THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

EQB.TO - Q4 2015 Equitable Group Inc Earnings Call

EVENT DATE/TIME: MARCH 01, 2016 / 3:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Andrew Moor *Equitable Group Inc - President and CEO*

Tim Wilson *Equitable Group Inc - CFO*

CONFERENCE CALL PARTICIPANTS

Jeff Fenwick *Cormark Securities - Analyst*

Graham Ryding *TD Securities - Analyst*

Jamie Goin *National Bank Financial - Analyst*

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Equitable Group fourth-quarter and year-end 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 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 Group 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 on March 1, 2016 at 10 AM Eastern time for replay purposes.

It is now my pleasure to turn the call over to Andrew Moor, President and Chief Executive Officer of Equitable Group and Equitable Bank. Please go ahead, Mr. Moor.

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

Thank you, Valerie, and good morning, everyone. Joining me is Tim Wilson, Chief Financial Officer of the bank and Equitable Group. We have lots of good news to talk about, including the launch of EQ Bank and the first product from our new digital bank, the Savings Plus account, which has greatly exceeded our initial projections. I will speak to this and our outlook later in the call. Before we start, a reminder that our quarterly slide deck accompanies our remarks, and it's available at EQbank.ca.

2015 was another year of outstanding growth and performance for the bank, an area in which we serve more customers than ever as both a national lender and as a branchless bank that Canadian consumers trust to meet their savings goals. Largely driven by our focus on customer service, the bank's mortgages under management grew 21% in 2015 to a record CAD16.7 billion, while deposit principal expanded 9% to CAD8.1 billion, also a new record.

Within deposit principal, Equitable Bank's high-interest savings account balances grew 159% on the year to stand at CAD948 million. This strong showing for this brokered product is clear evidence that we are succeeding in diversifying our deposit base beyond GICs. While [HISA] is also sold mostly through midsize wealth management firms, not through the big banks, the primary distributors of our GICs. So this provides channel diversification as well. Product distribution and diversification are both key strategic objectives for our bank.

The fact that we have grown lending and saving balances every year since Equitable went public in 2004, demonstrates that we are on the right track. In the most recent five-year period the pace of growth increased as our term team broadened relationships in the mortgage broker and deposit distribution channels, and worked tirelessly to deliver our objective of giving customers the best service experience of any bank in Canada. My thanks to the over 500 members of the Equitable team for a job consistently well done.

Underpinning this performance are the competitive and economic advantages of our branchless bank business model. Equitable's position as a leading branchless bank sets us apart, and we are starting to leverage this in more ways through the launch of our digital EQ Bank platform. While delivering great customer service, we need to ensure good returns are deliver for our shareholders.

The principal metric management and the board are focused on to drive shareholder value is to achieve consistent return on it equity in the mid to high teens. Equitable has achieved this goal not only 2015, but in every single year since our IPO. In so doing, the bank is one of the best and most consistent creators of value in the entire Canadian financial sector.

In 2015, net income grew 18% to a record CAD125.9 million. With that our five-year earnings CAGR now stands at 17.6%. On consistent earnings growth, the bank's ROE was 17.9% in 2015, just above our 17.7% average over the past five years.

For those reviewing slide 4 on our deck, you'll see remarkably little variability in the height of those ROE bars. Our ROE is not only higher than the average of other publicly traded Canadian banks, but it is also significantly less volatile. While we are Canada's ninth largest independent Sched I bank by assets, we continue to deliver an ROE that surpasses most of our three midsize banking peers and the big six. I believe this reflects our discipline in effectively allocating our shareholders capital, which we build by retaining the vast majority of our earnings.

As Equitable builds equity and strengthens an already conservative capital structure, we are driving significant growth in book value. Book value grew 14% in 2015 to a new record, and on average, has expanded 17% annually since 2011. We believe it's important to maintain capital management discipline and reward our shareholders for their loyalty by consistently growing dividends. So even though we retain and redeploy most of our earnings, our bank has also developed a reputation as a dividend grower and for good reason.

Over the past five years, our Board has increased our common share dividend seven times, including most recently in late 2015. That latest increase continues the trend of twice yearly dividend hikes that result in consistent double-digit annual dividend growth rates. The dividend declared yesterday is 11% higher than a year ago.

Moving to fourth-quarter results, shows that we had a strong end to a great year. Earnings were 17% higher than in the fourth quarter a year ago, and were a fourth-quarter record of CAD1.93 per share. This performance is achieved in spite of ongoing spending on strategic initiatives that weighed on earnings in Q4, but will benefit the bank in future periods. In aggregate, these investments, which were mainly on our prime and single family and digital banking businesses, reduced fourth-quarter EPS by CAD0.11.

Despite the higher spending, fourth-quarter ROE was a very solid 17%. Our performance is really driven by asset growth, with growth in total mortgage balances at 20% year over year and 5% during Q4 alone.

In single family lending services, the portfolio increased by about CAD230 million, or 4% in the quarter. It was up 20% over last year. Despite seasonality, Equitable will deliver CAD719 million of single-family originations, a very strong showing. These originations were a function of both market activity and share gains against our key competitors, and were achieved despite the downturn in activity levels in Alberta and Saskatchewan. I would attribute the share gains to several factors, but most noticeably our ability to capture business using service as a differentiator.

The bank's commercial lending business is also on the move. To bring greater focus to the two broad opportunity areas in commercial lending, we rebranded the two sides of our commercial business into business enterprise solutions, which is focused on financing mixed-use real estate, smaller apartment buildings, and retail strip plazas, and the commercial finance group, which works on larger financing transactions. This rebranding doesn't change our financial reporting, but does create a clear delineation to enhance the delivery of our strategies.

From a business development perspective, commercial lending had a strong year, growing originations by 19%, to CAD903 million, and an even stronger fourth quarter with originations up 33% year over year. We take a disciplined approach to the economics of each transaction to ensure it achieves our ROE hurdle rates. Commercial has faced a relatively comparative market over the past couple of years, and as a result we have chosen to deploy our additional returning capital into other parts of the business and have not grown our commercial balances. I believe with a sharper focus we can find good opportunities that meet our return objectives and grow the portfolio. Commercial lending is a valuable contributor to Equitable's earnings and our strengths as a diversified bank.

One of the big stories of 2015 was growth in securitization financing, mortgages under management, which is primarily a story about our new prime single-family business. In the fourth quarter, prime single-family originations were CAD489 million, 81% more than a year ago. This figure includes volume sourced through business partners and our internal team. For 2015, prime funding stood at CAD1.6 billion.

We continue to develop our prime business, and are confident that we can achieve our stated objective of internally originating between CAD1 billion and CAD2 billion of prime mortgages annually over the next two to four years. We expect that prime mortgages will be the key driver of growth in securitizing -- securitization financing, mortgages under management going forward.

A great credit culture is the foundation of success for every bank. And Equitable is disciplined in our underwriting credit practices in every region of the country, including Western Canada. Our impairment provision, which reflects newly recognized losses anticipated on our impaired loans, was less than 1 basis point in the quarter. This attests to the quality of our book.

Once again to be prudent, we added CAD600,000 to our collective allowance in the quarter. As a reminder, adding to our already high collective allowance at this rate is much more conservative than the approach used by other Canadian banks. This conservatism had a CAD0.04 negative impact on quarterly EPS. With a high level of our allowance in our low long-term and loss experience, Management will be examining whether such a consistent addition to our collective allowance is appropriate going forward. And you may see changes to our approach in future quarters.

Given current economic forecasts, we expect our single-family arrears rates and impairment provisions to remain low throughout 2016 in most regions of Canada. So they may rise from their current extraordinary low levels. In Alberta and Saskatchewan we anticipate arrears will rise, and when they do we do not expect to incur any losses, and expect in fact all losses to be manageable even, under a very extreme scenario. We'll give more color on this, our thinking here, in the MD&A.

This is a case where our strategy of focusing on larger [up] incentives and less risky property types, our underwriting approach, and our work up process will all be tested but should prove to be effective. Overall, plotting our credit losses against low total loans shows that for the past decade, Equitable has consistently outperformed the average of big six and our three midsize peers.

Tim will now provide his report.

Tim Wilson - *Equitable Group Inc - CFO*

Thanks, Andrew. I think this past year is another great example of Equitable's ability to deliver consistently strong financial results while investing to create advantages for the long run. And our goal is to do the same in 2016.

I'll begin today with a focus on profitability trends. Fourth-quarter net interest income grew 17% year over year, and 3.3% in the quarter itself. Growth reflected in increase in our average asset balances in both core lending and securitization financing, which an aggregate were up 17% year over year and 21% sequentially.

These increases were achieved in spite of drops in NIM of 6 basis points year over year, and 3 basis points between the third and fourth quarters. On a year-over-year basis, NIM performance was bifurcated. It increased 6 basis points in core lending, meaning single-family and commercial, and dropped 11 basis points in securitization financing.

As we had expected, core lending NIM rebounded in the fourth quarter due to a seasonal reduction in the size of our liquidity portfolio. It was also helped both year over year and quarter over quarter, by the growth of new cost efficient funding sources. For example, we grew our HISA book by CAD600 million in a year, and introduced CAD850 million of bank sponsored funding facilities.

Securitization NIM in Q4 was lower than in 2014, on a combination of several factors, including lower prepayment -- mortgage prepayment income and spread compression within the book. Likewise, between Q3 and Q4, securitization financing NIM declined 10 basis points.

The biggest factor behind this change was the very narrow margins at which we originated prime single-family mortgages between about August and November of last year. Margins narrowed because MBS spreads spiked, and MBS represents our main source of funding for these mortgages. In other words, our cost of funds increased. MBS spreads came down in December, and our margins and returned to more normal levels.

We always have an eye to maximizing margins in our prime business, in any of our businesses for that matter, but the reality is that our mortgage pricing is driven more by competitive dynamics than by our margin management efforts. We have much less ability to pass on increases in our cost of funds to our customers in the prime business, than we do in our other businesses. Even though we may not like the margins at any point in time, we will still actively lend, because we want to maintain our market presence and drive the long-term value of our franchise. As a result, we expect that there will be volatility in our prime margins, but they will average out at a reasonable level over the long run.

Looking to 2016, we expect that net interest income will increase at low- to mid-teen rates as the bank continues to grow its assets by meeting the needs of Canadian borrowers across a wide range of mortgage products. We expect overall NIM to decline between 5 and 10 basis points from Q4. There are a few puts and takes in that outlook, so I will elaborate a bit, beginning with single-family.

We expect that NIM to remain stable through 2016 but because of sustained growth in this portfolio relative to commercial, we will see a slight compression in core lending margins. In addition, the rapid growth of our high interest rate EQ Bank account, which Andrew will discuss in more detail later, will increase our weighted average cost of funds and cause some compression in our NIM.

Within securitization financing, we now expect that NIM will increase throughout each quarter of 2016, as the spread on new and renewed mortgages will be just above the average of the portfolio. This is partly a function of the recent rebound in prime single-family spreads that I mentioned earlier. Our outlook assumes prime margins will be stable over the next several quarters, relative to current levels. But there is potential for upward movement if market rates increase in response to recent regulatory changes. I'll also take the opportunity to highlight here, that we do not believe that recent changes to CMHC's fees and insurance programs will have a material impact on our business.

I want to add one other point of color related to our securitization financing NIMs. As a result of the new transaction that we executed in Q4 that allowed us to achieve derecognition on prepayable mortgages, we plan to focus our 2016 derecognition activities on multis which typically have thinner margins than do prime single-family mortgages. The implication being that the derecognition of thinner margin multis will serve to lift the average NIM of the whole portfolio.

Moving on, Andrew mentioned the impact of higher costs on our fourth-quarter EPS. Specifically, our non-interest expenses increased by CAD3.9 million compared to last year, or 19%. The majority of the increase, 79% of it or CAD 3 million, reflected normal cost inflation that came from growing our core lending mortgage portfolio and brokered deposit balances.

Once again, higher FTE was the main driver, accounting for over half of the expense growth. Talent was added in our single-family team to handle origination growth, and in IT to support development of our core banking technology and our product diversification efforts. The remainder of the increase, or CAD800,000, reflected investments to drive ahead with our product and service expansions, the largest portion of which was in support of our digital banking platform. The overall affect of that expense growth was a slight increase in our efficiency ratio to 35.7% in the fourth quarter from 35.4% a year ago.

Looking ahead, we will continue to invest in our franchise. Our plan is to spend about CAD5 million in the first quarter on marketing in support of EQ Bank, and a further CAD1 million in Q3. This level of expense is significantly lower than what we had previously signaled. And the reduction is a result of the success we have had to date with EQ Bank. The PR and the social media still remain positive and high, and as a result, we do not see the need for more paid advertising at the moment.

In addition to this lower level of marketing spend, we will continue to expand our team and invest in our systems in order to provide our target high level of service to our customers. Although all of this spending meaningfully increases our expense growth rate, I will remind you that we expect these expenses to be largely offset by the incremental gain on sale revenue generated from securitized mortgages. And as a result, we expect the earnings impact in 2016 to be relatively minimal.

While investing more in strategic initiatives, we will hold the line on other non-interest expenses so that they grow only at rates in line with the growth of our book. The outcome, is that we expect our efficiency ratio will increase by approximately 1 to 3 percentage points in 2016 from Q4 levels. While we have negative operating leverage in the near term, we will create an even stronger foundation for growth and efficiency in future years.

Our branchless business model will allow us to retain our standing in 2016, as the country's most efficient Schedule I bank, with an efficiency ratio far and away better than any of the big six. And most importantly, even during this period of heavier investment, we expect our ROE will remain high.

Our capital ratios at year end all continue to surpass minimum regulatory standards and most industry comparables, and we expect to continue operating above these benchmarks as we grow. Overall, 2015 positions the bank to grow profitably and with an attractive ROE next year. Now, back to Andrew.

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

Thanks, Tim. Of all the good news we have to report today, the most recent is the early success of and momentum of our digital banking platform. We have been preparing for and investing in EQ Bank for well over a year, and on January 14, unveiled it with high expectations that grabbed the attention of the news media and Canadians searching for higher rates of interest on their savings. This initiative is the most important pillar in the funding diversification plan that we began to implement in 2013.

Although this diversification does come at a cost, the ability to access consumer deposits directly reduces Equitable's risk profile and is a positive for our shareholders. Our first-year goal was to open 10,000 EQ Bank Savings Plus accounts, and I'm delighted to tell you that as of the close of business yesterday, EQ Bank already had 15,000 accounts. This reception far surpasses our own high ambitions.

It's easy to understand why Canadians are flocking to our bank. The interest rate on our Savings Plus accounts is an industry-leading 3%. That's not the only perk for savers who choose EQ Bank. They also benefit from no monthly fees, or minimum balance requirements, unlimited day-to-day transactions, five free indirect e-transfers per month. And smart savings tools and an innovative interface that enables savers to easily allocate funds to virtual subaccounts that they have signed to keep money aside for their own personal objectives.

Savers also like the fact that this product is offered by a Sched I Canadian bank and a member of the CDIC, so they know their funds are in safe hands. We're using a mobile first strategy, meaning we built our digital platform so it is optimized for use on a smart phone, a device that our target customer uses for just about everything in their life including banking. Our mobile first strategy is obvious from the moment a user opens an account, a process that takes just five minutes and can be accomplished by using any smart phone or computer equipped with a download from the Apple App Store or Google Play. I encourage everyone to give it a try.

We have supported EQ Bank with a marketing awareness campaign that features 30-second TV spots running in key markets as well as online, billboard, and transit advertising with the tag line Money Well Banked. The central message of our campaign is that Equitable as a branchless bank would rather build the savings of our customers than a bank branch. And as Marketing Magazine said, we have been painting the town yellow to make the point. Based on account earnings to date, the world has gotten out. So our brand presence and profile are growing. I'm delighted with the progress made to date, further diversifying our customer and deposit base.

This amazing reception that we have experienced so far has admittedly posed some challenges. Quite simply from an operational point of view, we were not equipped to handle this level of volume. We've also experienced issues with the app that consumers use to take a photo of a check for the purpose of making a deposit. This technology makes it easier to open an account with a branchless bank, but ours did not stand up to the high volume of consumer use which compounded our operational challenges.

For an organization that puts customer service above all else, these failures to keep our promises on service are embarrassing. Our team is reacting with an unbelievable level of commitment and creativity though, working 24/7, rapidly hiring more staff, and even our senior leaders are pitching in and working the back office. We actually are doing the things we need to do to deliver the service levels that our customers expect and deserve.

Growing EQ Bank and our deposit balances is one of several important objectives for 2016. In addition, we are committed to growing both our alternative and prime single-family lending businesses, based on our key differentiator, best-in-class service for the mortgage broker and borrower. And as I previously discussed, we're excited by the prospects for our commercial business this year.

We believe that the rate of growth in these portfolios will remain high in 2016, as borrowers and mortgage brokers continue to react positively to our responsive approach which has been recognized more than once with industry awards. Of course like every other year, we will need to contend with competitor dynamics to achieve our ambitions. And like in recent years, we will need to rely more on our national presence to offset weakness in Alberta and Saskatchewan housing markets. Fortunately we now have such a presence, the result of steady geographic expansion over the past couple of years.

We intend to maximize this advantage by delivering great service everywhere we go. Our exceptional people and the relationships they enjoy in the broader community underpin all of the success we've had to date and will determine the progress we make in the future. Accordingly, we will strive to create and sustain a great work environment here at Equitable, an environment that has been recognized by independent observers as one of the best in Canada.

In summary, a great quarter, a great year, a great decade, and a fast start for EQ Bank. We look forward to delivering solid growth in earnings and higher returns on equity in 2016, while we build Equitable's status as a branchless bank among those borrowers and savers who value the unique advantages we are able to bring: attentive service, flexible financial solutions, and comparative rates all from the convenience of your home or office.

That concludes our prepared remarks. I now would like to invite your questions. Valerie, can you please open the line to our callers?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Jeff Fenwick, Cormark Securities.

Jeff Fenwick - *Cormark Securities - Analyst*

Hi, good morning, everybody.

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

Good morning, Jeff.

Jeff Fenwick - *Cormark Securities - Analyst*

A lot of moving parts there, a lot of things going on in the business, and I appreciate the color that you offered there. I wanted to start off in the area of that marketing spend and the impact on the efficiency ratio.

So you're saying in your commentary there, about 3 to 5 points on the efficiency ratio. Is that run rate off of Q4 or versus 2015 as a whole?

Tim Wilson - *Equitable Group Inc - CFO*

Yes, Jeff, it's Tim. Apologies for any confusion there. We referenced two different benchmarks.

In our MD&A we spoke to a 3 basis points to 5 basis point increase; that was off 2015 as a whole. In my remarks I mentioned 1 basis point to 3 basis points. That was off Q4 of 2015. It will lead you to the same place.

Jeff Fenwick - *Cormark Securities - Analyst*

Great. And you mentioned in your commentary there you're hoping to ramp up some of the securitization gains to offset this. I look at 2015, I think you only did about CAD6 million or so of securitization gain on sale revenue if I'm right there. So should we be -- I guess the takeaway there is we should expect that to pretty meaningfully increase as well over the course of this year?

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

That's right, Jeff. And then, it's not really about making gains, just to be clear. It's more around managing our leverage ratio.

As Tim mentioned, we entered into a transaction right at the end of the year that we believe is the most efficient way of getting mortgages derecognized off our books in a way that leaves the economics in the best position for us. So that was a bit of a testing ground, if you like, to make sure that transaction worked, and we're very comfortable and happy with how that came out.

So through the rest of this year, we will be doing more of those derecognition transactions to manage the leverage ratio overall. Tim, do you have some other color there on how that works on the offset with the other marketing spend?

Tim Wilson - *Equitable Group Inc - CFO*

Yes, I think Andrew mentioned that we look at this more from a leverage ratio point of view than a profitability point of view. And throughout 2015, we've been looking at various alternative structures to the IO strips that you've all heard about over the past few years.

We've now landed on one that allows us to achieve this derecognition more economically than IO strips would. We will be operating with that structure on a go-forward basis. And I think, as we think about the volumes necessary to manage our leverage ratio with the derecognition volumes, the income that generates pretty much offsets the incremental marketing spend and initiative spend.

Jeff Fenwick - *Cormark Securities - Analyst*

And obviously this is going to impact, and you've made that comment, it's going to impact your NIM to a certain degree. How are you thinking about managing that?

I know as you get this going, it's early days, you don't want to turn around I suppose and immediately start to lower rates for people coming in. So how do you manage that when you're having the kind of response that you've had today?

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

Well, I do think we've been quite clear that this was a rate that we advertised to the public that we would expect to lower over time. But as you say, Jeff, we don't to break the trust of our new customers in this area either. So it's a matter of balancing that timing. I think our priority right now is getting the service levels up to the levels that we would like to be at. And then thinking about a move to a more competitive rate.

We were a little bit surprised by the response of the competitors in the market when we came out with a rate that was consistent with what was being offered as a special rate, admittedly, in the market at the end of last year. And as it turned out, it didn't get the same kind of competitive response. So I think it does give us a bit of room to move down our rates perhaps a little faster than we were expecting.

But to be clear, our focus right now is getting the service lined up, building our branding, and then thinking about that decision at an appropriate time.

Jeff Fenwick - *Cormark Securities - Analyst*

And maybe just one last question on this, this is a lot of effort being put into this initiative, a lot of spend and rising costs here. I think about it at this point, really it's clearly more of a liquidity tool for you as you've mentioned.

But there must be some sort of revenue opportunity down the road that I'd imagine you're trying to set yourself up for. So can we expect to see maybe some strategy articulated around that over the course of this year?

And I know you've been dealing with some of these players like Borrowell is one that you've been involved in that's doing consumer lending also. How should we be thinking about that over the longer term here?

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

Yes, I think we move forward one step at a time, Jeff, as you know, rather than executing on grand strategies. So, certainly our view right now is we did this primarily, the motivation beginning behind the digital bank was to make sure that we always had access to liquidity and weren't beholden to big distributors that we see increasingly consolidated. So that's the motivation job one.

But then having onboarded customers interfacing with us directly, we clearly see the opportunity to provide other services that should be able to produce revenue streams going forward. Not in the immediate term, to be clear we're not talking in the next couple of years in any meaningful way. But I think clearly through the year we will try to give you more color on where we're going with that and how we see the opportunity you know, once we've actually learned to handle those customers properly and give them great service with the current product set.

Jeff Fenwick - *Cormark Securities - Analyst*

All right, I'll let somebody else ask a question. Thank you.

Operator

(Operator Instructions)

Graham Ryding, TD Securities.

Graham Ryding - *TD Securities - Analyst*

Hi, good morning.

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

Good morning, Graham.

Graham Ryding - *TD Securities - Analyst*

Perhaps I could start with just the -- I appreciate the color on the stress testing that you provided. The forecast, it doesn't give any outlook for what you might provision from a general allowance. It really refers to only specific provisioning.

I was wondering if there's any color around -- under a scenario in Alberta and Saskatchewan, a stress scenario of 30% price decline in houses and unemployment going up over 10%. Is it reasonable to think that general provisioning would increase in an environment like that?

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

I'll let Tim add some also technical accounting to that. But I would say not necessarily, the collective allowance is meant to be a collective allowance that takes you through the cycle, and this is clearly going through a cycle.

And as we mentioned in our prepared remarks, we are looking at that collective allowance, and believe that we are very well reserved on collective allowance actually compared to our peers. I wouldn't necessarily bake that into your forecast.

But I would say that the way you are reading that paragraph is, to be very clear, is raise our expectation for actual losses as opposed to -- actual [recognition] of losses as opposed to any impact on collectors or other impacts on earnings.

Graham Ryding - *TD Securities - Analyst*

Right, and it specifically applies to losses. Is that what you're saying?

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

Absolutely, yes exactly. You're right, there could be. We always have to look at collectives and make sure they are appropriate. But we wouldn't -- I don't think you should have a takeaway that we would be adding to collectives over and above that as a necessary outcome.

Graham Ryding - *TD Securities - Analyst*

Okay. And then I'm somewhat surprised to hear that you are considering reducing your general provisioning, just given what appears to be sort of the perhaps the late stage of the housing cycle here. Is that just a reflection you feel that you've provisioned up to now sufficiently, and you can afford to pull back on the general provisioning?

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

I think, Graham, if you look at some benchmarkers against all of our peers in the industry, you will see that we have been consistently adding to collective [votes] over the last number of years in a way that puts us much more strongly reserved than perhaps our peer group. So that's certainly puts us in a stronger position to think about this rather than expecting others would follow this lead.

And Tim, we have been doing a fair bit of work in this area. We haven't yet made land in all those spots, but Tim could probably give you some more --

---

Tim Wilson - *Equitable Group Inc - CFO*

Yes, Graham, this is something that's come up in the context of our migration towards AIRB and IFRS 9. We have been significantly enhancing our risk management capabilities, our data, our data analysis, our modeling, so forth. And with that we've got an increasing level of comfort that our collective allowance right now is more than adequate to cover the risk in our book. So I think our expectation is that going forward we do not necessarily need to add to collectives in a quantity that we have in the past.

And that is really consistent with the approach that all of the other banks, large or mid-sized, would take in the Canadian market. I think we're still evaluating it, it's early days, and we will continually revisit that approach in the context of overall economic conditions. But that is directionally where we are headed at the moment.

Graham Ryding - *TD Securities - Analyst*

Okay, great. And then if I could maybe just sneak one in on the -- your outlook. I believe you said you are targeting CAD500 million a quarter of single-family originations on the prime side. How much of that do you plan to derecognize versus keep on your balance sheet?

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

I think as Tim mentioned, most of the derecognition we expect to be related to multis this year because of some of the dynamics around the derecognition there. Having said that, we would generally expect that the amount of securitized assets on the balance sheet to be roughly flat through the year. So what is going to be happening is some of the multis will be -- being [daily] recognized as we add prime single-family mortgages to the balance sheet, from what you're looking at.

Graham Ryding - *TD Securities - Analyst*

Got it. Thank you.

Operator

[Jamie Goin], National Bank Financial.

Jamie Goin - *National Bank Financial - Analyst*

Good morning.

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

Good morning.

Jamie Goin - *National Bank Financial - Analyst*

I just wanted to follow up on Graham's last question there regarding the securitization financing and the capacity for securitization on multis. You discuss in the MD&A that it has been decreased by 50% from just a couple of years ago. Can you talk about that capacity outlook going forward?

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

Yes. It's well known -- I mean if you plot the issuances under the current mortgage bond, in fact I would say that your payers at National Bank know more about this probably than we do. But you could -- maybe if they plot every quarter, the capacity under the CMB issuance, and there are more participants coming into that CMB looking for CMB allocation.

I would say the Maple Bank disappearing as one of the participants may slightly increase the access to that market. But generally speaking, we're seeing more participants coming in trying to share the same pie. So we would expect this general trend to continue. And I think, we running at about CAD1.2 billion a year of capacity or something like that, in that order. And I don't expect it to go any higher than that. If anything, it's likely to come down.

Jamie Goin - *National Bank Financial - Analyst*

Okay, thanks for that. And just on the stress testing, you give some good color on the residential real estate assets. I'm just curious if you take that macroeconomic backdrop that's going to lead to a 30% decline in house prices and unemployment of 10.5%, how do you think that's going to impact on the commercial portfolio?

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

It's a good question. We've got an obviously much more modest sized commercial portfolio, which again is completely focused in Calgary and more in Edmonton actually. We've looked at that on an asset by asset basis rather than try to project to the stress level.

You can't really -- there's not a diversified enough portfolio for stress testing to be meaningful. We're pretty comfortable with all of those assets, so we're not seeing any losses and we would've communicated if we'd felt there were any likely to emerge out of that book. But clearly, it's one single low and one single idiosyncratic risk could end up with some losses, but we're not expecting it to be meaningful in terms of overall earnings.

Jamie Goin - *National Bank Financial - Analyst*

Great. And just quickly, what is the composition of let's say Alberta/Saskatchewan in the commercial portfolio?

Tim Wilson - *Equitable Group Inc - CFO*

We don't break that out specifically. Overall, the size of the portfolio is call it roughly CAD300 million or so.

You can reverse engineer that from parts of our MD&A. And I mean it's across a broad range of commercial property types none of which are directly related to the oil industry.

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

It would mostly be apartment buildings, a very modest -- mostly apartment buildings and some industrial, [multi-flex] industrial.

Jamie Goin - *National Bank Financial - Analyst*

Okay, great that's it for me.

Operator

(Operator Instructions)

Graham Ryding, TD Securities.

Graham Ryding - *TD Securities - Analyst*

Just wondering if you have a target for the high interest savings deposit base relative to your overall deposit funding? I believe it was CAD948 million as of Q4. Do have an optimal level that you'd like to get that to?

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

I think you're referring to the -- that's the brokered high interest saving account. So we think about demand deposit as a percentage of our total book. And I think what you'll see is if you benchmark other banks, and you could see how big their demand deposits are against their deposit book, we would generally be targeting to be at the lower end of that range, which is in around about the 30% of your deposit book in total. So that would be both the digital bank and the brokered HISA would be at about 30% of the total deposit book is what we are looking at.

Graham Ryding - *TD Securities - Analyst*

Okay, so I can use that as a target that you'd like to eventually get to for on demand deposits?

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

Yes, somewhere around there. Exactly, and just to be clear, the reason -- I'm not trying to be evasive at all here, Graham. But as we get more digital deposits in, we do need to understand the behavioral modeling behind them so that we can look at the various risk factors around those deposits.

So there is a bit of work for us. And again, I think this is something that we'll give you more clarity on over the next couple of years. It's something we've been thinking about a lot as Management. One of the things you'd have to do is get the deposits in house, see how they behave, under various scenarios and then think about where the overall target is.

Today to be clear, these demand deposits are such a small percentage of our book that really we can still rely on the traditional funding source of the brokered GIC market to bear the brunt of the heavy lifting in the funding side of our business.

Graham Ryding - *TD Securities - Analyst*

Okay. Thank you.

Operator

(Operator Instructions)

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

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

Thanks, Valerie. As there are no other questions, I'd like to thank you for joining us. We look forward to reporting our first-quarter results on May 12 and hosting our annual meeting in Toronto on May 17. Thanks for listening and goodbye for now.

Operator

This concludes today's call; thank you for your participation.