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EDITED TRANSCRIPT

EQB.TO - Q3 2022 EQB Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 09, 2022 / 1:30PM GMT

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CORPORATE PARTICIPANTS

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

Chadwick Westlake *EQB Inc. - Senior VP & CFO*

Richard Gill *EQB Inc. - Senior Director of Corporate Development & IR*

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

CONFERENCE CALL PARTICIPANTS

Etienne Ricard *BMO Capital Markets Equity Research - Analyst*

Lemar Persaud *Cormark Securities Inc., Research Division - Research Analyst*

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

Rasib Ali Bhanji *TD Securities Equity Research - Associate*

PRESENTATION

Operator

Welcome to EQB's Earnings Call for the Third Quarter of 2022. (Operator Instructions). Iâ€™ll call over to Mr. Richard Gill, Vice President of Corporate Development and Investor Relations at EQB.

Richard Gill - *EQB Inc. - Senior Director of Corporate Development & IR*

Thanks, Pam. Your hosts today are Andrew Moor, President and Chad Westlake, Chief Financial Officer; and Ron Tratch, Chief Risk Officer. For those on the phone lines only, we encourage you to log on to our webcast as well to see a brief new EQ Bank make by the end of our accompanying quarterly investor presentation that we're very excited about.

(technical difficulty)

EQB's caution regarding forward-looking statements. And Slide 3 includes statements concerning non-IFRS. All figures today are adjusted, where applicable or otherwise noted.

Iâ€™d like to turn the call over to Andrew.

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

Thanks, Richard, and good morning, everyone. Since the cycle of [Monty] policy tied again this spring, our team has done some really great work to serve our customer

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shareholders. Delivering ROE aligned with our core value creation approach, protecting the bank from heightened market risk with credit metrics, growing net interest margins and interest rates, a reflection of our rigorous margin management process consistently

(technical difficulty)

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doing all that while completing the acquisition of Concentra Bank on November 1st on schedule and with the support of all stakeholders. The reliability of our value creation strategy is evidenced by strong Q3 earnings built on a high quality of 29% year-over-year and a 13 basis point expansion of NIM from [Q2] and an adjusted ROE of 15.6%. Many factors contributed to these results. I'm particularly encouraged by growth in our securitization bid

(technical difficulty)

for record revenue this quarter. [In Concentra], we have seen no erosion in our credit position either in arrears or delinquencies

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on these positives. So I will turn immediately to our outlook inclusive of [Concentra]. This is our first call since closing the acquisition on November 1st, and I want to welcome our talented new colleagues, customers and valued partners in Canada's Credit Union system

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value to credit unions are the more than 5 million members they serve while integrating Concentra to achieve all of the scale of synergy benefit. Concentra joined us as anticipated with about $13.6 billion of assets under management, plus close to $40 billion assets under administration.

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For EQB and all the funding and revenue diversification expected. By the numbers, EQB is Canada's seventh-largest independent

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dollars in combined assets under management and administration.

(technical difficulty)

The combination is a 2 plus 2 equals 5 situation. We're beginning the journey with a well-considered plan of integration we are ready to deliver. Turning 2023 guidance includes of Concentra

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as a superior performance. Using our consistent value creation method and the expected realization of year 1 Concentra synergies, we are guiding to ROE of 15% plus, 25% to 35%, an annual diluted EPS growth of 10% to 15%, including the impact of the additional nearly 3.3 million common shares added when the acquisition. All of this is subject to refinement as we can prove out our synergy assumptions. Combined this should translate to an expected 12% to 15% expansion in book value per share in 2023.

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Hypothesis as we outgrow our conventional lending book by around 9%,

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2023 will feature low single-digit growth in the Personal Bank, higher in the Comercial bank. We expect a stronger second

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Although I freely acknowledge the obvious, there's been a downshift in housing activity that's likely continue in the first half of 2023. I'm confident of EQBs ability to grow diversification, a strong franchise and more talent on this to pull. As we just increased assets by about 30% with Concentra, some of our growth rates are a little lighter for 2023, returning to a more normalized pace in 2024. Our focus is on making growth pay, which means properly focusing on property price conventional lending, ensuring NIM continues to be managed well, maintaining our high standards for got capital-light securitization fee income.

The action we took last spring to ratchet back on LTVs in certain areas of the country, gives us great comfort in the average in the strength of our credit book. Even with recent house price declines, the average LTV on our uninsured single-family [port] provides a very comfortable cushion. As a reminder, the key driver of [default] is unemployment could change the picture, but with 1 million jobs going on field, increasing immigration targets from the federal government, and our represses on urban centers where our employment source is diverse protection. Other Bank Canada's policy has affected every corner of Canada, there is no such thing as a national housing market,

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better activity in Western Canada and Quebec

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continue their strong trajectory. The fact that our 2023 guidance shows 60% to 80% expansion in the reverse mortgage on

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the tremendous growth potential of this franchise. The commercial loans, we are calling for growth across all portfolios on â€˜22 for the largest segments, generally around 10% to 15% across business/ And contributing back to the 2023 guidance, it's growing and adding value to the digital services offer platform. Our top priority is in [Juice] EQ Bank payment card, thereby solidifying our position as a digital banking in everyday life. I'm delighted to say as we've done in waves beginning next month and completed in January, a stage customer service capacity to address any and all first usage questions. Our cards includes industry-first features such as fee-free cash withdrawal withdrawn any ATM nationally, [pay for] in-store and online e-commerce purchases with 50 basis points of cash back. When used for purchases internationally, there are no foreign exchange markups. If you don't have an EQ Bank account, yes, get on it. We'll make sure something

(technical difficulty)

from new make bank ad campaign. After question period, I encourage you to stay tuned as we pay a flip from that campaign. Popular services are also our launch for Quebec this year. At Metro launch, Quebec will have access to EQBanks-enriching value from all Digital Savings Plus, GIC, TFSA and joint accounts. We will tie our Quebec entrants

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what for launch in the next month. By this time next year, we think Quebec customers could represent

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so healthy ambitions. We expressed our confidence for 2023 guidance for EQ Bank deposit growth of 20% to 30%, but the actual result will be driven by some tricky trade-offs of rates to achieve good outcomes for both our customers and our owners. Before I concluded, I'd like to welcome Carol Schutz, Marcos Lopez, and Michael Hanley to the bank's Board of Directors. These 3 perspectives to our deliberations across subject matters that are important to us, including entrepreneurial, fintech, business integrations, risk management and environmental stewardship for future director retirements. So a positive development all around the one that was very carefully orchestrated in keeping with your focus on excellence. For my part, I will summarize by saying we will accomplish a great deal next year

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bank new partners across the credit union system. -- consistent, proven value creation method guiding or every move built on a position of [quarter of challenger] bank and strengthen our team with great confidence. And now over to Chadwick.

Chadwick Westlake - *EQB Inc. - Senior VP & CFO*

Thanks, Andrew. Some cases exceeded guidance in Q3, which demonstrates how proven and resilient our business model is across market cycles. Since you have access to the MD&A, I'll zero in on 5 themes this quarter, 4 of which have particular relevance for the 2023 guidance that Andrew profiled before outlook. Theme #1 is margin expansion. We spoke on many occasions, including our June Investor Day this year or a weak calculator for pricing, plus our strategy for funding diversification. In Q3, we executed once again

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deposit beta, meaning our funding costs move at a lower overall velocity than Bank of Canada increases. This especially a savings rate in EQ Bank with no gimmicks like some competitors plus our growing European covered bond program, which is now in 2022, adding 350 basis points, we have increased our EQ Bank everyday rate to 2.5%

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with margin expansion given corresponding moves and asset yields. It's also very clear to Canadians that EQ Bank is about much

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new make bank marketing campaign made clear when it launched on October 4 across Canada. Customers benefit from not being charged for everyday services

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world-class differentiated products. This is what more Canadians are calling EQ Bank, their primary bank by today, and all this contributes to us being able to manage a lower

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reason, we've also profiled our European covered bond program each quarter, now a little over a year.

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In this time, we've successfully completed EUR 300 million at a combined average of around 50 basis points better in

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Our last issuance in September attracted many new investors. Germany and Austria this fall, I saw firsthand that there is great opportunity for us to continue to increase the program as a stable and low cost

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plus we have over $0.5 billion in additional program capacity with the addition of Concentra. The benefits of this latest issuance will

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(technical difficulty)

margin management will remain a top priority in Q4 and into 2023, when we expect stability and potentially further expansion

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the first 3 quarters combined at 1.87% and 1.94%, specifically in Q3. We are performing well ahead of our [margin] from the 1.81% at Q4 2021. My second thing for context on Q3 is noninterest revenue

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from Q2 due to core revenue from higher gains on sale, which increased about fivefold from below-normal levels in Q2,

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increase including improved management and execution of hedging, an increase in 10- and 5-year origination volumes and loan size in

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this illustrates the benefit of the aggregator program we launched in Equitable Trust and the exceptional talent of our EQB capital market.

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revenues to this core noninterest revenue. It's a client in the services and products, but we expect material expansion going forward, particularly with the addition of Concentra. Fee-based in [Clift] from the launch of our [Ben] sponsorship offering earlier this fall, you can now go into many retailers and buy a prepaid card on EQ Bank rails. Core revenue strength was partly offset by additional strategic investment losses in Q3. Although the

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ongoing debt and equity market volatility, which remained high in Q3, as we all experienced, the losses were something we expected and called it

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that last into next year, gains on sale from securitization activities will regularly fluctuate based on volumes derecognized, which in turn drive for

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forward guidance, we expect continued positive contribution to earnings here in Q4 and 2023. Third thing, I want to guidance was that expense growth should moderate in Q3 from the first half of exactly what occurred with an efficiency ratio back at 40.1% and a lower rate of relative employee growth, the story is very positive on operating leverage improvement sequentially. Q4 will start to look different given all the moving parts from closing Concentra [wise]. The picture will temporarily until we fully apply our operating disciplines and realize expected benefits look a little different. For in-keeping efficiency guidance as there are a lot of moving parts, particularly due to Concentra.

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In fact, we will continue to make smart capital allocation decisions through a market downturn and the guidance Andrew shared, particularly in 2023, illustrates continued cost discipline. Topic #4 is credit risk management. Our guidance assumption was the continuation

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(technical difficulty)

achieved in Q2, and that's what nothing in our results indicates increasing credit impairment, but that doesn't make us blind to the broader environment. We continue to manage all of our exposures strictly and in complete alignment with our initiation

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that approach will continue to serve us [4 million]

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nearly consistent with Q2, again at a ratio of 6 basis points

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[as you was] in Stage 1 and Stage 2, driven by the impact of changes in macroeconomic forecast in EQB's loss modeling and a consideration of variables like interest rate wallets as a result of the Bank of Canada's monetary tightening. Additional provisions for Stage 1 and Stage 2 were lower than in Q2. Compared loans over 1/4 of it relates to one specific commercial loan in British Columbia. The property is already contracted for sale. And now my point number 5, before getting to Q&A. Q4 guidance. The way to think about Q4 and full year 2022 is the adjusted guidance we provided a year ago is the

(technical difficulty)

since introducing adjusted results in Q1 of this year because of Concentra. These results have been the best indicator of performance, acquisition, and integration costs. With closing having occurred 1 month into the quarter, Q4 will be very different on a reported basis and not consistent entirely on an adjusted basis. Efficiency in ROE will naturally suppressed as we started the gate on the integration. We'll also have a day 2 PCL impact as we rebook all the performing loans.

This will be significant and not included in adjusted results in Q4, but you'll find the impact to reported results in the Q4 MD&A. This is standard IFRS 9 accounting practice that any bank undertakes when they buy another bank from the process of rebooking a performing loan provision. No earnings are actually lost. It's just the accounting process that creates near-term reporting earnings noise. All in, adjusted results will remain the cleanest way to review normal course business in Q4 as we booked the accounting changes. Broadly, all things are going to plan and the accretion that we expected and communicated for the impact of Concentra is right on track.

In closing, we're executing the guidance. We have proven expert credit risk management, increasing diversification and sources and uses of capital, we now have additional scale advantages that provide tailwinds as well as talented new colleagues, customers, and credit union partners. Our Challenger Bank has distinct resilience and growth, not reflected yet in our share price. We've been investing time and capital to increase the value of our shares and achieve a trading multiple that reflects our track record. We remain disappointed in the wide disconnect and value created versus what is reflected, but we are confident that as we continue to deliver each year, we will see it translate into strong returns. We'll remain focused on improving this by enriching the lives of Canadians and continuing our multiyear approach to ROE-anchored value creation for all stakeholders.

Now we'd be pleased to take your questions. Pam, can you please open the line for our analysts?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Your first question comes from Meny Grauman with Scotiabank.

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

I wanted to start off by asking about the margin and just whether there's anything unusual that impacted the margin this quarter, 30 basis points sequentially, definitely very large results. I'm wondering if there's anything there. And then how much was business mix â€“how much did business mix impact to the sequential margin increase in particular as well?

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

I'll let Chadwick make deal with the second part of [Media]. Thanks for the question. For those more interested in a deeper dive on this, I'd reference you back to [Tim Sharon's] presentation at our Investor Day enter in the year where he went through Tim Sharon's time Treasurer, who laid out our interest rate risk management process. This is right at the heart of our DNA and how we think about the world. So if you want to come up and have lunch and sandwich we can geek out about duration of equity and Quebecian the equity of the book and so on.

So we love those stuff. But I think there's really 4 elements of what we should be thinking about here. First of all, the books matched by and large, quarter-to-quarter. So just maintaining that matching is really important to the way we think about it. And we also think about how assets and liabilities get repriced as they roll through, particularly in a rising rate interest rate environment like this. We're particularly careful about how we hedge our pipeline of committed mortgages.

So this is, in effect, we've given an option to our borrowers at the point where we provide a commitment. And I think we're pretty skilled team is very skilled at actually managing that pipeline risk. Then finally, I think really what this quarter demonstrates is the value of our deposit franchise, and Chadwick talked to us a little bit about the reduced beta in the EBA platform. Not only do we see reduced beta on the demand, but deposits in EQ Bank. We're also seeing an attractive funding source through EQ Bank GICs. As a reminder, EQ Bank is probably the best place in the country to buy GIC, itâ€™s better than if you go through a broker because we listen to the commission but it is still cheaper to us than. Chadwick, do you want to add some comment on that mix question?

Chadwick Westlake - *EQB Inc. - Senior VP & CFO*

Yes. I say, Meny, it's a great point because business mix that's core to it. If you look at the growth in conventional loans again, another 4% overall quarter-over-quarter and now we'd be up in conventional lending 29% year-over-year, which is exactly our focus and strategy. And then if you look at those assets, especially across the commercial banking categories in categories like wealth accumulation and reverse mortgages, you can see that growth, pretty clearly Q-over-Q and year-over-year in the MD&A. And then the translating asset â€“ average asset yields that you can see that we have in the MD&A, too. You can see why those average yields are increasing and a corresponding amount higher than our funding costs due to our funding diversification strategy. So I think you're right on with what Andrew said, it starts with the ROE calculator. And then our focus and commitment to the business mix diversification and focus on conventional lending has translated both with the asset classes and on those corresponding yield increases you saw here.

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

The reason I ask is because what we're hearing from peers is notwithstanding the bank often increases that have been significant hearing that funding costs are accelerating faster than the ability to reprice the loans on the other side. So I'm wondering to what extent is that dynamic impacting you, but you're just seeing offsets to that. Is that something that you're seeing in your book as well? And if you can comment on how that impacted the quarterly margin. Clearly, there were other things that were in your favor. But just on that point.

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

Yes, I think generally, not seeing it as much as I heard some other commentary in the market and not just â€“ there's always pricing pressure. There's always people under the bidding. I think as we've always reflected, we have discipline around that. So if people want to underbid us, but it doesn't

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make sense for the business model, they're not likely to be there for the longer term. So we hold our pricing using our ROE model and then really try to win on service. So I think we -- right now, my sense is our team, we got a little bit extra capacity with lower volumes are really â€" our team are selling on service and keeping our brokers happy. So I think we're able to manage through that piece.

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

And then just following up on that. My understanding is that content is going to bring the margin down. So I just want to make sure that I understand that. And then the follow-up question on that is ex Concentra. What is the expectation for the margin towards the end of the year? Do you believe that you can hold on to this margin gain that you saw in Q3? Or how should we think about that?

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

I think Chadwick can give maybe more math on the Concentra piece. Certainly, there's -- our feeling is that we need to put a bit more discipline in some of the pricing used there, and that will overlease the next 12 months or so to help improve the margins we're inheriting. But certainly, we feel [comp] margins over the next few quarters rather than see them contract. I don't know on the Concentra piece itself. Chad, you got any thoughts on that?

Chadwick Westlake - *EQB Inc. - Senior VP & CFO*

Yes, there -- I think you're right on Meny. So we -- as Andrew said, we would expect this level of margin is for a part should be sustainable in this environment. The margin is a little bit different with Concentra. Could it have -- will have a slight overhang in 2023? Yes, but we would still expect to be at a point of expansion in 2023 even with Concentra.

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

And does that guidance assume that your deposit mix as relatively stable? Or are you assuming any changes as rates go up? Any material changes to your deposit mix?

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

I think it's broadly similar. We are expecting more growth in EQ Bank, as we mentioned, we're expanding into Quebec. The payment card, we think is going to add more traction and value to the account. And we've got more marketing collateral going into the market with the Make Bank campaign, which will run at the end of this session. We actually haven't been in the market for that -- with that for a couple of weeks now and already seen â€" that we're seeing some very good traction on that. Our thesis here is that we haven't really explained our view well enough to the consumer. And so therefore, we haven't to sign up as many people as we would like. We're taking a bit more of a targeted approach here. We're going heavy marketing in a few smaller geographies where we believe there's a particular propensity to use our product and then really trying to prove out the cost of acquisition as we put more marketing collateral into these markets. You'll see the advertising collateral is really meant to shake the consumer out of their complacency around what's possible in banking. And we certainly believe that EQ Bank is just setting a new era for convenience and value in banking in Canada. And we've got a very attractive youngish actor who brings that enthusiasm and energy asks the question under this tagline and Make Bank and I do think it's getting traction very quickly.

Chadwick Westlake - *EQB Inc. - Senior VP & CFO*

And you would see as well many then in our funding stack, you'll start to see some of the information that we include in Q4 than in 2023 for the credit union deposits, for example, that will come into our funding stock as while adding more diversification. So it will evolve. And then we have

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higher capacity, as you can imagine, to increase covered bonds as well next year. So a little bit more diversification and expansion. That's why we think there's some tailwind there and complement to what Andrew just said.

Operator

Your next question comes from Etienne Richard with BMO Capital Markets.

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

On EQ Bank, how do you think about the mix of on-demand relative to term deposits? The reason I'm asking is EQ Bank GIC rates, if you exclude the commissions, they appear broadly comparable to what is often in the brokered market. So it seems it's the on-demand deposits that are really supporting a lower beta. How should we think about this dynamic going forward?

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

In general, there is a pickup even on term deposits. So we might be paying -- if you net the commission off, we might be paying 10 to 20 basis points less than what it costs us to originate through a broker channel. So when you think about that on a 5-year [sale] so it can add up to 0.5% to 1% of the outstanding amount of the sale . It's pretty meaningful. We are seeing a lot of traction of people switching to term inside the platform. I think we had a week a few weeks ago where $100 million of GICs were purchase inside the platform directly. But certainly, where you see the bigger deposit beta is in the demand deposits. So that's what drives our interest in things like the payment card and getting payroll coming in and the everyday bank accounts. Clearly, if we can offer great service, great value with no fees being attached to those things, the ability to send money around the world on our wise rails, then you see a lower cost on the interest burden, but we're driving great value with fee-free services that typically get charged to other banks. So I think it is that $4 billion of demand deposits is certainly where you see a lot of the beta.

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

Right. Switching towards Concentra. Could you share initial reception from credit union partners post-closing? And how meaningful do you expect credit union deposits to be as a percent of your fund structure going forward?

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

Yes. So I've been busy working on the phones reaching out to the partners of the Credit Union traditional partners of Concentra. And I would say there's a general support for the transaction. In some quarters, there's obviously some skepticism about a Toronto base bank buying a prairie bank with a long and storied history in the credit union system. So I think some are watching us. We've got to walk the walk and make sure that we deliver against the commitments that we're making to people and I'm committed to doing that.

I'm excited about the 5 million members and just some of the structural things that we all need when we're -- I consider ourselves to be very much allied and brother with the credit union system in terms of 3% of the deposits in the country, I think we sit with the big banks. We're allies in this program. And as we all need to invest more in technology to take banking to where it needs to go over the next few decades. I think we can really work on a strong partnership with this group of people, with the credit union system and the members. And so yes, I'm feeling fairly enthusiastic about that part.

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Chadwick Westlake - *EQB Inc. - Senior VP & CFO*

Any other additional guidance that, [Richard], we'll give in Q4 in terms of that component of our funding stack, what I would say, it is a multibillion-dollar contribution to funding, but we'll come back with a little bit more calibration around how -- what we would target for that in a normal course going forward as we continue to build these relationships.

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

And from a credit perspective, a broader industry trend, given the interest rate backdrop is an extending amortization period on single-family mortgages. First, is this a concern? And second, how does having a 1-year term on most Alt-A mortgages relative to 5 years for Prime influence your underwriting?

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

Yes. So first of all, we're not doing that. So we don't offer mortgages over 30 years. You'll see in our sub pack our data. We are seeing participants in the market extending amortization in order to make mortgages more affordable. That doesn't seem prudent, frankly, to us, and it's not a road we've chosen to go down, although there is competitive pressure there, but just doesn't feel sensible. I would say a lot of our mortgages, as you say, a shorter term in the 1, 2, 3-year term. It certainly makes us think in our underwriting process about how payment shock could influence that. And of course, we are applying the stress tests applied by B-20, so at least a 2% shift in the interest rate on the mortgage is being applied.

So it's going to be interesting to see as we obviously are going to see -- as inflation goes up, presumably incomes will be going up to keep people cost of living adjustments, moving incomes up. At the same time though, that we -- there's clearly going to be some payment shock that runs through the book. Ron and I have worked for a bunch of files recently that have been through the renewal process since the bank can really start getting aggressive and actually looks like most of our borrowers that are pretty comfortable from what we could see so -- but there's no doubt there will be some people whose businesses have been impacted particularly by the aftershocks of COVID and then these increased payment shocks will be in a tougher spot. So we'll have to work with our customers to be empathetic to those situations.

Chadwick Westlake - *EQB Inc. - Senior VP & CFO*

I'll just refer to you to Page 21 in the supplementary pack, again, as our amortization tables as well.

Operator

Your next question comes from Lemar Persaud with Cormark Securities.

Lemar Persaud - *Cormark Securities Inc., Research Division - Research Analyst*

I want to first touch on the 2023 guidance. And I'm wondering if you could unpack what you mean on the 15%-plus ROE target. You have some tech there saying subject to refinement of Concentra Bank integration and synergies assumptions. So should I read that to mean that you're expecting the Concentra deal and expected synergies to outperform initial estimates and more than offset the additional equity raise? And then if so, can you help us think through where you're expecting to outperform in Concentra and what the revised synergies are?

Chadwick Westlake - *EQB Inc. - Senior VP & CFO*

Yes, I'd say, Lemar, fair question. We had committed, if you recall, about $30 million in initial benefits, and that would be in the 2023 year, assuming we close Concentra this year, that would translate into mid-single-digit EPS accretion and for the first year. What I would say is we believe we will achieve what we committed, but we'll come back in Q4 with more context on that. And as a reminder, we've been working with these partners

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now for about 8 or 9 days. So it's still pretty early into the close. I think the next few months will help us. But we believe we'll achieve what we said we would, and that will translate into that 15% ROE growth.

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

Yes. I think where you're going with that, is how I'm thinking about it. I think [traveling in this] team and the broader order management team done a great job identifying the $30 million feels like there's a little bit more there. So there may be some upside for us is the way I think about it. But obviously, we don't want to commit that to the market until we've â€" we want to be careful, first of all, do no damage with the assets. So we have to be thoughtful and really work with the team at Concentra the things like technology costs where we can then move on to cheaper platforms or integrate our technology and so on and how quickly we can do that. These things need to be done with a degree of caution. But yields like to make more opportunity in our original business case estimate.

Lemar Persaud - *Cormark Securities Inc., Research Division - Research Analyst*

Okay. That's fair. And then just moving over to the margins then, obviously, very strong recovery in NIMs this quarter. I'm just wondering if I can blow about it a different way. I'm wondering if you could unpack some of the factors that surprised due to the upside this quarter versus last quarter. And if you could also talk about how that could evolve moving forward? Because that 13 basis points was quite substantial.

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

Yes, I don't know that it really did surprise me, frankly, that much. Having said that, it's always a bit tricky when you're 1 month into the quarter. We don't yet have our October results, for example, now and we're talking about what the quarter might look like. And the same thing was true in July. So the math showed a fair bit of expansion coming at us. I think perhaps we were a touch cautious in projecting that to the street until we actually saw it manifest I don't if that makes sense.

Chadwick Westlake - *EQB Inc. - Senior VP & CFO*

Yes, that's fair. I think, Andrew. I think part of it as well was the delayed realization of the benefits of cover bonds and the EQ bank rate as well. Just look at the velocity of the Bank of Canada increases this year, and that corresponding change in average asset yields versus the moves we had already been making in our funding stack. I think it just -- it finally started to elegantly translate in Q3 as well. And that's why Andrew would say he wasn't surprised. You see his extremely precise with forecasting. But it is going to plan now.

Lemar Persaud - *Cormark Securities Inc., Research Division - Research Analyst*

Okay. Yes, it was just seeing 13 basis points sequentially is a little bit of a soccer sitting from my side of the table here, to be honest.

Chadwick Westlake - *EQB Inc. - Senior VP & CFO*

[Concentra] bank.

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

If I can just give you some more color there. So we run a 1 year -- just about 1 year duration of equity, a little bit less than that, happy to check how you think about that. But what that means actually is a time -- so as interest rates jump dramatically, it's actually been -- it's unwritten in the book, but you -- it's actually -- our assets have dropped in value a little bit more than our liabilities. But what will happen now over time is that will translate into -- should translate into higher NIM as the â€" as we work through time here. I get probably more of an offline conversation. But generally, the

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big banks, as we understand it runs 3 to 4 years of duration of equity. We run a pretty short duration of equity and around -- we've actually been running at about 0.7 years for much of this year, which was done in the face of rising interest rates. So it's been a good management approach to take very little interest rate position. I think for those who follow the big banks, you'll see that NIM thing takes a little bit longer to work through the tractors work through.

Lemar Persaud - *Cormark Securities Inc., Research Division - Research Analyst*

Now how quickly can you adjust your duration of equity, if you believe the interest rate environment is going to shift, how fast can you adjust that?

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

Well, you can adjust it very fast with derivatives. You can adjust it in a day. But we don't do that because effectively we're adjusting our duration of equity, we would be taking a view interest on interest rates. We know that we can't predict where government bonds are going to go -- we have respect for the market. And so we don't try to take a view on that is really about how we're positioning our book against the general state of interest rates. The reason why we run a 1-year duration of equity is a theory is that generally, the yield curve is sloping upwards. And if over a many-year period you run a 1-year duration of equity, you get a slight pickup in that steepness of the yield curve, but we don't take a view.

So year in, year out, we're basically running the same direction of equity. There is some complexity in all of that convexity is obviously the second order derivative of that duration. So at any point in time, we could be a little exposed to how fast duration can move just with general interest rates, particularly in the highly volatile environment. But our treasury team is on top of all of that stuff. There's some other optionality embedded in the book, frankly, the other levels of complexity. But it's really -- the core of it is matching the book and it's matched around that 1-year duration of equity.

Chadwick Westlake - *EQB Inc. - Senior VP & CFO*

I think it's key too, Lemar. Andrew, what has said the same thing a few years ago to right our strategy has remained consistent. This is how we manage our book, and we're still about 80% term match, the one duration of equity. The point is a consistent strategy here translating.

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

Yes. We, essentially, I would say that the big banks, we sort of have adopted the TD philosophy. So as a fellow that do still lot of work with TD in the treasury department that I think over 10 years ago, we adopted this 1-year duration of equity position we held that position for the last decade.

Operator

(Operator Instructions). Your next question comes from Rasib Bhanji with TD Securities.

Rasib Ali Bhanji - *TD Securities Equity Research - Associate*

If I could start on your 2023 guidance. Just the loan growth outlook, so around 10% to 15% for most of your commercial assets but only 3% to 5% for all day. Could you give us more color on why the noticeable difference in growth between these 2 buckets?

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

Yes, absolutely. Thanks for the question. Generally speaking, we're trying to grow risk-weighted assets at about 15%. So the higher ROEs we generally get in the old day book. So we would tend to prefer Alt-A assets just in terms of the return on equity they drive. But clearly, we're working within

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the constraint of our risk appetite framework and so on. So our anticipation for that, as I mentioned in the call, the anticipation for the first half of next year, it will be more muted than we've seen in recent years. And so we'll see lower growth in the Alt-A book. And that just frees up some capital for the commercial team to go to work in a more aggressive way than has been the case for the last year or 2.

They have many levers they can pull right across specialized [BDS] or CFG business, CMHC construction through a whole bunch of things that team can do. But fortunately, they're really good to flexing it puts a lot of demand on that team, but they -- because they're working with partners, sometimes we're going to be a little bit more conducive to holding larger loans, but the team there will have a little bit more runway to grow a little faster next year because of the slowing in the housing market. But we certainly houses do get purchased, thereâ€™s always demand as people are into the housing formation stage of their life, children arrive, they need to buy a bigger house with another bedroom and so on. So really, we're going to see a little bit of deferred activity in the housing market, and we're anticipating by the end of next year, we'll be back more normal cadence.

Chadwick Westlake - *EQB Inc. - Senior VP & CFO*

And I would say to -- Rasib, it's great to hear from you. We're also -- the slight nuance to where we're adding nearly a few billion in Alt from Concentra well. So it goes back to the point that Andrew made that we're adding all these asset classes late in the year. So the relative growth looks a little bit later as well in the first half. And you'll see more of that in our Q4 results, too.

Rasib Ali Bhanji - *TD Securities Equity Research - Associate*

Okay. Yes. That makes sense. Second question was just on your liquid assets. So I believe in dollar terms, they're flat year-over-year as a percentage of total assets, they were down year-over-year. So more of a 2-part question over here. First part was if you could either quantify just speak directionally on to how much of an impact that has had on NIM year-to-date? And the second part was, I think they're at 8%. So that 8% level, I believe, is in line with your historical averages, but it is lower than the higher levels we saw in late 2020 or early 2021. I would have assumed that given this uncertain environment, you may be holding higher levels of liquidity than you normally would. So if you can provide any color over there as well?

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

I can answer that one. So the liquidity that we hold is based on at things, a bunch of factors. One of them being the forward mortgage commitments we have in place. So with a slight softening in demand in our out book, that demand has come down. I'd say that if you backed out that we're actually holding a bit more liquidity than we would normally partly for the reason that you mentioned around just more volatility in markets, but also facing the Concentra transaction a month later, we wanted to be holding more liquidity than normal. What you see on the balance sheet at the end of a recorder isn't necessarily reflective of the total liquidity capacity, either. We might have undrawn lines of ABCP and securitization vehicles so we can actually draw liquidity from. So we're very comfortable that liquidity position is the bottom line right now.

Rasib Ali Bhanji - *TD Securities Equity Research - Associate*

Okay. Makes sense. And just my last question. I noticed there was some Stage 1 releases on the commercial bucket. Any color about it? Was there an model-driven? Or was there something else in there?

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

Yes. So this is Ron here. Thanks for the question. Happy to address that. So as we've been quite transparent throughout the year, our commercial team has reduced its appetite for construction. So you have notwithstanding a slight growth in the book, you do have an underlying change in the dynamic in that book where we are taking less construction and the -- and less large loans as we have throughout the year as we've managed it very actively. And so as one would expect when you improve arguably, the credit quality of that book notwithstanding a little bit of growth, we

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would expect to see exactly what we did with our models where the model never comes down slightly as part of just a normal dynamic that would occur within IFRS 9.

Operator

Mr. Moor, there are no further questions at this time. Back to you for closing comments.

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

Well, thank you, Pam. Before signing off, I do want to share our Make Bank campaign. Please do take the time to hang on a watch it, which is appearing across a variety of digital media and with outdoor placements, informed by consumer research, it really tries to dive potential customers out of complacency with our existing approach to banking, while creating a call to action to open an EQ Bank account. And again, I'll repeat, if you havenâ€™t open EQ Bank account do it now, we are seeing good early traction with the campaign. So please take a look and thanks for participating. We look forward to reporting our progress in February.

(presentation)

EQ Bank here help you make banks. You know make like the opposite to take? You see, take has happened all the time, all over the place. You know what Iâ€™m talking about.

Operator

This concludes today's call. Please disconnect your lines.

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