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PRESENTATION

Operator

Welcome to QBE's Earnings Call for the First Quarter of 2024 on Thursday, February 29th, 2024. At this time, we are in the listen-only mode. Later, we'll conduct a Q&A session for analysts. Instructions will be provided at that time it is now my pleasure to turn the call over to Sandy Nuvion, Vice President of Investor Relation and E S Chief Strategy for EQB. Please go ahead.

Sandie Douville - *EQB Inc. - VP, IR& ESG Strategy*

Thanks, Julie. And good morning, everyone. Your hosts today are Andrew Moor, President and Chief Executive Officer, Chadwick Westlake, Chief Financial Officer, and Marlene manages the Chief Risk Officer, both on the phone lines only. We encourage you to also log onto our webcast to view our accompanying presentation there.

On Slide 2, you'll find HEP's caution regarding forward-looking statements as well as the use of non-IFRS measures on this call. All figures referenced today are adjusted, where applicable or otherwise noted due to ECB's change in fiscal year in the form of prior period.

For Q4 2023 commentary today will focus on year-over-year comparisons for income measures. Year-over-year measures compare this first quarter of 2024 and then January 31, and including ACM midway through the quarter to the closest applicable period, which is Q4 2022 ending December 31. As you review, the MD&A for this period also includes the acquisition of Concentra Bank and its contribution for two of three months for that quarter.

And it is now my pleasure to turn the call over to Andrew for 30.

Andrew Moor - *EQB Inc. - President & CEO*

And good morning, everyone. In the next few weeks, we will mark our 20th year as a publicly listed company. While we have not quite reached that milestone yet, it does appear that we will be able to celebrate the best 20 year total shareholder return of any bank on the TSX and on the S & P. 500 when we opened the Toronto Stock Exchange that morning, we achieved benchmark setting performance one quarter at a time, and you can see from our most recent results occurred as challenger bank continues to work well for our customers while rewarding our investors.

Our quarterly earnings per share increased 12% year over year, where again delivered more than 15% ROA and our Board of Directors authorized a dividend payment, 20% higher than the prior year. These are good results achieved despite a slower housing market resulting from bank account of a tightening.

This is also our first fiscal quarter to align with other publicly-traded banks do recognize of the fiscal year end change as complexity of interpreting results. But I hope you agree that the team has done a nice job in trying to cut through this noise and defining our 2024 guidance today, we believe we have started the year well and was set up to see stronger performance in the next few quarters.

As sales activity, residential markets increases and based on our expectations for our securitization activities, we also expect provisions for credit losses will moderate in the second half of the year. Understanding this is a busy day of bank reporting.

I will highlight just a couple of important developments beginning with brand awareness and customer growth. In January, we launched our second Charles campaign featuring Eugene and Dan Levy followed in Quebec or Pro se, with dosing of Shaw's star in Quebec while other ADAGIO data level a Lawrenceburg.

Both of these campaigns are rooted in a key insight that many Canadians still bank with a financial institution that has led them to despite the downsides of high fees, little-to-no interest, a widespread dissatisfaction with financial incentives for curious, Petra banking compared to the choice and change as so many other aspects of life as Canada's Challenger Bank

We're using these insights to create tension and encourage Canadians to ask whether they're being properly served by their first-ever banks to look beyond what is familiar and to get a second chart, 3Q bank where they can make more many of you will have joined the 90 million Canadians who tuned into the Super Bowl this year.

And so our campaign ads run throughout the game in English and French and continue to see our name pop up on screens, social media, TV and billboards across the country. We are pleased with the approach of having recognizable Canadians have libraries and our advertising and are confident that our second charts campaign is dramatically enhancing brand recognition that will in turn have a positive impact on customer sign-ups and the cost of customer acquisition.

Of particular note is the exceptional positive reaction. The Quebec, while consumers have had to second chance with search web traffic and new account sign-ups all up by significant margins, we launched Buckeye to Quebec just over a year ago.

We're excited about how many Quebecor's seem to agree with us that bucket, too, it's a better way to bank. It was a time for something more is type, Ricky, bag to enter the small business market, which we'll do later this spring. Eq Bank Small Business will provide entrepreneurs with the opportunity to earn high daily interest on their hard-earned cash with great access to payment solutions.

They're traditionally been pretty clunky for these customers as a long-time lender to small business. We intimately understand the challenges faced by entrepreneurs. There's no fee product is all digital, meaning being available whenever and wherever a business client wants to use it.

This launch is just the start as we continue to build new services for Canadian entrepreneurs as a technology leader in the banking world. We're also making substantial gains in digital innovation with an embrace of automation and artificial intelligence technology team works in Agile parts, allowing us to leverage our technology and talent to drive faster and better customer value.

We're running a pilot project using generative AI agent assist tools in our customer care center, and we have a new partnership with truly new to enhance the EQ Bank customer onboarding experience using various tools to deliver advanced security identity protection. Taken together these advancements and to our challenger bank advantage.

Another development worthy of note is the 55% year-over-year growth in our decumulation business. We now have a $1.6 billion portfolio and continue to expect strong growth going forward by demand for reverse mortgages on the back of market leading product value and consumer awareness, courtesy talking house campaign for our personal bank more broadly.

We expect to see a stronger market this year for single-family housing buoyed up by pent-up demand and Bank of Canada raising, which will support our single-family mortgage origination activities while expanding we've been investing in Richmond, risk management and compliance to ensure our bank is well prepared for the growth we see and the years ahead.

While you can see from our financial statements that has been increase in arrears. We are confident that we are well reserved and we will maintain our low loss rates. The portfolio remains strong, supported by conservative LTV and good credit scores, our lending has always been prudent to fit the circumstances today.

Over 70% of our commercial loans under management are assured through various CMHC programs, and we continue to prioritize lending secured by buildings where people live in order healthcare to close a significant housing supply gap. And as a matter of strategy and risk management, we focus on multi-unit residential lending and urban markets with loans under management growing 34% year over year.

Now some brief comments on our credit book, which is standing up well. Our real estate lending businesses use a consistent approach, and we essentially lend with the goal of not losing money on equipment financing business, which accounts for just 2% of the bank's total loans management is quite different in that segment.

We price loans at a wider spread. Expecting some of this spread will come at the cost of credit losses. Sort of all. This is an area where we saw elevated losses representing over 80% or that PCL for Q1 of $12.7 million. These losses were largely a result of the cyclical downturn in the long haul transportation sector, which represents about [40%], 4% of our leasing business assets.

What we're seeing here is the trucking industry has been negatively impacted as demand for transportation services has declined with shifts in consumer spending patterns since the high watermark of 2020 to put pressure on some of our customers, which has resulted in elevated default rates.

The PCL is mostly due to lease originations, but 2022 vintages more generally across the commercial book, but getting increasingly comfortable in our commercial portfolios. Impaireds will start to normalize in the second half of this year as we reach resolution of larger commercial loans.

In fact, already in February,$55 million has been resolved or make current, and we have a plan to exit the vast majority of these loans with full recovery on many of them.

I'll wrap up my thoughts by acknowledging another important milestone. Partway through Q1, we completed our majority interest acquisition of SCM Advisors, bringing nearly $5 billion in assets under management into ETP and a very talented team.

We're excited about the potential of the ATM business and are working with management toward a goal of doubling this business over the next five years. While it's early days, ACM is performing to plan and our partnership is focused on elevating performance for ACM that bond investors across Canada for complete Ecobee started the fiscal year with good results and all our businesses are set up to see even stronger performance in the next few quarters now over to Chadwick.

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

Thanks and good morning. Before I jump into the numbers, let me repeat how we are presenting our results to the fiscal year change. As Sandy outlined at the beginning of the call with our fiscal year change and to October 31st for a year-over-year comparison, we are presenting Q1 2024 relative to Q4 2022, which is the closest period for quarter over quarter.

As you would expect, we are comparing Q1 2024, Q4 2023. However, this is a three-month to four-month comparison. So we focus on our quarter over quarter commentary on primarily balance sheet measures. While this adds some complexity.

We're very pleased to now be reporting on the same cycle as the Canadian banking industry feedback we have received from our stakeholders on this changes unanimously positive as we reviewed in our results despite a challenging macro-environment, we're starting fiscal 2024 with a solid quarter, a record top line with nearly $300 million in revenue and margin expansion.

We are trending well on all key guidance measures. Capital continued to expand with set one increasing to 14.2% and our total capital ratio up to 15.4% with continued strong capital levels. Our Board of Directors has approved removing the 2% discount on our common share dividend reinvestment plan while still maintaining this excellent program for our investors.

Our book value per share increased 14% year over year, driven by an average ROE closer to 70% over the past four quarters. This performance also reflects growing weighted average diluted common shares outstanding, which increased further with shares we issued from treasury as part of our investment to acquire ACME keywords.

Up's book value per share this quarter reflects a downward adjustment to shareholders' equity to reflect the value of a future option to acquire the remaining 25% of ACM without the adjustment for this option book, value per share would have increased 15% year over year and 3% quarter over quarter this morning.

I'm going to right into additional context on a few key performance measures before opening the call to Q&A. First, margin expanded one basis point from Q4 to 2.01%, mainly due to the ongoing benefits of our funding strategy and increasing yields on higher-margin conventional loans in the commercial portfolio.

As outlined in our Q1 MD&A version is supported by the continued lower deposit beta contribution of EQ Bank deposits and diversification of funding expanded in the quarter despite lower prepayment income, which we expect to increase and normalize at a higher level with more housing marketing activity.

Especially policy rates move as markets expect in 2024 for this margin expansion and growth in conventional lending resulted in net interest income increasing 17% year over year. Overall increases in asset yields were driven by the combined effects of rising rates.

A higher percentage of our personal lending book consisting of uninsured loans rising uninsured commercial yields and a reduction in on-balance sheet insured multi-unit residential loans that are lower yields driving the shift in our personal lending portfolio was uninsured lending growing 7% year over year with decumulation growing 55% over the year.

Our decumulation lending yields are slightly higher than our typical uninsured single-family residential loans with longer terms and conservative weighted average LTV for the portfolio of less than 40%. Our commercial portfolio, excluding CMHC insured multi-unit residential, grew 10% year over year, led by our secured lending toward larger borrowers including growth in our insured residential construction business.

Now on funding, combined with expert treasury management, our long-term efforts to diversify and strengthen sources of low-cost funding are continuing to translate last quarter, I referenced a launch of another new funding source, our first bearer deposit note program in just one quarter.

It's grown to nearly $500 million in funding, demonstrating investor conviction in our credit quality and ability to repay you can expect to see more activity in our funding programs this year, including for covered bonds in Europe and our deposit program in Canada.

Also in the next couple of months, we expect to launch another exciting EQ Bank. Challenger deposit product will share details soon, but the notice product design will enable customers there in a higher rate and also reduced competitor attrition that we see at times great for our customers and our deposit momentum.

Now over to the important growth story of noninterest revenue which increased to over 14% of total revenue in the first quarter, up from 12.5% last quarter. This growth is on strategy and driven by increased gain on selling and income from retained interest from our multi-unit residential lending activities.

Fee-based revenue from Concentra and certain credit unions, increasing revenue from payments and about half a quarter of benefit from ACM ATMs, asset management revenues captured under fees and other income on a consolidated basis for insured multi-unit residential, we now have $21.5 billion in loans under management up 34% year over year.

$16.1 billion of this amount has been derecognized through the CMHC, CMB and NHA MBS programs as these units are not prepayable or have their cash flows fixed. The assets are recognized when securitized or sold corresponding event and spread differential results in upfront non-interest revenue in our reporting period, gains on sale and income from retained interest amounted to $19.4 million for Q1, representing a 110% increase year over year. We expect to maintain this level of revenue in coming quarters.

Now on to a few additional comments on credit. In addition to the context, Andrew provided PCL was $15.5 million in Q1, reflecting the impacts of both future expected losses driven by macroeconomic forecasts and loss modeling. Phase three provisions or write-offs increased to $17.3 million with two thirds associated with our equipment financing business.

The net effect was a PCL ratio of 13 basis points in Q1 compared to 12 basis points last quarter. Weighted to the PCL rate on equipment financing increasing to 3.76% compared to 2.67% in Q4, not surprising at this point in the credit cycle with these particular vintages, as Andrew outlined, and we do expect these to start to normalize later in 2024.

The consumer lending PCL benefited from a new agreement with a consumer lending partner, increasing cash reserves to secured secured guest losses. This was part of our original guidance and plan for 2024. Based on our lending approach and business mix, our personal banking portfolios are performing well higher than last quarter.

Now about 85% of our single-family uninsured lending has already renewed since interest rates began to rise in the spring of 2022 to a positive forward-looking indicator for our book net allowance for credit loss ratio remained consistent sequentially at 22 basis points of the 25% increase in the impaired loans to $475 million from Q4 57% was related to personal residential lending and 43% to commercial the average weighted.

The weighted average LTVs of these impaired residential and commercial mortgages are 68% and 47%, respectively, mitigating expected future losses and considered in the allowances we hold against these loans for the residential portfolio based on our historic and stress scenarios for losses. We believe we are very appropriately reserved.

Recent indicators in Q2 so far are that early loan delinquencies are moderating and as housing market activity picks up, we expect delinquencies and arrears will continue to trend in a positive direction, particularly in the second half of 2024.

And similarly, while overall impaired commercial loans increased in the quarter, we saw the rate of increase in impaired loans dropped 40% versus last quarter. As Andrew noted, we are beginning to see our resolution strategies mature and loans resolved.

Shifting to expenses, non-interest expenses increased to $134 million as we continue to make important strategic investments in building EGB., importantly, into EQ Bank innovation.

Next Level brand awareness with an impact of millions of eyes on EQ Bank over the past month and investing in our enterprise support functions.

Q1 expenses also increased with the highest quarter of ACM from a people perspective, our FTE increased 4% over the quarter with our new colleagues at ACM accounting for over half of these positions. The balance reflects growth in product engineering.

Customer service as well as our enterprise risk management and finance teams. We are being measured about expense growth, leading with our pace of hiring, but are also excited to bring great talent to ETB. in this market.

On the technology side, we've been continuing to expand our cloud capabilities, invest in cyber and fraud and accelerate innovation and data and AI solutions to support both customers and employees. We have the ability to move fast and smart in managing our expenses and investment dollars. We are investing through this cycle, making effective long term trades that will benefit us in the years to come achieving or we guidance will remain paramount over achieving short-term positive operating leverage over the course of a few quarters.

To wrap up this fourth quarter demonstrates that our strategy is translating. We have the ability to grow and manage credit across cycles and our diversification and sources of revenue and funding is paying off we offer an ambitious Challenger guidance again for 2024 with the priority being 15% plus are we the center of our value creation model with Q1 of the record books.

We continue to believe we can achieve guidance, including 15% ROE with the leading consideration being a pattern of provisions for credit losses translating as we expect in the second half of 2024. We're investing in our franchise for the long-term story is being heard and understood by more Canadians every day and with a lot more innovation to come this year, we will continue to build on our momentum.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Geoffrey Kwan, RBC. Please go ahead.

Geoffrey Kwan - *RBC Capital Markets - Analyst*

Hi, good morning. Just some on the impaired increase that we saw, particularly on the residential side, was there any trend or what was kind of driving it? Was it incremental job loss was the ability to cope with higher payments on geography.

And then on the commercial side, the impacts that you had, I've been that was driving the increase over the past few quarters. Do you have any update in terms of when you expect those to be resolved? Just? Yes.

Andrew Moor - *EQB Inc. - President & CEO*

Thanks, Jeff. I'd say sort of thematically the impaireds in the single-family business are larger homes in some sort of out surrounding areas of the city. So we're I think the payment shock is had the biggest impacts are larger loans, larger homes and the good news from our perspective is quite skewed to lower LTVs. So I think the payment shock is causing people to have challenges actually paying them.

But we are fairly confident that the recoveries will be it will be very good. So we're not expecting much in the way of realized losses over the next couple of quarters, although slow housing market clearly is does it make it harder for people to sell their own homes, they run into financial difficulty and to the extent we've got a few homes, so we're trying to sell you do not find the same activities we broadly expect.

Hopefully, that will sort of start to resolve a spring market comes around some sort of a question on commercial loans.

Yes, I mean, I think we're expecting good resolution has some because of the commercial loans. What happens at the time it takes for the time, even when you have got a good resolution in place after you go through a court process to actually affect the sale.

But we are also making good progress. And as I mentioned, they are not expecting much in the way of losses. In fact, Darrin, I mean, there are nine the risk teams have been drilling it to more deeply, have been getting increasingly confident about our ability to resolve this with sort of minimal loss. I'm going to add any color that Marlene.

Marlene Lenarduzzi - *EQB Inc - Chief Risk Officer*

No, I would just add, I think thanks for the question. And we do know that when we look through our impaired loans are commercial impaired loans, about 38%-ish are our current. So despite the impaired mutation rate direct, they are up to date at about 100 gig are resolved in Q2.

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

So it's good momentum. And these are pretty isolated amounts like we talked about in past quarters in terms of the handful of them.

Geoffrey Kwan - *RBC Capital Markets - Analyst*

Okay. And then just my other question was on the residential mortgage side. Thoughts on how the spring housing season is shaping up, but also too, is on the Alt-A side of the market are you seeing any divergence in terms of level activity or other trends relative to what's happening in the prime part of the market?

Andrew Moor - *EQB Inc. - President & CEO*

I mean, certainly all of the data is pointing to spring starting the spring a little bit. So we saw good data around kind of trying to housing sales in January, admittedly compared to an incredibly low activity level in the prior year. So that gives us reason for confidence.

I would say that we're not seeing in our part of the market. We're not seeing quite the same pickup yet. But Tim I think often sales activity. So contracts being entered into is a little bit of a leading indicator before you actually see the mortgage applications coming in.

So teams are feeling pretty optimistic about it. I did meet with our sales team yesterday, and I seem to be feeling pretty confident about our position in the market and how our broker distribution partners are thinking about the year ahead, and that's part of my comments are for Jeff.

And just in terms of the recent indicators and get to Q2, it's part of that activity, Andrew, mentioned and even in the last couple of weeks, to be honest with you and I were speaking with the teams recently, just literally in the last couple of weeks, we're seeing a lot of activity pick up just for some of the some resolution to suites.

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

And just to pile on follow-up with the comments, I think that the thing, if it's still seeing a lot of enthusiasm for it is it's not going to renew our customers and have seen good sort of loan growth in the books. And that's generally be an area where we've outperformed in others we've observed in our space.

Geoffrey Kwan - *RBC Capital Markets - Analyst*

Great. Thanks for the team effort on the responses.

Andrew Moor - *EQB Inc. - President & CEO*

Thanks.

Operator

Meny Grauman, Scotiabank. Please go ahead.

Meny Grauman - *Scotiabank GBM - Analyst*

Hi, good morning. I just wanted to follow up specifically on the subject of credit and specifically the equipment finance business. Andrew, I think you talked about expecting minimal losses and just hoping you could provide a little bit more perspective on what's giving you that confidence or is it just that the market for for equipment and you can realize good values or is there something else that you're seeing going on there? So that's the first question?

Andrew Moor - *EQB Inc. - President & CEO*

So sorry, I think my comments about minimal losses didn't refer to an equipment financing business, which as I mentioned, is a lot of business and we expect credit losses through the cycle. And clearly, we're seeing that as sort of in one part, particularly focused in one part of the book, which is really the 2022 vintages of long haul tractors and trailers.

Which I think at quarter end, we had just under under $200 million of assets in that with that sort of character. And we're seeing our customers there, as I mentioned, losing their roots, which is resulting in defaults.

And then we are seeing losses crystallized in that in that part of them that part of our book. So we think interest rates are limited to it to some to that vintage 2022 vintage. But I am expecting that through the next couple of quarters, we can continue to see write-offs coming from that part of the book.

Meny Grauman - *Scotiabank GBM - Analyst*

And Dave, can you give us a perspective just in terms of average ticket sizes in that portfolio. And when you talk about law, there are around about it, as you can imagine, that trucks and tractors and trailers.

Andrew Moor - *EQB Inc. - President & CEO*

So you can imagine that sort of in the $70,000, $80,000 kind of range, not large ticket, so to contact us. And we almost like a consumer lending portfolio and the way we think about it, we model it with kind of phaco equipment values and that kind of thing as opposed to I can talk with much more confidence about the commercial real estate because they can be we can look at a list on a single page of paper if of anything that's delinquent.

And as you understand, the underlying drivers of each individual loan and then give you sort of confidence that buildings, but it might have a loan with a term as well as delinquency. For example, we know the assets were $20 million this matter have time to work through and economically better.

Meny Grauman - *Scotiabank GBM - Analyst*

And then just in terms of the outlook, so I just want to make sure that I have this correct. And I thought you were saying that you'd expect performance in the equipment finance business to normalize in the second half of the year?

Andrew Moor - *EQB Inc. - President & CEO*

So is that what you were referring to or and yes, it's precisely in the second half of the ERGO As expected, this current quarter, Q2 will still continue to we'll continue to see these elevated defaults in this 2022 cohort but term. But beyond that, we were out with presuming that things will normalize.

Meny Grauman - *Scotiabank GBM - Analyst*

And the rationale for that is just that you see a specific cohort you're going to resolve it and then you don't expect issues beyond this cohort? Or is there something else that you see in the second half of the year that's going to help improve the performance here?

Andrew Moor - *EQB Inc. - President & CEO*

Yes, I think I don't think it's really an expectation around change changes in the macro environment, particularly, but the difficult these are relatively shorter-term leases typically with months 16 months. So they they do amortize down fairly quickly and say we've got $200 billion cobalt day one that we're concerned about.

So we're expecting that as we've probably seen many of the die customers with weaker business models already already default. And the analysis which we've done gives us that confidence, although, of course, anything and we predict about the future because what kind of certainty to it. But we're feeling what about anybody. You've been deeper into this and I have a density.

Marlene Lenarduzzi - *EQB Inc - Chief Risk Officer*

But yes, thanks for the question, Manny. I think as we look at some of the newer originations here, there's one cohort that were that were concerned about from past and but the newer originations are skewing towards more of the prime business.

And so when we look through those, we feel much more confident that the second half of the year is going to be returning towards those more normalized delinquencies costs and.

Andrew Moor - *EQB Inc. - President & CEO*

Just the weight of the local team did a good job in terms of middle 2022, started tightening and changing credit criteria, making more demanding took to get a loan that's we were sort of concerned about potentially kind of over exuberance in that part of the market. So I'm so you're keeping and we've been improving that position of time we've made changes to underwriting.

Meny Grauman - *Scotiabank GBM - Analyst*

Okay. That's great.

Andrew Moor - *EQB Inc. - President & CEO*

David, you make changes like in 2022, unfortunately, have the peak defaults happen within sort of from 12 to 18 months after lease originations. So clearly you're expecting to work through the hump, if you like, kind of because that's timeframe.

Meny Grauman - *Scotiabank GBM - Analyst*

Got it. Thank you.

Operator

Mike Rizvanovic, KBW Research. Please go ahead.

Mike Rizvanovic - *KBW Research - Analyst*

Good morning. I wanted to go back to the impairments on resi mortgages. So the 54 basis points, it's obviously moved up quite a bit here. More than fourfold year over year, and it's more than doubled in two quarters.

And so in the context of the big six banks would had like to compare you guys to and it's not substantially higher than most of your big six peers. And my premise has always been that it's probably because you fully reprice your loan book and for higher rates where the banks are certainly not there yet. Is that something you'd agree with?

Andrew Moor - *EQB Inc. - President & CEO*

Certainly the way we think about it. So in Russia, to some extent as well, obviously, these are as you point out, these are increased levels from the fact that the most of our customers already had the book repriced and we're facing that interest rate shock is in a sense in demonstration how resilient this group is.

I think I would be concerned if I was seeing this kind of level with pricing repricing yet to come. But unfortunately, I think what we're actually seeing is the arrears forming as a result of the payment shock that people are having to deal with.

And that I think that's consistent with the thesis I was talking about versus retaining what Jeff's earlier question around, where are we seeing these delinquency.

It is the larger mortgages and larger homes. So you think about a larger home with a self-employed borrower whose business might be somewhat impacted by kind of macro conditions as well as payment shock. You can see how that could be leading to higher arrears, but not to losses for us because again, there's plenty of equity in these discount.

Mike Rizvanovic - *KBW Research - Analyst*

That's super helpful. And then just in terms of the LTV, I think Chadwick mentioned the 60% and I know it's a weighted average. I usually don't take much with that number because we just don't know the distribution, but what can you off from your LTVs in terms of distribution just based on HPI. levels.

I can't for the life of me and imagine that you have anything that's anywhere near 100%. But what would be north of 80, is that something you could ballpark for us?

Andrew Moor - *EQB Inc. - President & CEO*

Yes. So certainly less but certainly greater than this. Okay. First of all, that's a deep insight that we don't always get from assets to the averages of averages that you've used the data, but to certainly well less than 10% is over 90 and unethical, Matthew, say almost nothing over 100 in a way you do end up with you all losses kind of these idiosyncratic loss, what we would call the DSC credit loss for somebody who's in the top of the house as well as they might have done

So you'll see in the house is going to be a certain condition, but we put the load up three or four years ago and somebody hasn't kind of kept me could repair so that sometimes that can create this kind of slight leakage. The good news about that is really very small in the overall scheme of the book. So I'm sorry. And the vast majority of the stuff is below 90% LTV. And can I just say the average 60%, 68%? So we're in pretty good shape.

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

And I would just on those remaining brands we have in the setback, right, Mike says 64% of the overall single-family uninsured portfolio. Our new originations remained about 70% LTV. And it's literally like you can almost count on a hand anything even above that 8% mark. These are lower than those averages are very reflective of the portfolios.

Mike Rizvanovic - *KBW Research - Analyst*

Okay. That's it heavily. Just to sneak one more quick one in just in terms of the three companies like had you guys actively providing forbearance. I know the big banks don't like to talk about this. They do do it in the background, how active are you on helping people manage that refi over or renewal process when they're paying on their mortgage like I'm just I'm just wondering, the level of activity, the level of forbearance you've had to sort of help your clients with through the last few quarters?

Andrew Moor - *EQB Inc. - President & CEO*

Yes, it's it's relatively few loans, very few sort of very few loans where well, we have provided forbearance. Having said that, we're very open to doing that. Obviously trying to help our customers and empathetic way in meeting the expectations of regulators.

In that regard, I really would have to be what our customers will demonstrate as a route forward through the forbearance to get to a place where the loan is in good shape for both them and us.

And unfortunately, in this kind of environment for some people, the best solutions and sell the home preserve the equity. So that's the dialogue we have, and we feel we have that pretty well. But the data that it does, there's a fair bit of discipline on our part and now we think through that in a way that Bill Barrett's makes any sense and we'd have to have fairly good evidence that it's going to put the loan in a better position.

Mike Rizvanovic - *KBW Research - Analyst*

Thanks for the color.

Operator

Lemar Persaud, Cormark. Please go ahead.

Lemar Persaud - *Cormark Securities Inc. - Analyst*

Yes, thanks. I want to come back to this discussion on the equipment finance portfolio and maybe I'm reading too much into your comments, but on it sounds like there's an up-tiering of that of that portfolio. Is that a fair comment?

Andrew Moor - *EQB Inc. - President & CEO*

And that was I think for those of you that were around in 2019. But as many of you, thank you. I think that was our plan then to and has been what we were executing on. So So increasingly, we're migrating into what would you regard as prime space and leasing equipment business, and that's the place we wanted to be. So we felt at the time we bought Bennington, we were buying a platform and that that was the direction of travel.

Marlene Lenarduzzi - *EQB Inc - Chief Risk Officer*

I'm only going to have an update on where we are on that and the portfolio's doing well in terms of our and our migration to the stronger credit profile customers and looking at our average Beacon scores.

Looking at the underwriting changes that we've made since 2022. Certainly, we're seeing about 55% of our portfolio now in time. So it is really playing out through our numbers.

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

And remember, in the March, you it was for the Concentra portfolio of nearly 300 that we acquired that was all-time as well. So that also we did have the overall portfolio, $1.3 billion higher to get I guess.

Lemar Persaud - *Cormark Securities Inc. - Analyst*

Yes, that's very helpful. But I guess where I'm going at is you've now seen rising impaired losses for the net loss couple of quarters throughout 2023. And into 2024, that like looking forward, should I expect the yield on that portfolio to move materially lower like I know it's not a massive portfolio in terms of size for you guys, but it is very accretive to your margins because the yield is so high. So I do care about it.

And ultimately, I care about the impacts on all bank names. So that's kind of the approach I'm thinking like is there going to be a very sharp shift in the mix of that portfolio over the next couple of years that would cause the yield on that to move materially lower?

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

No, I wouldn't expect. So it really is a trade-off for kind of cost of credit, i.e., PCLs versus direct charge. So any you have on the top line effect, it becomes back to back and provisions we would expect so and we were pleased with the yields we're able to get on our prime book, frankly.

So it appears to drive ROEs that you look at where we were operating when the credit bands, the ROEs are pretty good across that book.

Andrew Moor - *EQB Inc. - President & CEO*

And you saw that trend rates. We've as we've talked about all this migration that to prime the market when you saw that in the MD&A, right? So you can see through versus the Q4 period versus last quarter to this quarter, our yields are actually still expanding.

Lemar Persaud - *Cormark Securities Inc. - Analyst*

Okay. Yes, that's kind of where I was going to add more and more. So for a number to put it into my model and then Chadwick, sticking with you on.

I'm going to go. It's a big big picture question here. Do you think it's still plausible to come within your EPS guidance range. Can you go through why that's still a reasonable expectation given the softer Q1 results?

I think it really does hinge on the back of it a better credit outlook for the back end of the year, but I'm assuming there's probably a little more to that.

So talk to me about whether that's still still in play and your confidence level there and what if loan growth doesn't come back as expected, can we still get there it top down or at the year's playing out exactly as we had expected from a guidance perspective with the first anchor being that ROE.

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

So that's really important to portfolio measures right across the board as we expected. And we had signaled right this first half of the year, particularly from a credit loss perspective, from an investment perspective in the bank was going to be a little bit more elevated.

So when you think through the fourth quarters based on the trends we're seeing so far and based on our updated forecast, we do still have conviction that that range of EPS is absolutely still doable and achieving our ROE guidance is still doable.

And to achieve that base case guidance, we didn't expect or build in that rates had to come down in this environment to achieve that. That was still our base case guidance too. So if our guidance or if our expectations or the reality of PCLs, say in the back half of the year don't play out as expected.

That's something we'll have to revisit right now based on all the variables, all the forecasts and the business momentum, which is very strong and can margins that portfolio growth. The customer awareness has very, very strong. We have incredible team here.

So we have a lot of conviction in our team and our growing customer base and the stability of the margins and the funding costs. So add all those up. I think we're still on track for the guidance that we have reaffirmed today.

Andrew Moor - *EQB Inc. - President & CEO*

Like just to again, so that's some color to what Kevin, just a couple of things I mentioned in my script. One one being the we are expecting increased securitization activity in this current quarter. And beyond and that's helpful. Topsy add to margins.

And the other thing, just kind of your comment about the housing market are coming back. Our earnings have actually not terribly sensitive and for year two, the origination volumes in year effect, whereas we originate loans, we tell you we take a provision for stage one right away with a customer originating that loan.

So you wouldn't expect earnings for this year to be terribly sensitive to kind of our assumptions about housing market volumes, you do, of course, have an impact on the longer term. I think that the bank. But I wouldn't I wouldn't think that we're particularly sensitive to that. And of course, as you rightly pointing out, there's some uncertainty about how the housing market will work whether by category for Willys and when when salesman comes back to life as a result of that.

Lemar Persaud - *Cormark Securities Inc. - Analyst*

Thanks time.

Operator

Étienne Ricard, BMO Capital Markets. Please go ahead.

Étienne Ricard - *BMO Capital Markets - Analyst*

Thank you and good morning. on on EQ Bank. As you get ready to launch the platform for small business owners, how meaningful How meaningful do you believe commercial deposits could become over time. And I believe that very significant over time?

Andrew Moor - *EQB Inc. - President & CEO*

I do think it's a sort of three to five year built for something to get excited about within your models scenario, it might be a few hundred million dollars really inspired when we look at challenger banks around the world about how well they've been up service to support this market.

If you look at the UK market, for example, you have their individual challenger banks have captured 10% of the market from a standing start in a few years. And so we do think that that same thing applies in Canada.

There is a general dissatisfaction with small businesses due to the kind of existing the existing options, if you like and so we think we should be able to deal with that quite well. The difficult many of our customers and EQ Bank or self-employed already.

So the the ability for them to small business customers have the ability to open up a small business card that goes alongside their existing EQ account. It's going to be something that's really compelling to them. I think in our business, you see it have a single pane of glass where you'll see.

But the balancing of small business accounts, whether it's your personal bank, personal account and the people operating that kind of entrepreneurial world, and they are often thinking about the money in the business as being kind of their money as much as the money in their own personal account. So we're really excited about that opportunity.

And then across the broader impact on brand awareness, cost to customer acquisition, generally, we believe as we can pick up small business accounts. Some of those people may not have a personal account with us, and we'll be able to accelerate the growth of our small business accounts. So we think it's a very meaningful, it's going to be very meaningful over the of three to five years.

Étienne Ricard - *BMO Capital Markets - Analyst*

All right. And as a follow-up, how do you think about the relative stability of small business deposits relative to personal deposits from what we think they are going to evaluate.

Andrew Moor - *EQB Inc. - President & CEO*

This is obviously a number of kind of archetypes within small business like one of the things. And that's been kind of joined together for some small businesses. We've got high very high volumes of small value transactions I spoke other small businesses are actually fairly stable.

Cash amounts, relatively small amounts of cash flow, small business. They're often with the kind of tax-advantaged structure deals why people leave money in their small business. And that's because that's the most simple use case yes, it will be easy to move the money, but the money isn't moving that much in and out of these accounts.

And those should provide a fairly stable platform where we think actually the kind of a GOP and a good rate GIC. offering, which we offer will be pretty interesting to those kinds of consumers that you know, they know they've got that's packed tax bills six miles by six. But gee, I see it's a pretty stable kind of asset for them, a liability for us.

So yes, but that's very much the approach we're taking and we're not trying to kind of boil the ocean and small business where we are looking at segments and trying to be really good for individual segments as we as we feel we've kind of honed our view on individual segments.

And we'll extend it to kind of the next segment is more kind of margin of our shareholders while transaction volume, that type of thing. But but our simple U.S. starting offering is going to deal with the many millions of small businesses actually much simpler need.

Étienne Ricard - *BMO Capital Markets - Analyst*

Thank you. Very much.

Operator

Nigel D'Souza, Veritas. Please go ahead.

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

Thank you. Good morning. I wanted to follow-up on equipment financing, and I'm trying to get a and also on the potential tail risk for losses in that segment. In a more stressed environment, it's already close to 4% loss rate.

But if we were in, let's say, a recessionary environment or something where the macroeconomic conditions deteriorate? Do you have a sense of what the range of potential losses B for that portfolio?

Andrew Moor - *EQB Inc. - President & CEO*

Well, as you're trying to have our own ceramic.

Marlene Lenarduzzi - *EQB Inc - Chief Risk Officer*

It really depends on a lot of factors, Nigel. And when we look at our forecasting, we think about the one cohort, we've talked about how that's flowing through the system and there could be some and some increased losses beyond what we're expecting.

But I think for we're anticipating that at least next quarter, at worst case to quarter, we'll see the losses, but around where they are right now and starting to come back down further. And but all indicators are that with it's a more challenging environment that will encourage the Bank of Canada to cut rates sooner and perhaps more deeply, and that will well bode well for those customers as well.

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

Oxandrin really hit it, but no data yet. So if I could maybe talk about this more strategically a and when I think about your business segments or your categories in terms of the risk adjusted margin and the risk-adjusted margin for equipment financing.

If you take the 10% yield, subtract a 4% cost of funding and the close to 4% loss rate, you get a risk-adjusted margin a bit below 2% and your uninsured single-family book would be generating currently a risk-adjusted margin above 2%.

So that signals to me, I mean, I would interpret it as the pricing of that existing book? And is it sufficient for the risk profile you're currently experiencing? And maybe you could expand on what do you think is a minimum acceptable risk-adjusted margin for that business? And how does that tie into how you're going to underwrite new business going forward?

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

Yes, I think so obviously, you have obviously what you're dealing with. There is a peak cycle loss that we would expect losses of something like 150, 200 basis points through the cycle effect just a year or two ago, we were below that 150 basis point target.

So that is it true that if you're quite right, if we if we're expecting these level of losses in our pricing doesn't doesn't to over the longer term, our pricing doesn't make sense of this business. So that's something we'll have to have to continue to tweak and play with them. And I think the jury's still out on our longer-term position of this in public this segment of that part of the business?

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

I wonder if you could just expand on sorry to harp on this, but the pricing of that existing business. Why shouldn't that maybe just we set high for the entire industry. Was it was it just mispriced risk where it's competitive market, the yields or about 10%, maybe they should have been closer to mid 10s for.

Was it just an outlier on credit risk unique and payments specific to that segment and the transport sector and the pricing was appropriate. Just trying to understand how you think about this.

Andrew Moor - *EQB Inc. - President & CEO*

Yes, I think you might see the industry reprice, frankly, because what we're hearing is that our competitors are seeing observing the same as us. It's not in that kind of idiosyncratic equitable only thing, um. So so I think we'll have to kind of assist us with questions and that may be that the whole industry prices or what kind of criteria and these and these costs of the business reset.

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

Okay. Thanks for the insights. Appreciate it.

Operator

Graham Ryding, TD Securities. Please go ahead.

Graham Ryding - *TD Securities - Analyst*

Okay. I just wanted to drill down on the on the commercial areas a little bit more. Just make sure I'm getting your message? Correct.

And so it does look like those arrears are about three times your recent add range, but your allowance for credit losses are sort of in line with that historical range.

So is it does it really come down to? Are there some large sort of specific mortgages here that you've dug into and you don't see much credit credit risk on the just sort of are there some outsized margins in there that are on and other sort of large in size, but you view as maybe low in potential loss potential Yes, absolutely?

Andrew Moor - *EQB Inc. - President & CEO*

And I think actually, again, for those who follow the story of While there are remember, we had a rare few years, two, three years ago where we were comfortable expressing what we know from the credit risk. It took three or four quarters to roll that off and there wasn't any credit loss.

I think that's what we're seeing here in one of the larger ones we have, for example, is a condo project that was under construction. The developer chose to start putting more structures on the same site and that caused some challenges with the project.

So but we've received a number of bids from potential people that are interested in buying this project, and that's it well in excess of our loan amount. So that's and that's a lot one, I think the largest loan actually in the in the impaired bucket.

So as I mentioned, despite the fact we've got those bids might still take, we probably won't actually get the money this quarter. It takes a while to go through the court receivership and the process for the bids are in hand and the solid bids from credible players.

So I feel very confident about that. And I think that's what gives us confidence on the whole commercial book. We can actually sit around the room as we have and talk through each one and understand and kind of what losses might might come out of these that are planned and when they will resolve and we're feeling really good about that as a result of spending some time on it.

Graham Ryding - *TD Securities - Analyst*

Okay, great. And just for sort of context, is it's like half a dozen type barges that you're digging through or 20 to 30, like what sort of sizes of margins here are you digging into?

Andrew Moor - *EQB Inc. - President & CEO*

So it's I just got it right in front of me, actually. So it's about to spend 25 in total, some of them are quite small. So it's not really meaningful as a whole. I don't want I don't know something overtime.

Graham Ryding - *TD Securities - Analyst*

And okay, that's helpful. Color.

Andrew Moor - *EQB Inc. - President & CEO*

Thank you, JJ, if I can have them and I put on one spreadsheet that tell you if you kind of know that load, you'll remember that one company, right.

Graham Ryding - *TD Securities - Analyst*

Okay. So you do have some specific sensibility here. Did you say that this portfolio had an average loan-to-value of 47%? Did I hear that correctly?

Andrew Moor - *EQB Inc. - President & CEO*

Yes, but.

Graham Ryding - *TD Securities - Analyst*

Okay. And my last question, if I could. Just on noninterest expense, how should we think about how that's going to progress?

I know there's some further ACM to flow in business or partial quarter but beyond that on throughout the rest of the year, how should we expect that to progress? Because I think you made a comment about maybe the second half expenses had it been lower or the growth rate being lower? Maybe you could clear that up for me.

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

Yes, I'd expect the sequential growth, the slowdown, Jeff, after. Yes, you count for HCM, we're going to continue to invest, but there was a little bit more loaded up into Q1 as well for some of the larger marketing investments. But I wouldn't expect that continued level of growth sequentially.

Graham Ryding - *TD Securities - Analyst*

Okay. Understood. That's a great. Thank you.

Operator

Stephen Boland, Raymond James. Please go ahead.

Stephen Boland - *Raymond James Ltd. - Analyst*

Just one question, obviously on impairments. You mentioned the second half of the year on PCLs and impairments, I should kind of start to normalize what about the shorter term. Can we assume that the impairment levels on an absolute basis have been peaked?

Or is it going to be similar in Q2 if you expect the impairments is going to help us anyway?

Andrew Moor - *EQB Inc. - President & CEO*

I'm pretty hopeful on the commercial impairments, for example, were down quarter over quarter. When we report Q2, you'll see details and establishes some slight different concepts. You're still expecting reasonable PCLs flowing through from the equipment leasing business that the previous mentioned.

So obviously, we believe we're well reserved and there's obviously some complexity about provisions as it relates to kind of modeling and how economic scenarios look going forward in terms of Stage one and Stage two provisioning. So that's that by very biased by nature, are too hard to predict.

Stephen Boland - *Raymond James Ltd. - Analyst*

And then basically, just to follow-up then on the residential, like have you seen the bulk of you think impairments even in your past due or recently past due but not impaired. Are you seeing that kind of moderating heading into Q2 results as well, I think that's what we're expecting.

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

And again, the story is that, as I mentioned, as to what the previous analyst, you know, it's easier with the commercial ones because you cannot leave them alone. But I think in general that speak to the broader expectation with a single-tablet regimen.

Stephen Boland - *Raymond James Ltd. - Analyst*

And okay, thanks very much, guys.

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

Thanks.

Operator

(Operator Instructions)

Gabriel Dechaine, National Bank. Please go ahead.

Gabriel Dechaine - *National Bank - Analyst*

Hey, good morning. I just want to clarify some of the comments you were making earlier, just to make sure I understand on sounds like the pace of formations in the commercial portfolio will moderate in the second half. So we could see another uptick in Q2 or maybe not. I'm not quite sure I understand it.

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

It's going to be like I mean, although we don't expect the impact in commercial to be lower in Q2 than they were in Q1.

Gabriel Dechaine - *National Bank - Analyst*

Okay. So you do expect a decline in Q2? And just related to the excuse me, the prior question there from Steve, the delinquencies in the mortgage portfolio, we saw an uptick quarter-over-quarter, mostly in the early stage. Is that the would you expect that increase to moderate or actually decline in Q2?

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

I think as I said, I mean, just to be sort of consistent with asset, Steve, we don't think we're expecting it to moderate, but it is harder to figure out because it is a sort of loan, but it's a large large number of small loans.

Gabriel Dechaine - *National Bank - Analyst*

Okay. Perfect. That's it. Thanks.

Yes.

Operator

There are no further questions at this time. Mr. Mora, back to you for closing remarks.

Andrew Moor - *EQB Inc. - President & CEO*

Thank you, Julia. And I probably did you say we'll be celebrating our 20th anniversary by ringing the Bells TSX on Monday, March 18 through our shareholders who have been with us for these 20 years. And I thank them for their loyal support of EQ Bank.

I also congratulate them for buying into an IPO and Tony's original investment into a 20-year return of about 1,000%, including reinvested dividends for those who are new to our story. And I really want to learn about eBay as an investment opportunity open EQ Bank accounts 4% interest every day.

If you'd if you deposit your payroll awaits as does a convenient, no fee banking experience, that potent combination will lead to thousands of extra dollars in your pocket overtime.

We'll speak to you as soon as our annual and special meeting of shareholders or is on April 10, at 10 AM. This will be a virtual event, and we hope you will participate. Thank you and have a great day.

Operator

That concludes today's call. You may disconnect your lines. Thank you, sir. Yes.
