REFINITIV STREETEVENTS

EDITED TRANSCRIPT

EQB.TO - Q1 2022 Equitable Group Inc Earnings Call

EVENT DATE/TIME: MAY 11, 2022 / 12:30PM GMT

CORPORATE PARTICIPANTS

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

Chadwick Westlake *Equitable Group Inc. - Senior VP & CFO*

Richard Gill *Equitable Group Inc. - Vice President of Corporate Development & IR*

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

CONFERENCE CALL PARTICIPANTS

Etienne Ricard *BMO Capital Markets Equity Research - Analyst*

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

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

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

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

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

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

PRESENTATION

Operator

Good morning, and welcome to Equitable Group's First Quarter Analyst Call and Webcast on May 11, 2022. It's now my pleasure to turn the call over to Richard Gill, Vice President, Corporate Development and Investor Relations at Equitable. Please go ahead, Mr. Gill.

Richard Gill - *Equitable Group Inc. - Vice President of Corporate Development & IR*

Thanks, Chris. Your hosts for the call this morning are Andrew Moor, President and 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 see our accompanying slide deck, including Slide 2, containing Equitable's caution regarding forward-looking statements.

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

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

Good morning, everyone, and thank you for joining us. Equitable got out of the starting gate quickly this year as our strategy to grow higher-margin conventional assets and further diversify our balance sheet translated into the best quarterly earnings performance in our history. This was accompanied by return on equity, our true north, well above our high performance bar at 19.2% adjusted. Chadwick will zero in on financial accomplishments during his remarks that have supported our second dividend increase of the year. And Ron is here to answer questions on risk management and the great condition of our credit book.

It's evident to all of us on this call that the economic and geopolitical environment has shifted dramatically in the past few weeks to introduce new uncertainties. Without downplaying these risks, which as you know, I would never do, there are important fundamentals still firmly in place to support progress for Canada generally and housing demand specifically, including high employment and immigration.

Weighing all of these factors and knowing that we have purposely built the bank and our model to prepare for periods like this, I feel that our prospects for growth and performance remain very positive. In fact, I would say that with an incredible first quarter putting us ahead of target to start 2022 in conventional lending, combined with a strong pipeline of applications and funding commitments in the Personal and Commercial Bank in Eastern and Western Canada, we have good confidence in our existing loan growth guidance and our ability to deliver greater than 15% ROE for 2022.

In all market conditions, including in today's rising interest rate environment, our team is always focused on ROE, which is why we called it our North Star. To deliver industry best returns for shareholders, which we've done for well over a decade, we've long had great systems, including our proprietary ROE calculator on the laptops of every Equitable underwriter as well as disciplined treasury processes in place to protect margins in our loan commitment pipelines.

The value of these systems and processes and the experienced people behind them was on display again in Q1 as the bank's NIM surpassed guidance. We believe that our pricing disciplines, healthy conventional lending outlook as well as steps taken to lower the lower the bank's cost of funds will work in concert this year to support margin performance.

But it's not just this year that we care about. My preoccupation is how we're setting the bank up for the longer-term value creation for customers, a rich and respectful work environment for our people and great shareholder returns for our owners.

This is where I will start today because leaning into our Challenger purpose, to change banking to enrich people's lives, is how we will drive even greater value creation in the years ahead.

In this regard, we are delivering breakthroughs in purposeful technology innovation and scaling up our newest business platforms that will become meaningful contributors to the bank's long-term performance.

I'll start with technology development. As you know, one of our distinct strengths lies in our digital cloud-based capabilities. These have manifested themselves again in our EQ Bank platform, voted Canada's top Scheduled I bank by Forbes last month for the second year running. Our opportunity is to combine our capability as both bankers and technologists to drive positive change, not just in EQ Bank, but in all other parts of our business.

Our team has risen to the challenge. This month, we began rolling out a new EQ Bank account opening process using informed artificial intelligence to enable customers to verify their own government-issued ID. We've long sought to reduce friction in digital account openings for our customers, and informed AI takes convenience to our whole new level. As you know, FINTRAC requires us to confirm that a customer is who they say they are as a starting point for every relationship. Our solution enables an account applicant to take a photo of their physical ID and a live photo of themselves, a selfie, and our AI technology virtually and instantly matches the 2 to confirm authenticity.

We'll need to get a bit more experience under our belt to tell you how it's benefiting customer onboarding. But for sure, the process is fast, secure, accurate, FINTRAC-compliant and eliminates a cumbersome and inconvenient authentication process.

In the recent past, providing physical IDs required our customers to line up at Canada Post, a huge inconvenience.

One part of this innovation I'm really proud of is that we've done the engineering to accept the photo recognition of status cards for people from our First Nations. This is a Canadian-first that is emblematic of our determination to do what we can to eliminate systemic discrimination.

Although Q1 created this wonderful innovation, we added 15,000 customers to EQ. Of vital importance, we achieved record customer engagement measured by monthly use of services and number of products held. In fact, transaction activity in Q1 increased 91% from a year ago, while the number of products per customer was up 15%. This proves that once a customer joins EQ, there are many reasons to stay, from great rates on U.S. dollars and fantastic international money transfers to the easiest experience of buying great rate GICs, there is a lot to like.

Of importance to all shareholders, our digital platform is driving franchise value through the diversification of the bank's deposits and a reduction in our marginal cost of funds. Digitization and the use of technology is delivering improvements across the bank. We saw evidence this past quarter with the launch of Equitable Connect. It's a cloud-based fulfillment portal that streamlines mortgage document management for brokers. It improves our visibility and accelerates mortgage approvals. The idea for Equitable Connect came from listening to our mortgage broker partners and finding ways to support their efficiency and effectiveness in the market.

Using our Challenger Bank philosophy, we also sought to understand how we could give our fulfillment officers the tools they need to make quick and informed decisions to improve the broker experience. I'm pleased to say we got both sides of the equation right. The portal enhances transparency by making document conditions clear -- crystal clear to our brokers, provides them with real-time status updates and aligns our internal document storage capabilities while streamlining experience for our staff.

Because Equitable Connect is cloud-based, it's accessible anywhere, anytime on any device. That's important to brokers and our team. This innovation supports the growth of our alternative mortgage portfolio and grow it did at a year-over-year rate of 37% with a 7% assist over the last quarter alone. Our 2022 guidance is for our alternative mortgage portfolio to grow by 12% to 15%. Our current internal forecasts show that we should be able to achieve this comfortably.

Equitable Connect is part of a digitization effort within our lending operations. And of note, the portal is open not only for our alt single-family business, but also brokers who submit prime and reverse mortgage business to us. All brokers get the same great experience.

This brings me to the fantastic progress made in our Wealth Accumulation business, our newest growth platform. There are 2 separate pillars: CSV insurance policy lending and reverse mortgages. Both are building the profile and market share through significant value creation tailored for Canadians and our bank in the years ahead.

In Q1, we brought forward our latest Challenger offering within our insurance lending product line, the Equitable Bank Immediate Financing Arrangement. IFA rounds out our product set for life insurance policy lending for now and positions the bank well for significant growth in this area. It also allows us to develop deeper relationships with insurance advisers and their customers that can lead to further opportunity in other areas. At nearly $60 million, our insurance lending portfolio is small in comparison to other parts of the bank, but growing quickly at 91% year-over-year in Q1 with strong growth prospects for the future.

Our insurance company partnerships also increased to 9 with the addition of Equitable Life of Canada joining us in late March.

Our reverse mortgage business is a bigger part of the decumulation growth platform and it, too, is moving ahead rapidly in market share profile in assets with growth of 262% year-over-year as the portfolio surpassed $300 million. The distinctive features of our reverse mortgage products are attracting customers and leading to consistent market share gains.

In decumulation, we've been learning at a very efficient and effective pace within markets featuring substantial long-term upside. Recent census data indicate that 1 in 5 Canadians of working age are closing in on retirement. These are the people that will be served by our decumulation services where we believe Equitable is developing a distinctive and valuable franchise.

A breakthrough that lies ahead is our acquisition of Concentra Bank. As you know, funding for the purchase is in place. We've made requisite submissions for regulatory approval and continue to expect closing in the second half of the year. As noted in our MD&A, we recently received approval from the Competition Bureau of Canada, which is an important first step.

I won't repeat all of the many reasons why this accretive acquisition is beneficial, but I will reinforce the point that it adds important scale in complementary conventional lending business lines. It adds more diversification to our sources of funding and revenue and introduces Equitable to the credit union system as we assume Concentra's market-leading place in that vibrant ecosystem.

Since February, we've put as many fine details in place for the integration to come as we can, noting, of course, that Concentra continues to operate successfully and separately from Equitable. We do have a mandate to achieve full integration quickly, and we are ready.

Another uniquely positive feature of the acquisition is that we will gain access to Concentra's proven and talented workforce that will further deepen our incredible and growing team of Challengers. Among the things I obsess about for our future is talent acquisition and development and the perpetuation of our empowered culture of ownership. It's no secret that banks are having a hard time finding people and unfilled job openings can lead to customer service declines and eat into growth potential.

Equitable is ever vigilant over here. Over the past 2 years, we've added some wonderful new and diverse talent to drive our Challenger purpose, people who like the idea of having a personal impact within an organization that shares their values. We have an effective culture that recognizes at its bedrock that our frontline teams are the bank's heroes in delivering the customer experience we aspire to create.

Banking is not easy, and our teams bring passion and energy to their roles every day. We place huge emphasis on employee engagement by creating rewarding working experiences that aren't often available in some other organizations. We'll talk about workforce planning and the development of our Challenger culture at our upcoming Investor Day because, to my mind, people power is critical for the success of Canada's leading digital bank.

I also think we've become a better executive team as we've added outside talent and gained insight, experience and confidence through the personal and commercial banking management structure adopted in late 2020. This has sharpened our focus and improved the quality and speed of decision-making.

There is always room for improvement and a desire for Equitable to get it. To that end, we are constantly refining the structure of the organization and allocating decision rates consistent with the bank's risk tolerances to drive effective business outcomes.

Having now highlighted some of the things that will drive long-term sustainable value for shareholders, I think it's time to talk about the quarter, which serves as the latest proof point that the bank strategies are working. Chadwick?

Chadwick Westlake - *Equitable Group Inc. - Senior VP & CFO*

That's great. Thanks, Andrew, and good morning, everyone. 2022 started off where 2021 left off: with great growth momentum across both our Personal and Commercial Bank segments, delivering record revenue, best ever quarterly earnings and our North Star ROE ahead of guidance on both a reported and adjusted basis. This illustrates once again that our strategy is differentiated and effective, that Canada's Challenger Bank is positioned to perform across economic cycles and that there is a wide disconnect between our fundamental strength and business model diversification compared to the significant discount in our common equity valuation.

Picking up on Andrew's comments about the Concentra acquisition agreement. We completed months of due diligence in lead up to the purchase agreement announcement. But our people did not veer away from running the bank to achieve these great results. I think this speaks to the quality of our team as well as the embedded effectiveness of our formula for delivering consistently high return on equity.

As previously indicated, we've introduced adjusted measures to account for costs associated with the acquisition agreement in order to maintain a distinct lens on our core business. These costs are part of the overall $45 million to $50 million in integration and transaction expenses we communicated as part of the acquisition agreement.

In the quarter, those costs were $6 million or $0.13 per share after tax. $5.1 million of that for acquisition and integration-related expenses and the rest is dividend equivalent amount paid to subscription receipt holders in accordance with the terms of the offering.

Each holder is entitled to receive a payment equal to the common share dividend declared, multiplied by the number of subscription receipts held on the common share dividend payment date. The net proceeds from the issuance are held in an escrow account and the interest income earned on those proceeds is also not recognized until the closing date when all subscription receipts will be converted into common shares at a 1:1 ratio.

We would expect a continued impact of a couple of million in costs per quarter plus the impact from the subscription receipt dividends recorded as an interest expense until the deal closes.

Even adding those items back in the first quarter, reported revenue and earnings were better than any other quarter in our history, and they were earned organically from core business activities and assisted by our strategy to lower our cost of funds. The numbers I quote today will be adjusted, unless otherwise noted.

I'll start with the comparison of quarterly results against annual guidance with the headline message that Equitable is positioned to deliver on all growth measures in 2022. Our outlook takes into account the current and evolving market sentiment on housing market growth due to rising rates. That said, and to complement our outlook that Andrew outlined, we are not the market, and we do expect our own momentum to continue into our traditionally busy spring and summer months.

With this momentum, we are building our conventional assets, and that earnings engine will continue to power results later into 2022 to enable us to achieve our earnings guidance.

Also to note for earnings guidance, we have not yet accounted for the impact of an increase of 1.5% in the corporate tax rate as it relates to the recent announcement by the federal government for banks generating greater than $100 million in annual earnings. When the timing and all details become precise, we will update our guidance accordingly, but do not expect this to be material.

Moving to big picture items. Pre-provision pretax income increased 28% year-over-year in the first quarter compared to our annual target of 12%-plus. EPS was up 33%, far outpacing our guidance for 2022 of 8% to 10%. ROE, as mentioned, was 19.2% against guidance of 15%-plus. And book value per share increased 18% against full year guidance of 12% to a record $57.64.

We'd anticipated disclosing segmented business line results starting in the first quarter of 2022. But due to the Concentra Bank acquisition agreement, we are delaying these additional disclosures until after the deal closes.

We have maintained CET1 above our target floor at 13%. And we expect this will remain closer to our target this year as we deploy capital to conventional lending. This stability in CET1 was from a combination of continued organic regulatory capital growth and a capital investment in Equitable Bank funded through Equitable Group's new funding facility, offset against continued elevated expansion of risk-weighted assets as we increase conventional lending.

Within the annual guidance, we also pledged to increase our common share dividend beyond the 51% increase enacted in March, and we did that, too, with a 57% year-over-year increase commensurate with the payment in June or 4% above the rate paid in March.

Despite this latest reward for owning shares and our plan for additional dividend hikes, we expect the payout ratio to remain well below other banks, which is part of our standard value-creation formula, and focus on long-term total shareholder return.

Moving to more details on the growth in our balance sheet. I want to reinforce the strength of conventional lending. Overall lending increased 19% year-over-year, building towards our 2022 annual guidance of 12% to 15%, but our conventional portfolio increased at 35%. Again, a big storyline is growth in alternative single family. That loan portfolio balance increased 37% year-over-year to $15.4 billion.

As you know, we had good momentum in Q4 and that carried on in Q1, aided by attrition rates moving back towards historical norms.

The other particular point I'll reinforce that Andrew highlighted was the continued build in our reverse mortgage business, which climbed another 262% year-over-year, now crossing $300 million and ahead of guidance.

In Commercial Banking, all 5 business lines outpaced annual guidance. Two highlights, in particular, in the first quarter include specialized finance, which increased 178% year-over-year and our equipment leasing business growth. With the incredible team at Bennington, equipment leasing continues to exceed expectations with portfolio growth of 31% year-over-year, heavily weighted to high credit quality prime leases.

While we focus on conventional, the steady performance of our insured multifamily portfolio where assets increased 2% year-over-year also contributes to our revenue, diversification, stability and ROE strength.

We have a meaningful competitive advantage with our Commercial Bank, and Darren Lorimer, our Group Head, is going to share a lot more insight at next month's Investor Day.

On the sources of funding side, there are 3 developing story lines. As Andrew said, EQ Bank showed strong growth in deposits, customers and all measures of engagement with an opening performance at the midpoint of our 20% to 30% deposit growth guidance for 2022. This reflects an increase of nearly $300 million in deposits in the quarter.

Our $12 billion broker deposit business is also on the move with double-digit year-over-year increases in both term and demand deposits reflecting very high volumes in this channel in Canada.

The third storyline is momentum in our secured and unsecured wholesale funding diversification. During the quarter, we successfully completed 2 deposit note offerings for a total of $0.5 billion of new money, the largest total issuance so far. That issuance was split in half with $250 million priced at 2.753% due next December and the other half at 3.362% due March 2026.

Despite bond market volatility, spreads were tight and both offerings were well oversubscribed.

Our European covered bond program, which is secured wholesale funding, complements our deposit notes to lower the bank's cost of funding. Our intention is to be back in the market in the very near future to continue our regular issuances and scale our tailwind.

As early as this year, Concentra's addition will also assist as this increases the size of our potential program.

Margin management is a distinct competitive advantage of strength for Equitable that was proven again in Q1. The outcome was more strong risk managed revenue growth of 26% year-over-year to a record $188.5 million. With 16% growth in average assets and our pricing discipline, our net interest margin expanded 10 basis points year-over-year and we generated 22% year-over-year growth in net interest income, up to $163.1 million.

Our NIM guidance is 1.8% to 1.85% on a whole year basis. Despite the volatility in bond yields and rising rate environment, we are reaffirming this for 2022, reflecting our loan pricing strategies, our focus on higher-margin conventional lending and the cost of fund structural advantage with our digital bank and wholesale funding options.

Naturally, there are headwinds and tailwinds to consider in how we get there. One headwind is an expected decline in prepayment income due to rising rates. Our tailwinds, again, include additional covered bond issuances, our ability to benefit from margin expansion with our growing EQ Bank deposits compared to rising lending prices and also our growing ability to successfully source insured multis with our new aggregator business in Equitable Trust.

Moving to noninterest income. We generated 57% year-over-year and 60% quarter-over-quarter growth. This reflects $16 million in benefits from strategic investments. There was an increase in unrealized fair value gains on derivative financial instruments related to securitization activities, but these are offset by losses on certain equity and debt securities, which are strategically fair valued through the income statement for the purposes of offsetting changes in the valuation of securitization derivatives.

Diversifying and increasing noninterest revenue through the launch of new products and services is a dedicated strategic focus with long-term benefits. You'll hear more about this in June at our Investor Day.

While we have plans in important Concentra Bank will increase this revenue by around 40%. From a near-term perspective, we expect the next couple of quarters to be more aligned to normal trending compared to Q1 levels.

Moving on. Noninterest expenses increased 22% year-over-year after deducting integration expenses of $5.1 million. We landed the efficiency ratio at 37% adjusted. This was ahead of our expectations with our general goal of flat operating leverage on average across quarters as we maintain our competitive advantage of best-in-class efficiency. More generally, we continue to illustrate the cost effectiveness of our business model compared to other banks even while we invest to see profitable future growth and spend for maintenance.

I'll break this down a bit further into our people, process and platform costs. For people, we increased compensation costs by 25% year-over-year and 6% quarter-over-quarter. This reflects growth in FTE, but also more competitive compensation for our top talent teams, reflecting their outstanding output in the quarter, seasonal benefit costs for employee health and wellness programs and retirement contributions.

We look at our Challenger team now as a combination of technologists who deliver banking solutions and bankers who deliver technology solutions, a potent and an effective combination and we compensate for this talent accordingly.

For process, including across corporate and marketing categories, expenses were up 17% year-over-year on a combination of factors, including investments in marketing -- marketing our reverse mortgage offerings, the Q1 launch of our new insurance lending IFA product and our EQ Bank Smarter Money marketing campaigns.

In platform, product costs and technology were up 19% year-over-year and 2% quarter-over-quarter. Baked in here is amortization of investments for projects completed over the past 12 months and a continued increase in innovation investments.

For an outlook on expenses, excluding those related to Concentra, we plan for increases from Q1 levels in Q2 and for the remainder of the year with the usual lumpiness, particularly in relation to marketing and new products versus when revenue is realized.

We expect our operating leverage to remain flat on a full year adjusted basis, knowing each quarter may be more positive or negative.

On the next slide, you can see the trend line for credit loss provisions. PCL was a net benefit of $100,000 in Q1 as future expected losses recorded in Q1 and Q2 of 2020 continue to be released, although at a diminished level from Q4's benefit of $1.4 million.

Net impaired loans declined again to just 22 basis points of total loan assets at March 31 compared to 27 basis points at year-end 2021, and compared to 36 basis points a year ago, reflecting a reduction of $26.8 million year-over-year in single-family mortgages and a $6.9 million reduction in equipment leases. This was partially offset by a net addition of 6 million in conventional commercial loans.

Delinquency along with impaired assets are at an all-time low.

Equitable remains well reserved with allowances as a percentage of total loan assets equaling 14 basis points at quarter end. This is lower than 22 basis points a year ago, but in line with pre-pandemic allowance rates.

Realized losses were extraordinarily low at less than 1 basis point of total loan assets or $1 million, but typical for a bank with an incredible 10-year track record.

While we expect PCLs to return to more normalized levels, we don't currently anticipate a higher level of PCLs associated with the rising rate environment beyond normal long-run levels due to the quality profile of our originations and the key premise that all residential loans are stressed for rating increases when they're underwritten.

Moving to capital. This is another part of EQB's consistent and positive story. Debt 1 ratio of 13.5% was up from Q4 for reasons I noted earlier. We continued to be well capitalized above our peer group with tailwind ahead as we progress towards becoming an AIRB bank.

RWA continued to increase above our target level by 28% year-over-year or 5% quarter-over-quarter to $14 billion. Our 3-year trend remains our general target of closer to 15% RWA growth on an annual basis. This has been elevated and deployed to high-margin conventional asset classes where we're comfortable and remain within our existing risk appetite framework.

Upon closing the Concentra acquisition, we expect a CET1 ratio of 13% or above, which is by design, supported by the bought deal subscription receipt offering in February for gross proceeds of $230 million and our senior unsecured term credit facility for the remainder of the purchase price in order to maintain our capital levels.

We will update our 2022 guidance to incorporate Concentra when the acquisition closes. I'll also remind you that in year 1 following close, we expect mid-single-digit adjusted EPS accretion increasing from there and we intend to realize $30 million-plus of run rate cost synergies by the second full year of ownership as we align Concentra to EQB's best-in-class productivity within our highly complementary asset classes. Scale will be key with more upside potential.

To summarize, Q1 was our best earnings quarter ever, and EQB made a substantial down payment toward achieving 2022 targets with diversified conventional lending as well as deposit growth achieving annual guidance. Our credit book has never been stronger. We are challenging and winning with new products, technologies and partnerships. Concentra will create exceptional potential for more growth and diversification. And we have exciting developments to unleash in future quarters as outlined on Page 22 to 24 of our Q4 MD&A, which is available on the bank's website.

That concludes our prepared remarks. Now with our operator Chris' assistance, we would be pleased to answer your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Etienne Ricard, BMO Capital.

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

On the 2022 guidance for flat net interest margin relative to 2021, EQ Bank was obviously an important contributor to this. But how do you plan to balance on one hand, optimizing your cost of funding, and on the other hand, continue attracting deposit inflows over the remainder of the year.

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

Yes, Etienne, that's a great question. And to some extent, it's a balance. We have to think about the competition we're seeing in the market for deposits as well as kind of movement in benchmark rates. So I'll just give you a flavor though for what we did in Q1, which was to move rates up by 1/4 about 2 or 3 days before the Bank of Canada moved their rate by 50 bps. And that seems to have put us in a good position to actually accelerate deposit growth.

So something like that kind of equation going forward is how we sort of are hoping the world will unfold for us. And as I mentioned, it's more than just rates around attracting depositors into EQ Bank. So the new picture ID approach to onboarding, for example, is, we believe, going to help drive that, too.

So we've got really good activity in EQ Bank platform as we noted in the call. So right now, our rates seems good and compared to benchmark rates. This is attractive funding for the bank. But we are trying to obviously build our brand while we take advantage of the opportunity that's offered here to build our brand and become more relevant to many Canadians.

So it's bit of a balance. I hope I'm not waffling too much with that answer, but I think you can expect to see improved savings rates, but probably those -- that improvement in savings rate will lag slightly the broader market increase in rates.

Chadwick Westlake - *Equitable Group Inc. - Senior VP & CFO*

Yes, I think that's right, Andrew. I think the important point too, Etienne, is trying to pick up what you see in the stats and the transactions and the engagement that we included as well is that we're proving that EQ Bank is built to be more than about rates. We maintain consistently high rates, but it's the experience that's also attracting customers. It's the functionality. It's building that greatest everyday bank. And that is contributing to just to complement Andrew's point on the opportunity to expand within that as well. So we're very thoughtful about those 2 ingredients, let alone the rest of the funding stack.

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

And that's a follow-up. Could you share your road map for EQ Bank in Quebec? And how do you think about potential deposit inflows in that province over the near to medium term?

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

Certainly. I think as we've indicated before, we will be launching Quebec this year. It turns out it's more complicated to operate a digital bank in 2 languages than one might observe from the top of the house but we will be in Quebec. And we know that Quebec is -- it's a very technology-forward province and understanding is the engagement with the community there is likely to be pretty successful. So we had a lot of issues with Quebec calling us complaining that we don't serve their profits. So we know there's some good pent-up demand.

I think probably it's going to be better into deposits per head of population than the rest of Canada once we get mature. But obviously, there's a curve, we've got to walk out there and build our brand and franchise and show the people and the customers there that we can do well for them. We're excited about that opportunity.

Chadwick Westlake - *Equitable Group Inc. - Senior VP & CFO*

Yes. And I'd say, too, Andrew, as you and I were talking about as well that from our research, Quebec has the second largest household deposit market, estimated, I think, around $290 billion, and it's also the fastest-growing market right now among all Canadian provinces. So there is a great opportunity for us and for value-conscious customers that also want smarter banking solutions.

So once we get there, to Andrew's point, and the complexity of getting there, we do have some conviction and the opportunity for us to offer new alternatives to the nation of Quebec.

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

By the way, I mean, our lending business is doing really well in Quebec. So we have a strong management team in Quebec in both commercial and single-family lending. So in Montreal, Quebec, we felt good presence already. So there is some legacy and strength to build on that.

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

Understood. And just lastly, on Equitable Connect, what improvement in efficiency for the mortgage application process are you expecting? And how do you anticipate your responsiveness with brokers to improve as a result?

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

Yes. I mean I think the biggest gain -- so it definitely shortens the time to close from start to finish, those kind of internal metrics that I -- first of all, there's some complexity of those metrics, there's often a bit of give and take. The broker is not submitting all the information in the cycle to get back to. So it's actually a complicated thing to put a single metric on, but I wouldn't also like to reveal it for competitive reasons. But the biggest thing, I think, is just our brokers having confidence in what has to be done and what time lines are and that sort of thing. Quite often there's enough time to close a mortgage in 10 days before closing. It's nice to know that with 5 days to go, everything is done, and things are set to close and there won't be last minute panics.

So our hope is -- already we're getting our feedback from our brokers that transparency on the other side is encouraging brokers to use us just so they can have comfort. They can sleep at night and their customers can be well looked after.

Operator

Your next question comes from Geoff Kwan, RBC.

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

My first question was just, you talked about wanting to increase the dividend in line with how you've talked about it beforehand. But just given where the share price is, are you thinking differently about how you're thinking about deploying excess capital towards the dividend instead of share buybacks?

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

I would say that I think as we've talked before, Geoff, dividends, we want dividends to increase 20%, 25% compound over the next 5 years. So it's very likely. And we're always looking at the plan, but generally, we feel we've made a commitment to shareholders, that will be the case. And so people should be able sort of bake that in. And I think it would take some exceptional rethinking on our part to back away from that.

And certainly, stock buybacks in the common equity is always something we might consider for surplus capital. Of course, right now, we're in an environment -- unusual economic environment and we've also got Concentra facing us. I think safety and soundness is the way we think about the way to run a bank. So having deep capital resources is probably a good place to be.

But certainly, we're always thinking about what's the interest of our shareholders and our broader stakeholder community. But right now, we feel pretty good about it.

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

Okay. And just my second question was, is there a type of scenario in terms of home price decline and employment rates, GDP, that sort of thing, that would have you hit the low end of your CET1 range, so at kind of like 13%?

Or alternatively, like do you have what you might view as a harsh scenario? And what does that do to your capital base?

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

Ron, I don't know if you have those sort of numbers, it's certainly something we consider. It's a fairly hard stress. And you're asking us to be pretty precise in terms of that trip, Geoff, but we certainly believe we're very well-capitalized to handle that frankly.

The way we generally think about that is if we sort of start to see those macroeconomic conditions emerge, we will probably be slowing down originations to build more of a capital buffer from internal resources.

I don't know, Ron, if you've got any other thoughts on that question specifically.

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

No, Andrew. You've nailed it. I mean we've demonstrated many times our ability to flex the rate at which we -- on risk-weighted assets to manage it without really attacking the front end in our market presence. So that is consistent with what we've said and demonstrated in the past.

Operator

(Operator Instructions) Your next question comes from Meny Grauman, Scotiabank.

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

You delivered a very strong Q1. I'm just wondering what, if anything, has changed, especially in terms of loan demand that you're seeing partway through Q2.

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

Yes. Thanks, Meny. I mean the Q2 started very strong. Pipelines are strong, continue to be strong. Pipelines continue to be remarkably strong. I would say that what we're seeing is really good demand from the West. So probably not surprising, the rising commodity prices against that geopolitical backdrop is positive. We're seeing strong demand in Quebec, a little bit of softening in the last few weeks in Ontario, but still remarkably robust demand, frankly.

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

And in terms of the impact of rising rates on mortgage demand in particular, what's your perspective on the alternative mortgage market. And specifically, is there reason to believe that we could see a divergence between the alternative mortgage market and the prime mortgage market? Is there anything that stands out that would suggest that even if the prime market slows down more substantially that the alternative market can do something a little bit different?

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

I think there's certainly -- there are certainly thesis that are banded around that would support that view. I think it's too early to say how those will play out. But there are certainly some borrowers that, in a more normal environment, would be -- in a lower interest rate environment would qualify for prime mortgages that will now want to more qualify for alt so many or some of our customers might have qualified a year ago in a lower interest environment that won't qualify going forward. And of course, the alt market is such a small percentage of the prime market that any shift in that prime and those prime flows can have significant kind of leverage on the alt patent of demand, which I think is why I'm still sort of saying we're seeing surprisingly good demand in our alt.

It's surprising that we're seeing a good month in our alt channels, which I'm hearing less of that from the prime guys who do seem to be saying things are slowing down.

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

And then more from a risk perspective, obviously, there are many in the market that are worried about the impact that rising rates will have on customers' ability to pay. At what point, what kind of rate increases do we need to see for you to get concerned about that? Or maybe if there's anything you can share in terms of your own book in terms of the ability of your customers to withstand higher monthly payments.

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

Yes. Certainly, we actually did a deep dive in this recently with the Risk and Capital Committee in the last couple of days, and we got pretty comfortable that within the sort of projected kind of bank [interest] changes, there's a very small percentage of our book that start to get influenced. So it feels pretty good.

Let's not -- let's remember that all these mortgages were qualified for the 2% stress test over and above contract rate or the benchmark rates are significantly higher than our customers are actually paying today. So the thesis is that our customer has got plenty of cushion to absorb these higher rates.

Operator

Your next question comes from Lemar Persaud, Cormark Securities.

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

So maybe just circling back to Chadwick on the outlook on margins. And I think the 1.8% to 1.85% despite this quarter's strong performance. Can you maybe unpack that a little bit for us because what it would suggest is that margins should move down from Q1's 1.86%, but the deck really seems to be stacked with tailwinds. So you have the benefits of higher rates, mix changes and funding and just the reduction in prepayment income being the sole kind of headwind. So do I have that right?

And maybe help me understand why the 1.8% to 1.85% is reasonable. I guess what it really does boil down to is, I don't think prepayment income was a big factor in Q1 specifically, but the tailwinds should continue throughout the year. So that would seem to suggest to me that margins should rise off the 1.86%. It's a little bit of numbers here, numbers question.

Chadwick Westlake - *Equitable Group Inc. - Senior VP & CFO*

Yes, that's fair. And Andrew, I may have some comments as well. And it's great to have you and the coverage, Lemar, welcome to it. For margin, there's a couple of ways to look at it. So yes, do we have -- do we call it a lot of tailwinds to answer your question? Yes, we do because we've been so focused on the diversification side.

The headwinds, prepayment would have made -- it did make an impact in Q1. I would say it actually made a few basis point impact, and it could make more of an impact going forward. And that could be a certain component of it absolutely.

But there are certainly rising cost of funds in some of the funding stack. When you look at segments like broker GIC, obviously, there's significant volume in that channel, but rates have increased quite considerably and that's why we focus as well though on the great diversification we've had through covered bonds and EQ Bank, especially, to move away from some of those funding costs.

And again, I think it's important to focus on what we're doing with conventional lending. We are focusing on the high-margin conventional lending, yes. But that margin will just change through the year.

And then there's element -- there are some mechanics when you really break down NIM and net interest income in terms of our securities portfolio and fair value adjustments that are also -- we don't forecast that are harder to predict.

There's a few ways we look at it, and that's why we've always said flat to positive. I don't know, Andrew, if there's any points you want to add in terms of unpacking it more?

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

No. I think that's a slight challenge in communicating to the market that there's quite a few moving parts here. But the fact of the matter is that we have a fair bit of pricing discretion in our markets. So we're constantly balancing kind of the -- what's the underlying funding cost. I mean it's a fairly straightforward business in many ways. We think about also our funding cost today and then we -- but on the margin required to drive the ROE we were looking for.

So at its base, it's a fairly simple equation there, if you like. The execution becomes much more complicated obviously. We've got renewal pipelines in different asset classes and so on.

I think Chadwick and myself and the rest of the team, the Treasury team, in particular, sort of really think about this on a disaggregated basis, but that ends up -- moving a few basis points, frankly, is kind of a rounding error in 1 or 2 areas.

So I'm sorry to be kind of a little bit kind of obfuscating maybe. I'm not obfuscating. There are things that can happen in particular markets at times to put a bit of pressure on spread. Other times, we jump into markets because there's opportunity. And the net-net is, I think, we're very comfortable with that kind of broader projection of how it will work out.

Chadwick Westlake - *Equitable Group Inc. - Senior VP & CFO*

Yes. It's kind of -- and Lemar, what you'll get to learn is, we're very thoughtful about every dollar in this bank. Every dollar and every basis point counts and that's something we managed to. And one way to think about prepayment income, why we think of managing to the basis point is you could probably -- if you're trying to think through heuristics, you'll probably think of around maybe $1 million of prepayment could be equivalent to around a basis point change of NIM.

So if you even go down a few million of prepayment, that's a few bps that comes off too as one of the negatives. So -- and it's not hard to imagine that world in our guidance. And that's what why have a range as well. And I'll leave you with that.

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

Okay. That's all very fair. It seems like there's just a lot of moving parts to kind of digest and I guess there's a bit of conservatism built in there as well. I guess that's the message that I'm hearing.

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

I mean it goes to the point, though, I think what is an important point is our treasury systems and the way that flows through to the frontline in loan pricing, I have a lot of confidence in that, right? So it's hard to explain it at a high level, but the 3 of those systems and the way they work and the way we hedge the pipeline when we take commitment are absolutely solid, and that leads to these results rather than me and Chadwick thinking about what are we trying to do in NIM next week or whatever. These are things that we've built the systems in our treasury platforms to make this happen.

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

Okay. No, that's very fair. And just continuing along the same line of questioning. Can you guys share what you're building in, in terms of rate hikes in that NIM guidance?

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

Yes, we just look at the expected forward Bank of Canada rates as projected by the market. We never take a view beyond what the market is projecting to us, to respond to that.

But it's quite resilient, frankly. We're not taking rate positions. Again, we can geek out on treasury stuff here, but we run a 1-year duration of equity and we run it whatever the market conditions, and that's really the exposure that we're open to.

Chadwick Westlake - *Equitable Group Inc. - Senior VP & CFO*

About 80% term match still, too. So we're...

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

It's one of the things, I mean, NIM shouldn't change that fast quarter-to-quarter, right, because essentially, when we write a 2-year mortgage, implicitly we're writing a fixed rate mortgage where we're putting a 2-year liability that matches that exposure on the other side of the balance sheet. And obviously, we're doing that on a portfolio level. So what happens in any 1 quarter is a number of mortgages mature, a number of new mortgages get put on the books and other liabilities taken on. But the bulk of the spread is already pre-spoken for before the [call] even starts.

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

Okay. That's good. And then just maybe switching gears over to expenses. Just wondering if you guys could give us a bit of an update on the evolution of compensation and benefits, just given the very high inflation prints in Canada and kind of the very tight labor market.

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

I mean, certainly, we're seeing that in various sectors, and we're responding to our teams where our compensation may be falling a little differently than market expectations. So we're constantly adjusting that. You see that in some of the aggregate outputs of salary inflation. The good news, of course, is that we're constantly digitizing to make our teams more productive or to give them tools to be more productive.

So that's a bit of a counter trend against that. But clearly, our goal is to be a great employer, where our people are treated fairly. And in this kind of high inflation environment, we will need to make adjustments and we do make adjustments.

Operator

Your next question comes from Jaeme Gloyn, National Bank Financial.

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

My first question is on the macro assumptions and how they improved this quarter, and it seems to run contrast to what we saw at your closest peer and other even U.S. lenders, for example, where we're seeing some downgraded outlook.

So I just want to get a little bit more clarity or how you're thinking about that. Was that improved outlook as of, let's say, March 31? And if we think about what's happened since then, it would make sense to see some of these forward-looking assumptions adjust in Q2?

And maybe talk through some of the, I would say, management overlay capabilities you have to sort of work with those assumptions that are, I think, I would believe, are third party.

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

Are you -- you're speaking specifically of the ECL provisions, yes. I mean we use a standard data provider for that. And so I don't know, Ron or Chadwick, maybe you can give the details there, but it's their outlook that we use and we don't try to fiddle with it or outguess it.

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

Yes. So it's Ron here. So that's right. So we do use March 31 numbers. I mean that's what's prescribed under accounting rules. We're very confident we have the best information at the time. We do use, as Andrew reference, we use an internationally recognized firm to help us with our forecasting. We do a benchmark and compare that and provide that to management, benchmarking the big 6 economic forecasts. And I can assure you that the forecasts we use are very much in line with the average of the big 6.

Looking forward -- and so those forecasts are obviously very stable. Economically, at that time, GDP was predicted to be very stable. Unemployment is still expected to be very strong without any deterioration, in fact, simply just a slowing of growth in HPI versus any kind of reduction.

So I don't think the results really should surprise anyone. I think it's very consistent with what the market would have seen. And looking forward, we always have an opportunity if things did take a turn for the negative, whether it's through management overlays, but our models are driven by a lot of these factors as well and it would be picked up in our models. So the management overlay is obviously a clear secondary consideration that would -- the management could take into play.

But note still that when you look at our long-run annualized loss rates versus the 13 basis points that we continue to hold, we are still well reserved in excess of what we would expect to lose on an annualized rate. So very reflective of a strong cushion in a market where people have potential questions about uncertainty and forecasting, and we're very comfortable with where we sit today.

Chadwick Westlake - *Equitable Group Inc. - Senior VP & CFO*

Yes. And remember, Jaeme, too the unemployment will always rank #1 in our models, and that's where -- I'm not sure if you've seen any incongruence with that, but we would -- we see a lot of continued strength.

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

Yes. It's more building in, let's say, future risks to that outlook. And just seeing that even like the pessimistic view in the 2- to 5-year portion of that view improves. It just seems a bit counterintuitive given the last, let's say, 6 weeks since the end of the quarter, but I understand this is more as of March 31 as opposed to May 10, for example.

The second question I had is around the unsecured funding. Obviously, one component of that 3-year nonrolling term is going to be to fund the Concentra deal. But I believe the $75 million revolving term loan is new. And most of that -- most of the proceeds from that term loan were used to funnel down to the regulated bank entity to support capital ratio.

So can you talk about the decision to go down that path of unsecured at the holdco level? What's your capacity to do more of that to support growth as we move forward this year.

And then any comments around capital constraints given this -- I guess, given the capital injection into the bank regulated entity.

Chadwick Westlake - *Equitable Group Inc. - Senior VP & CFO*

Sure. Yes. Sure, Jaeme. That's good. For context, I would say we look at things from the safe and soundness as prudent bankers, and we're quite prudent and we always operate with an abundance of caution and we're thoughtful there.

One point I would say we didn't need to move that capital down. You're right, the $75 million is new. We look at a whole variety of options in terms of how we manage our total capital, and CET1 is one. Obviously, we're thoughtful about Tier 1. And we look at other options as well in the total capital stack, whether we pursue another (inaudible) at some point. If we look at sub debt, if we look at more common equity. We look at all kinds of options. But this was a great option as well to have for injection into the bank. And again, CET1 still would have been above target without it. but this is a prudent, thoughtful move and at a time when we can continue to grow well in our conventional lending.

So I would say that. And any funding we have as I say, is economically extremely well priced because we have an understated credit rating, and we receive -- we can generate funding at a much higher level. Andrew, if there's anything else you want to say on the funding side.

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

No. But I just -- I think, Jaeme, I have mentioned this before, we do believe we've been a bit -- not sophisticated, we need to be just using CET1 as our primary lever. So I think you -- as Chadwick alluded to, you can expect to see a more sophisticated capital structure consistent with the more sophisticated bank over the next 2 to 3 years.

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

Great. And I mean, as you mentioned, Chadwick, I guess, the [$50 million] injection only added about 40 basis points. So still would have been within the target range. So was the decision to do this now to get the unsecured financing at some lower rates and funnel it through in a cheaper environment and just get it done today?

And why only $50 million ? Why not maybe bump it up to 14% and some more down there. I guess, a little bit more details around the strategic thought around capital, especially given like the Concentra Bank and growth coming down the pipe too.

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

Yes. I mean I think you're asking the questions and we debated it, like Jaeme and it's similar kind of questions when you think about dividend policy, there's no right answers, so maybe we should have erred more on the side of caution there is what you're sort of indicating there.

But we believe safety and soundness is paramount and having strong capital holdings in the bank are important to all stakeholders. So we feel -- this felt like a really good place to be. We're showing strength in the quarter, showing that we're standing on really strong foundations, just positioned to spot for the future. We're hoping the credit rating agencies will take note at some point, for example. So we're trying to position ourselves to be that.

Chadwick Westlake - *Equitable Group Inc. - Senior VP & CFO*

Yes. And it's -- and Jaeme, remember, too, because we are so highly capitalized, especially for CET1 versus peers. If you mentioned like 14% or higher, we're just diluting ROE, right? We just -- we don't want to move it up past the point of the soundness that we already maintained. So we had a great opportunity, a great time to introduce more levers that we haven't had in the past, to Andrew's point on the sophistication of our overall capital stack. And it's there to use as we choose, but we don't want to dilute ourselves at the same time.

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

And of course, I have to get this dissolving measure on the standardized basis, which is we'd be closer to 19%, where we leave it as an (inaudible) basis.

Chadwick Westlake - *Equitable Group Inc. - Senior VP & CFO*

Exactly.

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

Of course. And the last question on that theme is the DRIP was announced in -- or I guess, within the quarter. What's your expectations on uptake and share issuance through the DRIP?

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

Yes. We had, I think, close to $1 million worth of dividends that got reinvested through the DRIP. So given the relatively short notice of that, that was good for some shareholders who took advantage of that opportunity at a discount to the market price. It's not a huge lever, but it gives you a little bit of lever to build capital a little faster as times demand it. It's just another tool.

Operator

Your next question comes from Graham Ryding, TD Securities.

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

Just sort of follow-up -- sorry, just a follow-up, I guess, on the NIM discussion. It sounds like you're having success so far at sort of pushing through higher mortgage rates, both on residential and the commercial side in light of sort of rising -- materially rising funding costs.

So maybe just some commentary there on sort of what you're seeing and your confidence that you're able to continue to do that without compromising your sort of position in the market or loan growth perhaps?

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

Yes. I mean you're always concerned these rising rate environment and we'll compare this to follow. And I think -- the challenge here is that we -- so essentially, my direction to the management team at the beginning of the year was be prepared to lead with rate, make sure we preserve our franchise in terms of kind of allocating capital appropriately. And if we lose a little bit of share here or there, it's just an unfortunate circumstance of having discipline. And that's the approach we still have.

The good news is we have distinctive positions in our markets. We have deep relationships with our partners and customers. And so we've been able to work through that journey. But obviously, if other people want to undercut us to win share in a rising rate environment and produce subpar ROEs, that's not something we can do much about. We just have to kind of stand the ground on that.

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

And are you seeing any noticeable difference between the residential and the commercial side on that front?

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

Certainly, the pressure is a little bit more being felt on the commercial side right now. So we're certainly seeing some loans that we would normally expect to compete on the -- where we might not have the same opportunity. But actually, it's just the way that gets priced. I think once we're through the next couple of calendar cycles, there will be -- that will probably remedy itself. So that's something to think about.

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

Okay. My next question, just the GTA marketing, in particular. It's an important market and it's showing some pullback here in sort of activity and pricing. Just maybe some commentary from your end on do you consider making any underwriting adjustments when you start to see a market change and cool off like this? Or is it too early for that?

And what do you need to see in the GTA or any market, I guess, to sort of make some changes as we get a bit more cautious.

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

Yes. I mean we're certainly constantly making adjustments in micro markets. There's still big areas, suburban areas around -- certainly, a couple of areas around the city where -- around the [905] , frankly, where the very high-end real estate is something we've been a bit more cautious on over the last little while.

It's one thing to have a multimillion-dollar home in downtown Toronto, it's another thing when it's further towards the edge of the city, whether that's sustainable is another question. So we've been a bit cautious in those areas.

So we're just tailoring our opportunity to how we see it. But so far, no sort of big kind of slash back LTVs by 5% or anything across the board. But certainly we're using a more diligent approach on underwriting for areas we perceive to be risky.

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

Okay. Understood. And then my last question, just, Chadwick, I just want to make sure I understood your message correctly here, just on your outlook for credit provisioning. It sounds like any increase in PCLs would be just more about a normalization of PCL builds as opposed to anything specific towards sort of the higher interest rate environment and the potential pressure on affordability on Canadian households. Am I getting the message correct?

Chadwick Westlake - *Equitable Group Inc. - Senior VP & CFO*

Yes. Yes. I think, Ron, do you want to...

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

Yes. Graham, it's a very good summary. We're anticipating that increases in PCL would come through growth and be commensurate with the proportional growth in the book rather than any type of real effect at this stage due to rising interest rates. But we'll adjust accordingly, but I think what you stated there is a pretty good synopsis of our current view.

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

So it sounds like you went through your portfolio recently or you had a discussion around the outlook for the rising rate environment, which you felt that the impact in your portfolio would be fairly manageable.

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

Yes. So Andrew referenced a deep dive. And so recognize that you can look at a portfolio at an average level or you can look to where -- whether it's your models or just looking at various debt service levels, where the stresses are potentially in your portfolio when you look at it on a more granular basis.

So the deep dive we did as we went and looked at where the highest level of GDS/TDS loans at qualification and looked to those as the potential area. It's a very, very small portion of our book. And that's supported by the continual guidance that we've given that we've always skewed our risk appetite to the higher-quality loans.

So there's a very, very, very small percentage of our book that would be at risk if interest rates even went beyond the 2% increase that you were positioning there. Whereas some of our competitors do have higher risk appetite. They do take loans with a higher on average GDS/TDS or have that as a bigger percentage of their book. But here, we've always been focused on repayment from customers who are paying us rather than enforcement on assets. And so that's why we think we're positioned quite well going into this the potential uncertainties that we're looking at in the next few quarters.

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

Okay. That's helpful. What percentage of your book would you consider sort of at the higher end of this GDS/TDS ratio.

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

It would be about maybe 3%, very, very small.

Operator

Your last question comes from Stephen Boland of Raymond James.

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

I guess my start one is -- I got to get quicker on this. I don't want to beat this to death on the NIM, but I just want to be clear that when deposit rates move up, you're moving your mortgage rates up immediately. There's no lag there.

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

Yes. Effectively, that's how the system works, Steve, right? So we have ROE calculators on the desk, it's getting constantly populated with the latest marginal cost of raising deposits, which is actually not our deposit rate, but where we feel we would need to be competitive to raise money and funds in the market.

So that then factors into the ROE calculated by the mortgage originators as they're going around doing their business. So as those commitments are made, then that all gets hedged up automatically. That's exactly right.

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

Okay. And so do you believe -- just following on Graham's question, do you believe that you have lost some market share because of rate?

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

Yes. For sure, a little bit. I think you saw that in the quarter. If you look at the entrails of how others are reporting, you'll see that we lost a little bit of share in Q1 even in single-family business. But actually, it's interesting, we lost a little bit of share on origination, but our portfolio growth still seems to be really robust. So there's something else going on there that is encouraging.

Chadwick Westlake - *Equitable Group Inc. - Senior VP & CFO*

Yes. And it wasn't, Stephen, to that point, that was a deliberate choice, right? We're also -- we're making smart economic choices, and to Andrew's point, on the value creation formula for ROE. So we know precisely what we're doing and the trades we're making. We won't try to just take share at the cost of our shareholders and customers.

And that's the same kind of traits you see on any key bank, right? When competitors come out with hot-money campaigns, it's not like we're jacking up that rate. We make smart choices for our customers and for us. So our strategy is very deliberate.

Operator

There are no further questions at this time. I will now turn it back to Andrew Moor for closing remarks.

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

Thank you, Chris. As there are no further questions, I have 3 important final comments. This week, we introduced the bank's first full-scale ESG report. We are passionate about finding ways to excel in the areas of ESG that are relevant to our bank, our employees, customers, partners and shareholders. I encourage you to take a few moments to review our framework, focus areas, disclosures and our commitments. It's actually a fabulous document, and thanks to the team that put that together.

Beyond the written word, we are also excited to share time with all of you at our Annual and Special Meeting of Shareholders on a virtual basis on May 18 at 10 a.m. The proxy circular has details on how to register.

And for a final plug, for our signature event of the year, we're really -- this is where we're really excited. Our Investor Day on June 13, breakfast served at the earlier hours of 7 a.m. Eastern and presentations beginning at 8. We've created an Investor Day page on our new investor website for the agenda. Really hoping to have people there in person, so you can meet many members of the management team, and we think we're going to have a great morning.

We look forward to your participation in both events. Thank you for listening today, and good luck in the markets. And goodbye for now.

Operator

Thank you. Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.