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PRESENTATION

Operator

Good morning, ladies and gentlemen. I'd like to welcome shareholders and analysts to Equitable's Second Quarter 2018 Conference Call and Webcast. (Operator Instructions)

Before we begin and on behalf of our speakers today, I will refer webcast viewers to Slide 2 of the presentation and our callers to the following information, which contains the company's caution regarding forward-looking statements. We remind you that certain forward-looking statements will be made today, including statements regarding possible future business and growth prospects of the company. You are cautioned that forward-looking statements involve risks and uncertainties detailed in the company's periodic filings with Canadian regulatory authorities. Certain material factors or assumptions were applied in making these forward-looking statements, and many factors could cause actual results or performance to differ materially from those conclusions, forecasts or projections 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.

Additional information on items of note, the company's reported results and factors and assumptions related to forward-looking statements are available in Equitable's Q2 2018 MD&A and earnings news release.

This call is being recorded for replay purposes on August 10, 2018.

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

Andrew R. G. Moor - *Equitable Group Inc. - President, CEO & Director*

Thank you, Leone. Good morning, everyone, and welcome. I'm joined by Tim Wilson, Senior Vice President and Chief Financial Officer of the bank.

Equitable produced strong second quarter growth in our lending and savings businesses while continuing to expand its role as Canada's Challenger Bank. In lending, our single-family book grew faster than we anticipated, and the outlook for this business for the remainder of the year is now much improved. Meanwhile, deposit growth of 24% year-over-year contributed to our decision taken during the quarter to reduce the size of our secured backstop funding facility, a decision that reflects our confidence in the bank's diversified funding sources.

Albeit that funding markets have stabilized and that past liquidity measures have done their job.

Looking briefly at the quarter's key financial metrics. Each of our businesses performed strongly. Year-over-year EPS growth would have been $0.17 or 8% without the impact to writing down the upfront costs associated with the counsel portion of this -- of the backstop facility. Excluding the write-down, ROE would have been 14.5% compared to the reported number of 13%.

In addition to the write-down, we absorbed $0.25 of other liquidity event-related costs in Q2. Absent these costs, our EPS would have been $2.70, an all-time record, and ROE would have been 15.9%. These adjusted results are evidence of our success in profitably growing each of our underlying businesses. Book value increased 15% to $69.03 per share.

To bring greater attention to our key objectives and to streamline our prepared remarks, I'm now going to walk through a progress report on our key strategic priorities, which we have 5 for 2018, as Dave detailed in our last annual MD&A. Each is designed to increase shareholder and customer value creation and Equitable's standing as Canada's Challenger Bank.

The first is to grow our existing businesses through superior service. In the second quarter, mortgages under management increased by 12% year-over-year or $2.6 billion. In Alternative Single Family, our book was up by 15% from last year, as we sharpened our competitive edge that was dulled a bit immediately following the implementation of B-20. With that and traditional seasonality providing an uplift, we grew originations by 51% over Q1. This growth rate is higher than we anticipated. We are pleased with the success and the recent momentum in the single-family business.

Renewals also trended higher. To give credit where it's due, we think B-20 has improved renewal prospects. But our single-family team has been very attentive to each of our customers, with retention rates growing as a consequence.

We're also pleased that this growth has been achieved without sacrificing credit quality. Average beacon scores of our single-family lending portfolio was 688, up from 684 last year and appeared to be trending upward. Notably, during the second quarter, the average beacon scores of our newly originated Alt Single Family mortgages reached a record high of 708. A year ago, the average was 697. This uptick is a function of benign credit conditions in the economy overall, including strength in employment levels, possibly a by-product of the B-20 changes introduced in January.

Our outlook for growth in Alternative Single Family has improved. Last November when we first -- were first building our forecasts, we had expected the portfolio to grow by 2% to 4% over the course of 2018, but have moved that expectation up, and it now sits closer to 10%, a marked improvement representing $500 million, $600 million of incremental assets that will fuel future earnings and growth potential.

In Commercial, the bank had an outstanding quarter of growth and customer service. Consistent with our plans to allocate more capital to this business, Commercial principal also increased 15% year-over-year, with originations over 134% higher. Commercial originations represented an all-time record for this business. The Commercial team has found success by growing the breadth and depth of our partner relationships through high-quality service.

Simply stated, Equitable was a higher priority lender for our partners, and we also have more partners than we did a few years ago. These relationships have never been stronger.

We're broadening our range of Commercial activities. For example, we have begun to lend to specialty commercial finance companies operating in other spaces such as equipment leasing. These new lending products provide us with an immediate asset diversification benefits and also insights into the performance of these other lending businesses. Consistent with our low-risk appetite, we're growing these new lending lines carefully and slowly with appropriate degrees of capital in the subordinated position to the bank's first lien position.

Looking at the Commercial market overall. Activity levels are high across Canada, and our broad national presence is leaned to encouraging origination flow. In terms of asset classes, multifamily continues to be our largest growth area due to demands in new construction financing as well as funding for the repositioning of existing properties.

Driven by our strategies, relationships and a positive market outlook, we continue to expect Commercial assets to grow at rates between 18% to 20% in 2018, with commercial originations more than 20% higher than last year in Q3 and Q4. Securitization financing, mortgages under management grew 3% -- 8% versus last year, reflecting originations, renewals and multiunit residential mortgages and stability on our prime single-family book. Elevated multi originations were mostly due to an increase in our CMB capacity.

Growing our service on business is a priority in our deposit-taking operations as well. Here we increased our brokered GIC principle 22% from a year ago, an excellent outcome that demonstrates our commitment to the broker channel and growth of the channel itself. We also remain focused on increasing the structural stability of our liquidity profile, and in that vein, continue to gradually extend the duration of our GIC book.

This brings me to our second priority, which is cement EQ Bank's position as Canada's leading digital banking platform. I would say we made tremendous progress in this regard as our digital bank platform has now reached 60,000 customers and the $2 billion mark in deposits just 30 months after launch. In less than 3 years, Canada's first digital-born bank has reached $2 billion in deposits, faster than previous branchless banking options in Canada such as telephone banking, grocery kiosks and internet banks that came before us. Year-over-year, EQ Bank deposit growth of 51% reflected a higher -- highly effective marketing presence across both traditional and digital media and solid demand for our new EQ Bank GICs.

I'm very pleased with the innovation that we brought to the GIC product, with consumers being able to make purchases straight from the smartphone in a few easy clicks. The convenience factor is a major selling point. We expect the launch of GICs will have several benefits to Equitable, including increasing the bank's share of the direct-to-consumer market, further diversifying our funding sources and extending the duration of our deposits.

In addition to the launch of GICs on our digital platform in March, the other EQ Bank features we've introduced over the past year are contributing nicely to our hub bank positioning that you may have heard me mention about in our annual meeting. Our go-forward development strategies for EQ are intend to build additional franchise value as it's recognized and appreciated by the growing wave of Canadians who are embracing all that pure digital banking has to offer and to really demonstrate the value of what we have built to a broader group of people.

Priority 3 is to leverage our capabilities and balance sheet to diversify into adjacent markets. This year, we're actively investing in initiatives that support our Challenger Bank approach and will contribute to asset growth over the long term. You already know about our PATH Home Plan reverse mortgages. In the second quarter, we continue to build mortgage broker awareness of our reverse mortgage product and refined our offering in response to market feedback. We're in the early stages of building awareness and are excited about the long-term prospects for this business.

This fall, we plan to introduce additional secured lending products. I won't preempt these introductions, but I will say that we are determined to build the right foundations for adjacent market Challenger Bank offerings through extensive analysis and testing. This will be another classic case of our "invest now and reap what we sell in later" approach, which we think is highly appropriate for our shareholder-minded bank.

Priority 4 is to maintain a disciplined approach to capital management and a low-risk profile. Disciplined capital management can be seen in several outcomes, including growth in our common share dividend, which is 13% higher than a year ago, and have already strong capital ratios. Higher asset growth means that our CET1 ratio edged a bit lower in Q2. Although we are still carrying excess common equity at the moment, it is not as much as last quarter. And our asset growth expectations for the balance of the year have now improved.

We've discussed on prior calls possibility of putting a normal course issuer bid in place to manage capital levels to our targets. While this remains an active conversation on the board, we're not moving forward on that plan this quarter, given our current views on growth and how shareholders will be served by deploying capital in the business.

As for maintaining a low-risk profile, the evidence can be found in our credit metrics. Net impaired mortgage assets were just 13 basis points of total mortgage assets, down 3 basis points from a year ago. Impaired loans also decreased in dollar terms compared to last year due to the discharge of 2 commercial loans that were not -- were impaired at the end of Q2 2017 and improvements in our Alternative Single Family portfolio, primarily in Alberta and Saskatchewan.

We will meet our goal of maintaining a low-risk profile as a result of our culture, our internal control framework, our prudent underwriting approach and our 3 lines of defense operating model. For the remainder of 2018, we expect arrears rates and credit loss provisions to be low, assuming the Canadian economic conditions stay within the range of expectations.

Like you, we are closely following house prices and sales activity levels and believe that the market has recently returned to a more balanced territory. Rest assured, we're always prepared to act quickly to arrest any areas of elevated risk, as we've done in the past.

I keep cautioning that arrears rates will be unusually low in recent quarters and they are likely to increase from those levels and I'll offer that same observation today, but also add a very important point that the bank remains well reserved, with allowances to credit losses equal to 22 basis points for assets, well above our long-term loss rates.

Our fifth and final priority is to strengthen our key capabilities. In this regard, we also make good progress. In prime, we launched the Equitable Bank Evolution Suite switch program. It enables mortgage brokers and borrowers to easily move prime mortgages to us from other lenders. This required an update to our back-office technology and our processes. Since after its launch in late June, we have seen a positive uplift in prime originations from this program.

We also introduced credit life insurance in partnership with a major life insurance company. This product adds more value to our customers, be they alternative or prime borrowers.

Now I'll turn the call over to Tim for his report.

Tim Wilson - *Equitable Group Inc. - Senior VP & CFO*

Good morning, everyone. In keeping with our goal of streamlining our quarterly remarks, I'm going to focus on just a few financial highlights, beginning with profitability.

Several of our key profitability measures: net interest income, NIM and EPS, were reduced by the write-down of unamortized upfront costs associated with our backstop facility. As Andrew mentioned, excluding this write-down, core earnings performance in the quarter was strong and above last year, even as we continued to invest in our businesses, in some cases, ahead of the benefits realized. The upside of reducing the size of the backstop from $2 billion to $850 million is that quarterly interest expenses were declined by $2.8 million relative to the recent run rate beginning in Q3 and continuing through Q2 2019 when the current facility matures. In effect, the bottom line impact of the write-down will be neutral by year-end. As we still need to determine the ongoing need for a backstop, I can't comment on the cost beyond next June at the moment.

Even with the write-off, Q2 net interest income was 1% higher than Q2 2017, and it would've been 9% higher without the write-down, which is the midpoint of the guidance that we provided last quarter. As a reminder, the write-down as well as other liquidity event costs that we have been incurring are booked as interest expenses and weigh on both our net NII and our NIMs.

Total NIM in Q2 was 1.51%, 12 basis points lower than last year, due principally to the 11 basis points impact of the write-down. Beyond the write-down, the major influences on Q2 NIM were lower prepayment income, which was offset by higher spread that we earned in our single-family and commercial portfolios. You'll likely recall that single-family margins benefited from pricing increases that we implemented in May 2017.

Lower prepayment income is a good news, bad news story. When a lower level of early discharges hurts this revenue stream in current period income, it also means that mortgages are staying on our book for longer and that we will continue to earn NII over time. In our view, this trend is a net positive for the franchise, even if it weighs on current period performance.

Looking forward, our outlook for net interest income for 2018 is similar to last quarter. That's to say we expected to increase the year-over-year rates in the 8% to 10% range along with average asset balances. I will note that this is an average range for the whole of 2018. And since our growth was only 3% in the first half, this rate should be higher in the back half of the year. Further, you should expect to see some volatility in the growth rates quarter-to-quarter. Q3 of 2017 was a low point for NII, as it represented a high point for liquidity cost. So the year-over-year growth rate in

Q3 of this year may increase to the high teens. The growth rate in Q4 will then return to a level that is closer to our full year guidance. We project the NIM in the 1.55% to 1.6% range in Q3 and Q4. This range incorporates the now lower cost for the backstop as well as reduced expectations for prepayment income and the current pricing dynamics in the single-family market.

Costs associated with the backstop related write-down were also one of the drivers of the increase in our Q2 efficiency ratio, which stood at 42.9%. Excluding this item, our efficiency ratio would have been 40.3%, just marginally higher than Q2 of last year, even though we grew period average FTE by 8% or 44 positions, partly to support the investments that we have been making in the technology and the product advancements that Andrew mentioned in his remarks. We spent to promote our EQ Bank brand and our new EQ Bank GIC product, and we wrote off $600,000 of development costs associated with a new underwriting platform for our commercial business. We had begun to invest in one solution with a technology provider and that solution proved to be sub-optimal. We rightly decided to pursue another option that better met our needs.

For the remainder of 2018, we will continue investing in our 5 strategic priorities. As a consequence, we anticipate that noninterest expenses will increase at year-over-year rate, slightly higher than the growth rate of the bank's assets. In dollar terms, expenses should be down from Q2 in the range of $1 million, mainly because we don't expect to incur the same level of marketing costs. As a result, we expect our efficiency ratio in Q3 and Q4 will be in the high 30% range to lower than the level that we recorded in Q2.

Now back to Andrew.

Andrew R. G. Moor - *Equitable Group Inc. - President, CEO & Director*

Thank you, Tim. We believe our Canada's Challenger Bank positioning is working as intended to differentiate Equitable, better meet the needs of select and diverse groups of customers and to create brand and shareholder value.

Our products and technology roadmaps for the remainder of the year are ambitious, and we will execute in disciplined yet creative manner. Our outlook for alternative single-family growth has improved, and we demonstrated the strength of our diversified lending model by growing in commercial and launching new products. We believe that mortgages under management and balance sheet assets will continue to grow in 2018, providing the fuel for good earnings performance that is supported by the now reduced backstop costs.

That concludes our prepared remarks, and I would like to invite your questions. Leone, can you please open the lines to our analysts that have questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question is from Marco Giurleo from CIBC.

Marco Giurleo - *CIBC Capital Markets, Research Division - Associate*

My first question is just on the strong uptick in mortgage originations this quarter. Could you give us a sense of how much of that was you guys taking share versus just strength in the market overall?

Andrew R. G. Moor - *Equitable Group Inc. - President, CEO & Director*

It's really hard for us to do that at this point. We just don't have the data. And as you know, one of the larger players in the space has yet to report. We do have some insight. We do think we gained share in the quarter based on some other data that we look at that we've already got -- already privy to. It's a bit of a complicated story. I do have the sense that the old market might be growing as a percentage of the overall market. But again, it's a bit early to have the solid data. But I think we're fairly confident that as our teams kind of work through the issues of B-20 and started to have a much better customer service focus. Also -- they also had a customer service focus, but started to be more balanced around the concerns of meeting B-20 and delivering the traditionally great customer service Equitable does that we won some share back. Now frankly, we've got some -- a little bit of challenge now with the volumes coming in that much faster ahead of expectations where we've leant too hard on some members of our team to really pick up that level of pace without us hiring ahead of it. And we're working hard to address that to make sure that we've got to people having the appropriate level of work allocation and that it's all fair to everybody and maintain great service.

Marco Giurleo - *CIBC Capital Markets, Research Division - Associate*

All right. And maybe you could tie that to the pricing dynamics in the quarter, what you saw in terms of competition and what you're seeing post-quarter as well? I know there was the announcement of a major new entrant this quarter. So maybe your thoughts on that as well.

Andrew R. G. Moor - *Equitable Group Inc. - President, CEO & Director*

Yes. Not seeing much sort of pressure from any new entrants at this point. I think I'm slightly more optimistic about the pricing in the market than I would have been on the last conference call, but still concerned that we've got competitors that may be overcapitalized and not rational enough about pricing. We're certainly feeling good about our pricing. It seems to be working in the marketplace and is also providing us with decent returns. So we're feeling pretty good about it. There's going to be something we're keeping a close eye on over the next little while.

Marco Giurleo - *CIBC Capital Markets, Research Division - Associate*

All right. And just lastly on the EQ Bank platform, we've seen the successful launch of GICs on the platform. Maybe you could tell us what the next major innovation for the platform is going to be?

Andrew R. G. Moor - *Equitable Group Inc. - President, CEO & Director*

So from a -- there's a number of answers to that question. As I mentioned, you'll see us making much more noise about the functionality that we already have in the platform. I think it's clear that we haven't yet communicated even to our existing customers how fantastic the product is. So this is a unique product in the Canadian marketplace and it's an account that you can store money in, you can have your payroll come into, you can pay your credit card bill out of it, you can pay utilities that also pays a great rate of interest. And this is an enormous innovation in the Canadian marketplace. We've been successful in attracting customers for the rate. And really what we're trying to do is, is provide more value to them in their lives by showing how they can use more functionality in the system. So that's what you'll see our PR going over the next few months. In terms of actual innovation, we are now actually in the process of starting to upgrade the entire platform into a cloud environment, which will give us much more flexibility going forward. That's going to be a great evolution, but there will be a period where new product initiatives are somewhat constrained as we're making the transition of the core technology. You will see a fantastic new customer-facing app being launched in October. So it's the first time we issued a native app on the cellphone. And I must admit I'm just so pleased with what the team has done. We're testing it now. I've seen it, and it's a beautiful execution of a digital banking app. So that will be coming in October. And when we release the new -- when we're successful in the cloud migration at some point next year, you'll see joint accounts and then followed by some registered accounts as well. So there's a lot going on in the EQ Bank that we're just -- we already had a fantastic success, I think, with what we've done and delighted where the other team has taken the thing too, but you can see it as a roadmap that we were able to fulfill here and a lot of excitement amongst the group.

Operator

Your next question is from Geoff Kwan from RBC Capital Markets.

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

My first question was talking about your capital levels. Like how do you think about what that optimal capital level is? Is it thinking about it from a CET1 ratio perspective? And then also, however you think about that, do you think that for your business that you would probably need to have higher levels of capital (inaudible) versus, call it, the Big Six Canadian banks?

Andrew R. G. Moor - *Equitable Group Inc. - President, CEO & Director*

Yes. I think -- I mean, the Big Six are in a different -- a whole different structure, as you know, Geoff, with the advanced approaches to capital management, the AIRB approach, which is where we're evolving to. So I would argue that we're holding even more capital when it looks -- when you make that direct comparison of CET1. We run our own ICAP that assesses all of our risks and appropriate capital levels, and we try to run a pretty conservative balance sheet for standardized bank. I think, if you sort of look across other standardized banks in our space, you'll see that us -- our capital level is very high. We like that, though. We think that to build a bank that's trying to grow on a really solid foundation of capital is a really good basis. The banks are built on confidence, and having a solid capital base is one of things that can add to confidence. I think of our sweet spot on CET1 as being 13.5%. That's the kind of number that I already keep in my mind, and there is a lot of science behind that with an art overlay. And so you can see we -- based on that thinking, we probably think we've got about $75 million surplus common equity on the balance sheet at the end of the quarter. But as I mentioned, you need to have -- surplus capital gets absorbed and assets grow pretty fast, and that fuels earnings growth. But it does draw down your capital levels. But I think as soon as you see us in below 13.5%, you should generally be thinking that we would be looking to build -- rebuild capital and however we can significantly above 13.5% and there'd be possibly ways of thinking about either deploying capital faster or distributing it to shareholders in one form or another with the dividends or buybacks.

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

Okay. And then my next question was on the prime insured single-family residential side. How are you thinking about what the origination outlook looks like for you over the next year in terms of what you'll be able to acquire? And is that just a matter of funding that through the CMB? Or is there another way that we should think about how you want to fund that business?

Andrew R. G. Moor - *Equitable Group Inc. - President, CEO & Director*

In the prime single-family space, we typically would not fund through CMB. So we're funding through MBS. So we are funding through CMHC programs, but not actually selling it into CMB. So CMB is generally allocated for our multifamily programs. And we sell the prime product into the MBS markets. You should expect to see faster growth in that area. And I think what's particularly compelling is we're also seeing good growth in our Equitable Bank branded products, which have a much stronger franchise value, particularly when they come up for renewal and at least 5 years typically from the date of origination. But our team is really doing well in building faster than we expected there. In fact, when you look at the overall prime book, you'll see that a lot of the attrition, to the extent we had attrition, was in the non-branded Equitable product, while our portfolio of Equitable branded mortgages have actually been growing. We have just recently entered into an arrangement with another originator where we're going to originate a few hundred million dollars more of mortgages this year and that -- you'll start to see that coming through in Q3 and Q4.

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

And was that $300 million -- I think it was $300 million to $350 million. Was that for the second half of the year? Or was it a quarterly number?

Andrew R. G. Moor - *Equitable Group Inc. - President, CEO & Director*

Second half of the year, but it's mostly going to be closed in Q3.

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

Okay. Last question I had was just your backup credit facility. In the bigger picture, do you think about this as really more of a temporary funding facility in the context of what happened with -- in the industry last year? Or do you think about it as -- it's a long-term part of our capital structure as a contingency in the event that we need to tap it?

Andrew R. G. Moor - *Equitable Group Inc. - President, CEO & Director*

I think we haven't landed on either of those 2 positions. Part of the reason why we reduced the facility this year was to be able to be able to enter a dialogue with market participants to see how they view this. And we don't claim to have any unique insight into how a bank of our size should be run to be prudent. I think there's certainly a view out there amongst people I respect that say banks shouldn't be supported by standby lines from other banks if you create capital structures and then rely on that. Others would say, smaller banks should always be -- have something to support them in an extremist. Now what I would say that's sort of interesting, the way I think about it is if we didn't have any backup lines in place at all and we were running at a capital level of 13.5%, if you run the pro forma through for the most recent quarter, you get to a 17% return on equity, which is bang on line with our historicals. I find that kind of compelling bit a mass, but it tells you the underlying structure of the organization continues to perform very well.

Operator

(Operator Instructions) Your next question is from Graham Ryding from TD Securities.

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

Maybe I could start just on the credit side, PCLs are very low again this quarter. I think there was a reserve release. Just any color there, please.

Andrew R. G. Moor - *Equitable Group Inc. - President, CEO & Director*

Tim, I wonder if you could handle the detail on that.

Tim Wilson - *Equitable Group Inc. - Senior VP & CFO*

Yes. I think that the reason that the overall PCLs were so low in the quarter, Graham, related mainly to the stage 1 and 2 provisions that we take under the new IFRS-9 methodology, the major reason that those provisions were so low in the quarter is that the macroeconomic view changed in a positive direction. So we use a third-party economic forecast to provide us with the assumptions we use in our modeling and their view on some of the fundamental economic conditions in Canada, as they look out over the next couple of years, improved quarter-over-quarter and those PCLs came way down. And I think that's exactly the effect that people were expecting with IFRS-9, the quarter-over-quarter volatility in the numbers as some of these assumptions changed. So not a surprise to us that we see that level of volatility.

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

Okay, that helps. And just bigger picture, when I look at your -- the level of your impairments sort of as a percentage of your mortgage book 3, 4 years ago versus where you're at today, what do you attribute the much lower level of arrears today versus a few years ago?

Andrew R. G. Moor - *Equitable Group Inc. - President, CEO & Director*

Well, I think it's a combination of many things we talk about in our own individual risk management practices. And I think we set the right tone from the top. We have 3 layers of defense. And we think about credit a lot, where we want to lend. And I think -- but I think I have to acknowledge that we've been helped out by a good economy, with employment has been very good in the areas that we lend and house prices sort of continue to generally trend upwards. What I would say is that the one thing that I do take a lot of comfort on is we had a little bit of a test over the last 3 years in Alberta where both unemployment spiked and prices dropped and really we saw stresses and we saw some of our borrowers having to sort of reform and to think about how they deal with homeownership. But really we see almost nothing in the way of actual credit losses through the entire period, and we seem to sort of have that behind us now. So I think we do lend in a way that can take stress. We lend, as a reminder, in major urban centers primarily whether there's a diversified employment base. We are looking for people that can demonstrate they can pay their mortgages. And we lend at loan to values that provide us protection in an extremist scenario.

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

Okay, that's helpful. And then last one would just be, you were commenting earlier just on adjusting your pricing on more using Q2 and that had some impact. Is there anything you can quantify as to what the differential was in pricing Q1 versus Q2 on average?

Andrew R. G. Moor - *Equitable Group Inc. - President, CEO & Director*

Yes. I don't have that data right with me. There's actually a little bit of -- a little bit more complexity there as well, because GIC rates were increasing through the quarter. So I think that's not a number we would -- and so rates are moving at -- there's a little bit of too many movements going on there to be able to quote you a number on that.

Tim Wilson - *Equitable Group Inc. - Senior VP & CFO*

We can say, broadly speaking, Graham, that spreads at which we're originating mortgages were a little bit tighter in Q2 than they were in Q1. But even as I look for the most -- at the most recent monthly numbers for June, the spreads on those newly originated single-family mortgages are roughly in line with the spreads of the overall single-family portfolio and seem to be moving in the right direction. So I think we're feeling pretty comfortable with the pricing dynamics right now, as Andrew mentioned earlier.

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

Okay, that's helpful. And sorry, would June have been different than April, May? Or is June a reflection of Q2?

Tim Wilson - *Equitable Group Inc. - Senior VP & CFO*

It's, I think, a rough reflection of Q2.

Operator

Your next question is from Nik Priebe from BMO.

Nikolaus Priebe - *BMO Capital Markets Equity Research - Analyst*

Just want to start with a question on the funding diversification. Just wondering if you could give us a bit of an update on some of the uptake you've seen for the GIC distributed through the digital banking platform as well as the partnership you have with Wealthsimple. Have you started to see some inflows from those initiatives? And over time, how meaningful do you envision those new channels getting in terms of the broader funding mix?

Andrew R. G. Moor - *Equitable Group Inc. - President, CEO & Director*

Yes, in both cases, we've seen good inflows of funds. Certainly on the GIC side, we're over a couple of hundred million in balances on directly originated GICs. We're seeing good flows from -- good, consistent daily flows from the Wealthsimple relationship. And so yes -- no, we're pretty pleased with where we are so far. I think one of the learnings from the GIC product launches that it's -- our customers that have savings account with us and our ability to cross-sell a GIC is actually a good value proposition for lots of our customers, especially now as the yield curves can be better up a little bit. There's a premium pickup to move into a term product to GIC. So we're seeing some good conversion from savings accounts to GICs, and we're also seeing new customers being attracted to platform simply based on the offer at the GIC.

Nikolaus Priebe - *BMO Capital Markets Equity Research - Analyst*

Okay. I think we talked about this on the last call as well. But could you give us a bit of color on what sort of incremental feedback you're receiving from the broker community on the reverse mortgage product? And are there any sort of refinements or adjustments that you think might be necessary to start kind of generating a bit of traction there? Is it just a function of broker awareness? Or any color on that would we appreciated.

Andrew R. G. Moor - *Equitable Group Inc. - President, CEO & Director*

Yes -- no, I think there were some things we've been learning about, for example, how certain property tax programs work in British Columbia, it was something we were not familiar with and we had to adjust the product slightly to deal with. We've also dealt with -- I think our prepayment penalties were -- people were reluctant to sign on, because they would have -- they paid it off in the early years, but I would've regarded it as an unfair prepayment penalty. So we've actually reduced that to make it a fairer product for the consumer that only went in, in June and until the time to reprogram the system. So there have been some product-tinkering issues. And I would -- but I would say that our team has just done a fantastic job in getting in front of a bunch of decision makers. We've got an exclusive arrangement with a real estate broker, for example, to promote reverse mortgages through their channel, and we're making great progress. I would say it's a slower decision product to get to closure. So for all of the early inquiries we have in terms of turning into a closing, there's definitely a longer period of time. And I think that's actually quite appropriate. And clearly, you've got an elderly individual who may want to consult with children, consult with legal advisers and not the same driver to close the transaction as you have when somebody is moving house in a regular mortgage. So we know it'll take a bit of time to build this book. But we've got a great committed small team on this, and I'm confident that we will build a great business going forward. It's -- the more we peel into it, I think the more we think this as a product makes a lot of sense for us and for Equitable Bank and for our customers.

Operator

(Operator Instructions) Your next question is from Jaeme Gloyn from National Bank.

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

First question is related to the RWA growth and the impact on capital. You sort of talked about the 13.5% CET1 ratios where you look to peel back growth. At the pace that we're going right now, it's eating away at about 20 to 30 basis points of CET1 ratio at the pace of growth today. Do you need to breach the 13.5%? Or is it kind of -- as you approach it, you'll start to slow down growth in commercial loans, for example, or elsewhere? How do you think about that 13.5% level?

Andrew R. G. Moor - *Equitable Group Inc. - President, CEO & Director*

Well, Tim has definitely done the deeper dive into that. We don't see that CET1 being a constraint at this point.

Tim Wilson - *Equitable Group Inc. - Senior VP & CFO*

I think, Jaeme -- I mean, working with the numbers that we provided in our outlook, as we look at through the balance of 2018 and 2019, we actually think we're going to start to rebuild capital again. It's not going to continue heading downwards. There's a strange, but very normal seasonality that happens with our capital ratios as we start to originate more volumes in the midpoint of the year, put those on our books. But at that point, they still haven't started to organically generate capital for us. We typically see the ratios drop and then pop up in the back half of the year. And again, that's fully what we expect to happen in 2018.

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

Okay, great. In terms of the net spread commentary that you said it was in line with the broader market -- or sorry, the broader mortgage portfolio in June versus relative period -- recent periods, can you just comment or maybe give us a sense as to how much of the growth in the EQ Bank deposit platform is playing into that? Obviously, it's been a very successful program and currently funds at cheaper rates than your typical GIC product, especially given the deposit broker commissions that you would layer into that as well. So maybe some color around how that's helping on the margin front.

Andrew R. G. Moor - *Equitable Group Inc. - President, CEO & Director*

I mean, there was a period of a few days last week where we were underpriced -- under in the deposit in the GIC through EQ Bank. Then we actually moved the rates rather recently. Generally, as we're trying to build that book, most of the commission that we're saving through the digital banking platform is being -- becoming an advantage for the customers in terms of better rates. So that's not really a feature of the spread in a meaningful way.

Tim Wilson - *Equitable Group Inc. - Senior VP & CFO*

And I'd say, Jaeme, I mean, yes, the EQ Bank product right now has lower interest rate than you'd see across most of the GIC terms. But the growth in that product -- I mean, we're thrilled with the growth rate of EQ Bank. But the dollars just aren't significant enough to meaningfully shift our NIM at the moment.

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

Yes, I guess, I wasn't referring to the EQ Bank GIC offering. I was...

Tim Wilson - *Equitable Group Inc. - Senior VP & CFO*

Sorry, I meant the high-interest savings account. As -- so that savings account, compared with our regular brokered or the EQ Bank GICs, there's definitely a rated, spread advantage to funding with EQ Bank (inaudible). But again, the growth in pure dollar terms isn't significant enough to have a material impact on our NIM, I mean, to help with the margin.

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

Yes, I guess, I'm just a little -- if I'm looking at Q2 versus Q1, $300 million expansion in broker deposits and about $240 million or so expansion in EQ Bank -- in the EQ Bank channel. So it seems like it's roughly similar growth and similar contribution to your sources of funding? Is there something I'm missing there in terms of, like, I guess, underlying mix?

Tim Wilson - *Equitable Group Inc. - Senior VP & CFO*

The one piece that's not transparent to you is some of the EQ Bank growth was because of the EQ Bank GICs, right, which are comparable in rate to what we have -- to the GICs sold through the broker channel, right? So there's no real relative NIM advantage to that growth.

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

Okay. I see. Okay. And maybe a separate topic then in terms of the single-family uninsured origination growth and asset growth there, are you able to maybe quantify or qualify based on your conversations with your BDMs or underwriters? How much of an impact the disruption at one of your competitors has played in your growth and in your success during Q2? Are they -- have they offered any opinion or views as to how much of that has helped, I guess, in the quarter?

Andrew R. G. Moor - *Equitable Group Inc. - President, CEO & Director*

Certainly not able to put our fingers on any changes, any particular competitor. As I just mentioned earlier, when we talk about market share, I think we'll have a better feel for that when we -- once we've seen all the various reporting coming through. Our sense is that we've gained market share overall. But certainly don't have a more nuanced feel on that, that would go to where that might have come from.

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

Okay. And last one from me, just more of a forward-looking question around funding sources and the potential for an RMBS markets. Would you be able to offer any opinions or your views of, should the covered bond limit be increased? Is that something that -- in your conversations with potential investors and internally, is that something that you think would be something that the Equitable Bank, or I guess, the alternative mortgage market sector can access?

Andrew R. G. Moor - *Equitable Group Inc. - President, CEO & Director*

We certainly believe that Equitable Bank can -- should be able to access it, though there a number of things that make it less attractive than might otherwise been, that we think policymakers would be -- we made some constructive suggestions to policymakers in terms of things like the percentage of the assets that can be pledged under a covered bond program. And we think there's lots of reasons why smaller banks like Equitable should be able to pledge a higher percentage of their assets. And there's a good public policy trade-off there around helping with the stability of the financial system and being a pro-competitive to help the Canadian economy as a whole. So we're certainly making some of those arguments around covered bonds. Whether this would really apply to anything other than to sort of 2 or 3 larger midsized banks and include ourselves I think is somewhat doubtful. So covered bonds certainly seem to be something that we're looking at reasonably seriously and believe that there might well be a route forward. We're not talking over the next 6 months, but over a longer period than that, to be clear. RMBS, we still have, we've never been great believers that an RMBS market will come to life and thrive with the current pricing arrangements and the current institutional arrangements where mortgage is the best funded within the system. So we continue to look at it with a lot of interest, but -- and we think we understand it in great detail. But we're certainly not prepared to take losses or lose money to try and see that market and get it going. It doesn't feel that's very high probability and that's something structural changes in that space.

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

Okay. And I know I said that was my last one, but I want to sneak one more in actually. And I apologize if you addressed this in the opening remarks or maybe the fact that you can't address it. Just I'm curious to know, of the mortgages that were renewed in the quarter or let's say in the first half of 2018, obviously, very good retention rates there, are you able to give us any color or sense as to the proportion of those mortgages that would not have qualified under the previous stress test? And the fact that they are renewing, they actually don't have to go through the new stress test? Are you able to give us a sense as to how much has that -- that has played in higher retention rates and strong renewals?

Andrew R. G. Moor - *Equitable Group Inc. - President, CEO & Director*

As I mentioned in the remarks, we think that may have contributed to it. Our team is also super-organized around providing great customer service. The reality is that we don't go and get new income documentations on renewal. So we look at payment experience. We look at beacons and that sort of thing that we can cull. But we don't go and do a new calculation of stress test and don't pull new income to support that. So we can have some sense if generally that's helpful for us, but we don't -- we can't put a precise quantitative number on it.

Operator

Thank you. There are no further question at this time. Please proceed, Andrew.

Andrew R. G. Moor - *Equitable Group Inc. - President, CEO & Director*

Thank you, Leone. To conclude, we look forward to delivering our next quarterly report in November. And thank you very much for attending on this warm August day.

Operator

Ladies and gentlemen, this concludes your conference call today. We thank you for participating and ask that you please disconnect your lines.
