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PRESENTATION

Operator

Welcome to Equitable Group's Fourth Quarter Analyst Call and Webcast on Monday, February 7, 2022. It is 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 - *Equitable Group Inc. - Senior Director of Corporate Development & IR*

Thanks, Obi. Your host for the call this afternoon are Andrew Moor, President and Chief Executive Officer; and Chadwick Westlake, Chief Financial Officer. For those on the phone lines only, we encourage you to log on to our webcast as well to see our accompanying slide deck.

Certain statements we make during this call that are not statements of historical facts constitute forward-looking information. These statements are based on management's current expectations and are subject to risks, uncertainties and other factors that could cause our actual results to differ from historical results and/or from our forecasts.

In addition, certain non-IFRS financial measures may be discussed on this call. References to non-IFRS financial measures are only provided to assist you in understanding our results and performance trends and may not be appropriate for any other purpose. For further discussion on these matters, please refer to Pages 2 and 3 of the accompanying slide deck and our other public disclosure.

All Concentra Bank figures referred to today are as at November 30, 2021, unless otherwise noted, while Equitable's figures are as at December 31, 2021. Please note, there will be no question-and-answer period on this call due to the concurrent subscription receipt offering that we also announced earlier today.

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

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

Good afternoon, everyone, and thank you for joining us on short notice. This afternoon, we announced 2 significant milestones in the evolution of Canada's Challenger Bank.

First, we reported our best ever quarterly earnings. Q4 earnings were over $80 million and ROE was 17%. We maintained our strong capital position and grew book value per share by 18% year-over-year. Once again, our formula for managing to a consistently high ROE, a sensible dividend that will increase by 51% in Q1 and our current spending focus on reinvesting the majority of earnings back into the bank where they create future value for our shareholders paid off in record results for all 2021 as well. Equitable's formula for growth is entrenched in our rigorous capital allocation strategy. And that brings me to our second milestone.

We're delighted to announce that Equitable Bank has entered into a definitive share purchase agreement to acquire Concentra Bank, Canada's 13th largest Schedule I bank, from its 84% majority owner SaskCentral. We've also struck support agreements with minority shareholders, enabling a clear path to acquire 100% of Concentra shortly after closing. This stands as one of the most important consequential transactions in Equitable's 50-plus year history. Simply put, it delivers on our clear and consistent strategy as Canada's Challenger Bank.

Some Equitable's longer-term followers may be surprised by our move to acquire and so the reason. Since joining the bank in 2007 and with the support of our Board, my approach has favored organic growth, and it's proven to be a very successful way to build stakeholder value. Until now, Bennington Financial was our only meaningful acquisition. In the 3 years since Bennington joined, we realized substantial benefits as we successfully built our new and accretive business vertical for Equitable and equipment leasing by growing the Bennington book organically and in a risk-managed way.

Despite our organic growth, when the chance to acquire Concentra came up, it was just too compelling to ignore. Concentra is an exceptional opportunity that adds value in all the areas that matter to us as a bank: quality people, a good culture of risk and compliance, strong business partners, commercial logic, return on capital and a remarkable overlap in asset classes that we understand and find attractive. Once we bring our institutions together, rest assured that we will pursue organic growth as a priority to building stakeholder value. In other words, we will not abandon our capital allocation preference for homegrown growth.

There are a few clear and financial reasons of pursuing this acquisition. The story starts with growth that will be realized on our high-margin conventional portfolios, including single-family alternatives, reverse mortgages, commercial lending and equipment leasing. These are the engines of Equitable's earnings. We add new sources of revenue, including fee-based business and new funding sources. This comes from Concentra being a wholesale banking and trust solutions provider to over 200 Canadian credit unions and then more than 5 million members.

I'll profile Concentra Solutions in a few moments. And to me, they start with Concentra's trust company services to credit unions, a highly attractive area that has a vital importance to Equitable going forward. I speak frequently about the importance of partnerships to us and our support of fintech innovation. Concentra shares our value for innovation and change and it's also a leading bank for fintechs. Combined, we broaden our reach and capability to foster and enable more positive change in Canadian banking. And we're excited to have the opportunity to work with these many new partners.

What I'm most excited about is expanding what I always referred to as our greatest asset, our talent. Concentra has approximately 400 employees across Canada and in a tight labor market for the skills these people have. We're certainly excited about how we can work together effectively. Even with our combined workforce, Equitable will be small and nimble in relation to Canada Big 6. But we will have the additional scale in our areas of focus and the ability to leverage our technology leadership and the talent of our team to bring skill and passion to our focus of driving change in Canadian banking to enrich people's lives. Our entire team is looking forward to welcoming Concentra employees to Equitable.

I'm also proud to share that by combining our institutions, we expect Equitable to become the seventh largest independent Canadian bank by assets, truly carving out our significance and scale in an institution where we collectively share ability for service and community building. For our shareholders, this Concentra acquisition is expected to deliver mid-single-digit adjusted EPS accretion in the first full year of ownership.

Looking at financial terms, this is an all-cash transaction, capped at premium of $35.7 million to Concentra's book value of common equity at the time of closing, which we expect to be in the second half of 2022. Using Concentra's book value on November 30, this would imply a total acquisition value of approximately $470 million or 1.08x book value. The final purchase price will be subject to customary adjustments.

The acquisition is fully financed to ensure Equitable Bank maintains a strong capital ratios and liquidity at closing. Finance is comprised of a $200 million bought deal offering of subscription receipts and a fully committed term facility. This funding will be invested to increase the outstanding capital of Equitable Bank, which will in turn use the proceeds to fund the acquisition.

Since it's a bought deal in the market as we speak, we will not be able to take your questions on this call. This is not ideal, but we will do our best to share key information in our prepared remarks. We're making this acquisition from a position of strength, as you see from our Q4 results. With the support of our Board and our independent board, we accelerated the scheduled timing of financial reporting to present these numbers now rather than on February 17. This gives you a fair picture of the fact that we ended 2021 with strong momentum as growth in our loans and deposits exceeded our ambitious targets for the year and ROE at the top end of our guidance in Q4.

I'm now going to offer more rationale for this deal, and then Chadwick will share context on the financing and our 2021 results, including the Board's decision to increase Equitable's common share dividend by 51% for Q1. This acts as a catch-up and resumption of our previous dividend growth commitments following last November's removal of OSFI pandemic-related capital deployment restrictions on all banks.

Before we get started, our sincere thanks to the team at Concentra and SaskCentral for making this deal happen. We work closely with Shawn Good, CEO of SaskCentral; and Don Coulter, the CEO of Concentra, for many months now and have developed a deep understanding of Concentra's business and appreciation of the critical role it plays in the credit union system. As noted in our press release, they chose Equitable because of our Challenger Bank commitment to delivering innovative products and services to credit unions and our focus on employees, customers, community partners and driving change in Canadian banking to enrich people's lives.

Let's now look at the Concentra's business, which also operates under the trade name Wyth Financial. Concentra is the largest and only chartered bank focused on providing wholesale banking and trust services to credit unions. Concentra's presence story is impressive. They trace their corporate ancestry to 1952 and a proclamation by the Province of Saskatchewan to form a corporate trust of Canada. Over a decade, the organization changed it's corporate form and grew to become Canada's 13th largest Schedule I bank with total assets of $11.3 billion. Although its roots run deep in Saskatchewan's corporate movement, Concentra expanded beyond the prairies to become a lead wholesale bank to over 200 credit unions and their 5 million members.

By the numbers, this acquisition adds up. Like Equitable, Concentra is branchless, has a digital arm, is a deposit taker and offers residential mortgages, reverse mortgages and engages in commercial lending and leasing. By business line, it is a perfect fit with Equitable's personal and commercial banking lines, adding significant scale to both.

We also have the differences between our organizations. Concentra's Trust Company, the seventh-largest trust company in Canada, has $31.8 billion in assets under administration and revised trustee services to register plans, corporate customer trusts and estates and is a partner of the Canadian wealth advisers, providing fiduciary services to a national client base.

Concentra offers credit unions specific products, a liquidity management in 2 lines of credit, an overnight account, and a mortgage syndication service that enable credit unions to sell commercial loans to other credit unions. Credit unions also place excess funds from a statutory liquidity deposits with Concentra Bank. Together, Concentra's wholesale and trust solutions enhance this service of credit unions and the success of their members. That's the core Canada's Challenger Bank can very much get behind, and the (inaudible) already do by providing services to several credit unions.

As noted at the outset, this acquisition is strongly aligned with our bank's strategic focus. Concentra increases Equitable's pro forma personal banking asset base by approximately 33%, creating meaningful scale. This exposure is particularly noteworthy in conventional lending, an area we favor for its risk-return characteristics.

A key partner rationale is the acquisition with an end -- an half of Equitable's competitors in the Alt-A market as well as our scale. Our Alt-A residential mortgage book grows by $2.5 billion on a pro forma basis. Our rapidly accelerated reverse mortgage business, which grew 325% last year, would also gain scale, growing from $247 million at year-end to about $507 million based on Concentra's November reverse mortgage assets. Despite this additional scale, weighted to conventional loans is also true in our commercial bank loans. Pro forma, we add $1.6 billion of commercial loans, including $200 million added to our equipment leasing business.

I will highlight the most compelling advantage from both the growth and risk management perspective. And I think it's really important we stop here and think about this. We understand all of the asset classes that Concentra brings to Equitable because we lend where they do. Our asset focus overlaps to an extraordinary degree, including focus on secured lending products. This means we know the dynamics and risks in these markets, and we hope to learn even more by working with the Concentra team.

As top Canada vendors, we have complementary geographic alignment as well. While Equitable has a strong position in Quebec, Concentra is bigger in the prairie regions as we would expect and is deep-rooted in those markets. And we complement each other in Ontario.

The slide deck profiles the very positive impact Concentra will have on Equitable's net interest income. Noninterest and total revenue alike. Pro forma noninterest revenue increases by approximately 38%, while total pro forma revenue is increased by approximately 23% with an additional upside potential as we pursue new opportunities in trust, estate and consulting services for credit unions. Concentra has a digital platform that we paid with Equitable such EQ Bank will be the sole brand going forward. In total, pro forma revenue increases by $145 million to $788 million, 11% of that from noninterest sources.

On the deposit side, the acquisition brings further strength and diversification to Equitable. Concentra added $6.4 billion of retail and commercial deposits and entirely new deposit channels by serving credit unions. This includes $3.1 billion in credit union deposits and $700 million in commercial deposits, both new and attractive funding channels for Equitable. By giving all deposits competitive rates and great value, they can trust we gain access to additional funding sources. We also had $3.7 billion of securitization funding to Equitable's $11.4 billion securitization liability, a 33% increase to support insured mortgage lending across the country.

Also very important, based on Concentra's portfolio, we will gain about $600 million of additional covered bond capacity, allowing us to increase and accelerate future issuances starting this year. As you know, we launched our highly successful inaugural EUR 350 million trust issuance as part of our $2 billion covered bond program last September. This is Equitable's most cost-effective source of funding. Total pro forma funding growth was $44.6 billion with substantially more diversification to cost effectively fund a larger portfolio and accelerate growth across new and existing channels.

Looking to the future, we're excited about how this combination advances our key priorities and extends our reach of Canada's Challenger Bank, driving changed Canadian banking to enrich people's lives. In this regard, supporting the growth of credit union customers is a top priority. We view credit unions as fundamentals of financial health and prosperity of Canadians, an important area of diversity within the financial services ecosystem. We will form a Credit Union Advisory Committee with a goal of strengthening our ties to the industry and innovating in a way that will enhance credit union services for their members and the competitiveness of these vital financial institutions.

I think we get a leg up here to start to cover Canada's Challenger Bank, Equitable's culture is aligned with the cooperative spirit of the credit union movement. But certainly, we will benefit from the deep knowledge, trust and relationships enjoyed by the talented team at Concentra. In total, this is big news for our small bank.

I'll now have Chadwick to provide more information. Chadwick?

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

Thanks, Andrew, and good afternoon, everyone. Today is a truly proud day for Equitable, and we appreciate you joining this call on short notice. With the additional scale and distribution capacity provided by this acquisition, we will build on Equitable's long-term track record as Canada's Challenger Bank. This track record further improved in 2021 as we surpassed our ambitious growth plans and ended Q4 with substantial momentum. Our Q4 earnings press release and MD&A issued today contain all the details, and we have posted our customary quarterly investor presentation to our website. I will hit a few brief points now on these strong results, then offer more comments on the acquisition announcement.

Total loan growth in 2021 was 16%, landing well above our 8% to 12% guidance. We shape the portfolios as planned with a bias to conventional lending, which increased by 31% in 2021. This is Equitable's earnings engine and one that will be further fueled by the addition of Concentra.

A big storyline was the growth in Equitable's alternative single-family business. That loan portfolio balance grew 30% year-over-year to $14.4 billion, surpassing 2021 growth guidance of 12% to 15% by a wide margin. This portfolio maintained strong momentum in Q4 with assets plus 9% or plus $1.1 billion in attrition rates moving towards historical norms.

Another significant outcome in our personal bank is the continued growth in our wealth decumulation business. It expanded 249% or $211 million, led by 325% growth in reverse mortgages. We continue to really like our prospects here because of recent gains in share in Canada's growing population of seniors, many of whom will achieve the age at home with the help of a reverse mortgage. Equitable is quickly taking a larger piece of this segment in Canada, as evidenced by growing originations. Adding Concentra's reverse mortgage business will further improve our competitiveness.

Our commercial banking segment with 5 distinct business lines now serves over 18,000 business customers and remained in high-growth mode that favored conventional loan assets. The overall portfolio expanded 19% or $1.6 billion to $10.5 billion. All commercial business lines met or exceeded our ambitious 2021 guidance.

On the deposit side, we ended the year at approximately $7 billion in EQ Bank deposits. While that was consistent with Q3, at 53% growth for 2021, we surpassed our guidance for the year of 30% to 50%. It's important to note that a consistent deposit level in Q4 over Q3 was on par with our strategic choices for this funding source. We have been successful in diversifying our funding stack over the past couple of years and now have more flexibility in our options to manage our low cost of funds.

We have a foundational brand promise that we stick to for EQ Bank customers, and our next leg of growth in the digital bank is framed particularly around the launch of our EQ Bank payment card in the second half of 2022 and many other new enhancements in our pipeline. We're going to shed more light on these exciting developments at our in-person 2022 Investor Day on June 13.

The bottom line here is Q4 was our best quarter ever at $80 million of earnings, and we landed at the top end of our ROE North Star target at 17%. That translated to an overall ROE of 16.7% for 2021. Growth was strong, risk managed precisely within our long and proven track record and highly profitable.

On a full year basis, NII was 17% higher year-over-year at a record $583 million due to 10% growth in average assets and an 11 basis point increase in NIM. For Q4, NII was up 19% year-over-year, mainly driven by 14% growth in our average asset balances and a 7 basis point increase in our NIM. As expected, the big driver of NIM growth in both Q4 and for all of 2021 was a planned shift in asset mix toward our higher-yielding conventional loans.

Noninterest revenue was also very strong in Q4 due to benefits from strategic investments, as we've been discussing each quarter. While lower year-over-year, noninterest revenue climbed again quarter-over-quarter.

Our track record of risk management remains clear. PCL was a net benefit of $7.7 million in 2021, including a Q4 benefit of $1.4 million, as future expected losses recorded in Q1 and Q2 2020 were released. Net impaired loans declined to 0.27% of total loan assets at December 31, 2021, compared to 0.42% a year ago, reflecting a reduction of $29.6 million year-over-year. Net impaired loans were higher than at the end of Q3 2021 by $16.4 million due to the addition of a $24 million commercial loan in DC, where no losses are expected.

Equitable remains well reserved for credit losses with allowances as a percentage of total loan assets equaling 15 basis points at December 31 compared to 23 basis points a year ago and 14 basis points at December 31, 2019, prior to the pandemic. Realized losses remained low at 3 basis points of total loan assets or $9.6 million at December 31, 2021, in line with the bank's successful 10-year performance.

With these strong results, and as Andrew stated, we are very pleased that our Board of Directors declared a 51% increase in our quarterly dividend for Q1, effective with the next payment in March to shareholders of record March 15, 2022. Like other banks, we had to hold back on dividend increases until OSFI removed its moratorium, and this announcement makes clear, we made up for the weight. This positions our payout ratio on target at about 12%. Importantly also, we ended 2021 with a CET1 ratio of 13.3%, comfortably above our target.

Now for a few more comments on our agreement to acquire Concentra. First, I'll reiterate, we are making this acquisition from a position of strength. And today, we're reaffirming the guidance we previously provided for 2022, which includes 15% plus ROE. I'll refer you to our Q4 MD&A for more details. Once the acquisition closes, we will update our guidance to incorporate the addition of Concentra. Anyone familiar with the process of a bank acquiring another bank will know there are accounting changes that may transpire in the closing process, plus associated transaction and integration costs. We will introduce adjusted earnings as of Q1 to reflect these considerations.

This is a financially compelling transaction with meaningful expected accretion. In year 1 following close, we expect mid-single-digit adjusted EPS accretion and increasing from there. Through the combination, we expect to realize greater than $30 million of run rate synergies by the second full year of ownership and have estimated integration cost to be in the neighborhood of $45 million to $50 million, largely in the same time frame. These synergies reflect Concentra operating at a higher efficiency ratio than Equitable today.

Combined, we believe we can align this more to Equitable's best-in-class productivity. These synergies reflect the opportunity for us to scale our combined businesses over time. For example, the additional covered bond capacity. At our prior issuance pricing, this higher capacity could add over $3 million a year in annual funding cost savings. We believe there are excellent opportunities for us to expand services to Concentra's credit union customers over time, and we're excited to pursue this upside potential.

This is a fully financed all-cash transaction. A core focus on our financing is to maintain our strong consistent capital with a goal of 13% or greater CET1 at close. The estimated $470 million transaction value is subject to customary closing adjustments and will be financed in 2 ways.

First, a $200 million bought deal offering in the form of subscription receipts. Each subscription receipt will entitle the owner to receive 1 common share of Equitable Group Inc., inclusive of dividend rights upon closing of the acquisition. Gross proceeds will be held in escrow until the acquisition date and returned if the transaction doesn't close. This will also promote even greater liquidity for Equitable stock. The offering is expected to close February 16, 2022, subject to customary closing conditions, including approval of the Toronto Stock Exchange.

Secondly, we've arranged a committed term facility at favorable terms for Equitable. The amount of this facility will be set at closing. As outlined in our press release, we have a share purchase agreement in place with SaskCentral for their 84% interest. We also have support agreements with minority shareholders who account for the majority of the remaining ownership, which will enable us to acquire the additional 16% for complete ownership at a meeting we will call shortly after closing. The terms for the minority shareholders are the same as those received by SaskCentral and inclusive of the $35.7 million premium to the 1.08x book value at time of closing.

We expect to amalgamate Equitable Bank with Concentra Bank and lead Concentra Trust as a subsidiary of the merged banks. Deal completion is subject to customary closing conditions and regulatory approval, and we anticipate this will occur in the second half of 2022.

To summarize, 2021 was another year of record earnings for Equitable that ended with meaningful growth momentum. Today's agreement to acquire Concentra is a milestone for our bank and its addition will be transformative for Equitable's scale and very good for all stakeholders. Concentra brings significant growth, exceptional diversification, trusted and value relationships with credit unions, wealth advisers and fintechs and advances our products, people, process and platforms. It broadens our reach so that we can directly and indirectly serve more than 5 million Canadians when combined with Equitable's customers. It gives us access to Concentra's talented workforce with whom we share a dedication for great customer service and high integrity business practices based on ESG excellence. And it's accretive to our shareholders and endorsed by SaskCentral's Board as being good for all sellers.

As Canada's Challenger Bank, Equitable prides itself on driving change in Canadian banking that enriches people's lives. This is most certainly an enriching change, and we look forward to making it happen. A preliminary prospectus in connection with the bought deal offering will be filed on SEDAR February 9.

Thank you for listening today on short notice. Have a great evening, and goodbye for now.

Operator

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