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PRESENTATION

Operator

Good morning, ladies and gentlemen. I'd like to welcome shareholders and analysts to Equitable's Fourth Quarter 2018 Conference Call and webcast.

Later, we will conduct a Q&A with participating analysts on the call. 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 follow 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 2018 MD&A and earnings news release. This call is being recorded for replay purposes on March 1, 2019. 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, James. Good morning, everyone, and welcome. I'm joined by Tim Wilson, Senior Vice President and Chief Financial Officer of the bank.

Our positioning of Canada's Challenger Bank is being driven by a simple but ambitious goal, build a better bank for our customers. Strategically and financially, 2018 was a milestone year for Equitable as we sharpened this positioning. We advanced our award-winning technology to innovate and serve more Canadians than ever through our rapidly growing EQ Bank digital platform and our lending businesses.

As a result of these assets, Equitable has become a more competitive, more capable, more diversified and more future-ready bank, which is important given the new possibilities that will likely become available to us in an open banking environment. While the purpose of this call is to report on our financial performance and outlook, I think it's important to use this opportunity to explain how we fit into this future of an evolving banking industry, which we will do as we move through the remarks. We've used our year-end reporting to achieve a similar aim by setting out more information on our strategy in the MD&A than we typically provide. Taking a high-level view, 2018 capped a decade of great results. The bank's EPS has grown at an average annual compound rate of 14%, while ROE has averaged 17% as a result of our value-creation formula and customer service focus. In fact, a shareholder who purchased $1,000 worth of stock 10 years ago would now be sitting on $7,000 today. Even with accounted -- out accounting for the reinvestments of dividends through the period. Our 2018 EPS was our best ever, even including fair value losses on some of our preferred share investments.

Adjusted for fair value losses on derivatives and certain preferred share investments, Q4 diluted EPS was 12% higher than a year ago, while ROE was 14.7%. The fair value losses on certain preferred shares are those issued by large Canadian banks. These are highly rated holdings that got whipsawed in the downdraft of the capital market volatility in the final months of the year. The fair value losses on derivatives relate to our participation in the CMB program and are timing differences only not true economic losses. We've increased our common share dividend 12 times over the past 5 years. On the strength of good operating performance, we, yet again, increased our dividend by $0.02 or 7% to $0.30 per quarter yesterday. This is clearly a statement of the board on their confidence of the bank's financial position and outlook. Based on Q4 performance and the contribution that Bennington Financial Services will start making in Q1, our 2019 outlook is for AUM growth of 8% to 12% -- 10%, which should propel earnings and deliver ROE of approximately 15%. This outlook does not include the one-time IFRS allowance -- 9 allowance on the acquisition of the lease portfolio.

I'd now like to turn the key -- to the 5 key strategic priorities that we set for 2018. The first was to grow our existing business through superior service. We did so both in the year and in the quarter. Mortgages under management increased 20% or $4.6 billion year-over-year and grew sequentially by 7%. Recall that coming into the year, we were concerned by the impact to the revisions to guideline B-20 on the prospects for the alt single-family business and expected portfolio growth of around 2% to 4% over the year. Instead, the book was up 14%. Clearly the results show that our franchise has been resilient to the changes in the market. My perspective on the changes brought by B-20 is that they have made -- they have generally made the market safer for our single-family lending business. I draw your attention to Page 8 of the MD&A for a broader overview of this business and how we lend. While the shock to the housing market continues to generate concerns among some, we feel comfortable with the quality of the book and the positive contribution it provides to the bank. Our 2019 outlook for alternative single-family is for asset growth of 9% to 11%, which would equate to up to $1.2 billion of additional single-family assets. In commercial, the strategic decision to deploy more capital through it meant that 2018 growth was our best ever. The 31% annual expansion of mortgage principal was driven by a 53% increase in annual originations, including 58% year-over-year growth in Q4 production. As you know, we set out to allocate more capital to commercial in 2018 because of our belief that single-family would slow. But allocating capital and placing it productively are 2 different things. The team did a completely outstanding job identifying opportunities across a variety of asset classes, industrial, office, Multis, and now CMHC construction loans, while continuing to build the breadth and depth of our partner relationships, improve renewal rates additive to the portfolio expansion. For 2019, we expect commercial asset growth of 8% to 10%. This rate is more modest than in 2018, reflecting our desire to grow while maintaining capital ratios that our board and management team are comfortable with. Securitization Financing mortgages under management grew 22% year-over-year, reflecting originations and renewals in multi-unit residential mortgages, growth in our prime single-family book and relatively low attrition. Pricing dynamics put pressure on profitability in the prime single-family space in 2018. But the good news is that spreads are more attractive today, and we do expect the loans we originated in 2018 to be more profitable on renewal. The second priority in 2018, was to build EQ Bank's position as Canada's leading digital banking platform. We did this and the proof points are evident. Our EQ customer base grew 44% on strong digital account openings. Our EQ savings deposits increased 34% and savings duration expanded with the introduction of EQ Bank GICs. Our GIC launch was supported by the most consumer-friendly purchase experience in this country. Based on convenience and innovation, EQ Bank stands above the competition. Happily, unbiased sources agree with me. RateSupermarket.ca recently recognized the EQ Savings Plus account as the best savings account in Canada. And in January, EQ Bank earned Best Mobile App in Canada honors at the World Digital -- the World Finance Digital Banking Awards. We're thrilled with this award as it came on the heels of a creative redesign of our mobile app, launched in Q4, that included the latest biometric identification technology. Looking forward, EQ Bank will remain at the leading edge of our Challenger Bank thinking. It will help us to fashion our place in the open banking ecosystem as a financial hub for customers, one that delivers best-in-class offerings for Equitable and our fintech and other partners. We're excited about the prospects of open banking coming to Canada and our expectations were raised when the Department of Finance released its consultation paper on the topic in January. You will see that Equitable has been very involved in this consultation. You might be interested to read our response to the consultation on our website. And I think the URL is on your screen. In addition, we promoted our views in the national media, including The Globe and Mail and National Post. And Dan Dickinson, our Chief Digital Officer, appeared before the Senate as part of their exploration of this initiative. Open banking gives customers greater choice and control over their financial affairs. And Equitable's technology infrastructure and capabilities with application program interfaces, a key enabler of open banking, will allow us to really deliver against increasing customer expectations. Our API architecture makes it easy to collaborate with others, including leaders like Wealthsimple, who are now in our partnership circle. To further our ambitions, we're about to become the first bank in Canada to post our core banking system in the cloud. We expect this migration to be completed in the summer of 2019. This is a transformative step this will make it easier for us to innovate and lead as Canada's Challenger Bank, but does have onetime earnings implications, as Tim will discuss. Priority 3 was to leverage our capabilities and balance sheet to diversify into adjacent markets. 2018 was a watershed year for diversification with the introductions of our reverse mortgage and Cash Surrender Value lines of businesses and the launch of services to specialized lenders. We feel we've got the underpinnings in place to support future growth in all of these businesses and are growing more optimistic about their potential as time passes. We will apply the same discipline in developing our new trust subsidiary in 2019, which will give us new powers to serve customers and raise deposits with additional CDIC coverage when it hits its stride. While it wasn't reported as part of Equitable's 2018 results, Bennington Financial Services will also further our diversification efforts and will make an accretive contribution in 2019. We've only had the chance to work with Larry, Troy and the Bennington team for 2 months. But in that time, they have carried forward a positive message to key stakeholders and found a strong level of market receptivity to the business initiative. As a reminder, Bennington brought with it an experienced team, a $440 million-plus leasing portfolio, long-tenured relationships with leasing brokers across Canada and a proven approach to adjudication. Our focus now is on learning to work together and trying to unearth more opportunity in this market. Part of our investment thesis was Equitable's ability to reduce Bennington's cost of funding, and we are making faster progress on this then we had originally envisaged. Priority 4 was to maintain a disciplined approach to capital management and a low-risk profile. 2018 saw us profitably deploy excess capital in a way that will benefit shareholders in future quarters, mainly by growing commercial. As a result, our CET1 ratio edged lower at year-end but, at 13.5%, was still well ahead of regulatory minimums. By deploying -- by profitably deploying capital to Bennington, we expect CET1 will be reduced by about 70 basis points in Q1 before we rebuild it organically over the course of 2019. As for maintaining a low-risk profile, our credit metrics continue to be great. Net impaired mortgage assets were just 16 basis points of total mortgage assets. While up from last year due partly to the adoption of IFRS 9, 16 basis points remains an extraordinarily low rate. Looking ahead, Bennington's leasing assets have higher yields and margins than mortgages, and with higher reward comes higher risk. Consequently, the bank's arrears and provision for credit losses will increase after we begin to consolidate Bennington's results. We expect normal Bennington-related provisions to be between $10 million and $12 million in 2019 or approximately 2% of assets. This level of loss is within our risk appetite, even if seeing these levels of losses will take some getting used to. And the ROEs on Bennington's business exceed our thresholds. Our fifth priority for 2018 was to strengthen our key capabilities. We delivered on this priority in a number of ways. As an example, we launched an online mortgage servicing portal called myEquitable that gives our customers real-time access to their mortgage accounts, which is significantly more convenient for them, and part of our strategy to improve the experience for all borrowers, including those who will stay with us through multiple renewal cycles. We also enhanced our prime mortgage product suite, launched a creditor life offering and maintained our status as an AON Platinum employer. Now, I'll turn the call over to Tim for his report.

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

Thank you, Andrew, and good morning, everyone. Equitable delivered year-over-year earnings growth of 12% in Q4 and an ROE of 14.7%, both on an adjusted basis. From an operating perspective, this was a very good quarter and certainly an excellent way to cap the year. The change analysis slide in our deck quantifies the year-over-year impact of the various drivers of our profitability, and you will notice that asset growth was by far the most significant factor. In other words, it was our underlying franchise that drove the increase. Q4 asset growth was higher than we had expected entering the quarter, which reflects the marketplace success of our Challenger Bank business line. As a result of this increase in our average asset balances and a 3 basis point increase in overall NIM, net interest income grew 19%, which was right in the middle of our expected range. Looking at Q4 margin trend, total NIM expanded by 3 basis points year-over-year to stand at 1.62%. NIM in core lending was 11 basis points above last year due to lower liquidity of [net] costs and the asset mix shift towards our higher yielding commercial portfolio. NIM was higher despite reduced levels of prepayment income and the effects of elevated price competition in the single-family market. As expected, interest expenses associated with our backstop facility declined by $3 million year-over-year due to our decision to reduce the size of the facility in the second quarter. Costs should remain at this level until the current facility is renewed and likely at a lower level than the current $850 million. Looking ahead, we believe that, in 2019, NII will increase at year-over-year rates between 25 and 30% due to both asset and NIM growth. Our thinking is that NIM will benefit from the consolidation of the higher-margin Bennington lease portfolio and multiple reductions in the size of the secured backstop facility. To take each in turn, we expect Bennington's lease portfolio to have margins around 7% on average in 2019. There should also be upside in future years as Bennington takes increasing advantage of the bank's lower funding costs to grow share. Bennington should have about an 8 basis points positive impact on our overall NIM next year due to its higher margin and our ability to realize cost of funds synergies faster than we had originally expected. On the backstop, while we haven't finalized our plan, we downsized midway through last year and expect to maintain a smaller facility going forward. We anticipate costs for all of 2019 to be approximately $13 million to $15 million lower than in 2018. Overall, we expect total NIM for 2019 to range between 1.65% and 1.70% compared to 1.6% for all of 2018 and 1.62% in the most recent quarter. As a result of investing more in the bank's strategic initiatives and accounting for the impact of fair value losses, our Q4 efficiency ratio was 4.1 percentage points higher than last year. On an adjusted basis, it was 38.4% or only 1.3 percentage points higher. Expenses grew 19% year-over-year, just above the growth rate of over assets, as we had expected. The main drivers included 13% higher FTE and a 22% increase in regulatory, legal and professional fees, which was a function of an increase in CDIC's standard premium rates, higher deposit balances and overall business growth. Spending on technology was also higher than in Q4 last year by 7%, consistent with our objective of building our IT capabilities to support our strategy. For 2019, we will continue investing, including in the migration of our core EQ Bank system to the cloud. We are not able to capitalize most of the cost of this cloud migration, unlike other capital investment, so it would result in incremental nonrecurring expenses of approximately $6 million in 2019. We will also assume Bennington's entire cost base. Bennington's efficiency ratio is typically in the 50% to 55% range, reflecting the labor intensity of its smaller average ticket size leases that will cause our overall ratio to rise. Beyond those 2 more significant increases, expenses should rise in line with the overall business. All told, we anticipate that 2019 noninterest expenses will increase at year-over-year rates between 30% and 35% and that our efficiency ratio will land between 40% and 42%. Two final comments from me. First, on Bennington. We expect to take onetime IFRS 9-related provision on the acquisition of approximately $7 million in Q1. As we explained on our December call, IFRS 9 treats acquired financial assets just as it would assets originated directly by us. As such, we're required to record an allowance equal to 12 months of expected losses on Bennington's performing leases immediately after they come on the bank's balance sheet, which was January 1. This provision will affect Q1 results only and will not recur. You'll recall, we had expected this provision to be as high as $9 million, but upon further analysis, we brought this estimate down slightly. Excluding this item, we still expect the acquisition to be accretive in the range of $0.35 to $0.40 per share. And finally, because of the continued diversification of our business, we plan to adopt a new reporting format in Q1 split along 2 lines, Retail and Commercial. The reporting format that we have used in the past, which centered on core lending and securitization financing, no longer reflects how we view and how we manage the business. Retail will include alternative and prime single-family, reverse mortgages and CSV. Commercial will incorporate large and small commercial mortgages, Multis, Bennington and specialty finance. This new structure aligns with our customer segment and, coupled with the new supplementary tables we are developing, should make it easier for you to forecast segment performance. Now, back to Andrew.

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

Thanks, Tim. We're very excited about our prospects for profitable organic growth. We very much fashion ourselves as a people's champion, striving to create a better customer experience in all areas of banking that we choose to serve under our Canada's Challenger Bank approach. We made some bold choices to find new ways to provide great banking services across Canada. The keystone of our business is customer service, and to that end, the capabilities of our team are changing and evolving so that we can wow our customers, better collaborate with our broker partners to make deals work, live up to our commitments, accelerate production cycle times to promote new versions of our mobile app and deliver our philosophy of continuous improvement throughout our digital operations and call centers. Our 5 strategic priorities for 2019 were carefully constructed to align with our objective of building a better bank for Canadians, customers and shareholders alike and delivering high rates of profitable growth. In closing, 2018 wasn't just another year of record earnings for Equitable. We've been building and cementing our position as Canada's Challenger Bank for a few years and it certainly feels to me that we are uniquely placed to thrive in the years ahead with the way the bank is positioned in the market. Our shareholders should know that we have an absolutely committed team of fantastic employees that are the lifeblood of this bank. I look with awe on some of the things they are achieving. We may be a small bank but we certainly have a big heart, and I would like to sincerely thank all of my colleagues at Equitable for their energy and effort in 2018 and the fast start that has already been achieved in 2019. This concludes our prepared remarks and I would like to invite your questions. James, can you please open the lines for analysts that have questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Nik Priebe with BMO Capital Markets.

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

Just a pair of questions then on the outlook that you've established for the year ahead. In the asset growth rate expectations that you have outlined for the alternative single-family portfolio, it looks like there's some embedded assumptions regarding market share. And there's a little comment suggesting that you're expecting market share gains this year relative to last. I'm just wondering if you could help us understand what factors might contribute to that -- it looks like pricing is pretty well aligned with the industry. So what other factors might contribute to the market share gains there?

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

Nik, it's Tim. I can handle that one. I think, overall, we expect to maintain a strong market position in 2019, roughly consistent with where we've been over the past few quarters. What actually contributes to the net gain year-over-year is our performance in Q1 of last year. If you recall, we were a little bit off on our service standards in that quarter and we suffered on market share. So when you look at the year-over-year comparisons, it's against a less-challenging Q1 comp.

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

Okay. So that helps clarify. And then just on the -- I just also wanted to touch on the prime single-family segment. Obviously, a really large uptick in volumes in the fourth quarter. I guess, just a 2-part question. A, was that just a function of the more attractive spread environment that we saw for those assets? And then, looking out into 2019, a higher -- or a lower proportion is expected to be sourced through third-party channels. So I'm just wondering, what proportion, in 2018, would have been sourced through those third-party channels?

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

I'll let Tim deal with the 2018 questions, the retrospectively. I think when he was looking at third party purchases, we do it when we've got attractive ability to execute in terms of pricing, we just bought a package, I think, last week because we always to tried to make sense for the partners we are buying from and where the market is. But we're also seeing there is good uptick in our own production, so I do think we can expect our own production to continue to move forward. And spreads start to make it look more interesting than has historically been the case.

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

Yes. And looking back at Q4, Nik, the vast majority of the prime single-family originations were opportunistic purchases from third parties. It would be roughly in the neighborhood of $1 billion.

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

It does make it a little bit difficult for both you and us to predict it, frankly, depending on the needs of the various partners we have, where they want to lay off loans.

Operator

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

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

My first question is just the -- on the straight deposit, call it, proposals that came out in the past few weeks. If they do wind up being implemented as proposed, can you can comment on what impact, if any, it might have on EPS?

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

I'll let Tim deal with the -- sort of the numeric piece of that. I would make some sort of general comments. It has been unfortunate how this all came down. And I think in terms of leaking from what's typically a tight process between us and the industry, which I regard as a high-value component of the Canadian regulatory system to make sure that when these regulations come out, they make sense, they achieve their policy objectives yet, at the same time, have meaningful industry input. So I think as an industry, we need to do a lot better job of respecting their confidentiality. And I think, though, the good news is -- and Tim will give some color, is this is not something that we are particularly concerned about.

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

And Geoff, we already take an approach of maintaining a very conservative liquidity position. So while we're still working through some of the detailed calculations of the latest proposal, we don't expect it to have a significant impact on the size of our liquidity portfolio. The simple reason being that regulatory metrics are one source of information that informs our liquidity position. We also have various internal metrics and stress tests that we run. And those more often end up being the binding constraint on the amount of liquidity we hold. So while the regulatory metrics may move up a bit, it's still our internal metrics that are likely to dictate our portfolio position. Therefore, it's not likely to change much from where it is today.

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

And just my second question is, when I take a look at your business over the past year, year and a bit, you've branched out into reverse mortgages, the CSV line of credit, doing some specialty lender loans and now with the Bennington. Now, granted, almost -- pretty much all of them are very small loans starting from scratch in many cases. But can you talk about how you're managing the risks of expanding into these areas and trying to grow these areas going forward, just given these aren't really areas I would say you necessarily had expertise historically?

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

It's something I think about a lot, Geoff, in terms of are we biting off more than we can chew. And I think this will be a year we're more bedding down the initiatives we have already made. We do see the CSV and the reverse mortgages businesses -- first of all, we think they're pretty straightforward risk business to manage once you get your head around it originally. And we see that as being a very interesting component in terms of moving to the decumulation -- being relevant in the decumulation market, by which we mean people that are postretirement that are looking to use their assets to fund their lifestyle through retirement. And we think there's some other interesting partners who are working in that area. We see it as the assets are fairly small to date. We do think they are potentially very large businesses going forward, but they will grow slowly this year. I think you -- and to your point really, you can expect this is a year of bedding down the initiatives we've already taken, rather than one where you would expect us to see us taking many more sort of initiatives into ancillary markets, if you like. We feel our dancing card is pretty full for this year but this -- and our risk team is all over it. They're very aware, from the board level down, that these new initiatives need to be looked at carefully. So we will be doing that.

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

Got you. And I just want to make sure. So it's essentially kind of grow these slowly, methodically to make sure you get comfortable with the risk. So do you have to hire people externally who may have had some expertise in some of these different product types?

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

We certainly have brought in some outside expertise in some of these areas. Yes. The benefit of that, and we've had outside consultants to help us understand the risk metrics around this. Reverse mortgages, in particular, are a relatively complicated actuarial problem, and we think we found the best guy in the world to help us with that piece. So, yes, we are -- we're making sure any knowledge gaps we have are filled with outside resources.

Operator

(Operator Instructions) And your next question is from Marco Giurleo with CIBC.

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

I just wanted to follow up on Geoff's question with respect to the newly proposed OSFI liquidity requirements. So if passed as currently proposed, can you speak to some of the offsets you may have to basically offset the cost of higher liquidity. And specifically, I'm interested -- you currently have the backstop facility in place now. Would higher liquidity on the balance sheet change your view on continuing to carry that facility?

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

I certainly don't think this policy will change our view on that. We'll certainly factor it in as we think about the extension of that facility. I don't think it's going to really, though, weigh heavily into that decision. And as Tim said, we don't think this is going to become the binding constraint. There are some definitional issues that we have to kind of work through, but we're pretty comfortable that the constraint will emerge from whatever the final language is, is probably below the liquidity that we plan to carry in any event. I think it does, though, go to supporting some of the strategies that we've been on for a number of years here. So our EQ Bank strategy, what we are working on a lot is to be able to have stronger relationships with our customers across more than 1 product in that area, that's an important component of how OSFI thinks about stability of deposits and so on, which makes every -- all kinds of sense to us. So you'll see our strategies starting to offer more than just a simple -- one simple service to our customers, I think, trying to ensure that they're using the full capability of the product set to have that stronger relationship.

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

All right. And just as a follow-on to that. There was some commentary about possibly reducing the size of the facility on -- in the MD&A. Does your NIM guidance of 1.65% to 1.70% for '19, does that envision a reduction in the facility? Or would that be incremental?

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

No, it does assume a reduction in the facility mid-year, after the existing facility matures. In fact, we've guided for overall cost savings of $18 million to $20 million year-over-year.

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

Okay, so there would be a slight bump in NIM, call it, in Q3 of '19?

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

Yes, very slight.

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

Okay. And my next question is just another numbers question on the expenses. Tim, you mentioned, there is an incremental $6 million dollars in nonrecurring expenses related to the implementation of your core banking system in the cloud. Is that included in your, call it, your expense guidance? Or will that be treated as an item of note?

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

That is included in our expense guidance. I don't think we've determined the treatment yet, but I wouldn't think it's likely going to be an item of note.

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

Okay. So that's part of -- that would be included in, call it, your...

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

That would be included in the guidance that we provided, yes.

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

So in getting to your 15% to 17% EPS growth for '19, that would include the $6 million of expenses?

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

That's correct.

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

As an aside, this may be something that's sort of more interesting. Certainly, it was new to us in terms of accounting approach. In the old world, where you would have gone out and bought servers and set up infrastructure on servers, you would have capitalized all of that and then amortized it over the life of the servers. In this case, effectively, we're spending money upfront to get access to the cloud and get it working. And expense it over the -- immediately, effectively. Whereas -- and yet, we'll get the benefit over it for a number of years. So I think if you -- in my view, if you were looking at it sort of compared to old-style accounting for old style systems, you're really penalizing yourself up front and amortizing it -- compared to the more traditional approach. I imagine you'll see a number of other banks starting to do this, though, over the next few years.

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

Okay. And just one last question on just credit and just your view on the firm's credit experience through the cycle. There was an interesting chart in your MD&A that showed the beacon scores of your mortgage portfolio. They went from 643 to in excess of 700. Just wondering, what does that mean for the credit experience through the cycle going forward? I imagine peak loss rates should, in theory, be lower, not only as a result of your shift in mix to alternatives but as well as just simply the high-grading of your portfolio?

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

I think that's right. We tried to quantify that. I'm not sure if it's -- certainly, we can get offline with you on the cycle impact. But the probability of default under -- everything else being equal, should be about 35% less with those kinds of beacons than it was under the old scenario is our math on that. It's directional, to be clear, but it's a meaningful reduction in the probability of loss.

Operator

Your next question comes from the line of Graham Ryding from TD Securities.

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

Maybe just talk big picture how you're feeling about the market conditions when you look at single-family and commercial, because it seems to me like you are adding some incremental risk to your business with your sort of growth in construction lending, equipment financing. But then on the other side of things, you've got a lower backstop facility planned for this year and your capital ratio is trending below where you've typically targeted it. So how are you feeling about the growth that you're targeting but adding incremental risk to the business?

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

I don't really see us as adding incremental risk. I mean, I think the equipment finance business will have higher losses on an ongoing basis but probably may not be quite so cyclical, frankly. That's the experience of that business in the credit profiles it works at. More generally, and I think we tried to set that out around our single-family businesses, our feeling, having been through a year of correction with B-20 and what that means for the market as a whole, is that the market is a wee bit safer. We will, as -- to your point on capital, we will be rebuilding capital up to the -- we finished the year right on the sweet spot. 13.5% is sort of center ice for us and we just need to rebuild that a little bit, but it's something we can do very quickly just from retained earnings. So we're feeling pretty good that we're in a nice spot. The risks are balanced. Banks have to take risk and we're taking a risk, but we think we're doing it prudently as prudent bankers would do. Pretty comfortable.

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

Okay. That's helpful. And then on the CET1 ratio, your guidance is that it's going to fall below 13%, I think, following the Bennington acquisition. What -- with your guidance that you put with earnings and asset growth and whatnot, where do you see the CET1 ratio trending towards by the end of the year?

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

We see it back at the sort of 13.5% level by the end of the year. So it's going to be a little bit of a -- it's going to be at the lowest at the end of March, and then it will rebuild fairly fast from there.

Operator

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

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

First question is related to some somewhat high-level commentary in the MD&A regarding AIRB and the significant impact that could have and potential benefits. Can you -- are you able to expand upon that comment and maybe provide some of the other factors that led you to include that statement in the MD&A this time around?

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

I think it's important that you know there's a lot of energy being applied within the bank to AIRB, and we're making good progress on it. And the -- if our capital was being measured in the same way as the DSIBs, i.e. under AIRB, there would be a meaningful drop in risk-weights. We're comfortable enough with our models to know that, that would be true for sure. And the question is how quickly we can -- how does our project move forward to get us to be comfortable with accepting the approach we're taking? And how quickly would they -- under what circumstances would they allow us to have confidence in our models as we build our own confidence in the models? But over a 5- or 10-year time horizon, this is something that could be meaningfully important to the bank. And I think it's something that investors should understand. Certainly, it's something that I think is important to us.

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

Okay. And just a quick follow up on that. Is it time and provability of your models that is the biggest constraint from an [honesty] perspective would you say? And where would you think you are in terms of that timeline? It sounded like, from the MD&A, that it was kind of like end of 2020 where you might be able to at least get some visibility on implementation. Is that based around that sort of feeling of timing...

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

I think we would expect to be in parallel runs by the end of 2020, the capital ratios under both approaches by then and have confidence in our models. There's a fair bit of heavy lifting to do to make sure there's data integrity through the system before we get there, but we're well on our way with that. So yes, I think if we were having this conversation 12 months from now, we'll have a lot more confidence as to being able to sort of communicate what we think the difference in risk weights are and where our time line is on that. But as a reminder, why we're -- so there is a significant potential piece of risk weight relief, but that is not really why we're doing this. This is to allow us to tackle different asset classes that don't really fit particularly easily in the risk weighted -- in the standardized approach. So today, if we have an apartment building where we help with the funding of the construction, we won't be competitive on take out because our risk weights against that apartment building would be too high. And so it would end up going to another bank or another financial institution using the AIRB approach. Potentially, under this approach, we could go to our customers and say now that the building is stable in cash flow -- cash flowing, our risk weight is dropping and we can be competitive on pricing. That would obviously be a -- and the cost of acquisition of that asset of that mortgage should be pretty low because we already have the relationship with the customer. So that's the real kind of win over a much longer time period and de-risking the book to bring it into that process.

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

Okay. Next question is around the leverage ratio dropping to 5% in this quarter. In past years, you had some strategies to sell some securitized -- or not sell them, I guess, but execute some transactions to de-recognize some securitization transactions. Is that something that is on the agenda at this point, given where leverage is sitting? And are there any strategies or factors to consider in looking at that ratio?

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

No, I think we're very comfortable with where the leverage ratio is, Jaeme. And we think we still have adequate room for growth. It was obviously impacted this quarter by the prime single-family mortgages that we sourced. But again, we don't expect that type of volume in most quarters going forward. So think that we can organically generate enough capital to keep our leverage ratio where we need it.

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

And those transactions would both lose profitability in the short-term, but from our math, the NPV over the life of the loan, we're better off not doing those transactions if we don't need to. And we don't feel we need to.

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

Okay. And then my last question is just around Bennington. I just want to get a sense as to the NIM guidance around 7% for Bennington. When the transaction was first announced I think I kind of got to about a 9% or a little bit higher than that NIM as an estimate based on like a return on invested capital metric. So I'm just wondering, what kind of changed or transpired over -- since this acquisition to sort of drive a little bit of a lower NIM?

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

We're still working through the Bennington financials. And we may be a little bit conservative with the 7% number. I do think there might be some upside there. But we didn't want to bake it into our expectations at the moment, Jaeme.

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

There's no factors that have emerged since we made that original comment. So it's probably more a communication issue on our part. We're very comfortable with the acquisition and the numbers that are being generated.

Operator

And with that I'd like to turn the call back over to Mr. Moor for some closing comments.

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

That concludes our prepared remarks. So thanks, James. To conclude, we look forward to delivering our next quarterly report in May and hosting our annual meeting on May 15 at the bank's head office in Toronto. And thank you all for listening this morning.

Operator

And this concludes today's conference call. You may now disconnect.
