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EQB.TO - Q2 2021 Equitable Group Inc Earnings Call

EVENT DATE/TIME: JULY 29, 2021 / 12:30PM GMT

CORPORATE PARTICIPANTS

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

Chadwick Westlake *Equitable Group Inc. - Senior VP & CFO*

Richard Gill; Senior Director, Corporate Development and Investor Relations

Ronald Tratch *Equitable Group Inc. - Senior VP & Chief Risk Officer*

CONFERENCE CALL PARTICIPANTS

Cihan Tuncay *Stifel Nicolaus Canada Inc., Research Division - Director*

Etienne Ricard *BMO Capital Markets Equity Research - Analyst*

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

Jeffrey Michael Fenwick *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

Meny Grauman *Scotiabank Global Banking and Markets, Research Division - MD of Financial Services Equity Research & Analyst*

Stephen Boland *Raymond James Ltd., Research Division - MD & Equity Research Analyst*

PRESENTATION

Operator

Welcome to Equitable's second quarter analyst call and webcast on Thursday, July 29, 2021. (Operator Instructions) It's now my pleasure to turn the call over to Richard Gill, Senior Director, Corporate Development and Investor Relations at Equitable. Please go ahead, sir.

Richard Gill; Senior Director, Corporate Development and Investor Relations

Thanks, Sylvia. Your hosts today are Andrew Moor, President and Chief Executive Officer; Chadwick Westlake, Chief Financial Officer; and Ron Tratch, Chief Risk Officer. For those on the phone lines only, we encourage you to log on to our webcast as well as it includes our quarterly slide deck, including Slide 2, caution regarding forward-looking statements.

It's now my pleasure to turn the call over to Andrew.

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

Thanks, Richard, and good morning, everyone. Equitable hit a stride in Q2 with strong growth across the bank. We're excited about the ongoing pace of digital innovation that fulfills our purpose of changing the way banking is done, which bricks the lives of Canadians. Certainly, we believe there's more to do to ensure that our investors have a common understanding of the value creation embedded within our digital journey. In order to help with that understanding, we added more to our disclosures for EQ Bank to give you a better sense of the dramatic increases in platform usage and customer engagement. We're focused on creating more value for our customers and in turn, driving deeper relationships, which include more products to customer and more transactions.

On the asset side, our growth in Q2 was particularly strong conventional and insured, led by alternative single-family. This gives us added confidence in our ambitious guidance for the year, with positive implications for earnings growth beyond 2021. As you know, it's the growth of our conventional loan assets that really fuels earnings.

Beyond these positive developments, our credit book is in great shape, and our initiative to lower our cost of funds are gaining more momentum with CMHC's recent approval of our $2 billion legislative covered bond program. Chadwick will have more to say about this, but at full throttle, this program could result in annual costs of fund savings of about $10 million.

Our investments are made with the goal of superior long-term value creation and deliver strong ROE of between 15% and 17% in the years ahead, which is consistent with what the bank has delivered to date this year. Today, I will discuss our outlook. Chadwick will provide insights into the bank's results. And Ron is present to address any questions you have about risk management and particularly support our positive perspectives around our credit outlook.

Before we get started, I'd like to give credit where it's due, to our exceptional team over a 1,000 challenges who are keeping true to our purpose as we serve almost 300,000 Canadians. With pandemic restrictions easing, more members of our team returning to the office. This is welcome news as it is often easier to deliver elements to our product roadmap and enhance our customer experience when we're all together. We're moving out closer to a post-pandemic world, and I can't wait to see what our larger team can do without the constraints we've experienced since March last year.

Moving to our outlook. We are reaffirming the overall 2021 growth guidance we provided last quarter for both growth and efficiency. Naturally, our outlook invites comparisons to performance against our annual targets. As I mentioned at the outset, portfolio growth is strong. Assets were up 8% year-over-year with loan principal up 6% in the personal bank and 14% in the commercial bank, both favoring wider spread conventional loans. It's worth noting that it was only in Q4 last year that we really regained confidence in the direction of the economy. After putting the brakes on loan growth, particularly in single-family through much of last year and what could now be called an overreaction to the pandemic, we had to restore our standing with the broker community. We got things rolling in January and with great support from our broker partners, delivered excellent growth in Q2 with even more momentum as we speak.

Looking at loan production, which is one element of book growth, single-family alternative generated record originations of $1.8 billion in Q2, 3x Q2 2020 levels. As noted, production in the year ago period was constrained by our decision to slow capital deployment. So another way to gauge momentum is quarter-to-quarter production, which was 68% ahead of Q1. No matter the basis of comparison for single-family alternative, we are well on our way to achieving our growth target of 12% to 15% for all of 2021.

Exiting the quarter, our loan commitment pipeline certainly supports our guidance and speaks well to the status of our deep broker relationships. We intend on continuously improving our service and experience for brokers and borrowers as part of our Challenger Bank ethos.

And thinking about our outlook, we note that the Bank of Canada expects housing activity to ease back from historical highs. We see logic in that call. However, we almost note that low interest rates, a free passage for newcomers to Canada and the widespread undersupply of single-family and multi-unit properties we fund through our commercial bank, a tailwind that will not diminish in the short run, and in some cases, for the foreseeable future. With more workers expected to return to their regular places of employment over the next few months, we expect the pandemic preferences that favored home purchasing activity in smaller towns and rural regions will dissipate. A revision to the norm will once again benefit real estate in Canada's large cities, where Equitable has very strong franchises and a constructed view of risk.

Another growing contributor is our wealth accumulation business, comprised of reverse mortgage and cash surrender value lines of credit. We set very ambitious goals for both ends of these portfolios. And again, through Q2, the teams delivered. Our reverse mortgage book grew 273% year-over-year, recall our full year growth target for 2021 is growth of 200% plus. Our team has done a great job building distribution and market share by working with our broker partners. Going forward, we will complement those activities with direct client engagement. We believe low interest rates, high house prices and the opportunity to fund retirement lifestyle choices through home equity are proving to be strong catalysts for reverse mortgages, as is the trend of aging in place. We aim to continue to expand our market share with product innovations, targeted marketing and broad distribution to tackle this underserved market.

CSV loans grew 180% year-over-year. Full year guidance is 150% plus. The bank has done quite a bit of work to develop distribution for our products, and these results demonstrate it. We now have lending arrangements with 8 insurance companies, including Sun Life and Manulife, who recently joined us, and Desjardins Insurance, which came onboard July. It takes time and effort to build trust with these companies, and we're working hard to repay that trust. As we scale up, wealth accumulation, now $165 million portfolio, will become a bigger part of our value creation story.

The commercial side of our bank also performed on plan in Q2, once again, accounting for nearly half of our growing earnings. A strong contributor was conventional commercial, where production was up 16% year-over-year to $653 million. Looking at key variances, the annual growth target for our Commercial Finance Group is 20% to 25%, whereas growth over the past year was 14%, and in Q2, the portfolio was flat to Q1. As we expected, funding was strong in Q2 and also as we expected, so too was the level of attrition due to elevated scheduled maturities. Because of the growth and strength of our commitment pipeline and the lower levels of attrition expected in the last 6 months of the year, we remain confident in our full year guidance for Commercial Finance Group portfolio.

Specialized finance outpaced guidance, growing at 31% year-over-year compared to 20% to 25% target. This outperformance reflected increased drawdown of the facility put in place over recent quarters as well as success in arranging new facilities. We guided you to expect 7% to 10% growth in our business enterprise solutions business for 2021. We're experiencing strong demand here from entrepreneurs and small to medium-sized business customers and really like how this part of our franchise is evolving.

Within our equipment leasing portfolio, growth from Q2 2020 of 24% compared to a full year target of 5% to 8%. The drivers of transportation and logistics sectors of the economy, which will remain resilient throughout the pandemic and represent the lion share of our equipment leasing activity. Stepping back, it's been 2.5 years since we acquired Bennington, and the business is evolving exactly to plan with multiple back-to-back months of record success. Each month that goes by gives us greater confidence in the future growth and success of this business, and we couldn't be prouder of the efforts of the Bennington team. Their execution is fitting into a broader equitable family, the need to adapt policies to bank grade standards, while keeping a singular focus on their market opportunity in customers has been quite outstanding. Overall, we are on track to achieve our stated guidance, 8% to 12% growth in the bank's total loan book for the year, and much of that will come from wider spread conventional assets.

Looking at the short loans, our guidance for the year calls for a slight decline in multi-unit, but affect the book grew 9% year-over-year on record quarterly originations and despite higher derecognition volumes. We are working on initiative with a trust company subsidiary to build capacity in this market, and this should start to yield benefits in Q4 of this year and be more meaningful in subsequent years.

Prime single-family loans also increased over the prior year, thanks to the efforts of our prime team. Growth in equitable branded prime loans originated directly with brokers is running ahead of our expectations, which is great for the long-term franchise value creation. From time to time, we also purchased prime mortgages opportunistically with more favorable economics, only released later in the life of the loan or renewal. This quarter, we didn't make any purchases.

Our outlook also includes a positive trend in credit metrics with the gradual reopening of economy. In spite of some modest releases in each of the past few quarters, our credit reserves remain elevated over what we would view as a baseline and relative to the quality of our assets, which has never been higher. We will see where our forward-looking indicated guide us to over the next couple of quarters.

Again, the biggest storyline is a rapid development of our digital platform and the fintech related operations, with the growth of EQ Bank being the most tangible outward indicator. We are pleased, but not surprised that EQ Bank deposits grew 99% over 2020 to a record $6.5 billion at June 30 against our full year 30% to 50% annual target. This reflects 79% year-over-year growth in our customer base, which now stands at 222,000 people, and demand for EQ Bank term deposits up 267% year-over-year.

On Slide 9 in our presentation, we show that digital transactions increased 101% over Q2 last year, while products per customer grew 44%. These are telltale signs of greater customer engagement, which is as important to us as adding new accounts. Since we launched the EQ U.S. dollar account during Q2, we've already achieved our U.S. dollar deposit target for the entire year as our customers are really finding tremendous values in features like the ability to fund their U.S. dollar accounts from either an external bank account or from their EQ Bank savings plus accounts, real-time exchange rates with full fee transparency, and I might note, great rates, easier, cheaper and faster money transfers in U.S. dollars worldwide. Please do try and use the EQ Bank U.S. dollar account, it's a pretty fantastic digital execution. And whatever you think of the stock, it can certainly help you generate more value in the personal finance side of your life.

Within our product roadmap and now that we've launched an upgraded EQ Bank website, we're currently working aggressively on ways to cement Equitable's position as Canada's preeminent digital bank. This will involve many exciting innovations in the future, including in the area of payments. We'll have more to say on this topic next quarter.

The evolution of EQ Bank has been driven by our obsession, we're making it easier for Canadians to reach their financial goals through constant internal innovation and collaboration with the world's leading fintech players. We are holding true to our model and it's paying off for customers and for our bank. Customer lifetime value is now more than 10x higher than the acquisition costs as customers use more products and increase activity levels.

A final development I want to cover is our shareholder proposal to complete the 2 for 1 stock split. We've completed deep research on this topic and the electronic trading patents for our common stock. We tend to experience higher trading volumes outside of the TSX, including in dark pools, more odd lot trading, wider bid up spreads, higher volatility within quarters and possibly lower access for retail investments. Our understanding is that the lower stock price resulting from the split will encourage dealers to apply more capital and holding inventory of shares and should shrink the bid off spread.

Our management team firmly believes our stock continues to trade at a material discount to fair valuation, particularly considering our leading digital platform, consistently high ROE versus our price to book, diversification and for being a high-growth Canadian bank with structural advantages. The stock split as part of an overall program of activities with the goal of closing that discount. This proposal has been approved by Equitable's Board of Directors, and we will seek shareholder approval at a special meeting. Details will follow next month.

To wrap up, execution this quarter was strong. Our outlook is positive, and we are on track to achieve our ambitious longer-term objectives to create value in the years ahead. Hopefully, before too long, we will add a growing dividend to our performance, which is part of our plan for long-term shareholder value creation. As you know, Canadian banks will be prohibited from raising dividends since the pandemic began, but we're encouraged by improvements in financial markets that may create the stability whilst we're looking for to remove this restriction.

Chadwick, over to you.

Chadwick Westlake - *Equitable Group Inc. - Senior VP & CFO*

Thank you, Andrew, and good morning, everyone. As Andrew said, last quarter, we provided updated guidance on what we intended to do. And as you see in our Q2 results, we're getting it done. Our focus remains on ROE with the additional guidepost of book value per share, CET1, EPS growth and efficiency. We continue to land each metric within our overall guidance. I want to be clear that this is a period of important investment in the future of equitable. We are focused on the long-term value creation of Canada's Challenger Bank. Even with the fact that much of Q2 featured pandemic lockdowns for Canadian businesses, we generated growth within these guideposts that we believe are leading amongst Canadian banks.

For Q2 specifically, strategic deployment of capital resulted in a growth of 9% year-over-year and 3% quarter-over-quarter in assets under management. We're on the right trend line for 2021. This reflects $3.6 billion of originations, up $1 billion from suppressed levels in Q2 last year and up $900 million since last quarter. Important in these numbers is growth in higher-margin conventional assets, which, again, in total, were plus 6% quarter-over-quarter and plus 9% year-over-year, combined across personal and commercial, and these reflected 72% of the overall origination in the quarter. Growth is strong and in all of the highest return asset classes.

To fund this capital deployment, we've continued to generate a tailwind with funding diversification and growth. Total deposits of $18.4 billion were up 18% year-over-year. And within that, our digital bank deposits grew 99%. Our fortress balance sheet, disciplined choices in our strategy and investments translated into revenue growth of 21% year-over-year. The outcome here is diluted EPS of $4.05, a strong showing, although slightly suppressed by an increase in shares outstanding in the quarter. On a year-over-year basis, the impact here was about a $0.09 reduction in EPS due to higher share count over the past 12 months.

Our bank delivered right in our target range at 16.5% ROE in Q2. If CET1 was back at a target level, quarterly ROE would have been 17.6%, above the top of our guidance. While we did have a PCL reversal in Q2 that I'll speak to shortly, it's important to note, pre-provision pretax income grew at a significant 17% year-over-year in Q2. And year-to-date, it is up 24% year-over-year. Book value per share crossed $100 for the first time.

In his outlook comments, Andrew touched on growth against guidance. So I'll just say that for Slide 13, the marker show we're on track. To fund asset growth, we're continuing to diversify and improve our cost of funds. You see this on this slide, an updated perspective of what our funding stack looked like 3 years ago, 1 year ago, last quarter and today. The diversification is evident and strategic with positive implications for cost of funds.

Now that we've received approval from CMHC to launch our $2 billion covered bond program, a program that will eventually increase in size as the assets of our bank continue to grow. We are set to benefit from additional cost to fund this tailwind. We will do our first issuance of up to EUR 300 million in Europe. Strategically, we will most likely issue in early September to optimize pricing, which we continue to expect to be as much as 50 basis points cheaper than GIC pricing. And as Andrew highlighted, this could translate into as much as $10 million in annual cost of fund savings once the program is fully ramped up.

We're well positioned with liquidity of $2.9 billion at the end of Q2 and a liquidity ratio of 9.1% versus Q2 last year of 6.4%. We also completed one additional deposit note offering in Q2 of $150 million due in September 2023. This was done by way of adding to a previous deposit note with a spread of 90 basis points and a reopening yield of 1.384%. This offering was 4x oversubscribed and with more new investors coming on board. The bank's deposit note program has more than $1 billion outstanding, and we intend to remain regular in this funding market.

These factors translated into Q2 NII growth of 19% to $141.8 million and a NIM of 1.81%. NIM expanded quarter-over-quarter, driven by a shift in business mix to our alternative single family mortgages, which enjoy wider margins than our insured mortgages. The benefit from an April EQ Bank rate reduction and higher levels of prepayment income. Once again, our equipment leasing business had the highest yield at 10.18%, and this business remains strong on a risk-adjusted margin basis, including as we grow more on the prime side.

On the next slide, I'll note that we are already -- that we are early in the journey of diversifying our sources of noninterest income. You can see here that it was $16.9 million versus $16.2 million in Q1 and up 34% year-over-year. We have initiatives underway to continue to expand noninterest income through the launch of new products, and we'll have more to say on this topic over coming quarters. Q2 includes $2 million from our strategic investments into fintechs, such as Portage funds and framework. As a reminder, we make these investments for deeper insight into the fintech space, global innovation and the leading edge perspectives we gather through partnerships that help us to enrich our customer offerings as Canada's Challenger Bank. The additional benefit is that we also generate revenue from these investments.

Gains on sales were $8.6 million. We do expect these gains to be lower in the second half of the year. We benefited from high-volume in Q2, but further normalized margins. Much of this depends on CMHC allocations each quarter.

Moving on. Noninterest expenses increased 13% quarter-over-quarter and 26% year-over-year. I signaled an expense increase on last quarter's call. We managed this higher investment exactly as we said we would. We scaled at the point of landing within our annual efficiency guidepost of 39% to 41% for 2021. This now puts us at a 39.6% efficiency year-to-date, right on target. Our view of expenses is different than some other banks. While some spending is for maintenance, we consider much of it an investment that seeds future growth. As you know, we build a lot of our products and services internally, but we also partner with world-class fintechs and technology companies, including [Wise] (inaudible) Nesto and Microsoft, which allows us to move efficiently and with high velocity.

Our investments will tend to be a bit uneven through the year, particularly on marketing and new products versus when the revenue is realized. I say this as a reminder that this is not a straight-line accounting exercise. We're investing in our 3 Ps of people, process and platform. For people, our greatest asset, we increased compensation costs 15% year-to-date and 23% quarter-over-quarter. This reflects growth in FTE, but also more competitive compensation for our teams. When you have the best, they need to be compensated accordingly, and we need to keep pace with this priority. For processes, including across corporate and marketing categories, expenses were up 7% year-to-date and 32% quarter-over-quarter as a result of our smart money marketing campaign and a normal annual grant of deferred share units. And in platform, the 2 components of product cost and other technology were up 43% quarter-over-quarter and 17% quarter-over-quarter, respectively.

These are critical investments supporting ongoing scaling of the bank, maximizing product launches and readiness for innovations to come. We expect these investments will be paying off in 2022 and beyond. For outlook on expenses, I will say we did a big scale up in Q2, and I now expect expense growth to return to low single-digit quarter-over-quarter in Q3 and Q4, respectively.

On the next slide, you can see our trend line for provision for credit losses. In Q2, we had a $5.3 million reversal at Stage 1 and Stage 2. The primary driver was continued positive trending in 2 key macroeconomic variables. Overall GDP and HBI, specifically on the residential portfolio. These positive macro variable changes resulted in a $1 billion migration from Stage 2 to Stage 1. While reversals occurred across all portfolios, proportionally, our single-family and leasing portfolios benefited to a greater extent from this positive trending than our commercial real estate book. Of note, we did not make any changes to our 5 scenario rates. And if our base case translates, we would be in a position to release potentially $4.2 million over the coming year.

Our overall ECL sits at $56.8 million now, lower by 10% compared to Q1 and 23% year-over-year, but still more than 40% from what we would view as potentially a normalized level. Modest improvements in early delinquency are aligned with Q1 forecast of an improved economic environment, and we view these levels as being in line with historic norms. Given the strength and the performance of our commercial book and barring unforeseen economic deterioration, we may look to reduce our commercial ECL in coming quarters.

Gross impaired loans were down 20% year-over-year and up 15% in the quarter. The year-over-year improvement reflected the discharge of a $39 million commercial loan in Vancouver without a loss, which we talked about on our Q2 call last year and a loan in Alberta of $17 million that returned to performing status in Q2 this year. The remaining year-over-year variance reflected a net reduction in single-family mortgages of $16.5 million and impaired equipment leases of $9.7 million. The increase in impaired loans compared to the prior quarter was mainly because of the addition of 2 commercial loans, $23.1 million in Alberta, which was resolved in early July 2021 and $8.9 million in Manitoba. We do not expect to incur a loss on the Manitoba loan.

Moving to capital. This is a consistent and positive story. RWA increased by 5% to $11.5 billion in the quarter, a little higher than the growth in CET1 capital, given the timing delay of earnings to capital deployment. The result was a CET1 ratio of 14.4%, down 10 basis points from Q1. This represents $100 million or nearly $6 per share of excess capital above the midpoint of our target. It's important to note here that when we share this mass, the midpoint is simply a conservative target. It's not a regulatory floor. If there are great organic or nonorganic growth opportunities, we would be okay to go below the 13% to 14% range for a period of time strategically to create additional value for our stakeholders. We remain well above OSFI buffers and are well positioned for capital treatment changes to come for us in 2023, which will unlock significant additional capital.

In closing, this was a strong quarter of growth in new customer relationships across Equitable. Our digital platform and key growth metrics, good success with product launches and smart investments that will enhance our bank in the future periods. We expect good execution in Q3 and Q4 with no surprises or changes to guidance. This should result in ROE of 15% to 17% for the year, and we're on track now at 16.8% year-to-date. As both Andrew and I have stated, our focus is to set ourselves up for more growth and more diversification in 2022 and beyond.

With that, I'll ask the operator to open the line to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And your first question will be from Meny Grauman at Scotiabank.

Meny Grauman - *Scotiabank Global Banking and Markets, Research Division - MD of Financial Services Equity Research & Analyst*

Just a first question on the impact of the changes to the stress test on mortgage originations. Do you think it had any impact in anticipation of the change in Q2? And I know its early days in Q3, but are you seeing any impact in Q3 from that change?

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

Certainly, these are hard things to actuate. So thanks many for that question. These are hard things to actually kind of angelically assess. Based on the conversations with our broker partners, some analytics we've done around on the relatively small impact this would have on the -- on any of our book, we don't really believe so. We didn't see that. Of course, we're already dealing with fairly active housing markets when those changes went in, but it certainly feels like that was a bit of a nonevent from the perspective of the housing market itself and mortgage demand.

Meny Grauman - *Scotiabank Global Banking and Markets, Research Division - MD of Financial Services Equity Research & Analyst*

And then maybe just a broader question, again, early days in Q3, but we've seen the reopening of economies across the country, especially in Ontario and Toronto. Are you seeing any changes in behavior, both on the deposit side or on the loan demand side related to the broader reopening?

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

Not yet. I think as you've probably seen in the press, the actual transactions in the resale housing market have normalized, let's say, I have to say soften, it's not true that the market is still really, really active compared to where it was in March or April. And I wouldn't be surprised as I sort of made a comment in my notes. I think there might be a bit of a reset going on here. So as people figure out what the new future of work and where they're expected to be changes over the next few months, there might be a bit of a -- may create a little bit of sort of people pausing to think about that before they then make the next decision. Certainly, all the indications are the demand now for downtown condos, at least in the rental market is starting to move up in a quite dramatic way. So that potential reversion to preference for living in the major urban centers. It seems to me that we're in at the earlier stage of that reassertion of that preference. But as with everything in forecast, you need to be careful and cautious about that kind of viewpoint. But it does make sense when you think about the broader context of a reopening economy and economic patterns going to more traditional -- in a more traditional direction.

Meny Grauman - *Scotiabank Global Banking and Markets, Research Division - MD of Financial Services Equity Research & Analyst*

And then maybe just a question on expenses. Chadwick, you highlighted the increase on the compensation line in particular. I'm just wondering, can you give us a little bit more detail in terms of specific areas where you are hiring new people? And then also, you talked about keeping pace on the compensation side. Are there specific areas as well where that was identified as an issue or just a need to increase? Or is it more broad-based?

Chadwick Westlake - *Equitable Group Inc. - Senior VP & CFO*

Yes, good morning, Meny. Thanks for the question. We're -- the hiring is -- there's lots on the technology side. So lots of technology and innovation, that applies to both adding FT, but also ensuring our compensation is competitive. And as we've seen across Canada, I think a lot of companies are becoming more and more competitive for technology talent. We do view ourselves as one of the greatest places to work in the country, and we want to compensate accordingly to ensure we're attracting that talent. And otherwise, we're hiring in the right place to generate revenue. So certainly hiring more in service teams and sales teams to help promote that growth. So across the personal and commercial bank, including adding relationship managers. So it's all, I say it's worlds that are generating revenue or efficiency or further innovation for the bank are certainly a top priority than making sure our infrastructure can keep up with that.

Meny Grauman - *Scotiabank Global Banking and Markets, Research Division - MD of Financial Services Equity Research & Analyst*

And then just a related front, just how do you think about operating leverage internally? And are there -- I know you don't publish the targets, but what kind of guidepost you have in terms of operating leverage? How important is it to kind of keep a certain level of positive operating leverage?

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

Maybe we can answer that in 2 parts. I'll provide some comments and Chadwick can kind of finish. I mean first, certainly, Chadwick coming from as a senior executive, one of the major Canadian banks thinks about it in a way that's not as traditional as we have internally, and I think it's really added value as he brings that thinking to bear. What I would say is that we are -- our true north is ROE. And I would say that operating leverage is an important signpost to how we drive to ROEs. So clearly there's a linkage when you actually sort of work through the math on how you drive ROE. But when we think about some of the businesses we're building and highlight reverse mortgages as a truly optimistic, an area that I think will be really important to shareholders over the years ahead. Our efficiency ratio would be in the 90% level. Having said that, I run the -- when we run the NPV and the future ROEs, that has been a little spin out of that business, it's very good. So that efficiency ratio is effectively made up over the amalgam of the various businesses we have. And frankly, if we dove down in some of our more mature businesses, you'd see some really extraordinarily great efficiency ratios. I'm sorry, maybe I've already commented that, Chadwick. You do think about it, though, I know.

Chadwick Westlake - *Equitable Group Inc. - Senior VP & CFO*

Yes. No, I agree. It's a little less traditional to think about it here. And it's to our points on the amount of investment we're making and the lumpiness of some of the investments. So Andrew answered it precisely. We're -- our #1, Meny, is the ROE and inefficiency secondary to that. So operating leverage, I think, as we saw, yes, in this quarter specifically, it was negative. Obviously, in the last quarter, it was dramatically positive. So our expectation is that it's going to average out, flat to positive. Some other banks may need to make sure that's positive, given they're trying to get their efficiency and productivity ratios to improve, right? But we're already, by far, best-in-class globally at a 39% to 41% level and with this consistent ROE. So that's why operating leverage were more accepting of it as we invest to be a little bit more volatile, but average out within those guideposts, if that makes sense.

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

I guess, sort of follow-up on that a little bit. I mean a classic example, an easy example is around acquisition, new customers for EQ Bank, which obviously drives huge value. We think our customer lifetime value is around $800 to $1,000 per account. But -- and roughly speaking, our cost of acquisition is less than 1/10 of that, but that cost of acquisition is expensed in the period while that customer lifetime value is realized over a number of years ahead. So you can see that the accounting doesn't follow the economic value creation and doesn't help with efficiency ratio in the short term.

Operator

Next question is from Etienne Ricard with BMO Capital Markets.

Etienne Ricard - *BMO Capital Markets Equity Research - Analyst*

So you just raised the very interesting point on the net present value of a new customer at EQ Bank and being the -- with the cost of acquisition being 1/10 of that. Could you remind us how that cost of acquisition would have evolved in recent years? And is the 1/10 of that the marginal cost, is that the right way to think about it?

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

Yes. It's really -- we're really thinking about the marginal costs associated with, say, offering bounty for referrals from other customers, advertising costs in the period and then internet search that then drives customer acquisition. I would say it can be volatile period-to-period even that cost of customer acquisition. So again, these numbers sort of move around a little more than I would like to, but we certainly have that kind of fintech view of the world of what is our customer acquisition. And we're really focused on what is the cost of acquisition through the various channels that are open to us and try and drive that down with not traditional, but pretty much using AB testing about how customers respond, trying to improve conversion ratios and people to come through the top of the funnel. Constantly looking at how many people have got on the top of the funnel and how many of those are leading through to kind of landing and actually opening an account. And our teams have got a lot better at this over the last couple of years, I'd say.

Chadwick Westlake - *Equitable Group Inc. - Senior VP & CFO*

And we see, to that point, we see expansion potential on the customer lifetime value side as we continue to expand more products throughout. So that 10x is a good average point and maybe lumpy, but we do see expansion potential. Some of that was in the pipeline.

Etienne Ricard - *BMO Capital Markets Equity Research - Analyst*

And it was quite an impressive increase in the dollar value of term deposits at EQ Bank this past quarter. Could you comment on that success and the percentage of deposits at EQ Bank, you would expect to have to turn going forward?

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

Yes. I think you might see this as a bit of a high watermark in the shorter term. What we actually do is when we drop rates in the savings plus account, we do try to the extent that we've got some very rate sensitive customers or to the extent we have rate sensitive customers. We offer a good offer to move into a term product that maintains that rate roughly speaking. So we found that that's been a good strategy to kind of blunt the impact of any rate drops. So that's why you saw people moving into the term product. We also then see them and as those term products mature, coming back and being more comfortable leaving the money in the savings plus accounts. So it's been a good strategy for us. And of course, the other part is it encourages trial of how easy it is to buy GIC in our platform. And for those of you new to the story, I absolutely stand by the claim. This is the easiest way to buy a great rate GIC in the country. It's a fantastic sort of 3 click type of activity. So we do think we can become a go-to place to buy term deposits through this activity.

Operator

Next question is from Stephen Boland at Raymond James.

Stephen Boland - *Raymond James Ltd., Research Division - MD & Equity Research Analyst*

Andrew, you -- I guess, maybe it was prepared comments or maybe the written comment, sorry. You talked about risk tolerance getting back to pre-COVID levels. Is that consistent across all the lending verticals that you're in? Or is there some that are lagging in terms of your risk tolerance?

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

A little bit lagging. I think there are some structural changes, Steve, that we're already aware of before COVID came. So we have a, as you probably noted, very low exposure to retail shopping plazas, for example, that's kind of driven by the Amazon effect. So you see the impact of the pandemic on the economy is going to create some permanent shifts in, say, purchasing patterns, there's going to be more -- it's accelerated the purchase of online product and made B malls much less competitive. Now we've already identified this 5 or 6 years ago. So there's nothing new, just we'd all be moving away from that asset category. But I think, clearly, today, we'd be extremely leery about lending on any of that kind of retail asset. So in general, I think it's fair to say, Boland, you can -- there may be areas where we're still a little concerned. I think in general, our feeling is pretty positive about certainly the major -- where we lend the major Canadians or major asset classes, I'm sure.

Chadwick Westlake - *Equitable Group Inc. - Senior VP & CFO*

Yes, I would absolutely second that. I'd just summarize by saying, our risk appetite is back in our core lending areas to where it was pre-pandemic. And some of the product types are a little bit more niche in certain lending classes and leasing. Given the state of the market, we remain very cautious with respect to food and beverage equipment. But in those core asset classes that Andrew referred to, yes, we've returned to our previous appetite levels.

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

Yes. I think yes, Bennington, as I mentioned, it's seen good growth, but it seem it's almost all in transportation equipment to run the point, which is really holding up well. In fact, the challenge within that business right now is you can't buy transportation assets or there's a shortage of them. So it's challenging for our customers to get hold of the equipment.

Stephen Boland - *Raymond James Ltd., Research Division - MD & Equity Research Analyst*

And the second question is just on the multiunit insured. Your outlook was a slight decline. I think you blamed that on -- or not blamed it, but certainly, competition was a factor. We've seen growth in that. Has something changed in that segment? Or you were just kind of -- you won the right business at the right time?

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

Well, for Q3 in particular, we've got a little bit of a -- we had a couple of large loans that didn't close that would have -- because of the way the allocation works would have given us even more allocation. So that was just an operational issue that those loans will close, and that will go through in Q4. So it's just a little bit of a timing issue. But we are structurally changing this. I mentioned that we're using the trust company and setting up to give us more capacity. So we're using what's called the aggregate -- setting up an aggregator within our trust company, we have setup an aggregator within our trust company. So what that will allow us to do over the longer-term is actually securitize greater volumes of multifamily mortgages originated from and -- from people that we haven't traditionally worked with, a potentially wider spreads than we have had done historically. And I think you'll really start to see that. You'll see it start to drive profits in Q4 and then next year.

Stephen Boland - *Raymond James Ltd., Research Division - MD & Equity Research Analyst*

And I'll sneak one more in, just on AIRB. You mentioned maybe a possible conversion early 2023. Maybe just give us the next steps because from what we've seen with Canadian Western Bank, they've had to run a parallel kind of book for a period of time. Is that the next steps for you in this process?

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

Well, Ron is on top of all that detail, so I'll let him answer that, if I may.

Ronald Tratch - *Equitable Group Inc. - Senior VP & Chief Risk Officer*

Right. So the commentary that hasn't -- wouldn't change quarter-over-quarter. Our next steps remain to file our application with OSFI in probably late Q1, early Q2 2022. And then the guidance that you've given beyond there into 2023 really just follows the regulatory prescription pattern where you run parallel for a year, while OSFI reviews your application and come back with feedback. So as we've noted in the past, we don't control OSFI. We suspect and we feel we're going to put in a very strong package and a very strong application, and we'll await their feedback. And that's really where the timelines are set from.

Operator

Next question will be from Cihan Tuncay at Stifel.

Cihan Tuncay - *Stifel Nicolaus Canada Inc., Research Division - Director*

Just to start off on EQ Bank, obviously, really solid growth in your customer base. But could we get -- so just on the product launches that you've made recently and kind of what you have in the pipeline. First question, Andrew, could we get a little bit of an update on the uptake for mortgage marketplace? What's the consumer reaction been relative to your expectations? Understanding that it's still pretty early days for that product, but could we get just an update on how that rollover has gone (inaudible)?

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

Yes, absolutely, it's a great question. It's an interesting area. I think we've seen a fair number of applications, what we're seeing the low conversion rates. I would say, this may be a learning exercise on our part on how to improve those conversion rates. But not that far from my expectations, frankly. I think we expected this to be a trial alone, offer another product to our customer. Create the brand franchise value through doing that and try to move up that conversion ratio. Frankly, when you talk to all the banks, the conversion ratios of e-mortgage origination platforms are still very low right across the ecosystem. And we certainly want to make sure that if consumer preference starts to change where you see more of that, that we will be working in partnership with our brokers to be a beneficiary of that sort of shift. But I would say still modest conversion at this point, but quite a lot of interest and activity on the part of our customer base. And I think if you -- again, I was encouraged, people to look at the EQ Bank platform to really see what we're executing there. But it's really quite a beautiful execution in my mind in that mortgage origination. Some really elegant relatively straightforward questions that are asked. You get from thinking about a mortgage to where -- what sort of offers might be available very quickly and easily. So this is definitely a way forward for our institution, for sure.

Cihan Tuncay - *Stifel Nicolaus Canada Inc., Research Division - Director*

Appreciate that. And just staying on the theme of EQ Bank product trail. I think both, Andrew, you and Chadwick alluded to, future product launches. Can you give us a sense of what -- a couple of things. Can you give us a sense of what verticals you're targeting in terms of additional value-add products to add to the ecosystem and also not only what the verticals are, but are you looking at it from a build versus acquire versus partnership distribution type platform? How do you think about bolting those new products onto the ecosystem?

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

Yes, I mean, as we've spoken about many times before, we are very open to partnerships. And so -- and we are working on partnerships. I would say the next bigger product launch and I kind of alluded to in my comments, it would be around payments and how we're going to be bringing payment solutions to the EQ Bank customer. That's a next year story in terms of actual launch, but I think we'll be able to tell you a lot more in Q3 about what it means to you as an investor. I would point to the success we've had with that U.S. dollar account. It's just been unbelievable to me how many people have picked it up so quickly. We had customers, even what we had launched into the kind of data inquired, we had lots of customers flooding in. The ability to send U.S. dollars to the U.S. on the Wise rails so quickly and so cheaply is a complete innovation in Canadian banking. But for any of you that have got friends that have are snowbirds that need U.S. dollars down in the United States, you need to hold U.S. dollars here or you've got U.S. dollars sitting in your discount brokerage accounts and need a little bit of interest. You've got to look at this platform. This is groundbreaking banking, for sure. So we're seeing that uptick. I mean unfortunately, customers are recognizing that.

I think what you might see over the next 6 months, I'm hoping over next 6 months, what is a much better job around really demonstrating that all facets of the value of the platform to customers and potential customers rather than the stream of product innovations. I think we've been a bit rapid on delivering new product innovations and not enough energy yet in kind of continuing to tweak those innovations and make sure that our customers really understand the value and utilize the full benefit of the platform. So I think you'll hopefully see some innovate interesting things on the marketing side, call it marketing, call it kind of project education so that we're really bringing some of this vision we have of innovating Canadian banking into the lives. The platform is really fantastic. Actually, it was one of the things we'll definitely talk about in the -- in our investor meeting at the early part of next year, but some of the ethnography we're seeing and some of the ways that some of our customers are thinking about using EQ Bank is tremendous, really insightful. We're learning so much from our customers at this point. And so that is really good.

Chadwick Westlake - *Equitable Group Inc. - Senior VP & CFO*

Yes. The only thing I'd add, Cihan, for the question, to Andrew's point, as things -- as we deepen and expand the service capabilities, it's launching integrated e-transfer experience, automated chat support to enhance the onboarding experience. There are a lot of things to deepen the attraction and experience for existing customers. And then we'll share more of the additional verticals to your point. And I know where we're going with that. We'll share more as we're more ready to discuss that over the coming quarters. There certainly lots in the pipeline.

Cihan Tuncay - *Stifel Nicolaus Canada Inc., Research Division - Director*

And just one more follow-up for me. Shifting to the loan book in the alternative single-family business, up about 6% year-over-year. So how do you think that -- what are the steps involved to getting that growth number up to your full year guidance of the 12% to 15%? Is it just a function of -- I know you're going through the exercise of revising your adjudication standards to better reflect market commitments. Is it just that? Or is there any other levers that you're still looking to pull to get that growth number up to the full year guidance levels?

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

I think if you look at that year-over-year growth, it actually doesn't tell you the more recent story. What you got to look at there, I think, is the growth in that portfolio over each of the last couple of quarters, and you'll see that the growth is very much tracking to our full year guidance already. So we really made the adjustments in November last year that we need to do to be more proactive in the market and it's just unfolding as we speak. But when you quote that year-over-year thing, don't forget that we were very anchored down from a credit perspective through last summer, very concerned about the potential impact of the pandemic on the economy and therefore the housing market and we're deliberately seeding share through last year. And now we have a feeling that our credit box works in this current environment and we kind of rebuild that franchise. We believe based on the data we've seen more recently that we're, again, reasserted ourselves as the leading originator of alternative mortgage business in the country.

Operator

(Operator Instructions) And the next question will be from Jeff Fenwick at Cormark Securities.

Jeffrey Michael Fenwick - *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

I think most of my questions have been answered, but I just wanted to circle back to the EQ Bank deposits. It's obviously been a source of a lot of growth for you over the last year and an interesting shift in the mix in the quarter. I guess the one question is the decline in the demand deposits is pretty substantial sequentially. And I'm just wondering how much of that was intentional? Was it due to some competition or rate changes on your end? And was that rate of change sort of in line with your expectations?

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

Well, again, I think that's the switch to the term deposits as we drop rates, people moving from demand to term. So again, it shows how engaged people are with the platform. And I think it's a positive. Obviously, the net balances overall continue to grow very strongly. So -- and frankly, to the extent we've got a bit more term in that book, clearly, it reduces liquidity risk and so on. So we're comfortable with it. But you should expect to see that fairly -- it could move quarter-to-quarter, certainly year-to-year as depending on the relative rates in the term markets vis-a-vis the demand rates. So people tend to look at that face rates. And if the rate on a term product is higher than the day-to-day rate on the savings plus accounting, they will move into term. But that depends on the shape of the yield curve and other variables.

Jeffrey Michael Fenwick - *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

So this was more of a migration of customer accounts to new product rather than losing some existing customers and gaining new ones?

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

Yes, absolutely. No. We've been gaining customers very consistently. We gain 200 to 250 customers a day quite consistently, would expect that to be a little bit softer in the summer months, people don't sit on the beach and try to open up a bank account and that kind of thing quite rightly. But nonetheless, we're still seeing really good activity on our platforms.

Jeffrey Michael Fenwick - *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

And then maybe just one smaller area here, but meaningful, the gains on the strategic investments. Can you just give us a bit of description around what that -- how that comes in? Is that a fair value gain you're recording? Is it a share of income? Or just trying to understand that line and the volatility we should expect from it?

Chadwick Westlake - *Equitable Group Inc. - Senior VP & CFO*

Yes. Jeff, yes, it's more timing of fair value gains on the investments within the fintech portfolios. So for example, in the past quarter, key to that was Portage and again, that it was in response as it relates to Diagram going public. Those won't be consistent quarter-over-quarter. It depends on the investments we're making. Again, the first priority is the learning and the partnership opportunities that we're getting from these fintech investments, just like we've done with Nesto and (inaudible). So there's -- the first priority is that, to bring it into our product line. The secondary benefit is these revenue gains. We do expect more this year, but I wouldn't give a consistent trend line yet on it.

Operator

Next question will be from Jaeme Gloyn at National Bank Financial.

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

I wanted to just follow-up on the expense in the quarter and then the outlook. It sounds like it's just going to increase in the low single digits for the rest of this year. I'm more curious about how it looks next year. Is this a new run rate level that we should be thinking about? Or are there higher investments in 2021 that will roll off in '22?

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

I think Chadwick can speak to the rest of this. We don't have our budgets put together for next year yet. And so I think that's a story we'll have to tell in more detail as we get towards the end of the year and we reset our guidance. What I can tell you is we have a very rigorous approach to the net present value of any expenses we make. And so if we do come up with our guidance of expenses that are going to increase next year, it will be based on some really detailed rigor on why that makes sense to shareholders and why that's a good capital allocation decision for management.

Chadwick Westlake - *Equitable Group Inc. - Senior VP & CFO*

Yes. And I wouldn't change, Jaeme, I'd still keep, from a model perspective, 15% to 17% ROE, similar range of guidepost for efficiency. I would say, stick to the medium-term guidance, right, and work back from that. To Andrew's point, though, even as we scale up investments, we're still going to be thoughtful about hitting our North Star priority #1. And there may still be lumpiness as we make some of these investments. But this was an important scale that we made in Q2 for future growth momentum for sure and ensuring those expenses matches with revenue, which we certainly expect to see some of that in 2022 and beyond.

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

The other question around the gain on sale of securitized mortgages elevated this quarter, elevated for the last few quarters actually, after some commentary last quarter that it might step down. Just curious, how you're thinking about that as a long-term revenue driver, especially in a higher expense outlook here over the next few quarters. Is that something we should expect to see at these levels going forward? And/or is that just a function of really solid prime insured mortgage origination over the last several months?

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

I mean, the vast majority, it's -- it's really not much to do with prime, it's all to do with the multifamily, CMHC. And I do think we found a new path to higher earnings from this portfolio than you might have seen 2 or 3 years ago. I think as I mentioned earlier, that we might see a little bit of lumpiness in Q3, be a bit softer in Q3, perhaps stronger again in Q4. But as we get the trust company setup as an aggregator for that business, there's definitely more economic value to be gained. And again, because of some complexities of the accounting, sometimes we recognize a gain upfront, if it's what's called a 966 non-pre-payable pool or if it's 965 pre-payable pool, it'd be recognized as the life of the loan. So the accounting treatment for what's broadly a similar activity can result in some swings in the quarters too.

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

And then last one, just want to -- just to get a little bit more color around the average products per customer on the EQ Bank platform, up 44%. How is that defined? Is that like -- is that a client holding savings accounting and holding that money in that account or just using it temporarily or maybe using the transfer service one time? Does that count on the product per customer? Just want to get a sense as to where these, I guess, how permanent is that increase and what you're seeing on that from various products?

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

And Chadwick can probably offer more color on the math. Clearly, it means things like somebody just had a non-registered account, opening up a registered account, somebody that had an account in individual name opening a joint account as well. So these should be permanent changes to that stickiness.

Chadwick Westlake - *Equitable Group Inc. - Senior VP & CFO*

Yes, exactly. And we're transparent and true to it, right? So it's really having greater than 190 balance product for more than one transaction in the last 30 days, excluding interest. So these are real shifts in activity, like Andrew's point. And then same with transactions, right? The total number of transactions during the period. But again, all movement of funds outside of the interest earning. And then we have -- we track, obviously, our accounts as well as the customer growth. We have all of those stats as well. But important is sharing the deepening as well as we continue to show the customer growth.

Operator

Next question will be from Graham Ryding at TD Securities.

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

Graham, if you're asking a question, you might be on mute.

Operator

Actually, it appears that Mr. Ryding's line has disconnected. So at this time, we have no further questions. So Mr. Moor, please proceed.

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

Thanks, Sylvia. Just before we let you go, I'm very pleased with the work we've done to get the -- handle the Bank Scope 3 greenhouse gas emissions, which include financed emissions. No other Canadian bank has publicly released their Scope 3 emissions yet, but recent -- but the financial services world is moving in that direction as demonstrated by banks that is recent leading edge disclosures. We followed a rigorous process here using methodologies from the GHG protocol and the Partnership for Carbon Accounting Financials with support from our external partner, WSP Canada. With this leg work behind us, we will set and disclose targets and progress on the bank's climate risk and diversity initiatives in the new environmental, social and governance annual report next year. This is all part of doing our part for the betterment of society as Canada's Challenger Bank.

Speaking of next year, we plan to host an in-person Institutional Investor Day in early 2022. Since we hoped at our last Investor Day, we've significantly strengthened our management team, and we're excited to profile our people, processes and platforms with the digital transformation that is powering our future. A save the date notice will be sent later this fall. In the meantime, if you'd like to engage on any of the topics, including ESG that I just discussed, our door is always opened.

Thank you for your time and attention. Enjoy the rest of the summer, and have a great day.

Operator

Thank you, sir. Ladies and gentlemen, this does indeed concludes your conference call for today. Once again, thank you for attending. At this time, we do ask that you please disconnect your lines.
