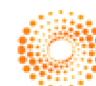
THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

EQB.TO - Q3 2014 Equitable Group Inc Earnings Conference Call

EVENT DATE/TIME: NOVEMBER 14, 2014 / 3:00PM GMT

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

CORPORATE PARTICIPANTS

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

Tim Wilson *Equitable Group Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

Geoff Kwan *RBC Capital Markets - Analyst*

Stephen Boland *GMP Securities/Griffiths McBurney - Analyst*

Graham Ryding *TD Securities - Analyst*

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Equitable Group third 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 the 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 security 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 and CEO*

Thank you Michelle, and good morning everyone. Joining me is Tim Wilson, our Chief Financial Officer of the bank and Equitable Group. We are webcasting our remarks today along with the accompanying slides, and those slides will be posted to our website following this call.

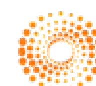
This is the best quarter in Equitable's history. The bank generated record earnings, record mortgage originations of CAD1.3 billion, a record level of Single Family funding, a [character] high return on shareholders equity and record book value. Our Single Family portfolio also climbed by 29% year-over-year, reaching CAD4.6 billion.

The Company's strategy of rewarding our shareholders with steady dividend increases continues, with our Board raising the dividend by another 6% to a new annualized rate of CAD0.72 per common share, which is 13% higher than the dividends declared a year ago. We also declared dividend on our new Series 3 preferred shares, covering almost five months from August 8 to year-end. This elongated period which takes into account the better part of two quarters means the aggregate cost of preferred payments in the fourth quarter will be CAD1.9 million.

Going forward that cost will be CAD1.2 million per quarter, reflecting the coupon of 6.35%. I will note that this is almost 1% lower than the 7.25% coupon on the Series 1 preferred shares that we redeemed on September 30.

Last quarter I expressed excitement about the momentum in our business. If anything I'm even more enthusiastic today. Not just because of our recent results or the performance trends over the past few years, which were a direct result of repeatable value creation process, but because we are taking significant steps to increase the bank's potential for future growth and performance. I will have more to say about that in my closing remarks when I also update you on our outlook.

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

First, a summary of financial performance and operating highlights. The three months ended September 30, we surpassed the previous quarterly record for net income by making CAD27.8 million or CAD1.71 per share on a diluted basis. EPS was up by 19% year-over-year, and coupled with earnings in the first two quarters, sets us up for another record year.

ROE was 17.8%, above our consistently high average of 17.6% over the past five years, and book value per share increased 17% year-over-year and another 4% quarter-over-quarter. This performance was strategy driven. In other words, supported by our ongoing emphasis on using service quality to grow the banks core lending business.

In particular, Single Family is the largest of our core lending businesses, and it had a tremendous quarter. Single Family mortgage originations were at an all-time quarterly record of CAD646 million, up 39% from a year ago and 28% above our previous quarterly record for originations. With all the pressures of a seasonally active quarter, the Single Family team did a fantastic job in servicing our broker customers to grow our customer base.

In terms of underlying drivers, I believe that the alternative mortgage market has grown in size. I believe the mortgage broker channel is taking more business, and as a partner to mortgage broker community, Equitable is growing its share. In our case, share gains are the result of our approach to service which puts a premium on responsiveness, accuracy, listening and just plain doing what we say we will do when we say we will do it, qualities that differentiate the bank in our key markets.

It's not just me saying Equitable is a service leader. Our mortgage broker partners recently gave the Equitable team significantly higher ratings among alternative mortgage lenders on all metrics that I care about in the recently published 2014 Brokers on Lenders survey by Canadian Mortgage Professional magazine. I'm very proud of our Single Family teams lead by Brian Leland, our VP of Residential Lending and Kim Kukulowicz, our VP of Residential Sales, for exemplifying service and achieving (inaudible) for Equitable, which obviously is going to pay dividends for our shareholders over time.

Returning to our results, the strong origination growth and our ongoing mortgage renewal success allowed us to grow our Single Family mortgage principal to a record CAD4.6 billion, up a remarkable 29% from last year as noted earlier. Turning to the bank's Commercial Lending Services, mortgage principal was up 1% from the second quarter, although down 4% year-over-year as we maintained our capital allocation and pricing discipline, lending only on projects that met our ROE thresholds. In this context, we were pleased with the originations in the quarter which amount to CAD194 million.

Looking ahead, we certainly have the talent, the capacity and the desire to expand the commercial part of our core lending book, but at the same time it's been challenging for us to find business allows us to realize our target levels of return. And as a result, we expect the portfolio to remain around current levels for the remainder of this year and through 2015.

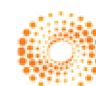
Finally in the quarter, Securitization Financing Mortgage is under Management grew 2% year-over-year to CAD5.9 billion. Originations for this business were CAD479 million, just over 2.5 times more than the same quarter last year.

The level of originations in this business can be quite volatile and isn't a highly relevant metric in my view. In his section, Tim will speak to this business in more detail and give more color to some of my comments.

As you know, we continue to follow strict underwriting standards and credit practices, and this is the result of the consistently positive credit metrics. To quote a key one, our impairment provision was only CAD300,000 in the quarter, reflecting the low level of losses anticipated on our impaired loans.

We have no catalyst on the immediate horizon that would fundamentally change our credit performance, which I hope you agree has been stellar for many quarters. In fact when you consider net realized credit losses against total loans, Equitable has consistently outperformed not only the well known regional banks and large trust Company, but the average of the Big Six for most of the past decade. I will now ask Tim to provide his analysis before discussing our outlook.

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Tim Wilson - *Equitable Group Inc. - CFO*

Thanks, Andrew. We're very pleased with our results for the quarter and year-to-date. From a profitability perspective, the quarter played out better than expected. Total net interest income was up 16% year-over-year as NIM expanded by 22 basis points, and we grew our average asset balances by CAD46 million. Margins within core lending were up again, driven by continued improvement in our Single Family renewal pricing and stable rates on new originations.

With respect to the outlook, our strong momentum in Single Family combined with trends in our commercial portfolio have caused us to update our expectations for NIM in 2015. As growth rates on our lower spreads but higher return on equity Single Family assets have continued to surpass expectations and outpace the growth of our commercial book, we now believe that core lending NIM will decline slightly next year.

With respect to securitization financing, recall that we originated quite a bit of business with unusually wide spreads back in 2008 and 2009 during the global financial crisis. This business has been rolling off over the past two years, leading to a gradual decline in spreads within this portfolio.

As mentioned last quarter, we anticipate that this effect will dissipate in 2015 because loans originated since 2010, to those that start rolling off next year, carry roughly the same margins as mortgages being originated today. Overall, securitization financing margins should be down only slightly next year.

Looking across portfolios, as expectations for securitization financing growth rates have increased and converged with those of core lending, we anticipate getting less lift from the shift in mix towards the bank's higher margin core lending business, the opposite dynamic from what we have seen over the past few years. As a result, and because of trends within each portfolio, we now believe that total NIM will decrease slightly during 2015. This effect will be more than offset by growth in our assets, however, leading us to believe that net interest income will continue to grow at high rates.

Shifting to cost. Non-interest expenses grew 16% year-over-year. This reflected an additional CAD2 million to support 27% growth in our FTE among other factors.

Despite these increases, which are predominantly investments in the bank's expansion, our efficiency ratio remained low at 31.5%, and we expect it's ratio to stay roughly at current levels to close out the year. Our capital ratios at September 30 all continued to surpass minimum regulatory standards and most industry benchmarks. As expected, our recent Basel III compliance Series 3 preferred share offerings did bolster our period end position, and we expect to continue operating above most industry benchmarks going forward.

The final topic that I want to spend time on is our securitization financing portfolio. And specifically, the multi-unit residential mortgages within it. The dynamics of that portfolio are changing as we head into next year, and I want to explain the implications to you so that you can model it appropriately.

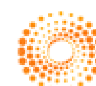
I will start with how we use the CMB program. As you know, we use the program primarily to finance multi-unit residential mortgages and seek to utilize the full amount of our CMB allocations each quarter through renewals and newly originated mortgages.

Generally, we have CMB allocations of approximately CAD350 million per quarter. This is comprised of CAD200 million of five year allocations and CAD150 million of 10 year allocations. The changing dynamics that I mentioned earlier are driven by a lower level of maturing mortgages next year.

When we look at CMB maturity trends this year, and over the past couple, we see a high level of maturity, levels that approached our annual allocation of CAD1.4 billion or CAD350 million on a quarterly basis. Looking ahead to 2015, there are only about CAD450 million of maturities for the entire year. This has positive implications for both portfolio growth and origination levels.

To illustrate the implications of maturity levels on AUM, in a low maturity quarter when our allocations are CAD350 million and maturities are, say, CAD200 million, we have the capacity to grow Assets Under Management by a net of CAD150 million, if we're able to maximize the use of our allocations. On the contrary, in a high maturity quarter to what we've seen recently, and assuming the same CAD350 million of allocations but

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

matching maturities of CAD350 million, AUM would remain flat. That's pretty simple math, and the reason that we expect AUM to grow in 2015 as we are looking at lower maturity quarters for the foreseeable future.

Likewise, maturities have an impact on securitization financing origination levels. Again, for illustrative purposes, consider a scenario where maturing mortgages amount to CAD200 million, and we renewed 50% and resecuritized those mortgages. With the same CAD350 million of CMB allocation, we would have room for CAD250 million of originations.

By contrast, consider the alternative where maturing mortgages amount to CAD350 million, and we again renew 50%. That would leave room for only CAD175 million of originations, CAD75 million or 30% less than in the previous scenario. That math hopefully explains why we expect to be at a higher rather than lower end of securitization financing originations going forward.

I will also add that we plan to report our prime Single Family business in the securitization financing portfolio, which will further enhance the growth rate and origination levels in it. These Single Family mortgages will be financed mainly through the MBS program, not through CMBs, so in 2015 won't be subject to the CMB dynamics I just discussed.

Table 2 of our supplemental information package provides a break down of the securitization financing portfolio by property type to allow you to better analyze and understand these performance trends. We should also note that we hope to derecognize the vast majority of these prime Single Family mortgages so the income will be recognized as a gain on sale and as such, won't affect our NIM. I hope that provides some useful insight into our performance and our securitization financing portfolio. Now back to Andrew.

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

Thanks, Tim. Beyond record results, the third quarter was notable for the debut of our Single Family prime lending business with a comprehensive product offering marketed under the name EQB Evolution Suite. Prime Single Family clearly offers attractive economics and also provides important risk diversification benefits.

While there are many providers of prime mortgages to the mortgage broker community, we do believe the bank has distinctive positioning, offering on the one hand the assurance of a commitment from a well established schedule 1 bank without the potential on the other hand of competition from a branch or captive mobile sales force. While it is difficult to create differentiation in this business, we are working on every angle we can. In this regard, we've infused our prime business with the Customer Service knowledge and capabilities that we advanced in our alternative mortgage lending operations, and we feel very confident this will be important as we carve out a strong market position over the next few years.

We also see opportunity with Equitable's borrowers whose financial needs have evolved to a prime mortgage and who previously might have felt compelled to leave us for another lender. Our rollout in the prime market is being staged to ensure that we can build the necessary supports to deliver desired service levels.

On September 3, we launched in the Greater Toronto area and launched in Alberta on October 8, and we plan to expand systematically for other communities from here. This incremental rollout also affords us with the opportunity to refine our offering as we expand it by continuously listening and responding to and learning from our mortgage broker partners.

These are early days, but we're extremely pleased with the reaction to our efforts in the mortgage broker community. We see every reason to believe the bank will become a significant player in the prime space capable of originating between CAD1 billion and CAD2 billion per annum. By putting a three to five year time horizon on that, we can expect to be originating a few hundred million dollars per quarter by the end of 2015.

In the immediate term, to insure optimized use of our MBS capacity, we have supplemented our own prime production but that originates to a business partners. In the quarter, partners originated about CAD156 million of prime business for us, and we expect this level to increase throughout 2015 subject to the usual seasonality associated with residential mortgage lending.

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Our entrance into the prime Single Family market has also afforded us with the opportunity to further broaden our funding sources, and yesterday, we were pleased to note the successful pricing of the bank's first ever issuance of a syndicated MBS. We priced CAD209 million of a spread of [56] over the benchmark government yields, and we're very pleased with investor reaction. This will be the first of many to come.

Momentum is also building for other growth initiatives both on the lending and deposit side for the bank. Growing our Single Family per footprint in Quebec is the most recent example of our territorial expansion in lending.

We are progressing on plan by building trusting relationships in the Montreal and Gatineau regions and based on early success, are expecting to soon commence lending in the Quebec City region. As another part to Canada, our lending in Quebec will be focused on the major urban centers.

Interest and participation in HELOC is also increasing as it provides a very cost effective alternative to unsecured credit card borrowing. On the deposit side, we continue to grow our Equitable high interest Savings Account balances. As of the close of business yesterday, [HSA] balances surpassed CAD318 million, making it growing and for the future important component of our almost CAD7 billion savings business.

Stepping back for a moment across all of these new growth avenues, our objective is quite clear. We want to take Equitable to the next level as an independent bank with more diverse lending and deposit platforms and therefore larger consumer following. We expect the execution of this strategy why catalysts [put further] increases in shareholder value.

Getting the right balance between growth and performance is critical and it's something I think the bank has done exceptionally well over the years. In this regard, our plan for the second half of 2015 is to begin increasing investment levels to expand consumer mortgage broker awareness of and affinity with our products and our brand.

Our current thinking is to spend an additional CAD3 million to CAD5 million in 2015 beginning in the second half of the year. So the exacts expense level is subject to further internal discussion as our plans coalesce. Part of these funds initially would be allocated to launch of new digital banking capabilities that will help us to attract new customers to our savings business.

We're encouraged by the evolution of our digital banking plans and branding approach in this channel. From a profitability perspective, we anticipate new revenue from our prime business will offset these costs so the impact on earnings will be neutral.

Although we will continue to operate efficiently relative to most benchmarks, we expect our efficiency ratio to rise in the back half of 2015 as a result of these investments. Efficiency ratios are simply one data point, and my ultimate measure of success remains a return on equity within our relatively conservative risk appetite framework that we're able to generate, and on that front we will maintain our charactaristically high ROE next year. The bank is ready for the next stage in its development, and the growth we are targeting will fully justify itself through higher earnings, strong returns for our shareholders and sustainable competitive advantage for the bank.

In terms of our immediate outlook, it is well articulated in our MD&A. I would just emphasize in the final quarter of 2014 and for 2015 we expect solid year-over-year growth, and we will continue to deliver high returns on equity.

In summary the third quarter was one for the record books, record earnings, record quarterly growth in the core lending production and a strong ROE. We raised our common share dividend.

We launched our new prime mortgage business and made good progress with our other recent growth initiatives and in so doing continue to execute on our vision for the bank. The success that we're enjoying financially and operationally inspired us to pursue that vision while our proven team of value creation processes give us confidence that we can achieve it with continued hard work and perseverance. That concludes our prepared remarks, and now we would like to invite your questions. Michelle, could you please open the lines to our callers?

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

We will take our first question from Geoff Kwan of RBC Capital Markets.

Geoff Kwan - *RBC Capital Markets - Analyst*

Hi, good morning.

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

Good morning, Geoff.

Geoff Kwan - *RBC Capital Markets - Analyst*

Just have two questions for you. First off, on the non-prime business, you've been having some good momentum there, and I just know you've talked a little bit about it. I just wanted to maybe flesh that out a little bit more and trying to get a sense of where you think the drivers are.

I think you talked about while you think brokers are taking more share, so that's probably helping, but I was also trying to understand what some of the other factors in terms of B20 has been around for a while now. Are the banks still pushing out a lot of these borrowers and that's falling into your lap?

Is it impact of immigration? Is it maybe some more people that are changing the composition of employment, to where they are becoming more self-employed?

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

Well, I think probably all of those things to some degree. My sense and it's very hard to have data around this, but our Corporate Development group has been doing a lot of work on this recently, is that it continues to be a result of the Big Six really starting to fully implement B20.

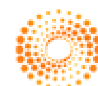
And my sense is that in one or two of the large ones were, I'm sure they were adapting to it as they went but have felt the need to continue to tighten to fully comply. And I think that's continuing to grow the alternative market with a percentage of the overall market. So I think that's the biggest driver.

Brokers generally of course, we believe our broker is the best way to get a mortgage and they continue to gain share. So that's the secondary impact, but I think the primary impact is just the importance of the alternative market is becoming larger quarter by quarter.

Geoff Kwan - *RBC Capital Markets - Analyst*

Do you think like with the banks as they get more comfortable and understand the goal posts around B20 and the context of slowing loan growth for them broadly speaking, but also potentially in the mortgage market that happening, do you expect that they may start to take back some of these customers or do some of these credits they may have turned down previously?

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

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

I don't really see it, to be honest, Geoff. My own perception is looking over the years, its been surprising sometimes the loans that get done at the big banks which really should be coming to an alternative lender. And certainly remember when I was running one of the biggest brokers in the country, people would talk about walking alone into a bank branch that they couldn't get done anywhere else, or they couldn't get done with an alternative lender, but if they walk into a bank branch, they would get done locally because different credit decisions were being made.

So I think if anything we're going to see more consistency right across every part of the entry point of a mortgage into a big bank system that will prevent that thing. And I still think that the potential for a little bit of that to be going on, so if anything, I don't see there's much of the banks can do to start to recapture more of that share, if they are really diligently following the letter of the law.

Geoff Kwan - *RBC Capital Markets - Analyst*

Okay, and just the other question I had was just on the dividend. Pay out ratio is roughly around 10% ish. Is there any thought process around increasing that pay out ratio over time?

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

I think as we discussed before, the basic business model is if we can generate let's say a 17% to 18% return on equity, pay out 10% of that, so roughly 1.5% a year, retaining the rest of the earnings and then generate another 17% or 18% on that amount returned. That's the best way of building shareholder value for our shareholders,.

So increasing the dividend would happen in an environment where we see it, as being difficult to redeploy that capital and generate the 17% to 18% return. I don't see that as being a risk right now.

There seems to be so much opportunities ahead of us that we continue to safely deploy it and generate good returns to our investors. Clearly if we saw as the returns slipping or the growth opportunities also not being as good as we currently see, then dividends would go up and they might go up quite fast because they say pay out ratio is pretty low. But I think that would be an indication of us feeling the opportunities on the market as we currently view them to be.

Geoff Kwan - *RBC Capital Markets - Analyst*

Okay, great, thank you.

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

Thanks, Geoff.

Operator

Thank you.

(Operator Instructions)

The next question comes from Stephen Boland of GMP Securities.

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

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

Good morning. Couple questions.

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

Good morning, Steve.

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

Tim appreciate the color on the CMB and the allocation. I just, let me just try and summarize it.

Your allocation CAD350 million with less maturities this year, but origination volumes still pretty robust, you're anticipating asset growth meaning more staying on the balance sheet. So if that's true then what's the implication for your ACM? Is that going to put pressure on that metric?

Tim Wilson - *Equitable Group Inc. - CFO*

Yeah, I think we've communicated in the past that we still feel we have plenty of room to grow and that ACM isn't a constraint at the moment, and I think that would be our view going forward as well. Certainly more asset growth, if asset growth out paces growth of your capital, your ACM will climb and get closer to -- and become a constraint over time, but I don't see that happening in the foreseeable future. We've still got a pretty robust capital growth because of our earnings retention.

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

Okay, so really, it's the higher earnings that are driving the capacity?

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

Well that and the fact that we're relatively underlevered [of competitive] amounts right now, so there's plenty of dry powder now.

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

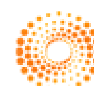
Okay that's great. Second question, as you said that your partners originated some prime product for you. Can you just walk me through the process and the economics of that when that happens?

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

I will let Tim talk about the economics, but essentially we're dealing with wholesale originators of Single Family mortgages. So these are people that face the brokers directly. We're buying them in chunks once or twice a week and then putting them on our balance sheet, and as we did yesterday, securitizing them into mortgage back security pool and selling them off for a group of dealers.

The next stage of that will be to sell the I/O strip, and that will then result in derecognition and at the same time some recognition of some income. Tim, I don't know if you'd like to give more color on the actual economics of that?

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Tim Wilson - *Equitable Group Inc. - CFO*

Yeah, I don't think we will disclose the detailed economics given that they are a result of proprietary contracts that we have with these companies, but the essence is that we have agreements with them as Andrew mentioned. We pay them a fee effectively for brokering the mortgage for us and in most cases they also retain servicing of the mortgages, so we will pay them an ongoing market level fee for that service. All of that gets rolled into the gain on sale, which we will hopefully recognize when we sell the strip.

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

Okay, and maybe if you could just update me on the demand or the market for the strips, obviously you're going to be ramping that up, maybe you can just say is there more, is that market evolving? Is there more players coming into it, demand -- maybe if you could just give us an update on that?

Tim Wilson - *Equitable Group Inc. - CFO*

Yeah, I think we're very close to that market keeping in touch with all the potential buyers, and we have seen more emerge over the course of the past quarter. The good news is that that's making the market more competitive from a pricing point of view, so yeah, we think there's plenty of demand for this product and at very reasonable prices.

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

Okay, great quarter.

Tim Wilson - *Equitable Group Inc. - CFO*

Thank you.

Operator

Thank you.

(Operator Instructions)

The next question comes from Graham Ryding of TD Securities. Mr. Ryding, please go ahead.

Graham Ryding - *TD Securities - Analyst*

Yes, sorry I had my mute on there. Andrew, maybe I could start with your comments around the regulatory opportunities that you're seeing, maybe just some specific details around what those opportunity also and how you rank them as to how you think they can positively impact your business?

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

Well, I think generally, the view from Ottowa is the desire to encourage the growth of smaller banks. It's very clear it was an economic action plan in February and recently, there was a large conference with all the major players from auto or the Bank of Canada, CDAC, Department of Finance reaching out and meeting with a group of our peers. So the other regional banks being Canadian Western Bank, Laurentian Bank and all the CEOs you'd like to see with all those Companies, as well.

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

And we had really engaging dialogue around things that could be done that leave the system with the same integrity and safety of the day, but open up the opportunity to allow more competitive solutions to Canadians. And those range from things like the ability to open up a bank account remotely without coming into a branch in a seamless and easy way is one thing, and some certain nuances around accessing some of CMHC's programs. So there is a wide range of things that we certainly feel as though Ottowa is listening to those issues and trying to make sure there aren't any artificial impediments to competition with those larger institutions that got very broad branch networks.

Graham Ryding - *TD Securities - Analyst*

Okay, great, and is it also -- does the agenda from Ottawa in your opinion, does it include credit unions and smaller financial institutions, or are they focused really on the smaller charter banks?

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

I think that it certainly relates to all deposit-taking institutions under federal jurisdiction, and I think credit union, while it's not a long time study, but I believe some of them are moving under federal jurisdiction, forced to go under federal jurisdiction or provincial. But I don't think the Federal Government will spend a lot of time working with provincially regulated credit unions or provincially regulated trust companies, but they will be interested all the things under federal purview in terms of alternatives.

Our basic message is there are six big banks, and of the big six and the mid four which is the four I mentioned, ourselves, manual life, Laurentian Bank and Canadian Western Bank. And we're the four that have enough capital and processes around SCAC compliant that we can provide a meaningful competitive alternative for Canadian savers and people using our Financial Services.

But our basic message is to make sure that you allow us to be part of that basic agenda, because the public policy interest is very clear. The government would like to see more competitive alternatives for Canadian consumers to fund the businesses to build the savings and so on. And so, we think that those companies as a group are large enough to do something meaningful.

Graham Ryding - *TD Securities - Analyst*

And the headwind right now for those smaller banks is just red tape and bureaucracy?

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

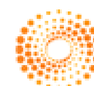
Well sometimes. I mean they are doing a very constructive reach out around the supervisory position or process as you can imagine is very different for an institution like yours at TD where you've got subsidiaries all over the world doing complex derivative trades and foreign exchange tradings and so fourth as well as domestic banking business.

So I think that they feel they've had a bit of a one size fits all approach to supervising a large institution and complex institution like that as well as a Company like Equitable, which is much simpler and could have a different more efficient supervisory approach. And I think potentially there's wins on both sides in terms of how the supervisory teams within the regulators can look at somebody like an Equitable and also things that we can do to be more efficient in meeting regulatory expectations. So the regulators just being more nuanced about this is one approach of very large institutions and another that potentially more institutions just as safe but have a slightly different supervisory regime.

Graham Ryding - *TD Securities - Analyst*

Okay, great and then my last question would just be the investments that you're planning in the second half of 2015. Sounds like they're focused on both growing Single Family prime platform, as well as building out your digital banking platform.

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Is that accurate, and then on top of that, what's the outlook for 2016? Should we expect the efficiency ratio to drop back down after this is completed, or is this an ongoing buildup into 2016?

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

I think it's pretty fair to say that the spend at the end of next year is mostly around our savings business. So we expect ancillary spinoff into prime as Canadian consumers get more familiar with the Equitable bank name.

But mostly that's around acquiring customers in the deposit side of our business, not digital banking platforms,. So they will be able to access their Savings Account off the mobile phone and have some state-of-the-art ability to see what they're doing there. And we've got a pretty good system, a very good system that we're building there, so that will be the major area of focus.

I do expect our efficiency ratios might continue to be relatively high into 2016, but I would stress and as I mentioned in my comments, our driver is not really efficiency ratio. Efficiency ratio is an important measure that helps guide us to ROE, and we would expect our ROE to continue to be very strong in both 2015 and 2016 in and around these historic levels I indicated earlier 18%, 17% to 18% is what we expect to maintain for the foreseeable future.

Graham Ryding - *TD Securities - Analyst*

Okay, thank you.

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

Thanks, Graham.

Operator

Thank you.

(Operator Instructions)

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

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

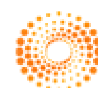
Thanks, Michelle.

As there are no other questions, I'd like to thank you for joining us. We look forward to reporting our fourth-quarter results on February 24, 2015. 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.

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2014, Thomson Reuters. All Rights Reserved.

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS