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EDITED TRANSCRIPT

EQB.TO - Q4 2017 Equitable Group Inc Earnings Call

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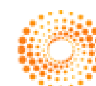

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen. I'd like to welcome shareholders and analysts to Equitable's Fourth Quarter 2017 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 Q4 2017 MD&A and Q4 2017 Earnings News Release. This call is being recorded for replay purposes on March 1, 2018.

It's now 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, Sharon, and good afternoon, everybody, and welcome. I'm joined by Tim Wilson, Chief Financial Officer of the Bank.

During today's call, we'll provide our thoughts on 2018 and our expectations for continued growth in earnings. I'll begin with a recap of Equitable's record annual results and strong fourth quarter finish. Being able to describe 2017 performance as record or best ever is in my view, remarkable, considering market disruption last spring. Had you asked me in April if we would restore upward momentum in quarterly earnings this quickly or achieve record annual earnings, I would have said probably not, given the cost of the funding backstop facility and what appeared then to be the advent of prolonged funding market volatility.

But Equitable rose to the occasion and with the steady hand of our board, great work by our employees and the support of many business partners, the Bank delivered for customers and shareholders while working to advance our position as Canada's Challenger Bank.

With the record results we reported last night, Equitable's strong fundamentals and our constructive outlook on 2018, we certainly feel optimistic about our future.

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For the past year, three developments stand out: First, the bank's conservative and responsive governance, combined with its institutional reputation for integrity, allowed us to maintain the full confidence of our depositors and their advisers; in a strong share of trust and even with the dip in late April, Canadians increased their savings in the Bank by 14% during 2017 as deposits reached a record $11 billion.

Moreover, deposit growth was diversified as various funding -- as our various funding channels and most importantly, EQ Bank attracted more business. EQ Bank, the most recent manifestation of our position as Canada's Challenger Bank, ended the year with deposits of $1.6 billion, 53% higher than a year ago.

EQ just celebrated its second anniversary and with rapid deposit and customer growth as well as ongoing innovations, continues to demonstrate why it was ranked one of the world's top digital bank platforms by Financial IT Magazine in 2017.

Not to be missed is 14% growth in brokered term deposits, which reflects the vitality of the bank's relationships with deposit agents, investment dealers and financial planners who recommend Equitable.

High-quality asset growth and the way it was achieved is the year's second highlight. As you know, we tapped the brakes on lending activity in the spring, particularly in commercial so that we can operate within our expected funding capacity. Even so, the bank's had a new annual record for single family originations and produced good results in commercial to drive mortgages under management up 11% to over $23 billion. This growth was earned on service delivery, which is the heart and soul of this bank and a clear competitive differentiator.

We look forward to adding to the quality of the customer broker experience through a technology investment that I will talk about, along with our new equity release product later in the call.

The broader support we received from all of the bank's stakeholders and the banking community as a whole and what their support meant for us in actual performance is this year's third highlight. When I say stakeholders, I'm certainly referring to mortgage brokers whose much valued and permanent presence at the front end of our business was once again, a driving force in the bank's success. Engaging with the channels we do exclusively on the mortgage side makes us a better, more competitive business, and that certainly was the case in 2017.

I'd like to think Equitable contributed to the success of our mortgage broker partners last year because I know they contributed to ours.

As for the broader banking community, I must express my gratitude to the big 6 for rallying around Equitable last spring, to agree to quickly make the funding backstop facility available to us and on agreeable terms. They are competitors but at the end of the day, we are members of the same fraternity and last spring's developments proved without doubt, that they have our back.

Together with the support and competence of our customers, Equitable created considerable value for our shareholders in 2017, meanwhile incurring $1.11 per share in costs to successfully navigate funding market events. Net income of $160.6 million was up 16% from 2016, a rate that was well in line with our 10-year average annual growth of 18%. EPS was also at record levels, 11% above the prior year.

As a reminder, the difference in net income and EPS growth rates primarily reflects the equity we issued in December 2016.

You've heard me say that when it comes to value creation, ROE is our true north, and that we not only strive for higher returns, we seek consistency in those returns. As for consistency, since our IPO 14 years ago, the bank has earned ROE between 15.5% and 19.9%. Even with the headwinds of 2017, Equitable remained a remarkably reliable value creator. While managing our cost is important for ROE, in our business model it's absolutely critical to allocate and price capital properly for the risks we are bearing and this discipline is embedded deeply in our DNA.

Book value per share, a reflection of our earnings and our decision to retain the vast majority of them, grew 17% in 2017 for a 10-year average annual growth rate of 24%. Value creation was also made manifest in the 13% year-over-year increase in the bank's common share dividend in 2017. As you saw from last night's press release, we started 2018 with another increase, the fourth in just over a year and the 15th in the past decade. These consistent increases were recognized when we were added to the TSX Dividend Aristocrats Index in January.

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While growing dividends provides another great reason to be an owner, the best reason is that we continue to deploy the bulk of our earnings back into the bank where they build our capital base and earn strong returns on it.

For the final comment on 2017, I would say Equitable displayed a unique flair for being both disciplined and entrepreneurial, two characteristics that you should very much expect of Canada's Challenger Bank in the future.

Now, the fourth quarter performance. Net income was $40.4 million; EPS was $2.60 -- $2.36; and ROE was 14.9%. While all measures were down from a year ago due to the cost of the liquidity measures, we did restore an upward trajectory in our earnings. Q4 EPS outpaced Q3 by 7%, as assets continue to grow and the cost associated with liquidity measures taken earlier in the year declined. Tim will discuss these factors in more detail in his remarks.

Total Q4 originations of $1.7 billion were 23% lower on a year-over-year basis, which is reflective of recent competitor dynamics and regulatory changes impacted our lower margin, prime single-family business. Fourth quarter alternative single family originations were $850 million, 9% lower than last year. As you may recall, origination volumes in Q4 last year were driven by both share gains in the broker channel and by growth in the overall alternative market.

In Q4 of 2017, single-family also had strong share gains but our sense is, the market itself shrank. Even so, single-family alternative mortgage principal reached $9.3 billion, up 19% from a year ago, with positive implications for earnings in 2018.

Commercial lending originations were $359 million in the fourth quarter, 5% lower than a year ago. Commercial lending mortgage principal grew 4% year-over-year to $2.9 billion, mainly as a result of pulling in our horns in the second quarter.

Based on the size and quality of the commercial pipeline and our intent to deploy more capital against the business, we do expect commercial originations and the portfolio to grow at higher rates in 2018.

Prime single-family fourth quarter originations were lower at $71 million, reflecting regulatory changes in late 2016 and intense competition in this ensuing period. As a result of these factors, total prime originations for the year were $470 million compared to $2.1 billion a year ago. Prime mortgages under management were $3.9 billion, the same as a year ago as we continued to see low attrition rates, which is reflective of the fact that the portfolio is still relatively young. As the portfolio matures, we expect attrition will increase -- will gradually increase but because margins are thin, there will not be a significant impact on the bank's overall profitability.

Multiunit residential originations was 76% higher in the fourth quarter and 44% higher for the full year, as we took advantage of an increase in the bank's Canada mortgage bond capacity. The $7.1 billion portfolio provides a solid and reliable stream of activity and earnings.

While growing assets, we had another great -- another year of great credit performance. Once again, Equitable's net realized credit losses as a percentage of total loans were in the low single digits for the fourth consecutive year.

Moving to credit risk, you will note the net impaired mortgage assets of $22.5 million were down $2.1 million from Q3 and $14.3 million from a year ago. Most of the year-over-year improvement was in the alternative single family and almost half of that was in Alberta. Equitable did a good job of protecting itself during the period of low oil prices, and recent economic data points to give us more confidence about the outlook for Alberta.

The impaired mortgage position was also improved by the discharge of 2 commercial loans in Q4. Net impaired mortgage assets represent just 0.12% of our total mortgage book at the end of Q4, down from 0.21% a year ago. This rate is lower than we would expect in the best of circumstances, and it would be unsurprising if the impaired loan balances grew over the next few years.

Even while increasing our dividend, at 14.8%, we have a strong CET1 ratio that provides a solid foundation for the bank's future growth. In fact, we are, in my view, carrying slightly more CET1 than I would like; and during 2018, we will work to ensure that its use is being optimized for the benefit

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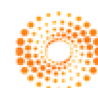

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of the shareholders. Maintaining appropriate capital levels for banks is always a judgment and our target levels might change over time. But my view is that running with a CET1 ratio around 13.5% plus or minus 0.5 point or so is the right place for Equitable to be.

I'll return with thoughts on 2018 but first, Tim will provide his report.

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

Thanks, Andrew, and good afternoon, everyone. As Andrew provided a strategic review of the bank's annual performance, I will focus on the fourth quarter and a couple of the key drivers of our results.

As you heard, fourth quarter earnings were above Q3 levels as a result of growth in our mortgage assets as well as declining costs associated with the liquidity measures taken in Q2. In the third quarter, those costs were $9.5 million. In the fourth quarter, they were $7.1 million. On an EPS basis, our liquidity protection action cost Equitable $0.32 in Q4, a decrease of $0.10 compared to $0.42 in Q3.

As the table in our slide deck shows, upfront and standby fees associated with the $2 billion backstop facility were $0.24 per share in Q4, which is the quarterly run rate we expect through Q2 2019. And amortized premiums for insuring $892 million of residential mortgages, net of the associated funding benefits were $0.08 per share. Looking forward, the backstop funding facility will cost us a little more than $5 million per quarter in 2018 and will be a 16-basis-point drag on NIM.

As a partial offset, the Maple deal was $0.08 per share accretive to Q4 earnings and $0.41 accretive to 2017 results. We expect this contribution to decline in 2018 but to still be in the range of $0.04 to $0.06 on an after-tax per share basis each quarter.

Looking at Q4 net interest income, it was an all-time quarterly record of $79.7 million, up 2% from a year ago, as 10% growth in average asset balances more than offset an 11-basis-point year-over-year NIM decline. The decrease in total NIM was driven by core lending as Securitization Financing was flat.

NIM in core lending was 31 basis points lower than a year ago for a few reasons, the most significant being the cost of our liquidity actions, which accounted for 22 basis points of the year-over-year decline. Funding mix had an unfavorable impact on NIM, although the late October redemption of our Series 10 debentures created a slight offset in the quarter and will save us about $1.5 million in annual interest going forward. Partially offsetting these factors was a 10-basis-point increase from higher spreads within both our single-family and our Commercial Lending portfolios. Those spreads widened, mainly due to pricing changes that we introduced last May.

For 2018, our outlook for net interest income is for more growth at year-over-year rates in the 8% to 10% range due to continued growth of our asset. NIM will likely be under Q4 levels by a few basis points as funding costs rise and spreads on originations return to more normal levels. But NIMs will also be slightly up when compared to the full year 2017 picture and still at healthy levels overall.

Our expectation on NIM has shifted slightly downwards from last quarter for two reasons: one, we expect securitization assets to now grow more quickly, which is a positive to earnings but which dilutes the weighted-average NIM; and two, our core lending expectations are down very marginally due to funding costs. You can review the assumptions made in arriving at this outlook in our MD&A.

Growth in our existing businesses as well as investments in support of our Challenger Bank vision led to year-over-year increases in noninterest expenses of 11% for the full year 2017 and also 11% for Q4. Pretty much the same drivers of expense growth were present in both annual and quarterly periods, including an increase in marketing expenses to promote EQ Bank, higher costs associated with FTE growth and increases in regulatory, legal and professional fees.

Despite cost growth, our 36.8% efficiency ratio for 2017 was lower by a full percentage point than in 2016, as revenues grew more quickly than our expense base. In other words, costs were controlled well in the context of a growing business.

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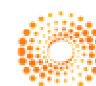

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For 2018, we expect total noninterest expenses to increase at year-over-year rates, slightly higher than the growth rate of the overall business as we continue to invest in building our franchise, in customer service and in our digital capability. As a result, we expect our efficiency ratio will be in the high 30% range and that Equitable will remain Canada's most efficient, Schedule I Bank.

As you saw from our press release, we continue to advance our AIRB initiative, where we will likely experience capital relief from recently announced provisions to the standardized approach for assessing risk. That will take effect in 2022. The bank remains committed to operationalizing AIRB by the end of 2020.

Now, back to Andrew.

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

Thanks, Tim. Our key financial and operating metrics point to continued strength in the bank's fundamentals and the credit quality of our assets. As outlined in our MD&A, we expect to deliver value to shareholders in 2018 with continued growth in earnings, though that growth will be moderate -- somewhat moderated by the cost of the funding backstop facility. As a result, we expect ROE to be solid but below our long-term average of 17% or so.

Thinking about our markets, we've spent a fair amount of time on our last call talking about the potential effect of the new B-20 regulations. While the changes came into force in January 1, we still do not understand the full ramifications. It will take time to see how consumers and competitors react and to quantify the impact. But our expectation is that the size the market addressable by banks, including Equitable, will shrink in the non -- and the non-prudentially regulated sector will expand.

Even so, we believe our alternative single-family portfolio will grow in 2018 because of renewals which weren't affected by the B-20 changes and because the volume of originations would still be high relative to the size of the existing portfolio. If you want to dig deeper into this, please refer to our Q3 MD&A for an illustration of these dynamics.

While we cannot control the market, we can control our reactions to it, which is to say that we will make a concerted effort to capture our share of the single-family opportunity by focusing on quality business and giving our customers and partners in the mortgage broker channel a great customer service experience.

The foundation of service is having the best attitude and the right level of skill, and Equitable's team has both. But as Canada's Challenger Bank, we also know the value of technology and the recently launched new digital functionality within single-family to enhance our service offering. More specifically, we are now rolling out a 24/7 self-service technology platform that provides our residential customers with a new level of convenience. Customers are now able to log on through our website to monitor their accounts and conduct some transactions, a big step forward for us. That same technology will also be used by our internal teams to improve the efficiency and the quality of the service that they provide.

Another part of the bank's strategy for managing through a slower single-family growth environment is to deploy capital into other businesses, including commercial. We have substantial commercial lending and servicing experience that we intend to harness to capture more business.

We'll also deploy capital into new businesses and will begin building Equitable's market penetration in the equity release or mortgage -- or reverse mortgage space with our Path Home Plan. As you know, we unveiled this product in major urban centers in Ontario, British Columbia and Alberta in January and are now rolling it out with our mortgage broker partners who have exclusive access to bring it to customers. This is an exciting development for the bank.

Before creating our offering, we analyzed the equity release market thoroughly and chose to act for a few reasons. First, we estimate the current addressable market of this product is approximately $12 billion while current outstandings are only $2.7 billion. That's a significant opportunity and because many Canadians will hit the demographic sweet spot over the next decade to benefit from Path Home Plan, there would likely be sustained growth as more Canadians unlock home equity to fund their retirement without downsizing, paying tax or incurring monthly charges.

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Second, the competitive environment in the equity release space is relatively favorable. Meaning it fits neatly within our desire to enter markets who are underserved and which we can add value for consumers. Other than Equitable, there's only one other competitor in Canada, a different market structure that we see in other countries that have many competitors.

Though the Path Home Plan complements our lending -- our co-lending business, capitalizing on our existing core competencies in underwriting and risk management presents us with another option to engage with our mortgage broker partners and should generate attractive returns for shareholders over the long run, while further diversifying our book. On the flip side, the product presents some new types of risks for us. We feel we are well equipped to manage them. We're pleased with market receptivity to date and from what I'm hearing, mortgage brokers like the fact that Path adds to their growth opportunities and is backed by an institution that they trust.

Over time, our Challenger Bank game plan is to add more differentiated products like these to our range of services. Equitable recently made great progress in building its standing as Canada's Challenger Bank, with EQ Bank and now Path. Since we are the Canadian Challenger Bank, it's probably appropriate that we use Gretzky's aphorism, that we want to be where the puck is going and not where it's been as a guiding principle.

Clearly, the banking world has been shaped by the forces of a digital economy and EQ Bank is in a great position to slide our customers in that world. And as the population is becoming increasingly older, the Path product fits into this changing demographic [pivot], which many of us find ourselves in, unfortunately.

As soon as next week, EQ Bank will launch GICs to complement our cost savings product -- plus product. We've created a strong digital platform and added many innovative features and functionality to it over the past 2 years. We believe EQ Bank is in a great place to expand its position as a leading provider of banking services in Canada.

To summarize, we have an ambitious agenda for 2018 that we will attack in a disciplined, yet entrepreneurial fashion. We've ended the year with a strong capital position, high-quality assets, well-diversified funding sources, an efficient Challenger Bank business model and a clear-eyed view of the risks and opportunities ahead.

We acknowledge, though, that there's little certainty in the market, so we will need to remain nimble and adapt to any changes in our environment, and I'm sure there will be many. As always, we'll do our best to turn our many advantages into more performance for shareholders and customers.

That concludes our prepared remarks, and I would like to invite your questions. Sharon, can you please open the line to our analysts who have questions?

QUESTIONS AND ANSWERS

Operator

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

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

My first question is on B-20. Two months into the new rule changes, can you tell us what impacts that you're seeing as a result of the new rules? And more specifically, as it pertains to your loan growth guidance for 2018, which was left unchanged last quarter, should we take this to mean that based on the first 2 months' impact to your outlook on volumes has not changed and that you're confident in achieving the guidance that was set forth?

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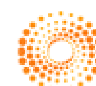

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Andrew R. G. Moor - *Equitable Group Inc. - President, CEO & Director*

I'd say our outlook hasn't changed and we would have -- obviously, we ran the numbers. Having said that, Marco, I think the outlook is, it's still a little early to be confident about that. I would say 2 months of data doesn't yet demonstrate that the outlook we have provided at the end of last quarter is indeed accurate. And what we've seen, I think, is the credit unions stepping into the market in many provinces where they're not governed by the new B-20. I think that they will quickly pull away demand for loans, so that's another dynamic could come to play in the spring market gets more busy, where they're not actually able to handle the capacity thrown at them. I think it's also not -- different institutions move at different times. The way that OSFI rolled out B-20 was to ask us to apply the new standards relatively quickly, so I think we were probably a little quicker than perhaps 1 or 2 of our competitors in December in applying the new stress test. And then you could close them in January and February effectively under -- or even today, if you qualified in December, there are loans still closing today under the old stress test. So it's a bit of a noisy picture from a data perspective but our overall guidance is sort of increasing the asset size by that 4% by the end of next year or by the end of this year remains unchanged, given all those factors. But I would say it continues to be unusually uncertain. I think, we'll have a much better view at the end of this current quarter.

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

All right. And on just some of the possible offsets, you mentioned that in the past that there's potential for an influx of prime clients into the Alt-A channel as a result of B-20. Have you seen any of that thus far?

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

I've seen little evidence of that at this point. I think what we have seen, and it's more in news reports and so on, is some changes in policy amongst the DCPS that I would expect may cause some loans to flow out, but I can't say that I've seen enough to be confident in that position at all. I think there was a little bit in the prime side of the business, my sense was there was a little bit of pull through with loans getting approved in December to be approved under the old rules. So again, I'm not sure they're yet showing up in the levels you'd expect in February. I don't think we're really completely working under the new rules yet.

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

All right. And my next question pertains to your capital position. With CET1 at 14.8%, you mentioned a 13.5% target, so that's about 130 basis points of excess capital. What do you see as your capital deployment priorities in the near term? Are you thinking more organic investments or perhaps, an NCIB, or maybe even acquisitions?

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

Well, I think any of those three could be possibilities over time. I wouldn't expect to go back to the board with any proposals around NCIB over the next 6 months or so. But if we're not seeing the organic growth and once we're certain -- once we get more certainty around the impact of B-20 then that's certainly something that could be considered. What we're talking about, by the way, in sort of real dollars, we're talking about $90 million in real dollars of potentially over our target of 13.5%. So it's a reasonably meaningful amount of money in the scheme of the bank's overall position. So I mean as I mentioned as well, as part of our Challenger Bank agenda, there are certain lines of business we're looking to get into. And it's not impossible that an acquisition could be part of that picture, although we've got nothing that's definitive enough to be putting on the table and saying it will happen for sure.

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

Do you care to elaborate on what type of businesses you'd be interested in getting into?

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

Not at this point, but generally, secured lending businesses and diversifying that platform are the various areas we're looking at.

Operator

Your next question comes from Graham Ryding from TD Securities.

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

Maybe I could just start with the EQ Bank. I always like asking about this, but just timeline and ideas around sort of transitioning EQ Bank, the digital platform into some revenue-generating opportunities. What sort of time line is realistic for anything that you're thinking about?

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

I sort of already see it as a revenue-generating opportunity (inaudible) or the way a Bank works, it needs two sides of the balance sheet, the liability side and the asset side. It certainly gives much more stability on the liability and funding side. I think from a perspective of when you could see this as being a lending platform, I think we're probably pushing it out as far as 2021. There's a lot to do in terms of turning it into a really capable savings bank that's going to be generally attractive to everybody, so we don't yet offer joint accounts, we don't offer registered accounts in the platform. These are obvious things that we need to do. As I mentioned in my remarks, we're launching GIC early next week but we also have another evolution of the GIC offering that will be coming later in the year, so that the team is extremely busy delivering new functionality. In fact, we're delivering new functions at the platform about once every 2 weeks right now, so it's really on a good cadence of delivery. But our focus is really making this an extraordinarily good kind of savings platform in a digital way that's really quite differentiated.

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

Okay, great. Talking about sort of an uncertain outlook next year, I totally appreciate that your guidance has room to potentially be revised if you see things evolve. But can you give us some idea of what sort of range you're thinking now that what could be possible next year in terms of your alternative single-family business? Like, could we potentially see volumes down over 25% next year? Or what are you thinking is sort of a reasonable range?

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

That would seem extremely negative to me. Again, as you say, it's uncertain, but I would be very surprised if we saw something like that. We're sort of thinking -- think down but single-digits to sort of low double digits is the likely outcome.

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

That's helpful. And then my last question is...

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

To put a caveat around that, I think we'll have much more to say about that at the end of the Q1 results. I think there's a lot of assumptions around that.

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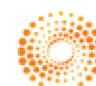

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Graham Ryding - *TD Securities Equity Research - Research Analyst of Financial Services*

Sure, that's fair. And then just my last question would just be competition in the market, both on the deposit side and the mortgage side. How are you feeling about given B-20 and a potentially softening market, we've got rising rates and your ability to pass that through into higher mortgage rates, how are you feeling about that dynamic?

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

Well, I feel reasonably good about it. It's obviously the history has been that the markets behave pretty rationally as the cost of funding goes up then the participants in the market raise the rates to reflect that -- those rates going up. As you are well aware, there's 1 major competitor that's in a bit of a rebuild mode right now. So how that affects us over the next 6 months may be a little more challenging, or presumably once we've got to a more stable position, the pricing reflects where our capital should be allocated and the right kind of pricing for that. On the deposit side, frankly, things have been very good for the last few months. If you actually think about not so much the base rate on the GICs but if you think about it as the spread over swaps or over government, which is really the right way to think about in terms of spread over the rates market itself. Spreads have been pretty tight, so I would say that -- our treasurer would say, I think, that funding has been cheaper over the last 6 weeks than normal and it's still cheapish and plenty of liquidity available in the deposit market.

Operator

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

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

My first question, Andrew, in your prepared remarks, you commented that a CET1 ratio of 13.5% plus or minus 0.5 is the right place to be. But my question is more around the total capital target levels and their impact on the CET1 level or target CET1 level. And I ask this because of two things: one, the recent debenture redemption and decision to not refinance at least at this time, I would estimate that's reduced total capital by about 80 or 100 basis points; and the second point, the current level of the total capital ratio at 16.3% is at the lowest point in the last 2 years. So how does that impact where CET1 ratio is and should be? And is that a restrictive factor on how much actual excess capital you have today?

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

I would certainly say it's not a binding constraint. We definitely, with the bank -- with the model that we have, we definitely put CET1 as a much more important indicator of capital against the pure response loss absorbing capital and total capital. I think the reason why we took the debentures out was exactly that. We don't see total capitals being such an important ratio for us anymore. I wouldn't have said that 5 years ago but the way regulations have changed over the years and the buildup in our CET1 is we really think about CET1 as the most important capital ratio. And again, don't forget, that's equity, that's common tier equity with goodwill stripped out of it, everything that you could. But it's really real loss absorbing capital and it's something that depositors should take huge comfort in having that as a good strong ratio. Tim, do you want to add some comments on that because I know you're more engaged with the whole capital?

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

I'd say that's exactly right, our focus is on CET1. To the extent we need additional capital or to the extent we focus on other ratios, we'd also look at the leverage ratio. So our unadjusted assets relative to our Tier 1 capital, we think about managing that in two respects: one, through preferred share issuance, if we needed to beef up that ratio at all; or more likely through some sort of asset derecognition transaction as we've executed in the past. But Andrew's right, our focus is much less on Tier 2 capital than it was in the past.

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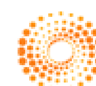

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Andrew R. G. Moor - *Equitable Group Inc. - President, CEO & Director*

So I think the general comment that I made about the degree to which we've got excess common equity is sort of true under pretty much any circumstance. It would -- that is -- that's right. Would it require us to raise other forms of cheaper capital to distribute that capital out? Maybe, but I think it's a pretty good indication of how we think about things.

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

Right, okay. So we should see total capital move in line with CET1 capital going forward, is the conclusion there?

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

Yes, that's right.

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

Yes. We will be comfortable bringing total capital down for sure.

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

Yes.

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

Okay. And then the second question is just around the -- I think it was a comment in response to one of the questions around Q4 and adopting B-20-type underwriting standards early in December, and that was part of the rationale for part of the reason why single-family uninsured mortgages were down 9% in this quarter year-over-year. I'm just wondering, what's the rationale to adopt that early, especially given some of the concerns around was it too harsh on a mortgage rate stress test? I mean, there's obviously some comments that were against or negative with respect to the B-20, so why adopt them early and take that hit today when it's just a month's worth of originations?

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

Just to be clear, I wasn't saying it impacted Q4, so I didn't -- wasn't saying it impacted Q4's originations. It would have impacted the originations we've seen in January and February because the loans that we would have stressed under the new rules would have -- would be -- would have closed in this current year. And the point is really we're just meeting that -- just marching to the beat of the regulator's drum. That the regulator said, you had to be in by December 31, but if you were capable of putting it in before then, the expectation was that you would. And frankly it's a fairly short timeline, as you're aware, and there were some system fixes that need to get done. And once we had those system fixes in place, clearly our approach is to meet regulatory expectations. It wasn't as though you had -- you get to choose when you put it in place, you do the right thing against the principles raised by this regulator who gives you those principles to work with, and then you follow it.

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

Okay. And so just to be clear then, your comment was more that your sense of timing around Equitable's adoption versus other players in the alternative space would have been a little bit more rapid? Is that a fair characterization of what you're saying? And then does that also mean that we should see maybe a little bit more of an impact on Equitable in Q1 than other lenders?

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

Yes, I don't know if that's -- I don't -- I'm not setting that expectation for sure, but I think in terms of the complexity of trying to understand from what happened in the 1st -- in January and February of this year, there were a number of factors and that's just one of them to sort of throw in the pile. And we'll never really be able to figure out what it really meant. As I said, it was a bunch of things, how much capacity does the credit union system have and a number of variables that we'll need to consider. And we'll be able to look back at them in June or August and have more confidence about what happened, but I still think the data is pretty sparse for the January and February period.

Operator

(Operator Instructions) Your next question comes from Stephen Boland from GMP Securities.

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

I guess I'm sorry to belabor this point on the B-20 but I guess, can you give some granularity about, and I understand what you did in December and maybe in November in terms of your commitments. But in terms of what you're seeing in January and February, I know the data is young, but are you seeing the renewal rates that you thought you would see out of the customers that you would see? Are you -- or are those customers still leaving? Are you still getting the application levels that you would have had that you expected under your guidance? So is it possible to get a little more granularity on that?

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

Yes. I mean, certainly, origination -- sorry, renewal rates are up year-over-year, which is what we expected. Again, early days but sort of confident around that. Application volumes have been very strong in the last couple of weeks, and then I have to caveat with that is our broker sending us deals that we won't ultimately end up closing. So I'm just being a bit cautious because some of the math may change in terms of the look-to-book ratio that is the amount that we actually write compared to the volumes that we see coming through the front end.

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

And the deals that you're like not closing on it. Is that based on the stress test or is that based on other factors? Or is it a combination?

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

Well, I mean, the stress test is only one thing. Don't forget that we had prohibitions or second mortgages taking us over 85% LTV. There are other variables around nonconforming loans in property -- where property values have been rising recently. I'd say the stress test is the big one. And it appears to me, so if forced to make a judgment on it right now, it appears to me that the brokers are quite knowledgeable about the new stress test and that they shouldn't impact look-to-book in a sense that they know what they're submitting and know what is going to fit our rules. So I'm feeling pretty good about it but I'll certainly feel more comfortable 6 weeks or a couple of months from now, when we're actually seeing those applications that are coming in this week, turning into closed transactions.

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

Okay. And second question and maybe just again, going a little bit longer term, that you mentioned in your remarks, asset growth that you expect to still rise slightly this year or under single digits, originations may be down. And part of that is because of your roll off or the book is pretty young or immature, whatever terminology you want to use. I guess, so the point in 2019, 2020, I get that at some point, that may reverse and your assets

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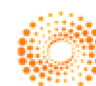

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start declining. And notwithstanding a capital decline in your ratios, I mean, what is your long-term or medium-term ROE goal here? Is 17% achievable anymore under these new rules? Or is 15% to 14% to 13% more realistic for the next several years until this gets sorted out?

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

I think the ROE is not driven by growth, right, those two things are disconnected. And as I mentioned, you have to think about how much capital you're deploying in the business over time, but I think if we price loans properly, even if we're pricing slightly fewer than those, those ROEs should be achievable. The question is, can you continue to grow the EPS and keep those ROEs moving in lockstep over that period? Up until over the last few years, we've been obtaining the vast bulk of our earnings reinvesting it in the business and getting 17% ROE on that incremental capital we've reinvested. We're not going to turn around and retain the same amount of capital and then put it into -- invest it in loans that have got a lower ROE return. So that's the discipline we have to have as a management team. And we've been certainly preparing for the time that the alt market wouldn't grow at the same speed as it has over the next -- over the last few years. Don't forget, last year, we grew the portfolio, the single-family alternative portfolio by almost 20%. So it's been a strong driver of growth. But things like the equity release product and so on, provide other avenues to growth over time. And that's where we continue to explore while remaining somewhat optimistic, frankly, that the alternative market will be a good market that can be a big driver of value for shareholders over the next few years.

Operator

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

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

Just one quick follow-up on the competitive side of the conversation and Graham's question, I think, was around deposits. But I was just wondering if you can give us a little bit more color around what you're seeing on the asset side. So, in particular, with single-family mortgages and maybe a quick comment about commercial mortgages as well, what you're seeing in the competitive side for gross mortgage rates that you're able to obtain in both of those businesses today versus let's say, your average over the last several quarters.

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

We haven't really been changing our rates in the single-family side, so the spreads have narrowed a little bit with slightly increased funding costs. But the spreads were unusually high for the last 6 months, 6 to 8 months, I would say. So I think our spread's actually still slightly wider than they were at this time last year in the single family business on the originations. So it feels like a decent kind of competitive framework. The commercial business is very busy and the rates that we're able to get in that. But the market rates we're getting there look pretty attractive to us but slightly wider than we would have seen again, this time last year. So a nice way to deploy shareholders' capital.

Operator

At this time, we have no further questions. I will turn the call over to Mr. Moor.

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

Thanks, Sharon. To conclude, we look forward to delivering our next quarterly report in May, and to seeing you at our Annual Shareholders Meeting, which will be held on the 15th of May at Equitable Bank Tower in Midtown Toronto. Thank you for attending our call this afternoon.

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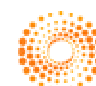

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Operator

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

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