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PRESENTATION

Operator

Good morning, ladies and gentlemen. I'd like to welcome shareholders and analysts to the Equitable Group's second-quarter 2014 conference call.

Before we begin, we would like to remind you that certain forward-looking statements may be made on this call, including statements regarding possible future business and growth prospects. You are cautioned that such forward-looking statements involve risks and uncertainties, detailed in the Company's periodic filings with Canadian regulatory authorities. Many factors could cause actual results or performance to be different from those expressed by such forward-looking statements. Equitable does not undertake to update any forward-looking statements made by itself or on its behalf, except in accordance with applicable securities laws.

This call is being recorded for replay purposes. It is now my pleasure to turn the call over to Andrew Moor, President and CEO of Equitable Group and Equitable Bank. Please go ahead, Mr. Moor.

Andrew Moor - *Equitable Group Inc. - President & CEO*

Thank you, Michelle. Good morning everyone. Joining me is Tim Wilson, Chief Financial Officer of the Bank and Equitable Group. Today's presentation is available via webcast, and we have included a slide deck on the Webcast for reference purposes.

This was a great quarter for the Equitable team. We grew our portfolio, made excellent progress with the Bank's most recent expansion strategies, and set a new record for quarterly net income. The market is also recognizing our success as we surpassed CAD1 billion in market capitalization for the first time in our history during July.

On the lending side, we recorded one of our best quarters ever for single family originations, pushing through the CAD0.5 billion mark for the second time in our history, on 25% year-over-year origination growth. I'm excited by the momentum in this business, not just in the quarter, or over the first six months of 2014, when origination growth was 32%, but in every reporting period for the past four years, as we have set new records quarter after quarter for single family mortgage principal.

As you know, Equitable Bank is very supportive of Canada's mortgage broker community, and by strengthening our relationships with brokers in many different urban areas, most recently by opening in Gatineau and Montreal at the end of March, we are growing our business and reducing our risk profile. The imminent launch of our prime offering, which I will discuss later in this call, which only add to our growth momentum, and further reduce risk.

We've also continued to build and broaden our deposit base. As of this morning, we attracted over CAD205 million of deposits in our high-interest savings account since it launched last September, as part of our CAD6.4 billion savings business. In the beginning of the quarter, we successfully completed the first of what we expect will be many deposit mode offerings, adding CAD150 million of funds. These offerings highlight our commitment to becoming a more diversified financial institution, capable of providing very competitive services for savers, supporting lending growth, and providing great returns for shareholders.

It's evident from the Bank's performance to date this year that the demand for our new and traditional products is strong, and equally evident to me that service is opening the door to more and better business. As we develop closer relationships with borrowers and mortgage broker partners, which is a natural outcome of our service strategy, we are learning more about their needs and expectations, and this will help us to constantly improve our offering going forward.

On today's call, we will address several other important accomplishments and recent initiatives, including the successful CAD75 million preferred share offering we recently completed to strengthen our capital position, without diluting shareholders. First, a summary of what our growth meant in the second-quarter. Compared to last year, we made a new quarterly net income of CAD25.9 million, an 18% increase year-over-year, that translated to CAD1.65 in fully-diluted EPS. ROE was 18%, and above our consistently-high average over the past five years, and book value per share increased 17% year-over-year, and 4% during the quarter itself.

Supporting these great bottom line results was 15% year-over-year growth in mortgage principal for the Bank's core lending businesses, comprised of single family and commercial. This performance was due to substantial growth in single family lending, as well as modest growth in our commercial portfolio. We now have CAD4.2 billion of single family mortgage principal outstanding, up 23% from a year ago.

Recall, however, that when mortgages in our core lending operations were securitized, we begin to report the balance in our securitization financing segment, and this provides an offset in core lending assets. Normalizing for securitization of CAD433 million of single family mortgages over the past year, which is probably the fairest way to consider this metric, the growth rate in single family mortgage principal was an even larger 27%.

A big part of the story this quarter is the 25% year-over-year growth in single family mortgage originations, which stood at CAD501 million, a new second-quarter record. This was the fourth consecutive quarter that our single family originations have surpassed the CAD400 million threshold.

Turning to the Bank's commercial lending services, growth was modest as we chose to maintain our capital allocation and pricing discipline, lending only on deals that exceeded our ROE thresholds. As a result, mortgage principal expanded 3% year-over-year. Quarter-over-quarter, commercial mortgage principal was off by 5%. Movements in our commercial book tend to be a bit uneven due to the size of the loan, and this decrease represents the expected roll-off of some large construction facilities, among other factors.

In terms of our prospects, we're excited by the continuing development of our commercial business under the leadership of Michelle Cole, who has recently been recruited to serve as Vice President of Commercial Lending. Michelle has an extensive background in commercial credit, serving as SVP Commercial Finance at GE Capital, where she spent 14 years. At Equitable, she is responsible for overseeing credit, portfolio management, and origination for the Bank's commercial lending operation. Michelle strengthens our already-strong commercial lending team. We look forward to capitalizing on her ideas, connections, and experience.

In securitization financing, mortgages under management were about 1% ahead of last year, and in line with our expectations. As in prior quarters, the need to use our CMB capacity to fund elevated levels of maturing mortgages did not leave much room to grow this business. Generally, we experienced strong demand for our multi-unit residential mortgage products, and continued to see profitable opportunities for securitization financing, going forward. The Bank's growth and returns to the community positively influenced by disciplined underwriting standards and credit practices across both areas of our core lending operation.

Our impairment provision, which is our provision for credit losses on impaired mortgages, amounted to CAD331,000 in the second-quarter, reflecting the low level of losses anticipated in our impaired loans. It's going to be hard to maintain losses at such a low level, but we certainly see nothing on the immediate horizon that will change this picture in a significant way.

One other recent highlight was our preferred share offering, subsequent to quarter-end. We chose to issues new Series 3 non-cumulative five-year rate reset preferred shares. Not because we needed capital to support our growth, but in anticipation of the rate reset, and expected redemption of our Series 1 preferred shares on September 30.

We announced our intention to redeem Series 1 concurrently with the issuance of Series 3. The new Series 3 preferred shares of the Bank are compliant with Basel and overseas requirements for non-viability contingent capital. On a net basis, these changes will enhance the Bank's Tier 1 and total capital, and position us well for [RC's] new leverage benchmark, which is based on Tier 1 capital, and replaces the current ACM regimen, effective January 2015.

The dividend rate of 6.35% on new preferred shares is also lower than the 7.25% on our existing shares, another advantage. You should be aware that the first dividend on these new shares will be paid in Q4, and since this will be a fit for a period of close to five months, will result in a preferred share dividend in that quarter of CAD1.9 million, which is more than the CAD1.2 million to be paid in subsequent quarters.

Series 3 are now trading on the TSX under the symbol EQB.PR.C. Tim will discuss the impact of these initiatives on our capital position, but as an overview comment, I would say that we are very pleased with investor uptake of the offering. We take this as indicative of investor interest and confidence in Equitable. I'll now ask Tim to provide his analysis, before discussing our outlook.

Tim Wilson - *Equitable Group Inc. - CFO*

Thanks, Andrew. Based on the results of the first half of 2014, Equitable is on its way to another year of record performance. Profitability measures from the second-quarter, and general momentum within the business, certainly support that prospect.

Total net interest income was up 18% year-over-year on 3% growth in assets, and a widening of our NIM. Overall NIM grew 23 basis points year-over-year to 1.69%, and grew sequentially by 2 basis points. NIM was up on the continued shift in our asset base towards the Bank's higher-margin core lending businesses, and on higher margins within core lending itself. This mix shift has helped to offset the impact of gradually decreasing spreads within our securitization financing portfolio.

The spread compression we've experienced over the past two years in securitization financing results from the maturity of five-year loans originated at higher spreads in the 2008 to 2009 period. This dynamic will dissipate at the end of 2014, as loans originated since 2010, so those that roll off next year, carry roughly the same margins as mortgages being originated today. More consistent securitization financing margins, combined with the continued shift towards core lending, bode well for our total NIM going forward.

Looking ahead to the rest of this year only, our expectation is that overall NIM will remain around Q2 levels. The positive impact of the shift in our asset mix will likely be offset by the effects of lower mortgage prepayment income, and by slight yield compression in securitization financing. We believe that prepayments were unsustainably high in Q2, and expect them to fall back closer to Q1 levels in the final half of the year.

With respect to other income, you will notice that it was up 49% from the first-quarter, and down 18% year-over-year, reflecting volatility in a couple of areas. On the upside, we noted 75% year-over-year growth in fees, which primarily related to a CAD600,000 increase in mortgage admin and construction portfolio-related fees. We also generated CAD600,000 of additional income from the sale of some investments, and recorded CAD300,000 of rental income on foreclosed assets.

Offsetting this was a 52% year-over-year reduction in securitization gains, which was driven by the types of mortgages originated and securitized. Non-prepayable mortgages, the type that allow us to achieve derecognition, represented 21% of assets securitized in the second-quarter, in contrast to 52% a year ago. This change was simply a function of market demand.

Shifting to costs. Non-interest expenses grew 18% year-over-year. This reflected an additional CAD2.2 million to support the 19% growth in our FTE, and CAD300,000 for amortization of HELOC product development costs. As a result of these increases, which were investments in the Bank's expansion, our efficiency ratio was 31.3%, an increase of 1 point from a year ago, but an improvement of 60 basis points from quarter one, due to a slower rate of sequential expense growth.

Heading into the last half of the year, we expect the Bank's efficiency ratio to be marginally higher than in Q2, as we continue to make upfront investments to drive our strategy. Even so, Equitable will continue to leverage the advantage of our branchless bank business model to remain one of Canada's most cost-effective financial institutions. With respect to our capital ratios at June 30, all continued to surpass minimum regulatory standards and most industry benchmarks, including our own levels from Q1 this year, and June 30 last year.

As a result, even without the recent preferred share offering, which will not be reflected in our ratios until the end of September, Equitable remains well-positioned to support continued growth and value creation. Giving effect to the Series 3 preferred share offering and the upcoming Series 1 redemption, our pro forma capital positions for June 30 are even stronger, at 17.8% for total capital, versus 17% reported, and 15.1% for Tier 1, compared to the 14.3% reported.

As a result of our capital position, we also elected to suspend our DRIP program, effective September. We have the option to reinstate the program in the future, and will make that decision based on our capital levels, share price, and operating environment at that time. Program participation has been volatile, and it's currently under 1%, so we don't expect the changes to have significant implications for our shareholders.

In total, the Bank is performing at record levels, and we supported that performance with more diversified, cost-effective funding sources, and additional non-dilutive capital. We're well-positioned for more growth and performance. Now, back to Andrew.

Andrew Moor - *Equitable Group Inc. - President & CEO*

Thanks, Tim. We're not only prepared for profitable growth, we're actively pursuing it. In this regard, one of our most exciting initiatives continues to take shape behind the scenes, and that's the development of our prime lending business. We plan to open for prime later this quarter, and are currently testing our systems and putting the final touches on our suite of prime products and marketing materials.

The addition of this business will make the Bank's franchise more valuable in a couple of ways. For new borrowers, Equitable will, over time, become a recognized alternative to traditional players in the prime space. For existing borrowers, whose mortgage needs have evolved, it will mean they can stay right here, knowing they will get great service.

More fundamentally, our new offerings should also act as a catalyst to drive further growth and relationships with our mortgage broker partners, and our share in the channel. We're bullish on what this will mean for the Bank, over the next three to five years. This is not the only Equitable expansion strategy taking flight.

Demand for our Equitable Bank home equity line of credit is also growing. This product was introduced at the end of last year, and by listening to the demands of our mortgage broker partners, we've continued to refine some of our approaches, and expect our HELOC offering will become a bigger contributor to our lending business over time.

The same could be said for opportunity in our alternative single family business. The quarter started well, and I'm optimistic about the origination portfolio growth that our service strategies will deliver in the latter half of the year. That momentum will be strengthened by our rising presence in new regions of Canada. I'm pleased with the progress our team are making in Quebec, but we still have much to prove as a reliable partner of the broker community in this important province, and as we build these relationships, our business will grow.

All of these ventures require investment, including most especially an investment of time and expertise by Equitable people. In this regard, I am pleased to say our team continues to grow and mature, based on a combination of internal promotions and external recruiting. Of course, maturing means from time to time the need for successions.

Over the course of the last few months, we have prepared for one such succession. With the planned year end retirement of our colleague, Bill Edmunds, I was pleased to announce that Ron Tratch, currently our Vice President Commercial Credit will succeed Bill as our Chief Risk Officer.

Ron has served the Bank with distinction in his current role since 2011, managing the commercial credit team. In that capacity, he successfully built relationships with key lending partners, and diversification into new commercial asset classes. Ron has 20 years of relevant experience, earned while serving at SVP of GE Capital Canada, and is a partner in a private equity firm.

I'd like to congratulate Ron on his pending appointment. Ron and Bill will be working closely together to ensure a successful transition. Bill has been the Bank's Chief Risk Officer since mid-2007, and has really built out our risk infrastructure over that time.

Looking ahead to the rest of 2014, our outlook is positive. We expect that our approach to capital allocation and our focus on core lending will continue to deliver high returns on shareholders equity for the remainder of the year. As a schedule one bank, our outlook is shaped by government policy. In this regard, we're very encouraged by steps the federal government is taking to encourage competitive financial services in Canada.

We believe that medium-sized banks, like Equitable, are the best place to execute on this public policy agenda. We believe that tweaking of elements of the regulatory regime can really help smaller banks deliver competitive services to Canadian consumers.

In particular, we believe that smoothing regulatory barriers to opening new accounts online in real-time, continue to level the playing field to access CMHC's securitization programs, and thinking more carefully about the supervisory approach to smaller banks and how this might be appropriately scaled, will bring innovation to the financial services landscape, offer better rates for savers, and useful products for homeowners and businesses alike.

In summary, the Bank delivered record quarterly net income, and a high ROE. We advanced our expansion strategies on both the lending and deposit sides of the Bank, and are readying for the imminent launch of our prime offering. Our outlook for the remainder of 2014 is positive, and our team, now numbering over 360 people, continues to punch above its weight in bringing increasing value in our franchise, differentiating ourselves on our passion for customer service, and in creating competitive alternatives for our customers and partners.

In short, it was a great quarter, a terrific first half, and with strong momentum in our business, we look forward to extending our track record of performance excellence in the quarters to come. That concludes our prepared remarks, and I would like to invite your questions. Michelle, can you please open the lines for our callers?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Your first question comes from Geoff Kwan of RBC Capital Markets. Please go ahead.

Geoff Kwan - *RBC Capital Markets - Analyst*

First question I had was just on -- with the delayed, call it, start to housing season this year, I know you talked a little bit about, on the origination side in the quarter, has gotten off to a good start. Do you feel from what you've seen right now that we may see the Q3 originations on the non-prime side come up better than what we saw in Q2?

Andrew Moor - *Equitable Group Inc. - President & CEO*

I think it's inevitable they're going to be better than Q2. Looks like August is going to be a tremendously strong month for closings. September is yet to be done.

I was walking the underwriting floor, talking to some of the people on the team yesterday afternoon, and the phones were really busy and people were hardly putting their heads up from their desks to come and talk to me. They seem to be that engaged with our broker partners. It certainly feels like it's got the right tone for sure.

Geoff Kwan - *RBC Capital Markets - Analyst*

Does it feel like it's -- how much of it is the delayed activity, which is sounds like that definitely is a part of it, versus taking some share from competitors?

Andrew Moor - *Equitable Group Inc. - President & CEO*

I'm not sure that we're taking -- I think the alternative market as a whole may be growing, and making a larger percentage of the landscape. It's interesting.

I was talking to one of our senior managers yesterday, who said seeing the volumes that she was seeing, there's got to be something going on out there. I said what is it? We couldn't really put our finger on it. Certainly something that seems to be driving business in our direction, in a way that we wouldn't really quite expect, or can't quite understand at this point.

Geoff Kwan - *RBC Capital Markets - Analyst*

Okay. And the second question --

Andrew Moor - *Equitable Group Inc. - President & CEO*

I'd rather have it that way than the other way around, losing business where we didn't understand it. So it's a positive.

Geoff Kwan - *RBC Capital Markets - Analyst*

Sure. The second question I had was on the prime insured roll-out, how are you doing? Is it a little bit more targeted based on geography, like just focusing on Ontario first and expanding, or is it maybe across your regions, but maybe just targeting your largest broker partners? Just wanted to get some color on that.

Andrew Moor - *Equitable Group Inc. - President & CEO*

Not so much targeting, but I think we want to work with our closest relationships first, because I think they understand where we're coming from, and they have a vested interest in helping us be successful, so will give us good, constructive feedback on what we could be doing better. Our initial roll-out will be with some of those groups in Ontario, where we're closest to, where our team can really listen and work through the bugs in the process, so we can deliver a valuable offering to them. It's not because we want to ignore some of our other partners in other parts of the country, but that feels like the best way of getting a really good offering up to speed, so then we can roll it out to others.

Geoff Kwan - *RBC Capital Markets - Analyst*

But you pretty much would be all set up, if you wanted to go nationwide in terms of having the personnel and the systems ready to go? Is that a fair way to think about it?

Andrew Moor - *Equitable Group Inc. - President & CEO*

That's right. We don't have people in the west yet. That will happen fairly quickly. You shouldn't expect it will take us this long to build a national footprint in prime, for example, as it did in the alternative space. We can ride on the infrastructure we already have in each province.

Geoff Kwan - *RBC Capital Markets - Analyst*

Perfect. Thank you.

Operator

Thank you. The next question comes from Shubha Khan of National Bank Financial. Please go ahead.

Shubha Khan - *National Bank Financial - Analyst*

Just a couple questions with regard to the prime insured launch. I just wanted to be clear about the nature of the opportunity here. So when you originate and then subsequently securitize, I guess, the vast majority of these mortgages, will you look to derecognize the entire amount from your balance sheet by selling the IO strips?

Andrew Moor - *Equitable Group Inc. - President & CEO*

I'll let Tim handle some of the elements of the question there. I think we will have the choice. It may mean that the income's a little bit unpredictable. Generally, the direction is to derecognize most of the sale. Tim, I don't know if you --

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Tim Wilson - *Equitable Group Inc. - CFO*

I think that right. Broadly speaking, our strategy would be to securitize, sell the IO strip, and therefore derecognize and record a gain on sale up front. We're still actively involved talking to a lot of investors, and there seems to be a lot of them that are interested in this product, which is good, and we're also still engaged with CMHC, trying to land on the optimal structure for the sale of the strips.

Shubha Khan - *National Bank Financial - Analyst*

Okay. Perfect.

Tim Wilson - *Equitable Group Inc. - CFO*

Everything is moving ahead.

Shubha Khan - *National Bank Financial - Analyst*

Okay. And just as a follow-on to that, then, as far as the potential gain on sale percentage related to these mortgages concerned, and I understand discount rates and other assumptions will move around from quarter to quarter, but will the gain on sale percentage be higher than that, for your non-prepayable insured multi-family mortgages? Is that a fair assumption?

Tim Wilson - *Equitable Group Inc. - CFO*

Yes. I mean, obviously and as you know, spreads in that business tend to be quite volatile. But right now, the way we're looking at it, spreads would be slightly higher than what we experience in our multi-unit residential portfolio today.

Shubha Khan - *National Bank Financial - Analyst*

Got it. And then, I guess it appears to me, at least, that you're giving yourselves a lot of time to ramp up the prime mortgage business. Did your conversations with your broker partners suggest that it will take time to get traction with this product, or are you deliberately ramping up slowly, to see what works and what doesn't? I guess what I'm trying to get at, is whether the time line can be brought forward to get to CAD1 billion to CAD2 billion in annual originations.

Andrew Moor - *Equitable Group Inc. - President & CEO*

If we see the opportunity we will. What we like to do is not over-promise to the market. There does seem to be a fair bit of appetite from, I've been surprised by the conversations we've had, seems to be a fair bit of appetite for another prime offering in the marketplace. I think what you've seen from some of the mono lines that had a little bit of trouble accessing all the funding sources they would like. It's a little bit less competitive from some of the smaller mono lines.

I think there is the appetite there. Clearly, it's very hard to project when you get to CAD2 billion, when you haven't yet written one mortgage in this space yet. But it's obviously a very large market.

We know the brokers, and we know a lot about how to do this business. I think we're just -- we'll be in much better position to be able to give you more color on that six to nine months from now, when we've got some experience under our belt and we've had some really meaningful conversation with the brokers actually having closed transactions with us.

Shubha Khan - *National Bank Financial - Analyst*

Okay. That's great. I'll requeue.

Operator

Thank you. The next question comes from Graham Ryding, TD. Please go ahead.

Graham Ryding - *TD Newcrest - Analyst*

Just maybe the -- just any thoughts on developing a direct-to-consumer platform? Is there any further consideration around that?

Andrew Moor - *Equitable Group Inc. - President & CEO*

We are working on that, and I think, again, we'll probably be able to give you quite a bit more color on that in Q3. We've actually been doing a lot of work on what does being a branch-less bank mean on the direct-to-consumer, in the direct-to-consumer market and we see some opportunities to create a differentiated offering there. We have a smallish team working on that in house right now.

As I say, it's a little early to be talking about that publicly. There's a few different options that we're thinking about there. But there certainly seems like there's a market opportunity opening up. Clearly, with both Ally exiting the market and then Tangerine becoming part of a larger sched 1, we do think there's an appetite amongst certain Canadian consumers to deal with a differentiated financial services product.

I made some comments around the regulatory changes that would be helpful to allow smaller banks to come and compete, and offer great savings rates and good products for Canadian consumers. We are engaged at the policy level, and trying to make some really good, easy-to-use offerings which today you're forced to use too much paper, frankly, to set up an account. We think that there is some unnecessary barriers there, that we're working on a policy level.

Graham Ryding - *TD Newcrest - Analyst*

Got it. And can you talk about -- would you be considering more than saving-type products? Would you consider lending products, as well? Or is it too early to talk about that?

Andrew Moor - *Equitable Group Inc. - President & CEO*

Certainly our thrust is not lending products. It's mostly around helping people with their savings offerings.

Graham Ryding - *TD Newcrest - Analyst*

Great. On the commercial side, can you just provide any color around where you're seeing the competitive pressures in that side of your business, and are there any particular reasons you see why there seems to be such a disparity between the residential side of the market, and the commercial side right now?

Andrew Moor - *Equitable Group Inc. - President & CEO*

I don't know that there's such disparity. I think there is a good tone to the commercial market. I think just last Friday, we approved about CAD50 million of loans in an investment committee we held. There's definitely activity in the market. There's also a fair bit of liquidity coming into the market, and there are more players that are prepared to offer a loan to any individual developer or borrower.

But I'm fairly confident that's just a kind of a lumpiness that's natural in that commercial segment. I would say that in the single family alternative business, we're clearly differentiated. We're one of two players in some markets, three players in others, that really service that market. So it's a much clearer position in the marketplace, and our commercial team is just fantastic at what they do.

We're certainly much more of a niche player, having to pick our spots right across the country and we have more competitors. It's not quite as obvious that a loan has to go to Equitable at any point in time. We enjoy very strong relationships with a large group of partners, and we're very confident in that business going forward.

Graham Ryding - *TD Newcrest - Analyst*

Okay. Great. And then just on the -- Tim, if I could just ask you. Looks like from your comments that you're comfortable with your level of leverage, even though you guided that the ACM is going to tick up over the next few quarters.

But I imagine you're now looking at your leverage ratio. Is there any color you can provide, given OSFI's recent release on where you stand on the leverage ratio today and how you view that, your position going forward into 2015?

Tim Wilson - *Equitable Group Inc. - CFO*

I don't think the introduction of the new leverage ratio has significant implications for our business. I'll state that up front. And OSFI's stated principle is that the leverage ratio would leave institutions roughly neutral to where they are under the ACM. Like we said before, we feel we've got some room to grow as it relates to leverage, and that perspective is unchanged.

Andrew Moor - *Equitable Group Inc. - President & CEO*

I think the one thing we also previously lacked in the market is, as our subordinated debt matures, it will probably get paid off and not reissued, because it's less valuable from a regulatory capital perspective. That will potentially help a little bit with NIM as that rolls off.

Graham Ryding - *TD Newcrest - Analyst*

And so would you, as that rolls off, would you consider refinancing that in a pref type structure, so that it would factor into your leverage ratio under Basel III?

Tim Wilson - *Equitable Group Inc. - CFO*

I think we've, yes, clearly in the new world, preferred shares do have more value to us, because the way you the leverage ratio is calculated than does subordinated debt. Though, depending on your capital structure, subordinated debt could still play a small role. I think we've taken into account the evolution of and the redemption of our -- of some subordinated debt in December of this year and December of next year already, when we issued our Series 10 subdebt last year and when we issued the preferred shares this time around.

So you noticed our existing preferred shares of CAD50 million of principal value, the new ones are CAD75 million. So we have taken into account those factors already. So wouldn't expect to be coming to the market regularly over the next couple years for more prefs.

Graham Ryding - *TD Newcrest - Analyst*

Got it. So then just to be clear, your ACM is presumably going to trend above 14 now, given you've got some assets rolling off your business, and that I believe is an all-time high for your business, but you're still comfortable at that level.

Tim Wilson - *Equitable Group Inc. - CFO*

We are very comfortable with our current capital position, and believe it leaves us room for more growth. Yes.

Graham Ryding - *TD Newcrest - Analyst*

Okay. Great. Thank you.

Operator

Thank you. The next question comes from Stephen Boland of GMP Securities. Please go ahead.

Stephen Boland - *GMP Securities/Griffiths McBurney - Analyst*

One question. Regarding the gain you recognized on the derecognized mortgages, it was significantly lower than a year ago. You said it's due to different assumptions. Could you just walk me through that, Tim, if that's possible?

Tim Wilson - *Equitable Group Inc. - CFO*

It's mainly due to the types of mortgages we're securitizing. In multi-unit residential, which is what we're securitizing these days, primarily, you've got non-prepayable mortgages, and prepayable mortgages. When we securitize the non-prepayable, we derecognize the mortgages, and record a gain on sale.

So last year, that was about 50% of the mortgages that we securitized in the second quarter. This year, it was about 20%. It was simply a change in the types of mortgages that we were securitizing.

Stephen Boland - *GMP Securities/Griffiths McBurney - Analyst*

Okay.

Andrew Moor - *Equitable Group Inc. - President & CEO*

The net impact of that, Steve, is we're going to -- we're still going to make the same over the life of the loan, as we would in either scenario, but in that case we're not recognizing the gain up front. It will be over the life of the loan.

Stephen Boland - *GMP Securities/Griffiths McBurney - Analyst*

Okay. You said when you do launch your prime product that there's -- you think there's considerable demand for the strips. Are you still seeing it in the existing product? Has there been new investors coming to the market for you, or is it really the same players that are buying your paper right now?

Tim Wilson - *Equitable Group Inc. - CFO*

Right now we haven't needed to sell any paper, sell any of the strips. The reason is, we're achieving derecognition through the -- by virtue of the mortgages being non-prepayable. We haven't sold strips related to the prepayable mortgages for the last year-plus.

The reason is, we're still trying to figure out what the optimal structure is for selling the strips, what the best deal structure is, and we're working through those details with CMHC, which needs to approve the structure of any deal. We're not rushing to this. We have no need, from a capital perspective, to get derecognition for more mortgages than we are today. So we're taking our time to make sure we've got the right structure in place for the long term.

Stephen Boland - *GMP Securities/Griffiths McBurney - Analyst*

Okay. That's great. Thanks.

Operator

(Operator Instructions)

Our next question comes from Jeff Fenwick of Cormark Securities. Please go ahead.

Jeff Fenwick - *Cormark Securities - Analyst*

I wanted to -- a lot of commentary up front around growth initiatives. Clearly, that's on the way. When I look at your core loan book this quarter, I think this is maybe the first quarter in several years where I haven't seen sequential growth in loans. You gave us a little color on, I think, on the commercial activity there, and maybe a little higher securitization out of the residential book than normal. Are you confident that's going to revert next quarter and with the level of originations you have in single family, you're going to get back on track here with loan growth?

Andrew Moor - *Equitable Group Inc. - President & CEO*

I think I already gave some color around commercial and I think this quarter, maybe we're not going to see dramatic growth in the commercial loan book. I'm still confident that over upcoming years, we could grow that book in an appropriate risk managed way.

I would say the securitization of alternative single family loans, when we can achieve it, is actually a very successful result for us, and our shareholders economically. What's happening is, we're getting those mortgages insured, and we're funding them more cheaply than we would fund them in the deposit market, by funding them through securitization. I do think the way we tried to describe that in looking at the total growth in that single family book, including the alternative mortgages that have been insured and then securitized, is the more appropriate way to be looking at that, and obviously there was a big number there, I think --

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Tim Wilson - *Equitable Group Inc. - CFO*

CAD213 million.

Andrew Moor - *Equitable Group Inc. - President & CEO*

CAD213 million of mortgages that had that treatment in the most recent quarter. I think if you add back that CAD213 million you still have to get some much more expansive numbers?

Tim Wilson - *Equitable Group Inc. - CFO*

Adjusted for that securitization, which does have a big impact, the quarter-over-quarter growth would have jumped from 3% to 8%. So getting back much more in line with the rates we typically see.

Jeff Fenwick - *Cormark Securities - Analyst*

And so that large amount was somewhat unusual for you, I guess, is what I'm driving at. Do you intend to do similar securitizations of that size on a continuing basis?

Andrew Moor - *Equitable Group Inc. - President & CEO*

We'd love to do it if we could. But it's tough to get the portfolio insurance capacity to do it. As you may be aware, one of the changes in recent years has been to limit the amount of portfolio capacity available from CMHC, so this is us using a good chunk of that portfolio capacity in this current year.

Jeff Fenwick - *Cormark Securities - Analyst*

Okay. And moving on, looking at the other income line, you gave us some details on things that bumped that number higher for you. Just trying to get a sense for how much of that number was unusual or one-time in nature or how much of it is likely to persist over the course of the year here?

Tim Wilson - *Equitable Group Inc. - CFO*

It probably depends on the line that you're looking at, Jeff. So with some of the items like the fees and other income, I'd expect most of that to persist in future quarters. Good organic growth of the portfolio, we've made some tweaks to our fee structures, so I'd say, by and large, that is sustainable. Obviously, items like gain on investments are much more lumpy, so we had close to CAD600,000 of gains on sale of different securities in the quarter. I wouldn't expect that to necessarily continue.

Jeff Fenwick - *Cormark Securities - Analyst*

Okay. Great. Thanks for that color. That's it from me.

Operator

Thank you. There are no further questions at this time. Please continue.

Andrew Moor - *Equitable Group Inc. - President & CEO*

Thanks, Michelle. As there are no other questions, I'd like to thank you for joining us. We look forward to reporting our third-quarter results on November 13, with a call on November 14. Thanks for listening, and goodbye for now.

Operator

Ladies and gentlemen, this does conclude the conference call for today. You may now disconnect your line, and have a great day.
