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PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to Equitable Group's second-quarter 2015 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 risk and uncertainties detailed in the Company's periodic filings with the Canadian regulatory authorities. Many factors can cause actual results and 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. Moore.

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

Thank you, Eric. Good morning, everyone. Joining me is Tim Wilson, Chief Financial Officer with the Bank.

For those on our webcast, you can follow along with our quarterly slide deck or download our slides from equitablebank.CA. Today, we're going to discuss the Bank's performance, and during our outlook, address questions raised by some investors about our industry and practices related to borrower documentation. I can assure you at the outset that we take these concerns seriously, and that managing risk in all its form has long been a core competency for our Bank.

Looking first at recent performance, we earned an all-time quarterly record CAD33 million in the second quarter, as our customer service approach and branchless bank business model continues to deliver great results. Those earnings, combined with the Bank's ongoing effectiveness in deploying capital, led us to produce ROE of 19.8%. In addition to our outstanding operating performance, we booked an investment gain from securities transaction that added CAD1.5 million to net income, or CAD0.10 to diluted EPS. This represents a residual gain on the same security that produced a CAD0.24 gain in the second quarter of 2012 and reflects value-added management of our securities portfolio. Even without this gain, earnings were ahead of our previous best-ever quarter and our ROE was 18.9%, comparing very favorably to our five-year term average of 17.5%. We are very pleased with the Bank's performance, which manifests itself in a 15% year-over-year growth in book value per share.

Looking at the absolutely outstanding results generated by our lending businesses, the driver of our record financial performance, single-family mortgage originations reached [CAD641] million in the second quarter, up 28% from a year ago. This is one of the best quarters of originations in the Bank's history and pushed single-family principle up by 30% year over year to almost CAD6 billion, a new record. This performance was achieved in spite of lower activity levels in regions more affected by the decline in oil prices. These markets are under pressure from cuts in the oil patch and are likely to see further activity declines as the year progresses. Having said that, we feel well positioned from a credit perspective in these markets by the more conservative lending stance we took in December 2014. By our focus on lending in larger cities, such as Calgary and Edmondson, with the more diversified economies, rather than lending on houses in (inaudible) such as Fort McMurray, where employment is linked much more closely to the energy industry.

Our other regional markets performed well in the quarter and offset a not particularly surprising double-digit decline in single-family originations in Alberta and Saskatchewan. In fact, demand across most large urban residential mortgage markets in Canada remain strong, but I'm convinced that the underlying drivers of the Bank's performance are our customer service approach and the regional expansions that we have undertaken over the past few years. As you know, we start small in urban markets that are new to us. We think big and long term. A good example of our geographic expansion is the work we've done to build our brand in Vancouver, a market I've been engaged in for many years in my [past] life, and one that Equitable entered in 2010. We now have a CAD352-million single-family book in BC, excellent partnerships in that market with national local mortgage brokers, and opportunities for further penetration, which is why we opened the Vancouver regional office in June to house our underwriting and sales team [of 10]. This investment will improve our responsiveness in the province, as we're able to provide local service, and gives us capacity to grow to the next level in the lower mainland, as both alternative and prime mortgage lender.

At a national level, our prime growth business closed CAD380 million of loans in the quarter, up 98% from [first]-quarter volumes. This includes volumes originated directly by our internal team and volumes sourced by third-party partners. We've got a long way to go to reach our vision for this newest Equitable business, but this was an early step in the right direction and reflects a positive reception from mortgage broker communities and the GTA, Calgary, and Edmonton. Commercial originations were also up, this time by 7% year over year. We discussed market conditions and our approach to this business on past calls and they remain unchanged. Net-net, our commercial book remains at about CAD2.3 billion and provides good value to our shareholders, and an important level of diversification to our Bank.

Turning to securitization financing, we continue to see positive impact to prime mortgage growth or mortgage under management, which was up 25% year over year to CAD6.8 billion. We expect this portfolio to continue growing at high rates, as we build our presence in the prime market. As a reminder, there is very positive earnings power in this part of the Bank. We have the ability to accelerate the recognition of earnings on a securitized prime mortgages, as we enter into transactions to hedge to cash flow uncertainty, referred to by the market as selling the IO strip on the mortgages. By doing so, we can [de-recognize] the underlying mortgage principle and record an upfront gain on sale. To date, we have not executed any of these transactions, and as such, not recorded any upfront gains. If we choose to sell the IO strips on the prime mortgages currently reported on our balance sheet, we have the potential to recognize a gain of approximately CAD5 million.

Credit performance was strong in the quarter, in spite of the evolving economic environment in Alberta and Saskatchewan. One indicator of the high quality of the Bank's mortgage portfolio was an impairment provision, which reflects the level of newly recognized losses anticipated on our impaired loans. It amounted to less than 1 basis point. Also of note, impaired mortgages decreased by 30% over the quarter, largely as a result of one large commercial loan made current. Reflecting our conservative approach to loan loss provisioning, we added CAD700,000 to our collective allowance in the quarter, adding to our collective (inaudible) in this quantity had a CAD0.05 negative impact on EPS in the quarter. I would note that this level of provisioning is running well ahead of both actual loan losses and impairment provisions. Canadian economic conditions stay within the range of broad market expectations. We continue to believe that arrears rates of impairment provisions remain low in 2015 at a national level. Our arrears in Alberta and Saskatchewan continue to be very low, in line with historical norms. In the face of economic stress in these provinces related to commodity prices, it is certainly logical to expect to raise rates in future quarters to increase, given the sustained economic pressure in these markets.

That brings me to our outlook and some of the recent concerns about the residential housing market and borrower documentation. Let me begin by giving you a comfort that our risk management system is designed to provide a high level of protection against fraudulent or otherwise dishonest activity. We apply a risk management model that uses three separate and clearly identified lines of defense, those being operational management control, corporate risk management oversight, and independent assurance through internal audit. All three lines of defense play a role in our residential mortgage underwriting process.

Let me walk you through some of the specifics of our approach. From a risk management perspective, everything starts as a submission on an application to our underwriting team, and receipt of supporting documentation separately to our mortgage offices. These groups follow specific processes and procedures, which I will discuss momentarily, and bring not only a high degree of skill to bear in working with our professional sales teams, but a mindset and intuition that are proven to be highly effective, nipping potential risk in the bud many times over. Their skills and diligence ensure we achieve a thorough understanding of our customers. It's hard to create a culture like the one we have that is able to deliver exceptional customer service, while at the same time ensuring that we put only quality mortgages on our books. Our underwriters and mortgage officers deserve recognition for the roles they play and advantage they bring to our bank.

Now, in terms of processes and policies, when it comes to confirmation of salaried income, we always verify income through an independent source. For example, by calling an employer or checking bank statements. And we reject applications when the information provided contradicts what we discover from independent research. We have had this practice in place for many years. Also, in our first line defense, we maintain a separation of [GOTs] on our credit team. Mortgage underwriters communicate with the brokers and assess each individual deal. Separately, individuals in the mortgage officer team collect and verify the mortgage application documentation. This separation of duties reduces the potential for collusion. In addition, our sales teams have been separated from our underwriting team for years, and the reporting lines come together only at my level.

In our second line of defense, we have a robust quality assurance process involving two independent teams: compliance, reporting to our Chief Compliance Officer, and quality assurance, reporting to our Chief Risk Officer. Both of those teams review approximately 100 files every month for 200 in total, selected on a randomized basis with each team looking at the files from their own unique angle. In order to have a really good feel for the risks in our single-family book, a group of senior managers and executives meet with me in our monthly file flip, which reviews about 30 single-family loans. And finally, our third line of defense, our internal audit team, conduct independent audits to our single-family business to ensure that we are adhering to our own policies and processes, as well as regulatory requirements prescribed in B-20 and elsewhere. I'll also note that none of our credit management staff have volume targets, nor are they rewarded for volumes they achieve.

With respect to fraudulent practices, it would be naive to think they don't happen, and the industry generally classifies fraud into one of two buckets. First, fraud for profit, where a borrower is trying to get a lender to advance funds in order to misappropriate them. Second, for shelter, where a borrower is using fraudulent means to either obtain a mortgage they would not otherwise qualify for or get a lower rate on the loan, but fully intending to occupy the house and service the loan. Fraud for profit typically relies on the cooperation of the solicitor and can be virtually eliminated by being diligent on appraisals and using closing services, as Equitable does, to ensure that valid title insurance is obtained. Fraud for shelter results in a lender taking on more credit risk than they would by policy, but in itself may not result in loss. Clearly, both forms of fraud are unacceptable, and our procedures are designed to minimize these risks to the Bank.

I've been working with CAMP, the mortgage broker industry association, for many years, as both Chair and as member of their National Ethics Appeal Committee, promoting practices and legislation aimed at preventing fraud. CAMP holds an annual seminar that brings together experts from across Canada and the world, and Equitable actively participates in this forum to gain insight into best practices prevent fraud and reduce our risk to an acceptable level. I think at times like these, a little perspective is necessary. The mortgage broker channel is a mainstream channel for many millions of Canadian borrowers to access the most competitive mortgage rates and terms from Canadian banks. The industry has achieved this position by lenders working closely with dedicated broker professionals who are concerned about their reputations and their relationships with lenders. As one of those lenders, our first duty is to safeguard our institution, however deep or long-standing our relationship with any individual broker may be. In simple terms, our approach is to trust, but verify, and that is why our book has stood up so well to the test of time.

Now, for our outlook. Even accounting for softer conditions in the west, we are forecasting Q3 and Q4 single-family loan growth rates in the range of what we posted in Q2, [reported] by continued high origination levels. We believe these originations will increase again in Q3, both sequentially and when considered on a year-over-year basis. We don't have a lot of visibility in Q4 at the moment, but it is certainly unlikely that we are going to beat the all-time record CAD758 million in Q4 of last year, of alternative single-family originations. While the economics and those attractive in the prime single-family business, we should see strong growth in originations compared to the levels we originated in the second half of 2014, a period when we were just ramping up the business. To keep single-family originations stronger over the final six months, we plan to continue to deliver the kind of service that has compelled borrowers and mortgage brokers to come to Equitable over the past few years, and to take advantage of our geographic and product expansion. We expect to put more loans on our books, and to do so in the same disciplined manner that allowed the Bank to produce great results in the first half, and we fully expect over the long term.

Thinking about our next-wave growth initiatives, we are making good progress towards the fourth-quarter launch of our digital banking capabilities, which we will support with a broad consumer awareness campaign. Despite my reluctance to share details at this point due to the competitive sensitivities, we are very enthusiastic about this initiative. In simple terms, it will make banking with us more convenient and will raise our profile as a branchless bank throughout the country and allow Canadians to make their savings work harder for them. Obviously, the Bank is doing a good job of growing both sides of the balance sheet without these initiatives. Total originations amounted to CAD1.4 billion in the quarter to bring mortgages under management to over CAD15 billion. And deposits reached a record CAD8.1 billion, helped along by another great quarter of growth for our high interest savings accounts balances. But we are thinking longer term and thinking about how we can be better, and these new investments will add value and further differentiate Equitable as a branchless, high-performing Bank. All things considered, we expect that our strategy will continue to deliver high ROE for the balance of the year. Now I'll ask Tim to provide his analysis. Tim?

Tim Wilson - *Equitable Group Inc. - CFO*

Thank you, Andrew. In Q2, net interest income grew 22% year over year. The drivers were 16% growth in average asset balances and an 11-basis point expansion in NIM on the continued shift of our assets toward our higher margin core lending business. We also achieved a 7-basis point increase in core lending NIM itself on higher prepayment and dividend income and partly due to our efforts over the past 18 months to optimize renewal pricing in single family. Sequentially, net interest income was up by a healthy 8% and NIM by 8 basis points, as a result of asset growth, and in the case of NIM, because of higher levels of prepayment income in both our core lending and securitization financing portfolios. In core lending, we also benefited from higher dividend income and two new sources of low cost funding, the effects of which were offset by seasonal growth in our liquidity portfolio. We expect assets to continue expanding at a pace that supports mid to high teen growth rates in net interest income on a year-over-year basis for the remainder of 2015.

On our last call, we had expressed a view that NIM would decrease as we move through the year, including in the second quarter. Our actual NIM exceeded those expectations in Q2, mainly due to prepayment income, which, as a reminder, tends to exhibit some volatility quarter to quarter. That aside, we continue to believe that NIM will decrease slightly in the final half of 2015 compared to Q2, due to a mix of factors, namely lower levels of prepayment income. So as I mentioned, that number is difficult to forecast. The high relative growth of the single-family portfolio, which is lower spread than commercial, but generates a higher ROE, and continued convergence of the growth rates in our core lending and securitization financing portfolio, which means that we will benefit to a lesser extent than in prior years from a shift in mix towards core lending. Margins will benefit as we move out of the summer months and the size of our liquidity portfolio normalizes, but that effect will not be significant enough to offset the other factors that I mentioned. On other income, we had significantly higher securitization gains on sale in Q2. Gains were up because of volume trends. Specifically, we securitized more non-prepayable mortgages, which are the type that qualify for derecognition without us selling the IO strip. We expect securitization gains on sales to increase even more in Q3 and Q4, as we begin a program of selling strips to investors and derecognize more assets.

Moving to non-interest expenses, they increased 29% over last year. Table 6 of the MD&A provides a good level of detail on expenses, and I will highlight that 95% of the increase was due to growth in our core franchise. The majority of that growth was driven by FTE levels, and the vast majority of the FTE increase related to our single-family underwriting team, a worthwhile investment, when you connect the dots back to the growth in our originations and our mortgage book. The next most significant reason for our expense growth was spending on our IT infrastructure, an investment that we made to improve our service levels and our efficiency. To be honest, we under invested in our IT up until mid last year, and expect to sustain this level of spend going forward. The remaining 5% of expense growth was for investments in our strategic initiative. We actually invested CAD3.6 million in these initiatives during the second quarter to drive the long-term growth of our franchise, but only CAD200,000 was expensed in the period. Because of our non-branch cost advantage, the Bank's efficiency ratio for the second quarter remained well ahead of the big banks and our regional peers at 32.8%.

As you know, we plan to increase our non-interest expenses by CAD3 million to CAD5 million in the final half of 2015, mainly to build consumer awareness in support of the Bank's digital banking launch. This should cause our efficiency ratio to move up in the second half, but will not cause us to relinquish our standing as one of Canada's most efficient banks. Our capital ratios continue to surpass minimum regulatory standards and most industry benchmarks. We expect to continue operating well above these benchmarks as we grow, including the Basel III leverage ratio, which we began to report in Q1.

One of the capabilities that Equitable has been strengthening in recent years is the diversity and the cost effectiveness of our funding sources. In addition to our CAD8 billion deposit business, our CAD7 billion of securitization funding, and our deposit note program, we moved to further diversify and increase our funding capacity in the quarter by implementing two new programs, a CAD350 revolving credit facility for funding insured single-family mortgages prior to securitization, and CAD300 million of access to a large bank-sponsored program that provides matched funding for our uninsured single-family mortgages. These programs added further depth and breadth to our very cost-effective funding base and brought the amount of new funding sources that we have added since late 2012 to five, with a current value of almost CAD2 billion and with the potential to grow.

To summarize our prepared remarks, the Bank delivered record earnings from a high quality portfolio built on rigorous risk management practices. It is progressing on plan with our growth and diversification strategies and has a positive outlook. That concludes our prepared remarks, and now we would like to invite your questions.

Eric, can you please open the lines to our callers?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from Shubha Khan from National Bank Financial. Please go ahead.

Shubha Khan - *National Bank Financial - Analyst*

Thank you. Good morning. Andrew, thank you for the color on your risk management processes and the QA process as well. So, but uninsured mortgage originations are really strong again this quarter. And one way or another, that will probably raise some questions, especially in the current environment, about whether Equitable Bank and other lenders are picking up business from brokers with Home -- Home Trust has severed ties because of the faulty documentation issues that you highlighted earlier. So is it possible that Equitable and others are gaining -- have gained market share through some of these mortgage agents who were suspended by Home Trust? And if so, are you satisfied that the QA process would have weeded out all the problem loans?

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

Certainly with respect to -- I'll start at the back end of that question, if I may. We are very confident in our processes and procedures and the quality of our team to make sure that the loans we're putting on our books are solid and good. And so yes, with respect to that, generally speaking, wherever the transaction is coming from, we're pretty comfortable with those processes. I would say with respect to what other lenders might be doing around their broker networks and changing the pattern of their broker networks and so on, we are obviously connected with the market and we try and [scoot] around it to figure out who those brokers might be to perhaps put a little bit of special attention there. Although, we give a lot of attention to every loan, I must emphasize. And so, we think we know who some of the people might be, and we are very aware of that and are monitoring that. And we don't believe that our gains are coming from that source based on our understanding of what's going on. We do want to be clear. We don't get lists from any other lenders of who they may choose to be not dealing with any further, for example. So we don't actually know with any certainty who these people are.

Shubha Khan - *National Bank Financial - Analyst*

Okay. Understood. Just generally speaking, are you seeing an increasing incidence of mortgage applications with questionable paperwork or is it declining? Or maybe if I could ask that differently, are you rejecting more deals than in the past?

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

I don't have really good stats on that. My sense is that concerns about income verification have risen. There may be a bit more of that that we have to screen out, but it's not dramatically different, that's for sure. It's something that we're paying extra special attention to. It's got more resonance since the introduction of B-20, but it's not a night-and-day difference.

Shubha Khan - *National Bank Financial - Analyst*

Okay, just a quick change of topic here. The ABCP program that you gained access to for uninsured mortgages, can you talk about how the cost of funding on that program might compare with your deposit costs? And maybe generally comment on the appetite for alternative mortgages and securitization vehicles. So how significant a funding source could this ultimately become relative to your traditional sources of funding?

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

It's really a question for Tim, which I'll hand it over to him. But I'm certainly very pleased. It does have a lower cost of funding than deposits, and we're very pleased that we're able to make this advance.

Tim Wilson - *Equitable Group Inc. - CFO*

I would say -- reiterate, Shubha, that this is just one of the initiatives that we've put in place over the past couple of years. So we're really pleased with the progress we've made on increasing the amount and the diversity of our funding sources. I'm not able to, obviously, comment on the specific proprietary arrangement that we have in place and the pricing, but will say that it is slightly more cost-effective for us than deposits are. So we're really pleased to get that in place.

Shubha Khan - *National Bank Financial - Analyst*

Is this becoming -- sorry.

Tim Wilson - *Equitable Group Inc. - CFO*

Go ahead if you had a follow-up.

Shubha Khan - *National Bank Financial - Analyst*

I was just going to ask whether you see this becoming a more significant funding source going forward, whether the appetite is there for uninsured mortgages in securitization vehicles like this?

Tim Wilson - *Equitable Group Inc. - CFO*

I think certainly there is appetite if those mortgages are of good quality and that the borrowers behind them meet certain criteria. I think in this case, in the case of our book, they certainly do. We're hopeful that there's more potential with this particular type of funding source and others, and we'll continue to pursue them in future quarters.

Shubha Khan - *National Bank Financial - Analyst*

Perfect. Thank you.

Operator

Our next question comes from Graham Ryding from TD Securities. Please go ahead, sir.

Graham Ryding - *TD Securities - Analyst*

Good morning. The CMHC put out a report yesterday, obviously highlighting Toronto as one of the areas where they see higher risk in the housing market in Canada. I'm just interested in your thoughts. Do you share their view? And then perhaps maybe some color around your GTA portfolio with respect to maybe the mix between houses and condos and also your average mortgage size perhaps?

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

Certainly, as it came yesterday, we go through a monthly processes of reviewing all of the input from economists and housing economists. I would say that we've still got to have a more [silent] view on what CMHC's arguments might be adding to our view on that. We still continue to have this very -- that we've -- some of these prices in Toronto don't actually particularly alarm us. We see Toronto emerging as a super city with a green belt around it. I live in a nice home, roughly close to my office at Yonge and St. Clair. It's still only worth about the same as my sister's apartment in southwest London, which may not be a particularly good gauge, but I think we're just not used to prices staying as high as they are in major cities like this. We continue to have a very low appetite for condos in the city, particularly downtown condos. That may be a mistake, as they become more of a Manhattanization of the city. But we haven't changed that stance yet.

In terms of average mortgage size within Toronto, I'm not sure that I have that number at my fingertip. We can certainly get back to you with that. The LTVs I think would be pretty similar to the LTVs across the entire portfolio. You can imagine the average prices would be higher than the average mortgage amounts are [clearly] higher.

Graham Ryding - *TD Securities - Analyst*

The report highlighted that the price acceleration they were seeing in Toronto was they felt largely at the higher end of the market. So I was just trying to get a gauge for how much of your business in the GTA would be at the higher end.

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

It's certainly a market we play in, but we will be -- we certainly scale our LTVs back up once you get to that CAD1 million home, then -- actually CAD1.2 million, we start to scale back the LTVs based on the size of the -- relative size of the mortgage. So I think we certainly participate in that market, but they would be much higher LTVs. Actually I looked at one recently; it was CAD2.5 million loan, a very large loan, the largest in our book on a CAD5.5 million house was what's being proposed. I don't know if we actually closed it. That was what we were looking at in context.

Graham Ryding - *TD Securities - Analyst*

Great. The other thing I just was trying to get a bit of a feel for your appetite for your book of business in -- your uninsured book of business in Alberta, Saskatchewan. Are you looking to keep it flat or grow it slightly or let it decline? Maybe some color there.

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

I think we're looking to lend -- we're very comfortable with the lending parameters are at. As I think we mentioned on our previous call, we scaled back our LTVs for new loans in December, then we made further adjustments on certain property types in February, again scaling back, reducing our credit appetite. And I think we're comfortable doing volumes that meet that credit appetite. In that market, it seems a couple of lenders are slightly more aggressive on credit than we are, so we are losing share. But we're not really trying to deliberately lose share. We like that market long-term, but we are slightly more conservative on our credit parameters than others might be right now.

Graham Ryding - *TD Securities - Analyst*

And if I could just do one last follow-up on that theme, just the commercial book. Can you -- we've seen some higher vacancies in the Alberta commercial space. Maybe what's the nature of your commercial book, and are you seeing any early arrears or issues around credit on the commercial side?

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

We're not seeing anything coming out of Alberta that's causing us any consternation at this point. I was surprised, because since the last call, maybe right around the time of the last call, we got taken out of the construction loan that was half built in Alberta by another bank, which I had never seen before. There's certainly still credit flowing into the markets. We have very little in the way of office exposure in Calgary, which I know is a bit of a concern. We've got multifamily properties, [uninsured] multis, as we disclosed in our supplementary data set. But we're not aware that we've seen any new problem loans coming out of province, I don't think. I went through that list recently and I didn't see anything. I think we're pretty comfortable with the position there.

Graham Ryding - *TD Securities - Analyst*

That's it for me. Thank you.

Operator

Our next question comes from Geoff Kwan from RBC Capital Markets. Please go ahead, sir.

Geoff Kwan - *RBC Capital Markets - Analyst*

Hi, good morning. Just had two questions. The first one was just on the strong originations that you seem to be seeing for Q3 on the uninsured side. How much of that would you attribute to the stronger housing activity versus what might be market share gains? And then if you think there's some market share gains, do you think you're going to be able to sustain that business that you're getting from the brokers?

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

I'm not sure that we're gaining share in Q3. It doesn't feel like we are gaining share against the market in aggregate. So I think it's really broadly the market being in a reasonable shape.

Geoff Kwan - *RBC Capital Markets - Analyst*

Okay. And then just the second question I had around your commentary around not selling the I/O strip to date, is that really just a timing issue where you're just trying to build up a sufficient amount to do, let's call it the first wave? And then as you go forward with those buyers and potential buyers that you plan to consistently sell that I/O strip going forward?

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

I'll let Tim deal with that.

Tim Wilson - *Equitable Group Inc. - CFO*

I think I plan to definitely to get in -- to implement a consistent program, where we're selling a material chunk of volumes every quarter going forward, so I would look at it as a predictable income stream. The reason we haven't sold up to date is we're just taking the time to get the right structure in place and line up some good buyers. We feel we have that now. So as I mentioned, we'll implement the program starting in Q3.

Geoff Kwan - *RBC Capital Markets - Analyst*

Okay. And sorry, just to follow up on that, as you stabilize with your program on that, should we think about that, all the originations on the prime insured side would go into the I/O strip sales? Or you would potentially keep some of that on the balance sheet?

Tim Wilson - *Equitable Group Inc. - CFO*

It's a hard question to answer because our decision will almost be made on a pool-by-pool basis. The reason being that the economics of selling the strip look different, again, pool by pool. I think broadly speaking, our intention would be to sell the vast majority of what we originate. So in your modeling, I would make an assumption along those lines.

Geoff Kwan - *RBC Capital Markets - Analyst*

Okay. Great. Thank you.

Operator

Our next question comes from Mark Kearns from GMP Securities. Please go ahead, sir.

Mark Kearns - *GMP Securities - Analyst*

Morning, guys.

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

Good morning, Mark.

Mark Kearns - *GMP Securities - Analyst*

Just wanted to circle back quickly onto some of the broker stuff. Just wondering if we could get some color on the concentration of your broker base. Wondering if, especially as originations rise, if a small group of brokers are coming through big or it's been across the board there?

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

Tim has some data on that, on concentration.

Tim Wilson - *Equitable Group Inc. - CFO*

I think, Mark, in general, our broker base is very diversified. We deal with thousands of brokers across the country. No one broker represents more than 2% of our volume when we look at the trends over the last 18 months. Again, we feel that we've got a diversified broker base and have no concerns about concentration.

Mark Kearns - *GMP Securities - Analyst*

Okay, great. Appreciate that. And just as a follow-up, I'm just wondering if you guys had any talks with the mortgage insurers, if they had come and looked at your underwriting policies or if there had been any discussions with them? I know that's been an industry trend.

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

Obviously we're in day-to-day contact with the insurers that we use for all kinds of issues. They do come and look at our book from time to time. There's nothing specific or out of the ordinary that's happened over the last six months, year. The insurers are some of the people that helped us make sure that we've got the right procedures and processes in place to underwrite loans correctly, so that we are working with them hand in glove.

Mark Kearns - *GMP Securities - Analyst*

Great. Thank you, guys. Appreciate it.

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

Thank you.

Operator

(Operator Instructions)

We have a follow-up from Graham Ryding from TD Securities. Please go ahead.

Graham Ryding - *TD Securities - Analyst*

Just curious about the launch of your digital bank at the -- towards the end of this year. Clearly, it's focusing on savings products and diversifying your funding source. But are there any plans either -- perhaps even longer term to try and offer mortgages directly to consumers, or is this initiative strictly about funding and diversifying that savings base?

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

I think certainly the -- who knows in the long, long term, but I think generally speaking, our view is that the broker channel provides a great way of accessing mortgages. I think what we would hope with the digital bank is that we can offer a more comprehensive solution to the mortgage customers that we are introduced to by the mortgage brokers that might include some of the savings products, as well as the mortgage account. So that's the longer-term goal. We certainly have looked around the world, and it seems that direct origination online of mortgages in an extremely challenging problem. Given the great relationships we already enjoy with mortgage brokers, that's not something we want to try to do, frankly. But we are very excited about the prospects on the savings side of the business and the moving to a digital bank. I had the opportunity to open my bank account. We now have four open in test where we can do real transactions last week. So it's nice to see us taking that step, clearly between having four bank accounts and being ready for primetime and launching it to the public, so there's a bit of a gap.

Mark Kearns - *GMP Securities - Analyst*

Great. Thank you.

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

Thank you, Graham.

Operator

Our next question comes from Ben [Geeseman], a shareholder. Please go ahead, sir.

Ben Geeseman - *- Shareholder*

Hi, good morning. Thank you for taking my call and congratulations on the quarter. I think a lot of shareholders obviously are concerned by the home cap stuff, and I think you guys did a pretty good job of addressing all of that. But in particular, the reports in the newspaper are that there's a brokerage firm inter-finance that is one of the big brokerage firms that was involved in all of this stuff. What I wanted to know is if you guys could comment on how much business you do with them? And more importantly, has that business increased in 2015, given that that's basically the start of when they were suspended from home cap? Thank you.

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

Ben, we certainly wouldn't -- would never comment on an individual relationship with anybody, unfortunately. Don't want to be evasive. I do know the answer that question, but it's not something we want to comment on.

Ben Geeseman - *- Shareholder*

Well, could you comment just directionally, has it increased a lot since the beginning of the year?

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

Like I say, we wouldn't want to comment on an individual brokerage house relationship.

Ben Geeseman - - *Shareholder*

Okay. Thank you. And I have one follow-up, if I could. One thing I was interested in, just because you even yourself said that you may see more pickup in delinquencies in Alberta as we go on. But in the MD&A, you talk about your robust workout policies. I want to know as we go forward and if the credit cycle does turn, how do you guys -- what is the first line of defense to actually mitigate a loss when you see these delinquencies and these arrears pick up?

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

Well, the first line is, frankly, having a close relationship with our customers so we understand the position they are in and can work with them to figure out what's the most likely course of action. If in fact somebody's going to be in a position where longer term they can't service the mortgage, then it may very well be the best opportunity is for that individual, the homeowner to sell the house and to preserve their equity. So often, we're having those kinds of conversations actually relatively early in the process, knowing that the house is up for sale, if somebody is staging it to get a maximum value That's actually how the loan, our loan's going to get repaid and how our customer is best served. So thinking about things and having an active dialogue between our collections teams and our customers is really the way to manage that process as effectively as we can. Obviously, you can get into tough spots for people. And our goal is to try and be as helpful as possible through that process in what is a difficult process, for sure.

Ben Geeseman - - *Shareholder*

Okay. Thank you very much, and congratulations again.

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

Thank you, Ben.

Operator

Mr. Moor, there are no further questions at this time. Back to you.

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

Well, thank you, Eric. As there are no other questions, we look forward to reporting our third-quarter results in November. Thank you for listening, and good-bye for now.

Operator

Ladies and gentlemen, this does conclude our conference call for today. We thank you for your participation, and you may now disconnect your lines and have a great day.
