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PRESENTATION

Operator

Good morning. Welcome to Equitable's fourth quarter analyst call and webcast on Tuesday, February 23, 2021. (Operator Instructions) It's now my pleasure to turn the call over to Richard Gill, Senior Director of Corporate Development and Investor Relations at Equitable. Please go ahead.

Richard Gill

Thanks, Julian, and good morning. Your main hosts today are Andrew Moor, President and Chief Executive Officer; Chad Westlake, Chief Financial Officer; and Ron Tratch, Chief Risk Officer. Before we begin, I'll refer you to Slide 2 of our presentation, which contains Equitable's 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. Richard joined the bank recently to lead both our corporate development and Investor Relations efforts. In Corporate Development, Richard and his team are charged with exploring new avenues to advance Canada's Challenger Bank mission. While in Investor Relations, we are already putting a more concerted effort in place to close what management perceives to be the gap between the current market price of our shares and what we believe to the intrinsic value of our stock. Welcome, Richard.

We have a lot to talk about, including Q4 and 2020 all-time records for customer earnings growth of what I see as the next chapter for Equitable bank. To my mind, the accomplishments of the past year and the past decades track record of consistent industry-leading ROE are a prologue as the momentum turns to speed for Canada's Challenger Bank, a bank now serving over 250,000 Canadians.

On today's call, I will look to the future more than the past by commenting our outlook, discussing our quickly expanding consumer-driven product offerings and plans for EQ Bank, our digital platform now with more than $5 billion in deposits, and providing color on our capital deployment plans in 2021. Chadwick will add details on our record-setting 2020 performance, our 2021 outlook and medium-term objectives. And Ron is here to address any questions you have about credit risk management when we move to our Q&A.

Of course, one of the rewarding outcomes of 2020 is that by being here for Canadians who had pandemic related loss of income, nearly 100% of our customers were able to return to their regular payment schedules after taking deferrals. By this, I mean, only 44 customers representing just 3 basis points of our loan book were on deferral at year-end. This is a very positive outcome for our customers and the bank.

Starting with our outlook. You read the same forecast as I do, and the consensus suggests the economy will get off to a slow start this year, with improvements in Q3 and Q4, bringing annual GDP growth up to 3% to 5%. HPI is expected to remain relatively stable in the mid-single digits, while unemployment should decline slightly from current levels. That said, we are not a bank that grows with economies, we aptly demonstrated last year. We aim to grow much faster as we take advantage of both fundamental and digital trends within our chosen markets. From a trend analyst perspective, we are bullish on the long-term prospects, the different forms of housing including multi-residential that is a key focus for our commercial business. We think demographic trends favor our decumulation businesses and the opportunity this brings to us as we expand our reverse mortgage and CSV business lines.

And we believe our concentration of lending in urban and suburban areas continues to make sense. For over 100 years, urbanization has been a relentless trend in Canada. This has not been the case over the past few months, as some Canadians take advantage of remote work opportunities. Nevertheless, we are comfortable that urbanization will continue long after the pandemic is over because most jobs will continue to be created in cities, most jobs will require at least some office space time and commuting in this country is problematic.

Call it a revolution or an evolution, the pandemic also accelerated the adoption of life and value-enhancing technology. Whether it's attending a fitness class at home, having a virtual doctor's appointment or banking from home rather than a branch, the consumer is demanding what was once inconvenient, now become convenient for them. EQ Bank has been the beneficiary of this shift where innovation-driven by consumer behavior and consumer needs creates financial accretion and lifestyle advantages and an easier and more transparent banking experience.

EQ Bank is exceptionally well positioned to address the needs of mobile-first future. We are set up for attractive levels of growth in deposits and lending for the long run. How about the near term? I would answer by saying that we set healthy loan growth objectives for 2021. In Personal Banking, our critical alt business is having a really encouraging start to the year. While the strength of our Prime mortgage franchise has clearly demonstrated last year as we grew the business in a time of attractive economics.

Deaccumulation is destined to be our lending growth leader. Delighted to say that growth in originations of book value of our assets exceed our 2020 internal objectives, as our decumulation business has gained share. New products and new partnerships will add momentum in 2021. The CFC line of business is growing with plans for new products and expanded roster of life Insurance company partners and more distribution allies. The outlook for our now $14 billion commercial banking portfolio is very positive. Here, we have 5 business lines. We expect 4 to grow in 2021, with multis remaining flat as a result of assumed CMB capacity at levels of derecognition.

I would encourage you to get to know our commercial bank. It has been an area of interest during some of our more recent meetings with investors and we have set out our philosophy and approach to commercial banking on Page 27 of the MD&A. There is a lot of opportunity here. And having spent last Sunday afternoon happily reading credits to remind myself of the underlying loans in the portfolio, I'm more convinced than ever about its resiliency to credit loss.

One of the many great things about our bank is that we have a broad selection of growth opportunities to pursue and are nimble enough to shift and shape our book as market conditions change. You can see this in 2020, as we chose to tight load the value requirements in alt and put more focus on sustainability income in the face of pandemic uncertainties and still grew loans under management 7%. This brings me to the expansion of our digital platform. EQ Bank serves the leading edge of our ambition, to drive change of banking to enrich people's lives. The change we are driving starts with thinking differently about everyday banking services, how they've structured and delivered. Doing so enables us to innovate with purpose and create solutions that are immediately recognized as more convenient, more responsive and more valuable than what's available elsewhere. This way of thinking is working, more customers than ever are joining EQ Bank.

In 2020, new digital account openings increased 82% to over 173,000, with daily average number of new customers doubling over 2019 and deposits soaring 71% to $4.6 billion. In Q4, daily account openings were almost 190% over the prior year. We expect this momentum to continue in 2021, and we're already seeing it. This month, we surpassed the $5 billion milestone of deposits and customers have further scaled to over 185,000 customers.

It's quite remarkable to think that just a year ago, EQ Bank's deposits stood at $2.7 billion. The pace of deposit and customer growth has been outstanding, a testament to our offering and the efforts of our team. Value for customer comes from great services, great convenience and great rates. We have all three.

With the launch of the EQ Bank Tax Free Savings Account, EQ Bank RSP Savings Account and EQ Bank Joint Savings Plus Account, 2020 was a watershed year for new products, reflecting our ability to use our cloud capabilities to launch innovations quickly. All captured significant attention because they offer superior interest, no fees and the no hassle convenience of online account openings. They are worthy of our Challenger Bank Equitable. You don't have to take my word, MoneyWise has just made EQ Bank's TFSA tops in Canada based on its competitive interest rates and user interface.

We also added 20 new currencies to our international money transfer service in collaboration with TransferWise. Sure you can transfer money elsewhere. But you can't do it as quickly, conveniently and cost effectively as you can here. There is a size of economic benefit to growing EQ Bank as measured in the lifetime value of a customer relationship. Our projected value has increased steadily while the cost of acquisition has declined year-over-year.

Now the next chapter is here, and that means EQ Bank service profile is about to expand to include more wealth solutions and access card and a digital loan solution. These are innovations are on their way in 2021, along with the launch of a redesigned site this spring. Looking at the big picture, including EQ Bank, 34% of equitable $16.4 billion of deposits were raised through channels we did not have 5 years ago. This substantial ongoing growth and diversification is critically important to our bank and will continue.

Chadwick is going to describe the financial highlights, and I certainly don't want to steal his thunder, but I'm certainly delighted with how we did in achieving record earnings success against our financial goals even with the extraordinary circumstances of the pandemic. Equitable has many advantages, including structure, temperament and technology. But our most important is our people. Even with greater than 95% of our team working from home, Equitable is challenging and succeeding. My sincere thanks to every member of the Equitable team for job well done under stressful circumstances. Nurturing a best place to work culture, which is reflected in our selection as one of Canada's best workplaces in financial services insurance in Q4 2020, has paid off in the form of best-in-class employees.

I know it's really hard from an outside investor to observe this, but our people are absolutely top-notch. And I feel so privileged to work with them every day. Speaking of people, I'm delighted that Diane Giard and Yongah Kim joined our Board in December. Diane has an incredible record and background in retail and digital banking as well as risk management, having served 2 D-SIBs over her career. Diane is a real commercial and retail banker, and I say that with deep respect. Yongah has an equally impressive career in a role as a senior partner at McKinsey, advising leading financial institutions on a global basis and now is a professor of strategy at the Rotman School of the Management at the University of Toronto. The bank's governance is in very good hands with the right mix of relevant talent, experience and perspective. I am proud of our sustainability efforts, and we'll share details in coming quarters, including our virtual AGM.

Before moving to our 2021 priorities, I want to assure you that we will follow our climb through value creation methodology going forward, which involves carefully allocating capital retained from earnings. I set out my thinking in this area in our 2015 annual report a few years ago. And attribute the approach described there to making Equitable the best-performing bank on the TSX over the post -- the past 5 and 10-year periods.

We have an addition to our agenda for 2021 with 5 top priorities. One, keep enriching people's lives, this is where innovation, a passion to deliver the best service and the commitment to create an empowered and engaged workforce, coalesce with Equitable's traditional financial discipline. Two, efficiently deploy capital. This is a particular challenge. Now we are 110 basis points above our midpoint target range for CET1 at 13.5%. We do not know when OSFI will allow banks to resume dividend increases and buybacks, but we are ready and contemplating many options to deploy capital, including resuming the dividend growth we have committed to our investors before OSFI imposed its prohibition. Three, continue to diversify and expand the bank's funding sources, services and products by driving forward with new product innovations EQ Bank and product expansions at Equitable Bank, where we recently introduced U.S. currency GICs and USD high interest savings accounts. Four, contribute energetically in key areas of innovation in Canadian financial services. This includes investing in our infrastructure to participate in real-time rails to improve how Canadians move money. This is well overdue and really critical to counter building a productive economy as we build back from the pandemic. As well, we will continue to drive to bring open banking to Canada and digital ID to Canadians. We are active on both fronts, most recently by participating a multi-stakeholder roundtable, and working on some use cases. Five, challenged market perceptions of Equitable Canada's Challenger Bank. We'll be working to ensure that investors understand the capabilities of the fact we are growing a building, so that we can close the gap between what management believes is fair value for the bank and the current trading price.

As I mentioned at the outset, we will improve our Investor Relations effort and increase our activity levels as part of this program. Closing the value gap will reduce our cost of capital and deliver additional opportunities to create value to our stakeholders. I think our MD&A does a great job of conveying our position, how we have evolved in the Canada's Challenger Bank and the growth diversification and stability it delivers. It's a fairly substantive overhaul, and I encourage you all to review in some detail. And now over to Chadwick.

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

Thank you, Andrew. We're proud of how we ended 2020 with our best Q4 ever. And importantly, the momentum we have entering 2021. Our differentiated approach to creating value for Canadians translated into consistent growth for shareholders, with revenue up 13% year-over-year in Q4. At just under $152 million, this is our strongest revenue performance in any quarter ever.

Growth was not isolated to Q4. Full year 2020 revenue was 12% higher at $557 million, even with our deliberate pullback in originations early in the pandemic. Growth translated into diluted EPS of $4.13 in Q4 and $12.95 annually. ROE was 18.2% in Q4, reflecting our increasing earnings, a strong performance and particularly so given that our excess capital continues to build. If CET1 was back at a midpoint range of 13.5%, quarterly ROE would have been 19.5%. Higher earnings in ROE primarily reflect higher net interest income from growth in core assets, complemented by gains on sale of insured multi-unit residential mortgages and a modest release of allowances for credit losses.

Reported with our noninterest income, we view gain on sale as high-quality income stream, as it represents profitable and repeatable revenue in times of economic volatility and it adds to our capital base, which will bolster further lending power and distributions to shareholders. While revenue continued growing at a double-digit pace, our culture of disciplined expense management and focus on delivering the best efficiency of any bank in Canada continued. With noninterest expenses of $55 million in Q4, up only 2% year-over-year. This expense growth was mainly attributed to an increase in compensation and benefits as we expanded our FTE to 925 by year-end to match and enable our continued growth momentum. This trends in efficiency translated to 4.7% positive operating leverage for the year, with a Q4 efficiency ratio of 36.4% that beat our target. Loans under management increased to more than $33 billion, plus 7% year-over-year. This sets us up nicely to start 2021.

Moving to business line comments. We successfully deployed capital in Personal Banking, generating asset growth of $1.1 billion or 6%. Our single-family alt portfolio contracted in 2020 as a result of our deliberate origination pullback from March to August. But we have had a significant rebound in the last quarter, with originations of over $1 billion, which was also higher than Q4 in 2019. In December, we took back our market share leadership position. This is a testament to our very strong relationships with mortgage brokers across the country, an unrelenting commitment to customer service.

Our deaccumulation business was also a bright spot, with balances that nearly tripled year-over-year. This is an important emerging business for Canadians, and we are very pleased with traction in recent quarters, both in reverse mortgages and CSV lending. Our commercial bank also had an outstanding year, with asset growth of $1.2 billion or 9%. Nearly 60% of this growth was in the insured multi-unit residential space, which we like because of its risk return characteristics. Conventional commercial loans contributed significantly to growth as well, as its portfolio balance increased $427 million or 11% year-over-year and $208 million or 5% sequentially.

As a matter of strategy, we have shifted our sources of funding, with 41% now coming from securitization, 34% from broker deposits and 16% from EQ Bank. Where, for example, 5 years ago, 49% would have been from broker deposits alone. We expect to continue to reduce our cost of funds, including with the launch of covered bonds in Europe, late in Q2 this year and more deposit note issuances. Both can be raised at very attractive spreads and lower than some of our existing deposit sources.

NIM was resilient at 1.74% for Q4, up 5 basis points sequentially and otherwise stable, excluding the impact of increased prepayment income. The backdrop here is that average asset yield in personal banking declined 8 basis points quarter-over-quarter. But as a result of lower rates being offered in the market, consistent with Bank of Canada rate drops, and more of a shift in the prime lending with lower rates. And our commercial banking yield was 2 basis points lower. However, we are comfortable with these levels versus our cost of funds, which decreased at a higher rate of 11 basis points in the quarter. As I indicated, with our cost of fund strategy, we have a continued tailwind here, which also offers other strategic benefits.

Earnings and growth in our balance sheet translated into a CET1 ratio of 14.6%. The 30 basis point increase in Q4 was driven by growth in our common shareholders' equity of 5% as a result of earnings in the quarter, outpacing the increase in risk-weighted assets, which grew by 2% quarter-over-quarter. Year-over-year, the rise in our CET1 ratio was the result of our decision to constrain loan origination growth and OSFI's regulatory limits on capital distribution, which put on hold, plans to increase our dividend between 20% to 25% annually.

With capital above the midpoint of our target operating range of 13% to 14%, we currently have $118 million of excess capital to deploy or approximately $7 a share. As a reminder, this is still using standardized risk weights. Once we successfully complete the migration and receive approval from OSFI over the next few years to move to AIRB for risk weights, we could see this capital further boost by as much as 400 basis points after full adoption.

Moving to credit reserves. Our PCL for Q4 was $100,000, reflecting a release of $2.8 million under Stages 1 and 2, which is about the same as our release in Q3. $1.7 billion of loans migrated to Stage 1 from Stage 2. Stage 3 provisions increased quarter-over-quarter, as a result of a return to more normal levels of nonperforming lease formations in the quarter from a low in Q3. These changes are guided by the latest economic views from Moody's analytics and our expert credit judgment, which reflects current realities and uncertainties due to the current state of COVID-19. Given the level of uncertainty, we have made no changes to our 5 scenario rates, which reflects a more balanced view of the various scenarios.

Our ACL, at December 31, reflects a prudent build. Given the impact of the pandemic on the economy since March and remained 79% higher than a year ago. If the economy unfolds, consistent with our base case forecast, we would see an additional release of $4.7 million of reserves in 2021. Throughout 2020 and continuing in Q4, our ACLs had been dynamic and appropriate as we take into account and adjust using updated economic forecasts. As such in Q4, and in line with modest improvement in some key forward-looking economic indicators, our reserve release was very modest. We are maintaining overall levels significantly higher than pre-COVID and in our judgment had very rigorous and supportable levels.

I know a question on your mind maybe what is the path to a normalized allowance for credit losses look like? Many factors come into play here. But if our ACL provisioning levels move back to pre-pandemic levels, we would see our ACL drop by about $25 million. It's too early to put a pin on in that. And again, we are reserved precisely how we believe we should be today for our business mix.

Our impaired loans ended the year at $122 million, down $900,000 year-over-year, but up $27 million or 28% sequentially. The increase was largely due to an increase in single-family and an $11 million commercial loan in Alberta. That loan is secured by a high-quality commercial property with a current LTV of 39%. Accordingly, we do not expect to realize a loss. Our realized losses remained low in Q4 at $3.3 million or 4 basis points relative to our total assets compared to $2 million in Q3 and $1.5 million in the same period of last year. 2020 losses were $13 million or 4 basis points of our loan assets. And as a reminder, most of these are from our leasing book, with leases priced to reflect higher expected losses in this book. The realized loss rate is a result of the secured nature of our loan book. And the rigor we have always applied to our Board's ability to pay.

A few other points to note when evaluating the credit risk of our loan portfolio, 100% of our loans are secured and 56% are insured. Our uninsured residential mortgage portfolio has an LTV of 61% and an average beacon score of 702. Commercial real estate loans, which are concentrated in multifamily residential property, make up 72% of our commercial loans, of which 60% are insured against credit loss by CMHC. At year-end, our portfolio largely followed Canada's population and economic distribution patterns. We focus on urban markets and have managed our exposure to regions most affected by oil and gas. Uninsured personal and commercial loans in Alberta are just 3% and 2% of total assets, respectively.

Moving to our 2021 outlook. We expect to generate earnings growth in the range of 12% to 15% driven by stable to increasing NIMs; loan growth of between 6% to 10% overall, but with some businesses significantly exceeding that; lower provisions for credit losses; and an efficiency ratio target of 39% to 41%. For personal Banking, we expect EQ Bank deposits to grow by another 20% to 30%. Our decumulation business to lead all others in percentage growth by more than doubling its balances from 2020, Prime to grow 12% to 15%, and alternative mortgages to increase between 5% and 8%. We expect our commercial bank to grow in the mid-single digits with specialized financing, leading with 20% to 25% growth. The Commercial Finance group in Business Enterprise Solutions will contribute 12% to 15% and 5% to 8% growth, respectively. This level of growth, combined with prudent cost management and further diversification in our cost of funds, will roll up to produce the results we're looking for at the bottom line.

Today, we are reaffirming our medium-term objectives of 15% to 17% ROE, 12% to 15% EPS growth, dividend growth between 20% to 25% and 13% to 14% CET1. We believe these objectives remain industry-leading compared to our peer banks. These objectives assume that OSFI will permit us to resume dividend increases and allow us to consider potential common and/or preferred share buybacks during the term covered by our objectives. As you will note, at the group level, we did launch an NCIB in December for up to 10% of the public float for both classes of shares. We acquired 3,300 preferred shares before year-end. And that's a good use of capital.

As Andrew indicated, I would encourage you to review our updated MD&A and our overall outlook. With that, I will now turn it over to Andrew for closing remarks.

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

Thank you, Chadwick. To summarize in a unique challenging year, Canada's Challenger Bank outperformed. We added new customers at a record pace. Launched more new products at any time in our 50 year history, delivered more earnings than ever and did an outstanding job of managing risk and protecting institutional strengths. As I've mentioned before to many of you, in order to understand Equitable, you really need to experience EQ Bank. The quickest way to do so is to open an account. And you should have ample time to do this even before the Q&A session is over.

And if you really want to be wild, send a few dollars to a friend of yours overseas and see how easy it is. With last October's organizational realignment into personal and commercial banking lines and towns additions and promotions, we enter 2021 with the means to fulfill our purpose, drive change in Canadian banking to enrich people's lives. Thanks for listening. And Julian, I wonder if you could please open the line to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question will come from Geoff Kwan from RBC Capital Markets.

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

I know you provided loan growth guidance for 2021. But just wondering from an origination perspective, like how would you describe your deal pipeline and the level of housing activity relative to pre pandemic and then also, are you seeing the trajectory slow from the high levels of activity that we were seeing in Q3 and Q4 of last year?

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

No. Certainly for us, we're operating at higher levels in Q3, Q4. As I mentioned, Geoff, we had dialed back our credit appetite. I think if we -- if there's one thing I would be self critical of last year, we weren't quick enough to really understand how would the housing market would behave in response to interest rates and so on. But I think in the last few days, for example, the application inflow is higher than the same time last year. And this time last year was sort of prepandemic, so we were really rolling really worked very strongly versus rocking this time last year. So it feels like we've got a good dynamic there. I think our people are, I think, generally market would be concerned about tightness of supply and then how that might constrain the spring market a little bit. But generally, I feel pretty optimistic about where we're headed here.

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

Okay. And and if we go into this assumption that the economic and employment recovery continues to improve, but we continue to see what we're seeing in the housing market in terms of strong activity and quite strong home price appreciation. What would need to happen for you to feel like you need to maybe tighten some underwriting standards?

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

I think we're always looking at all the variables, as you know. Certainly, unemployment is always a big driver that concerns about future directional unemployment of things that we look at, first, those are what the models always tell us is going to lead to potential challenges. We look at -- we read the RBC, just to give you -- if you look at housing affordability is a concern but I think what we're seeing there is that this drop in interest rates has been so significant and affordability has actually been a more relaxed than it was a year ago. So I think those would be two of the big drivers.

If I saw the Canadian government having a different tone around immigration, that would be a concern. And I think what we're seeing is a political consensus or levels of government that immigration is important to the vibrancy of Canada's future. Clearly, the pandemic in the short-term is reducing immigration, but I look forward to a more diverse, inclusive society that it includes more people coming to Canada, bringing their spirit to the place and particularly the big cities, and that's really a huge part of the theme for Equitable. I think you could even see a more recent policy direction by the government that they're very in favor of that immigration story, and that's certainly an area that we play to.

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

Okay. And just my last question would be, you've talked about resuming your dividend growth strategy when OSFI lifts the ban on banks and insurers around that. But I think even with the growth rate in the dividend that you've articulated, it's likely that you'll still grow your CET1 above your 13% to 14% target. And then you'll get arguably a big or significant boost from AIRB. But I know it's a little bit too early to say, but can you talk about how you think about that excess capital buildup and how to deploy it to kind of keep you within that 13% to 14% CET1 range?

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

I think you're exactly on track. So I think our core message is the original 20% to 25% that we projected. When we get an opportunity to increase dividends or sort of jump back to the profile that you would have expected. So there -- hopefully, it'll be a fairly significant kind of step jump when we are allowed to increase dividends. And clearly, we think we've got a lots of opportunity to deploy capital into our businesses into attractive assets. Certainly, as you can gather, I think, optimistic about that and focused on using capital in that way to generate additional returns for shareholders. And then I think the challenge is to think about how else we would deploy capital. As you see, we put an NCIB in place, but we're certainly sort of value-driven about how we [deliver] and deploy an NCIB. And this is a debate to our Board.

So I may be speaking more ahead of the kind of the formal bank's position. But I think we would only enter -- only use the NCIB in the new size, if we really thought there was a -- the stock was trading significantly below the -- to kind of right value where in order to -- to make sure that's a value-accretive to our shareholders. So that's a decision for later down the pipe. It's certainly one of the tools that we think we might use. But I do think it's really important for a bank to -- we're not looking to hold on to our shareholders' money at 13.5% CET1. We feel extremely well capitalized. So at some point, we will look to return to that to shareholders through other means of a special dividend or something else we could consider.

Operator

Our next question comes from Cihan Tuncay from Stifel.

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

Andrew, maybe just to start off with the commentary in your opening remarks and then in the MD&A last night, with potential rollout of additional products on the digital products shelf. So what's the potential for digital loan originations going forward? I mean, is this some kind of -- I'm assuming it's some kind of consumer unsecured products? What's the potential? If you can talk about it, what's the potential credit thoughts you're looking at, potential maximum loan per account? Can you give us any window into what you're thinking with launching that kind of product?

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

I think really where we'd be going, first of all, is looking at mortgages being originated online. Frankly, that's our core expertise. Unsecured would be further down the pipe. So I don't say that -- I suspect we'll get there over the next few years, but it's not the first product up from a lending perspective. I think the kind of the big picture here is, as we're adding customers in the EQ Bank platform. Now we have 185,000 customers and growing fast, as we mentioned, the opportunity to offer them other things that can enrich their lives and better solutions is there. When you have a smaller customer base, even if it's valuable to a few customers, it's just not enough to get you over the hurdle you need to invest to get going.

So we do have a project on deck to help those customers which are already mortgaged to us and we expect to sort of be in market with that some point this year. I think we've observed that market for many years. It's challenging to originate mortgage online. Technology and the consumer attitude may be getting there. So we certainly want to be a route of the early mover, but I spend a lot of time looking around the world, digital online mortgage origination, it's certainly challenging. But we've got some really good point solutions in place now in our broker driven business. If you start to link those together into a digital solution, there is certainly an opportunity for innovation over the next few years.

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

Very interesting. And what about on the wealth management side? There was no commentary about hat? Are you looking to perhaps partner with some of the fintech partnerships that you already have now? Or what's the outlook for wealth management digital products?

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

So in the short term, in the wealth side, I was referring to more deposit products, so particularly foreign currency deposits or U.S. dollar deposits in the EQ Bank platform. I -- certainly -- we certainly continue to think about well in a slightly more sophisticated forms, and I think that would likely be in conjunction with some of our friends in the fintech world. But certainly, again, as you know, how $5 billion deposits sitting in EQ Bank, so up dramatically year-over-year. One can imagine that with our kind of brand position in the marketplace, we can migrate some of those customers into slightly more complex for equity style products, whether it's through robo or simple ETF type products seems to fit with our brand and also Challenger Bank attitude. And we're certainly not somebody that would think that's selling high and our mutual firms is an appropriate place to be in the marketplace. I don't think if that really enriches people's lives, but we would be looking for those simple kinds of products.

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

That's really interesting. I appreciate that and Chadwick maybe a question for you from a modeling perspective. As you talk about having increased mix to the a, lending business and the mortgage side and in the context of your insured multifamily business as well. How should we think about securitization income, going forward? I know you mentioned it's up significantly over where it's been historically. It's moved around quite a bit on a quarterly basis. So do we expect to see that contribution to noninterest income fairly stable with Q4 levels going forward for this year? Or how should we think about that?

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

I'll sort of start with some opening comments around that and hand it over to Chadwick, but the margins still encouragingly -- encouraging in multis but I would say the last couple of quarters have been particularly wide, so we wouldn't expect that -- we would expect those spreads to come down this year and that's something what we're building into our projections. Thinking at a bigger picture about fee-based income, we do have a couple of things we're working on outside of securitization, should see an increase in fee-based income over the next year or 2. So that's certainly a strategic priority for us to add to that fee-based income, which is the biggest one you really see right now in the P&L is a multi securitization. Chadwick you have anymore color to add to that?

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

No. I think you covered it well with securitization spreads while they may tighten more in Q3 and Q4, however we will see still add a noninterest income. And I think it's the general overall theme, right? I think from a outside of securitization income, we're expecting yields and spreads to remain pretty consistent with Q4 levels with cost of funds coming down, including from flexibility to reduce or keep bank rate, more wholesale diversification, including a covered bonds launch. There's more often across the board with yields and how we support stable demand. But noninterest income enters on point, right, that's one area we're very focused on because it is -- there's a lot in there that's repeatable and consistent and high quality.

Operator

Your next question comes from Etienne Ricard from BMO Capital Markets.

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

So in terms of the 2021 outlook, it's good to see growth in your alternative mortgage book expected to resume. I'm curious to hear how has the competitive landscape with larger lenders involved over the past couple of quarters and notably in terms of renewals?

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

So yes, I mean, it's a good question. I think we did see in the last couple of quarters of last year, the renewal percentage dropping. And I think that's my observation over many years being in this space is that, that tends to happen when interest rates are dropping. So it's a little bit hard to renew. You can imagine, even under B-20 scenario as interest rates drop, all of a sudden people that didn't need GDS TDS standards of the DSIBs suddenly do even if their income hasn't changed. So that, by its very nature mix, that renewal little more challenging. What's very encouraging, though, is in the last few weeks, we've actually seen our renewal rates increase. So I'm not quite sure what's behind that dynamic. I think partly, it's the quality of our team servicing our customers. And so hats off to them, but it's been an interesting thing to observe. So -- and if that sneaks up a little bit, it makes quite a difference on their income, it's quite sensitive to them.

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

Okay. Perfect. Good to hear. Switching towards EQ Bank. This now accounts for, I believe, 28% of your deposits that is trending favorably towards your objective to, I believe, have about 1/3 of total deposits on EQ Bank. Given the momentum you've had so far, do you see this the potential to go higher? And what would you expect the impact under cost of funding to be over the upcoming 2 years?

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

Yes. We do expect it to go higher at this point. I think I'd be concerned to go above 70% of our deposits coming from that -- 70% of our consumer deposits. So I still would like to have a piece of brokered in there because I assume that brokered, it's a flow you could turn on and off, but certainly comfortable up to 70% of our consumer deposits coming through EQ Bank. And our view over time is that we think we should be able to save about 20 to 30 basis points in deposits EQ Bank compared to brokered. That's a kind of longer-term game plan. When we build it in the lifetime value of our relationship in that market, that's sort of the numbers we're working on.

And I think, actually I mean, it's a critical dimension of thinking about EQ Bank is the way I think about EQ Bank is that roughly speaking, we believe that the lifetime value of each relationship is about $1,000. So and today, we're acquiring customers for a very small amount of that number. So I see my team here laughing at me as I say that, but that is how I view it. So -- but thinking about the lifetime value of the franchise, so it's really a critical dimension of this.

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

Okay. Perfect. And last one for me. On covered bonds, could you provide an update on market appetite? And how -- I know you mentioned Q2 for the first issuance. How sizable could that be? And longer term, how sizable could covered bonds become as part of your funding mix?

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

Yes. So Chadwick has been drilling into this area very actively since he's been here -- since he's arrived. Chadwick has relatively recently arrived to the bank. This is his first full quarter. So Chadwick maybe you can make some comments on how you're seeing the covered bonds being shape up?

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

Yes, sure. It's going to become an incrementally more important source of our cost of funding, I believe. And I think your first question was what's the anticipation like or what's the early reception like? And I'd say it's been very positive so far. We're exactly on track where we need to be with our project plan. We've had some good actual -- some media coverage in Europe over the last week, including several outlets as we're getting ready to issue. If so, I do expect with how established the covered bond market is in Europe, that it's going to be a pretty quick uptake. And this first issuance size we would target would be probably translated to about CAD 400 million.

And we'll keep growing this in multiple issuances at first, at least until that 5.5% cap on our total assets. So you call that kind of $1.5 billion, $1.6 billion, $1.7 billion and growing. And then as that ceiling lifts, we'll continue to expand that. So it will become an incrementally bigger source. And we would view that, you could call it, 15 to 25 basis points plus cheaper than GICs as well. So this would become our lowest cost of fund option and growing and expanding. So we're well positioned, and we're on track for an issuance. And as we say to the end of Q2, we are talking more literally about the May time frame, but kind of May is our target.

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

And then Chadwick kind of mentioned something there is in part -- there is so much in passing, but that 5.5% limit on covered bonds. So 5.5% total asset is the current regulatory limit. We think there are really good public policy reasons by medium-sized banks should be the go levels above that. I think we have a lot of buy-in from the bosses across the banking community, if that's the case. And so we would hope and expect that, that we'll get some relief on that over time.

Operator

Our next question comes from Graham Ryding from TD Securities.

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

I think a lot of my questions have been answered. But the one, I was just wondering, what you're guiding towards essentially high single-digit loan growth overall in 2021. And then when you look out over the medium term, you've got a 12% to 15% EPS target. Is that level of loan growth sufficient to get you to 12% to 15% earnings growth? And if so, what are some of the key inputs that are implied behind that either with NIMs or expense growth or credit?

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

I think that question is definitely right. And Chadwick will I also wonder -- Chadwick?

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

Yes, sure. Thanks, Graham. We are confident we can maintain the asset growth in 2022 as well as 2021 so when you -- when you went through the sheet, really, on the NIM front, once you have that asset growth consistency on the NIM front as the accumulation and other high-growth businesses increase, we'll see some small NIM expansion as well. Especially with higher EQ Bank deposits and that maturity of our covered bonds and a positive program plus more normalized PCLs. And our goal would be to stay within our expense discipline. And I expect we'd also continue to maintain that in the 39% to 41% range into 2022. So you could see some good consistency and then the changes growing as those higher growth businesses continue.

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

I think this was a question we actually examined internally quite a bit Graham, because we're sort of on a space that is something I wanted to test the team and there's been a fair bit of scrubbing, but we're pretty confident that this will fit into the right approach.

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

Yes. But you have your -- all your economic scenarios, right, but our -- we do expect those volumes to be doing similar in 2021 and (inaudible) to Andrew's point.

Operator

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

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

Excellent growth in the EQ Bank deposit channel and obviously, very rapid over the last couple of quarters, obviously picked up, too. So I'm just curious, are there any metrics or customer characteristics that you're looking at that would give you confidence in the stickiness of these deposits relative to, let's say, like 2019 acquired deposits?

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

Yes. We look at something we call relationship accounts, which we measure by whether, for example, people are putting payroll in or using the transfer service and also the age of the account. So we kind of assume that somebody open account yesterday is -- we don't know yet whether we have a relationship with that person, as you build any relationship in society, that's the case. So as I think -- as accounts get older and we see those transactions, we measure something internally, which we call be defined as being a relationship account. We are seeing that slowly increase month-over-month as a percentage, which is pretty encouraging because we're actually -- obviously, adding a bunch of new accounts, which by definition are not meeting that criteria.

So yes, so we seem to be moving in the right direction in that area. And I would say that growth has been a little bit of stress, if not more than a little bit of a stress on our team, and we had to -- we're stepping up our service levels to really try and resolve some of the issues. There's still bit of complexity with these registered accounts. And of course, we're doing this for the first time. So certainly, we are -- we have pretty ambitious targets around Net Promoter Score, or NPS, which is widely used by banks to assess themselves.

And generally, what you find is that customers -- or certainly, the EQ Bank customers would have much higher NPS ratings of us than they would the traditional DSIBs. So it's -- and that's especially the feature you've seen many parts of the world where digital banks tend to have a higher acceptance and traditional banks. But I think it's very encouraging, but we are focused on that NPS measure as a driver to as a measure of satisfaction, thereby kind of presumably there's a relationship between the stability of the account, if you've got very high customer engagement and satisfaction scores.

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

Okay. Great. That sounds good. As we think about the evolution of EQ Bank, you mentioned payments as being one of the areas of growth potential. Can you give us a little bit more color as to how you're thinking about payments and entering that space? And I specifically look at a recent transaction with like Neo Financial and HBC. Is that a decent example to look at in terms of where you might take it? Or are there other avenues or strategies that you might put in place on the payment side?

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

I don't think teaming up with the retail would be in a direction that we're going in but first of all, one of the objections to EQ Bank is that you can't make a payment in a merchant. You can send any e-transfer right there and then if you're a front of that type of merchant to accept it. But by and large, that payment mechanism isn't there. So if you want to do that, and hopefully, we can do it in a relatively digital fashion to get payment of the phone, but it probably will be a piece of plastic involved and plastic rails to ride that. But at that point, you really can cut away and you need to have no need for a traditional bank relationship. And our belief is that if we can offer that capability, we can stand that up for ourselves.

There are a bunch of other companies can take a similar tours on that side of the industry that would like to ride on our rails. And so where we can get fee-based revenue for providing the payments service. And the other thing that really fascinates us is the evolution of the real-time rail that payment companies have been working on for a number of years, but it's just really coming, it looks like it'll be coming to fruition in the next 18 months or so. And so we believe as well that may be a business to be built around providing an on-ramp to the real-time rail for nontraditional financial players. So that's how we're thinking about payments. We do have some people internally focused on payments now as a line of business. Then the first piece of that is really standing up payments for our EQ Bank core customers.

Operator

Your next question comes from Stephen Boland from Raymond James.

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

First question is I just want to confirm maybe you've said this. Just about the earnings growth objective, the 12% to 15%, that's assuming provisions -- is that assuming a release of some provision or a normal amount of provision? I just want to clarify.

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

I would point out, Stephen, that we've done this -- I think ever since I've known you, we've been doing -- we've growing earnings at this rate. So I don't see why you should be surprised about that projection, but I'll let Chadwick answer the kind of question -- that's a very specific question about the earnings issue.

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

Yes. Our -- the earnings growth, as we provided, doesn't change our scenario. So while we said that, that $4.7 million, if the base case plays out, that would be incremental. Right now, our model or our forecast doesn't assume that additional release. And when you break it down, right, it's that would be -- one of the key points for this year is Q4 as a good anchor to build off. So even if we look at expenses, we probably grow expenses more similar around to how we grew in Q4 over Q3 and we're going to continue to target revenue growth accordingly while we move towards that 39% to 41% efficiency ratio. But there's still too many uncertainties, right, to assume we're going to have this big release and unmet kind of moves against the models. But right now, we don't need that release to hit our targets.

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

Okay. That's great. And then just a second, I'm not sure if I'm reading into this too much in the MD&A. It's something about the alternative single-family channel that resumption of pre-COVID-19 underwriting requirements beginning in August. And I'm not sure if I'm reading into the word requirements. I wasn't sure what that meant?

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

I think requirements is probably -- you're probably picking up a work where we could have could have better expression in the MD&A there, Stephen. So we thank you for that. Essentially, what we had -- what happened in March and April, as we've cut back the loan to values almost across the board by about 5% in the anticipation of the housing market would take a bit of a dip with a rising unemployment and the effect of the pandemic. So I think that's really what we're trying to refer to there. So we grew our lending envelope within some -- we had a tighter lending envelope than most of our competitors with this risk mitigation approach. And what that did was temper the originations through much of the summer and into -- and then frankly, the beginning part of Q4, right? It was only as we started to adjust and have more confidence in where the housing market was going and kind of sharpen our competitive edge in the marketplace. So we started to get back on our feet from a volume of new originations perspective. And as Chadwick mentioned, you'll not believe based on the kind of inside baseball data from the industry is that in Q4 that we were once again the leader in the mortgage origination in terms what we would expect to be.

Operator

Your final question will come from Cihan Tuncay Tenke from Stifel.

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

So maybe just to quickly squeeze in something on AIRB transition. You talked about 2023 potential target. Are you in a phase of like how is that progressing? Like I know some of the other industry participants are running parallel model period. Are you in that position now? And the follow-up to that would be, as you look at AIRB and the impact on your competitiveness and cost of funds, do you see over the long term, say, 3, 5 years out to commercial banking to become a higher weighting than your earnings profile?

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

The first part of that question, I'll hand over to Ron in one second. The second part is really -- drives back to our fundamental thinking about AIRB. Today, we risk weight all of our commercial assets at 100%. And that's overly punitive for some really good assets. So if you've got a fully leased apartment building, it really shouldn't be 100% risk weighted. So we often find we have customers where we help -- we've help to buy apartment building. They might refurbish it, the cash flow goes up. And then we're uncompetitive in a sort of renewal of that loan. So that's -- in that case, we would be -- we're giving up high-quality, low-risk loans because of risk weights and what I would say is Ron and his team did a great job in getting us to on the AIRB curve. It's a complicated project. Ron, I wonder if you can give some kind of color on where your team is at on that.

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

Absolutely. And yes. So we're actually in a great spot right now. We don't have our entire portfolio running in parallel, but major portions of it are in major business lines are. So throughout 2021, we'll be refining that approach to running in parallel in preparation for making an application or furthering the application with OSFI in about a year. So we've made terrific progress with building the models, operationalizing the models. And now working on the reporting so that you could run and compare the standardized to our AIRB approach. And that's where a lot of the guidance that we'll give you in terms of capital differences under an AIRB regime would come into play. So beyond that point, then we'll be working with OSFI to refine and then make sure that meets their needs for approval, but we're in a -- we've really advanced significantly in the last 12 to 18 months.

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

And just as a reminder, when the pandemic hit, we sort of dialed back investment in AIRB or slowed things downward in the belief that the regulator would have other issues to deal with. And of course, the senior executive change of the regulator as well. So our thinking is that we did exactly the right thing. And I think that's what you're seeing with others in a similar spot to us. And unfortunately, pandemics do slow down these kind of developments to be well understood.

Operator

We have no further questions. I'd like to turn the call back over to Mr. Andrew Moor for any final comments.

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

Thank you so much, Julian. As there are no further questions, you may wish to know that Equitable will hold its virtual annual meeting of shareholders on May 12 with our Q1 call one week earlier. In the meantime, we're always ready and willing to engage. Thank you, and have a great day.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.
