

FINAL TRANSCRIPT

Street Capital Group Inc.

Third Quarter 2018 Financial Results Conference Call

Event Date/Time: November 15, 2018 — 8:00 a.m. E.T.

Length: 29 minutes

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



CORPORATE PARTICIPANTS

Jonathan Ross

LodeRock Advisors Inc. — Head of Investor Relations

Duncan Hannay

Street Capital Group Inc. — Chief Executive Officer

Marissa Lauder

Street Capital Group Inc. — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Jaeme Gloyn

National Bank Financial — Analyst

Dylan Steuart

Industrial Alliance Securities — Analyst

Brenna Phelan

Raymond James — Analyst

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



PRESENTATION

Operator

Hi, everyone. Welcome to the Street Capital Group Third Quarter 2018 Financial Results Conference Call.

As a reminder, this call is being recorded on Thursday, November 15, 2018.

At this time, all participants are in listen-only mode.

Following the presentation, we will conduct a question-and-answer session. Instructions will be provided at that time for research analysts to queue for questions.

If anyone has difficulties hearing the conference, please press *, 0 for Operator assistance at any time.

I would now like to turn the call over to Jonathan Ross, Head of Investor Relations for Street Capital Group. Please go ahead, Mr. Ross.

Jonathan Ross — Head of Investor Relations, LodeRock Advisors Inc.

Good morning, everyone. And thanks for joining us this morning. I'm joined on the call today by Duncan Hannay, Chief Executive Officer of Street Capital, and Marissa Lauder, Chief Financial Officer.

Street Capital Group's third quarter 2018 financial results were released last night after market close. The press release, financial statements, and MD&A are available on SEDAR, as well as on our website streetcapitalgroup.ca.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Before passing the call over to management, we would like to remind listeners that portions of today's discussion contain forward-looking statements that are based on management's exercise of business judgment, as well as assumptions made by and information currently available to management. When used in this conference call, the words may, plan, will, anticipate, believe, estimate, expect, intend, and words of similar import are intended to identify any forward-looking statements.

You should not place undue reliance on these forward-looking statements. These statements reflect our current view of future events and are subject to certain risks and uncertainties as outlined in the Company's Annual Information Form and other filings made with the securities regulators, which are available on SEDAR.

These factors include, without limitation, expansion opportunities, technological changes, regulatory changes and requirements including mortgage insurance rules, and changes to the business and economic environment including, but not limited to, Canadian housing market conditions and activity, interest rates, mortgage-backed securities markets, timing and execution of anticipated transactions, and employment conditions that may impact the Company, its mortgage origination volumes, its gain on sale rates, and net interest margin earned, the launch of new products at planned times, investments in capital expenditures, and competitive factors that may impact revenue and operating costs.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Any of these factors, amongst others, could cause actual results to vary materially from current results or from the Company's currently anticipated future results and financial condition. Should one or more of these material risks or uncertainties materialize or should underlying assumptions prove incorrect, our actual results could differ materially from those anticipated.

We undertake no obligation, do not intend to update, revise, or otherwise publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of any unanticipated events, except as required by applicable securities laws. Although we believe that our expectations are based on reasonable assumptions, we can give no assurance that our expectations will materialize.

I will now pass the call over to Duncan Hannay, Chief Executive Officer of Street Capital Group.

Duncan Hannay — Chief Executive Officer, Street Capital Group Inc.

Thanks, Jon. And good morning, everyone. We appreciate you taking the time to join the call today.

Street Capital continued to make steady progress against its strategic priorities in Q3 despite persistent market related challenges facing our legacy prime insurable mortgage business. As we've discussed in the past, one of our focus areas is on growing Street Solutions originations. Street Solutions represents a solid recurring revenue business that comes with a healthy spread and relatively high credit quality. This transition is a journey.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



As we outlined on our Q2 call, we have been working to overcome some near-term funding constraints to accelerating Street Solutions growth. I am pleased to say that we have made meaningful progress toward the expansion of our funding capacity. We are near conclusion of the first sale of a pool of Street Solution mortgages to an international Tier 1 financial institution. We expect to complete this transaction during Q4. We have been working on this for the better part of a year, and we are very happy to be at this stage.

In the near term, this capability will enable us to create additional room on our balance sheet to meet stronger customer demand for the product, to maximize available profit for our shareholders, and ensure that we have a consistent product offering in the market for our valued customers and distribution partners.

In addition, we continue to make good progress in gaining access to third-party deposit platforms with bank-owned and independent investment dealers, although from time to time, we have experienced constraints relating to concentration limits with some of our deposit partners, given the demand for Street Capital Bank GICs. These are relatively standard limits set across the board for third-party issuers on big bank GIC desks. I am happy to report that we have begun to see increased availability from some of our partners and have been adding additional smaller deposit broker partners. This will help to modestly accelerate our deposit gathering capabilities through year-end and beyond.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



On the prime side, our team is focused on maintaining a solid foundation as the market stabilizes with a view to driving maximum contribution from new originations while generating a stream of profitable revenue from prime mortgage renewals. To bolster our position, we are working to both meaningfully improve the customer experience and strengthen our go-to-market programs. We will be moving from the pilot stage of our go-to-market programs to a more aggressive rollout in Q4. The idea here is to create meaningful momentum as we head into 2019.

Next, we currently expect to launch a direct-to-consumer GIC and HISA or high interest savings account offering in 2019 to further strengthen deposit funding and build customer relationships through a new digital banking platform. We have finalized a major technology partnership with a global leader in financial technology, who will deploy our core banking solution from the public cloud. Together, we will launch the first modern, open architecture, cloud-based, digital banking solution in Canada. This is important because it will both enable Street Capital to deliver a world-class customer experience, while meaningfully expanding our deposit gathering capabilities.

That said, we are still at the early stage in our transformational journey from monoline prime insurable mortgage lender to becoming a highly progressive, digitally enabled, open banking platform. But we continue to make meaningful progress, quarter after quarter, and I am confident that Street Capital will be well positioned to deliver shareholder value as this strategy unfolds.

With that, I will pass it over to Marissa to walk you through our financial results.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Marissa Lauder — Chief Financial Officer, Street Capital Group Inc.

Thanks, Duncan. And good morning, everyone. In the first nine months of the year, we saw positive improvements in a range of key focus areas including Street Solutions and prime renewals. That said, echoing Duncan's comments, Q3 was a challenging period for new originations both on the prime and on the non-prime sides of the business.

Competition for the prime product remains strong, and our choice to be cautious in the current market environment continued to impact our results. Adjusted diluted EPS were \$0.01 per share in Q3 compared to \$0.04 per share in the same period last year. For year-to-date period, adjusted EPS was also \$0.01 per share compared to \$0.05 per share in the first nine months of 2017.

Net gain on sale rates also suffered on the prime side with new originations at 63 basis points in the quarter compared to 87 basis points in the same period last year. Renewals came in at 105 basis points compared to 142 basis points in Q3 2017. For new originations, the compression was driven by both spread compression related to competition for prime mortgages and because Q3 2017 was a tough comparison as it included a specific product promotion with an investor where the bank earned higher premiums.

Lower gain on sale rates on the renewals side were driven by the same market pressures as prime new originations but were also affected by a higher volume of sales going to a particular investor who pays a lower premium on renewal. As we move into Q4 and into 2019, we expect a

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



lower proportion of renewals with this particular investor with a commiserate increase in gain on sale rates for our renewal book.

Renewal volumes were up significantly year-over-year as projected, driving revenue contribution of 7.3 million in Q3 on renewal volumes of 0.7 billion. This was up 24 percent from the 0.56 billion renewed in Q3 2017. Year-to-date prime insured renewals were 1.98 billion, up 49 percent from the 1.33 billion in the same period last year. The renewal rate remains strong on a year-to-date basis in the vicinity of around 73 percent. While we target a renewal rate in the mid to high 70s, we are principally focused on maximizing contribution on this segment of our business.

We originated 94 million in Street Solutions in the third quarter and 300 million in the year-to-date period, growing the outstanding balance to 460 million. The weighted average yield on Street Solutions is a very healthy 5.24 percent in the quarter. We generated 2.8 million in net interest income in Q3 and 6.3 million on a year-to-date basis. Our net interest margin was 2.06 percent in the quarter, up from 2 percent last quarter and 1.66 one year ago, reflecting the ongoing expansion of the balance sheet. When the balance sheet reaches scale, we expect net interest in a range of 2 to 2.35 percent on a consistent 12-month period.

As a relatively new Schedule I bank, we continue to manage our funding and liquidity very conservatively. At the end of the quarter, our deposit base was 556 million, up from roughly 481 million last quarter. We continued to add deposit brokers in the quarter, and an expansion of these relationships remains a key focus for the bank along with loan sale solutions for non-prime mortgages.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Street Capital Bank's CET1 ratio at the end of the quarter was 22.05 percent and our leverage ratio was 10.81 percent. As we continue to grow our balance sheet, we expect these ratios to trend into a more optimized range with a corresponding lift to return on equity.

We have updated our financial targets for 2018. We still expect renewal volumes to be in the range of 2.2 billion to 2.4 billion for the year. We expect Street Solutions originations, mostly funded on balance sheet, in the range of 375 million to 400 million. We expect prime insurable new originations to trend at 30 to 35 percent below our 2017 levels. And given the factors above, we do not expect to achieve positive operating leverage this year.

Having said that, we are reaffirming our previously disclosed 2019 financial targets for Solutions and prime renewals. And we expect Solutions originations in the range of 850 million to 950 million in 2019 and prime renewals to be in the range of 2.4 billion to 2.6 billion in 2019. We will also continue to target and implement strategies to achieve positive operating leverage in 2019.

As it relates to our core banking platform, we expect to incur approximately 7 million to 10 million in capitalized development costs over the next 12 months. As we come through the end of the year, we will provide additional updates as we gain additional insight and advance into Q1 2019.

That concludes our prepared remarks this morning. And I'll now pass the call back to the Operator to begin a question-and-answer session.

Q&A

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

**Operator**

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press the *, followed by the 1 on your touch-tone phone. You will hear a three-tone prompt acknowledging your request. And your questions will be polled in the order they are received. Should you wish to decline from the polling process, please press the *, followed by the 2. If you are using a speakerphone, please lift the handset before pressing any keys.

Your first question comes from Jaeme Gloyn of National Bank Financial. Please go ahead.

Jaeme Gloyn — National Bank Financial

Yeah. Good morning.

Marissa Lauder

Good morning.

Duncan Hannay

Good morning, Jaeme.

Jaeme Gloyn

My first question or a few questions is related to the disclosures around misrepresentation. I'm just wondering if you can give us a little bit more colour as to what actions you've taken during Q3 and maybe prior that has caused some volume growth and market share deterioration?

Duncan Hannay

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Well, I think, first of all, as it relates to misrepresentation in the mortgage market, and this is for clarity, this is borrower misrepresentation on mortgage applications. As we noted, we saw sort of a heightened environment given the current markets, a lot of the regulatory changes, and so forth, and we see that really across the business, not specific to Street Capital. We have been, as noted, taking normal course action within our business to address this issue. And we've had to make some choices as it relates to certain relationships and obviously, certain borrowers that has had some near-term impact on our business. But we do see that as having stabilized, Jaeme.

We've made those decisions and choices in our business, and we saw the quarter being relatively stable in that regard. And now we're really moving forward with our new go-to-market programs.

Jaeme Gloyn

Okay. So do I interpret that to mean that you've seen applications that have clearly included misrepresentation, and you've had to deny those applications? And then also with respect to brokers, were there any, let's say, consistencies within a broker, where you've had to terminate a broker?

Duncan Hannay

As it relates to mortgage applications, I mean, I don't think it would be surprising to note that we do see misrepresentation in applications on an ongoing basis. That's part of the mortgage business. So that's not exactly new. We've just seen the heightened level of risk in the marketplace,

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



given a lot of the regulatory changes and rising interest rates and affordability issues in particular. So we've been very conscious of that.

And yes. As a normal course in our business, we build relationships with brokers and borrowers, and we exit relationships with brokers and borrowers. And that's a normal part of our business that happens each and every quarter. I'd say there's a heightened level of activity. But as I've noted, that has now stabilized.

Jaeme Gloyn

Okay. Thank you. That's positive. You're catching it. In terms of the Street Solutions business, I'm noticing quite a sizable uptick in, I'm going to call it the runoff rate. Whether that's amortization or runoff. Is that a reflection of what we've just talked about? A reflection of inability to get sufficient deposits? Or is it just a lack of a competitive product relative to some larger peers that would have drove that higher runoff?

Marissa Lauder

Jaeme, it's Marissa here. Can you just maybe clarify what you mean by a higher runoff? What are you looking at in specifically? Because I'm certainly not observing that higher runoff at this point.

Jaeme Gloyn

Okay. So maybe it's something we'll just take offline. But opening balance plus originations—

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Marissa Lauder

Yeah. I think you are looking at table—yeah, at Table 8 in the MD&A, maybe? I just want to clarify something so that everybody has the same clarification. There's a discharge number in there. That discharge is inclusive of what matures. All right?

So if you look at the renewal number, which is 82 million out of the 108 million that's discharging, that 82 million is included in the 108 million. So we're not actually experiencing a very high runoff in that portfolio at all actually. We're actually maintaining that portfolio quite well, and the renewal rates are coming much higher than I would have expected. So in terms of the growth of the portfolio, it would totally be on the origination side, which is lower than we've expected this year because of our funding constraints.

Duncan Hannay

Yeah. And I would add, Jaeme, that we continue to see strong demand in this area. And the pace at which we've been taking on Street Solutions product is really a function of our available liquidity. So we've been liquidity constrained. Otherwise, we would be going faster.

Jaeme Gloyn

Yeah. Just, sorry, just a—yeah. That's kind of the table I'm referring to. And if I look at the renewals as a percentage of discharge is at 76 percent. so that would be your "renewal rate".

Marissa Lauder

Yeah.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Jaeme Gloyn

Which is good relative to your prime business.

Marissa Lauder

Yes. Yeah.

Jaeme Gloyn

But if I compare it to peers, the larger peers, they're running at 90 percent plus. So I'm just wondering why the delta?

Marissa Lauder

Oh, I would have to have a look at our peers at this point as to what their runoff rates are.

Jaeme Gloyn

Okay.

Marissa Lauder

Sorry, Jaeme. I don't have that comparison.

Jaeme Gloyn

No problem. I'll requeue. Thank you.

Duncan Hannay

The only thing I would add, Jaeme, is we're seeing very high credit quality in our Street Solutions book, and so these would be effectively near prime borrowers. So at renewal, there may be potential that they could migrate. But nonetheless, we'll follow up with you.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Jaeme Gloyn

Thank you. I'll requeue.

Operator

Your next question comes from Brenna Phelan of Raymond James. Please go ahead.

Duncan Hannay

Hi, Brenna. Brenna, you there?

Operator

All right. So your next question comes from Dylan Steuart of Industrial Alliance. Please go ahead.

Dylan Steuart — Industrial Alliance Securities

Good morning.

Duncan Hannay

Hey, Dylan.

Dylan Steuart

Just a quick question on the Street Solutions, I guess, sale you have lined up for hopefully for Q4. Just can you give any indication on either margin or size of the pool that you're hoping to sell off?

Marissa Lauder

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



I think at this point, we're not really prepared to give you the size of the pool. We're still working that out. But I can say and we've disclosed in our MD&A for your information that on new sales, we would expect anywhere between 65 and 75 basis points. Now I'll just remind you that these are primarily one-year mortgages, so that's 65 to 70 for a one year cash flow. And then on renewal, which we would expect after about one year, would be 45 to 55 basis points.

Dylan Stuart

Okay. Perfect. And I guess so the guidance for the Street Solutions pretty much maintained for 2019 remains a pretty—

Marissa Lauder

Yeah.

Dylan Stuart

—big jump from 2018 and—

Marissa Lauder

Yeah.

Dylan Stuart

—pretty conservative guidance for Q4. So just wondering, and I know you're gathering more deposit ports, but what do you see that gives you confidence for that projection?

Duncan Hannay

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Well, I think it's the combination, Dylan, of strong demand, continued strong demand for the product, improving liquidity from our deposit flows, and now this off-balance sheet funding solution that's available to us.

Dylan Steuart

So this off-balance sheet solution, I guess, you see capacity for further sales I guess going forward?

Duncan Hannay

We do. We do. Absolutely. And that also allows us to have a consistent, competitive product in the marketplace. And then we can balance on and off-balance sheet origination rates based on available liquidity and capital and so forth.

Dylan Steuart

Okay. And just finally, if I can clarify just on the, I believe you said 10 million of capitalized costs just due to the digital bank launch. Is that right?

Duncan Hannay

That's right.

Dylan Steuart

Any idea of how much would amortize into earnings? What would the schedule be?

Marissa Lauder

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Well, Dylan, we would have to be—substantially complete the project, so any amortization would be back-loaded in 2019, if there was any in 2019. It really depends on when we're substantially complete.

Dylan Steuart

Okay. Okay. Perfect. I'll requeue, but thanks very much.

Duncan Hannay

Thanks, Dylan.

Operator

Your next question comes from Brenna Phelan of Raymond James. Please go ahead.

Duncan Hannay

Hi, Brenna.

Brenna Phelan — Raymond James

Hi. Can you hear me?

Duncan Hannay

We can hear you.

Marissa Lauder

Yeah.

Brenna Phelan

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Okay. Thanks. So I wanted to ask about the disclosure you give as to having sufficient capital to get through 2018, but it doesn't specifically say that there's sufficient through 2019. The level of spend, can you give us an idea of when you sort of have visibility on capital? Is this an imminent action that's going to be taken to fund that spend? How are you thinking of timing there?

Duncan Hannay

Well, we have sufficient capital to support our CapEx spending needs in 2019, Brenna.

Brenna Phelan

Mm-hmm.

Duncan Hannay

So that's not an imminent need. And then as it relates to capital specifically, we have a number of levers available to us in the business, and certainly, this new off-balance sheet funding solution for our Street Solutions product is an example of one of the levers that we have.

Brenna Phelan

Mm-hmm.

Duncan Hannay

Naturally, we always—and we continue to look at capital requirements within the business and ways to improve and strengthen capital over time. But as noted, we have a number of levers at our disposal. And as shareholders ourselves, obviously, we're looking to do whatever is in the best interest of our stakeholders.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

**Brenna Phelan**

Okay. And with the introduction of the direct-to-consumer GIC and HISA, what do you envision an optimal funding mix? Or how do you think you're going to have to price that at the beginning? What's that going to do to your deposit costs? And how do you see that trending maybe a year or two years out as a percentage of your brokered deposits?

Duncan Hannay

Well, ultimately, we see it as a fairly efficient source of deposit funding within the business and then also one that's very much within our control. So we don't see—and clearly we have to be in a competitive position to attract funding through that channel. So I think you'll see market rates that are competitive, probably at the high end of the scale in the early days as we look to build momentum but not inconsistent with our cost of funds within our Street Solutions business.

Brenna Phelan

Okay. So and then does this launch require a big marketing advertising campaign?

Duncan Hannay

At this point, we're not anticipating a large marketing investment. Certainly, we'll be looking to create or identify hand-raising activity through search engine marketing and direct response. We're not initiating this project with a large brand investment at this stage of the game. But we will certainly be targeting those consumers exhibiting hand-raising activity for high interest savings or GIC products in the marketplace.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Brenna Phelan

So it's also going to be branded Street or some version of Street?

Duncan Hannay

We're still evaluating what our go-to-market strategy will be. It'll be, as noted, sort of in the back half of 2019.

Brenna Phelan

Okay. And then last one from me. In your commentary, you reference softer housing markets in BC and Alberta, but that seems to be where you're really focusing your origination growth. Can you just give us an idea of what you're seeing and whether that's really volumes? Or are you seeing maybe the precursors to some upticks in arrears?

Duncan Hannay

I think in terms of—well, as you know, in terms of where we play, particularly in the prime insured space, these would be homes under \$1 million, where we see more consistent market appetite, if you will, really across the regions we serve including the areas further west. So I think by virtue of the fact that we address that segment of the market, it insulates us, certainly, from some of the ups and downs of the top end of the market.

Quebec is an area that's unaddressed for us today and clearly has been a fairly hot market of late. No imminent plans there, but we continue to look at that market opportunistically but carefully at the same time. And so we—I forget, sorry Brenna, I forgot the back half of your question.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

**Brenna Phelan**

Just are you seeing anything on the credit quality side when you referenced softness in those markets?

Duncan Hannay

Well, I think as it relates to our Street Solutions book, which is an area where we bear the credit risk, we've seen excellent performance there. And of course, the balance of our portfolio on the prime insured side is insured. But having said that, we monitor both credit quality and performance very carefully, and we're not seeing anything unusual on that front.

Brenna Phelan

Okay. That's great. That's it for me. Thank you.

Operator

Ladies and gentlemen, as a reminder, should you have a question, please press the *, followed by the 1.

Your next question comes from Jaeme Gloyn of National Bank Financial. Please go ahead.

Jaeme Gloyn

No. I'm good.

Duncan Hannay

Okay. Great. Thanks, Jaeme.

Operator

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



There are no further questions at this time. Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »