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EQB.TO - Q1 2017 Equitable Group Inc Earnings Call

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CORPORATE PARTICIPANTS

Andrew R. G. Moor *Equitable Group Inc. - CEO, President, Director, CEO of Equitable Bank, President of Equitable Bank and Director of Equitable Bank*

Timothy Wilson *Equitable Group Inc. - CFO, VP, CFO of Equitable Bank and VP of Equitable Bank*

CONFERENCE CALL PARTICIPANTS

Geoffrey Kwan *RBC Capital Markets, LLC, Research Division - Analyst*

Graham Ryding *TD Securities Equity Research - Research Analyst of Financial Services*

Jaeme Gloyn *National Bank Financial, Inc., Research Division - Associate*

Jeff Fenwick *Cormark Securities Inc., Research Division - Director of Institutional Equity Research*

Stephen Boland *GMP Securities L.P., Research Division - Director and Equity Research Analyst*

PRESENTATION

Operator

Good morning, ladies and gentlemen. I'd like to welcome shareholders and analysts to Equitable's First Quarter 2017 Conference Call. (Operator Instructions)

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

This call is being recorded for replay purposes.

It's now my pleasure to turn the call to Andrew Moor, President and CEO of Equitable Bank. Please go ahead, Mr. Moor.

Andrew R. G. Moor - *Equitable Group Inc. - CEO, President, Director, CEO of Equitable Bank, President of Equitable Bank and Director of Equitable Bank*

Thank you, Scott, and good morning, everyone, and welcome to our call. I'm joined by Tim Wilson, Chief Financial Officer of the bank.

As you know, our original intention was to report our results on May 11, but in light of the noise created by unfortunate developments for a well-known trust company in Toronto, we chose to release results earlier to free ourselves with the constraints of talking to the market that we customarily impose up to the end of each quarter. This gives us the opportunity today to reassure our shareholders and the broader Equitable stakeholder community that our bank has taken the appropriate steps to ensure that we are protected in the event of market stress and that we're thinking prudently about the impact of changes to our competitive landscape caused by issues affecting that trust company. Those issues are unique to them, and it's unfortunate that banks, including ourselves, are drawn into the mix, particularly since our approach to bank governance and our internal controls are vastly different, and our fundamentals are only getting stronger.

To reinforce that message, let me start with an overview of the first quarter performance. It was another record period for our bank. Net income was $43.4 million, 55% above last year. Diluted earnings per share grew 49%. The difference in growth rates reflected the addition of 809,000 new shares as a result of our decision to issue $50 million in equity to OMERS, one of Canada's largest pension plans, late last year.

In the first quarter, ROE stood at 18.4%, an excellent outcome, one that is superior to the average of Canada's big banks over the period of 15.3%. This performance is not unusual for Equitable, but it was slightly above our long-term average. Our bank has grown EPS every year for the past decade, and ROE has been between 15.5% and 19.9% for 13 consecutive years.

Just [let me speak] to the decade, Equitable's book value also grew in the first quarter, this time by 21% to $57.73. Yesterday, our board declared a dividend of $0.23 per common share, the same as last quarter and 10% above last year, reflecting the fulfillment of our goal of consistently growing our dividends while retaining capital in the bank.

How these results were achieved matters, and I'm pleased to tell you we generated them by adding quality assets that were rigorously vetted to the same high standards that have made our Equitable a credit performance leader among all banks over the past decade.

Mortgage originations were $1.6 billion, 4% above the 2016 first quarter. In the previous 3 quarters, originations had surpassed the $2 billion mark. The difference reflects normal seasonality, and as I will discuss momentarily, a decline in Prime originations within Securitization Financing.

The most important contributor to our earnings is single-family alternative lending. First quarter originations in this core segment were $836 million, 24% above last year. This reflected market share gains in the broker channel that we've earned over the past 12 months as a result of our outstanding service quality. Share gains were supplemented by growth in house prices and in the overall alternative market.

Single-family alternative mortgage principal ended the quarter at $8.2 billion, 22% above March 31, 2016, and 4% above the level at December 31, 2016.

For the fourth consecutive quarter since refining its approach to the market, commercial lending originations grew, this time by 88% to $380 million. About $180 million of that growth was due to one particular syndicated financing facility. We participated in a senior tranche, and the facility is secured by residential mortgages.

Outside of that, our commercial business continued to increase the size and quality of the deal flow pipeline. As a result of recent growth, commercial lending mortgage principals stood at $3 billion, 30% ahead of last year and up 6% from Q4.

We do expect commercial loan attrition to climb a bit as we progress through 2017 as retention has been high in recent periods, including in Q1. Growth will also depend on the level of funding market disruption caused by recent industry developments.

As expected, our prime single-family originations of $122 million in the quarter were much lower than last year, 73% below Q1 of 2016. Prime represents about 2% of the bank's after-tax earnings, and this decline will not have a meaningful adverse impact on our business.

Overall securitized financing mortgage principal was $10.5 billion at quarter end, up 22% from last year on both Prime and multifamily residential segment growth during the ensuing 12-month period. Multi-originations grew 16% year-over-year as a result of an increase in our CMB capacity and the utilization thereof.

Moving to credit performance. Net impaired mortgage assets of $38.1 million were up by $1.4 million from last quarter. The increase was a result of impaired formations in Alberta and Saskatchewan. At current levels, net impaired mortgage assets still account for only 21 basis points of our total mortgage book, the same as in Q4 and down 1 basis point from a year ago.

Our allowance to credit losses, which is the amount reserved on our balance sheet to absorb credit losses, represented 10.19% (sic) [0.19%] of our total loan assets. This is much higher than the bank's average loss rate experience of 4 basis points over the past 10 years.

We remain well reserved. Provision for credit losses you see on our income statement, which represents a net addition to that allowance in the current period, was $788,000 in the first quarter or just 2 basis points of average mortgage principal. This was up from a year ago but is in line with the bank's long-term norms and well below the industry average.

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A risk that we are taking seriously is the rising price of housing, particularly in the greater Toronto area and in Vancouver. We're watching these markets with extra vigilance, and since last fall, have further tightened our lending standards. This should provide us with extra protection depending on how the future unfolds. We don't speculate on future house prices, but as prudent lenders, we are risk aware and realistic.

For the bank as a whole, we expect our arrears rates and credit loss provisions to remain low in 2017, assuming that Canadian economic conditions stay within the broad range of market expectations. Our bank is strong and prudently managed. The results I just reviewed validate that assertion.

We're also strong because we have high capital ratios. In fact, we have the highest capital ratios of any publicly traded Schedule I bank.

At quarter end, our CET1 ratio was 13.9%, which is well above the Basel III minimum target of 7%. Our total capital ratio of 16.4% exceeds the Basel III target of 10.5%. And our leverage ratio was 5.38%, a rate that was above the level of year-end 2016 and March 31, 2016.

I'd like to comment on industry developments and our response to them. From various stories in the media, it should be clear by now that the issues affecting the well-known trust company in Toronto are their issues alone, and it's unfortunate the banking industry has been dragged into it. Our best defense in turbulent times is to continue managing our bank in a prudent, risk-aware manner, just as we have for decades, and that includes closely monitoring our liquidity position to ensure that we protect the money the Canadian investors have trusted with us.

In that regard, I'd like to provide you with some insights into our liquidity and funding strategies. As many of you know, Equitable put a strategic focus on diversifying our sources of funding long before the current issues arose, and we are pleased with our progress. In 2013, we had only 2 primary sources of funding. Now we have 8. This represents a meaningful change in our funding and risk profile.

In addition, within our core broker GIC channel, we maintain a distribution network that is as broad as that of any nonbig-6 bank. There'd be no changes to that distribution network in 2017. Although there are some conversations in the market that institutions may limit third-party deposit balances to the CDIC insurable limit, we do not believe that the impact of these changes will be material as only 10% of our broker deposits were above this limit, and the majority of those deposits mature over the course of the next 14 months.

In context, our deposits grew again in the first quarter, and we did not notice any unusual trends until last Wednesday. After the trust company publicly announced its business challenges, in particular, [folly-construed] financing, we began to experience a slight change. Between last Wednesday and Friday, we had modest deposit outflows, which represent in total just 2.4% of our deposit base. Given those outflows, our portfolio of liquid assets remained at approximately $1 billion.

We're rightly confident of the fundamentals of our funding model and our business as a whole, but [related] to recent events, we have taken steps to reinforce our liquidity. These additional steps are consistent with the conservative manner in which we manage the bank and our low risk appetite.

Specifically, we have maintained our traditional approach of managing a portfolio of assets and liabilities with matched terms: Converted assets in our liquidity portfolio into cash to ensure that funds are immediately accessible if needed; optimized usage of our various bank-sponsored funding facilities; focused on extending the term of our GIC portfolio; initiated a process to obtain new portfolio insurance and to pool additional mortgages for securitizations.

In the past few days, we have negotiated $2 billion funding, standby funding facility, with the TD Bank, which is also going to include CIBC, National Bank, the Bank of Nova Scotia and the Bank of Montreal. And the terms of which include a 1% commitment fee and a 0.5% standby charge. The cost of these funds on this facility, if drawn, is approximately 60 basis points of our GIC costs and comparative with the spreads on our most recent deposit note issuance, and as such, will allow us to grow profitably. In short, our bank is well protected in the event there is a period of market disruption.

Looking at asset growth. We anticipated our mortgage application volumes will increase over the coming weeks as a result of issues facing that other institution. We'll address those volume opportunities prudently, approving only the highest-quality applications, and we'll do so within our operational capacity and our available sources of liquidity. By prudently, I mean we'll maintain our adherence to quality underwriting. We're adjusting pricing and credit criteria to manage the flow of business and the reality of a less competitive environment. Over time, changes in the competitive landscape may represent significant new lending opportunities for Equitable.

Thinking strategically, we are dedicated at looking after our existing customers, whether they are borrowers or self-employed and represent an important part of the fabric of Canadian society, our linchpin of the country's economy or mortgage brokers who have supported Equitable for many years. We will not lose sight of the fact that service to all customers is why our bank is a leader on issuance.

We are also dedicated to our shareholders. And one of the ways we manage risk is to expand assets at a measured pace, knowing that faster growth is riskier growth. So even if we have the market opportunity to grow faster than normal, we will not be taking that route. Accordingly, we will ask prospective customers to be patient with us as we address higher-than-normal demand.

I'll return with some brief comments at the end. Now here's Tim with his report.

Timothy Wilson - *Equitable Group Inc. - CFO, VP, CFO of Equitable Bank and VP of Equitable Bank*

Good morning, everyone. As Andrew said, our performance in Q1 reflected the sustained risk-managed growth of our mortgage asset. In addition, first quarter results also included $0.11 of EPS from our Maple assets.

As we reported last quarter, we believe the income from the Maple transaction for all of 2017 will be closer to the top end of our original range, which is $0.25 to $0.30. We also expect a further few hundred thousand dollars of gains in Q2 on some more defaulted mortgages that we acquired as part of that deal.

Moving to net interest income. It was an all-time quarterly record of $78.4 million, above the previous record set in the fourth quarter of last year and up 23% from a year ago on growth in average asset balances and compared to last year's first quarter higher margins. Compared to the fourth quarter, net interest income was up by 1%, even though total NIM was down by 4 basis points. The NIM trend primarily reflected lower mortgage prepayment income within both the core lending and securitized financing portfolios.

Looking to 2017, our outlook for net interest income is now more muted. We expect growth rates to be in the mid-single digits in the latter part of the year. We have reduced our asset growth and margin expectations because of the recent market disruptions. Margin forecasts have been reduced slightly more because of the incremental cost of our backstop liquidity facility. And for absolute clarity, we have not assumed any increases to our average mortgage rates. It's simply too early to tell if recent market developments will lead to this outcome. On Securitization Financing, we anticipate that NIM will be consistent with Q1 levels.

Despite growth in the business as well as investments in support of our key business strategies, noninterest expenses were flat to Q4 and up only 2% compared to Q1 of last year. You recall that Q1 last year included extra marketing expenses of $2.6 million to support the public launch of EQ Bank. These expenses did not recur this year. The key items driving period-over-period noninterest expense growth are itemized in our MD&A.

Looking forward, we now expect noninterest expenses to continue increasing at year-over-year rate slightly above the growth rate of the bank's assets. Be assured that we are still investing in our key strategic initiatives and, therefore, that the aggregate levels of capital investment and operating expenses related to these programs during 2017 will be consistent with 2016 levels. This includes investing in EQ Bank and then our efforts to migrate to AIRB.

With expenses climbed in the first quarter, our efficiency ratio of 33.2% was much lower than Q1 a year ago, 10 percentage points to be exact. This reflected revenue tailwinds that served to reduce our efficiency ratio below expected levels. We now expect that to reverse and for our efficiency ratio to be toward the high 30% range for the remainder of the year. The increase is largely a function of the expected NIM compression and slowing asset growth rate I mentioned earlier in my remarks. Even as those elevated levels fell, Equitable should remain an efficiency leader among Canada's banks.

Now back to Andrew.

Andrew R. G. Moor - *Equitable Group Inc. - CEO, President, Director, CEO of Equitable Bank, President of Equitable Bank and Director of Equitable Bank*

Thanks, Tim. As you can imagine, providing an outlook is challenging in this environment. We have provided our best estimate based on the current and rapidly evolving market conditions in the MD&A.

Our primary focus is on prudently managing the bank, just as we always have, and on protecting the money that our depositors have entrusted to us.

Stepping back, our bank's short- and long-term results over market cycles, including the 2008 financial crisis, should provide all stakeholders ample evidence that Equitable has managed to the highest standards required in the banking system that is known worldwide for prudence. Our capital ratios are the strongest of any publicly traded Schedule I bank. Our funding sources are diversified, and at quarter end, we held more than $1 billion of high-quality liquid assets. We are supported across the banking industry by great customers and diversified partners and there is also the recent show of confidence in Equitable by Toronto-Dominion Bank and the rest of the banking partners I spoke of earlier through its decision to provide a $2 billion standby -- through their decision to provide a $2 billion standby funding facility that attests to the entire banking community. We are well built, structurally sound, reliable, safe and prudent.

For those who know us well, Equitable has a no-nonsense board and executive leadership team. Corporate governance excellence remains the top priority for our board, and our directors set the tone for everything we do. Our reputation matters, and we would never jeopardize that for any reason.

In summary, we are very aware of recent industry disruptions. We have a great business that plays an important role in the Canadian financial services landscape, and we'll be able to deliver value to our shareholders over time just as we have over our long history as an institution.

As Equitable shareholders who deposit ourselves, we have every confidence in the future of our bank. And I believe you should, too, based not just on what I'm saying, but based on Equitable's long-term track record.

That concludes our prepared remarks. And now we'd like to invite your questions. Scott, can you please open the lines to our analysts who have questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Jeff Fenwick with Cormark Securities.

Jeff Fenwick - *Cormark Securities Inc., Research Division - Director of Institutional Equity Research*

Andrew, I just wanted to start with the credit facility. And maybe you could give us a few more details on the terms there in terms of when it would be available, is there a minimum draw amount and any sort of conditions for drawing upon that facility.

Andrew R. G. Moor - *Equitable Group Inc. - CEO, President, Director, CEO of Equitable Bank, President of Equitable Bank and Director of Equitable Bank*

It's going to be available very shortly. Tim, I wonder if you could help Jeff with some of the details.

Timothy Wilson - *Equitable Group Inc. - CFO, VP, CFO of Equitable Bank and VP of Equitable Bank*

Yes. Jeff, as Andrew said, it will be -- I mean, things are moving quickly, but we have a strong commitment. And the big banks that we spoke of in Andrew's remarks just demonstrated an unbelievable level of partnership with us. I think the terms are market, and they're much more reasonable than those that our competitor announced on its facility last week. It's a secured facility. The rates that we paid, the pricing is outlined in our MD&A. There's obviously a degree of over-collateralization that we'll need to think about. Not the rumored 2:1 ratio, again, with our -- with the other facility that's been talked about in market, but probably something more in the range of 20%.

Jeff Fenwick - *Cormark Securities Inc., Research Division - Director of Institutional Equity Research*

Okay. That's helpful. And then maybe we just speak a little bit about the outflows that you've been seeing on the deposit front just in terms of the splits across the HISAs versus the EQ Bank savings accounts. Have you seen any differences in behavior across those channels?

Andrew R. G. Moor - *Equitable Group Inc. - CEO, President, Director, CEO of Equitable Bank, President of Equitable Bank and Director of Equitable Bank*

Yes, we're seeing virtually no outflows in the digital channels, Jeff.

Jeff Fenwick - *Cormark Securities Inc., Research Division - Director of Institutional Equity Research*

Okay. And I guess maybe there's lessons being learned here around the deposit-taking model going forward. I mean, this one, I know it's still early days, but thoughts on how that may change and how that's going to change your approach to managing liquidity in the business.

Andrew R. G. Moor - *Equitable Group Inc. - CEO, President, Director, CEO of Equitable Bank, President of Equitable Bank and Director of Equitable Bank*

Well, I certainly think that we're on the right track with building brand, the direct-to-consumer distribution. And so that's what -- we've been on that road for the last year or so, just over a year. And I think that will certainly continue to be an important part of -- as we evolve in the next 5 to 10 years, that will become more important.

Jeff Fenwick - *Cormark Securities Inc., Research Division - Director of Institutional Equity Research*

Okay. And then I guess on the other side of the business from the broker channel right now, obviously, there's so much information in the media, and I'm sure that you're hearing many rumors. What are you hearing back from the broker channel? And is there concerns about disruption there? And how that's going to play out in terms of business growth here going forward?

Andrew R. G. Moor - *Equitable Group Inc. - CEO, President, Director, CEO of Equitable Bank, President of Equitable Bank and Director of Equitable Bank*

As I indicated, the way we're communicating this is that we're dealing with the brokers that we've always dealt with and looking to support their businesses. So I think they're not particularly concerned. And we think we've done a nice job in keeping that communication -- those communication lines open.

Jeff Fenwick - *Cormark Securities Inc., Research Division - Director of Institutional Equity Research*

Okay. And then maybe one more area to talk about here that's getting a lot of attention obviously is the idea of bundled mortgages. And I think you gave a little bit of disclosure around that in terms of how that plays in your portfolio, but maybe you could give us -- characterize how that --

how much of that has contributed to your existing residential mortgage portfolio. And how do you treat that from a risk perspective when you're writing a mortgage?

Andrew R. G. Moor - *Equitable Group Inc. - CEO, President, Director, CEO of Equitable Bank, President of Equitable Bank and Director of Equitable Bank*

But we're mitigating risk. When one thinks about -- if we are happy to lend to, say, 70% loan-to-value and somebody else wants to risk another 5% behind it, and then what's combined with us, then clearly -- and we'd be exposed to first losses, so we're reducing our risk. There is good disclosure, I think, in the supplementary package that shows it's actually a relatively small part of our business and hasn't been growing over the last few years since we've been -- in fact, it's basically stable in nominal dollars while the rest of the business is growing around it.

Operator

The next question comes from the line of Geoffrey Kwan with RBC Capital Markets.

Geoffrey Kwan - *RBC Capital Markets, LLC, Research Division - Analyst*

Maybe to take the other side to Jeff's prior question on broker partners but maybe from the deposit side, the conversations you're having with maybe your key deposit broker partners, can you kind of talk about the nature of those conversations in the sense of how much they recognize that you guys haven't experienced the same issues as, say, your key competitor?

Andrew R. G. Moor - *Equitable Group Inc. - CEO, President, Director, CEO of Equitable Bank, President of Equitable Bank and Director of Equitable Bank*

Well, I think that's completely clear. As we line out and set out in our remarks, we've got broadest distribution of deposits across the entire country, I think, of any of the sort of nonbig-6 banks. And all of those channels remain open to distribute...

Geoffrey Kwan - *RBC Capital Markets, LLC, Research Division - Analyst*

And can you talk about -- you talked about the net amount, but on the new GIC sales, if we think about it, how much you might have been doing typically prior to what had happened last week to -- granted it's early days in terms of what we've seen in the past week, has that number been roughly the same? Has it been maybe like 75%? Or anything you can provide on that?

Andrew R. G. Moor - *Equitable Group Inc. - CEO, President, Director, CEO of Equitable Bank, President of Equitable Bank and Director of Equitable Bank*

It's tough to tell because it depends where sort of rates are competitive in the market. As we've always described, if we're looking for 3-year money, for example, to match 3-year fundings that we're making, then we'll be more competitive in the 3-year market. So -- but the general patterns that we saw last week were consistent with historical experience, given the pricing that we had on the board.

Geoffrey Kwan - *RBC Capital Markets, LLC, Research Division - Analyst*

Okay. The last question I had was just -- it sounded like last Friday that you'd increased rates on your non-prime residential mortgage loans. I'd heard roughly about 50 basis points across the board. Is that correct? And maybe if you can talk about how you're talking on the increasing originations. You're obviously trying to maybe take advantage of what's been going on, but how should we think about it in terms of what your core capacity is and maybe how much you can do on a monthly basis, that sort of thing?

Andrew R. G. Moor - *Equitable Group Inc. - CEO, President, Director, CEO of Equitable Bank, President of Equitable Bank and Director of Equitable Bank*

Yes. So just -- thank you, Geoff. On the sort of price increases, we're making some early adjustments as we suggested on loan-to-values and pricing. We actually increased prices in Ontario by 50 basis points across the mortgage product set and 25 basis points outside of Ontario. We already have some sort of regional distinctions in pricing. So that's where we're going with that. And I think as I mentioned on the call, we don't see ourselves really accelerating the growth in our portfolios despite the opportunities that might emerge here. We set out a business model a couple of years ago in the shareholders letter, and we want to grow the business at about 15% a year. And remember, one of my -- when I first got the job as CEO a number of years ago, I went around to listen to all the big CEOs talking about managing risk. And I remember one that really resonated with me. I heard Ed Clark from the TD Bank, who I had great respect for, talking about how he managed risk in his business. And what he said was the areas where I find the highest risk are those businesses that are growing fastest. And so I think growing too fast is not prudent for a bank. And so I think we would continue to grow at about the same rate as you expected -- you've historically seen from us.

Geoffrey Kwan - *RBC Capital Markets, LLC, Research Division - Analyst*

Okay. And you talked about 15% in the mortgage book as opposed to originations.

Andrew R. G. Moor - *Equitable Group Inc. - CEO, President, Director, CEO of Equitable Bank, President of Equitable Bank and Director of Equitable Bank*

Yes, in the mortgage book, yes, so it's actual portfolio growth.

Operator

Your next question comes from the line of Jaeme Gloyn with National Bank Financial.

Jaeme Gloyn - *National Bank Financial, Inc., Research Division - Associate*

Yes. Just wanted to follow up on one of Jeff's questions there about the mortgage rate increase. Have you seen similar responses from competitors? Or is that really just an action by yourselves at this stage?

Andrew R. G. Moor - *Equitable Group Inc. - CEO, President, Director, CEO of Equitable Bank, President of Equitable Bank and Director of Equitable Bank*

For now, it's an independent action based on what makes -- what appears to make sense based on what we know what's going on in the market. So I think it's too early to extrapolate that into any kind of financial outcome numbers.

Jaeme Gloyn - *National Bank Financial, Inc., Research Division - Associate*

Okay. And given that rate increase in Ontario and also outside and the funding mix that we may expect going forward, do you expect this to neutralize any of the margin impact? Or I guess, just mitigate? Maybe just a little more color based on all that.

Andrew R. G. Moor - *Equitable Group Inc. - CEO, President, Director, CEO of Equitable Bank, President of Equitable Bank and Director of Equitable Bank*

Yes. I mean, I think as -- essentially, we think this funding capacity, if we ever had to draw it, would be about 60 basis points wider than GICs. As I mentioned, we've raised the pricing on single-family mortgages by 50 basis points. So if one was to take that view, you might get to that conclusion, but I think it's way too early to do that. Frankly, I -- we've tried to set up the facts for you, and I think we can all make judgments in a period of uncertainty as to how that's going to play out over the longer term.

Jaeme Gloyn - *National Bank Financial, Inc., Research Division - Associate*

Okay. And in terms of the underlying mortgage portfolio, obviously, a lot of claims or discussion around that. Is there any initiatives that underway where you will look to take a deeper dive into the loans underwritten or -- going forward?

Andrew R. G. Moor - *Equitable Group Inc. - CEO, President, Director, CEO of Equitable Bank, President of Equitable Bank and Director of Equitable Bank*

I don't think there's any deeper dive that can be taken. We have gone from the top to the bottom of this bank over many years where we have great controls. First line has great way of organizing how mortgages originated with separation of duties on that line. Our second line is constantly altering and monitoring the book. Our internal audit teams are -- have -- constantly looking at the single-family book. I think we're one of the few banks in the country that actually record all the phone calls associated with verifying income and talking to the borrowers. I think there's almost nothing more that could be done. We run a really tight ship, and we're very comfortable with that. And of course, we also have regulatory oversight where one can imagine that's -- regulators take an interest in this area of the business, in mortgage underwriting in all banks, including Equitable.

Jaeme Gloyn - *National Bank Financial, Inc., Research Division - Associate*

Great. Okay. And on the deposit side, the outflow to date, the Wednesday to Friday, is that only outflow that was transacted or I guess settled on Friday? Would you have any color about transactions that were made on Friday or may -- potential forward-looking statements on that deposit?

Timothy Wilson - *Equitable Group Inc. - CFO, VP, CFO of Equitable Bank and VP of Equitable Bank*

They remain on Friday as well, not just the settlement.

Operator

(Operator Instructions) Your next question comes from the line of Graham Ryding with TD Securities.

Graham Ryding - *TD Securities Equity Research - Research Analyst of Financial Services*

Maybe I can just start with your competitor. If One Capital cannot find a buyer either for the company or for its assets and funding is potentially not there for them going forward, are you concerned that the market may not have a capacity to absorb these mortgages that could be coming up for renewal in 2017?

Andrew R. G. Moor - *Equitable Group Inc. - CEO, President, Director, CEO of Equitable Bank, President of Equitable Bank and Director of Equitable Bank*

I suppose that's a concern One has to fully think about and what the future of that looks like. And presumably, somebody's going to buy the assets for sure, and presumably, the person that buys those assets likes the mortgages that they're buying. So I wouldn't be particularly concerned about that, but it's certainly something we should be monitoring over the next few weeks.

Graham Ryding - *TD Securities Equity Research - Research Analyst of Financial Services*

And when you say presumably somebody would buy, is it more likely that it's a nonbig-6 bank? Or do you think that anybody is hoping to buy this portfolio?

Andrew R. G. Moor - *Equitable Group Inc. - CEO, President, Director, CEO of Equitable Bank, President of Equitable Bank and Director of Equitable Bank*

I really can't speculate on that. I know that they have financial advisers that are trying to find a solution to that.

Graham Ryding - *TD Securities Equity Research - Research Analyst of Financial Services*

And then maybe just jumping to your uninsured mortgages. How does that maturity profile look like relative to your deposit maturities? Is it safe to assume that you have more mortgages that are up for renewal over the next year than you do have deposit liabilities that are due?

Timothy Wilson - *Equitable Group Inc. - CFO, VP, CFO of Equitable Bank and VP of Equitable Bank*

Our general approach, as we've spoken about before, is to match-fund our book. There are various assumptions built into the estimates of those cash flows, but we believe that when we look out over -- across our whole portfolio, our assets are generally very well matched with our liability. And I would refer you back to the Investor Day presentation that's posted on our website. In that, we provide a slide that shows the maturity profile of assets mapped against liabilities so you can see the degree of matching in our book. And that's the philosophy that we will continue to maintain.

Graham Ryding - *TD Securities Equity Research - Research Analyst of Financial Services*

And it seems like the concern of the market is sort of around the on-demand deposits and the high-interest savings accounts that are with some of the third-party broker platforms. Can you give us a little bit of color of how concentrated or how many brokers you deal with? And is this sort of an 80-20 rule, where perhaps 80% of your deposits are with maybe 20% of your broker partners?

Timothy Wilson - *Equitable Group Inc. - CFO, VP, CFO of Equitable Bank and VP of Equitable Bank*

Yes. And so I'll break that answer in a couple of pieces. With our GIC book, we tend to see the concentration of our distribution with the big-6 banks, all of which have been tremendous partners, previous to the recent events and through the recent events. If I look at our brokered high-interest savings accounts, we probably got 20 to 25 wealth managers that distribute that product across the country. The concentration would be more skewed towards the top 5, even the top 10, but we do have a pretty decent degree of diversification there, too. And then, obviously, EQ Bank, we're diversified across -- about 30,000 individual retail customers have exhibited, and their behavior's been a lot more predictable, and those deposits appear to be a lot more sticky even throughout the course of the past few days.

Graham Ryding - *TD Securities Equity Research - Research Analyst of Financial Services*

Great. And then your mortgage growth, you talked about despite what happened in the market going forward, you're going to remain focused on roughly 15% loan growth. Last year, it looks like your portfolio was up 26%. Can you maybe give me some context to why the growth was higher last year versus your target?

Andrew R. G. Moor - *Equitable Group Inc. - CEO, President, Director, CEO of Equitable Bank, President of Equitable Bank and Director of Equitable Bank*

Yes. I mean, last year, I think we surprised ourselves. It's hard to sort of dial it in and out week by week. You go out to the market with a set of prices, you get commitments, and you stand in the market with a position. But I think the longer-term reason why 15% is the right number all comes back to capital formation-type issues, right? So the goal is to generate 17% to 18% ROE every year. Payout, about 10% of that is dividends, which means that our capital base grows by about 15% a year. So we can actually grow our mortgage portfolio 15% a year without diluting shareholders by issuing new capital, which feels good at that level. So that makes a sustainable business model without having to go to the market to raise new capital. But also at 15% a year, we feel that we can have the operational controls, the risk of -- you get a certain aging in the portfolio, so you've got older cohorts distributed through your portfolio so that to the extent there's a change in how prices -- or something, then the portfolio will be well diversified and pretty solid. So that's how we sort of get to that number. It's not in any 1 year we could be sort of plus or minus that a little bit, but that's really what's going on.

Graham Ryding - *TD Securities Equity Research - Research Analyst of Financial Services*

Okay. Great. And just one more if I can get greedy. 10% of your broker deposits, you said, are over the CDIC insurance limit. How about your EQ Bank platform? Or -- is there any portion of that that's above the $100,000 account limit?

Timothy Wilson - *Equitable Group Inc. - CFO, VP, CFO of Equitable Bank and VP of Equitable Bank*

Yes. Across all of our channels, Graham, we do -- the 10% is spread across all the different channels. So it's an aggregate number. On EQ Bank, we definitely have deposits over $100,000. But if you remember, in about May of last year, we actually introduced a cap of $100,000 in order to keep those deposits below the insurable limit and encourage stickiness in that overall book. So there are some -- these any amounts -- any accounts that do have more than $100,000 are from the very early days, and they're grandfathered with that excess amount.

Andrew R. G. Moor - *Equitable Group Inc. - CEO, President, Director, CEO of Equitable Bank, President of Equitable Bank and Director of Equitable Bank*

It's pretty small portion. I mean, over the years, it's -- over the last little while, it's all been less -- under $100,000.

Timothy Wilson - *Equitable Group Inc. - CFO, VP, CFO of Equitable Bank and VP of Equitable Bank*

That's correct.

Operator

Your next question comes from the line of Geoffrey Kwan with RBC Capital Markets.

Geoffrey Kwan - *RBC Capital Markets, LLC, Research Division - Analyst*

Just had one follow-up question. You mentioned earlier how -- in terms of how you manage risk and have been trying to grow the business in terms of running a tight ship, and had me thinking about your key competitor and maybe perhaps when you take a look at -- they had very strong growth over a long period of time that perhaps, in a way, it became a little bit harder to kind of, call it, have that tighter ship and manage the risks and kind of be on top of things. As you grow your business, I mean, how do you think about that? And are there certain things that you think about how you can try and mitigate the risk of having something similar happen at your company?

Andrew R. G. Moor - *Equitable Group Inc. - CEO, President, Director, CEO of Equitable Bank, President of Equitable Bank and Director of Equitable Bank*

Yes, I think it's very relevant, Geoff. And I mean, I didn't mention it in the context of that growth that we've talked about, but that's another part of it, for sure. Having -- being able to have people to come in, have the experience, understand the processes and controls and grow in a measured manner is absolutely important. There could be a lot of hubris around trying to grow too fast to satisfy shareholders in the short term, but really, what you should be trying to do is build a sustainable business over the long term. So we have a more of a sustainable approach. And we do think our -- certainly, like our system, the infrastructure is fairly flexible to deal with scale. It's really more about the people and the talent to do this specialized kinds of business with the kind of level of control that we're talking about. And so growing at a pace that makes sense for that is really what we're trying to achieve.

Operator

(Operator Instructions) Your next question comes from the line of Stephen Boland with GMP Securities.

Stephen Boland - *GMP Securities L.P., Research Division - Director and Equity Research Analyst*

So I guess, Andrew, when I look at the credit facility, that's there to protect against some possible outflows on the demand deposit side. What would you say now on the GIC side? I mean, is that the biggest threat in your mind that there is a run on the GICs that as mortgages come up for maturity, that you can't refinance those GICs or they just won't roll for you? I guess in the context of that, what is the biggest threat that you see over the next few weeks?

Andrew R. G. Moor - *Equitable Group Inc. - CEO, President, Director, CEO of Equitable Bank, President of Equitable Bank and Director of Equitable Bank*

We don't see that as being a threat, frankly. We got an open access to all the boards and the CDIC-insured GICs. And as we mentioned, the last few days have been consistent with previous patterns. So we would expect that that's the way it's going to roll going forward.

Stephen Boland - *GMP Securities L.P., Research Division - Director and Equity Research Analyst*

Okay. And just generally then, what's the biggest risk here over the next few weeks?

Andrew R. G. Moor - *Equitable Group Inc. - CEO, President, Director, CEO of Equitable Bank, President of Equitable Bank and Director of Equitable Bank*

Well, I think the risks we set out in our statements, we always have to be concerned about not exposing us due to the credit risk. So being very careful about that, spend a lot of time worrying about great interest rate risk mismatch. And as we described earlier, we're concerned about the elevated liquidity risk environment. That's why we've taken the actions that we described in much more detail earlier in the call. I mean, those are the big 3, but then, of course, we had to worry about regulations and reputation and things that we do set out in much more detail as part of our entire risk management framework.

Stephen Boland - *GMP Securities L.P., Research Division - Director and Equity Research Analyst*

And how quickly if we do -- I mean, Home is certainly in a different situation, but it is putting out almost like a daily press release. If things start to -- if the deposits continue to trend downwards or the GICs start to -- maybe start to bleed a little bit as well, I mean, how often now should we expect to see communication from you?

Andrew R. G. Moor - *Equitable Group Inc. - CEO, President, Director, CEO of Equitable Bank, President of Equitable Bank and Director of Equitable Bank*

Well, as we mentioned, we've got a kind of comprehensive liquidity plan that includes the lines we set up, some other actions like insuring some single-family residential mortgages sit on the book. And so we think it's going to be more useful to investors if we come back on periodic basis, where we got a bundle of information to tell you about how things are evolving rather than trying to give a much shorter cadence of updates, so we can gather all that data, tell you where we are and come back to you. So we will -- we do commit, obviously, to come back to investors to -- at regular periods as we've got sort of meaningful information we'll communicate to you.

Operator

Your next question comes from the line of Jaeme Gloyn with National Bank Financial.

Jaeme Gloyn - *National Bank Financial, Inc., Research Division - Associate*

Just a couple other follow-ups. First one's related to the over-collateralization and the security. I understand that you're still working through this, but how would it work? Is it just that you'd siphon off a pool of, let's say, 1.2 mortgages to -- $1 mortgages to $1, and that would be discrete for every dollar that's borrowed from the line? Or is it the access to the entire portfolio?

Timothy Wilson - *Equitable Group Inc. - CFO, VP, CFO of Equitable Bank and VP of Equitable Bank*

No, that's exactly. We ring fence a pool of mortgages, and so that [end] of the facility.

Jaeme Gloyn - *National Bank Financial, Inc., Research Division - Associate*

And is that ring fenced at random? Or will the lenders, I guess, the big-6, would they sort of pick the loans to ring fence?

Timothy Wilson - *Equitable Group Inc. - CFO, VP, CFO of Equitable Bank and VP of Equitable Bank*

No. I mean, we've agreed on parameters for the loans at the moment. So we know roughly what a pool of mortgages should look like, the criteria that the mortgages in the pool should meet, and we'll just adhere to that schedule going forward and then work with them on each individual transaction if we have to go there. So stretch the backstop facility that hope we will never have to use.

Andrew R. G. Moor - *Equitable Group Inc. - CEO, President, Director, CEO of Equitable Bank, President of Equitable Bank and Director of Equitable Bank*

Jaeme, just to give you some more color on this. These mortgages are going to be really identical in character to the mortgages we already sell into the current ABCP facility. So they're well understood by the institutions sort of (inaudible). That's what allowed us to put this transaction to go so fast.

Jaeme Gloyn - *National Bank Financial, Inc., Research Division - Associate*

Okay. Fair enough. And just to understand a little bit better the portfolio characteristics of the pool of assets sold in the ABCP and into this discrete pool, would they -- how would they compare relative to the overall portfolio? Is it slightly better? Roughly the same? How would you describe it?

Andrew R. G. Moor - *Equitable Group Inc. - CEO, President, Director, CEO of Equitable Bank, President of Equitable Bank and Director of Equitable Bank*

It's a similar quality of portfolio, I would say, but there are certain exceptions. For example, large loans over certain dollar amounts in any community might not be eligible to the pool where they would be -- where we might have them on our balance sheet. So there is a -- it is a matter of sorting out which loans work and which don't.

Timothy Wilson - *Equitable Group Inc. - CFO, VP, CFO of Equitable Bank and VP of Equitable Bank*

I think one thing we're very cognizant of, Jaeme, is that we don't take our absolute best-quality assets and put them in -- pledge them against this facility. We are aware that we also -- one of the primary jobs that we have as management of a financial institution is to protect the interest of our depositors. So we're going to make sure that the assets that we deal with are roughly representative of our whole portfolio and the depositors are not disadvantaged.

Jaeme Gloyn - *National Bank Financial, Inc., Research Division - Associate*

Okay. And what is the size right now of the uninsured mortgages that are put into the ABCP right now? Is it anything significant?

Timothy Wilson - *Equitable Group Inc. - CFO, VP, CFO of Equitable Bank and VP of Equitable Bank*

Size of the individual mortgages or how much do we have?

Jaeme Gloyn - *National Bank Financial, Inc., Research Division - Associate*

Like how much is in ABCP?

Timothy Wilson - *Equitable Group Inc. - CFO, VP, CFO of Equitable Bank and VP of Equitable Bank*

We'd be just south of $1 billion right now in total.

Andrew R. G. Moor - *Equitable Group Inc. - CEO, President, Director, CEO of Equitable Bank, President of Equitable Bank and Director of Equitable Bank*

It's about $900 million. And it's important to understand, though, these -- when they go into the ABCP, they could never come out again. So there's no liquidity risk around that ABCP. So the process is you sub them to ABCP and the mortgage matures within that facility.

Jaeme Gloyn - *National Bank Financial, Inc., Research Division - Associate*

Right. Okay. And then shifting gears a bit on the term-matched funding structure, are there -- from a -- looking over a course of the year, it looks like it's pretty much term-matched. Are there any, let's say, gaps or spikes in mortgage maturities or deposit maturities where you may see some lumpiness in how well that's matched and there could be some gaps?

Timothy Wilson - *Equitable Group Inc. - CFO, VP, CFO of Equitable Bank and VP of Equitable Bank*

Yes. We look at the portfolio holistically. We also look at the portfolio at the level of each individual month. And while every month isn't going to be perfectly matched, we try to keep it within certain tolerance levels. So no, we absolutely look at this over the entire term of the mortgage and liability portfolios but then within individual periods as well.

Operator

There are no further questions at this time. Mr. Moor, I'll turn the call back over to you.

Andrew R. G. Moor - *Equitable Group Inc. - CEO, President, Director, CEO of Equitable Bank, President of Equitable Bank and Director of Equitable Bank*

Thank you, Scott, and thanks, everybody, for your attendance on such short notice. We look forward to seeing you at our Annual Shareholders Meeting on May 17 at the Equitable Bank Tower. And for any of you want to come and visit our floors and see our systems and the way we're so proud to talk about, we're certainly happy to give you an opportunity to see it [then]. Thank you.

Operator

This concludes today's conference call. You may now disconnect.
