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EQB.TO - Q1 2023 EQB Inc Earnings Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to EQB's earnings call for the first quarter of 2023 being held on Wednesday, May 3, 2023 (Operator Instructions) It is now my pleasure to turn the call over to Richard Gill, Vice President of Corporate Development & Investor Relations at ECB. Please go ahead, sir.

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

Thanks, Michelle. Good morning, everyone. Your hosts today are Andrew Moor, President & Chief Executive Officer; Chadwick Westlake, Chief Financial Officer; and Ron Tratch, Chief Risk Officer. For those on the phone lines only, we encourage you to log on to our webcast as well to review our accompanying quarterly investor presentation. The presentation includes on Slide 2, EQB'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.

It's now my pleasure to turn the call over to Andrew.

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

Thanks, Richard, and good morning, everyone. This was a milestone quarter for EQB. Our direct customer relationships surpassed 0.5 million. We achieved more than $100 million in quarterly earnings for the first time, a performance that allows us to see how strong we become as a bank. We marked our first quarter results with Concentra, which is already proving to make Equitable an even better bank. We are particularly enthused by our engagement with Credit Union partners, with whom we share a core customer service and Challenger philosophy.

And EQ Bank was named Best Bank in Canada by Forbes on their annual ranking of World's Best Banks for the third straight year. You would expect me to attribute performance, including ROE of 16.9% to our differentiated value creation approach, long-term strategies and award-winning digital

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capabilities, and I will. But these accomplishments are rooted in the hard work of our team across Canada in keeping customer service at the very forefront while very effectively managing risks and opportunities. Thank you all.

Understandably, our business outlook remains positive and I will speak to it shortly. But before that, I want to acknowledge the continued strain on some banks outside Canada over the past couple of months. We manage our risks well and have made additional disclosures in this quarter's MD&A to help investors understand why that statement is true. On credit, I want to offer additional context on our commercial real estate lending. With approximately $26 billion in loans under management, I am proud of our commercial loan portfolio and the team driving this diversified business. Here, we prioritize lending against multifamily rental properties, including affordable housing, where demand is strong and resilient.

We're the largest securitizer of CMHC multiunit mortgages in Canada and over 2/3 of our commercial loans under management are assured by CMHC. On uninsured commercial loans, we require strong personal and corporate guarantees and restrict LTVs. With heightened focus on the risks in the office property market, you should also take comfort that less than 1% of total bank assets are loans to office properties. Of that small portfolio, the average LTV is 59%, and even more protection comes from our focus on vocational offices occupied by dentists, doctors and other service providers. These offices are vital to the delivery of patient care and the generation of income for their tenants who cannot displace physical space by working from home.

Our exposure to hotel, shopping malls and big box retail is negligible, not a lending priority and far less than 1% of assets. Commercial banking represents about half our earnings and is a proven business worthy of shareholder confidence. When it comes to liquidity management, we always operate prudently and well above regulatory guidelines and even higher than bank peers from our review of their disclosures. Great execution of our multiyear strategy to diversify our sources of funding has even further strengthened stability.

You're aware of the growth of EQ Bank deposits. What you might not know is that we generally limit EQ Bank deposits to $200,000 per account. Our approach effectively reduces concentration exposure and runoff risks, while giving our customers confidence that a large part of their money is protected by CDIC. We believe strongly the importance of CDIC-insured deposits and we've taken a public stand advocating for higher coverage limits. I'm pleased to see others take up this call in the past few weeks.

95% of our deposits are term or insured. I can assure you the positive trends in deposit growth and stability continue today, recognizing our quarter ended March 31 and April continued to reflect strain also on banks locally. What I'm saying is bring you up to date, you would see no deterioration of liquidity. Chadwick will add more context on liquidity and funding in his remarks.

The last point I want to touch on is interest rate risk. This has been a deep well of trouble at some U.S. regional banks. Our advantage is derived from how our treasury team manages interest rate risk in the banking book in alignment with our low appetite for market risk. We operate with a target duration of equity of approximately 1 year as a means of tightly controlling exposure to interest rate -- interest movements. Another way to look at it, we don't take a view on rates. We consider the sensitivity to changes in the economic value of equity to be the most important measure.

Table 19, our Q1 MD&A shows, our sensitivity in modeling to immediate and sustained interest rate increases and decreases. Here, you will see that 100 basis point increase in interest rates, the EVE impact as a percentage of common shareholders' equity would only be 1%. This demonstrates very well managed interest rate exposure.

Turning now to our perspective on the Canadian housing market. With the Bank of Canada holding its policy rate steady, we're already seeing signs of price stabilization and increased activity in the housing market. We expect this to continue. In fact, there was very encouraging data from the Toronto Real Estate Board just yesterday confirming this view.

In Q1, uninsured single-family origination volumes were $1.1 billion and the portfolio grew 1% over Q4 or 33% year-over-year to $19.2 billion, assisted by lower attrition, aligned with our expectations for the first half of 2023. Certainly, our partner in British Columbia have been bright spots in the national picture. We had an excellent quarter in multiunits and continue to see stable growth within the conventional commercial.

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In short, multiunit mortgages under management increased by $992 million to $17 billion, although the on-balance sheet amount was lower due to higher securitization under CMHC's programs and derecognition in the quarter. All in, we are holding to our overall commercial portfolio growth guidance.

For EQ Bank it's particularly exciting to see breakthrough progress unfold in customer engagement with our EQ Bank payment card -- now in the hands of more than 40,000 customers, already been used in over 115 countries -- our successful Quebec launch, and the continued success of our Make Bank campaign.

Hopefully, you've had the chance to see our marketing investments at work. Our Make Bank campaign brings to life just how fed-up Canadians are with all the takes that happens in the world from surge prices to bank fees and shows how EQ Bank is here to help them, make with no fees and high interest on everyday banking. It's really working. Millions of Canadians have seen as a key moment from the NHL playoffs to riding a street car to work. We are building franchise value and phenomenal brand recognition, creating demand with great early payback.

Forbes once again named EQ Bank Best Bank in Canada on its curated list of the world's best banks for the third year running with customers rating especially highly the digital service, driving home the point that we have something very special going on.

We're consistently adding hundreds of new accounts every day such that EQ Bank's customer count is now approaching 350,000. This growth in customer reach and public profile has been coupled with customer engagement at a record high of 51% and transactions increasing 54% year-over-year.

Giving customers a physical EQ Bank to hold in their hands and wallets is reassuring, it provides tactile proof that we are real and substantial. This is helping us drive the effectiveness of our advertising. We're also seeing more Canadians doing direct payroll deposits, another tangible sign of growing confidence and awareness that this is the very best digital bank in Canada.

Next up is the launch of our EQ Bank mobile wallet for the card, which we plan to have in customers' hands this summer. I'll profile the value of that development on our next call. I can assure you that when it comes to credit, liquidity and interest rate management, we are as prudent as they come and we have been for years.

Exceeding $100 million in quarterly earnings is a special milestone to me as I remember reporting earnings of $8 million in Q1 of 2007, and as the newly appointed CEO, thinking that was pretty damn good. But what's even better is that the more we've grown, the more evident it is that the bank's approach to both managing risk and bringing new positive value to our customers' works. We plan to keep following this philosophy.

And now, Chadwick.

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

Thanks, Andrew. We set out to make 2023 our best year yet, and Q1 put us firmly on track. This quarter was another display of our return on equity value creation strategy in motion across all key earnings metrics. Before I get started, some items of note for Q1 disclosures.

This quarter includes 3 months of results from Concentra versus 2 months in Q4 following our deal closing in November 1. Concentra's integration plan and synergies are on track, producing earnings accretion, I'd say, ahead of early targets. There was a lot less noise in our numbers than in Q4 when we booked large onetime items as required under IFRS, particularly to account for credit loss provisions once we closed the acquisition.

Q1 adjustments included $4.8 million related to the integration costs, down from $36.9 million in Q4, $3.2 million in net fair value related amortization and $1.5 million for intangible asset amortization. Our integration spending is in line with guidance and the difference between reported and adjusted expenses will continue to narrow in the next couple of quarters.

Effective from Q1, you will see a change in how we present our single-family mortgages. The term alternative as a representation of our single-family lending does not appropriately capture the high quality of our book and borrowers, and we have removed this reference. We focus on B-20 lending

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to specific higher-growth segments of customers frequently underserved by the largest banks by working with thousands of deeply valued mortgage broker partners across Canada, and we invest more in underwriting and leveraging our many years of experience here.

The outcome is reflected in our margins and lowest credit losses among peers. You will see 2 categories in our disclosures go forward: single-family insured and single-family uninsured. These adjustments will be even more relevant when we become an AIRB bank. I want to hit 5 key themes now before I move on to questions from our analysts. First, margin and revenue; second, our funding profile; third, credit risk management; fourth, expense trending; and finally, some points on 2023 guidance.

Jumping right in, our proven approach to pricing all lending with our ROE calculator, continued tailwind from our funding diversification plus many other treasury considerations generated solid sequential and year-over-year top line growth. Net interest margin expanded 5 basis points over Q4, with growing asset yields, as you see in our MD&A, better than expected prepayment income and payback on our funding strategy, including the benefit of a lower deposit beta anchored in EQ Bank deposits.

This margin expansion was ahead of expectations and also reflects strong momentum of our Concentra integration. As an outcome, net interest income increased 8% over Q4 and 45% year-over-year. And then noninterest revenue increased 71% over Q4 to 11% of total EQB revenue for the quarter.

The sequential increase in noninterest revenue has a couple of key components: one, growth in fee-based revenue of 33%, reflecting the full benefit of a full 3 months contribution by Concentra; and two, gains on sale and securitization income up 55% over last quarter, with momentum we believe can be sustained in 2023 and reflects both volume and margin growth.

We recorded a lower loss on strategic investments in the quarter sequentially, but the mark-to-market accounting loss of $2.6 million compares to nearly $16 million in gains in Q1 2022, which at that time reflected significant onetime mark-to-market benefits. Combining NII and NIR, total revenue increased 13% quarter-over-quarter and 40% year-over-year to a record $265 million.

Now some points on funding. The diversification of our funding stack has expanded materially over the past several years across direct and wholesale options combined with a maturing credit profile and rating. We can dial these funding stack levers based on availability and pricing. We have derisked the bank well without an overreliance on any single key funding source, as we avoid interest rate misalignment with a matched funding focus and sticking to our duration target, as Andrew outlined.

We're not only well covered from a liquidity perspective, but strategically we are positioned to have more tailwind in our funding costs as we focus on additional diversification plus credit rating expansion. The most significant reminder is EQ Bank, which again is the anchor for our lower deposit beta. We continue to believe in the value of this franchise and why customers choose EQ Bank for much more than rate. This adds resilience to the stable and growing deposits that are primarily termed and/or CDIC insured. Compared to last quarter, EQ Bank customers increased by another 9%, deposits by 2%, transactions 34% and engagement up to a record 51% with an average of 2 products per customer. As a reminder, engagement includes active customers with more than 1 non-zero-balanced product and multiple transactions over the past 30 days.

Other sources of funding continue to grow, and there is much more to launch that I'll speak to in coming quarters. You could likely expect to see us in the covered bond market in Europe in the near future to expand this low-cost source of wholesale funding with capacity that's expanded as an outcome of our growing assets, including Concentra. As a reminder, we're the only bank in Canada outside of the largest 6 banks with a European covered bond program.

Now to credit risk. Q1 PCL was $6.2 million, while $1.5 million lower than Q4 and higher than the net P&L benefit of $125,000 in Q1 2022, which at that time was a result of reversing provisions taken during the COVID-19 pandemic. Our allowance for credit losses, or ACL, net of cash reserves increased 1 basis point over Q4 to 19 basis points.

A positive for Q1 was a $2.3 million PCL recovery from one commercial loan. Other changes in PCL reflect portfolio growth, shifts in macroeconomic forecasts that were more positive than anticipated and a Stage 3 provision that was $1.2 million higher than Q4. The increase in Stage 3 is not part of a trend we're seeing in delinquency. This mainly relates to a provision on a couple of commercial loans.

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The outcome of the ACL change was an increase of 5% to $87 million over Q4 in total net ACL net of cash reserves. The change looks larger on a year-over-year basis because of the addition of Concentra Bank allowances in Q4. I mentioned on our last call that we were expecting to see an increase in impaired loans, and we did. Our gross impaired loans increased $18.3 million or 13% quarter-over-quarter to $156.9 million. We remain of the view that we will expand an uptick in impaired loans over the next couple of quarters, which is natural at this point in the credit cycle. But we do not expect these will result in losses because of the way we manage credit and recoveries.

It's important to also remember that for single-family uninsured lending in the personal bank, the average Beacon score for new originations is about 732. The average LTV on the portfolio is 65%. We only conduct B-20 lending, and we continue to focus on lending in key urban areas with favorable population and economic growth trends, where job creation opportunities are significantly diversified. An outcome of this design is our loss rate remains at the lowest of all peers, which is a function of a deeply embedded risk management culture. EQB remains well reserved for credit losses. We always actively manage to our principle of lending to not lose money. Overall, our credit book remains in good shape despite the economic backdrop.

Now to noninterest expenses, which increased 18% over Q4. You can attribute a lot of this to Q4, only including 2 months of Concentra expenses. The benefits from Concentra's synergies are flowing through, but we expect it will take a few more quarters to return to a more normalized EQB efficiency ratio versus our 45.4% in Q1. As a reminder, we're integrating a near 70% efficiency bank into the most efficient bank in Canada. So that takes time for our integration plan, and this is great progress so far. Our efficiency ratio remains a secondary measure. Our focus will always be, first and foremost, return on equity, the true financial performance north star.

In general, year-over-year comparisons are difficult due to the acquisition, particularly to frame operating leverage, given we report consolidated results. To help, I would expect more limited growth in FTE compared to past quarters. But with continued acceleration of EQ Bank, you will still see scaling in product, marketing and technology investments. This includes the Make Bank marketing investments, and we're so pleased that Canadians are truly responding to the less take, more make message. Engagement is showing a significant rise in daily customer growth so far in 2023.

In closing, we reaffirm our 2023 guidance. When we report Q2 results, we will calibrate that guidance to account for a 10-month reporting period for 2023. This reporting year change will allow us to align with our Canadian bank peers as we announced in February.

Fiscal 2024 will start for us on November 1, 2023. This means we'll report Q2 in August. We will not report a third quarter. And there will be one 4-month reporting cycle to close at 2023 to be reported in early December. This is a common approach and practice when companies change reporting years. We guided the more muted portfolio growth in the first half of the year, which translated, and we continue to have conviction in our targets for the second half of the year on a calendar basis.

We expect stability in these margin levels for the rest of 2023. For PCLs, we expect trending similar to portfolio growth in coming quarters and stable trending in ACL as a percentage of lending assets assuming no material additional changes in forward-looking indicators.

Our mature and leading Challenger bank approach delivered all-time record earnings, and we will remain focused on executing for investors while making steps to close this remarkably large discount to fair value in our share price.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Your first question will come from Meny Grauman at Scotiabank.

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

I wanted to start off by just asking about the margin and just isolate some dynamics there, specifically I wanted to understand what the impact of the full quarter of Concentra was on the margin and also the impact of prepayment, if you're able to isolate both of those impacts?

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

Yes. Thanks, Meny, good morning. So when we went into the integration, we knew we were bringing a lower margin bank. And we actually -- as we look at repricing and the overall funding costs, bringing them on to our stack, we've moved at a faster pace than expected. And I'd say -- and I'm not going to say that was 20%, 25%, 30% of it, but that certainly contributed to a plus prepayment income, you could say it was a couple of million higher than expected. But overall, that the lower deposit beta continue with EQ Bank. So you add all those up and you got to that expansion. And I think part of this is, again, the integration moving a little bit faster and some of the uptick in housing market activity, which is what you see also translate in some of that prepayment increase.

Andrew, if you'd say anything else you're saying?

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

I think it's always complicated to pull the numbers to the top of the stack, maybe to give you a good rebuttal. Those are the 3 kind of key variables that I think is driving things. Certainly, the deposit beta is something that I'm particularly sort of proud of. And I think that goes to this -- the fact that we're driving -- driving our kinds of value in EQ Bank as it's creating an opportunity for us.

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

Just to understand the dynamics better around Concentra specifically, was it still an overall drag and you're saying it was just -- the drag was just less than you expected?

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

Yes.

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

If you could explain like you're basically able to reprice that book faster than you expected. Is that the right way to think about it?

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

I think that's right, certainly one of the -- certainly one of the bigger categories we've -- our team has been quite successful in bringing the same kind of ROE discipline that we've applied in EQ Bank. As you know, it always takes time to reprice their portfolios, but they have -- they were a bit more, I think, organized about it as we completed the acquisition and therefore, it got traction a bit quicker than we were probably projecting to you.

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

And Andrew, you talked about deposit betas. Do you have any sense that over time that, that will change for the worse? It looks like definitely the Bank of Canada is on hold here. So could be in a situation where asset pricing kind of levels off. But on the deposit side, you will see upward pressure here on the margin?

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

I think you're seeing the big banks, seeing the deposit base not being quite as attractive as they would have hoped. But of course, our gap, we have a pretty big gap between them and us. So I don't really see that, but it will be an interesting question as to how fast our everyday bank accounts that pay really great rates of interest when the bank kind of starts to ease rates, how fast we can move to sort of go with them. I would expect that broadly speaking, we're going to sort of track the Bank of Canada downwards in those accounts. So I'm hopeful that, that won't be an issue. But clearly, the market dynamics can change.

As I mentioned in my remarks, we are already seeing a lot of really great traction with the broader value of the EQ Bank platform are great rates on U.S. dollars, the Canadian dollar exchange rates, but if we move the money around the world, in kind of more integrated part of your financial life. So I'm hopeful that the value is seeing there will allow us to be relatively good on deposit beta for our shareholders.

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

And then just a follow-up on Concentra. A few times, you referenced sort of early positive signs and things moving faster than you expected. How do we understand that? Like what -- was it just your initial estimates were overly conservative, but sort of on the ground, what is actually driving that? What's better than -- what's actually making that better than expected happen?

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

I think it's mostly on the cost side that I'm seeing that sort of -- I mean, I think we all know when we put 2 banks together, there's a lot of duplication. You can take those costs out. But forget this is by far the biggest acquisition we've ever made. So we have approached it in a sense of caution, it made sense even with a more cautious outlook. And I think it's just -- it's true that our teams and the Concentra team have done a job better than I might have expected, but it's very hard to prejudge how an untested team and this kind of complexity of execution will do. But I think the reality is we've picked up some really great people through some great people to join the team. It's probably a better way to say it. Through the acquisition, they've been incredibly constructive in making this will happen for us.

We reeling whether there are levels of value to pull in in our own team have been really on top of all the detail. And there's so many moving parts, many -- that's one of the challenges sort of integrating that up into a message we can communicate to what broadly the top of the house is actually a bit of a challenge. But -- but I can tell you every detail that's being dealt with, and that's the net-net all that is adding up to a great story.

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

Yes. I think that's right. Even with the balance sheet, both sides of the balance sheet even more resilient with growth than expected. And remember, it's even how you think of the accounting for when you do these acquisitions or when you think a fair billing amortization of loans and deposits and how the actual the process works. That's been a little bit more constructive and all that shows through merging as well in May.

Operator

Your next question will come from Mike Rizvanovic at KBW.

Mehmed Rizvanovic - *Keefe, Bruyette, & Woods, Inc., Research Division - Research Analyst*

Just wanted to get some color on your outlook for commercial lending in the near-term, different performance in different categories within that portfolio. But just with respect to where we are in the economic cycle, do you think you can still keep pushing ahead with some pretty decent

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growth? And are you seeing -- or are you expecting to do any sort of runoff with the Concentra assets that might impact what your near-term outlook might be?

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

There certainly is some modest runoff. Let me just start with the finished there. There's some modest runoff in Concentra assets as we're repositioning the book to -- they've looked to things that are much more traditional to our way of thinking. That's pretty modest in the overall scheme of things, frankly. So yes, we continue to see opportunity. As we -- our commercial business, and we tried to really drive this home in the remarks is really about multifamily housing. I mean, that's what drives it. And so the ability to fund the construction of apartment buildings, whether CMHC insured or otherwise, people buying apartment buildings to turn them over and improve the general structure and improve rents with that is really an interesting business.

You've seen rent increases in major Canadian cities, which have been expressed as obviously a concern on the one hand around affordability, but clearly opportunity for us to sort of support developers, buying buildings, premium buildings, expanding buildings and so on. But some really interesting data that CMHC is putting out that shows you the difference between the rent that people are paying on average and where new rents are in individual units. When you think through the capacity of that to support the building in new buildings and improve existing infrastructure, which is really where we play. I'm pretty optimistic about how it looks.

Mehmed Rizvanovic - *Keefe, Bruyette, & Woods, Inc., Research Division - Research Analyst*

And then, Chad, I just wanted to circle back on the margin real quick. Not to harp on it, but I think we were all expecting a little bit of a decline sequentially. Is it possible to just delineate between your underlying margin if you exclude Concentra, I would still imagine that you would have had the lower spread business impacting you in a negative way, at least to some degree in the quarter. Can you sort of delineate between just those 2?

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

Yes. The -- my couple of short answers would be EQB and Concentra would have expanded as we did expand the other way. So that trend was consistent. Prepayment income -- and again, I give a couple of million attribution of that when you break that down by margin. And then some of this as well as not only the resilience of the business, but what I mentioned to many as well, when you look at the actual acquisition accounting, there are certain considerations with fair value amortization of loans and deposits, and I actually do settle this up on the balance sheet. There's some more positive tailwind there as well.

So there's the difficult part with margin. As you know, it's not as simple as people expect. It's not just the assets minus the deposits, you got prepayment again as expected. And I think you're seeing some of that as well when you can look at the media and see how some of the housing markets are upticking and people are actually looking again to refinance and actually take on new mortgages. You see some of that translate in prepayment. And then again, you have other variables that come in on the fair value side that come into net interest margin. So those are a couple of the ingredients, but I'd wait to acquisition accounting, consensus stability, prepayment and then the core EQB business continuing to expand, supported by the lower EQ Bank -- lower deposit beta as well that's continuing to translate.

Remember, even that last rate hike again, we help EQ Bank steady, we're not chasing campaigns. So that stability consistency is translating all wrapped around our ROE calculator approach.

Mehmed Rizvanovic - *Keefe, Bruyette, & Woods, Inc., Research Division - Research Analyst*

And just real quick, so the $2 million excess prepayments that you had in the quarter, are you expecting that to sort of linger in that elevated level going forward? Or do you think some of it comes back?

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

I think I wouldn't describe that as an elevated level, frankly, but the housing markets are really cool through the back end of last year. That drop below, it was one of the surprises on the negative side last year. So I think it's really a case of getting back to more normal. And so I certainly -- generally, of course, you see more seasonal flows in this next couple of quarters. So I would expect this to continue for a while.

Operator

Your next question comes from Lemar Persaud at Cormark.

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

I'm going to start off on margins, just bolting on to the previous question there. I think you answered most of what I'm about to ask, but I just want to throw it back to you guys. So, what factors evolve more favorably than expected during the quarter? Was it limited to the impact of prepayments and more positive evolution of Concentra, including some of those accounting adjustments you talked to tablet. Or was there any other factors that contributed to that 5 basis point sequential increase versus kind of the slight decline we were expecting into Q1? Because this is a sharply better result than you're expecting 3 months ago. So I'll go back into your quarter if there's anything else.

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

Yes. No, I'll just repeat again. I think as well when you look at the yield tables and the MD&A, you'll see some of that positive movement as well in the asset yield. So good growth in that conventional lending, which again we focus on. So some of that was, as expected, a little bit better than expected. You see that even with some of our newer portfolios like consumer lending. Again, normalization of prepayment income, as Andrew and I just hit, Concentra's stability and some of the repricing better than expected. And they're including some of the resilience of that some of that lower source cost of funding as well than expected.

And then some of it as well is how some of the fair value amortization of loans and deposits shows up through margin, and that will stay around for a while as well, and that you can attribute to Concentra. So core business expansion plus some of these factors like prepayment normalization, amortization loan deposits and then the strength of the yields, are all coming in a little bit better than expected. And it shows the fortitude in our execution to be honest.

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

Yes. I think the only thing that I think we were being a little bit conservative on perhaps it might have led to the surprise as well, is there's not increasing rates in EQ Bank as the bank moved. So we are being a bit conservative about that deposit beta. I think where we've landed in that is it's a great everyday rate for your operational accounts to be paid 2.5% of interest, and we provide all the functionality would otherwise get from a checking account. And if you are leaving money and you expect to leave money in the account for a longer period of time, the move is into a term deposit, which is really easy to do off the app.

So I think that's the trade and we are seeing a bit of movement into term deposits within the EQ Bank platform, which I feel comfortable with. But you lose a little bit of what you win in funding stability, you potentially lose a little bit of margin there around that deposit beta. It's been a subtle thing, and we're constantly churning it. So it's when the budgeting teams come to us to ask to sort of think about -- how to think about that. I think we've probably built in a bit too much conservatism there historically.

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

And then moving on to the gains on sale, probably for Chad. I think I heard you suggest that you can maintain some gains throughout 2023. Is that true? And if so, at this $14 million quarterly level and then kind of what gives you the confidence in that because it does seem quite elevated to me, at least in Q1?

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

Yes, absolutely, Lemar. So the -- we have an incredible team. Remember, we're the largest securitizer of multi-residential insured lending in the country. We have great expertise in this. And so a couple of things you see is that the amount we did in volume was -- it's getting to the point of nearly equivalent to what we did in the entire year in the past. And with what's happening with originations in the market, we do think we can continue that. Some of the margin expansion is there. And I think I would expect to see some consistency in the overall line in the next quarter and then probably through to the end of the year, and then we'll revisit that guidance for 2024. But this is a core expertise. This is a -- we call this core earnings, too, right? We didn't -- strategic investments has stripped out, for those core gains on sale are part of our expertise.

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

It has to -- we'd be on a structural sort of positive structural shift in this business over the last 18 months where we set up Equitable Trust, so we have a trust company subsidiary that's also a securitization of multis, which has given us much more capacity using kind of aggregated capability of executing the technology. So the volumes will continue to be higher structurally compared to where they would have been 18 months ago. So -- and we do have the benefit through our other activities of creating a pipeline of future loans to go into this part of our business. So the ability to help somebody build a building through a CMHC construction loan, for example, and then take it through the securitization journey is really proving to be a valuable business and also gives us more comfort in the source of business going forward.

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

And then last one for me. Just on the office exposures generally and that's 59% LTV. How often do you guys revisit the valuation on that -- on these office properties? And how do you kind of manage the credit risk generally?

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

I mean, on this sort of reason or price, we revisiting value in LTV, we would -- each property would be revisited once a year on a kind of rolling cycle when it's coming up for annual review. So it's not quite as easy to kind of capture the data as we would with single-family where we use HPI to update the entire portfolio every quarter.

So having said that, obviously, it's a fair conservation -- fair margin conversation where safety 59% LTV. So I would say there's not a lot of liquidity in the office market right now. So I think you're sort of caution around that, the words of caution I'm sort of hearing is entirely merited. We're very keen to sort of manage credit risk carefully in these types of properties. We think we can be, if need be a good owner of real estate. So we are people that would think about re-leasing space, getting NOI up and then remarketing on a sensible basis as opposed to I think other banks would take the view sort of remarket as is where is and get the best value and taking on a loss.

So I don't think that is the approach. -- be clear. I don't think we have any office properties under management right now, but that is the approach we would take. And as I mentioned, it's less than 1% of our assets. We feel pretty comfortable with it, especially when you look at the types of tenants in these buildings, most of it's in a multi-tenant dental practices, doctors practices, financial planners. So fairly diversified tenants that give us much more comfort than perhaps it had large commercial tenants that could go -- could have virtual stresses or business model challenges or maybe the people don't want to come to work, they are really on the space. So we feel pretty good about the asset selection in that business.

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But as I mentioned, it's not a perfect asset class, and you can see that in terms of what a very modest portfolio it is within the original scheme of the bank.

Operator

Your next question comes from Etienne Ricard at BMO Capital Markets.

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

On funding, could you please remind us of the initiatives and assumptions supporting a pickup in deposit growth at EQ Bank in order to meet the guidance for 20% to 30% growth in 2023? Just curious, is the funding levers [that's there]? Or is there some of what work is happening under EQ Bank to support that growth that led to...

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

The assumptions of our growth is what I had. But if you could just reaffirm the question there.

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

Yes, just the -- more broadly, the initiatives and assumptions underpinning your guidance for 20% to 30% growth in deposits at EQ Bank?

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

Yes. So the initiatives are very clear. As we talked about, we launched in Quebec around the beginning of the year. We relaunched it in Quebec in last year. So we did have no customers until December in Quebec. And then in January, we launched our EQ Card. So both of those are driving the improvement in the addressable market. And then we've been much more aggressively putting advertising collateral to the market, which you've seen with our Make Bank campaign. We have actually been putting fairly significant advertising collateral in the market around the leafs first and on second round playoffs. So that's really getting some traction in terms of kind of average customer counts increasing.

So it is -- I don't know if we reveal publicly how many customers and we're expecting to add this year. But broadly speaking, every customer, we pick up ends up with an average balance of around $20,000. So as we add new customers, it's driving that deposit growth.

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

Understood. On the topic of banking stress in the United States, I recognize this is an evolving situation, and it's happening in a different jurisdiction. That being said, in Canada, how do you think about potential regulatory implications on the risk weight, liquidity requirements and also insured limits at CDIC?

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

Yes. So I think it's very important for us to think about structural differences between the Canadian banking market and the U.S. banking market. In particular, there's been a flight of cash out of commercial banks of all types in the United States into money market funds who then turn around that can post the money directly at the Federal Reserve. In Canada, essentially deposits leave one bank, they have to go to another bank. There isn't such a facility enabled. So I think that makes the entire system structurally sounder. So I think that is a really, really important thing to think about. The other thing for those of us sort of banking geek, I thought the Federal Reserves Report on SVB that came out last Friday is sort of a primer

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on what -- how to not run a bank. And I think unfortunately a few banks that are being run this way and they were set up to be very fragile. And so when you put stress on them, it's very difficult.

And I think if you could -- if you read that report and you compare what we've been talking about around the resilience of a bank, you'll see -- you'll see that it's really distinctly different. In particular, the interest rate shock and the way they certainly very high limits and then also even breaching those limits is stunning and startling and shocking. We knew about these things come in a federal crisis, we should not have been -- no bank should set up this kind of failure.

In terms of regulatory reform, I don't know. I hope we are thoughtful about it because my own view is that supervisors and the regulations deal with a lot of these things, you just need to have good supervision and good management of banks. Why that failed in this case is disappointing. And I think -- but I think before we reach for changes to the rules, we really need to understand that, frankly, honestly, does a great job around a lot of these things, including more recently, putting out a draft guideline on culture and banks, which seems to me as sort of potentially at the root of the problem.

CDIC insurance, though, I do think -- I'm optimistic that we will increase the level of CDIC insurance. Michael Mignardi, our General Counsel (inaudible) in the first week of the New Year. So long advance of these challenges in the U.S. are calling for higher CDIC insurance limits. And we do know that CDIC is now sort of looking at that. I'm not saying, by the way, those 2 events are linked, but CDIC is considering its coverage limit. So I'm optimistic that over the next little while, we'll see increase in limites.

Operator

Your next question comes from Jeff Kwan at RBC Capital Markets.

Geoffrey Kwan - *RBC Capital Markets, Research Division - Analyst*

Just wanted to go back to the multiunit residential, your view on terms of being elevated. Is that a function of just higher market activity? And is that more new apartment construction versus sales of existing properties, but also two, is it also a function of taking market share? Because I know you talked about also having more capacity to be able to do more through aggregators and whatnot?

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

I think it's mostly bad, frankly, the structural improvement in capacity in the past has not been the ability to get the loans or get the asset has really been the ability to find capacity to fund them, that's been a binding constraint. And so by some of these moves, we've opened up the capacity within the system for ourselves to allow us to support our customers with higher volumes. So yes, I think there is good activity in the market because a business that might have been done historically as conventional loans is moving more and more into the CMHC channels.

So the overall market is increasing, we're definitely increasing share within the market and becoming a much more relevant player than we ever have been.

Geoffrey Kwan - *RBC Capital Markets, Research Division - Analyst*

And just my other question is, as we're heading through the spring housing season and your comment of seeing some prices and we're seeing that in the market go up. Are you seeing anything from the competitive standpoint, whether or not in the prime or the [alt] space on rates and to the extent in certain parts players could probably play with amortization periods to try and drive new business?

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

I haven't really seen that, frankly. The players are the same on amortization. I think for all of us in the prime market, prime by the way, it's almost irrelevant to your thinking about Equitable as an investment vehicle, we have a good team there, it's a nice business within our framework, but it's not particularly relevant to driving the bottom line. That's a thin margin business. I think it's been a challenge for all of us to participate in that space with the volatility in interest rates to actually be pricing properly and thinking about where margins need to be.

In general, I'd say the margins have widened a little bit, but I think it's really because we're all trying to make sure we don't get caught offside with a change in interest rates. The competitive dynamic in a more traditional space of conventional single-family continues to be the same. Essentially, we have 2 or 3 significant players and are not seeing competitive behavior that seems strange. The one thing, of course, that's overriding this and really doesn't influence us at all is some dialogue around a couple of big banks, at least having variable rate mortgages have gone negative and I know that's causing some concern in some circles. We don't have that. We have the reprice of our amortized still maintain a positive amortization profile.

Operator

Your next question comes from Stephen Boland at Raymond James.

Stephen Boland - *Raymond James Ltd., Research Division - MD & Equity Research Analyst*

Andrew, you kind of just touched on what my question is going to be in terms of what are you seeing in terms of renewals? Like, how are you dealing with your customer base, especially on the single-family in terms of retaining those clients with the higher rates? What's -- is there a sticker shot still in place for some of your customers? I'm just trying to get a better sense of what that retention and renewal looks like that process?

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

Yes. I mean, in terms of the renewal percentages, we're a higher percentage than we ever have. So that part is good. There's no doubt that this sticker-shock on part of our customers. I mean, frankly, I have a lot of empathy for them, so we have to work with them to kind of figure out how to adjust to that sticker-shock. Unfortunately, it's really just us putting the pricing increases pushed through by the Bank of Canada and general rate increases through to them. So certainly, we're not trying to take advantage of this and trying to help our customers. But obviously, we've got a price in the context of the market. So how that's working.

I think the big takeaway from all of this, when I read commentary around mortgage stress and so on, is that the balance sheet of households are still remarkably strong in Canada. And that covers up a lot of -- that's why these portfolios are holding up really well. So our customers that are renewing with us despite the payment shock increases have resources way beyond just the current income. The incomes are going up too because of inflation. So we're seeing remarkable resilience here. That story about the balance sheet of Canadian consumers is one that doesn't enter enough, I think, into the mortgage stability, dialogue, and I think -- I believe is really important.

Operator

(Operator Instructions). Your next question will come from Graham Ryding at TD Securities.

Graham Ryding - *TD Securities Equity Research - Research Analyst of Financial Services*

Maybe similar statement, it does feel like OSFI is becoming a little more sensitive to liquidity and funding stress with some of their recent commentary. Are you expecting them to bring forward any changes on that front? And/or similarly, are you making or expecting any proactive changes on your part towards holding more liquidity just given the market backdrop and the sensitivity right now?

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

I would certainly expect that OSFI is going to be thinking more about liquidity every time there's a -- there's always a lesson to learn from banking stresses. And clearly, it's a lesson about what's happened in the U.S. that we need to think about. As I mentioned, I do think there are structural differences in Canada that make some of those lessons less relevant. We've always maintained strong liquidity. And as I mentioned, I think many should be surprised that, for example, that in EQ Bank, we only take deposits to $200,000 for example. It's a pretty -- I haven't seen other banks kind of operating with that level of caution.

So liquidity, holding all liquidity can be somewhat helpful. Really, the issue is a structural way you're set up to make sure you can continue to access liquidity. And the work that Chadwick and his team have done on covered bonds, the strength of the EQ Bank franchise as well as access to brokered deposits, really wide access to brokered deposits across the country. I think pushes increased that. So quarter-to-quarter, you'll see fluctuations in liquidity. A lot of that's based on the projections over the next 6, 12 months in terms of funding -- our expected fundings of assets and that kind of thing. So -- but in general, we're not thinking that we need to move our liquidity profile or risk appetite at all because we've always been conservative.

It's always been my super -- having been in this bank when we went through the financial crisis, being through the issues in 2017, it's always been a highly innovated kind of risk factor that we think about in measuring and running this bank.

Graham Ryding - *TD Securities Equity Research - Research Analyst of Financial Services*

And for us to measure that, should we be looking at your liquidity as a percentage of your assets? Or is that too blunt to the tool?

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

It's definitely too blunt. It's definitely -- unfortunately, there are sort of metrics that we -- we're not -- the culture of the industry that -- we shouldn't be revealing them that would be helpful to you, but we're not how to do that. Hope we think it's imprudent to -- we not really answer that. So looking at that is a useful way to talk about it, Graham, and then I think we can talk you through it as well beyond that. But that's -- I mean, that is a way, but it doesn't really reflect some of the seasonality and other things that you might see us setting up for that, that could be explanations for why liquidity is moving.

We can always get more liquidity than we hold on the balance sheet as a question of judgment on how much do we think is appropriate given the way the business is shaping up.

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

And your one side, too, Graham. So even when you look at the press release and the MD&A, we say we operate well in excess of 100% LCR -- that's always a [good point] for you -- versus where the DCIPs operate. And we have some other liquidity measures that come out at least once a year like we had in Q4. And that liquidity measure, you could expect is a haircut version of LCR and that was over 300% in Q4 that you would have seen in February and then Andrew's point some of the other disclosures of points around the insured aspect.

So there's a few good measures that we had in how we reframed it in this quarter's,, I think it's worth checking out.

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

I always liken the bank to being like a sponge. If you actually go looking to squeeze liquidity out, there's a lot of liquidity there under the hood. So that's the most complex argument that some of the blunt the ratios of how much HQLA we've got around.

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Graham Ryding - *TD Securities Equity Research - Research Analyst of Financial Services*

If I could jump to just some of the commercial areas in credit, just wondering if there's anything sizable in there that you would maybe call out or just some color on the nature of those arrears and your comfort around no potential losses on that or limited losses?

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

Ron, maybe you can -- you've done a deep dive in there?

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

Yes. Like the commercial -- again, you go back to the levels of impaired that we have, I mean, I do like to point out that we are basically just approaching pre-pandemic levels. And so I and the rest of the management look at it as things have normalized. And so we're really operating with normal levels of impaired in that business. It's a number of accounts that you can count on less on one hand. And so we've got a very good view into all of those very good granularity. And it all goes back to what we said earlier on the call with respect to origination LTVs, the ability to get in and understand these and having a lot of cushion.

So while you do see a nominal increase in impaireds, you don't see a corresponding increase in provisions on those because the view to working through them is you'll see a similar result to what you've seen from our historical results and working through those.

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

I just walked through, I ask the team to pull all office files over 10 minutes and walk through them kind of one by one. And there's always things in every asset you have, but in general, we feel real comfortable with enough to doing that.

Graham Ryding - *TD Securities Equity Research - Research Analyst of Financial Services*

And maybe one more, if I could, just construction loans, that seems like a higher risk area right now. It looks like you have $2.7 million in your portfolio, and it has been building. Is that you just honoring previous commitments as opposed to actively deploying capital there? Is that what we're seeing? And is there anything insured in there?

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

Yes, yes, there's a lot of insured in there. That's -- a lot of that is insured --

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

Yesh. Of that $2.7 billion over $1 billion would be the CMHC insured.

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

Right. Exactly. So that's obviously -- that sort of gets credit in the full generally very high-quality sponsors. So you can knock a billion of that before you insured think about the number. We agreed with you in terms of generally, that an area that in an inflation environment seems a bit riskier. That's why we actually kind of dialed back on construction lending through much of last year. We are starting to see more opportunity now that

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we believe the inflationary pressures on construction costs, but still deflationary pressure, but people get more comfort on construction costs, we think we're in pretty good shape on that construction lending.

Generally, a lot of the time, we're operating at relatively low LTVs on completed cost with other parties behind us as well. So again, sort of double protected on the kind of LTV in the business.

Graham Ryding - *TD Securities Equity Research - Research Analyst of Financial Services*

And are these multiunit apartment buildings or --

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

The vast majority will be multi and combos with presales.

Operator

Your next question comes from Jaeme Gloyn at National Bank.

Jaeme Gloyn - *National Bank Financial, Inc., Research Division - Analyst*

Just wanted to follow on that commercial loan growth team. Conventional commercial loans look like they've declined quarter-over-quarter. Can you talk about what's driving that decline sequentially?

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

I mean, nothing particularly in terms of what drives that. Don't forget in that business, they're larger lumpy loans. So you got a few loans discharging and timing on funding new loans, you could end up with a bit of noise quarter-to-quarter. So that's -- I think that's the only explanation we can really provide on that.

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

Yes, and remember, they will book as well. We have the higher level derecognition as well in the quarter. So that was going to be part of the overall commercial trending, and that's where you see the off-balance sheet increase. So we have about $11.5 billion or so if you recognize up the balance sheet now, too.

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

Yes. I mean, I'll just say what Chadwick is saying there. So if we have an insured -- a multi insured by CMHC sitting on our balance sheet and we rolled it to a package and sell it to the Canada Housing Trust, that may only not -- usually, would get derecognized so that then comes off the balance sheet. So you really have to look at the total loans under management rather than the size of the balance sheet.

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Jaeme Gloyn - *National Bank Financial, Inc., Research Division - Analyst*

I was thinking more on the mortgages, like the conventional side, and it sounds like there's nothing strategic there, just some lumpiness in that business rather than anything where you're maybe more concerned about the conventional commercial loans or otherwise, something like that. Is that --

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

And just the way I mentioned when we stopped putting out new commitments for commercial loans through much of -- through construction loans, much of last year. That -- obviously, we'll continue to fund into those -- into the existing commitments. Some of those buildings got completed, they got discharged, so you're seeing some of that. I wouldn't expect that kind of erosion to prevail busier now, and we are sort of more comfortable with these asset classes that we are feeling a bit concerned about in the middle of last year.

Jaeme Gloyn - *National Bank Financial, Inc., Research Division - Analyst*

Still in the commercial side and thinking about multi-units, do you have any initial thoughts or views on any potential impacts if the federal government decides to fold in CMB funding? Are there any impacts on that gain on sale line, not thinking necessarily on liquidity for commercial loans, but more on the gain on sale line. Is there any potential knock-on effects from that?

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

We don't know, frankly, that was a line out of in the budget. So for those of you who may be not following all that detail in the budget, there was a proposal of some thinking around consolidating the issuance of Canada Housing Trust bonds into the general liabilities of the government Canada with the view that, that might reduce overall funding costs. But I'm entirely clear to us frankly is that that would -- that outcome would even be achieved. But there is some work going on the bank here to think about that. Presumably, the needs and the overall strategic desire of the government to continue to fund multifamily buildings and in the face of a shortage of housing, which should continue to create a good program.

To date, we haven't heard much detail about that, but obviously very interestingly engaged on how that might flow through and whether it might create some other intended consequences that we should be engaging with. But I think it's way too early to say.

Jaeme Gloyn - *National Bank Financial, Inc., Research Division - Analyst*

And then last one for me is on the OpEx. It looks like OpEx this quarter increased more or quite a bit more than what just like an extra month of Concentra would have implied. So hoping you could outline what are some of those drivers that are driving that are resulting in that larger increase? And is there anything seasonality-wise, onetime, like marketing is coming off next quarter? Like how should we think about this level of OpEx at $120 million in the quarter over the next few quarters?

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

Yes, I don't actually think it's that surprising, Jaeme. When you do the math on the Concentra, last quarter was a little bit probably -- probably where we're struggling, it's just the math last quarter versus what was reported and adjusted because we only actually -- when we carve out those integration costs, it's more on a bulk basis versus a line-by-line item. So you're probably just not seeing the line items at that level of detail. When you consider that, then the noise of Q4 plus at Concentra and plus what I mentioned in terms of the launches of the EQ Bank card, the Make Bank campaign, some of those investments in our digital bank. That's where you're seeing translating.

And I actually think the 45% efficiency ratio, so is pretty solid given where we're in the integration. And notwithstanding 6.9% ROE would be the paramount focus. So some of those trends, I think that that's the way to think about it for the quarter.

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Operator

Mr. Moor, there are no further questions. So I will turn the conference back to you for any closing remarks.

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

Thank you, Michelle. As a reminder, we are hosting our Annual Meeting of Shareholders virtually on May 17, and we encourage you to log on, participate and vote. Details can be found in our proxy circular, including on our advisory vote for Executive compensation. We included this vote as part of our Board's ongoing commitment to good governance, and I'm pleased that we've received support for our approach from the 2 most prominent proxy advisory firms.

Speaking directly to our institutional analysts, I remind you that we find great value and direct engagement and encourage you to reach out at any time and not just during proxy season, though proxy season is a great time to do. In closing, we look forward to reporting Q2 progress on August 1. Thank you for participating, and have a great day.

Operator

Ladies and gentlemen, this does conclude your conference call for this morning. Again, we would like to thank you for participating and ask you to please disconnect your lines.

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