reinitiate a promotion either in Q4 or early in Q1?

Ed Gettings

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I'll answer that one, Jaeme. You'll see a little bit of tail impact in Q4, but we have cancelled that bump in commission. It's no longer in the marketplace. We're back to our normalized commissions.

You'll see a little bit tail into Q4, but it won't be that substantial. And from time to time we do promotions in the marketplace, but we don't have anything planned for Q4 or Q1 at this point.

Jaeme Gloyne

Okay. And the broker response following that cancellation of the program, have you seen any sort of pullback, I guess, after the compensation was normalized?

Ed Gettings

No, I'd look at that promotion as sort of a kick-start to get us back on track with the brokers after our challenges in Q1 and Q2. So we used it as an incentive to start sending deals back to Street Capital. Our service levels are on target, and we're optimistic about Q4 as well.

Jaeme Gloyne

Okay. Great. And then the last one just around the origination guidance for 2017, just want to confirm it's 10 percent lower, or I guess less than 10 percent lower, than the experience in 2016. Is that correct? I guess—

Ed Gettings

That's what we're indicating at this point.

Jaeme Gloyne

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Okay. Great. That's it for me. Thanks.

Operator

There are no further questions in queue at this time. I'll turn the call back over to Mr. Jon Ross for closing comments.

Jonathan Ross

Thanks, everyone, for participating on the call today. And obviously if you have any questions, feel free to reach out.

Thanks, and have a great day.

Operator

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

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