

Mortgage Companies – 2016 Outlook

Slim Pickings Despite Recent Sell-Off

Industry Rating (Non-Bank Financials):
Market Weight
(NBF Economics & Strategy Group)

Shubha Khan - (416) 869-6425 - shubha.khan@nbc.ca

Associate: Jaeme Gloyn, CFA - (416) 869-8042 – jaeme.gloyn@nbc.ca

Company	Ticker (TSX)	Price	Rating		Price Target		EPS			P/E		
			Now	Was	Now	Was	F2014A	F2015E	F2016E	F2014A	F2015E	F2016E
Equitable Group Inc.	EQB.TO	\$50.59	SP	OP	\$54.00	\$71.00	\$6.53	\$7.61	\$7.57	7.8x	6.6x	6.7x
First National	FN.TO	\$19.91	SP	SP	\$21.00	\$23.00	\$2.04	\$2.34	\$2.52	9.8x	8.5x	7.9x
Genworth MI	MIC.TO	\$22.90	SP	SP	\$24.00	\$35.00	\$3.87	\$3.83	\$3.52	5.9x	6.0x	6.5x
Home Capital Group	HCG.TO	\$25.88	OP	SP	\$31.00	\$34.00	\$4.10	\$4.14	\$4.28	6.3x	6.3x	6.1x
MCAN Mortgage Corp.	MKP.TO	\$11.79	SP	SP	\$12.50	\$12.50	\$1.22	\$1.23	\$1.23	9.7x	9.6x	9.6x
Street Capital Group	SCB.TO	\$1.21	OP	OP	\$1.75	\$2.25	\$0.18	\$0.21	\$0.20	6.9x	5.6x	6.2x

Stock Rating: OP = Outperform, SP = Sector Perform, UP = Underperform Source: Company reports, NBF Estimates

This time last year, we acknowledged that the outlook for the Canadian housing market had changed dramatically on the back of a 50% decline in oil prices from their 2014 peak. We highlighted the adverse implications for the Alberta market in particular. Over the past 12 months oil prices have slid by another 35%, compounding the deterioration in the economic outlook. We have seen fit to make further downward adjustments to the outlooks for the mortgage finance companies in our coverage universe.

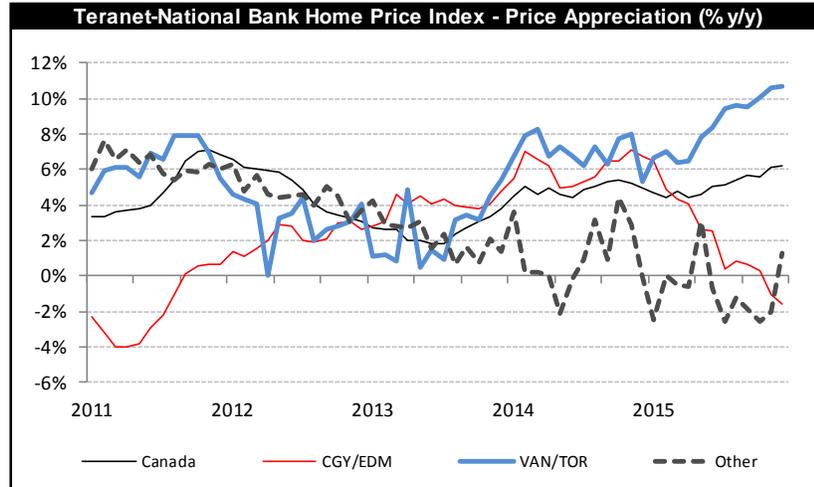
- **A three-speed housing market** – Home price appreciation across Canada's various regional housing markets has diverged in response to rapidly declining oil prices. Major urban centres in oil-producing regions are now experiencing home price declines. By contrast, Canada's two largest urban markets, Toronto and Vancouver, continue to see strong home price appreciation as a result of the weakening CAD and lower fuel costs. Strong capital inflows from foreign buyers also appear to be supporting home price appreciation in these markets. In all other markets, home prices remain stable. We expect these trends to persist in 2016.
- **Loan losses to rise steadily** – We expect rising job losses in oil-producing regions to result in rising loan losses. That said, a weaker Canadian dollar and lower energy prices should mute the impact on export-oriented provinces with energy-intensive manufacturing industries. Moreover, mortgage rates are poised to remain near historical lows, muting the probability of default in those markets.
- **Forecasts reduced on slower loan growth, higher loan losses** – We reduced earnings projections for all stocks in our coverage universe to reflect a weaker economic outlook. We steepened the trajectory for rising loan losses and reduced loan origination projections across the board. Forecast revisions were most material for those with the highest exposure to Alberta and with the highest exposure to credit risk generally.
- **Valuation multiples cut to (near) trough levels** – Trading multiples for all mortgage finance stocks have plummeted in recent months and are near historical troughs, or at least near levels last seen during the height of the Global Financial Crisis. We anticipate that investor sentiment on housing-related stocks will remain decidedly bearish for the foreseeable future, unless rebounding oil prices help to brighten the outlook for the Canadian economy.
- **Slim pickings, but HCG oversold** – Despite the sell-off in virtually all mortgage finance stocks over the past year, we see very few stocks that are attractively valued in the face of persistently bearish investor sentiment. However, we upgraded HCG to Outperform from Sector Perform as we believe the shares are oversold on currently exaggerated concerns about credit quality. We are confident that HCG will be able to demonstrate lower loan losses vs. peers given modest exposure to oil-producing provinces, which should help drive a gradual re-rating relative to peers.



THEMATIC
RESEARCH

A Three-Speed Housing Market

Home price appreciation across Canada's various regional housing markets has diverged on the back of rapidly declining oil prices. We believe Alberta will continue to experience significant weakness in 2016, while Toronto/Vancouver will continue to see robust activity, and the rest of Canada will likely evolve in line with the broader economy.

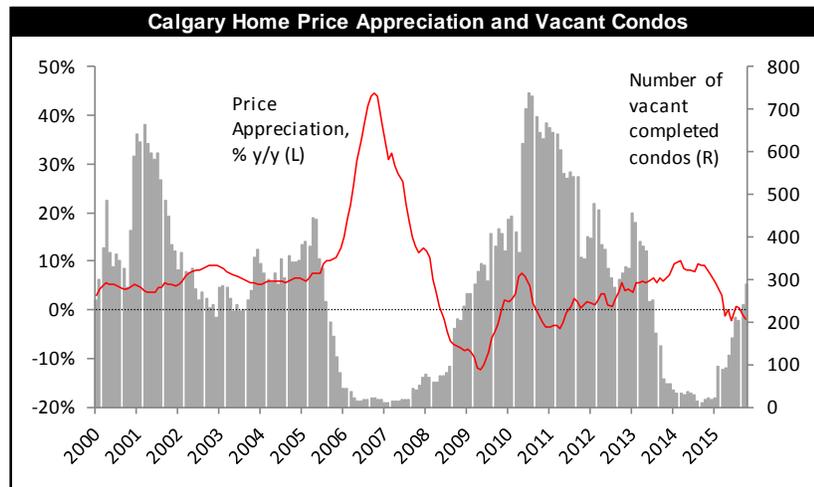


Source: Teranet-National Bank Home Price Index, December 2015
Other includes: Winnipeg, Ottawa, Montreal, Quebec City, Halifax

Alberta – Significant weakness ahead

According to the Teranet-National Bank Home Price Index, home prices in Calgary and Edmonton were down 2.0% y/y and 0.6% y/y, respectively, in 2015. The underlying data suggests that a more exaggerated downturn should be expected in 2016. Declining unit sales, increasing housing supply, negative migration patterns, and weak economic and employment prospects point to pressure on house prices. Moreover, credit fundamentals foreshadow rising loan losses.

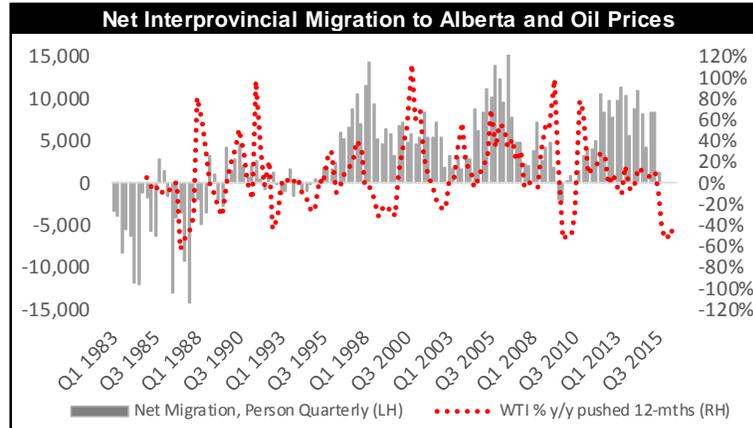
Demand for housing in Alberta has softened considerably. CREA reported full year 2015 unit sales in Calgary fell 29% y/y, while Edmonton unit sales were down 8%. Edmonton is likely facing further declines in unit sales due to a surge in housing supply. New listings of existing homes in the area increased 19% y/y, while housing starts for the full year 2015 jumped 23% y/y. Meanwhile, in Calgary, the number of vacant completed condos (unsold and unrented) is also rising, which in the past has muted home price appreciation.



Source: CMHC, Teranet-National Bank Home Price Index, November 2015

Somewhat paradoxically, Alberta experienced positive migration statistics through Q3 2015, which typically supports housing demand. Immigration to Alberta in 2015 is on pace to be up 6.5% from 2014 vs. a 2.3% y/y increase for Canada overall. The province has also maintained positive net interprovincial migration.

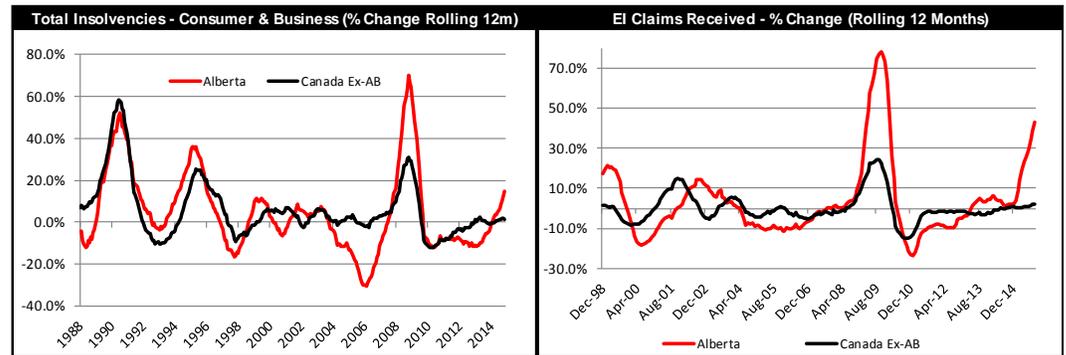
However, this metric has worryingly slowed in recent quarters. In-migration declined 8% in Q3 2015 vs. the prior-year quarter, while out-migration increased 33% over the period. The table below highlights Alberta's net interprovincial migration against oil prices. As oil prices continue to languish around recent lows, we do not expect the outflow of individuals to other provinces to reverse in the near future.



Source: Statscan, Bloomberg.

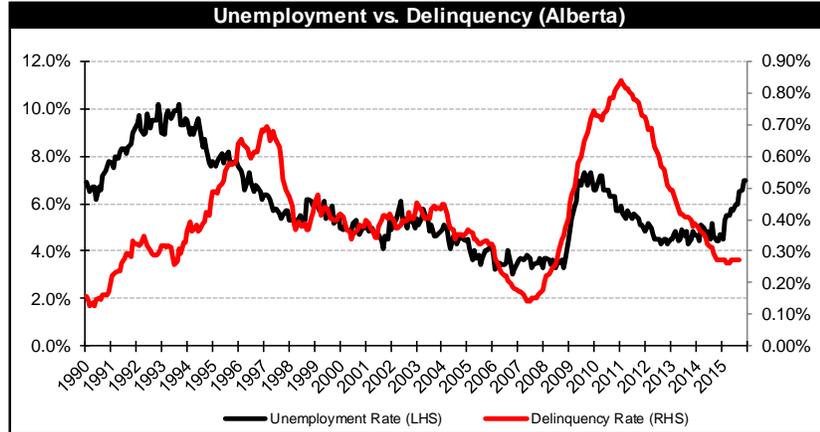
Generally weak economic and employment prospects will almost certainly weigh on housing demand. NBF Economics forecasts Alberta's real GDP to decline 2.5% y/y in 2016. Alberta is anticipated to have the weakest employment growth of all the provinces, except Newfoundland and Labrador, vs. an already downbeat forecast of just +0.4% y/y for Canada. The Bank of Canada's Winter 2015-16 Business Outlook Survey reinforces this view, citing firms' need to cut costs in an environment of persistently low energy prices and/or to achieve efficiency gains.

Should these forecasts prove accurate, underlying credit fundamentals will continue to deteriorate. The charts below highlight the spike in employment insurance claims, the unemployment rate, and total insolvencies.



Source: OSB, NBF. Data as of October 2015

Source: Statscan, NBF. Data as of October 2015

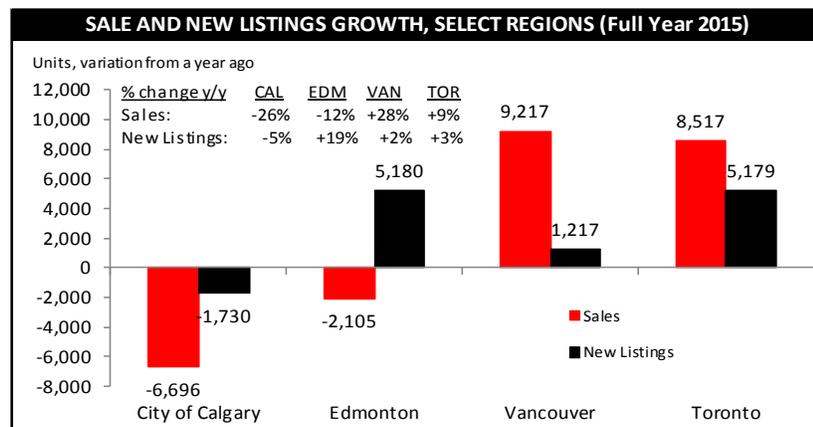


Source: Canadian Banker's Association, Statistics Canada

The spike in unemployment and insolvencies has yet to translate into a higher residential mortgage arrears rate (90+ days). At its Dec. 7 Investor Day, Genworth management noted a number of possible reasons for the ability of recently unemployed individuals to continue servicing the mortgage:

- Dual income families
- High-income earners with larger financial cushions
- Re-employed, limits delinquency to short period
- Access to cheap credit, servicing mortgage with other forms of credit

To us, all of the above represent stop-gap solutions and, in the case of alternative forms of credit, are also potentially dangerous. More importantly, we could see a significant spike in supply in 2016 as Alberta households exhaust their means to escape default. This would only serve to exaggerate the unfavourable supply and demand imbalance in Alberta (shown in the chart below).



Source: NBF Economics & Strategy, data from CREB, EREB, GVRB, TREB.

Toronto and Vancouver – Robust activity to continue

As shown in the chart above, the demand for housing in Canada's two largest housing markets, Toronto and Vancouver, continues to outstrip supply. This has led to accelerating home price appreciation.

Immigration & Foreign Capital – Much of the acceleration in Vancouver and Toronto home prices has been attributed to foreign buyers, particularly from mainland China. Although there is evidence to substantiate this claim, we argue that job growth and migration, as well as supply constraints, are also playing a significant role.

Nevertheless, the impact of immigration and/or foreign capital inflows should not be downplayed. After all, immigration has been a steady contributor to population growth, amounting to about 260,000 persons annually and, according to 2011 Census results, homeownership rates among the immigrant population in Toronto and Vancouver of 70% and 71%, respectively, exceed the homeownership rates of non-immigrants by approximately five percentage points.

Perhaps of more immediate interest is that accelerating home price appreciation in Toronto and Vancouver has coincided with accelerating capital outflows from China. Although the evidence is far from conclusive, this does appear to corroborate the anecdotal evidence.

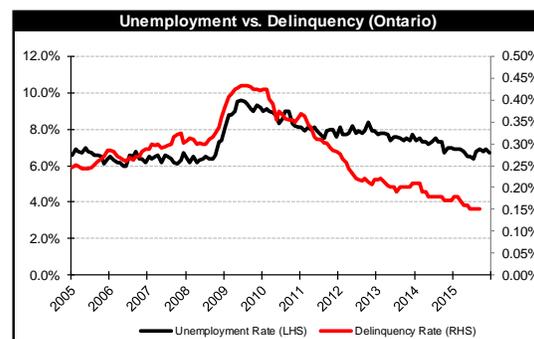
Foreign capital inflows are likely to remain supportive of demand in these two markets through 2016, given the sharp depreciation of the CAD, which has made CAD-denominated real estate more attractive to foreign buyers, particularly from mainland China.

Notwithstanding elevated concerns about the ongoing economic slowdown in China, we do not anticipate a (significant) drop in foreign buying of real estate in Vancouver and Toronto unless and until the People's Bank of China (PBOC) moves unambiguously to appreciably devalue the yuan. Given how fast and how far the Canadian dollar has fallen, however, it is difficult to see how Canadian real estate can become meaningfully less attractive to foreign buyers in the near term.

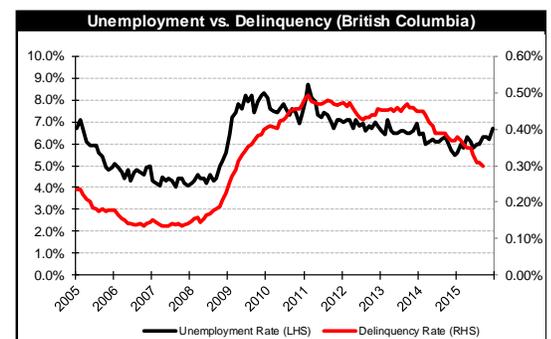
Economic Growth & Employment – Although overall economic growth for Canada overall is expected to be soft by historical standards, we highlight the anticipated strength in non-oil producing provinces. Our NBF Economics team forecasts real GDP growth in 2016 in Ontario and British Columbia of 2.0% and 2.2%, respectively.

In fact, lower oil prices, a sharply lower CAD and accommodative monetary policy have already served to stimulate economic activity in Ontario and British Columbia. Most notably, employment growth in Toronto of 4.9% and Vancouver at 4.0% far exceeded the 0.8% y/y national average over the past 12 months. On the other hand, the 15 to 54 age cohort actually lost 62,200 jobs (55 and over added 220,200 jobs) during this period. This group is typically considered the main home buying population.

Nevertheless, the unemployment rate is poised to remain stable across Ontario and British Columbia, suggesting that mortgage delinquency is unlikely to move significantly higher than current levels, which continue to hover near historical lows.



Source: Canadian Banker's Association, Statistics Canada



Source: Canadian Banker's Association, Statistics Canada

Other Demand Drivers – Interprovincial migration to Ontario and British Columbia over the last 12 months increased 15% and 10%, respectively, while net in-migration to BC increased 34%. Notably, in Q3 2015, Ontario swung to net in-migration from net out-migration for the first time in 19 quarters. This points to robust growth in the home-buying population.

Supply constraints, be they geographic (Vancouver) or regulatory (land use planning in Toronto), are certainly an important factor in home price appreciation. Growth in potential new households in these two markets has significantly exceeded actual housing starts. Using Statistics Canada estimates of population growth from 2010 to 2014 (2015 estimates not available), actual housing starts reported by CMHC, and the 2011 Census estimate of

average household size, we find that potential household growth has exceeded housing starts by 41% in Toronto and 58% in Vancouver.

Supply and Demand		
	Toronto	Vancouver
Population Growth (Persons, 2010-2014)	677,589	378,854
Average Household Size	2.5	2.5
Potential New Households	271,036	151,542
Actual Starts (2011-2015)	192,613	95,665
Excess Demand for Housing	41%	58%

Source: CMHC, StatsCan, NBF

We believe this supply and demand imbalance has contributed significantly to the rapid price growth in these markets. According to the Real Estate Board of Greater Vancouver, the average price for a condo has increased 14% y/y as of Dec. 2015, while the average price for a single-family home increased 24% y/y. Similarly, the Toronto Real Estate Board reported an increase in the average price of condos increased 5.0% y/y and a 12.6% jump in the average price of single-family homes.

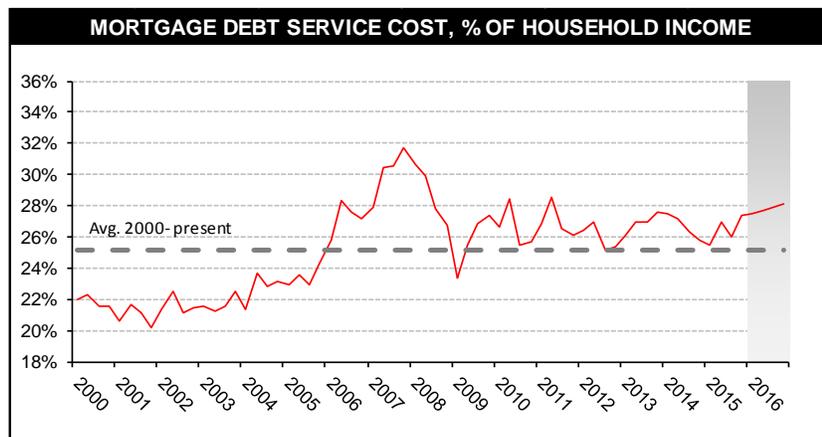
Affordability to Remain Stable

Although household balance sheets in Canada are arguably stretched, we do not see affordability (or lack thereof) as a significant source of risk for housing demand in 2016.

Low Interest Rates

The low interest rate environment has resulted in stable home affordability. The NBF Economics and Strategy group remains of the view that the Bank of Canada will keep its policy rate at 0.50% through the end of 2016, meaning prime lending rates will also be unchanged.

As the chart below shows, the mortgage debt service ratio for the average priced home (red line) remains within its post-financial crisis range of 26% to 28%. Even a 100 bps increase in mortgage rates would keep the debt service ratio below the 2007 peak of 32%.



Source: CREA, Statistics Canada, NBF estimates

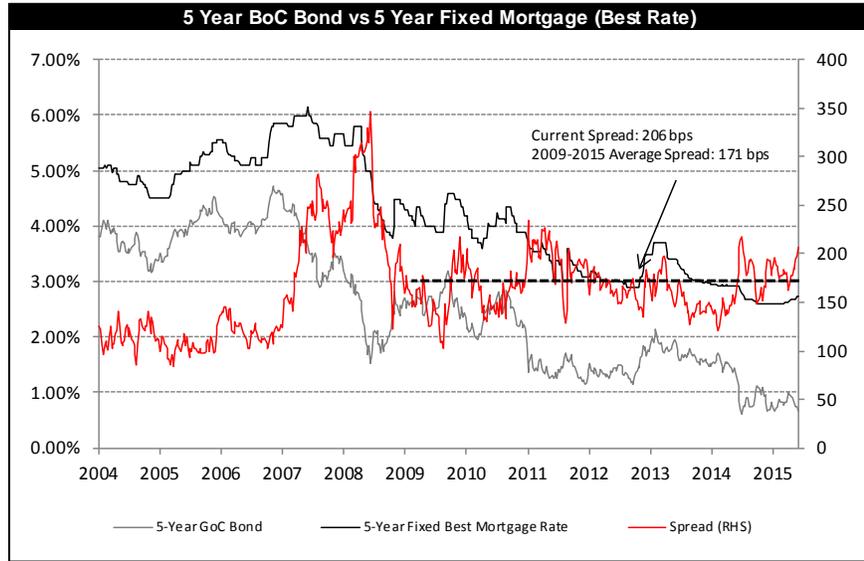
Assumptions: Home prices appreciate 5% p.a., wage growth of 2% p.a., mortgage rates unchanged

Mortgage Assumptions: 5-year discounted mortgage rate, 25 year amortization, 5% down payment

Regulatory changes have exerted some upward pressure on mortgage rates, but not enough to lift rates from their current historical lows. For example, recent changes to mortgage rules on Dec. 11 – in particular the move by CMHC to increase upfront guarantee fees on NHA MBS and CMBs effective July 1, 2016 – will make it more costly for large financial institutions to originate mortgages. On Jan. 5, Royal Bank increased its 5-year fixed rates by 10 basis points in an effort to maintain margins, spurring the remaining Big Six banks to do the same shortly after.

In addition, qualified consumers can still obtain sub-2.50% fixed rates on mortgages with five-year terms from a number of smaller lenders not impacted by the mortgage rule changes.

As shown below, the spread between the discounted 5-year mortgage rate and the 5-year Government of Canada bond has widened significantly over the past year. Given the higher-than-average spread, we believe the recent upward tweak in mortgage rates is sufficient to cushion the impact from higher origination costs, potentially increased capital requirements, and potentially higher bond yields. As a result, mortgage rates will remain accommodative through 2016.

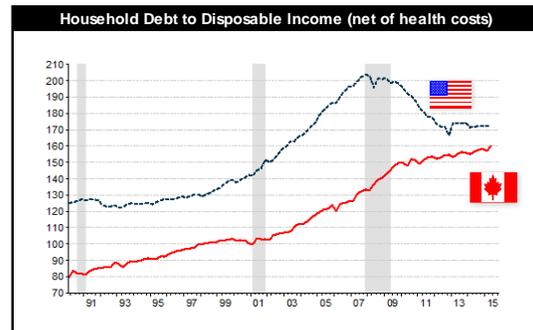


Source: Bank of Canada, NBF

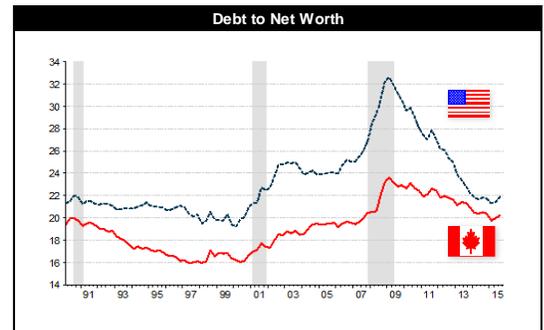
Household Balance Sheets Stretched, But Not Overly So

The balance sheet of the average Canadian household continues to appear stretched on a debt-to-income basis, primarily as residential mortgage growth (5.9% y/y as of Sep. 2015) has outpaced income growth (average weekly earnings up 1.7% y/y as of Sep. 2015). However, the pace of growth in this metric has slowed considerably, alongside improvements/stabilization in other measures of household leverage.

The charts below, courtesy of our NBF Economics and Strategy group, highlight this story. Growth in the household debt to income ratio has stabilized to a pace of about 1% per annum since 2009, which compares to about 5% annually in the 2003-2009 period (left-hand chart). Furthermore, debt to net worth has consistently improved since the height of the financial crisis (right-hand chart). We note that debt-service costs have remained relatively stable since the end of the financial crisis as shown by the chart on the preceding page.



Source: NBF Economics and Strategy, data from StatsCan, Federal Reserve and BEA through IHS



Source: NBF Economics and Strategy, data from StatsCan and Federal Reserve

As part of the December 2015 Financial System Review, the Bank of Canada highlighted the increasing incidence of highly indebted households (i.e. debt-to-gross household income >350%) over the past decade. For context, we found the comparison with the U.S. in 2007 to be insightful. The vulnerability of Canadian households appears considerably less today than American households prior to the financial crisis.

Incidence of Debt and Highly Indebted Households		
	Canada (2012-14)	United States (2007)
All indebted households		
Incidence	69.2%	77.0%
Households with a debt-to-income ratio > 350%		
Incidence among indebted households	7.9%	12.8%
<i>Proportion with debt-service-ratio > 40%</i>	35.7%	70.7%
<i>Proportion with financial-assets-coverage ratio < 1 month</i>	20.7%	26.0%
<i>Share of total household debt</i>	20.7%	34.6%

Source: Bank of Canada

Regulatory Changes Could Adversely Impact Affordability

In our view, the regulatory environment is a source of risk to the housing market in 2016 and beyond.

In late 2015, the Department of Finance (DoF), CMHC and OSFI introduced [new mortgage rules](#). We maintain our initial opinion that these new rules will have a muted impact on the overall housing market. In fact, we believe the new rules may be a slight positive for the alternative lenders and regional banks we cover.

We believe risks to the housing market could emerge through further regulatory action by the recently-elected federal government, which continues to “review escalating home prices in high-priced markets, like Toronto and Vancouver, and consider all policy tools that could keep home ownership within reach for more Canadians”.

The change to down payment rules announced by the DoF appears directed at the Toronto and Vancouver markets in an effort to reduce the attractiveness of homes in the \$500,000 to \$1 million range.

In trying to anticipate further policy actions, we found recent changes in the United Kingdom to be instructive. Effective Dec. 2014, the United Kingdom introduced new Stamp Duty Land Tax (SDLT) premiums, equivalent to Canada’s Land Transfer Tax, converting from a flat rate system to a progressive system:

Residential Land Transfer Tax Rates in the UK			
Property Value (on total)	Old Rate	Property Value	New Rate
< £125,000	0%	Portion below £125,000	0%
£125,001 to £250,000	1%	Portion from £125,001 to £250,000	2%
£250,001 to £500,000	3%	Portion from £250,001 to £925,000	5%
£500,001 to £1.0 million	4%	Portion from £925,001 to £1.5 million	10%
£1.0 million to £2.0 million	5%	Portion above £1.5 million	12%
> £2.0 million	7%		

Source: gov.uk

For context, the Toronto Land Transfer Tax rate on a \$1.0 million home equates to 3.2% (1.6% Ontario and 1.6% City of Toronto). In Vancouver, that tax would be 1.8% as the city itself does not charge a land transfer tax. (The current average home price in London is about £400,000, which translates to ~\$800,000.)

According to news reports, the impact of the new SDLT regime reduced the number of transactions above the £1.5 million price point by 20%, compared to a 10% reduction in unit sales below £925,000.

In addition to the above, Canada's newly elected federal government may feel compelled to curb the perceived impact of foreign investment on home valuations, particularly in Vancouver and, to a lesser degree, in Toronto. We highlight select policies from other jurisdictions:

- **Australia:** Foreign buyers are limited to purchases of only newly-built homes. Temporary residents on visas greater than 12 months may purchase an existing home, but require approval from the regulator and must sell the home when the visa expires. Illegal purchases would be subject to penalties linked to the value of the property (e.g. 25%).
- **United Kingdom:** Non-resident owners, trustees, closely-held funds, and companies of UK property, including rental property are subject to capital gains taxes. To address a growing issue of vacant homes, a London borough implemented a 50% surcharge on properties left vacant for more than 2 years.
- **Hong Kong:** Government imposes a 15% surcharge on foreign purchased properties.

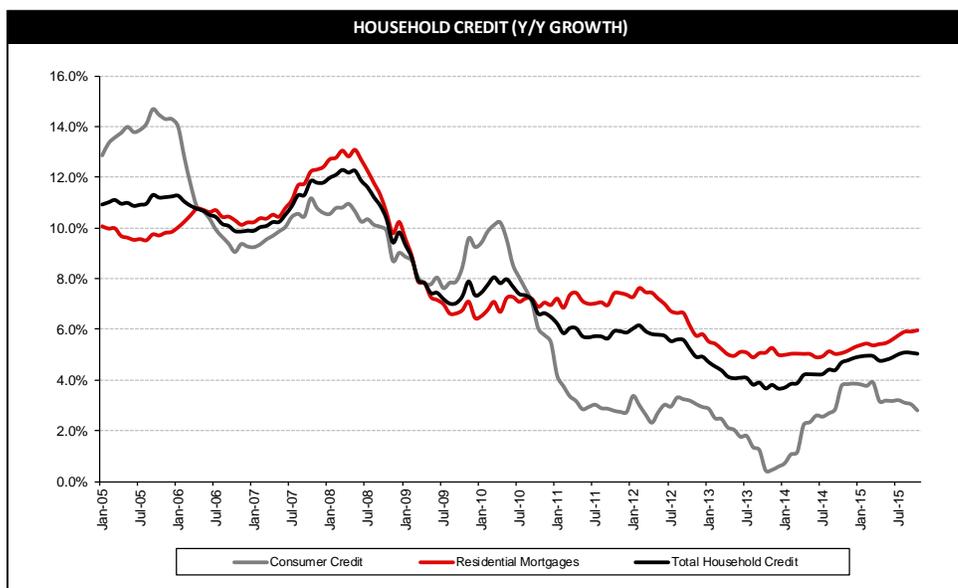
To be clear, we are not suggesting these policy actions are imminent, or even appropriate for the Canadian housing market. We do, however, believe that such actions are currently being considered, and that they present a source of risk for housing demand in Canada.

Forecasts Revised to Reflect Exaggerated Geographic Differences

For summaries of our updated financial models, please see pages 14 to 19.

Loan Growth Expectations

Overall, we believe that Toronto and Vancouver are likely to sustain a relatively strong pace of housing activity in 2016 and beyond. Alberta will continue to experience significant weakness and other Canadian markets will only see modest growth at best. We do not believe regulatory actions to date will have a meaningful impact (positive or negative) on overall housing activity. As such, we believe residential mortgage credit growth will slow from its current pace of 5.9% annual growth. We have adjusted our residential mortgage loan growth forecasts accordingly, penalizing those companies with more exposure to oil-producing provinces.

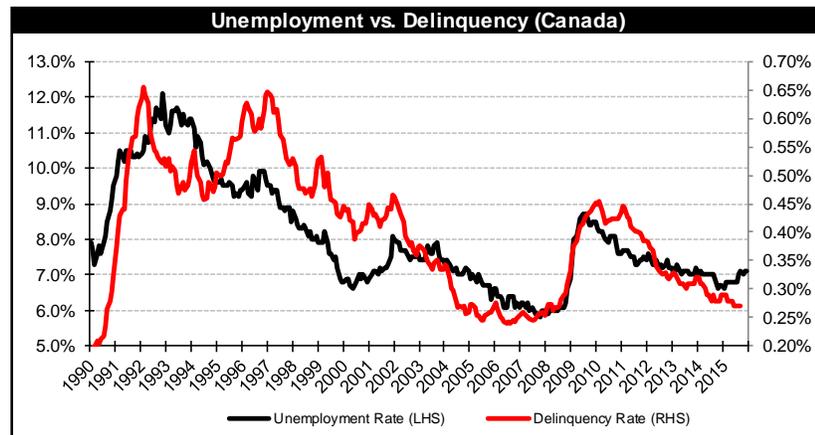


Source: Bank of Canada

Credit Quality Remains Stable – Excluding Alberta

Underlying consumer credit fundamentals remain relatively stable, supported by employment growth and low interest rates. However, weakness in the Alberta market will almost certainly drive higher loan losses.

Canadian employment is expected to grow at a modest 0.6% pace in 2016, compared to growth of 0.8% in 2015. In line with modest employment gains, the unemployment rate in Canada is expected to remain fairly stable at 7.0% in 2016 vs. the 7.1% reported at year-end 2015, and slightly above the 6.7% in 2014. Given this outlook, we maintain our expectations for an uptick in mortgage delinquencies in 2016. However, we have steepened the upward trajectory for loan losses across our coverage universe.



Source: Canadian Banker's Association, Statistics Canada

We do not expect rising loan losses to affect all mortgage finance companies equally. Below, we highlight the EPS impact of a 0.05% increase loan losses from our base case assumptions. We note the relatively muted impact on earnings for EQB, MKP, and HCG, while the impact on MIC is material.

SENSITIVITY TO RISING LOAN LOSSES						
Impact of 0.05% increase in loan losses (as % of avg. loans) on 2016 EPS Forecast						
Company	Current Loan Loss Ratio	Historical Average	Historical Peak	Historical Low	2016E Loan Loss Forecast (NBF)	Change in 2016 EPS
HCG	0.06%	0.14%	0.37%	0.01%	0.11%	(2.3%)
EQB	0.03%	0.08%	0.32%	0.02%	0.08%	(4.8%)
MKP	0.18%	0.14%	1.66%	-1.20%	0.14%	(1.6%)
MIC ¹	0.10%	0.19%	0.30%	0.00%	0.13%	(29.3%)
CWB	0.18%	0.19%	0.25%	0.09%	0.23%	(3.7%)
LB	0.13%	0.29%	0.54%	0.12%	0.15%	(6.8%)

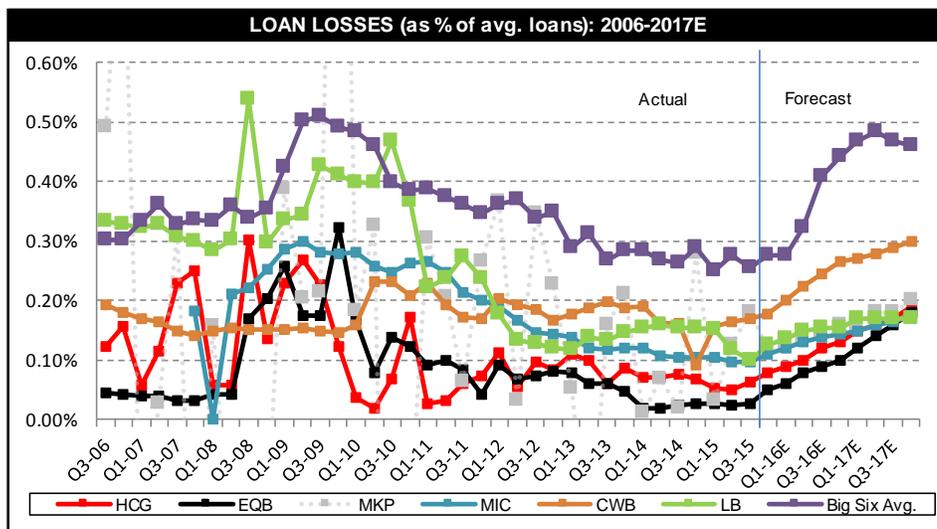
Source: Company reports, NBF.

*Current (Q3-2015, CWB/LB Q4-2015). Historical metrics cover the period from Q1-2003 to Q4-2015.

1. Loss ratio represents delinquency rate. Data from Q4-2007 to Q3-2015

Our loan loss projections for the mortgage finance companies in our coverage universe are shown in the chart below. Although we expect rising loan losses overall, we note the comparatively stronger credit performance of the mortgage lenders vs. the Big Six banks. We believe this trend can continue on the back of a borrower base that, for HCG, EQB and MKP in particular, has improved since the introduction of the OSFI B-20 mortgage underwriting guidelines.

Our forecasts also reflect differences in geographic exposure, with steeper loan loss trajectories for those lenders with greater exposure to oil-producing provinces.

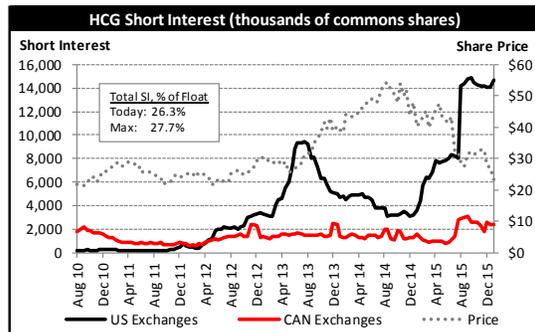


Source: Company reports, NBF.

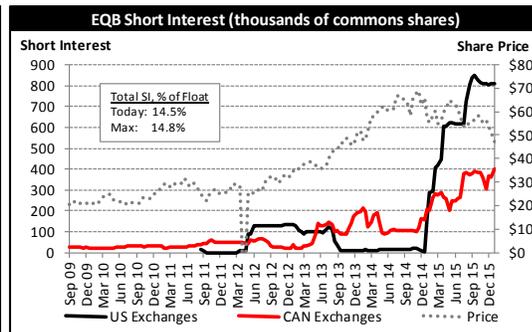
Valuation & Recommendations

Bearish Sentiment to Constrain a Meaningful Re-Rating

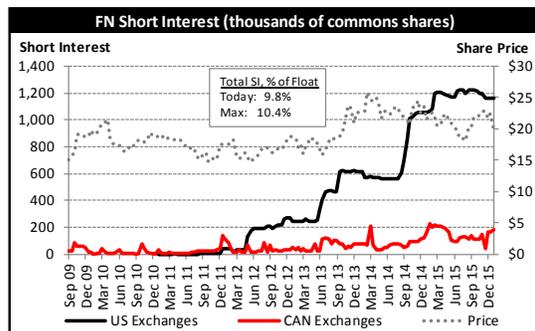
Investor sentiment towards the mortgage market remains decidedly bearish. This is best illustrated by the near record short interest (as a percentage of public float) in the companies in our coverage universe (see charts below).



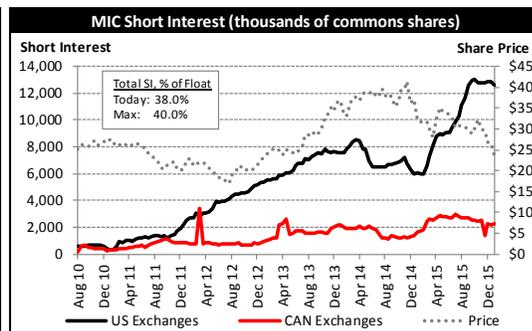
Source: Bloomberg, NBF (CAN data as of Jan 15, 2016, US data as of Dec 31, 2015)



Source: Bloomberg, NBF (CAN data as of Jan 15, 2016, US data as of Dec 31, 2015)



Source: Bloomberg, NBF (CAN data as of Jan 15, 2016, US data as of Dec 31, 2015)



Source: Bloomberg, NBF (CAN data as of Jan 15, 2016, US data as of Dec 31, 2015)

We previously attributed the bearish sentiment to the following concerns:

- The weak oil price environment – Persistent concerns of job cuts and rising delinquencies in Alberta, now exacerbated by a second wave of oil price declines.
- Impact of contagion from Alberta, notwithstanding anticipated fiscal stimulus and improved conditions for export-oriented provinces.
- Low interest rates will continue to encourage an already indebted household to

increase leverage, elevating the risk of a more rapid increase in credit losses than currently expected.

- Home Capital's decision last year to terminate brokers whose standards did not meet the company's underwriting criteria, which may indicate widespread underwriting deficiencies across the mortgage finance industry.

Given the above concerns, trading multiples of the mortgage lenders in our coverage have contracted considerably, falling to approximately 7.0x 12-month forward EPS from 9.0x at the end of 2014.

Target Valuation Multiples Cut to (Near) Trough Levels

We lowered valuation multiples to reflect more muted mortgage volumes and elevated risk of rising loan losses. Our revised multiples are now at or near trough historical trading multiples, or at least near levels last seen during the Global Financial Crisis (GFC). Above all, the new target multiples reflect a greater emphasis on credit risk and reduced emphasis on growth. Implicit in our revised target multiples is our view that investor sentiment on the Canadian housing market is unlikely to lift in the foreseeable future, unless rebounding oil prices help to brighten the outlook for the Canadian economy.

TARGET VALUATION MULTIPLES			
Company	Metric	Old	New
EQB	P/E	9.0x	7.0x
FN	P/E	8.5x	7.5x
HCG	P/E	7.5x	7.0x
SCB	P/E	9.5x	7.5x
MKP	P/B	1.1x	1.1x
MIC	P/B	0.9x	0.6x

Source: NBF estimates

- **MIC** – We reduced the target P/BV multiple on Q3 2016 book value to 0.6x from 0.9x. As before, we expect MIC to trade at a discount to book value, commensurate with a core ROE declining to just 9.3% in 2016 from 10.6% in 2015 on the back of higher mortgage delinquencies in Alberta. We note that MIC traded as low as 0.65x book value in 2012 due to elevated concerns about a housing market crash. Given renewed concerns about the health of the housing market, particularly in Alberta, and considering both MIC's Alberta exposure and earnings sensitivity to rising loan losses, we saw fit to reduce the target multiple to levels consistent with historical troughs.
- **HCG** – We reduced the target P/E multiple on blended 2016/2017 EPS to 7.0x from 7.5x, which represents a 4.0x discount to the 10-year average trading multiple, but a modest premium to the trough trading multiples seen during the GFC, which averaged 6.5x. We believe this will be supported by HCG's relatively limited exposure to Alberta and British Columbia, which will mute loan losses relative to peers.
- **EQB** – We reduced the target P/E multiple on blended 2016/2017 EPS to 7.0x from 9.0x, which represents a 2.0x discount to the 10-year average trading multiple. We had previously argued that EQB's stronger growth outlook relative to HCG warrants a premium valuation multiple. However, elevated housing market risk, and EQB's higher exposure to the Alberta market, have caused us to deemphasize growth relative to credit risk in our valuation.
- **FN** – We reduced the target P/E multiple on blended 2016/2017 EPS to 7.5x from 8.5x. This represents a 2.0x discount to the average historical trading multiple, which reflects weaker earnings growth as a result of a slowing housing market. That said, the company's dividend payout is not expected to be onerous despite the weaker housing outlook. We project a payout ratio of 62% in 2016, leaving FN with a significant buffer to cushion a sharper slowdown in the housing market. We believe the attractive yield provides valuation support.
- **MKP** - We did not adjust the target P/BV multiple (on our Q3 2016 book value forecast) of 1.1x, which is already in line with the stock's trough historical valuation.

We had reduced the target valuation multiple last year as MKP has the highest exposure to Alberta among the specialty mortgage lenders that we follow (~20% of its loan book).

- **SCB** - We reduced the target P/E multiple on blended 2016/2017 EPS to 7.5x from 9.5x, in line with the target multiple for FN. As with FN, the lower multiple reflects a slowdown in loan originations. The previous target multiple incorporated a growth premium in light of SCB's strong renewal pipeline, as well as the anticipated launch of non-prime lending services after SCB's bank license application is approved. We have eliminated this premium in order to emphasize the uncertainty surrounding both the renewal pipeline and the bank license application, particularly against a backdrop of broad housing market uncertainty.

Slim Pickings Despite Recent Sell-Off

Despite the sell-off in virtually all mortgage finance stocks over the past year, we see very few stocks that are attractively valued in the face of persistently bearish investor sentiment. Our downward estimate and target multiple revisions have significantly reduced our one-year return projections for each stock. This prompted us to downgrade EQB from Outperform to Sector Perform, while maintaining Sector Perform ratings for FN, MIC and MKP.

However, we upgraded HCG to Outperform from Sector Perform as we believe the shares are oversold on currently exaggerated concerns about credit quality. We are confident that HCG will be able to demonstrate lower loan losses vs. peers given modest exposure to oil-producing provinces, which should help drive a gradual re-rating relative to peers.

The table below shows our estimates of expected loan losses implied by current valuation multiples. In other words, we calculated what our loan loss projections would have to be such that each stock would be trading at its average 5-year trading multiple. We also assumed no loan growth in estimating the implied loan loss ratio.

It is based on this analysis that we concluded that HCG is oversold, with current valuation implying a loan loss ratio of 0.95%, or two and a half times the historical peak. With the exception of CWB, no other lender in our coverage universe has been attributed as much credit risk despite having markedly more exposure to the Alberta market.

Symbol	Price (Jan. 25)	EPS			Consensus P/E		PCL		
		NBF 2016E	Implied 2016E	Delta	5-Yr Avg.	Current (on 2016E)	2016E	Historical Peak	Implied 2016E
	a		(a/b)		b		c	(d/c)	d
HCG	25.88	4.28	2.79	(35%)	9.3x	5.6x	0.11%	0.38%	← 2.5 → 0.95%
EQB	50.59	7.57	6.69	(12%)	7.6x	6.1x	0.08%	0.32%	← 0.7 → 0.23%
MKP	11.79	1.23	1.14	(7%)	10.3x	8.1x	0.14%	1.66%	← 0.2 → 0.31%
CWB	20.70	2.68	1.74	(35%)	11.9x	7.6x	0.23%	0.27%	← 2.7 → 0.73%
LB	44.25	5.90	4.93	(16%)	9.0x	7.5x	0.15%	0.54%	← 0.4 → 0.23%
MIC	22.90	3.52	2.85	(19%)	8.0x	6.0x	0.13%	0.30%	← 0.6 → 0.17%
FN	19.91	2.52	1.90	(25%)	10.5x	10.1x			
SCB	1.21	0.20	0.14	(30%)	8.8x	6.3x			N/A

Source: Thomson Reuters, NBF

Meanwhile, we maintained our Outperform rating for SCB, which has sold off more than peers in recent months despite the company (i) not being exposed to credit risk and (ii) having a more stable (and visible) growth outlook thanks to its robust renewal pipeline.

Home Capital Group (HCG-T) – \$25.88

Stock Rating: Outperform (Was Sector Perform)

Target: \$31 (was \$34)

Risk Rating: Above Average (Unchanged)

Projected 1-Yr Return: 23.2%

HOME CAPITAL GROUP - MODEL SUMMARY								
Income Statement (mlns)	2014A	2015E	2016E	2017E	Q1-15A	Q2-15A	Q3-15A	Q4-15E
Net Interest Income	\$459.5	\$476.9	\$507.6	\$540.5	\$115.5	\$117.2	\$121.7	\$122.5
Non-Interest Income	\$133.4	\$107.0	\$115.7	\$125.8	\$27.1	\$29.1	\$23.4	\$27.5
Total Revenue	\$592.9	\$583.9	\$623.2	\$666.4	\$142.6	\$146.3	\$145.1	\$149.9
Provisions for Credit Losses	(\$13.1)	(\$11.2)	(\$20.5)	(\$32.3)	(\$2.4)	(\$2.3)	(\$2.8)	(\$3.7)
Non-Interest Expenses	(\$162.3)	(\$182.3)	(\$199.0)	(\$213.7)	(\$43.7)	(\$47.4)	(\$45.0)	(\$46.3)
Net Income Before Taxes	\$417.5	\$390.4	\$403.7	\$420.3	\$96.6	\$96.6	\$97.3	\$99.9
Income Taxes	(\$104.3)	(\$98.9)	(\$103.0)	(\$107.2)	(\$24.3)	(\$24.3)	(\$24.8)	(\$25.5)
Net Income	\$313.2	\$291.5	\$300.8	\$313.1	\$72.3	\$72.3	\$72.4	\$74.4
Extraordinary Items	(\$24.8)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Core Net Income	\$288.4	\$291.5	\$300.8	\$313.1	\$72.3	\$72.3	\$72.4	\$74.4
Effective Tax Rate	25.0%	25.3%	25.5%	25.5%	25.1%	25.2%	25.5%	25.5%
Weighted Avg. Shares O/S	70.5	70.3	70.3	70.3	70.5	70.5	70.4	70.3
EPS (FD)*	\$4.45	\$4.14	\$4.28	\$4.45	\$1.03	\$1.03	\$1.03	\$1.06
% Change	21.1%	(7.0%)	3.3%	4.1%	(24.7%)	0.0%	0.3%	2.8%
Core EPS (FD)*	\$4.10	\$4.14	\$4.28	\$4.45	\$1.03	\$1.03	\$1.03	\$1.06
% Change	11.0%	1.0%	3.3%	4.1%	(1.2%)	0.0%	0.3%	2.8%
Core ROE	22.0%	19.0%	17.3%	15.9%	20.2%	19.5%	18.7%	18.8%
Book Value	\$20.67	\$23.21	\$26.52	\$29.84	\$21.18	\$21.87	\$22.37	\$23.21
Common Dividend / Share	\$0.70	\$0.88	\$1.00	\$1.16	\$0.22	\$0.22	\$0.22	\$0.22
Payout Ratio	15.7%	21.3%	23.4%	26.1%	23.3%	21.4%	21.3%	20.7%

Key Earnings Drivers	2014A	2015E	2016E	2017E	Q1-15A	Q2-15A	Q3-15A	Q4-15E
Mortgage Originations (mlns)	\$8,851.3	\$8,000.2	\$8,328.8	\$8,538.1	\$1,384.0	\$2,023.3	\$2,498.0	\$2,095.0
% change	28.0%	(9.6%)	4.1%	2.5%	(39.6%)	46.2%	23.5%	(16.1%)
Residential Mortgages	\$8,413.6	\$7,226.0	\$7,451.5	\$7,660.8	\$1,253.7	\$1,818.1	\$2,278.6	\$1,875.6
% change	26.8%	(14.1%)	3.1%	2.8%	(41.7%)	45.0%	25.3%	(17.7%)
Non-Residential Mortgages	\$437.7	\$774.2	\$877.3	\$877.3	\$130.3	\$205.2	\$219.3	\$219.3
% change	56.3%	76.9%	13.3%	0.0%	(6.3%)	57.4%	6.9%	0.0%
Net Interest Income (TEB, mlns)	\$463.6	\$480.7	\$511.3	\$544.3	\$116.5	\$118.2	\$122.6	\$123.4
% change	8.8%	3.7%	6.4%	6.4%	(0.8%)	1.4%	3.8%	0.6%
Blended Margin (% of AEA)	2.39%	2.47%	2.55%	2.63%	2.33%	2.34%	2.43%	2.44%
Avg. Earning Assets	\$19,400	\$19,458	\$20,034	\$20,705	\$19,266	\$19,549	\$19,410	\$19,608
% change	3.1%	0.3%	3.0%	3.4%	(0.1%)	1.5%	(0.7%)	1.0%
Loans Outstanding	\$18,229	\$18,385	\$19,045	\$19,666	\$18,101	\$17,926	\$18,138	\$18,385
% change	2.1%	0.9%	3.6%	3.3%	(0.7%)	(1.0%)	1.2%	1.4%
Provisions for Credit Losses (mlns)	\$13.1	\$11.2	\$20.5	\$32.3	\$2.4	\$2.3	\$2.8	\$3.7
% change	(17.2%)	(14.7%)	82.9%	57.7%	(24.6%)	(5.7%)	25.7%	17.3%
PCLs (% of Avg. Loans)	0.07%	0.06%	0.11%	0.17%	0.05%	0.05%	0.06%	0.08%
Non-Interest Income (mlns)	\$133.4	\$107.0	\$115.7	\$125.8	\$27.1	\$29.1	\$23.4	\$27.5
% change	77.7%	(19.8%)	8.1%	8.8%	(52.0%)	7.3%	(19.5%)	17.4%
Fee Income	\$98.1	\$110.6	\$115.7	\$125.8	\$26.6	\$30.6	\$25.9	\$27.5
% change	32.4%	12.8%	4.6%	8.8%	14.6%	15.1%	(15.5%)	6.1%
Securities Gains & Other	\$35.3	(\$3.6)	\$0.0	\$0.0	\$0.5	(\$1.6)	(\$2.5)	\$0.0
% change	3506.6%	(110.2%)	nmf	nmf	(98.6%)	(440.5%)	nmf	nmf
Non-Interest Expenses (mlns)	\$162.3	\$182.3	\$199.0	\$213.7	\$43.7	\$47.4	\$45.0	\$46.3
% change	12.9%	12.4%	9.2%	7.4%	9.5%	8.5%	(5.1%)	3.0%
Efficiency Ratio	27.4%	31.2%	31.9%	32.1%	30.6%	32.4%	31.0%	30.9%
Tier 1 Ratio	18.3%	18.3%	18.8%	19.0%	18.0%	18.1%	18.1%	18.3%
Total Capital Ratio	21.0%	20.7%	20.9%	21.0%	20.6%	20.6%	20.5%	20.7%

Source: Company Reports, NBF Estimates

Equitable Group (EQB-T) – \$50.59

Stock Rating: Sector Perform (Was Outperform)

Target: \$54 (Was \$71)

Risk Rating: Above Average (Unchanged)

Projected 1-Yr Return: 8.3%

EQUITABLE GROUP - MODEL SUMMARY								
Income Statement (mlns)	2014A	2015E	2016E	2017E	Q1-15A	Q2-15A	Q3-15A	Q4-15E
Net Interest Income	\$204.5	\$239.3	\$256.6	\$280.2	\$56.3	\$61.0	\$61.4	\$60.6
Non-Interest Income	\$13.4	\$18.2	\$25.8	\$27.2	\$3.8	\$4.6	\$4.2	\$5.7
FV Gain (Loss) on Derivative Instruments	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total Revenue	\$217.9	\$257.6	\$282.4	\$307.4	\$60.1	\$65.6	\$65.6	\$66.3
Provisions for Credit Losses	(\$2.6)	(\$4.4)	(\$12.6)	(\$24.6)	(\$0.8)	(\$0.8)	(\$0.9)	(\$1.8)
Non-Interest Expenses	(\$71.6)	(\$88.4)	(\$104.6)	(\$113.2)	(\$19.7)	(\$21.7)	(\$22.1)	(\$24.9)
Net Income Before Taxes	\$143.7	\$164.8	\$165.2	\$169.6	\$39.6	\$43.0	\$42.5	\$39.6
Income Taxes	(\$37.0)	(\$40.8)	(\$42.1)	(\$43.2)	(\$10.2)	(\$9.5)	(\$11.1)	(\$10.1)
Preferred Dividend	(\$4.6)	(\$4.7)	(\$4.4)	(\$4.4)	(\$1.2)	(\$1.2)	(\$1.2)	(\$1.1)
Net Income	\$102.1	\$119.3	\$118.7	\$121.9	\$28.3	\$32.3	\$30.3	\$28.4
Extraordinary Items	\$0.7	(\$1.5)	\$0.0	\$0.0	\$0.0	(\$1.5)	\$0.0	\$0.0
Core Net Income	\$102.8	\$117.8	\$118.7	\$121.9	\$28.3	\$30.8	\$30.3	\$28.4
TEB Adjustment	\$1.9	\$2.5	\$2.4	\$2.4	\$0.6	\$0.7	\$0.6	\$0.6
Effective Tax Rate	26.7%	25.9%	26.5%	26.5%	26.8%	23.2%	27.1%	26.5%
Weighted Avg. Shares O/S	15.7	15.7	15.7	15.7	15.7	15.7	15.7	15.7
EPS (FD)	\$6.53	\$7.61	\$7.57	\$7.77	\$1.81	\$2.06	\$1.93	\$1.81
% Change	12.2%	16.6%	(0.6%)	2.7%	13.3%	14.3%	(6.4%)	(6.2%)
Core EPS (FD)	\$6.57	\$7.51	\$7.57	\$7.77	\$1.81	\$1.96	\$1.93	\$1.81
% Change	12.9%	14.4%	0.7%	2.7%	10.4%	8.8%	(1.7%)	(6.2%)
Core ROE	17.5%	17.5%	15.4%	13.9%	17.9%	18.6%	17.5%	16.0%
Book Value	\$40.90	\$46.37	\$53.25	\$60.27	\$42.13	\$43.80	\$44.72	\$46.37
Common Dividend / Share	\$0.68	\$0.76	\$0.84	\$0.92	\$0.18	\$0.19	\$0.19	\$0.20
Payout Ratio	10.4%	10.0%	11.1%	11.8%	9.8%	9.1%	9.7%	10.9%

Key Earnings Drivers	2014A	2015E	2016E	2017E	Q1-15A	Q2-15A	Q3-15A	Q4-15E
Mortgage Originations (mlns)	\$4,640.7	\$6,107.9	\$7,005.2	\$7,188.8	\$1,244.8	\$1,396.3	\$1,770.4	\$1,696.3
% change	32.9%	31.6%	14.7%	2.6%	(21.7%)	12.2%	26.8%	(4.2%)
Insured Mortgages	\$1,570.9	\$2,627.7	\$3,506.4	\$3,663.4	\$468.7	\$555.3	\$790.0	\$813.7
% change	56.5%	67.3%	33.4%	4.5%	(18.7%)	18.5%	42.3%	3.0%
Conventional Mortgages	\$3,069.8	\$3,480.1	\$3,498.7	\$3,525.4	\$776.0	\$841.1	\$980.4	\$882.6
% change	23.4%	13.4%	0.5%	0.8%	(23.3%)	8.4%	16.6%	(10.0%)
Net Interest Income (TEB, mlns)	\$206.5	\$241.8	\$258.9	\$282.6	\$57.0	\$61.7	\$62.0	\$61.2
% change	16.9%	17.1%	7.1%	9.1%	4.1%	8.2%	0.6%	(1.4%)
Net Interest Margin (% of AEA)	1.72%	1.74%	1.64%	1.65%	1.79%	1.82%	1.72%	1.64%
Avg. Earning Assets	\$12,000	\$13,920	\$15,829	\$17,100	\$12,924	\$13,591	\$14,331	\$14,833
% change	2.4%	16.0%	13.7%	8.0%	3.9%	5.2%	5.4%	3.5%
Loans Outstanding	\$12,270	\$14,398	\$15,795	\$16,765	\$12,786	\$13,216	\$13,959	\$14,398
% change	10.2%	17.3%	9.7%	6.1%	4.2%	3.4%	5.6%	3.1%
Provisions for Credit Losses (mlns)	\$2.6	\$4.4	\$12.6	\$24.6	\$0.8	\$0.8	\$0.9	\$1.8
% change	(61.0%)	67.1%	188.0%	95.0%	(3.3%)	2.0%	12.0%	95.1%
PCLs (% Avg. of Loans)	0.02%	0.03%	0.08%	0.15%	0.03%	0.03%	0.03%	0.05%
Non-Interest Income (mlns)	\$13.4	\$18.7	\$25.8	\$27.2	\$3.9	\$4.6	\$4.5	\$5.7
% change	(6.7%)	39.4%	38.0%	5.3%	17.5%	16.5%	(0.3%)	25.8%
Fee Income	\$8.3	\$11.2	\$13.8	\$15.2	\$2.3	\$2.5	\$3.1	\$3.2
% change	43.5%	33.8%	23.9%	9.8%	(6.9%)	9.8%	23.0%	3.0%
Securitization Revenue	\$4.0	\$8.0	\$12.0	\$12.0	\$1.8	\$2.3	\$1.4	\$2.5
% change	(46.7%)	97.7%	50.1%	0.0%	112.4%	25.7%	(37.2%)	75.6%
Securities Gains & Other	\$1.0	(\$0.5)	\$0.0	\$0.0	(\$0.2)	(\$0.2)	\$0.0	\$0.0
% change	4.6%	(143.6%)	n/m	n/m	20200.0%	n/m	n/m	n/m
Non-Interest Expenses (mlns)	\$71.6	\$88.4	\$104.6	\$113.2	\$19.7	\$21.7	\$22.1	\$24.9
% change	24.6%	23.4%	18.3%	8.2%	(4.1%)	10.2%	1.9%	12.4%
Efficiency Ratio (TEB)	32.6%	34.0%	36.7%	36.5%	32.4%	32.8%	33.4%	37.2%
Tier 1 Ratio	14.9%	15.0%	15.1%	15.1%	14.7%	14.9%	14.8%	15.0%
Total Capital Ratio	17.3%	17.2%	17.1%	16.8%	17.0%	17.2%	17.1%	17.2%

Source: Company reports, NBF estimates

First National Financial (FN-T) – \$19.91

Stock Rating: Sector Perform (Unchanged)

Target: \$21 (Was \$23)

Risk Rating: Average (Unchanged)

Projected 1-Yr Return: 13.3%

FIRST NATIONAL FINANCIAL - MODEL SUMMARY								
Income Statement (mlns)	2014A	2015E	2016E	2017E	Q1-15A	Q2-15A	Q3-15A	Q4-15E
Revenue	\$368.4	\$412.2	\$485.1	\$523.2	\$46.6	\$128.3	\$122.7	\$114.6
Expenses	\$228.1	\$265.4	\$270.6	\$281.0	\$51.5	\$70.8	\$83.0	\$60.1
Net Income Before Taxes	\$140.3	\$146.8	\$214.5	\$242.2	(\$4.9)	\$57.5	\$39.7	\$54.5
Income Taxes	(\$35.8)	(\$38.4)	(\$56.8)	(\$64.2)	\$1.4	(\$15.0)	(\$10.3)	(\$14.4)
	\$104.5	\$108.4	\$157.6	\$178.0	(\$3.5)	\$42.5	\$29.3	\$40.0
Preferred Dividends	(\$4.7)	(\$4.7)	(\$4.7)	(\$4.7)	(\$1.2)	(\$1.2)	(\$1.2)	(\$1.2)
Net Income	\$99.8	\$103.7	\$153.0	\$173.4	(\$4.7)	\$41.4	\$28.1	\$38.9
Extraordinary Items	\$25.1	\$38.6	\$0.0	\$0.0	\$30.2	(\$5.7)	\$14.0	\$0.0
Core Net Income	\$124.9	\$142.3	\$153.0	\$173.4	\$25.6	\$35.7	\$42.2	\$38.9
Effective Tax Rate	25.5%	26.2%	26.5%	26.5%	28.6%	26.1%	26.1%	26.5%
Efficiency Ratio	61.9%	64.4%	55.8%	53.7%	110.5%	55.2%	67.7%	52.5%
Shares Outstanding	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0
EPS (FD)	\$1.62	\$1.69	\$2.52	\$2.86	(\$0.09)	\$0.68	\$0.46	\$0.64
% Change	(41.2%)	4.6%	48.9%	13.5%	(125.3%)	54.7%	(17.4%)	139.8%
Core EPS (FD)	\$2.04	\$2.34	\$2.52	\$2.86	\$0.41	\$0.58	\$0.70	\$0.64
% Change	(9.1%)	14.7%	7.9%	13.5%	(7.5%)	9.3%	23.0%	31.4%
Core ROE	39.1%	45.7%	42.4%	40.5%	33.5%	47.4%	53.6%	47.8%
Book Value	\$5.90	\$6.00	\$7.00	\$8.22	\$5.44	\$5.65	\$5.73	\$6.00
Dividend per Share	\$1.48	\$1.50	\$1.55	\$1.68	\$0.38	\$0.38	\$0.38	\$0.38
Payout Ratio	91.7%	88.9%	61.5%	58.5%	nmf	55.2%	81.2%	59.2%
Key Earnings Drivers	2014A	2015E	2016E	2017E	Q1-15A	Q2-15A	Q3-15A	Q4-15E
Mortgage Originations (mlns)	\$16,226	\$16,898	\$16,652	\$16,782	\$2,666	\$5,077	\$5,370	\$3,785
% change	15.4%	4.1%	(1.5%)	0.8%	5.6%	9.2%	7.5%	(6.7%)
Originations + Renewals (mlns)	\$20,897	\$21,927	\$22,393	\$22,985	\$3,636	\$6,407	\$6,713	\$5,171
% change	-	4.9%	2.1%	2.6%	44.1%	37.8%	34.4%	27.5%
% placed with institutions	54.4%	59.5%	58.7%	59.8%	42.3%	55.8%	72.7%	59.2%
Mortgages Under Admin (mlns)	\$85,890	\$94,626	\$103,784	\$112,471	\$86,999	\$90,111	\$92,630	\$94,626
% change	13.6%	10.2%	9.7%	8.4%	13.0%	12.8%	11.3%	10.2%
Single-Family Residential	\$66,992	\$74,448	\$82,789	\$90,768	\$67,978	\$70,561	\$72,649	\$74,448
% change	16.2%	11.1%	11.2%	9.6%	15.4%	14.1%	12.1%	11.1%
Multi-Unit Res and Commercial	\$18,898	\$20,178	\$20,995	\$21,703	\$19,021	\$19,550	\$19,981	\$20,178
% change	5.2%	6.8%	4.0%	3.4%	5.4%	8.1%	8.8%	6.8%
Net Interest - Securitization (000's)	\$115,490	\$127,545	\$146,221	\$163,209	\$29,457	\$31,718	\$32,520	\$33,850
% change	9.0%	10.4%	14.6%	11.6%	7.4%	9.3%	13.0%	11.9%
Margin, % of Securitized Portfolio	0.58%	0.54%	0.54%	0.54%	0.53%	0.54%	0.54%	0.54%
Placement Fees (excl. Deferred, 000's)	\$127,129	\$155,043	\$144,678	\$151,191	\$16,338	\$44,349	\$60,681	\$33,675
% change	(12.6%)	22.0%	(6.7%)	4.5%	(8.1%)	22.8%	28.9%	28.5%
Margin, % of Placement Originations	1.12%	1.19%	1.10%	1.10%	1.06%	1.24%	1.24%	1.10%
Mortgage Servicing Income (000's)	\$93,082	\$116,960	\$130,437	\$140,883	\$26,275	\$27,256	\$32,026	\$31,403
% change	0.3%	25.7%	11.5%	8.0%	14.3%	19.4%	36.5%	32.0%
% of Non-Securitized MUA (Annualized)	0.153%	0.175%	0.180%	0.180%	0.167%	0.165%	0.186%	0.180%
Mortgage Investment Income (000's)	\$57,076	\$54,042	\$51,724	\$55,911	\$13,247	\$14,171	\$13,958	\$12,666
% change	5.4%	(5.3%)	(4.3%)	8.1%	7.3%	5.1%	(9.4%)	(20.0%)
Avg. Return on Assets (Annualized)	3.50%	3.02%	3.09%	3.34%	3.12%	2.97%	3.00%	3.00%
Brokerage Fee Expense (000's)	\$77,105	\$95,724	\$95,626	\$96,582	\$9,149	\$28,311	\$40,160	\$18,104
% change	(8.7%)	24.1%	(0.1%)	1.0%	(7.0%)	32.5%	34.0%	13.7%
% of Single-Family Originations (Inst'l)	1.22%	1.26%	1.25%	1.25%	1.65%	1.26%	1.21%	1.25%
All Other Expenses (000's)	\$150,971	\$169,671	\$174,981	\$184,370	\$42,358	\$42,460	\$42,837	\$42,016
% change	11.5%	12.4%	3.1%	5.4%	24.7%	17.1%	10.0%	0.5%
Efficiency Ratio (% of Revenue)	37.4%	36.5%	36.1%	35.2%	48.3%	35.2%	30.2%	36.7%

Source: Company reports, NBF estimates

MCAN Mortgage Corp. (MKP-T) – \$11.79

Stock Rating: Sector Perform (Unchanged)

Target: \$12.50 (was \$12.50)

Risk Rating: Average (Unchanged)

Projected 1-Yr Return: 15.5%

MCAN MORTGAGE CORPORATION								
Income Statement (mlns)	2014A	2015E	2016E	2017E	Q1-15A	Q2-15A	Q3-15A	Q4-15E
Net Investment Income (Corporate Assets)	\$37.4	\$38.6	\$35.8	\$41.7	\$7.4	\$13.7	\$9.0	\$8.4
Other Income (Corporate Assets)	\$2.7	\$0.1	\$0.0	\$0.0	\$0.0	\$0.1	\$0.0	\$0.0
Net Investment Income (Securitized Assets)	\$1.2	\$4.7	\$7.6	\$9.6	\$0.7	\$1.1	\$1.2	\$1.6
Fair Market Value Adjustments	(\$1.4)	(\$0.1)	\$0.0	\$0.0	(\$0.0)	(\$0.0)	\$0.0	\$0.0
Operating Expenses	(\$13.4)	(\$13.9)	(\$15.3)	(\$16.6)	(\$3.6)	(\$3.1)	(\$3.6)	(\$3.6)
Net Income Before Taxes	\$26.5	\$29.3	\$28.1	\$34.6	\$4.5	\$11.7	\$6.7	\$6.4
Income Taxes	(\$1.0)	\$0.5	\$0.0	\$0.0	(\$0.2)	\$0.2	\$0.5	\$0.0
Net Income	\$25.4	\$29.8	\$28.1	\$34.6	\$4.3	\$11.9	\$7.2	\$6.4
Adjustments	(\$0.3)	(\$3.0)	\$0.0	\$0.0	\$0.2	(\$1.8)	(\$1.4)	\$0.0
Core Distributable Income	\$25.2	\$26.8	\$28.1	\$34.6	\$4.5	\$10.1	\$5.8	\$6.4
Weighted Avg. Shares O/S	20.6	21.7	22.8	24.1	20.9	21.1	22.5	22.8
EPS (FD)	\$1.23	\$1.37	\$1.23	\$1.44	\$0.21	\$0.57	\$0.32	\$0.28
% Change	(21.9%)	11.1%	(10.1%)	16.6%	(4.6%)	175.4%	(43.4%)	(12.4%)
Core EPS (FD)	\$1.22	\$1.23	\$1.23	\$1.44	\$0.22	\$0.48	\$0.26	\$0.28
% Change	(15.2%)	1.0%	(0.0%)	16.6%	(21.9%)	120.3%	(46.2%)	9.1%
Core ROE	11.7%	11.9%	11.0%	13.5%	8.2%	17.5%	9.6%	9.9%
Book Value	\$10.83	\$11.18	\$11.25	\$11.60	\$10.97	\$11.21	\$11.19	\$11.18
Dividend / Share	\$1.12	\$1.13	\$1.16	\$1.16	\$0.28	\$0.28	\$0.28	\$0.29
Payout Ratio (L4Q)	91.8%	92.3%	94.1%	81.3%	102.8%	90.5%	91.4%	92.3%
Key Earnings Drivers	2014A	2015E	2016E	2017E	Q1-15A	Q2-15A	Q3-15A	Q4-15E
Net Investment Income (Corporate Assets)	\$37.4	\$38.6	\$35.8	\$41.7	\$7.4	\$13.7	\$9.0	\$8.4
% change	(4.1%)	3.1%	(7.0%)	16.2%	(11.7%)	85.8%	(34.6%)	(6.5%)
Net Interest Income	\$32.5	\$32.3	\$32.7	\$37.2	\$7.9	\$9.0	\$7.8	\$7.6
Margin (% of AEA)	3.19%	3.07%	2.84%	2.95%	3.07%	3.48%	2.92%	2.81%
Avg. Earning Assets	\$1,017	\$1,053	\$1,151	\$1,262	\$1,039	\$1,041	\$1,055	\$1,077
% change	8.9%	3.6%	9.3%	9.7%	0.7%	0.2%	1.3%	2.1%
Provisions for Credit Losses (\$ mlns)	(\$0.2)	\$0.0	\$1.4	\$1.9	(\$0.1)	(\$0.0)	(\$0.1)	\$0.3
% of Avg. Mortgages	(0.02%)	0.00%	0.14%	0.18%	0.03%	0.12%	0.18%	0.12%
Non-Interest Income	\$8.5	\$9.9	\$8.3	\$10.2	\$0.4	\$5.6	\$2.0	\$2.0
% change	(15.6%)	16.7%	(16.7%)	23.1%	(82.1%)	1494.3%	(64.4%)	1.6%
Net Investment Income (Securitized Assets)	\$1.2	\$4.7	\$7.6	\$9.6	\$0.7	\$1.1	\$1.2	\$1.6
% change	1261.2%	305.3%	61.4%	26.5%	19.1%	53.9%	12.8%	30.0%
Net Interest Income	\$1.8	\$6.2	\$9.8	\$12.4	\$1.0	\$1.4	\$1.6	\$2.1
Margin (% of AEA)	0.22%	0.62%	0.66%	0.66%	0.52%	0.62%	0.63%	0.67%
Avg. Earning Assets	\$797	\$994	\$1,477	\$1,877	\$776	\$931	\$1,041	\$1,227
% change	(51.4%)	24.7%	48.6%	27.1%	9.3%	20.0%	11.8%	17.9%
Operating Expenses (\$ mlns)	\$13.4	\$13.9	\$15.3	\$16.6	\$3.6	\$3.1	\$3.6	\$3.6
Efficiency Ratio	34.3%	32.0%	35.0%	32.1%	44.3%	21.2%	35.4%	35.4%
Capital								
Tier 1 Ratio	22.6%	24.2%	20.8%	19.7%	23.9%	24.6%	25.2%	24.2%
Total Capital Ratio	22.6%	24.2%	20.8%	19.7%	23.9%	24.6%	25.2%	24.2%
Income Tax Assets-to-Capital Multiple	5.05x	5.22x	5.60x	5.53x	5.23x	5.24x	4.89x	5.22x

Source: Company Reports, NBF Estimates

Genworth Financial (MIC-T) – \$22.90

Stock Rating: Sector Perform (Unchanged)

Target: \$24 (was \$35)

Risk Rating: Above Average (Unchanged)

Projected 1-Yr Return: 12.1%

GENWORTH MI CANADA								
Income Statement (mlns)	2014A	2015E	2016E	2017E	Q1-15A	Q2-15A	Q3-15A	Q4-15E
Net Premiums Earned	\$565	\$585	\$633	\$693	\$143	\$144	\$148	\$150
Fees and Other Income	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Underwriting Revenues	\$565	\$585	\$633	\$693	\$143	\$144	\$148	\$150
Losses	(\$111)	(\$134)	(\$223)	(\$280)	(\$31)	(\$25)	(\$31)	(\$47)
Sales, U/W, Admin. Expenses	(\$107)	(\$113)	(\$121)	(\$131)	(\$24)	(\$29)	(\$28)	(\$31)
Net Underwriting Income	\$346	\$338	\$289	\$281	\$87	\$90	\$89	\$72
Investment Income	\$195	\$195	\$172	\$186	\$57	\$58	\$39	\$41
Interest on Long-Term Debt	(\$24)	(\$23)	(\$23)	(\$23)	(\$6)	(\$6)	(\$6)	(\$6)
Other	(\$7)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Income Before Taxes	\$511	\$511	\$438	\$445	\$138	\$143	\$122	\$108
Income Taxes	(\$134)	(\$130)	(\$114)	(\$116)	(\$31)	(\$40)	(\$32)	(\$28)
Net Income	\$377	\$380	\$324	\$329	\$107	\$103	\$90	\$80
Adjustments	(\$9)	(\$25)	\$0	\$0	(\$16)	(\$12)	\$2	\$0
Core Net Income	\$368	\$355	\$324	\$329	\$92	\$91	\$92	\$80
Effective Tax Rate	27.2%	25.5%	26.0%	26.0%	22.2%	27.7%	26.2%	26.0%
Weighted Avg. Shares O/S	94.3	92.2	92.2	92.2	93.6	92.5	92.2	92.2
EPS	\$3.94	\$4.04	\$3.52	\$3.57	\$1.08	\$1.12	\$0.97	\$0.86
% Change	2.3%	2.3%	(12.8%)	1.5%	18.1%	3.5%	(13.0%)	(11.2%)
Core EPS	\$3.87	\$3.83	\$3.52	\$3.57	\$0.98	\$0.99	\$1.00	\$0.86
% Change	8.0%	(1.0%)	(8.2%)	1.5%	9.9%	0.7%	0.6%	(13.2%)
Core ROE	11.4%	10.6%	9.3%	9.0%	11.4%	10.8%	10.8%	9.4%
Book Value	\$35.12	\$37.02	\$38.87	\$40.78	\$36.52	\$36.60	\$36.57	\$37.02
Common Dividend / Share	\$1.44	\$1.59	\$1.68	\$1.68	\$0.39	\$0.39	\$0.39	\$0.42
Payout Ratio	47.2%	38.6%	47.5%	46.8%	33.8%	34.8%	39.9%	48.4%
Key Earnings Drivers	2014A	2015E	2016E	2017E	Q1-15A	Q2-15A	Q3-15A	Q4-15E
New Insurance Written (mlns)	\$42,155	\$44,115	\$36,279	\$37,067	\$9,787	\$10,861	\$14,464	\$9,003
% change	20.5%	4.6%	(17.8%)	2.2%	11.4%	11.0%	33.2%	(37.8%)
High Loan-to-Value	\$22,113	\$25,514	\$26,279	\$27,067	\$3,909	\$6,761	\$8,341	\$6,503
% change	13.4%	15.4%	3.0%	3.0%	(36.9%)	73.0%	23.4%	(22.0%)
Low Loan-to-Value	\$20,042	\$18,601	\$10,000	\$10,000	\$5,878	\$4,100	\$6,123	\$2,500
% change	29.4%	(7.2%)	(46.2%)	0.0%	126.7%	(30.2%)	49.3%	(59.2%)
Net Premiums Written (mlns)	\$638.0	\$803.9	\$843.9	\$868.0	\$130.0	\$205.0	\$260.0	\$208.9
% change	24.4%	26.0%	5.0%	2.9%	(27.0%)	57.7%	26.8%	(19.6%)
High Loan-to-Value	\$555.0	\$721.9	\$803.9	\$828.0	\$104.0	\$183.0	\$236.0	\$198.9
% change	24.2%	30.1%	11.4%	3.0%	(37.0%)	3.6%	(15.0%)	(11.4%)
Low Loan-to-Value	\$83.0	\$82.0	\$40.0	\$40.0	\$26.0	\$22.0	\$24.0	\$10.0
% change	25.8%	(1.2%)	(51.2%)	0.0%	100.0%	(15.4%)	9.1%	(58.3%)
Net Premiums Earned (mlns)	\$565.0	\$584.5	\$633.5	\$692.5	\$143.1	\$144.1	\$147.7	\$149.7
% change	(1.4%)	3.5%	8.4%	9.3%	0.4%	0.7%	2.5%	1.4%
Losses (mlns)	\$111.1	\$133.7	\$223.0	\$280.4	\$31.4	\$24.6	\$31.0	\$46.7
% change	(21.7%)	20.3%	66.8%	25.7%	(14.6%)	(21.9%)	26.1%	50.9%
Loss Ratio	19.7%	22.9%	35.2%	40.5%	22.0%	17.0%	21.0%	31.2%
Investment Income (mlns)	\$195.1	\$195.0	\$171.8	\$186.2	\$56.6	\$58.5	\$38.6	\$41.4
% change	(9.4%)	(0.1%)	(11.9%)	8.3%	21.5%	3.4%	(34.0%)	7.3%
Sales, U/W, Admin. Expenses (mlns)	\$107.4	\$112.6	\$121.2	\$130.8	\$24.4	\$29.2	\$28.0	\$31.0
% change	(4.8%)	4.8%	7.7%	7.9%	(17.3%)	19.5%	(4.1%)	10.7%
Expense Ratio	19.0%	19.3%	19.1%	18.9%	17.1%	20.3%	18.9%	20.7%

Source: Company reports, NBF estimates

Street Capital Group Inc. (SCB-T) – \$1.21

Stock Rating: Outperform (Unchanged)

Target: \$1.75 (was \$2.25)

Risk Rating: Above Average (Unchanged)

Projected 1-Yr Return: 44.6%

STREET CAPITAL GROUP - MODEL SUMMARY								
Income Statement (mlns)	2014A	2015E	2016E	2017E	Q1-15A	Q2-15A	Q3-15A	Q4-15E
Gain on Sale of Mortgages	\$139.0	\$164.1	\$164.7	\$181.5	\$31.1	\$56.7	\$41.2	\$35.0
Acquisition costs	(\$82.5)	(\$88.0)	(\$91.0)	(\$95.2)	(\$16.9)	(\$30.5)	(\$22.0)	(\$18.5)
Net gain on sale of mortgages	\$56.5	\$76.1	\$73.7	\$86.3	\$14.2	\$26.2	\$19.2	\$16.5
Interest & Other Income (Loss)	\$5.8	\$0.5	\$0.9	\$0.9	(\$0.1)	\$0.2	\$0.2	\$0.2
Total Revenue	\$62.3	\$76.6	\$74.6	\$87.2	\$14.1	\$26.4	\$19.4	\$16.7
Salaries and Benefits	\$24.1	\$28.2	\$28.9	\$30.8	\$6.9	\$7.2	\$7.0	\$7.0
SG&A	\$13.7	\$13.5	\$13.6	\$13.9	\$3.0	\$3.8	\$3.3	\$3.4
Other	\$0.0	\$50.2	\$0.0	\$0.0	\$0.0	\$50.2	\$0.0	\$0.0
Total Expenses	\$37.8	\$92.0	\$42.5	\$44.7	\$10.0	\$61.2	\$10.4	\$10.4
Income before FV adjustments	\$24.5	(\$15.4)	\$32.1	\$42.5	\$4.2	(\$34.9)	\$9.0	\$6.3
Fair value adjustments	\$27.0	\$0.1	\$0.0	\$0.0	(\$2.7)	\$0.0	\$2.8	\$0.0
Earnings before income taxes	\$51.5	(\$15.3)	\$32.1	\$42.5	\$1.5	(\$34.9)	\$11.8	\$6.3
Income Taxes	(\$7.0)	(\$7.6)	(\$8.5)	(\$11.3)	(\$0.9)	(\$3.0)	(\$2.1)	(\$1.7)
Income from continuing operations	\$44.4	(\$22.9)	\$23.6	\$31.2	\$0.6	(\$37.8)	\$9.7	\$4.6
Discontinued operations	(\$11.6)	\$0.0	\$0.0	\$0.0	\$0.0	(\$0.0)	\$0.0	\$0.0
Net Income	\$32.8	(\$22.9)	\$23.6	\$31.2	\$0.6	(\$37.8)	\$9.7	\$4.6
NCI	(\$19.9)	\$0.3	\$0.0	\$0.0	\$3.1	\$0.2	(\$3.0)	\$0.0
Net Income to Common Shareholders	\$12.9	(\$22.6)	\$23.6	\$31.2	\$3.8	(\$37.7)	\$6.7	\$4.6
Adjusting Items	\$4.5	\$46.2	\$0.0	\$0.0	(\$0.4)	\$46.4	\$0.2	\$0.0
Adjusted Net Income to Common	\$17.4	\$23.6	\$23.6	\$31.2	\$3.3	\$8.8	\$6.9	\$4.6
Effective Tax Rate	13.7%	(49.8%)	26.5%	26.5%	59.0%	(8.5%)	18.1%	26.5%
Weighted Avg. Shares O/S	99.2	120.9	120.9	120.9	99.8	101.9	120.9	120.9
EPS (FD)	\$0.13	(\$0.24)	\$0.20	\$0.26	\$0.04	(\$0.37)	\$0.06	\$0.04
% Change	27.8%	(282.9%)	(181.9%)	32.4%	(24.0%)	(1083.7%)	(114.9%)	(30.8%)
Adjusted EPS (FD)	\$0.18	\$0.21	\$0.20	\$0.26	\$0.03	\$0.09	\$0.06	\$0.04
% Change	35.0%	21.9%	(9.0%)	32.4%	(14.3%)	159.8%	(33.5%)	(33.1%)
Net gain on sale of mortgages	0.72%	0.87%	0.84%	0.88%	0.88%	0.88%	0.84%	0.88%
Adjusted ROE	14.1%	15.0%	10.7%	12.2%	11.7%	30.6%	23.5%	15.0%
Book Value	\$1.12	\$1.04	\$1.23	\$1.49	\$1.15	\$0.94	\$1.00	\$1.04

Key Earnings Drivers	2014A	2015E	2016E	2017E	Q1-15A	Q2-15A	Q3-15A	Q4-15E
Mortgages Originated & Sold (mlns)	\$7,803	\$8,759	\$8,759	\$9,810	\$1,617	\$2,995	\$2,285	\$1,862
% change	0.3%	12.3%	0.0%	12.0%	(26.2%)	85.2%	(23.7%)	(18.5%)
Mortgages Under Admin (mlns)	\$21,575	\$24,989	\$28,613	\$32,514	\$22,163	\$23,380	\$24,300	\$24,989
% change	23.2%	15.8%	14.5%	13.6%	2.7%	5.5%	3.9%	2.8%
Gain on sale of mortgages (000's)	\$139.0	\$164.1	\$164.7	\$181.5	\$31.1	\$56.7	\$41.2	\$35.0
% change	25.5%	18.1%	0.4%	10.2%	(18.7%)	82.3%	(27.4%)	(15.0%)
Margin, % of Mortgage Originations	1.78%	1.87%	1.88%	1.85%	1.92%	1.90%	1.80%	1.88%
Acquisition Costs (000's)	\$82.5	\$88.0	\$91.0	\$95.2	\$16.9	\$30.5	\$22.0	\$18.5
% change	n/a	6.6%	3.4%	4.6%	(27.3%)	81.0%	(28.0%)	(15.7%)
% of Mortgage Originations	1.06%	1.00%	1.04%	0.97%	1.04%	1.02%	0.96%	1.00%
SG&A Expenses (000's)	\$13.7	\$13.5	\$13.6	\$13.9	\$3.0	\$3.8	\$3.3	\$3.4
% change	n/a	(1.4%)	0.6%	2.0%	(18.4%)	24.8%	(11.8%)	0.5%
% of Mortgage Originations	0.18%	0.15%	0.16%	0.14%	0.19%	0.13%	0.15%	0.18%
Salaries & Benefits Expenses (000's)	\$24.1	\$28.2	\$28.9	\$30.8	\$6.9	\$7.2	\$7.0	\$7.0
% change	n/a	17.3%	2.3%	6.7%	14.1%	3.8%	(2.2%)	0.0%
% of Mortgage Originations	0.31%	0.32%	0.33%	0.31%	0.43%	0.24%	0.31%	0.38%

Source: Company Reports, NBF Estimates

DISCLOSURES:

Ratings And What They Mean: **PRIMARY STOCK RATING:** NBF has a three-tiered rating system that is relative to the coverage universe of the particular analyst. Here is a brief description of each: **Outperform** – The stock is expected to outperform the analyst's coverage universe over the next 12 months; **Sector Perform** – The stock is projected to perform in line with the sector over the next 12 months; **Underperform** – The stock is expected to underperform the sector over the next 12 months. **SECONDARY STOCK RATING:** **Under Review** – Our analyst has withdrawn the rating because of insufficient information and is awaiting more information and/or clarification; **Tender** – Our analyst is recommending that investors tender to a specific offering for the company's stock; **Restricted** – Because of ongoing investment banking transactions or because of other circumstances, NBF policy and/or laws or regulations preclude our analyst from rating a company's stock. **INDUSTRY RATING:** NBF has an Industry Weighting system that reflects the view of our Economics & Strategy Group, using its sector rotation strategy. The three-tiered system rates industries as **Overweight, Market Weight** and **Underweight**, depending on the sector's projected performance against broader market averages over the next 12 months. **RISK RATING:** NBF utilizes a four-tiered risk rating system, **Below Average, Average, Above Average** and **Speculative**. The system attempts to evaluate risk against the overall market. In addition to sector-specific criteria, analysts also utilize quantitative and qualitative criteria in choosing a rating. The criteria include predictability of financial results, share price volatility, credit ratings, share liquidity and balance sheet quality.

General – National Bank Financial (NBF) is an indirect wholly owned subsidiary of National Bank of Canada. National Bank of Canada is a public company listed on Canadian stock exchanges.

The particulars contained herein were obtained from sources which we believe to be reliable but are not guaranteed by us and may be incomplete. The opinions expressed are based upon our analysis and interpretation of these particulars and are not to be construed as a solicitation or offer to buy or sell the securities mentioned herein.

Research Analysts – The Research Analyst(s) who prepare these reports certify that their respective report accurately reflects his or her personal opinion and that no part of his/her compensation was, is, or will be directly or indirectly related to the specific recommendations or views as to the securities or companies.

NBF compensates its Research Analysts from a variety of sources. The Research Department is a cost centre and is funded by the business activities of NBF including, Institutional Equity Sales and Trading, Retail Sales, the correspondent clearing business, and Corporate and Investment Banking. Since the revenues from these businesses vary, the funds for research compensation vary. No one business line has a greater influence than any other for Research Analyst compensation.

Canadian Residents – In respect of the distribution of this report in Canada, NBF accepts responsibility for its contents. To make further inquiry related to this report, Canadian residents should contact their NBF professional representative. To effect any transaction, Canadian residents should contact their NBF Investment advisor.

U.S. Residents – With respect to the distribution of this report in the United States, National Bank of Canada Financial Inc. (NBCFI) is regulated by the Financial Industry Regulatory Authority (FINRA) and a member of the Securities Investor Protection Corporation (SIPC). This report has been prepared in whole or in part by, research analysts employed by non-US affiliates of NBCFI that are not registered as broker/dealers in the US. These non-US research analysts are not registered as associated persons of NBCFI and are not licensed or qualified as research analysts with FINRA or any other US regulatory authority and, accordingly, may not be subject (among other things) to FINRA restrictions regarding communications by a research analyst with the subject company, public appearances by research analysts and trading securities held a research analyst account.

All of the views expressed in this research report accurately reflect the research analysts' personal views regarding any and all of the subject securities or issuers. No part of the analysts' compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report. The analyst responsible for the production of this report certifies that the views expressed herein reflect his or her accurate personal and technical judgment at the moment of publication. Because the views of analysts may differ, members of the National Bank Financial Group may have or may in the future issue reports that are inconsistent with this report, or that reach conclusions different from those in this report. To make further inquiry related to this report, United States residents should contact their NBCFI registered representative.

UK Residents – In respect of the distribution of this report to UK residents, National Bank Financial Inc. has approved the contents (including, where necessary, for the purposes of Section 21(1) of the Financial Services and Markets Act 2000). National Bank Financial Inc. and/or its parent and/or any companies within or affiliates of the National Bank of Canada group and/or any of their directors, officers and employees may have or may have had interests or long or short positions in, and may at any time make purchases and/or sales as principal or agent, or may act or may have acted as market maker in the relevant securities or related financial instruments discussed in this report, or may act or have acted as investment and/or commercial banker with respect thereto. The value of investments can go down as well as up. Past performance will not necessarily be repeated in the future. The investments contained in this report are not available to retail customers. This report does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for the securities described herein nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever.

This information is only for distribution to Eligible Counterparties and Professional Clients in the United Kingdom within the meaning of the rules of the Financial Conduct Authority. National Bank Financial Inc. is authorised and regulated by the Financial Conduct Authority and has its registered office at 71 Fenchurch Street, London, EC3M 4HD.. National Bank Financial Inc. is not authorised by the Prudential Regulation Authority and the Financial Conduct Authority to accept deposits in the United Kingdom.

Copyright – This report may not be reproduced in whole or in part, or further distributed or published or referred to in any manner whatsoever, nor may the information, opinions or conclusions contained in it be referred to without in each case the prior express written consent of National Bank Financial.

NBF is a member of the Canadian Investor Protection Fund.

NBF quarterly ratings summary and the total ratings by month can be found on our website under Research and Analysis/Equities/About NBF Research/Quarterly Ratings Summary (link attached) <http://www.nbcn.ca/cms/site/index.jhtml?navid=803&templateID=249>

The NBF Research Dissemination Policy is available on our website under Legal/Research Policy (link attached) <http://www.nbcn.ca/cms/site/index.jhtml?navid=712&templateid=243>

Click on the following link to see the company specific disclosures <http://www.nbcn.ca/contactus/disclosures.html>

Click on the following link to see National Bank Financial Markets Statement of Policies <http://nbfm.ca/en/statement-of-policies/>

If a company specific disclosure is not found herein for a listed company, NBF at this time does not provide research coverage or stock rating for the company in question.



ADDITIONAL COMPANY RELATED DISCLOSURES

AGF.B	
CBL	
CIX	2,3,4,5,6,7
CWB	2,3,4,5,7,9
EFN	2,3,4,5,7
EQB	
FN	2,3,4,5,6,7
FSZ	2,3,4,5,6,7,9,13 **
GS	6,7
HCG	6,7
IFC	6,7
IGM	6,7,10
LB	2,3,4,5,7
MIC	
MKP	6,7
SCB	
X	6,7,9 *

LEGEND FOR COMPANY RELATED DISCLOSURES:

- 2 National Bank Financial Inc. has acted as an underwriter with respect to this issuer within the past 12 months.
- 3 National Bank Financial Inc. has provided investment banking services for this issuer within the past 12 months.
- 4 National Bank Financial Inc. or an affiliate has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.
- 5 National Bank Financial Inc. or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.
- 6 National Bank Financial Inc. or an affiliate has a non-investment banking services related relationship during the past 12 months.
- 7 The issuer is a client, or was a client, of National Bank Financial Inc. or an affiliate within the past 12 months.
- 8 National Bank Financial Inc. or its affiliates expects to receive or intends to seek compensation for investment banking services from this issuer in the next 3 months.
- 9 As of the end of the month immediately preceding the date of publication of this research report (or the end of the second most recent month if the publication date is less than 10 calendar days after the end of the most recent month), National Bank Financial Inc. or an affiliate beneficially own 1% or more of any class of common equity securities of this issuer.
- 10 National Bank Financial Inc. makes a market in the securities of this issuer, at the time of this report publication.
- 11 A partner, director, officer or research analyst involved in the preparation of this report has, during the preceding 12 months provided services to this issuer for remuneration other than normal course investment advisory or trade execution services.
- 12 A research analyst, associate or any other person (or a member of their household) directly involved in preparing this report has a financial interest in the securities of this issuer.
- 13 A partner, director, officer, employee or agent of National Bank Financial Inc., is an officer, director, employee of, or serves in any advisory capacity to the issuer.
- 14 A member of the Board of Directors of National Bank Financial Inc. is also a member of the Board of Directors or is an officer of this issuer.

* Luc Bertrand is an officer, director or employee or a member of the Board of Directors of this company or an advisor or officer of this company.

** Louis Vachon is a member of the Board of Directors or is an officer of this issuer.