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EQB.TO - Q4 2024 EQB Inc Earnings Call

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PRESENTATION

Operator

Welcome to EQB's Earnings Call for the Fourth Quarter of 2024 on Thursday, December 5, 2024. (Operator Instructions)

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

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

Thank you, Jennifer. Good morning, everyone, and welcome to EQB's Q4 Fiscal 2024 Earnings Call. Hosting today's call will be Andrew Moor, President and Chief Executive Officer; and Chadwick Westlake, Chief Financial Officer. Marlene Lenarduzzi, EQB's Chief Risk Officer, will be available for the Q&A portion of this call.

For those on the phone lines, we encourage you to 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 references today will be on an adjusted basis, unless otherwise noted. As a reminder, due to EQB's fiscal year change, our Q4 and annual results are presented relative to the fourth quarter -- sorry, the 4-month and 10-month periods ending October 31, 2023, respectively.

And with that, I will now turn it over to Andrew to begin the prepared remarks.

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

Thank you, Mike, and good morning, everyone. For the past 20 years as a public company, it has been a well-supported tradition to use our fourth quarter earnings call to talk about our bank's strong and consistent results. There are many reasons to celebrate EQB's fiscal 2024 earnings and performance. Four increases in our dividend, ROE once again hitting the 15% mark, and positive trending in several key growth areas that helped push revenue well past $1 billion for the first time in our 54-year history, all further bolstered by EQB achieving or exceeding many of our guidance measures for the year. We have decades of proof points that validate our time-tested strategy focused on our customer and service mission,

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innovating and advocating for Canadians, ensuring a differentiated value creation model anchored in ROE, and building long-term franchise value, all underpinned by robust risk management.

This celebration, well deserved as it may be in the context of a challenging economic climate, comes with a caveat. Fourth quarter results did not measure up to our expectation on specific measures, and we are deeply disappointed by this outcome. However, the isolated reasons for the shortcomings in this particular quarter in no way alter the conviction in our earnings growth or momentum for 2025 or importantly, our medium-term, which should be evident from the strong growth guidance we issued.

I will start with the primary reason for underperformance in Q4, which centers on equipment financing. PCLs and equipment financing amounted to $16 million in the quarter, the equivalent impact of about $0.30 per share EPS. For the year, the bank's PCLs were significantly elevated from our expectations, 71% of which was driven by the equipment financing portfolio in the context of a North American recession affecting the long-haul trucking industry. [Tenanting] was slow to fully adjust their credit appetite to reflect risks and supply chain disruptions resulting from the pandemic as we've discussed in past calls.

The other component specific in this portfolio relates to Pride Group exposure involving suspected irregularities that account for $16.1 million in reported provisions in the fourth quarter. Unfortunately, we were not the only bank to have been caught up in this situation, which is subject to ongoing CCAA proceedings as described in our disclosure materials. This situation evolved through the quarter with a full picture, only becoming evident to us towards the very tail end.

As you know, we charge higher interest rates to compensate for risk-taking in equipment financing, but the calculus did not live up to our expectations in this area. In fact, if these PCLs and equipment finance has been aligned to expectations, EQB would have exceeded the high end of earnings guidance. This explains our deep disappointment in this specific part of our business for fiscal 2024.

Just as important to understanding why the challenges in equipment financing occurred is communicating what we've done about it and how we will continue to proactively manage this business in the future. As part of our continued strategic review of the equipment financing business and to ensure better performance we've put measures in place to derisk and diversify this relatively modest portfolio.

To start, we have shifted our focus to higher credit quality exposures with prime customers, which deepens our existing appetite for tightening. We also made clear adjustments to our credit underwriting process that meaningfully restrict and reduce long-haul exposure in the portfolio. Finally, we made decisive changes to the leadership team.

We are seeing promising early results for our efforts here. Over the past few months, there are some encouraging signs that suggest industry fundamentals have begun to improve. This has manifested itself in the lowest level of early-stage delinquencies we've seen in the last year. Other segments of the leasing market are holding up well.

To clearly summarize, we have taken action and will continue to. We appropriately reserved and expect improvement in this book in fiscal 2025. Rest assured, we will not accept a repeat of this year.

Shifting to some other important points on credit. Last quarter, we felt the trough of the real estate credit cycle had arrived. It turns out we got ahead of ourselves perhaps by a quarter or two. And per commercial loans were up by $40 million in the quarter, with one commercial loan more than offsetting a number of smaller loans that were resolved in the quarter. Stage 3 provisions in commercial in Q4 were $10.7 million.

While commercial loans are taking longer to resolve, we continue to see a positive picture unfold in the marketplace as buyers and sellers are now finding common ground, which supports renewed trading activity and our resolution efforts. We are confident in our ability to resolve the remaining impact commercial real estate loans, with the reserves already set aside with resolutions likely to be weighted to the second half of fiscal 2025.

Within the personal loan book, single-family residential provisions were $3.8 million, driven by loan asset growth, forecast for HPI and higher delinquencies, up $63 million or 26% sequentially, that delinquency of which I'm speaking. We expect any losses in residential real estate lending to be small in the context of the business overall.

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Although the monetary policy is now more accommodative, it's obvious that Canadians felt the effect of the rapid rise in interest rates, which put pressure on household finances. These challenges are expected to dissipate, and our PCL trajectory is expected to improve as we move deeper into 2025 and see liquidity return to the residential real estate market.

As our long-term shareholders know, our bank's average PCL ratio over the past two decades are well below the largest banks at 7 basis points versus 36 for peers. This year, our full loss rate was 19 basis points, remaining significantly below current peer averages.

Shifting to the growth of our business. Looking at individual components of our book, growth in uninsured single-family lending reflected higher retention, partially offset by lower originations as borrowers set on sidelines.

With recent banker interactions, housing market activity has started to rebound, and we are beginning to experience an uptick in originations to complement improved customer retention. And our earliest estimation is, to provide color, in the month of November alone, our single-family uninsured application volumes were up about 30% year-over-year. This parallels an emerging pattern more recent data suggests that sales for the Toronto real estate market, which is critical to us, are up 40% year-over-year as of November. All things being equal, it certainly feels like there will be a strong spring housing market.

Comparatively, we are well positioned for single-family loan growth given the deep relationships we enjoy in the broker market and improvements from recent technology investments. One of 2024's distinctive highlights was 47% year-over-year growth in our decumulation lending portfolio, where we have built a strong franchise serving demand created by Canada's growing population of retirees. Our reverse mortgage business, along with insurance lending, provides Canadian seniors and those approaching retirement with services they value and represent another attractive way for our bank to allocate capital.

Growth in multi-unit residential loans under management exceeded our high expectations and underscored Equitable Banks recognized long-term leadership and lending to Canada's apartment sector. Demand for insured loans remains high due to incentives for the construction of much-needed affordable units. We have unique expertise here, and our capabilities position us well for continued growth going forward. We have the view that less restrictive monetary policy will bolster commercial markets in 2025, with a positive impact on the pace of asset growth.

From an innovation perspective, 2024 was incredibly productive and included the successful introduction of Canada's first all-digital Notice Savings Account of EQ Bank. And most recently, the soft launch of the EQ Bank business account to existing customers.

Since we introduced a Notice Savings Account it has attracted considerable interest from customers with balances closing in on a remarkable $900 million at year-end, just five months after launch. In fact, one quarter of all new EQ Bank customers cite this first of its kind account as a reason for joining us.

We have great conviction in this product, given that it is ideally suited to a lower interest rate environment because it delivers better value than traditional savings accounts. It also adds a measure of -- further measure of stability to the bank's diversified deposit book. I encourage everyone listening to try it out. Signing up takes minutes.

Our EQ Bank business account was launched to existing customers in September, and it is now being used by first -- by many first movers for enjoying the benefit in everyday high interest rate, free unlimited transactions and no monthly fees, with a road map that we believe will deliver value.

EQ Bank customer deposit growth were both solid in fiscal 2024, such that over 0.5 million Canadians now enjoy the benefits of Canada's Challenger Bank and unique compelling offers. We're particularly pleased with how Banque EQ appeals to our Quebec customers, and we are thrilled with the customer relationships we've developed there as a result. We intend to further expand our franchise in Quebec in fiscal 2025.

Our purpose is to drive change in Canadian banking to enrich people's lives. We live this mission every day and it requires relentless innovation, with customer service at the heart of every new development. Since fashioning ourselves as Canada's Challanger Bank almost a decade ago, we have come to the well-supported conclusion that Canadians like what we offer and want more of it. We intend to give it to them in 2025. In so

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doing, we will continue to act as the catalyst for a more competitive banking market in Canada, which will in turn unlock value for Canadians to support our shareholder value creation efforts.

To give our shareholders a better sense of our aspirations and our conviction in our ability to achieve them, we published medium-term growth guidance yesterday evening. I encourage you to review it as it covers all key performance metrics that one would use to develop an investment thesis.

Implicit in this guidance that we will be incredibly diligent in allocating capital to deliver on a proven track record of 15% to 17% ROE. Achieving this range, as we have done consistently over the past 20 years, as something EQB is uniquely hard wired to deliver through a value-creation approach that is deeply embedded in our culture and operating processes. This measure is paired with annual diluted EPS growth guidance of 12% to 15%. Both of these measures are attractive even in the context of Canada's high-performing bank industry.

Knowing that dividends are also important to shareholders, and we received many -- received feedback from many of you on our future direction, and thank you for that, our midterm growth guidance calls for us to grow dividend payments by approximately 15% annually. At this rate, EQB will provide a healthy return of capital to investors, while also maximizing shareholder value creation by retaining and reinvesting generated capital to deliver attractive ROEs, as I've just discussed.

Coupling a return of capital with dividends, we intend to renew and increase the size of our NCIB in January, which gives us additional options for capital deployment if and when that is the best deployment of capital. Our top priority for capital allocation is organic lending growth, and we have many opportunities to deliver, as you will see in our growth guidance.

We also remain open to select acquisition opportunities, provided they meet our high hurdle rates fit our Challenger Bank purpose, and align to our value creation model and strategy. Speaking of, I would also offer a shout out to the team at ACM advisers on a great first year in partnership with EQB. Our alternative asset management business have exceeded our earnings expectations by delivering value to their customers and investors, and we look forward to the launch of their new fund. Their business is one to watch.

Chadwick will speak to our 2025 outlook more specifically in his remarks, but from my perspective, I expect better performance and have every conviction EQB's bright future. Chadwick?

Chadwick Westlake - *EQB Inc - Chief Financial Officer, Senior Vice President*

Thanks, Andrew, and good morning, everyone. I know it's an active morning of bank reporting.

I'll begin with more context on credit performance. Total adjusted PCLs were $32 million in Q4. As Andrew covered, there was also a $16 million provision made under reported results related to equipment financing exposure to Pride Group. We view this more as an operational provision, given suspected irregularities and clear operational concerns. For process, we booked this as an adjusted credit provision reflecting updated information in Q4. We do not view this circumstance as reflective of normal course operations of the bank and correspondingly have ring-fenced and separated this out for clarity.

We have added the quarter-over-quarter updates to our exposure and our supplementary management information packs, with our residual exposure now much lower from Q3. We do not believe any remaining exposure is material to EQB.

Of the $32 million PCL in Q4, over 50% related to equipment financing, about one-third was from commercial lending, with the remainder in personal. Stage 3 represented the majority of PCL at $27 million, with equipment financing contributing $14 million of that.

Outside equipment financing, commercial stage 3 of $10.7 million was a larger amount for the quarter but attributed to about four loans. As we've seen, commercial provisions can be lumpy and influenced by a few loans. But as a positive, we are seeing lower under 90-day delinquencies in commercial, which suggests a slowing pace of additions to impaired loans.

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Stage 1 and 2 was about $5 million of the total provision, with nearly half associated with equipment financing, $1.1 million due to consumer lending, and $1.5 million associated with the rest of the personal portfolio, primarily tied to growth in early delinquencies. Now over 96% of our single-family uninsured borrowers have renewed to the higher rate environment.

Our outlook for credit provisioning is to improve predicated on several factors, including slowing new impaired loan formations, delayed resolutions that we expect will resolve in the near term, positive feedback from clients that are now benefiting from lower interest rates, combined with expecting the housing market to pick up momentum, and our proactive approach in tightening credit standards and other business changes within equipment financing.

Looking ahead, we expect our PCL ratio to move from the 19 basis point level in 2024 and improve to the 12 basis point level overall for 2025 with improvements particularly weighted to the second half of 2025, moving toward a more historical and even better level in 2026. Despite fiscal earnings lower than guidance due to the equipment financing and credit provisioning, we still achieved record annual earnings of $438 million and book value per share growth of 10% year-over-year.

Now I'll break down results a bit more, starting with margins. Net interest margin expanded 10 basis points year-over-year but compressed 2 basis points from Q3. The quarterly offset is attributed more to our strategic decisions to maintain a higher EQ Bank deposit rates for longer compared to the Bank of Canada rate reductions. And importantly, lower prepayment income in the quarter, something we expect improves again with higher housing market activity.

Also impacting NIM is how we've strategically shifted even more of our lending to insured and commercial banking, where over 80% of all commercial lending is now insured. We also had lower growth in uninsured single-family and commercial lending, reflecting market activity. But again, we expect this now turns back to more growth into fiscal 2025.

Total loans under management ended the quarter at $68 billion, an increase of about 2% from last quarter and 9% plus year-over-year. Uninsured personal loans increased 1.5% quarter-over-quarter and 5% year-over-year, led by decumulation and single-family residential portfolios. Overall, personal loans declined 1%, however, that was driven predominantly by our strategic decision to exit from the broker channel for insured single-family mortgages.

With residential housing showing solid early promise in October and November, we are anticipating a rebound in fiscal 2025 with a 30% improvement in origination volume expected and only a partial offset from a slightly lower retention rate. For decumulation loans, our high-growth product within personal lending, balances were up 10% last quarter and a very robust 47% from the prior year, well within guidance.

Commercial lending increased nearly 4% quarter-over-quarter and 19% year-over-year. Driving that growth again was our strategic priority of funding insured multi-unit residential volumes where loans under management increased more than 8% sequentially and 30% from last year, above our 2024 guidance of 20% to 25%. This more than offsets lower volumes in other parts of the commercial book that were impacted by a few sizable paydowns and a further purposeful reduction in equipment financing as we derisk that portfolio.

Shifting to funding and deposits, which increased 5% year-over-year and 1.4% in Q4. In September, Equitable Bank celebrated yet another milestone with a close of a $500 million fixed rate deposit note. The note had a record-breaking $2.3 billion order book that was about 5 times oversubscribed.

With respect to EQ Bank deposits, which is the priority for our funding diversification, we had another solid quarter, with balances at nearly $9.1 billion, representing 2% growth from the last quarter and 10% year-over-year. While we saw an expected decline in EQ Bank's term balances with falling interest rates, our non-term balances, which includes our Notice Savings Account, were up almost 10% quarter-over-quarter and 22% year-over-year. These deposits also contribute more to net interest income for the bank. EQ Bank customers reached 513,000 in Q4 which represents an addition of 112,000 new customers or 28% increase year-over-year.

Moving on to noninterest revenue, which increased 2% sequentially to $57 million in Q4. For the year, average monthly noninterest revenue is up 55% compared to fiscal 2023. That performance was driven by strength in our key strategic areas. We generated solid gains on sale and

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securitization-related revenue from our high-growth insured multi-unit residential business, with derecognition through the CMHC CMB and NHA MBS programs. Our growth pipeline remains robust into fiscal 2025.

Fee-based revenue was strong once again at over $21 million this quarter on the back of solid contribution from Concentra Trust and again, growth with the addition of ACM Advisors. Noninterest revenue overall accounted for 18% of EQB's total revenue this quarter and 16% for the year.

On expenses, we have continued to make strategic long-term investments in our franchise. This translated into expenses increasing 2% in the quarter and a corresponding efficiency ratio of about 46% for Q4 and 45% on a full year basis. Our investments in the EQ brand in 2024 were about 3 times higher than they were a couple of years ago, but we have high conviction that benefits are and will continue to translate.

Total head count increased 1% in the quarter and 7% year-over-year, including the addition of ACM employees in December 2023. Our head count growth has moderated from the average annual increase of about 18% over the past couple of years. We are managing this closely and remain focused on optimizing to ensure our ROE North Star while investing in innovation and growth.

Andrew shared our strong medium-term growth guidance. We believe 2025 will be a 15% plus ROE year based on a number of factors. First, we expect loans under management to grow again in the 8% to 12% range. Second, the benefits of lower interest rates are going to drive a meaningful pickup in originations across our lending portfolios, including single-family uninsured, and drive a better net interest income trajectory in 2025, especially into fiscal 2026.

Third, we expect a continued robust pipeline for insured multi-unit origination and corresponding securitization-related revenues plus growth across our fee-based portfolios. Four, we expect PCLs will meaningfully improve on a year-over-year basis, resulting in a much-improved PCL ratio, as I indicated earlier. And finally, we expect a very strong capital position to sustain and offer a lot of flexibility in how we allocate that capital.

We ended 2024 with 14.3% CET1. While we will maintain guidance of 13% plus in 2025, we have a lot of options in how to deploy that for lending growth and by returning capital to investors. This is also why we intend to renew and increase our NCIB in January.

This has been an active closeout to fiscal 2024. The key thing we trust you will take away is that our deeply experienced management team is excited about 2025 for the innovation we will bring to customers, for the dynamic and engaging place to work for our employees, and for our shareholders, very attractive returns.

Now back to you, Jennifer. Please open the line up for Q&A portion of the call.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Meny Grauman, Scotiabank.

Meny Grauman - *Scotia Capital Inc. - Analyst*

You made changes to your equipment finance business. I'm wondering how that impacts the profitability of that business going forward, especially from a risk-adjusted basis.

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

Thanks, Meny. I mean clearly, prime loans you get an offset of lower credit losses but slightly tighter spreads. So it's definitely factored into our calculation of that. I would still say that we've probably got more to communicate to you about the future of that equipment leasing business.

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As I said in my -- not just my prepared remarks, we have made some management changes in there, and I want to make sure the people on the ground really assess the full position and full potential of that business and come back to us with a more detailed plan. But in the meantime, we feel there are pretty good adjusted returns in this as we move into the prime segment. So we feel like we're heading in the right direction for sure, but there's still some work to do. Yes, so I would expect pretty good risk-adjusted margins, frankly. But there is still more that we will communicate as we make progress on that through the upcoming quarters.

Meny Grauman - *Scotia Capital Inc. - Analyst*

Maybe as a follow-up, just wondering fundamental question is, why be in that business in the first place? And so if you can maybe address that why not just get out of this business and focus on your core business given the experience that you've seen here.

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

Certainly, as you recall, the history of this business we got into in 2019, it was really the first time we stepped outside of our core secured real estate businesses. We still have conviction that we can be good at asset-based lending. I think there's some lessons about how we -- how quickly we bring the rigor of risk oversight that we have within the bank into acquired businesses.

I think, frankly, we're better for having made this acquisition in terms of learning and skills within the business. And we do have some conviction, very strong conviction that there's a good business to be had here. but I do think we've got sort of more proof points to bring both to ourselves and to the market more generally.

Meny Grauman - *Scotia Capital Inc. - Analyst*

And does that commentary apply to the trucking sort of vertical as well? Or is that a special case that you might consider exiting?

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

Well, I think we certainly have to think about the segments differently. We've certainly seen a much stronger performance in things like construction equipment, local, in town, transportation equipment, we've seen in long haul.

And I think the more we think about the dynamics of the long-haul markets, it's clearly a riskier segment than others. Demand fluctuates more. The ease of entry and exit of long-haul is into that market is perhaps a fundamentally kind of weakness in that industry, if you like. It just creates more credit volatility.

Having said that, our sense is that if we tailor our lending parameters to changes in the underlying terms of the market, i.e., dial back when things start to look on the frothy side and lend when things look sort of sensible and subdued. There's a business to be had here, but we've got -- we're still kind of working on building that position.

I think, for example, today, I think actually quite attractive opportunities are available in the market because some people pull back that the prime opportunities are still -- are available. So not -- we're still obviously lending at a subdued pace in this space. But I always like to think that we should learn from these experiences and see what the opportunity is rather than necessarily fault.

Operator

Gabriel Dechaine, National Bank Financial.

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Gabriel Dechaine - *National Bank Financial (Research) - Analyst*

I think that's me. Yes, the debt repayment the holding company. Can you give me a sense of how much is left to repay, if any? And I believe that's related to historical acquisitions largely.

And then more importantly, on a go-forward basis, what do you expect in terms of cost savings? And if you want to express that as a NIM uplift or whatever that would be perfectly fine.

Chadwick Westlake - *EQB Inc - Chief Financial Officer, Senior Vice President*

Thanks, Gabriel, for your questions. What's remaining is approximately $120 million. You would see that in our supplementary financial information, that we would expect would be 0 within Q1. And we've paid off now over $400 million, and you're correct, that is accounted for acquisitions of Concentra for ACM and another meaningful strategic investment that we made, all of those are now completely paid off to 0. The benefits are meaningful, and they will today are part of the guidance that we provided, where the benefit would show up in that earnings uplift, but it is pretty significant if you do the math on that, several hundred million.

Gabriel Dechaine - *National Bank Financial (Research) - Analyst*

Okay. Your credit guidance there 12 basis points of loss in 2025. Is that -- I mean, I'm assuming that's going to be like a grading down from current level and maybe exit the year at your historical rate, that type of thing?

Chadwick Westlake - *EQB Inc - Chief Financial Officer, Senior Vice President*

That's the idea, yes, Gabriel. So the average for overall would be for 12 basis points for 2025, that would be the amount staged through that in the year. But Marlene, do you want to add any additional context on the PCL ratio?

Marlene Lenarduzzi - *EQB Inc - Senior Vice President, Chief Risk Officer*

I would just say that we're absolutely looking to trend down to that 12 basis points, but the first half might be a little choppier than the second half. We're expecting most of that to come through in the second half.

Gabriel Dechaine - *National Bank Financial (Research) - Analyst*

Okay. And then I guess the choppy comment, this is a segue to my last question. I estimate like the that the long-haul trucking portfolio, there's about $350 million of it remaining on the book now in the performing category. Like, I assume at this point, you would have scrubbed the portfolio very diligently. You've got a really good handle on what's left that could become impaired and all that. And well maybe just illustrate or explain to me what the situation is with the -- what's left?

Marlene Lenarduzzi - *EQB Inc - Senior Vice President, Chief Risk Officer*

Yes. So we've made some substantive different changes rather to our credit profile. So if you look at our originations now, long-haul trucking is down. It's less than 27% of our originations where it had been up at 40 or 40-plus.

And as well, we look through that portfolio, there's also a significant shift towards prime versus the other lower quality buckets, and that's showing up in our performance. So if you look at that -- our impaired loans and our impaired loans excluding the adjustment -- actually impaired loans and equipment financing came down slightly over the quarter.

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And remember, when I talk about this leasing portfolio, we break it up into long-haul and non-long-haul. The non-long-haul portfolio has been really stable over the last couple of quarters, and it's looking like it's continued to perform that way when I look at the various vintages that we brought on.

In long-haul trucking, the credit changes that we've made in this portfolio, and we started making some tightening in late 2023. And those are starting to show fruition when I look at those newer vintages, they're looking really well. But of course, there's -- it's -- the long-haul trucking industry, as you know, it's been slow to recover. And so that's part of where my comment is coming from.

Gabriel Dechaine - *National Bank Financial (Research) - Analyst*

Got it. And I have one more question. The prepayment commentary I found interesting because I'm just thinking given the duration of your average mortgage book, you might have weighted average of, I don't know, 2022 vintages maybe that are nearing maturity, and their mortgage rates are higher than what you're currently offering. So perhaps there's some really good visibility on prepayment income coming in the next couple of quarters. Is that plausible?

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

I mean I think we would expect to see that, generally speaking, when -- of course, when interest rates drop, prepayment income goes up because of the way the calculations flow as an actual. So even as a percentage of -- if you really have the same number of mortgages prepaying you end up with higher prepayment income. So it's a reasonable thesis. I think the other thing that's being attractive as we're having good success on renewals, because as people see the rates come down a little bit, it's an easier conversation to have with our customers.

Gabriel Dechaine - *National Bank Financial (Research) - Analyst*

Yes, the penalties are lower at this point.

Operator

Paul Holden, CIBC.

Paul Holden - *CIBC World Markets Inc. - Analyst*

First question I want to ask on the EQ Bank deposits. You definitely talked about improved outlook with lower rates, which makes sense to me, but it wasn't part of your updated financial objective. So just wondering if anything has changed there in terms of your growth rate expectations or what proportion of total funding, you'd like to see from EQ Bank deposits over time?

Chadwick Westlake - *EQB Inc - Chief Financial Officer, Senior Vice President*

Yes. Paul, I'd say we'd expect to see consistent growth again in 2025. That's what you've seen in 2024. We have a lot of momentum, a lot more to come on that, and we continue to make that a priority for our funding stack. So again, when you think of the medium-term, you could expect to see EQ Bank continue to increase to a larger percentage of our insured funding stack and then a little bit less on the broker side. So we expect this momentum to continue and to increase.

And the guidance we have provided for 2024 was the customer guidance. As you noted, that was at 30% to 40%, and we were right at that bottom range with great growth of 28%. And I think that's the way you should expect to see it again next year.

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

We're certainly feeling very comfortable about how we're getting more efficiency out of our advertising spend and continue to bring innovation to the market, frankly, as recently as sort of in the last couple of weeks, we've offering some fantastic exchange rates on US dollar to CAD back and back and forth. Believe to send US dollars on the wise rail town to the United States is a really compelling offer. So if any of you going south for the holidays, so I try to think about using that service.

Paul Holden - *CIBC World Markets Inc. - Analyst*

And then second question I have for you. Maybe you could talk a little bit about the delinquency trends in single-family uninsured versus the provisions -- impaired provision. So deals have increased, provisions have increased a little bit, but not as much. So obviously, you're having a lot of, I think, success with workouts or at least a view that LTVs remain sufficiently low that these delinquent borrowers won't go impair. Maybe you can talk a little bit about post dynamics, how they're playing out in terms of the work out and why you have confidence that, that will continue.

Marlene Lenarduzzi - *EQB Inc - Senior Vice President, Chief Risk Officer*

Sure. I'll take that question, it's Marlene. We look at our -- the growth in impairs in the quarter is really related to some formations outpacing delays in resolutions in terms of like delays in legal system, et cetera. We saw a big pickup towards the end of the quarter in October in terms of resolutions with a significant increase in sales, and we're seeing that trend looking promising as we look into the next quarter. So while we see those delinquencies increasing, I would look at my earlier stage delinquencies pre-impairment. We see some benefits of what's happening of lower interest rates starting to show up in those earlier stage delinquencies.

Paul Holden - *CIBC World Markets Inc. - Analyst*

Okay. And then -- last one from me. Chadwick, you highlighted, you're expecting a 30% improvement in single-family. I assume that's uninsured mortgage originations and then maybe a little bit lower retention rates. Like how do we think about that translating to the loan growth sort of roughly?

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

So we have obviously our medium-term expectations for loan growth. And as I mentioned, we're seeing high volumes coming in right now. So it's the all kind of loan growth metrics to give you that confidence in our forecast is based on the assumptions we have to make about renewals and runoff and so on in renewals as well as the new loan origination, but I can tell you we're busy right now.

Paul Holden - *CIBC World Markets Inc. - Analyst*

Okay. So 30% improvement in originations might correspond to somewhere in that 8% to 12% loan growth range.

Chadwick Westlake - *EQB Inc - Chief Financial Officer, Senior Vice President*

Yes, that's all included in that overall 8% to 12%. That's right, Paul.

Operator

Graham Ryding, TD Securities.

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Graham Ryding - *TD Securities, Inc. - Analyst*

Yes. Maybe I could just follow on from that last question. Is there like on your uninsured commercial and your uninsured single-family, is there a range of growth that you would be targeting next year for loan growth for those specific areas because that's where it's been a bit softer this year?

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

We don't tend to put sort of those forecasts, but obviously confident in the medium-term position. It does depend a little bit on how the -- it depends quite a lot on how the -- particularly the single-family business comes to life.

We're seeing good year-over-year growth, obviously, in the housing sales and then therefore, mortgage applications. But this is obviously a slower time of the year. We're anticipating in our models that kind of have a late spring market that really becomes quite active. If things come to life a little bit more, a bit faster than we might see some more positive on the upside.

Graham Ryding - *TD Securities, Inc. - Analyst*

Okay. Understood. And then on your -- on the commercial uninsured side, I think your margins were down 16% year-over-year. Is that a combination of you deliberately being selective in lending in this area, but also ensuring some of those mortgages and moving them off balance sheet?

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

Yes. I think actually -- so it's not just convention. So some of those mortgages are insured. So some of them would be construction insured. I think I'm not sure. I hope I'm speaking about the right numbers, yes. So within that embedded number, some of that is insured by CMHC is construction lending. And that actually obviously commands a lower margin just because there's ratable capital put against that.

And so if you actually just peeled out the conventional commercial, you'd see spreads remaining very similar because that's the way the model works in terms of how we drive ROE top of the house looking further using our ROE calculator that we've used. We have not seen any pressure on spreads that would be causing us to drop that will be less diligent about accepting that ROE. That may be a good question maybe for us offline afterwards to break through those a little bit Chad, but I don't think that's been embedded kind of invested within a portfolio that's got us a few different risk weights within it.

Graham Ryding - *TD Securities, Inc. - Analyst*

Okay. That's fair enough. It sounds like you're seeing some positive developments post quarter with your single-family impairments. I think Marlene just talked about sort of resolution starting to pick up. Anything on the commercial side or the equipment financing side post quarter that would give you some sort of near-term comfort and confidence that credit trends are starting to improve?

Marlene Lenarduzzi - *EQB Inc - Senior Vice President, Chief Risk Officer*

Yes. We are seeing some signs that the resolution plans are coming to fruition. And we've seen that consistently through the past quarters and have reason to believe that all the resolution plans we have in the next quarter will work out. There's always a little bit of uncertainty, but we feel pretty confident in those.

And the other part that makes us more optimistic about the outlook there is if we look at the growth in the -- or the changes in the sort of the 30% to 60% bucket we see that slowing down as well. And so that's come down. It's actually year-over-year, it's actually slightly lower than it was a year ago. So that bodes well for where we think things will move going forward.

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Graham Ryding - *TD Securities, Inc. - Analyst*

Okay. Great. And one more, if I could. Just Chadwick, on the net interest margin, I think you're guiding for over 2% in 2025, you're at 2.07% this year. So there's some modest compression implied there. Could you maybe just give us some of the factors that are sort of implied behind that forecast?

Chadwick Westlake - *EQB Inc - Chief Financial Officer, Senior Vice President*

Yes. Sure, Graham. I'd say a few points. One, as I always say, our margin is more -- it can be more influenced by prepayment income. So we talked about that earlier. That might always be things up a few basis points, down a few basis points, which I mentioned in my prepared remarks this quarter, any soft prepayment drop by a few million quarter-over-quarter. So that can always influence it.

The important point to think about as well as the strategic investments we're making in EQ Bank. As part of that, we might choose to maintain rates at a higher level versus the Bank of Canada reductions. And as we do that, that can have an impact on margin, but it's a strategic move as well for the franchise.

And then again, depending on how much we originate and insured versus uninsured is another one of the factors. So there's a few factors that come into margin. While we provided 2% is, again, it's always going to be plus, minus a few basis points. We're not saying margin is on its way down. It's just that's just the reality of the flexible range of some of the factors that can impact it.

Operator

Etienne Ricard, BMO Capital Markets.

Etienne Ricard - *BMO Capital Markets (Canada) - Analyst*

The medium-term guidance provides for 15% ROE, and this includes fiscal '25. Yes, as we look into next year, it seems that PCLs could remain elevated in the first half. Loan growth pickup is more of a second half story and you invest to build brand value. So I'm curious to hear what gives you the confidence that '25 will prove to be a 15% ROE year despite a few headwinds for the foreseeable future.

Chadwick Westlake - *EQB Inc - Chief Financial Officer, Senior Vice President*

Well, I'd say we just achieved 15% ROE with pretty meaningful headwinds in 2024, and we'd expect to do that again. Part of the beauty of the Challenger business is we are diverse. We have multiple levers, and we allocate our capital very strategically. What I'd say is 2024 at that level also included very elevated PCLs our projection with those B sales are going to meaningfully improve down to the 12 basis point level. So that is pretty significant.

We are saying conventional originations are going to pick up. That adds to margin into growth. We're expecting continuation of growth in noninterest revenue, and we will manage expenses accordingly. So that will always be aligned to that ROE North Star as well, as I mentioned, right? So we have multiple levers, a diverse business, and that's why we have conviction on that consistent trend.

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

Yes, just to sort of add on to that and Chadwick good kind of summary at the top of the house. But the other thing we have complete conviction is our insured multifamily business, which is going to be really very strong this year. Of course, that doesn't take much in the way of capital drag. So it's also a good place for us to be allocating capital.

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Etienne Ricard - *BMO Capital Markets (Canada) - Analyst*

And on the topic of capital allocation, I think your medium-term expectation is for 15% annual dividend growth down from 20% plus in recent years. I'm curious to hear how is your loan growth outlook influencing this decision. In other words, why retain more capital despite a macro environment in which consumer leverage is quite high and loan growth may prove more challenging?

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

Well, again, we've been talking to a number of shareholders about their interest and dividends or lack of the same. And of course, you can't satisfy everybody because there's actually divergent views around this. So we've chosen, I think, a path that hopefully satisfies the bulk of our constituency in a way in dividends as a form of returning capital. NCIB as we chatted about in the script is another way to return capital and there's a bit more of an instrument that you can turn on and off and can respond to market conditions. And I certainly have a lot of confidence in our ability to grow loans over the next few years.

So one thing we don't want to be doing is putting ourselves on a bit of a treadmill around dividend payment that doesn't allow us to retain capital and can support that loan growth and take advantage of strategic options that we -- opportunities that we think will emerge in the market. So I think giving people -- as we have over the last five years, giving people confidence about the trajectory of dividend growth while knowing that we're always going to be good stewards of capital and allocate capital with an enormous discipline to try and achieve the kind of ROEs that we're talking about. So it's not really a matter of just simply making decision to retain capital if indeed, we start to build capital because loan growth is not so strong or some other reason, we'll think about how to deploy that optimally. On the other hand, just because we have -- what we will not do is deploy it in a suboptimal way for the shareholders.

Operator

Stephen Boland, Raymond James.

Stephen Boland - *Raymond James Ltd. - Analyst*

Can we just talk a little bit about the PCL, the carved-out one? I understand this is kind of like a different type of vehicle like this was some sort of facility. And I presume the vendor filled up the facility with the titles? Or I'm not sure like where does the title on these vehicles rest? Is it in the facility? Is it on your balance sheet? I'm just trying to get a little more detail because with the $16.1 million carve-out, like is this an assumption like a partial loss or a full loss that you may not have title on these vehicles. Because you mentioned this representation in the MD&A. So just if you could provide a little bit more detail on that.

Marlene Lenarduzzi - *EQB Inc - Senior Vice President, Chief Risk Officer*

Sure. So on the $16 million, those are losses that we've taken provisions that we've taken on those impaired loans that we have uncertainty on the collection. So we will go through the sort of the sales process with those, and there could be recoveries. We -- but we feel that the provisions that we've taken are prudent and reflect the value that we see there.

The other part I would say is that we do have a title on these vehicles. And so there may be questions on the small portion where there could be -- you may have read that there was some sort of multi-collateral binning that was happening there, and that's a small portion of the portfolio, and we've adequately provisioned for that.

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Chadwick Westlake - *EQB Inc - Chief Financial Officer, Senior Vice President*

And we can cover more of that 0ffline with you, if you want Stephen, just to walk you through the file.

Stephen Boland - *Raymond James Ltd. - Analyst*

Sure. Okay. Yes, I won't dig in too much. I've got a couple of other questions on that. But -- and again, Chadwick, Andrew, I'm not sure who wants to take this. I mean, in the past on the stress test, and that came in, in 2021, you were very positive on that, saying that was going to be positive for retention for your borrowers and even borrowers that had basically graduated from their first mortgage with you. Now that that stress test has been essentially removed like what's your thoughts on retention because obviously, you're pretty bullish now on single-family again? So I'm just curious what your thoughts on retention going forward.

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

Yes, we're pretty confident about retention. Clearly, at the margin, I think this is probably a good move by the regulator to ensure the competitions are available to people on renewing their mortgage and making sure that there's sort of -- could be a balancing or shifting a balance of power between the bank and the borrower in a way that's not great. So I think this is a good regulatory shift.

On the other hand, don't forget we have -- these borrowers are working with us all the time. They're making their payments to us. We're in contact with them. We have pretty sophisticated renewal strategies, including the ability to renew online automatically and renew online and working closely with brokers to the extent they're involved in the renewal process. So over the last few quarters, we've seen good renewal traction. This may kind of stole it roughly where it is, but it's actually at a very good level. So I don't -- we don't see this as a meaningful change to our kind of renewal story.

Stephen Boland - *Raymond James Ltd. - Analyst*

And does your guidance factor in that, basically, it's going to go back to the way it was pre-stress test that you're matching a graduating borrower, you're going to match rate if they go to one of the Big 6 and get a prime rate. Is that the goal then to just retain and match rate?

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

Certainly, it's a little bit more than that, but you're on the right line. It's a pretty sophisticated strategy you're trying to figure out where people are and what one of the things you have as an advantage of being the incumbent lenders so you can look at, say, the repayment experience on that individual loan, for example, that would build your own kind of unique credit model. So but you're sort of on the right track, trying to figure out who these customers are, what it is for their need, where is an appropriate competitive pricing. And what you just mentioned about the kind of change in the regulations is one factor and it's actually a pretty sophisticated model that is one of the areas we're actually using machine learning inside the shop.

Stephen Boland - *Raymond James Ltd. - Analyst*

Okay. And last one for me. I'm not sure if I'm reading this a little bit too granular, like the 15% ROE guidance, does that assume some NCIB impact? Like it's mentioned in the same area in your guidance. So does that include that you're buying back shares at all in that ROE?

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

It assumes maintaining sort of a decently efficient capital structure but wouldn't assume buying back shares as a prerequisite to that. So I wouldn't assume, for example, if capital built that we would be sitting there with 16% CET1 or some bigger number. But -- so it assumes that this is what we're able to manage assuming we have a CET1 in the kind of areas where we've been operating in that kind of 13%, 14% range.

Operator

Lemar Persaud, Cormark Securities.

Lemar Persaud - *Cormark Securities Inc. - Analyst*

I'll pick up on that last line of questioning on the ROE. But I want to look at it in the context of the upper end of that range, that's 17%. Does that feel like it's something possible for the bank even with a CET1 ratio over 14%? Or does that include something -- some movements down towards the 13% range?

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

Certainly to see the 30% -- 15% to 17% is our expected operating range. We never promised the market more than 17% on the basis that feeling is if you aim for more than that you might be taking more risk than as appropriate. And 15%, 17%, actually may seem like a wideband to people looking at the institutional from the outside to us as operating the business. It's a relatively tight band to be operating in. And there are lots of trade-offs we're making, frankly.

What I actually think about more than the ROE is this investment providing a positive NPV for the shareholders over time. So for example, one can easily increase ROE in a single year by reducing advertising spend. So you end up with fewer customers for the following year and the year after.

So it's maintaining that balance of discipline to kind of always be operating above the 15%, but being willing to invest and these are not things that we're capitalizing to invest in greater skills in credit, anti-money laundering, on the one hand to keep us safe, brand building, new product innovation, all of these things what allows us to then grow next year and still maintain that high ROE.

So I think we've done a nice job. If you look at our history of sort of picking our way through making appropriate investments, not overspending, not getting too far over our skis, building -- growing and growing into the institution that we strive to be over time.

So it's a slightly complicated -- I know it's not a great answer, but I think it tells you how we think about these Things. We absolutely could drive the ROE above 17% in any individual year. It's just we may not be left with a great institution to start the following year.

Lemar Persaud - *Cormark Securities Inc. - Analyst*

Okay. Then can you talk about the ranking of capital deployment opportunities and how buybacks fit into that? Obviously, a newer part of the EQ story and you guys have prioritized organic growth and growth via M&A most recently. So some thoughts on how that fits into your pecking order would be helpful.

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

Certainly, if we can invest in kind of organic opportunities or loan growth and business growth, assuming you're meeting some thresholds. We talked about the ROE kind of hurdles we're talking about, absolutely is kind of priority 1. So building new capabilities. Sometimes there's a little bit of a lag in terms of returns on new capabilities generally. You find this building new capability, you kind of grow your way into it.

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And a classic case would be when we launched reverse mortgages. Can you start with a team of people ready to originate reverse mortgages? You've got a portfolio of 0. By definition, you've got a loss in that year in negative ROE. So it's all of those things, but I think we would be prioritizing first of all, loan growth, second, building more capabilities, and then thirdly, assuming it makes sense based on the stock price at the time, assuming it's a good place to allocate capital than NCIBs come into play.

Lemar Persaud - *Cormark Securities Inc. - Analyst*

Okay. So building more capabilities may include M&A opportunities to come in again, buybacks would be below that just for crystal clarity.

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

Yes. So I mean we're not -- I mean, although we've done a number of acquisitions over the last two or three years. We're not driven mostly by M&A but driven mostly by opportunities we see in the market and to build organic businesses. We believe -- we continue to believe that's our secret sauce.

Lemar Persaud - *Cormark Securities Inc. - Analyst*

For sure. Okay. I appreciate that. And then just another question here. Just on this pride group exposure here, there's still $77 million net exposure. Sounds like you're convinced that future losses won't be material. We were talking about this last quarter and the thought then was that losses would be inconsequential. So I guess some color maybe from Marlene on what gives you the confidence that we're through the worst of losses in Q4?

Marlene Lenarduzzi - *EQB Inc - Senior Vice President, Chief Risk Officer*

Yes. Thank you. And I would say that the provisions we provided in Q3 were based on all the information we knew at the time. And then as facts emerged as the monitor has conceded that there is no prospect for the company restructuring or emerging as a going concern. We adjusted and increased our provision this year -- this quarter rather. We've taken a lot of conservative assumptions as we've estimated what that loss could be, and that's reflected in those increased provisions you saw this quarter.

Operator

Thank you. There are no further questions at this time. I will now hand the call back to Mr. Moor for the closing remarks.

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

Thank you, Jennifer, and thank you, everybody, on the call today. Thank you for your candid questions and honest engagement in what's definitely a more difficult and unique quarter.

Having said that, over the past two decades, we've created our own very category -- our very own category in Canadian Banking. As Canada's Challenger Bank, we have the capabilities and the cultural disposition to deliver on our purpose and in so doing create tangible value for our customers and our shareholders. I have every confidence we have the best team to get the job done, bolstered by very promising growth opportunities.

Keep your eye on EQB. There's far more to come. We look forward to updating you on our progress at the time of our first quarter call in February, and goodbye for now.

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Operator

Thank you. Ladies and gentlemen, the conference has now ended. Thank you all for joining. You may all disconnect your lines.

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