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EQB.TO - Q3 2017 Equitable Group Inc Earnings Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen. I'd like to welcome shareholders and analysts to Equitable's Third 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 is now my pleasure to turn the call over to Andrew Moor, President and CEO of Equitable Bank. Please go ahead, Mr. Moor.

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

Thank you, Julie. Good morning, everyone, and welcome to our call. I'm joined by Tim Wilson, Chief Financial Officer of the bank. As a reminder, we've posted our quarterly slide deck to eqbank.ca and I encourage you to review it as part of your analysis.

As I step back and look at the performance, I must admit I'm pretty pleased with how our team and the business performs so soon after the difficulties of April and early May. Diluted EPS was higher than a year ago despite $0.42 of liquidity-related costs, demonstrating the superior earnings power of the franchise.

EQ Bank continued to grow deposits and was named one of the world's best digital banks by Financial IT, a respected fintech industry magazine. This represents an important independent validation of the innovations in customer value embedded in our all-digital platform. The top 2 places in that ranking are held by affiliates of Tencent and Alibaba, China's major Internet companies, so placing sixth globally is an excellent accomplishment for EQ Bank. And on the credit front, our losses and delinquencies were really low. Given this performance, I think there are good reasons to have confidence in the future of our bank.

And now for some details. After second quarter disruptions, stability returned to the deposit market. In fact, Canadians responded very well to our value proposition, depositing another $500 million to bring total deposits to a record $10.5 billion with a good mix of GICs and on-demand deposits.

The EQ Bank Savings Plus Account led the way with sequential growth at 21%, another very encouraging signal that our all-digital platform is building a strong community of supporters. I might add that while increasing in face rate, GICs represent a very economical source of funding when compared to other measures of interest rates.

On the asset side, we increased lending activity relative to the second quarter and originated almost $1.5 billion of core lending assets and almost $500 million in our securitization business. Competitive dynamics were demonstrably better with the retrenchment of another lender. We finished the quarter with a record $22.8 billion of mortgages under management, $2.9 billion higher than a year ago and $740 million more than June -- at June 30.

Reflecting effective capital allocation strategies, quarterly ROE of 14.4% was slightly ahead of the performance of Canada's biggest banks. As a result, book value per common share continued to grow, just as it has every quarter since we became a public company in 2004. At its current level, book value is 20%, or $10.53, per share higher than a year ago, and 4% above June 30, demonstrating the fundamental valuation capabilities of our business model.

With continued earnings growth, the board announced another common share dividend increase, the third one this year. As you know, given the ability to earn very attractive returns in our lending markets, Equitable gives priority to earnings retention and redeployment over having a high dividend payout ratio, but continues to prove that we are committed to consistently growing our dividend. The new rate is 14% above the dividend declared last November.

Moving to asset accumulation, our core alternative single family business set another all-time record with $1 billion-plus of quarterly originations. And with strong productivity over the past 4 quarters single family mortgage principal reached a record $9.1 billion, up 20% from last year.

Our Commercial Lending portfolio grew by 7% to $2.9 billion in comparison to the second quarter. We increased lending activity, originating $380 million of commercial mortgages, up 88% on a sequential basis and 4% year-over-year. Going forward, we expect our strong capital position to allow us to pursue more opportunities for commercial lending in support of overall asset growth in future quarters.

Our expectation is that commercial assets will grow by $150 million to $200 million in Q4 and then perhaps in the high teens in percentage terms in 2018. Commercial is the bank's longest-standing business and we have the capabilities in place to grow it safely.

Securitization Financing [has seen] insured multis continue to provide a solid and reliable stream of activity with originations of $359 million, broadly speaking matching our capacity to fund in the Canada mortgage bond market.

As I said at the outset, our credit book is in excellent shape. Net impaired mortgage assets were down another $4.7 million from June 30 to $24.6 million or just 13 points of mortgage assets. This improvement largely reflected the repayment of a single delinquent commercial loan during the quarter, as well as a decrease in single family arrears, with much of that coming from Alberta.

We recorded a provision for credit losses of just $40,000, partly because we reversed $900,000 of specific provisions related to mortgages that resolved in the quarter. A significant portion of this reversal related to a recovery from a title insurance claim. Our gross provisions were $900,000. We remain very well protected by our allowance for credit losses of $33.5 million.

The average Beacon score of our borrowers is 685, which means it continues to be high and stable. Average LTV in our uninsured single family portfolio has decreased over the past year to 61% from 63%, but moved up marginally in Q3, reflecting the softening in housing prices in the Toronto market. Clearly, the general concerns about potential overheating in the housing market continue (technical difficulty) concern us as well, and I'll talk more about that in my closing comments.

Moving on, we retained our position among banks with the highest capital ratios. Period-end CET1 ratio of 14.8% is more than double the Basel III requirement. This strong position does allow us to be more active on the commercial side of our business, as I mentioned earlier.

In late October, subsequent to quarter end, we redeemed $65 million of outstanding Series 10 Debentures. This move reduces our interest expense by approximately $4 million per year beginning in 2018, and will result in about a 90 basis point reduction in our total capital ratios from September 30 levels. Common Equity Tier 1 and Tier 1 capital ratios will be unchanged. This initiative is in line with our longstanding capital plan that puts more emphasis on CET1 and Tier 1 capital ratios, the highest-quality loss-absorbing forms of capital, with less need to consider total capital ratios.

There have been challenges this year, but I'm really pleased with the way our bank has responded to those challenges, delivered value to its customers and shareholders, protected the integrity of the institution and advanced our standing as Canada's challenger bank.

Now I'd like Tim to review our quarterly financial performance. Tim?

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

Thanks, Andrew, and good morning, everyone. Third quarter performance was solid, even though it bore the full impact of costs that we continued to incur as a result of protecting the bank from liquidity events in the second quarter. Those costs, which are reflected in net interest income, amounted to $9.5 million or $0.42 per share of EPS in Q3 and included upfront and standby fees associated with the $2 billion backstop facility of $0.24 per share and amortized premiums for insuring $892 million of residential mortgages net of the associated funding benefit of $0.18 per share.

You will recall that the cost of those items plus an EQ Bank marketing program amounted to $0.38 per share in the second quarter. The increase of $0.04 in Q3 reflected the fact that we incurred only a partial quarter of cost for the credit line in the second quarter. Offsetting those costs, we did not incur any EQ Bank marketing campaign expenses in Q3 because of successful deposit growth.

In terms of run rate, quarterly backstop facility and net insurance premium amortization costs should be about $7 million or $0.32 of EPS in Q4, and then drop down to just below $6 million or $0.26 of EPS by mid next year. The decrease really just reflects the fact that the insurance premiums will be almost fully amortized by the middle of next year.

As a partial offset to the extra expenses incurred in the quarter, we earned $0.12 per share of gains associated with the Maple assets, slightly above the outlook we expressed in our last call. Our expectation is that we will earn another $0.04 to $0.08 of income in Q4 and in each quarter of 2018. We also had $1.5 million or $0.07 per share of gains on derivatives related to our securitization activities.

Net interest income was 2% ahead of last year as asset growth was largely offset by a 17 basis point decline in NIM. Overall NIM was affected by core lending, which was 43 basis points lower than last year, reflecting mainly the cost of the liquidity event actions, which accounted for 30 basis points of the decline, and also asset mix changes -- specifically, a shift to lower-yielding but higher-ROE single family assets, which accounted for 9 basis points of the decline.

On the other hand, Securitization Financing NIM grew by 6 basis points because of the higher mortgage prepayment income in the multi-unit residential portfolio.

In comparing Q3 to Q2, NIM was lower by 16 basis points, again largely due to lower core NIM resulting from the liquidity event. Core NIM was also affected by lower prepayment income, a larger liquidity portfolio and growth of EQ Bank deposit balances, where we continue to offer rates above the long-term level that we would expect in order to attract more customers to the bank.

Looking to the final quarter of 2017, we expect year-over-year net interest growth to be in the 1% to 2% range. For 2018, we expect NII growth in the 8% to 10% range as assets continue to grow and as margins rebound from current levels. We believe core lending NIM will increase by 10 to 15 basis points in Q4 relative to Q3.

For 2018 we expect core NIM to be 15 to 20 basis points higher than in Q3 for a variety of reasons, including mortgage pricing changes made in May, the fact that the net expense for mortgage insurance premiums will be immaterial next year and that we will see a slight shift in portfolio mix towards higher-spread commercial assets. On Securitization Financing, we expect that Q4 and 2018 NIM will be roughly consistent with Q3.

Turning to costs, non-interest expenses were 9% higher year-over-year but declined by 8% compared to Q2, when the EQ Bank advertising campaign elevated expenses by $2.5 million. There were a few other minor variances in these sequential and year-over-year comparisons, but the bottom line is that we continue to carefully manage our costs while still investing in the bank's customer service capabilities, people and technologies.

Looking forward, we expect total non-interest expenses to increase in Q4 and in 2018 at year-over-year rates consistent with the bank's growth. As such, our efficiency ratio should remain in the high 30% range through the end of next year.

Now back to Andrew.

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

Thanks, Tim. Now some final forward-looking comments, first in respect to asset growth. Since we last spoke, OSFI has officially updated B-20, the residential underwriting practices and procedures that all federally regulated residential lenders, including Equitable, follow. Effective January 1, 2018, single family borrowers must qualify for an uninsured mortgage rate at the contract rate of the mortgage plus 2%. This is a more severe qualification test at origination than currently carried out by the bank or other lenders.

This new rule will likely shrink the size of our alternative single family market. We're not sure by how much. A lot will depend on how our competitors assimilate these rules, how borrowers react and how much if any incremental volume moves from large lenders into the alternative channel.

For our part, Equitable is taking a cautious stance, and having run several sensitivity tests, believe that our alternative single family portfolio will continue to grow in 2018. B-20 will temper growth compared to performance in recent years.

We've added a table to our MD&A to help you gauge the impact of lower levels of single family originations using our trailing 12-month performance. As this table shows, if single family originations had been 20% lower, asset growth would still have increased 10% because of renewals and the fact that our originations are high relative to the size of our portfolio.

We do believe that B-20 may have an outsized impact on the entrepreneurial class of borrower and newcomers to Canada, who will find it more difficult to access mortgage financing under these new rules. That said, as a matter of strategy we'll continue to focus on alternative single family business and look to maintain recent growth in market share by providing great service. Growth in market share is one way to offset some of the impact of a shrinking market.

I also believe that the new rules under B-20 will slow down overall credit growth and reduce risk in the housing market. For the bank's alternative mortgage business, the impact of the changes may be to trade off some growth for longer-term stability. As previously mentioned, we have the opportunity to deploy more capital into our commercial business.

On the funding side, we are increasingly confident that our current sources of funding, including brokered term deposits on our EQ Bank platform, will be adequate to fund our asset growth in 2018. At the same time, we will continue to diversify and enhance our deposit-taking capabilities and product sets to strengthen our market position and further reduce our risk profile.

A centerpiece of our strategy is the advancement of the EQ Bank digital platform. As a means of increasing EQ Bank's customer base and attracting more deposits from our community of users, our plan is to launch new savings products and services over time. A key part of our roadmap is to add GICs to the EQ Bank platform. Our GIC offering will be consistent with our general approach to building the digital bank, with a simple, intuitive customer experience at its heart. EQ Bank's GICs will offer a great rate with easy access from our customers' mobile devices.

We're also applying for regulatory approval to incorporate a new trust subsidiary to create more option value for the bank and allow us to offer a broader range of products and services. A separate regulated entity would also further our ability to diversify by creating a new issuer of deposits for (technical difficulty) eligible for CDIC insurance.

These are just some of the ways we plan to deliver our vision of being Canada's challenger bank, making our customers' banking lives better. In summary, we expect Equitable to close 2017 by delivering more value for shareholders while working hard to serve the needs of customers on both sides of the bank's ledger. Our asset quality is high, our funding markets have stabilized and our lending and risk management processes are well attuned to market realities.

For 2018, we'll adapt to the updated B-20 rules just as we did when the original B-20 came into force, and use our positioning as a diversified challenger bank, now with a more sizeable market share, to make the most of our growth opportunities.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And your first question comes from Marco Giurleo with CIBC.

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

My first question is for Tim, regarding the pickup in commercial loan growth targeted in 2019. I'm just curious about the long-term ROE implications for the firm. Could you elaborate on the difference in commercial ROE versus the ROE you get on your single family mortgages?

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

Happy to talk a bit about commercial. I think we're generally pretty optimistic about the opportunities in the commercial right now, both from a volume and a pricing point of view. So we believe that originations are going to pick up quite substantially from where they were in 2017; reminding you that in 2017 we deliberately constrained our level of activity in the commercial market in light of the events in the funding market. We don't talk specifically about the relative ROEs of each of our businesses. Just give you a general direction, the commercial is lower ROE. So naturally as we grow that business, it would bring down the weighted-average ROE of -- all other things being equal, it would bring down the ROE of the overall company. But there are a lot of other factors to consider in there. For example, as we grow we gain scale. There's certain economies and efficiencies to gaining scale which would counterbalance that and hopefully keep ROE roughly consistent with our longer-term averages over time. So there are a bunch of puts and takes that could help offset any of those impacts, Marco.

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

Yes. I think, Marco, what we have been working very hard on [here] is increasing the ROE in that business over the last year or 2. And so we have seen spreads widen over the last 6 to 9 months, which has been helpful. And also taking a much longer-term view as we transition to AIRB, we think it's in parts of that commercial business where you should see the highest pickups in capital weights, so there's definitely -- it's definitely something that the shareholders may need a little patience to see the full win evolve there, but we're pretty confident that's going to be great for the future value of our shareholders.

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

That was actually going to be my follow-up. So when you switch over to AIRB in 2020, do the ROEs on each business look similar, or -- well, I imagine the spread between the 2 would shrink.

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

I think that's right, although we do have to think about how we might change the shape of the portfolio based on the risk weights that you're going to see under AIRB. You have to understand, we kind of optimized the portfolio makeup to reflect a good outcome under a standardized approach. Under AIRB, I'm expecting that we would do more higher-quality assets with slightly lower spreads but with commensurately significantly lower risk weightings, with then a net addition to ROE.

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

All right. Understood. And just if we could switch over to originations, have you seen an increase in single family originations post-quarter or post-B-20, just in the lead-up to it taking effect in January 2018?

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

I would say that -- generally no. That data's always a bit murky because there's always a few things going on, but I was talking to some people on the floor yesterday, on the underwriting floor, and they didn't seem to be perceiving that there was sort of rush to get deals done before January 1.

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

All right. And finally, my last questions are surrounding IFRS 9 in 2018. I was hoping you could provide us with what the initial capital impact might be in Q1. And maybe you could also talk a bit about the impact on provisions. Do you anticipate provisions to be lower under IFRS 9 as we make the switchover?

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

I'd say the following, Marco. I'd say consistent with the rest of the banking sector, we're going to disclose the impact to our end-of-year retained earnings and therefore our capital in our Q4 results. So I think you're going to see that from the big banks in -- within the next month when they release, and then we'll follow early in 2018. I think what I would say generally is that we've been very conservative in our -- in establishing our allowances historically. So our allowances are 18 basis points of our mortgage principal today. If you look at it relative to uninsured mortgage principal, we're at 33 basis points. So I think, and as we've consistently said, we're not expecting a really significant impact when we move to IFRS 9 relative to our current approach; but again, we're still in the last stages of making that assessment, so it's too early to provide any details.

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

All right. And on provisions, just directionally, just given the fact that you do have a shorter-duration portfolio than the big 6, do you expect the credit losses --or given the new accounting rules are on expected lifetime losses, do you -- would you expect the loss rate to be lower under IFRS 9?

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

Certainly, that is the way the math would work with IFRS 9 modeling. But again, we're in -- we're still in the final stages of making those assessments, and more to follow early in the new year.

Operator

Your next question comes from Geoff Kwan with RBC Capital Market.

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

I know you talked about B-20 and the potential impact on your business, and it's kind of a fluid situation because you don't know how competitors and consumers are going to react. But in your guidance on mortgage loan growth for the non-prime business for 2018, like, are you able to say kind of ballpark what the implied change in originations would be for 2018?

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

I think we've been deliberate, Geoff, in communicating what the expectations for asset growth are, which -- in the sort of low single digits or middle to mid-single digits. Within that, there's assumptions about origination growth, renewal percentages and so on, and prepayments. And so we've had to make a number of assumptions to get there. We could be wrong on any one of those assumptions, but hopefully the sort of net of all of that is about right. So we do expect originations to be down clearly next year, but we do expect some other positive benefits on those other assumptions. So I think we'd rather kind of keep in focus that we're pretty confident that sort of single-digit growth in the portfolio will be there, and not try to unpeel too much about the assumptions we made underneath that.

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

Okay. Okay. Just the other question I had, and it's a multi-part question, but you made the disclosure in the MD%A about the one broker that you cut ties with, I'm assuming in the quarter. Can you provide some color on stuff like the length of relationship you had with the broker; the duration of the issues that you had come to realize when you ultimately cut ties; and what -- maybe just some color on the whole process as to what triggered you guys to take a closer look at the deals that this broker was sending.

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

Yes. I can certainly do that. This is a broker that we'd been dealing with for a couple of years. And I think the good news is the -- we found some challenges through our internal fraud process which gives me a lot of confidence that our team is able to pick up on the issues. In the normal course, we don't think it's particularly material but clearly with the concern about -- that you first raised about the growth in the assets, we wanted to kind of make sure that analysts were aware that roughly 1% of our origination was not going to be there from that basis, and that sort of also factors into that calculation around our portfolio growth. And we're very comfortable there's no credit risks or other issues that are going to emerge out of this. So congratulations to the team, basically, on picking up on this thing and dealing with it.

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

And -- sorry, and how long was that process that you were monitoring the deals and then ultimately cut -- and what were the issues? Was it around income verification, in terms of the quality of it? Was that getting forged? Or I don't know if there was one thing in particular.

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

Yes. It related -- all related to income verification, which is frankly where the issues lie in the industry at this point. So it was a question of -- actually it came through one of our kind of new technologies we've engaged to pick up on potentially suspicious misrepresentation in that area, then -- and then our teams doing the typical work they would do to track back and look at the quality of loans from that broker.

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

Okay. And maybe if I can ask just as a follow-up on that same topic is -- are you able to say whether or not that individual mortgage worked at what I would kind of consider one of the super brokers there? Are they still employed with that brokerage? And has there been any sort of regulatory or other types of actions that have been taken?

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

No, this was not -- this was an independent broker, not associated with the larger franchises.

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

Okay. And anything on the regulatory, and is there something that you can put into Equifax's Citadel sort of thing, to help other players in the industry?

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

Certainly. That's the great thing about Citadel. So the industry -- this is an issue that goes right across the industry, and the Citadel product that you refer to is an Equifax product where effectively we're all able to cooperate. So to the extent that we're finding things that don't meet the right color tone, but other banks are finding the same kind of issues, we cooperate, and there's a central database there where we can help pick things up. So I think the industry's seeing this as a general issue and we're all cooperating pretty well on how do we make sure that we've all got integrity in our systems. And I see a lot of enthusiasm from all industry players to make sure that the industry's doing the right thing.

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

And any regulatory measures taken against that broker?

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

I'm not aware of that. We -- certainly, it -- the -- as you know, brokers are regulated by a separate set of entities than have purview over Equitable, so I'm not familiar with what's going on there.

Operator

Your next question comes from Stephen Boland with GMP Securities.

Stephen Boland - *GMP Securities L.P., Research Division - MD & Equity Research Analyst*

Just in your commentary, Andrew, you talk about the larger lenders which are also facing the same rules may be negatively impact by aspects of the proposed changes and that may flow some business to you. What are you referring to there, that they would be adjudicating different? Or what would cause them to decline a mortgage and you to accept it?

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

Well I think the question comes to the 200 basis points of add-on to the face rates in those mortgages, particularly for, say, self-employed borrowers with certain kind of income may or may not be accepted by the larger institutions. So we are expecting that there's a number of lenders that won't accept loans that they currently accept, and they may be re-presented to us as a different kind of transaction with more equity perhaps presented, that makes it more palatable to us. So we do think there'll be some -- a little bit of flow-down in that regard.

Stephen Boland - *GMP Securities L.P., Research Division - MD & Equity Research Analyst*

So is it a case of them -- of -- I'll just say, if it's income verification, that the big bank is not willing to do the extra work to really verify that income and therefore they're just saying it's a basis point cost; we're not going to bother, and you have the ability to do that with your expertise. Is that sort of the way to look at it?

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

Well, I think it's always been that way, yes. So with increasing standards being applied right across the industry, we would see that the larger institutions wouldn't continue to do that kind of business.

Stephen Boland - *GMP Securities L.P., Research Division - MD & Equity Research Analyst*

Okay. And just going back to your sensitivity, which is really helpful, Tim, if -- on the attrition -- and I don't know if you've done this as well, but would -- if I look at your trailing 12 months, if you apply the B-20 rule to the attrition, what -- does that number -- obviously -- how much does it grow, I guess? So we can all try to look at originations, but I guess it's how much business would be falling off your book as well that is kind of, everyone's trying to figure out.

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

Yes. We're expecting that there'll be less attrition, right, in the sense that grandfathered loans will not qualify to go elsewhere. So they would -- they're qualified today and therefore have -- and don't have to be requalified under these new rules. So we'd expect the attrition on the book to be lower. Next year I think we want to give you a heads-up in the math, the -- there's actually a relatively higher renewal percentage coming up, so that naturally we've got a higher level of maturities. It's -- it all factors into the math that I was indicating earlier, I think to Marco, how it's difficult to unpeel the math a little bit. But generally speaking we're expected to have higher renewal rates and for loans to stick on the books for longer because of these new rules.

Stephen Boland - *GMP Securities L.P., Research Division - MD & Equity Research Analyst*

Okay. And just last question, Andrew, in your sort of guidance in -- or I guess NIM -- and we're factoring that into EPS -- your backstop facility, that's a one-year facility and you have the option to renew, and I guess at some point next year you make that decision. Is that the right way to look at that?

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

It's actually a 2-year facility.

Stephen Boland - *GMP Securities L.P., Research Division - MD & Equity Research Analyst*

2-year facility, sorry.

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

So that -- so it's only in -- I guess it matures in May --

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

Yes. In June 2019.

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

June 2019. So we're trying to think about, given that it gives us a bit of a luxury of time to think about what our long-term funding structure needs to look like. As we mentioned, we're doing some other thing around setting up a trust company subsidiary. You'll see some disclosure there about we are tending to take longer-term GICs to turn out of our deposit book. And as I mentioned, on the EQ Bank side we're looking to raise deposits directly through the EQ Bank platform. So over the next year or 2 you'll hear us, I think, more consistently update you on what we're doing to make sure that our funding structure is absolutely solid. That may or may not include extending the facility, either on different terms, different amount, beyond 2019. And so that -- we're very much keeping an open mind around that. Our current hope and expectation is that we won't need to renew it.

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

(laughter) Yes.

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

(multiple speakers).

Operator

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

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

Can I just start with the income issue with the broker? What was the timing of when you found the issue and sort of moved to resolve it? And I guess just big-picture, are you comfortable that this issue is contained and it's not going to move into something bigger?

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

Yes. I think it's over the summer that we cut this broker off. And yes, we're pretty comfortable it's contained. Certainly, the work -- that's certainly the advice I'm getting from our second and third lines, that it seems to be contained. But I think it's an area that we need to continue to be incredibly diligent about.

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

Okay. The competitive landscape, have you felt any impact on higher activity coming from Home Capital either on your volumes market share or even mortgage rates, broker commission levels -- anything to that effect?

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

We haven't yet. I would say we're obviously watching that situation fairly carefully, and certainly they report, I think, next week. So we'll be interested to see what's going on and we do monitor other ways of measuring market share. So far, we feel like we're in a pretty comfortable position where we've continued to deliver good service. The brokers continue to be attracted to the Equitable offering, so we're feeling pretty good about that. But clearly, with the new management team and things there, we need to be concerned to keep a close eye on what's going on in the market.

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

And then with your guidance you provided next year, I totally appreciate that things are fluid, but did you make any assumptions around market share, either giving some back or maintaining market share?

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

Yes. As I mentioned, that's one of the challenges. Aside from sort of sitting in front of a whiteboard and doing the math for you, I think clearly we're making market share assumptions in there too.

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

Okay. The origination volumes we saw this quarter, did that reflect any of the summer slowdown that we saw in the GTA market or should we expect a lot of those mortgages to be funding in Q4?

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

I think, clearly, we -- usually Q3 would be our stronger quarter than Q4, so I expect that Q4 originations wouldn't be quite as strong as Q3 sequentially. I think you -- what you're seeing in the Q3 results does reflect a little bit that we were working through the aftermath of the liquidity crisis right at the beginning of the quarter, but clearly we finished strongly.

Operator

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

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

My first question is related to potential B-20 offsets. You're baking in a number of various assumptions. I'm just curious, from the product side, what is the appetite to extend amortization from a typically 30-year product to potentially a 35- or 40-year product? Can you comment on that?

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

I don't think our appetite's very high for that, frankly. It doesn't really make sense to us that in a scheme of trying to de-risk the housing market and our mortgage book that you would be extending the amortization. Just to get everyone on the same page, I assume the reason why you're asking this question is that we can -- if we extend the amortization we can qualify mortgages that wouldn't qualify at a shorter amortization under the rules. It doesn't seem to make much sense to me that we would say that this mortgage doesn't qualify as a 30-year mortgage so we'll have to offer you a 40-year. So I think we have to use common sense in lending as well as working to the letter of the law, and I think we would see that as gaming the system rather than working in -- within the spirit of the legislation which -- or the guidance, which is really how we try to work on this guidance.

It's -- we have a principles-based regulator in Canada. We're lucky to have a principles-based regulator. And if we choose to interpret things aggressively like that, I think that would be -- that's just not the way we should act, because clearly the regulator would have to act in a different way and start putting models in place, which is -- would be bad for the industry and bad for the country, frankly.

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

Okay. Great. And maybe this is more a question for Tim, but in terms of the shift to commercial assets and still on the standardized approach, what kind of growth in risk-weighted assets should we be thinking about for 2018, and how does that impact let's say the end of 2018 CET1 ratio in terms of against your target and where you want to be sitting?

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

I think that's something that you'll have to derive through your own modeling. We've given you guidance on the growth in the different asset categories. Clearly, we've said assets should grow, call it 6% to 8% next year. Given that commercial is growing more quickly than single family, risk-weighted assets would grow at a rate somewhat above that. But we're not giving specific guidance. What I will say is if we're generating returns on equity in the mid-teens and still retaining the vast majority of it, we are going to continue to build capital; and with that, look for other opportunities to deploy it. But capital growth should still be relatively significant through 2018.

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

Okay. Great. Thanks. And in terms of deploying capital, there was a comment in the outlook about other business lines, and you're always looking at various things. Can you maybe just provide a little bit of color as to what would something look like outside of the traditional mortgage lending market?

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

I think it's hard for us to really -- to say much more until we've really got kind of board approvals in line to sort of pursue these things. We're having our strategic planning session in December, but our corp dev team is doing great work in exploring some things that are related to what we do, but not directly in that area. And we've been working on this for a number of years on the view that at some point -- that we might see slowing growth in our core markets. So I'd certainly be disappointed if some time earlier in the next part of next year we don't have some more meaningful things to share with you about that.

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

Okay. Thanks. And one more, and it's a little bit of a follow-up on what Graham was asking about the GTA market. Are you able to give us a little bit of color on the impact in GTA of what has been slower sales and price deceleration in the -- let's say the more suburban areas? Can you give us a little bit of color as to how mortgage growth has trended in those areas relative to other parts of the country, let's say?

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

I think in recent weeks it seems like things have picked up again, based on the data we're seeing. So generally speaking I think it's playing out the way one would expect is that you see more volatility in the suburban areas than in the core Toronto markets. So we -- the really urban core is -- continues to be strong. The condo market continues to be strong. Those areas where you've got to commute further into downtown to where the great jobs are, are seeing a little more volatility and more days sales on market. But in general it already seems a bit almost too soon that things -- from the data I'm seeing, it seems that things are starting to pick up on the street level. But I don't think we'll call this one over yet, that's for sure.

Operator

Your next question comes from Graham Ryding with TD Securities.

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

If I could just follow up, you mentioned technology was how you found this broker that you chose to stop doing business with. Can you explain that to me? Like, in income verification I thought that was very much an in-person exercise in trying to verify the borrower's income.

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

Well, I think that's right, but the -- we do have these databases, these shared databases, with other lenders and mortgage providers. So that triggered some flags on a particular file that then caused our team to dive back into that file. And then they have pretty rigorous protocols around then checking other files related to the same broker. So it was the -- it was technology that gave us the original decision, and then when we did further forensic work, that led us to the decision to cut this broker off.

Operator

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

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

Just one quick follow-up, actually, on the broker fraud identification. Obviously there's quite a few reports in social media and then also in internal audits about certain individuals from Home Capital moving over to Equitable. Can you say definitively one way or another whether certain of these individuals were related to this activity in one way or another?

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

It's certainly not a normal case to talk about any of our personnel, but I can confirm that none of those -- none of the individuals that people I think wrongly suggest might have been involved with wrong things at Home Capital were involved here.

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

None of them were? Just to clarify.

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

None of them were. Absolutely none of them were.

Operator

There are no further questions at this time. I will now turn the call back over to Mr. Moor for closing remarks.

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

Great. Thanks, Julie, and thanks to all of you for listening. We look forward to reporting our fourth quarter results in February, and thanks for listening today.

Operator

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