Equitable
Third Quarter 2019
Conference Call Script v7

Slide 1

Operator

Good morning ladies and gentlemen. I'd like to welcome shareholders and analysts to Equitable's third quarter 2019 conference call and webcast. Later, we will conduct a Q&A with participating analysts on the call.

Slide 2

Before we begin, I'd like to refer you to slide 2 of the presentation regarding the Company's caution regarding forward-looking statements.

This presentation and comments may contain forward-looking information, including statements regarding possible future business, and growth prospects of the Company. You are cautioned that forward-looking statements involve risks and uncertainties.

Certain material factors or assumptions were applied in making these statements and could cause results or performance to differ from forecasts or projections expressed these statements. Equitable does not undertake to update any forward-looking statements, except in accordance with applicable securities laws.

This call is being recorded for replay purposes on November 6th, 2019.

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

Slide 3

Andrew

Thank you, _____. Good morning everyone and welcome. I'm joined by Tim Wilson, Chief Financial Officer.

This is our first call since Equitable was included in the TSX Composite Index. And we can't think of a better way of starting our tenure than by reporting adjusted net income 20% above last year – a new all-time quarterly record for us – and an ROE of 16.2%. All told, the third quarter was a very productive period for Canada's Challenger Bank as we achieved double-digit growth in Retail and Commercial assets, attracted thousands of new customers to *EQ Bank*, pushing its deposits past 2.5 billion dollars, and launched Equitable Trust to provide another channel for customer service in the form of term deposits and deposit diversification.

These are good accomplishments worthy of discussion but first I'd like to talk about the **future** and how we are positioned to move our Bank forward.

Slide 4

As Canada's Challenger Bank, we are on a quest to create a better banking experience and – equally important – banking **value** for our customers. Our strategies are geared to challenging industry conventions in targeted ways largely enabled by our digital capabilities and superior cost structure compared to traditional incumbents. We are focused in our mission of becoming Canada's Challenger Bank with a concentration on serving customers where we add value and choosing markets where we are pushed along by the winds of demographic change and where we spot opportunity for superior long-term growth, and risk-adjusted returns.

Slide 5

To successfully execute, Challenger Banks around the world need to have a technology backbone that can enable product and service innovation, bring innovations to market quickly and cost-effectively, and integrate the best offerings with those from industry-leading partners.

That’s why the development that really excites all of us at Equitable happened just a couple of weeks ago….the migration of our core banking technology to the cloud.

We achieved this following a lot of heavy lifting by our team along with Microsoft and Temenos.

Perhaps more than any recent development, this prepares Equitable – and particularly EQ Bank – to bring new products and services to market more quickly and change the way Canadians bank.

We have an ambitious roadmap, and over time you will see evidence of it as we launch some great new offerings. For competitive reasons, we don’t talk about new offers before launch but I’m confident they will challenge the industry, give Canadians new and better banking options and support our growth and performance objectives.

Slide 6

It’s no secret that **EQ Bank** sits at the leading edge of our challenger bank thinking. We launched it in 2016 to host a wide variety of innovative digital products and services, reasoning that it provided an independent and proprietary channel for the Bank to reach Canadians.

Our goal is that five years from now over one-third of Equitable Bank deposits, or close to $10 billion, will come through this award-winning digital channel. That's a stretch since our other deposit sources will also grow. But we've made a very credible start.

Over the past year, 22,000 Canadians have opened EQ accounts – including 7,000 since June 30th – and at over $2.5 billion dollars, EQ now represents 17% of our total deposits, up almost half a billion from a year ago. This increase in relative weighting has been achieved even as we've grown other sources of deposits by 14% in the past year.

Slide 7

To build on recent momentum, on September 30th we launched a new EQ Bank Savings Plus Account multi-media campaign with TV, digital and transit ads. For those on Twitter, please see hashtag "Better Banking."

This campaign, which was inspired by what customers tell us they want and value, makes a bold statement about the ways in which EQ Savings Plus is different and more valuable than traditional savings and chequing accounts.

More valuable because it reimagines a bank account to bring the best features of both a chequing and a savings account into a single offering. One that pays a 2.3% interest rate with no minimum balance requirements and provides full freedom to pay bills and move money – at no cost.

Campaign timing was purposeful. We launched it right after introducing significant and popular upgrades to our mobile and web onboarding apps in the summer.

I said at the outset that to execute successfully, Challenger Banks like ours need to work both alone **and in partnership**.

On this front, we continue to align ourselves with industry-leading players across all parts of the Bank. I'm very pleased to note that consumer deposits placed through strategic partners, what we term "relationship" deposits - surpassed half a billion dollars in the third quarter.

Slide 8

Our ability to be open with our technology infrastructure and desire to align with the best partners will give us an edge as the open banking agenda advances in Canada now that the Federal election is behind us. We're pleased to see a growing groundswell of support for open banking among policymakers who recently published Canada's Digital Charter. Principle four of this charter, which commits to "transparency, portability and interoperability" is a direct and powerful endorsement of open banking.

I'm also pleased to see organizations like the Investment Industry Association of Canada come out in favour of open banking because, to quote, “a client with an advisor who can see all their accounts will receive better advice.”

Our belief is that open banking will result in fewer barriers for Canadians to more seamlessly conduct their financial affairs across banks. While this prospect may be scary to some, it’s welcome news to Equitable because we seek to be relevant with best-in-class products for specific elements of customer’s financial life. Reducing friction across the banking system will enable us in pursuing this mission.

Slide 9

One customer group we want to serve in a big way in the years ahead is the growing cohort of Canadians in the decumulation phase of their lives. Serving this market will extend and steepen our growth runway.

For this important group, we were delighted to announce in early September that **Empire Life** added Equitable as a partner and will bring our CSV Line of Credit to Empire Life policy owners for their consideration.

Just last week, we announced another new partnership, this one with **iA Financial Group**. We now have 6 life insurance partners in place representing the industry's who's who.

Winning over important new partners like these, as well as mortgage brokers on the reverse mortgage side, takes time but is necessary since these are somewhat complex financial solutions, and to use them Canadians will require expert advisory support.

We are optimistic about the evolution of our decumulation businesses. We are learning and building relationships in the market. As a result, I believe theses businesses will become more important to our investors in the years ahead.

Slide 10

Speaking of the future….

Industry data suggests the housing market has stabilized and home sales have improved more than expected in recent months. As a result, CREA recently upgraded its forecast for home sales in 2019 and 2020. We'll publish our own growth expectations for 2020 next quarter but while we are definitely seeing regional variations, the housing market has a broadly constructive tone recently. This is good news for our Retail businesses.

Our Commercial book was also up 13% compared to last year, with half that growth coming from our traditional businesses and half from Bennington.

Combined, our assets under management are now over 32 billion dollars and with solid loan growth expected in Q4, 2019 will be another record year of profitable expansion.

Slide 11

My final highlight concerns dividends. Yesterday, the Board increased the common share dividend by 25% over last year and by 2 cents or 6% over the dividend paid last quarter.

The Board’s stated intention is to grow the dividend at a rate of 20 to 25% per annum through 2024 so this latest increase is in keeping with our long-term plan.

We’re very pleased to see the market recognize the value of Canada’s Challenger Bank and Equitable’s elevation to the S&P/TSX Composite in September certainly helped.

Investor confidence was also apparent in demand for our most recent Deposit Note offering. That note attracted 38 investors compared with 25 in our previous offering, and the spread on the deal was also 15 basis points tighter. We are committed to building this program with the goal of providing a more reliable and cost-effective source of funding in the years ahead.

I'll offer a few more thoughts about our future, but now to Tim for his report.

Slide 12

Tim

Good morning everyone.

Q3 adjusted net income was an all-time quarterly record, up 242 thousand dollars from the previous record set in Q2. Adjusted EPS was 1 cent below last quarter's record, being negatively affected by the increased dilution factor caused by the recent increase in our share price.

Slide 13

The change analysis slide in our deck illustrates the impact of various profitability drivers, the biggest of which were a year-over-year increase in NII and a reduction in backstop facility costs.

From this slide, you will note the change in operating costs of 29 cents per share. As a reminder, the addition of Bennington represented 11 cents, or 38% of that increase.

We also invested more in operations in support of our growth strategy, and incurred expenses for the migration of our core banking system to the cloud.

I said on our last call that we expected costs related to cloud migration to be about 1.5 million dollars in Q3. They were in fact $1 million. We still expect to incur 1.5 million in Q4 but we've reduced our forecast for full year to 3.3 million as a result of underspending in Q3.

Migration costs will then reduce in Q1 of 2020 to zero.

Slide 14

Turning to NII and margin trends, Q3 reported net interest income was up 27% over 2018. The increase was due to growth in average asset balances of 21% and improved margins. Our NIM of 1.75% was up 9 basis points from last year and 1 basis point lower than in Q2.

The year-over-year increase in NIM was primarily the result of adding Bennington's higher spread equipment leases – which had a 10 basis point positive impact – and higher spreads on our mortgage portfolio – which had a 5 basis point positive impact.

The lower rate we’re paying on our now smaller backstop facility had a 3 basis point year over year beneficial impact to NIM as well. Quarterly backstop expenses are now 600 thousand compared with $2.3 million dollars last year and 1.4 million last quarter.

Sequentially, NIM was stable and we expect it to remain around 1.75 percent through the end of the year.

Slide 15

On credit performance, the PCL on our mortgage book was low and in line with our historical rate, and Bennington was within the 2 to 2.5 million dollar range that we had expected.

During the quarter, we recorded $1 million of Stage 1 and 2 provisions compared to reversals of 400-thousand dollars in Q2 2019. This is the volatility that everyone had expected from IFRS9, resulting primarily from changes in forward-looking macroeconomic assumptions. For greater clarity, the increase in Stage 1 and 2 provisions compared with last quarter was **not** due to fundamental changes in the profile of our loan portfolio.

Stage 3 provisions were also higher than in Q2, by 657 thousand, but I will remind you that Q2 was unusually low due to some loss modelling assumption changes on our lease portfolio that resulted in a $1 million dollar reversal.

Slide 16

Moving to Q3 expenses, they increased 34% year over year, meaning they remained in line with our expected growth rate for the year of between 30 and 35%. Excluding Bennington, other expenses grew 18% year over year as we continued to invest in our capabilities, and recorded higher insurance costs on our growing deposit balances.

For the remainder of the year, in addition to cloud migration costs, we expect to incur 4 million of costs for the EQ marketing campaign in Q4. Based on customer uptake to date, which has roughly doubled since the launch of the campaign, we think this was a very good investment. Some of the expected marketing expense will be to support a new EQ Bank product launch in Q4, which has our team pretty excited – stay tuned for more on that launch in the coming months.

As a result of these expenses, we expect our Q4 Efficiency Ratio to be towards the top end of our full year range of 40 to 42 percent.

As for our outlook on the bottom-line, we expect adjusted earnings to grow between 16 to 18% in Q4, and for ROE to be between 15% and 16%.

Slide 17

Two final thoughts. We pushed our CET1 ratio up again during the quarter to bring it closer to the mid-point of our target range of 13% to 14% as we said we would do earlier this year.

And finally, as you will have noted, we reset the Series 3 Preferred share dividend rate in September for the next five-year period. The new rate is 38 basis points lower with 5-year savings to the Bank of a modest 1.4 million dollars. But then again every penny counts.

Now back to Andrew.

Slide 18

Andrew

Thanks Tim.

We see many opportunities ahead to serve Canadians in new and better ways.

We're building a workforce that is highly motivated to challenge and increasingly capable of doing so. I'm very grateful for the hard work our team has done this year to strengthen our platform and bring new services and service refinements to market.

Going forward, we have a great strategic position to drive superior growth and support long-term value creation. One that I'm excited about is a proposed covered bond funding program, which we hope to launch as early as next year.

Covered bonds have the potential to reduce our funding costs and serve as another meaningful source of funding diversification. With advisory assistance from Barclays and TD, which have market-leading global covered bond structuring and distribution capabilities, we're putting together an offering that will be attractive to investors.

Slide 19

In closing, we have a number of exciting Challenger Bank services and products in the market today serving Canadians. With our core technology migrated to the cloud, we are well prepared for a future of innovation and ready for a future of open banking.

We like our growth prospects for 2020 and feel that we will have some industry and market tailwinds propelling our growth strategies.

We are, as always, committed to challenging for the benefit of our customers and our shareholders.

This concludes our prepared remarks and now we’d like to invite your questions. _____, can you please open the lines to our analysts that have questions?

[question period]

<u>Andrew</u>

Thanks ____.

We look forward to reporting our fourth quarter in [early March].

Thank you for listening.