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Equitable Group Inc.

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PRESENTATION

Operator

Good morning, ladies and gentlemen. I'd like to welcome shareholders and analysts to Equitable's first quarter 2019 conference call and webcast. Later, we will conduct a question-and-answer session with participating analysts on the call.

Before we begin, and on behalf of our speakers today, I will refer webcast viewers to Slide 2 of the presentation, and our callers to the following information which contains the Company's caution regarding forward-looking statements. We remind you that certain forward-looking statements will be made today including statements regarding possible future business and growth prospects of the Company. You are cautioned that forward-looking statements involve risks and uncertainties detailed in the Company's periodic filings with Canadian regulatory authorities.

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Additional information on items of note, the Company's reported results, and factors and assumptions related to forward-looking statements are available in Equitable's first quarter 2019 MD&A and earnings news release.

This call is being recorded for replay purposes on May 10, 2019.

It is now my pleasure to turn the call over to Andrew Moor, President and CEO of Equitable Bank. Please proceed, Mr. Moor.

Andrew Moor — President and Chief Executive Officer, Equitable Group Inc.

Thank you Christa, and good morning everyone. I'm joined by Tim Wilson, Senior Vice President and Chief Financial Officer of the Bank.

During the first quarter, Equitable provided another demonstration of outstanding progress we are making as *Canada's Challenger Bank*. Our award-winning *EQ Bank* digital platform added 5,000 customer accounts, our broker deposit business grew at a record pace, and our Retail and Commercial assets expanded by 25% and 24%, respectively, over last year, such that our assets broke through the $30 billion level, reaching approximately $31 billion.

The majority of this growth was organic, but we also had a positive contribution from Bennington's equipment leasing portfolio, which we acquired on January the 1st.

Carving out a definitive position as the bank that reimagines everyday financial services to help Canadians achieve their goals in an easy and straightforward manner is clearly giving Equitable a distinct edge in the competitive marketplace and sets us up well for the coming quarters. During our call today, we'll talk about our outlook and account for our recent performance against our 2019 priorities.

To begin, a few thoughts on our financial results. This was a record-setting quarter. The Bank's EPS grew 16% over last year on an adjusted basis and adjusted ROE was a healthy 15% as a result of our value-creation formula, customer-service focus, and the contribution of Bennington.

Strong earnings growth supported another dividend increase, the 14th in just over five years. The latest took the dividend up 15% over last year to $0.31 per share.

Based on our current assessments, our 2019 outlook is for assets to grow 10% to 12%, which should support adjusted earnings growth for the year of 15% to 17% and deliver an ROE of approximately 15%. These expectations, and the thinking behind them are included in our MD&A, which notably also provides results for our Retail and Commercial asset classes.

We changed our segment reporting this year to align it with how we manage the Bank's broader and more diversified businesses. I would encourage you to review the supplementary package we posted on our website in April for an eight-quarter review of our result as reported on this new basis.

I'll now turn to the five key strategic priorities we set for 2019.

The first was to grow our existing businesses with better service and innovation. With total Loans Under Management up by $5 billion or 21% year-over-year and 4% during the quarter itself, I would say we're delivering well on this priority with registered growth across all business lines.

In our Retail segment, Alternative and Prime Single Family mortgages grew 15% and 48%, respectively, over the last year. This growth reflected higher origination over the past four quarters and lower levels of unscheduled payments.

Alternative mortgage originations were ahead of plan and well ahead of last year, even though March application flow did not pick up as expected relative to past seasonal patterns. It's difficult to offer precise reasons for this. We will continue to focus on service innovations as our differentiator while remaining disciplined on pricing and with that, believe our portfolio will grow by more than 10% this year.

Continued growth in prime mortgage market was reflective of our strategy and further penetration of our offering within the broker community. As we've said on previous calls lately, Prime has not been overly profitable in the first term, but the economics tend to improve in subsequent terms. We also saw much improved margins in the prime market in Q1, the highest levels we've seen actually since early 2016. In Prime, we expect growth of 30% to 40% in next two quarters, slowing to around 10% in Q4. The reason that the growth rate slows is the large volumes we originated in the second half of last year.

On the innovation file, we recently introduced a single-family share tool. It improves the customer experience by making it easy to send statements from other financial institutions directly to Equitable.

In the second quarter, we plan to roll out a tool that will enable our borrowers to execute their mortgage commitments digitally. An example of our continuing commitment to ensure that Equitable is digital to the core.

In Commercial, our portfolio grew 24% year-over-year. This reflected 24% growth in conventional commercial loans and 9% growth in insured Multis, all of it organic, and the acquisition of Bennington's equipment leasing portfolio. The addition of the $449 million leasing portfolio accounted for the majority of the 5% growth realized over the quarter. Originations in our conventional commercial business were high approximately $328 million but below the record levels we achieved in Q3 and Q4 of last year. We deliberately slowed Commercial growth so as not to put any more pressure on our capital ratios. Originations should pick up again later in the year once CET1 ratios climb back closer to our target of 13.5%.

For our Commercial mortgage businesses, market demands remains strong, particularly in the apartment sector, but also in office and industrial. This provides a good backdrop for continued asset growth this year, which we expect to be in the range of 8% to 10% for our conventional commercial businesses. This rate is more modest than in 2018, reflecting our desire to still grow but, at the same time, move our capital ratios back to target.

Our second priority is to further diversify through our leasing, reverse mortgages, and CSV loan businesses. This is a long-term objective that really speaks to our broader challenger bank ambitions and a desire to be of service to more Canadians.

For example, Bennington allows us to present dynamic solutions to small and mid-sized enterprises, a customer group that we believe is underserved by banks of all sizes. Although we are only just getting our feet wet in this area, we expect our equipment leasing portfolio to grow at year-over-year rates of between 9% and 11% in 2019, which is faster than the market itself.

We think this is a realistic expectation based on Bennington's high-quality service delivery to leasing brokers and the fact that we are now leveraging the Bank's more flexible, lower-cost funding base to increase Bennington's competitiveness.

In the CSV and reverse mortgage markets, we are squarely positioned to help another underserved demographic: Canadians are in the asset-decumulation stage of life who want ready access to funds to support their retirement lifestyles.

For our CSV loan product, we've done extensive work with some of Canada's major life insurance companies to develop our offering and we're now in the market originating loans and gathering further insight into customer needs that will help us refine and enhance our solution.

A complex product like this takes time to build a following in the marketplace but we've got a stake in the ground. I'm optimistic about the product's potential and our team's ability to deliver.

The same applies to our reverse mortgage product. I'm really comfortable with the pace of progress we've made since we launched the solution a year ago and am growing more optimistic about its potential as time passes. You will find our CSV and reverse mortgage assets reported together as "Other Retail Loans" in the MD&A.

Priority three is to expand and enhance *EQ Bank*. Over the past year, EQ has grown its customer base by 22,000, including 5,000 in the quarter alone, and increased *EQ Bank* deposits by 28%. Moreover, savings durations expanded with growth in *EQ Bank* GICs, which at quarter-end, accounted for over $529 million of EQ's now $2.2 billion customer base.

I offer these figures to illustrate that *EQ Bank* is making strong progress, but also to make the point that EQ is a platform, and as such, provides us with the option of going well beyond where we are today in terms of digital products and services offered to the 76,000 first-mover Canadians who count on us right now. Accordingly, we will continue to expand and enhance *EQ Bank* with a new upgrade to our desktop web channel app which was released earlier this week, and a refreshed approach to marketing to really try to connect the dots on the unique innovation that *EQ Bank* is bringing to the Canadian banking marketplace with the savings plus account.

Over the next year, we intend to bring new functionality with joint accounts, RRSPs, and TFSAs. Overall, our intention is to keep *EQ Bank* at the leading edge to our challenger bank thinking and use it to fashion our place in the future open banking ecosystem as a financial hub for customers, one that delivers best-in-class offerings from Equitable and our fintech and other partners.

Speaking of that, you'll be interested know that our strategic partners have helped us to grow our deposit base by over $315 million in the past year. These are stable deposits because of the nature of the relationships that we have with our partners and, by extension, their customers. That growth has also helped us to grow overall deposits by 23% or almost $2.8 billion year-over-year.

Of note, this development has given us the confidence to further reduce our secured funding backstop. Tim will discuss the implications of that reduction in his remarks.

Priority four is to pursue AIRB and improve the sophistication of our capital management. We have almost completed our AIRB implementation plan and, accordingly, remain on track to operationalize the program by the end of 2020. AIRB will offer several benefits. Most notably, it will allow us to allocate appropriate levels of capital to our risks and introduced a methodology that enables us to compete more effectively across a broader range of assets.

In terms of capital management this quarter, as expected, organic asset growth and the Bennington acquisition temporarily reduced our CET1 Ratio. Even so, at 12.9%, CET1 is still well ahead of regulatory minimums. Our intention is to replenish this ratio organically over the course of 2019 and expect it to be around our target level of 13.5% by year-end.

Priority five is to enhance our capabilities through technology and people. One of the big initiatives here is the work we're doing to become the first bank in Canada to host our core banking system in the cloud. This migration is on track for completion in the summer and will be a game-changer for Equitable. It will enhance our ability to design and move new digital products to market faster and at lower cost. It will also enhance the security of our environments.

On the people front, we've added talent in areas such as technology delivery, Alternative Single Family credit, and digital banking that we need to move Equitable forward in a changing banking industry.

Before I turn the call over to Tim, I'd like to spend a moment to talk about credit quality and performance.

In general, this was a noisy quarter because of the acquisition and the one-time IFRS 9 charge on Bennington's lease portfolio. As we described previously, equipment lease is also a higher-risk profile than the mortgage business but also higher margins and returns.

Notwithstanding an increase in our impaired loan balances, the quality of our loan portfolio remains high in the opinion of management. Let me explain why.

In the first quarter, we added $28 million of impaired equipment leases that we acquired through Bennington and added to our books in the quarter. Impaired asset balances grew to 49 basis points. This was expected, and indicative of the risk profile of that business. Of course, leasing is also a much higher margin business, in part to compensate for this increased risk.

Secondly, impaired loan balances were inflated by the addition of a $39 million commercial loan on a mixed-used property in central Vancouver. Our LTV on this loan is less than 40% and the apartment building portion is 90% leased, so the property is generating good cash flow.

We do not expect to register a loss on this loan. In fact, we expect it to refinance later this year at which point, we would be paid out. We also had some additions in our Alternative Single Family business, the majority of which were in the province of Ontario. Even with that increase, the impairment rate on our mortgage portfolio is only 22 basis points, and as shown in our MD&A, is in line with the level of the pre-2017 period, in our view, it's no cause for alarm.

Remember, arrears rates drop to exceptionally and unsustainably low rate in 2017 and 2018. Based on our ongoing and extensive review of loan assets and credit allowances, we concluded that allowance was at an appropriate level at quarter-end. They increased $7 million from the previous quarter mainly as a result of Bennington.

The allowance was $32.3 million, or 13 basis point to total assets at March 31st. This reserve is far in excess of our 10-year average annual loss rate of 5 basis points.

Looking ahead, recent economic data supports our view that risk in the residential real estate market has moderated in recent quarters in most markets, a view shared by CMHC. It's also comforting to know that Equitable has a weighted average LTV ratio of 66% on our uninsured residential mortgage portfolio, which offers protection against significant decreases in house prices.

Nevertheless, we expect PCLs in 2019 to increase from historical levels, partly due to the addition of Bennington. Bennington-related provisions will likely average between 1.5% and 2% of lease assets over the long term with some variability period to period. This level of loss is within our risk appetite and the ROE on these assets exceeds our thresholds. A good trade-off in our view.

Now I'll turn the call to Tim for his report.

Tim Wilson — Senior Vice President & Chief Financial Officer, Equitable Group Inc.

Thanks, Andrew, and good morning, everyone. Equitable started 2019 the way it ended 2018, with strong earnings growth. As you saw though, the IFRS 9 provision on performing Bennington loans reduced earnings on an after-tax basis by $4.2 million, or $0.26 per share, but this was a one-time allowance.

As a reminder, IFRS 9 required us to take this provision, which is equal to 12-months of expected losses on Bennington's performing leases immediately after they came under the Bank's balance sheet at January 1st.

Moving on to core earnings, the change analysis slide in our deck illustrates the impact of the various drivers of profitability. And you will notice that asset growth was again the most significant factor.

Year-over-year, asset growth was 22%, which reflects the success of our challenger bank business lines and, in particular, high growth in all of our Retail and Commercial businesses.

Growth in average asset balances of 24% and an increase in overall NIM led to 30% year-over-year growth in Net interest income, a rate of growth that is close to the high end of our expectations for the year as a whole. These expectations are based on continued asset growth as well as Bennington's contribution and lower backstop funding costs.

Before moving to a review of margins, I would highlight a change that we made in a calculation of NIM as well as our Efficiency Ratio. That is, we no longer include Taxable Equivalent Basis or "TEB" adjustments. We did this because TEB adjustments were decreasing in significance as our preferred share portfolio remained consistent while the rest of our balance sheet grew. And the adjustment, to be honest, was pretty consistent quarter to quarter.

Turning to margin trends, total NIM expanded by 7 basis points year-over-year to stand at 1.67%. On the positive side, Bennington added 9 basis points to total NIM, which is reflective of the higher margins present in equipment leasing.

Similarly, lower liquidity event costs were responsible for a 9 basis point year-over-year NIM change; those result partly from the reduction in the size of our backstop facility last June.

The overall increase was achieved despite growth in our lower spread Prime securitization assets as well as reduced levels of prepayment income and the effects of elevated price competition in the single family market.

As Andrew mentioned, we have taken the decision to further reduce the size of our backstop facility to $400 million from the $850 million that we had in place for the past few quarters and our intention is to renew the facility at this lower level for a two-year period starting in June. This is a measure that reflects the stability in the funding markets and our stronger liquidity profile and will be a benefit to our earnings.

As a result of this decision, we expect quarterly interest expenses related to the backstop to decline relative to Q1 by approximately $1.6 million per quarter starting in Q3, which equates to a $0.07 positive impact on EPS. Q2 will also benefit by about $200,000 pre-tax due to the downsizing to $400 million next week.

Although it's technically a Q2 development, on the funding side, I'll also note that we successfully closed another $150 million, two-year, fixed-rate deposit note in April. This note was priced at 160 basis points over Government's, which was tighter than the levels achieved on Equitable's last deposit note issuance. As an indication of strong investment community support for the Bank, 25 institutional investors participated in the deal, which was almost twice as many as in our last offering.

Looking ahead, we believe that net interest income will increase at year-over-year rates between 25% and 30% due to both asset and NIM growth. This expectation is built on the assumption that Bennington will add between 7 and $8 million to NII per quarter. Due to lower backstop funding costs, the expansion of Retail and Commercial margins, and higher prepayment income, NIM should gradually increase over the course of the year to reach a range of 1.75% to 1.80% by Q4.

Moving to non-interest expenses, you'll recall that the expectation we set for all of 2019 was that these costs would increase at year-over-year rates of between 30% and 35% and that our Efficiency Ratio would land between 40% and 42%. This expectation was based on the impact of assuming Bennington's cost base and its higher Efficiency Ratio as well as ongoing investments to support our challenger bank expansion.

In the first quarter, non-interest expense growth tracked a bit higher than our expectation at 36%, but our Efficiency Ratio of 41.1% was still at the midpoint of our expected range for the year. About $5.4 million of the $12.3 million year-over-year increase in expenses was due to picking up Bennington's cost base.

The remaining increase primarily reflected 11% growth in the Bank's FTE, 36% growth in technology and systems expenses to support our IT capabilities, and higher regulatory, legal and professional fees reflecting an increase in CDIC's standard premium rates, higher deposit balances, and overall business growth. I will note that CDIC has been enacting annual increases each year since 2014 market-wide, but those ended in 2018. So we expect the rate of this expense growth to slow next year.

On technology costs, you will recall that our decision to move our core banking system to the cloud will add incremental non-recurring expenses of about $6 million in 2019. Although work on this initiative began in Q1, related expenses were nominal in that period. We expect the majority of the $6 million to be spread equally over the second and third quarters.

The remainder of our expense base will increase at a rate in-line with the growth rate of our assets though may show some variability quarter to quarter depending on the timing of any advertising expenditures.

All told, we continue to anticipate that 2019 non-interest expenses will increase at year-over-year rates of between 30% and 35% with an Efficiency Ratio of between 40% and 42%.

One final item, effective January 1st, we adopted IFRS 16. For Equitable, the impact of this adoption represented just a $0.05 decrease in our book value per common share as of January 1st and about a 2-basis point decline in CET1 due to the addition of $15.3 million of right-to-use assets. It had no noticeable impact on our earnings so all in all was immaterial.

Now back to Andrew.

Andrew Moor

Thanks, Tim. As you may have seen in the press, Equitable has taken a positive stance on the possibilities that would emerge for people across the country if Canada joined most other of advanced economies who have moved to a banking ecosystem that involves a form of open banking. We see such an evolution as almost inevitable, driven by consumer needs and a strong public policy rationale, and we are closely following the developments in Ottawa on this file.

Overall, we have substantial opportunity to create shareholder value in many areas as a result of the steps we've taken over the past few years to establish Equitable's place as *Canada's Challenger Bank*. Our task now is to execute by bringing service and innovation together to achieve the ambition we set for ourselves to build a better bank for Canadians. I think Equitable clearly demonstrated a successful execution in Q1, and I'm confident that we will see the continuation of strong performance for the balance of 2019.

This concludes our prepared remarks. And now we'd like to invite your questions. Christa, can you please open the lines to analysts for their questions.

Q&A

Operator

Certainly. If you would like to ask a question, please press *, followed by the number 1 on your telephone keypad.

Your first question comes from the line of Nik Priebe from BMO Capital Markets. Please go ahead.

Nikolaus Priebe — BMO Capital Markets

Hey, thanks. Good morning. I just want to start with a question on the one larger commercial mortgage that you called out that defaulted in the quarter. Andrew, it sounds like, from your comments, it was a mixed-use property. I think you mentioned it was 90% leased. So I was just wondering if you could kind of give us some insight on what factors contributed to the default there.

Andrew Moor

Yeah. So it's a large mixed-use property, mostly apartment units, of which 90% or so are leased. There is a second mortgage mezzanine piece behind us. So there wasn't enough cash flow in the building to support both of those. And there are some challenges amongst the ownership group. So that's what's led to the default. As we said in the call, we absolutely expect no losses in here, but it may take a quarter or two to resolve.

Where there is some vacancy is on the ground-floor retail and a couple of floors office building. But there is enough cash flow coming out of the building to service our portion of the debt. The challenge right now is we could have to atone the rent and actually get that cash flow directed to us. So we're feeling very good about it but still see a bit of a wart on the financial statements.

Nikolaus Priebe

Okay. Okay. That's good colour. And then just on the impaired ratio, if we exclude the impact of Bennington as well as that one commercial mortgage, it looks like the ratio ticked up slightly, which it sounds like it was attributable to some retail and smaller commercial loans. And I realized that that ratio remains low by historical standards, and it's coming off a very low base. But I'm just wondering if you could give us some colour on the reasons for the uptick there excluding Bennington and the commercial mortgage piece.

Andrew Moor

Yes. And I think that's exactly the right way to be thinking about it, Nik. So we've done a bit of a deeper dive into that. It's mostly single family loans in Ontario. There is a slight bit of noise around the BES business, so a small commercial business, but nothing that we expected is going to lead to losses. I think, in fact, the biggest one of those is already resolved. So that we basically come from zero to something. So you see a move there in terms of arrears.

And but we've done a deep dive into our Ontario portfolio and don't think there's going to be anything sort of coming up. We don't think this is the beginning of a trend. It's a blip in the quarter, but we expect it to sort of—we're back to more historical levels and expect these to be the levels that we will maintain for next little while.

Nikolaus Priebe

Okay. And then just shifting gears, I just had one final question on guidance as well. It looks to me like Alt growth expectations were edged up by about 2% relative to the guidance that was established last quarter. And then the NIM outlook has also improved somewhat, which looks largely related to declining funding cost. But the net interest income is still expected to increase by 25% to 30% for the balance of the year. So are there any factors that might offset net interest income growth that I've overlooked there?

Andrew Moor

I'll leave Tim with the last two parts the question. In terms of the volumes, I think—I don't think we've really changed our outlooks. We're expecting a 10% growth in the single family portfolio by year-end. We're slightly ahead of pace on that at this point. As I mentioned, the spring hasn't come quite as with enthusiasm that we would expect. So still on target to hit our original goals, start a little quicker, maybe not be growing quite as quickly right now but still the year to play out. But we sort of still stick by original guidance around about 10% or so growth in the portfolio.

Tim, maybe you can handle those last two elements.

Tim Wilson

Yes. Happy to do that. Nik, and I absolutely understand your question and the confusion. I think it really results—so us keeping our overall outlook on net interest income and net income or EPS growth is a function of two things. It's a function of the seasonality or the pattern through the year in the growth expectations.

So generally, we've given you guidance on full year numbers or end-of-year position as it relates to assets. But there's some variability in those growth rates as we move through the quarter, which can affect overall earnings growth.

And the second is that we've given you guidance in terms of ranges, and it may be that last quarter, in some cases, we were towards the lower end of the range, where now we're towards the upper end of the range, but the range itself hasn't changed.

Nikolaus Priebe

Got it. Okay. No that's helpful. Thanks very much.

Operator

Your next question comes from the line of Marco Giurleo from CIBC. Please go ahead.

Marco Giurleo — CIBC

Hi. Good morning.

Andrew Moor

Morning, Marco.

Marco Giurleo

My first question is for Tim, just on the NIM expansion. So you guys printed a NIM this quarter of 1.67%, and you have it, I guess, targeted exiting the year at 1.75% to 1.80%.

Tim Wilson

Yeah.

Marco Giurleo

I was hoping you guys could discuss what the key factors are driving that increase.

Tim Wilson

Yeah. Happy to do that. So there are really, I guess, three main factors that contributed to the increase with the backstop facility being the most significant.

Marco Giurleo

Okay.

Tim Wilson

So we've quantified that reduction in the MD&A. So you should have those numbers to work with.

The second is prepayment income. So we saw unusually low levels of prepayment income in the first quarter of the year. And we do expect that to move up over the course of 2019 in subsequent quarters.

And then finally, as you would know, watching the GIC rates, GIC market closely, rates in that market, the cost of our funds effectively did come down substantially towards the end of February and through March. And we expect that, again, to contribute to margin improvement over the year.

Marco Giurleo

So is that last factor a large contributor to the expansion, or?

Tim Wilson

It's definitely there. I think the largest factor for us is actually the backstop facility.

Marco Giurleo

Okay.

Tim Wilson

And the decrease in liquidity cost generally.

Marco Giurleo

Okay. And would you be able to comment on competitive dynamics around pricing in the Alt-A market right now?

Andrew Moor

That's probably my topic. We've seen a little less pressure and more rational sort of behaviour amongst competitive set in the Alt market this year compared to last year frankly. Don't know whether that will be maintained, but there seems to be more focus amongst our competitors on making sure that loans are priced properly. So long way that continue I think if that's the tone. I don't know quite what's led to that, but that definitely seems to be a consideration amongst others. I think we've always taken a view that it's really important to price capital properly. And I've looked to do that. For a period, last year, it appeared that others were more interested in building market share.

So I think, hopefully, everybody's taking a similar attitude to us where you've got to balance market share concerns with getting appropriate reward for deploying your capital in the marketplace.

Marco Giurleo

And it sounds as though spreads have sort of widened as GIC rates have come off. And I guess you as well as peers have sort of maintained mortgage rates consistent. Is that a correct read?

Andrew Moor

I think that's fair. It's often the case, but it's easier for spreads to increase when the funding costs are dropping, and nobody really wants to be the first to move to increase mortgage prices and potentially lose share in a rising rate environment. So it's a more constructive type of environment for the people to - for the market to adjust if things have been under-priced for a while.

Marco Giurleo

All right. Great. Thanks for the colour.

Operator

Your next question comes from the line of Graham Ryding from TD Securities. Please go ahead.

Graham Ryding — TD Securities

Yeah. My question would be, first, just not spreads theme, but shifting to the Commercial side of your business, what sort of that dynamic are you seeing in terms of pricing and competition on the Commercial side? And is that also a factor in sort of expanding spreads on that side of your business?

Andrew Moor

I think it's fair to say that the ROEs on the Commercial business in this most recent quarter were as high as we've seen them in a number of quarters or a number of years maybe. So our team's done a really good job in pricing things appropriately. We're seeing good demand there, I think, as we've always talked about our Commercial business, we've got to have a wide set of competitors on any particular loan. So it's not quite as clear as examining how competitors are behaving as it might be within a single-family space. But certainly, we're saying good opportunity and pricing looks entirely sensible to us.

And our team is top-notch right? And I think that's one of the things that people forget a little bit about Equitable because there's so much chatter about the Single Family business, but this is really our core business. And if you go back 20 years ago, we were a commercial lending shop. This is where our genetics run deep, and our team is—we've got depth on the bench in that area. And so we've got plenty of good opportunity to lend well, and get the appropriate return for our shareholders.

Graham Ryding

Got it. We saw pickup in the Ontario or GTA market in April and housing sales. Is that something that you experienced in your own business?

Andrew Moor

Yeah. We have seen applications increasing. I would say though that, as I mentioned in the remarks, not as much as we would have expected. So you're definitely winning more applications than we were a month ago. But we would—it's a seasonal business in Canada. We would have expected to see it a bit more with a bit more of a better tone to it right now. Business is good, but it could be better, I suppose, is the way of thinking about it.

Graham Ryding

Okay. Helpful. And then just lastly on your Common Equity Tier 1 Ratio, can you give us an idea of what would be a reasonable expectation for the organic build in that ratio throughout the year, maybe on a quarterly basis?

Andrew Moor

Tim, I think you've looked at that most closely. I wondered if you could—

Tim Wilson

Rough rule of thumb, Graham, would be about 0.2% increase per quarter in percentage.

Graham Ryding

Okay. Thank you. That's it for me.

Operator

And as a reminder, if you would like to ask a question, please press *, followed by the number 1 on your telephone keypad.

Your next question comes from the line of Geoff Kwan from RBC Capital Markets. Please go ahead.

Geoffrey Kwan — RBC Capital Markets

Hi. Good morning. Just wanted to just go back to that Commercial loan impairment. So you mentioned it's kind of 90% leased. Did I hear right? I guess on the mixed-use part on the commercial side there might have been some vacancy issues. And then are you able to say like was this right in the core of Vancouver? Or was it in maybe one of the suburbs?

Andrew Moor

Yeah. So it's 90% leased in the apartment component of it, which is by far the majority. It's mostly an apartment building with some commercial and office on the top, the bottom two or three floors. So there are some vacancy issues there. Yeah. And it's right in core Vancouver, actually, across the street from a hospital, in an extremely desirable location. So this is a very liquid piece of real estate for sure.

Geoffrey Kwan

Got it. Okay. Thanks. And then just you've talked about some of the market commentary and what you're seeing on this residential side. And you talked a little bit on the commercial. But anything to add on the multi-res side of your business?

Andrew Moor

Not really. I mean, we continue to effectively be filling up most of our allocations as you'll recall. And but the really capacity there is determined by day amount available that we have to sell and the kind mortgage bond offerings. We are seeing a strong demand on the part of borrowers to go into extended terms. They borrow at ten years rather five years, which are the two principal terms that we offer. So we are finding a little bit of problem sometimes filling the five-year pool because of these dramatic preferences amongst borrowers to go ten.

But it's all good. There's lots of volume there. And it continues to be a business. As you know, we've been in that business for over 20 years, and we have lots of renewals and lots of relationships there that will continue to fill up those pools.

Geoffrey Kwan

Okay. Great. Thank you.

Operator

And we have no further questions in the queue at this time. I will turn the call back over to Andrew for closing remarks.

Andrew Moor

Thanks, Christa. To conclude, we look forward to hosting our Annual General Meeting next Wednesday at the Bank's head office in Toronto. I hope you will join us as we present our views on the future of banking and Equitable's place in it. Thank you for listening.

Operator

And this does conclude today's conference call. Thank you for your participation. And you may now disconnect. Have a great day.