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EQB.TO - Q3 2024 EQB Inc Earnings Call

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PRESENTATION

Operator

Good morning. Welcome to EQB's earnings call for the third quarter of 2024 on Thursday, August 29, 2024.

(Operator Instructions)

It is now my pleasure to turn the call over to Mike Rizvanovic, Managing Director of Investor Relations for EQB.

Please go ahead.

Mike Rizvanovic - *EQB Inc - Managing Director of Investor Relations*

Thank you, Ludy, and good morning, everyone, and welcome to EQB's Q3 fiscal 2024 earnings call.

Your host today will be Andrew Moor, President and Chief Executive Officer; and Chadwick Westlake, Chief Financial Officer. In addition, Marlene Lenarduzzi, EQB's Chief Risk Officer, will be available for the Q&A portion of this call.

For those on the phone lines only, we encourage you to also log into our webcast to view our presentation, which may be referenced during the prepared remarks. On slide 2 of our presentation, you'll find EQB's caution regarding forward-looking statements as well as the use of non-IFRS measures. All figures referenced today are on an adjusted basis where applicable unless otherwise noted.

As a reminder, due to EQB's change in fiscal year end to October 31, prior period comparisons for the remainder of this year will be relative to the closest historical period. As such, for a year over year comparison, our Q3 and year-to-date results will be compared with the three-month and nine-month periods ending June 30, 2023, respectively.

And with that, I will now turn it over to Andrew.

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Andrew Moor - *EQB Inc - President and Chief Executive Officer*

Good morning, everyone, and thank you, Mike.

This is Mike's first call as part of our team, and we're looking forward to leveraging his deep expertise as an equity research analyst covering the Canadian banks as we continue working hard to achieve the full value of our challenger franchise.

We appreciate everyone's early morning participation on this busy day of bank reporting. We promise to get to your questions quickly after brief opening remarks. I'm very pleased with the way our team is executing as we navigate the credit cycle. Despite the challenge of restrictive monetary policy, our results demonstrate resiliency and consistency. The hallmarks are carried as a challenger bank for over 20 years. Once again, we've had strong financial performance with the continued development of product innovations that are driving change Canadian Banking and enriching people's lives. In short, a productive summer.

As evidence, I said last quarter that our outlook for the back half of the year would reflect the growing value of our franchise and improved credit loss trending. Performance in Q3 reflected that expectation. With record quarterly revenue, a 5% sequential increase in pre-provision, pretax earnings, EPS growth on the same basis of 5%, ROE well above 15%, and in line with the long-term average and a 24% year over year increase in dividends declared.

We had expected client at PCLs in Q3, Q2 levels, and that occurred. We also expected impaired loans might remain elevated, and they were increasing by 20% from last quarter to $567 million, representing 109 basis points of total allowances -- of total loans net of allowances compared to 92 basis points at Q2. While this increase follows a moderate decline from Q2, it was not a surprise.

Looking closer at the underlying reasons. First, commercial was $53 million or 25% up quarter over quarter, with two loans accounting for new 90% of that total. Commercial is and remain lumpy as we move through the cycle. We remain confident in our ability to resolve the majority of the remaining commercial real estate loans within the reserves already set aside with the bulk of those resolutions likely to occur in the first half of fiscal 2025.

Second, within the personal loan book, impaired grew at a much slower pace, $21 million or 10% quarter over quarter and continues to be accreted to the timing in the cycle. But with interest rates starting to ease, we expect improvement here over time. Even so, we maintained a very high coverage ratio and expect losses if any to be minimal on these impaireds. I said last quarter that certainly felt like we reached the trough of the real estate cycle. The evidence from Q3 will continue to support that view. Third, equipment financing impaireds represented the rest of the increase of $20.6 million or 45% quarter over quarter and was primarily focused on the long-haul transportation sector.

Either satisfying our challenger bank ambition is the ongoing development of products and services to deliver better value for customers. The latest success story is EQ Bank's notice savings account. A first-of-it's kind in Canada with no fees or minimum balance requirements introduced in June. We were inspired by similar accounts styles popular in more innovative banking markets such as the UK and Australia and are proud to bring innovation to the Canadian personal banking market.

During this initial nine-week launch, one in five of all EQ Bank customers opened notice savings account. On the very same day, they began banking with us, suggesting the product was appealing and customers appreciate the ability to earn more interest than a traditional savings account in exchange for 10-day and 30-day notice periods.

I would also give credit more broadly to our comparative everyday deposit rate strategies as well as the success of our recent -- second chance campaigns featuring the upcoming Emmy Awards host, Eugene and Dan Levy Quebec Household names, [Dan Label, Laurence Leber].

In June, as part of a follow-up on research, we surveyed 2,000 Canadians to measure EQ Bank brand awareness on a national scale. I noted significant increase since February with EQ Bank's highest results ever. We believe higher recognition of this sort, primes Canadians to accept the innovations we're bringing to the banking marketplace. We continue to be very pleased with customer growth in Quebec and uptake in payroll deposits across the country, which indicate more Canadian using EQ Bank as their preferred everyday choice.

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Next up is Cascade or EQ Bank for small business service to a broader audience. When we last spoke, we had just soft-launched the service to test them for onboarding with 100 business customers. With this behind us, we're rolling out the mobile app to our existing waitlist to EQ customers, many of whom are business owners before broadening their offering to Canadians later in the year.

Further good news. Our market share in single-family remains strong, and that puts the bank in a great position to serve the housing needs of Canadians going forward in an environment where there remains a fundamental mismatch to supply and demand. One of the ways Canadian cities are looking to address acute housing shortage is urban densification. Most recently, this includes a proven addition of laneway homes on land and already has a primary unit.

It's upon of homeowners who wish to take advantage of the opportunity to build laneway homes or garden suites that can be used to generate rental income, house relatives, or downsize without leaving their property. We now offer the Equitable Bank Laneway house mortgage. To start, we are marketing this innovation in the GTA, Calgary, and Vancouver through the mortgage broker channel. At the time, we believe this innovation will make a positive contribution to the growth of our single-family portfolio and the vibrancy of Canada's major cities. This quarter represents an important milestone, the successful completion of our five-year plan to increase the common share dividend at a compound rate of 20% to 25% per annum.

As noted, our latest increase of 24% year over year brings a payout in fiscal 2024 to $1.74 and fulfills the commitment we made to shareholders five years ago. Together with other key medium-term performance measures, we will introduce new guidance with our Q4 results, including for dividends. Our board certainly believes in rewarding shareholders with a growing dividend while still reinvesting the majority of earnings to deliver high ROEs to our proven capital allocation process. And in that context, it will be reasonable to expect us to continue growth at a favorable pace compared to our peers.

Should you wish to offer your thoughts on our dividend bands, please reach out to us in the coming weeks. It's a bit early to make a call on the broader single-family market, although over the past couple of weeks, we have started to see some encouraging signs of improving activity levels. This bodes well for renewed loan growth momentum into fiscal 2025, especially if we see additional Bank of Canada rate cuts as early as next week. It's certainly our intention and expectation to grow earnings and deliver ROE at more than 15%.

Now over to Chadwick.

Chadwick Westlake - *EQB Inc - Chief Financial Officer*

Thank you, Andrew, and good morning, everyone.

As we state consistently, our top performance metric is returning -- generating return on equity, and we continue to execute with another quarter closing at 15.9%. Excluding the four months Q4 last year, Q3 results include record quarterly revenue of $327 million, up 3% sequentially and 15% year over year. I'll speak more to our allowance and provision for credit losses shortly, but importantly, PCL declined from what we expected to be peak level in Q2.

With more moderate expense growth, efficiency improved to 44.5% and overall earnings increased to $117.2 million, 6% higher than Q2 and plus 1% year over year. Whether a highly successful inaugural Limited Recourse Capital Note [however we see an] issuance in July. Combined with strong organic growth, we experienced material expansion on total capital, increasing approximately 130 basis points to 16.6% including CET1 climbing a bit 60 basis points to 14.7%.

With this elevated capital position, we'll continue to be highly strategic about how we deploy it. We announced turning off our EQB common share DRIP and we're redeeming both our EQB and Concentra Bank preferred shares over the next couple of months.

Now some additional context on our performance before moving to Q&A. First, credit. Total adjusted PCLs were $19.6 million in Q3, down 12% from Q2. Stage 1 and 2 provisions were a modest $1 million reversal this quarter, reflecting slightly better for economic indicators in our models relative to the prior quarter. Adjusted PCLs on performing loans include a $1.7 million adjustment due to a onetime addition to our ACL, which

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resulted from a onetime change in our ECL modeling methodology from five to four probability-weighted forward-looking scenarios and change in their associated weights. This makes EQB more comparable to peers and allows management to better reflect expectations of the probability and severity of downside economic outcomes.

Stage 3 provisions were $20.5 million down 15% from Q2. Consistent with the past couple of quarters, this was largely attributed to our equipment financing portfolio, which accounted for nearly 80% of the total stage 3. Outside equipment financing, personal and commercial stage 3 PCL declined 59% quarter over quarter to $4.5 million. The sequential increase in personal stage 3 was more than offset by an 87% or $10.1 million sequential decline in commercial which reflected provisions on a handful of loans with a weighted average LTV in the range of 70% and better-than-expected execution on certain resolution plans.

Andrew already commented on gross impaired loans. As a reminder, problematic loan workouts can take time and be inconsistent from quarter to quarter. We remain confident that higher impairments will not translate into commensurately higher PCLs as evidenced in our historic trending. We expect our PCL trajectory moving into 2025 to continue to improve and act as a tailwind to our earnings.

Next, a few points on margins and lending. As we outlined last quarter, we believed our sequential NIM expansion in Q2 was sustainable with the exception of the fewer days in the quarter impact, and that was the outcome in Q3. I would attribute this to a few components. First, gross yields on our loan book were stable overall quarter over quarter with improvement in personal banking, roughly offsetting lower yields in commercial banking.

Second, on the funding side, even though we maintained our EQ Bank's bank rate so far through two Bank of Canada rate reductions, growth in this lower source cost of deposits, combined with our broader funding diversification enabled us to sustain our margins.

Third, we experienced higher prepayment income over Q2, which is trending upwards and pace with Bank of Canada rate reductions and changes in market activity. Total loans under management increased 2% from Q2 and 11% year over year to nearly $67 billion. Growth was driven by strength in commercial insured multi-unit residential, up another 7% quarter over quarter to $24 billion and decumulation lending, including reverse mortgages, which increased 11% quarter over quarter to $1.9 billion. These were our top targets for growth in 2024 and trending at the high end of expectations.

Overall personal lending was flat, but up 5% year over year, excluding prime insured single-family residential where we made a strategic move to exit the broker origination channel for this product due to tighter spreads. While loan originations will likely remain relatively modest for the rest of fiscal, we see a better outlook for fiscal 2025 originations in a lower interest rate environment. Irrespective of loan volumes, we will maintain our pricing discipline.

In terms of funding, given asset origination levels in the deposit note and benchmark European cover bond issuance late in Q2, we did not return to the wholesale markets for these types of issuances in Q3, but you might see us return in Q4. Although it was a capital transaction, the LRCN issuance provided validation of the wholesale markets, strong appetite for our credit at favorable costs.

I'll say again here, EQ Bank had a fantastic quarter. Our customer base increased 6% sequentially or 32% year over year as we close in on the [0.5] million markers. Customer transactions increased 119% year over year, reaching roughly [12] million in the quarter. These are clear indications that engagement is strong and growing. As an outcome and similar to strong growth in the prior quarter, deposits on the platform increased by nearly $0.25 billion or 3% sequentially, trending swiftly towards the $9 billion level.

EQ Bank represents high-quality customer deposits and is our top priority for stable funding growth. Amid what is widely expected to be a falling rate environment, we will be strategic about pricing in EQ Bank, particularly as we continue to build our franchise value while at the same time, still optimize the lower deposit beta advantage endemic to EQ Bank compared to peers who lack our levers.

And then moving to our biggest quarter ever for noninterest revenue, they landed at nearly $56 million. 13% higher than Q2 and plus 70% year over year. There are a few factors at play here. The largest driver is our strategic focus on growing gains on sale from our multiunit residential securitization business which was over 40% of the total in Q3. The corresponding gains on sale and income from retained interest from derecognition

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through the CMHC CMB and NHA MBS programs amounted to $22.8 million in Q3 representing a solid 41% increase year over year. We expect to maintain a similar level of revenue in the coming quarters as the pipeline for insured multi-unit remains robust and Q4 should reflect further expansion.

And our fee-based revenue, which increased 10% quarter over quarter and 56% year over year. Key drivers are fee income from Concentra Trust, expanding payments revenue, and a growing contribution from our alternative asset management business, ACM Advisors. On ACM, we're really pleased with the performance since closing the deal in December 2023. The business continues to grow with managed mortgage funds performing well, reflecting industry-leading returns for the asset class.

The declining rate environment is starting to lead to more deal activity, which will allow ACM to deploy its pipeline of investor subscriptions. We look forward to the upcoming launch of a new ACM social and Climate Fund which will give institutional investors access to commercial lending assets that meet social purpose and climate initiatives.

Key performance measures are ahead of our expectations so far for ACM. Broadly, we intend to maintain a strategic focus on growing noninterest revenue as a percentage of total revenue, and we will provide an updated guidance range for this in Q4 compared to the 12% to 15% range we provided at our 2022 Investor Day.

Switching now to efficiency. Revenue growth outpaced expense growth compared to Q2, resulting in about 1.5% positive operating leverage sequentially. The modest expense growth to $146 million from last quarter was due mostly to continued investments, particularly in core technology and digital innovation projects, offset by deliberate product and marketing spend reduction.

While we continue to invest in growth initiatives that will benefit our franchise over the long term, we do have the flexibility to ensure that our spending is commensurate to top-line growth. Our general goal would be to continue to generate around flat to positive operating leverage on average across several quarters. We also elevating our operational effectiveness programs to ensure while we scale, we focus on our resources on the highest value opportunities. We make some references here in our MD&A and adjustments.

In closing, we are reaffirming our guidance for ROE to land above 15% for the fiscal year, a positive and predictable outcome anchored in our differentiated approach to capital allocation. As you will see in our Q3 MD&A, we also expect to deliver on our original guidance of 8% to 12% growth in loans under management, pre-provision pretax income of $660 million to $700 million and at CET1 at 13% or above.

As a result of yesterday's declaration, our dividend growth guidance of 20% to 25% has already been achieved. Our EPS guidance for 2024 now reflects PCL trending for the first nine months such that we expect to earn between $11.50 and $11.75 per share for the year. Our expectation is that book value will grow by 11% to 13%.

Part of the update to book value per share growth is accounting for what we previously disclosed in Q1. In terms of a contingent liability we booked for our option to acquire the remaining 25% interest in ACM Advisors. As Andrew mentioned, we will come back to you with 2025 and new medium-term guidance ranges together with our Q4 results and investor call.

Now we'd be pleased to take your questions. Ludy, please open the lineup for analysts.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Meny Grauman, Scotiabank.

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Meny Grauman - *Scotiabank GBM - Analyst*

Chadwick, wanted just clarify your comments on fee income, the guidance that you could maintain this $56 million that you delivered in Q3. Is that the new run rate? And if so, just trying to understand what changed this quarter. We see obviously a big sequential step-up. So what does that inflection point represent?

Chadwick Westlake - *EQB Inc - Chief Financial Officer*

Thanks, Meny, for the question.

The general trendline, yes, should be consistent well you will find sometimes in fee income as some inconsistency across quarters and when we book certain fees in Concentra Trust, that's just the nature of the business. But otherwise, our run rate for gains on sale and other fee-based income, particularly with ACM, should be consistent from here. Otherwise, it just reflects the strategic growth and volume business.

Meny Grauman - *Scotiabank GBM - Analyst*

Got it.

And then just turning to credit, just wanted to get a little bit of a better understanding of the dynamics in the equipment finance business, in particular, impaired provisions continue to climb higher. And so just wanted to understand when you see that coming down and how you're managing that book of business?

Just an update on that, please.

Andrew Moor - *EQB Inc - President and Chief Executive Officer*

Thanks, Meny.

I'll pass it over to Marlene. I think this has obviously been getting a fair bit of senior executive attention that I think feeling somewhat encouraged, but maybe Marlene can give us some color on that.

Marlene Lenarduzzi - *EQB Inc - Chief Risk Officer*

Sure. Thanks.

When we look at our leasing portfolio, we think about our portfolio in terms of the portion that's related to the trucking, long-haul trucking, you know that there have been issues there. We've talked about that in the past. We see that (technical difficulty) it's coming -- so I expect that to turn a corner into 2025. If you look at the rest of the leasing portfolio, which is not related to transportation, it's been doing -- it's been stabilized for quite a while now, and so it's doing quite well. So we expect throughout the next couple of quarters, we'll see those numbers start to improve outside of any idiosyncratic issues.

Meny Grauman - *Scotiabank GBM - Analyst*

So could the impaired provisions for this portfolio specifically keep going up for a few quarters?

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Marlene Lenarduzzi - *EQB Inc - Chief Risk Officer*

I think we're well provisioned at this point in time. And so, I think we're appropriately provisioned as we are right now. I don't anticipate material changes.

Operator

Lemar Persaud, Cormark Securities.

Lemar Persaud - *Cormark Securities Inc. - Analyst*

I want to just kind of dig in a little bit on this prior exposure here. First, when you guys are saying that the impact, if any, is not expected to be material to EQB, what do you mean by that? Is that PCL's earnings impact, capital impact, long-term business approach? Like any thoughts on that specific commentary there?

Andrew Moor - *EQB Inc - President and Chief Executive Officer*

I'll hand to Chadwick to sort of fill in some of the kind of more technical details there. But certainly, we just want to make sure that investors were aware that there is this issue out there and I think the disclosure is just there to -- there's a type of uncertainty, frankly, about how this is going to unfold and how long that will take. So maybe Chad can give us some more color on that.

Chadwick Westlake - *EQB Inc - Chief Financial Officer*

Sure. And I'll just repeat that, Lamar.

So like we believe, to be clear, we are appropriately provisioned for credit losses in that portfolio to be very specific. This disclosure we chose to add proactively. This is a CCAA process for that company. So we thought the comment would just be helpful for investors. It's an operational and litigation-related comment. But to be clear, at this time, we don't expect any losses outside of our credit provisioning, but adding this comment as the process with the monitor continues, nothing more than that.

Lemar Persaud - *Cormark Securities Inc. - Analyst*

So there is -- you guys have provisions something -- what are you find the solution (multiple speakers) okay. And then outside of like just parking lots because I know you guys can't probably deep dive into that one. Are there any other income statement impact, say, higher legal costs that we could expect or is that already kind of in your noninterest expenses?

Andrew Moor - *EQB Inc - President and Chief Executive Officer*

That's already in our noninterest expense, and it's modest in the overall scheme of a few hundred thousand dollars type of thing.

Lemar Persaud - *Cormark Securities Inc. - Analyst*

Okay. That's fair.

And then just on this Laneway House initiative, obviously, it's new to us. So I feel like I should ask, does it feel like this offering could offer kind of the same growth trajectory as the wealth accumulation product? I'm just trying to like think through this. Are there any other competitors out there? Anything you could offer would be helpful.

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Andrew Moor - *EQB Inc - President and Chief Executive Officer*

No, I mean nothing like that in terms of scale of the actual assets, particularly related to laneway housing. But as you can imagine, we're super focused on making sure that we service the mortgage brokers and their needs. So if we for example help them with the laneway house. It might be that another mortgage, we're likely to get more of their share flow of business that people are used to dealing with us. So it's really about building up. On the business side, it's really about building our brand with the brokers to capture more market share.

And then I think it also aligns very deeply with our social purpose of helping improve the communities in which we operate. So it's really got a bit of a ESG, corporate social responsibility layer to it along with just enhancing the range of products with which it gives us good reasons to talk to brokers. Every time we talk to our brokers on one opportunity, it opens up other opportunities that's very much how we think about approaching that channel.

Operator

Gabriel Dechaine, National Bank Financial.

Gabriel Dechaine - *National Bank Financial Markets - Analyst*

A couple of questions. One more on the growth side and one on the trucking stuff. I'll start with the trucking stop.

Just I want to get a bit more specificity on the exposure, so I can kind of get a better sense of how this could evolve going forward. Is the portfolio within equipment finance is around $500 million, unless I'm mistaken? Over the past 12 months, let's see here, it's been about 50 -- we've seen about $50 million of stage 3 provisions against the equipment finance portfolio. Would that be entirely the trucking industry or 90% of it? What do you say?

Marlene Lenarduzzi - *EQB Inc - Chief Risk Officer*

That would be mostly trucking, not 100% for sure because the portfolio contains both trucking and non-trucking leases. Trucking is about 60% in terms of transportation and other kind of trucking-related leases. So I would say roughly probably close to about 90% is related to trucking to long haul.

Gabriel Dechaine - *National Bank Financial Markets - Analyst*

Lucky guess, by me.

So would you say this quarter were probably around the peak because the loss rate has been trending higher, and I kind of want to get a glide path sort of perspective. Because you mentioned that we could still have some of these losses, but -- in this portfolio, but moderating into 2025.

Marlene Lenarduzzi - *EQB Inc - Chief Risk Officer*

That's right. So we're expecting -- as we look at the formations and how the earlier delinquencies are showing up in the portfolio, we see that slowing down and stabilizing, as I said. So I expect that into 2025, that will start to come down.

Gabriel Dechaine - *National Bank Financial Markets - Analyst*

Okay. So another quarter like this one or on par with this year's performance in Q4?

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Marlene Lenarduzzi - *EQB Inc - Chief Risk Officer*

I wouldn't expect it to be materially different. I don't expect it to increase, but I certainly wouldn't expect it to be -- we didn't expect a significant drop in the next quarter. I would expect it to be relatively around -- where we are down slightly, maybe but not a significant change.

Gabriel Dechaine - *National Bank Financial Markets - Analyst*

Okay. And the guidance that was given at the start of the year for elevated losses in the first half, fading in the second half, what's changed over time? Is it just the economy is sluggish and that's persisted longer than you anticipated?

Andrew Moor - *EQB Inc - President and Chief Executive Officer*

Yeah, I think it's very similar to the conversation we had last quarter, Gabe. The certainly feeling of that is true in commercial real estate and single-family lending effectively. If you look at total provisions on say, our single-family book is less than a basis point or losses. So those feeling really comfortable about that. And I think as we discussed last time, this relative new asset class for us in equipment leasing is the one that surprised us a bit on the -- in a negative way.

But I do think we are in a downward trajectory here. I don't get these around short-lived assets and so you tend to sort of see them -- see the loan impairments happen very quickly and then, but the portfolio amortizes also fairly quickly. So it feels encouraging. But a bit like as we left last quarter, that is the area where the least conviction about how the future is going to unfold, but I spent a lot of time thinking about this over the last quarter and certainly feel more confident than I did this time last quarter.

Gabriel Dechaine - *National Bank Financial Markets - Analyst*

Okay. And then on the growth side, I guess my comment is really on the mortgage book. Another, I guess, deviation from expectations have been pretty flat. We all know why that is. The rate environment has been helpful. We've had a couple of rate cuts probably more coming. How much -- how many more cuts do you think we need before the transmission effect takes place? And I know you're not giving 2025 guidance or anything like that. But it would seem to me like the setup is stronger for next year and get the NII moving in the right direction on the back of better mortgage volumes?

Andrew Moor - *EQB Inc - President and Chief Executive Officer*

Certainly, how I feel about it. I think you can't -- I don't think it's the absolute rate that the -- that it hits and all of a sudden, the market jumps into life. It's a bit keen. When our animal spirits released because of lower rates, I think we might be surprised by how quickly things turn, frankly. I think we're going from an environment where there's a bit of a standoff between buyers and sellers. And it might quite quickly (technical difficulty) changes where if you don't buy now, you might miss sort of decent value real estate.

So I don't think anybody can really be sort of precise about when that would -- it will happen. But I would certainly think it's going to happen between sort of now and next April, that's for sure. And so, I think we're watching that carefully. And as I mentioned, in my prepared remarks, the last couple of weeks have actually seen some encouraging mortgage applications.

One swallow does not make a summer, and we can't have extrapolate that forward, but it feels encouraging. And what we are preparing our teams for is for higher volumes make sure that we're delivery fantastic service to the brokers so that we keep our share and gain our share.

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Gabriel Dechaine - *National Bank Financial Markets - Analyst*

Got it. And then actually, I lied. I'll ask another on deposits this time. Like what's your -- in a rate-cutting cycle what's your pricing strategy going to look like or what should we anticipate? I expect the big six banks will cut their deposit rates and by the full amount, would you be holding back just to build the deposit market share and achieve that progress towards your two-thirds EQ Bank deposit kind of objective?

Andrew Moor - *EQB Inc - President and Chief Executive Officer*

I think we're seeing that as a bit of opportunity Gabe. I mean, while it might have short-term margin compression, I think going to standing out a little bit longer perhaps to offer better rates to attract deposit growth as we long talk to getting some -- getting a new customer onto the platform, showing the broader value of the platform is really valuable in terms of customer lifetime value to the bank. So we're going to be a bit more nuances. We will be reducing rates generally to think about looking after our NIM for the benefit of all stakeholders, but also potentially bring us a little bit lagged compared to others to try and drive that deposit growth. So it's going to be a bit of a nuance play, frankly, as we move through it, and it's -- is going to be also combat and subsequent tactics around trying to figure out how to play that.

Chadwick Westlake - *EQB Inc - Chief Financial Officer*

But also, not just a rate play rate, Gabe. We'll make that clear again, we tested that for the last couple of years. It's about the new products that are coming on. Small business comes on at the note savings accounts. So it's -- we're going to grow the franchise as a primary franchise. We don't want it to be about ever attracting hot money or being based on it.

Operator

Paul Holden, CIBC.

Paul Holden - *CIBC Capital Markets - Analyst*

I guess first question is, I can't remember the last quarter or the quarter before you talked sort of about that cohort of trucking loans that was problematic that $200 million. Is that -- like are the impaired issues still specific to that cohort? Or has it growing beyond that?

Marlene Lenarduzzi - *EQB Inc - Chief Risk Officer*

Hi, Paul, it's Merlin. I'll take that question.

The -- that quarter in particular, we see that stabilizing, as I mentioned before. So it looks like long-haul trucking has stabilized. We do think that the resolutions are taking a little longer to come through. But I would say that, that cohort is sort of performing as we expected, and it started to stabilize.

Paul Holden - *CIBC Capital Markets - Analyst*

And how about the remaining trucking loans? Is the -- are they also performing as expected? Or have you seen some deterioration there?

Marlene Lenarduzzi - *EQB Inc - Chief Risk Officer*

No. We're seeing it actually stabilize. I think the -- if I look at long haul overall, it's actually doing -- the forecast is looking quite well in terms of what we expected. I expected it to drop off a little faster to be honest, but it has definitely stabilized. It's not gotten worse.

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Paul Holden - *CIBC Capital Markets - Analyst*

Okay. Understood.

And then maybe to continue a little bit with the discussion on net interest margins based on Gabe's question. Like how should we be thinking about this longer term, like maybe you give up a little bit of NIM in the short term to gain those banking deposits. But to the extent you gain banking deposits and need a little less broker deposits, shouldn't that actually be beneficial to NIM over time? And am I thinking about this the right way?

Andrew Moor - *EQB Inc - President and Chief Executive Officer*

Absolutely, you're thinking about this right way. Both beneficial to NIM. I mean there's a lower beta on those deposits and they're attractive price deposits for us. And then, of course, just generally franchise values, franchise deposits, we see as been inherently more valuable than broker deposits from building a digital bank into our aspirations to have franchise customers and where we can offer a range of services. So it's all part of that longer-term journey.

I think it's always good to look back at -- we only launched this digital bank back in 2016. And today, we've got -- Chad was talking close to $9 billion deposits, 0.5 million customers. When you look around the world, this is -- and what I've seen in other digital banks around the world, this is a dramatic success, and we're only a few steps in this longer-term journey to build a truly digital bank that is going to sort of change Canadian banking to some degree.

Paul Holden - *CIBC Capital Markets - Analyst*

Okay. Thanks for that.

And then next question, maybe you can talk a little bit more about the outlook for multifamily. Obviously, the last 12 months have been fantastic in terms of the growth if I look at sort of secular trends and need for more multifamily. I think this is probably a decade-long story. But any nuances we should be thinking about in terms of the upcoming year and why growth may be similar or different, whether that's higher or lower?

Andrew Moor - *EQB Inc - President and Chief Executive Officer*

We have an extraordinarily strong franchise in this area. I think we are the largest securitized multifamily in the country. So we feel very well positioned to your point, all of the people, participants centers of influence that we're dealing with a multifamily we seem really well organized to continue this strong trend. Don't care we take sort of the big picture.

Multifamily purpose-built rental for many years was hardly being built in Canada, what supplanted that was actually condos owned by mom-and-pop investors that were put up for rental. We seem to be moving to a shift driven in some ways by government policy, some ways by the market needs, to more purpose-built multis being in-built. So we have very active in providing the construction financing for that and also then terming out in the securitization vehicles. So it feels like we're in all the right spots for that to continue to grow and build that business.

Paul Holden - *CIBC Capital Markets - Analyst*

Okay.

Final question for me, since you brought up the condo market, and we've seen a lot of supply over the last 10 years there. Dynamics -- demand dynamics specifically have changed a lot in the condo market, at least in the GTA market. So maybe talk a little bit about your exposure there and any kind of risk you're seeing over the next 12, 24 months in terms of your exposure to GTA condos?

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Andrew Moor - *EQB Inc - President and Chief Executive Officer*

We certainly read the reports from CIBC and is that to kind of gauge us on risk assessment. So maybe, Marlene, you can provide some of the color for our exposure.

Marlene Lenarduzzi - *EQB Inc - Chief Risk Officer*

Thanks for that. So our condo exposure in general, if I look at the single-family business. It's pretty small. It presents less than 2% of our uninsured single-family portfolio. And it's performing exactly like the rest of the portfolio is performing. There's no difference there, and we've had no losses to date.

Operator

Graham Ryding, TD Securities.

Graham Ryding - *TD Cowen - Analyst*

My first question, just on the PCL side. They were down quarter over quarter. I think primarily just due to lower provisioning on the commercial side. Yet your impairments in that area, they were up 25% quarter over quarter. So maybe just some color on why PCLs this quarter were not moving directionally in line with the impairments?

Marlene Lenarduzzi - *EQB Inc - Chief Risk Officer*

Hi. It's Marlene again. When we look at our commercial provisions, we do that on a loan to loan basis. And so, we look at each deal, they're supported by strong structure, strong loan to values. And so that really guides how we set our provisions on -- in terms of like what you saw in stage 3. And also, when we look at the outlook for the market and we look at our portfolio, we adjust it based on what we see in the quality of the portfolio as well as our forward-looking macroeconomic variables. And that's really what's driving what you see in the provisions versus the GILs.

Chadwick Westlake - *EQB Inc - Chief Financial Officer*

Yeah. It's always good to remember, Graham, just how lower LTVs are right, right across the board versus the appraised value. So we -- it's why you very often not see a stage 3 on a lot of these impaireds and why we made the comments on it. It's very isolated to a couple of commercial where we don't expect to actually take to the P&L.

Graham Ryding - *TD Cowen - Analyst*

Okay. Understood.

And then this next question would be for either Marlene or Andrew, I guess, bigger picture, but just equipment finance, like what have you learned through this cycle here since you're around the trucking area in terms of you've seen elevated losses going forward? Do you make any changes to how you sort of underwrite this area or any changes to growth in this space going forward?

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Andrew Moor - *EQB Inc - President and Chief Executive Officer*

Yeah. I think our focus over the last couple of quarters is getting on top of the portfolio we have and trying to manage the situation. And certainly, it's -- we'll be relooking at what were the learnings from this. I think certainly, there's something that was valid idiosyncratic about the circumstances of COVID and how we reacted in that kind of fairly unique circumstances, I hope none of us have to face it again in our careers, but certainly is a -- move back to basics, what do we have to believe about our credit approach in this part of the market going forward. So I think we'll be in a position to talk more about that in December. Certainly, that's a process we're really sort of kicking off now. We feel like we've move through the phase of really dealing with the portfolio we have and on top of that and now can start to think more broadly about the future.

Graham Ryding - *TD Cowen - Analyst*

Okay. Understood.

And one more, if I could, just Chadwick on expenses (technical difficulty) slightly lower marketing spends, I think, was a factor this quarter. Is it reasonable to think, just given the, I guess, the lower portfolio growth that you might take a similar approach through the rest of this year and then look to maybe increase marketing spend next year if we're in a more -- sort of a higher loan growth environment?

Chadwick Westlake - *EQB Inc - Chief Financial Officer*

Yes.

Operator

(Operator Instructions)

Etienne Ricard, BMO Capital Markets.

Etienne Ricard - *BMO Capital Markets - Analyst*

To circle back on equipment financing what is your expectation for through-the-cycle credit losses given the allowance for this portfolio now exceeds 300 basis points. And just more broadly, given the shift towards the prime segment, how can Bennington compete more effectively in the prime relative to non-prime markets? Thank you.

Andrew Moor - *EQB Inc - President and Chief Executive Officer*

Yeah. I mean Etienne, thank you for that.

I mean, I think our general view was that through the cycle, we've bedded about 1.5% to 2% annual loss rate in this portfolio and the loans are priced roughly to sort of hit that that kind of number. Obviously, we've exceeded that in this current cycle. So I think we've definitely got to sort of think through that.

Under the hood here, we actually are starting to shift more and more into prime. Probably, that's a question as well of re-orientating the distribution channels that we deal with to be more prime focused. So there's -- it always takes time to shift your kind of brand in the marketplace, but that is the shift that's currently underway at Bennington, and we put one of our high potential guys from within the bank into Bennington to help with that shift. So we are supplementing the team to think about the strategic move in the business.

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Chadwick Westlake - *EQB Inc - Chief Financial Officer*

And just to be clear on that point, call it, [three quarters range] of originations are in that prime superfine category already. So that we are executing to that intent.

Etienne Ricard - *BMO Capital Markets - Analyst*

Okay. And staying in commercial growth in construction bones remains high. Given the labor and the material cost increases that we've seen across the industry, what's giving you confidence to continue growing this segment of the portfolio?

Andrew Moor - *EQB Inc - President and Chief Executive Officer*

I think it's important context to know that most of those loans will be insured by CMHC. So we've got a government guarantee on those loans. That doesn't mean, though, that we're not careful about exactly the issue you speak of. So we review budgets very carefully with cost consultants, make sure that we've got contracts in place with reputable suppliers to bring projects in on cost. But if you combine those two elements of diligence around the projects plus the government guarantee underlying the loan, we feel pretty confident about what we're doing in that area.

Operator

Nigel D'Souza, Veritas Investment Research.

Nigel D'Souza - *Veritas Investment Research - Analyst*

I had a minor question for just for clarification. The nonrecurring operational effectiveness expenses, could you tell me a bit more what specifically that refers to. I think it's been mentioned in the last two quarters, how material contributed that was? And how do you expect that to trend going forward?

Chadwick Westlake - *EQB Inc - Chief Financial Officer*

It would -- you can think of it in relation to onetime cost reductions in our business as we continue to look at the updated business model. For example, I made the comment that we reduced our operations in the prime broker for single-family. As you enter and exit businesses, you might make some onetime changes. And just as we continue to grow, we'll continue to reflect what is the right operating model and maybe reducing costs or redeploy some costs across the business. It's really that simple.

We continue to be, I'd say, best of peers potentially globally when it comes to efficiency, always anchored in ROE. ROE will always come first, but we're always very thoughtful about every dollar we spend and how we deploy that into capital allocation.

Nigel D'Souza - *Veritas Investment Research - Analyst*

And in terms of the magnitude of the $2.7 million, is that mostly acquisition integration? Or is that where you classify as the nonrecurring operational effectiveness expenses?

Chadwick Westlake - *EQB Inc - Chief Financial Officer*

No. It's a bit of a split. It is in the MD&A, Nigel. So we do have a page that specifically breaks down the $2.7 million. And you can see some of that was -- we had about $1.3 million in there of severance and the rest you can see across integration and other costs.

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Nigel D'Souza - *Veritas Investment Research - Analyst*

Okay. That's helpful.

And then when I look at your rate sensitivity disclosure, to 100 basis point parallel shift. They're not particularly rate sensitive. But I do notice that there is a slightly greater benefit expected to net interest income from a decline in rates versus an increase. I'm wondering if you could elaborate on what's driving that dynamic where there's a bit more benefit when rates move lower?

Andrew Moor - *EQB Inc - President and Chief Executive Officer*

Are you talking [EIR or EV]?

Nigel D'Souza - *Veritas Investment Research - Analyst*

100 basis points parallel shift disclosure the net interest income sensitivity disclosure, I believe your net interest income is expected to move up by $3.7 million, if there's a 100 basis points parallel down (multiple speakers)--

Andrew Moor - *EQB Inc - President and Chief Executive Officer*

Sorry, I can't answer that question. I'd like to just kind of put frames slightly bigger than that because we tend to think about EVE, so the enterprise value change. And this 100 basis points shifted actually a slightly artificial test because we'd actually be rebalanced as we move through that. We think about running a one-year duration of equity. So if you think about a 1% parallel shift downwards roughly speaking, the equity value would increase by about $30 million through that period.

In the EAR, what we're reflecting here is the fact that many of our floating rate loans actually have floors on them. So to the extent that interest rates generally drop, the cost of borrowing to a borrower does not change that much because they're hitting floors. That leads to NIM expansion that drives that EAR up. And that's why it's not symmetrical because we don't have caps. We just have floors. So the bank doesn't lose as much of interest rates increase, but we do have some gains as interest rates drop.

Does that make sense?

Nigel D'Souza - *Veritas Investment Research - Analyst*

Yeah, that makes sense (multiple speakers)--

Andrew Moor - *EQB Inc - President and Chief Executive Officer*

I think (multiple speakers) $1.3 million the money right now in those flows.

Nigel D'Souza - *Veritas Investment Research - Analyst*

Okay. That makes sense.

And then just a minor last question for me. Some pockets of weakness that we're seeing in real estate in Canada are the smaller, the investment funds that focus on real estate. Any exposure to the mortgage investment in corps or smaller I guess more bondable balance sheets in the real estate sector?

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Andrew Moor - *EQB Inc - President and Chief Executive Officer*

We certainly have a business and ended the mortgage investment costs, and we actually -- we like that business. Effectively, we're margining pools of mortgages. We have very tight controls. We believe around most of those exposures and feel vulnerable. We generally don't margin second mortgages. So it's mostly first mortgages -- we've got first-lien mortgages a typical structure might be a portfolio, so of $100 million first-lien mortgages, we might lend $75 million against that $100 million. So we feel that, that's -- it's got lots of reserves with the waterfall type payment structure first reserve and don't feel that that's much in the way of credit risk. The risk there relates to operational controls, and we're certainly very diligent around trying to button down the operational controls in those areas.

Operator

Stephen Boland, Raymond James.

Stephen Boland - *Raymond James Ltd. (Canada) - Analyst*

Just question on ACM Advisors. Chad, you mentioned that the business is growing, you're starting to see more deals. Can you just elaborate like has this entity still -- is it still very independent? Like are you showing them deals? Are there any cross-selling opportunities there? Just wondering, when you mentioned deals, that mean within the funds or creating more products? You did mention that the new climate fund that they're going to be launching. But can you talk about the interaction between the bank and the asset manager?

Andrew Moor - *EQB Inc - President and Chief Executive Officer*

Yeah. I think there's sort of three elements to that.

First of all, putting controls in place to make sure that, for example, things like cyber risk console being managed property and ACM. So we're certainly having really good dialogue in that area. Marlene has been out with the ACM team as our internal audit to make sure that we've got the appropriate controls, which I think is helpful to ACM as much as to us to make sure that's in place.

We're very careful to sort of think about how the relationship works between our origination teams and the ACM teams. Don't forget we have a fiducial responsibility to the individual investors and those funds to make sure that the assets being out of those funds are good for them. But on the other hand, there are loans that don't work for the bank's balance sheet that might work for an ACM investor profile that looks like ACM. So I think there might be one loan where that's actually sort of happened so far still fairly modest integration, but we are hoping to work together a little bit in there.

And then to your last comment, yes, we are trying to set up another fund, and Chadwick mentioned that in his prepared remarks, but we are looking to set up a new mortgage fund that's got a sustainability component to provide an opportunity for investors looking for that sustainability component, and that's something that will hopefully expand ACM's kind of go-to-market approach -- this is a very strong team. We're really comfortable with how we're operating with them. It's a really engaging relationship that we're really pleased with this acquisition.

Stephen Boland - *Raymond James Ltd. (Canada) - Analyst*

But longer term, Andrew, is it medium term? Like is this kind of like you mentioned, obviously, the controls, you're being careful about the funds and you're setting up a new fund. But is it -- is it the medium to long term that this business is really going to stay somewhat independent of the bank. Do you know what I mean? Like it's really like -- are you in a position to refer some of your clients to their funds? Like is that a plan at all? (technical difficulty) mean, I'm just trying to -- how separate this business is going to remain.

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Andrew Moor - *EQB Inc - President and Chief Executive Officer*

Yeah. I mean, certainly, this is an investment in the holdco, not in the bank. So while a brother and sister companies, this is run independently with its own management to ensure that all of the right of controls, and there's no crossover there. The bank is the bank and ACM is ACM even though it's under common ownership on the top of the house from a public market perspective.

Chadwick Westlake - *EQB Inc - Chief Financial Officer*

And we're happy to talk to more of the line to Stephen even as we go forward with guidance or to understand the business, but there are topline synergies. There are opportunities, but to Andrew's point is very distinctly a separate entity, but there's certainly -- we believe we can help ACM achieve their full growth potential over the coming years.

Andrew Moor - *EQB Inc - President and Chief Executive Officer*

So again roughly speaking, just to ground everybody back in the data, it's about $5 billion of mortgage assets sitting within ACM and the broader goal would be if the market is right and so on to double that for the next 5 years or so, that's driven trajectory.

Operator

And there are no further questions at this time. Mr. Moor, back to you for closing remarks.

Andrew Moor - *EQB Inc - President and Chief Executive Officer*

Thank you, Ludy. If you haven't already done so, I encourage everyone on today's call or webcast open an EQ Bank notice savings account to experience the [latest] balance sheet to banking with us. And if you own an operating or holding company, please give our Investor Relations team a call to gain early entry to our EQ Bank small business account, give it a try. We look forward to updating you on our growth progress and outlook at the time of our Q4 call in December.

Goodbye for now.

Operator

Thank you. That concludes today's call. You may now disconnect your lines.

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