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PRESENTATION

Operator

Welcome to EQB's earnings call for the fourth quarter of 2023 on Friday, December 8, 2023. (Operator Instructions) It's now my pleasure to turn the call over to Sandie Douville, Vice President of Investor Relations and ESG strategy for EQB.

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

Thanks, Lara. Your hosts today are Andrew Moor, President and Chief Executive Officer; and Chadwick Westlake, Chief Financial Officer. Also with us is Marlene Lenarduzzi, our new Chief Risk Officer.

Marlene joined in October with more than 25 years of experience in risk management. Most recently, Marlene was head of counterparty credit risk management and market risk strategic initiatives at BMO Financial Group. Expect to hear from her on these calls in future quarters. Welcome Marlene to the bank.

For those on the phone lines only, we encourage you to also log onto our webcast to view our accompanying quarterly investor presentation. There on slide 2, you'll find a EQB's caution regarding forward-looking statements as well as the use of non-IFRS -- IFRS measures on this call. All figures referenced today are adjusted where applicable or otherwise noted.

It is now my pleasure to turn the call over to Andrew.

Andrew Moor - *EQB Inc - President & CEO*

Thanks, Sandie, and good morning, everyone. Before jumping into 2023 performance highlights, 2024 guidance. I want to acknowledge a few important milestones in our long and successful corporate history. 10 years ago, Equitable Trust received its banking license and became Equitable Bank to appeal to a new generation of financial services customers.

2020 fall will mark our 20th year as a TSX-listed company. And yesterday, EQB began reporting on the same fiscal year basis as the Canadian banking industry. These 10 years include the launch and scaling of EQ Bank, the best digital platform in Canada; the expansion of our leadership positions in single-family and multi-unit residential lending, the larger decumulation lending; and the accretive acquisitions of Bennington Financial and

Concentra Bank. These and many other developments define and reflect the organization we are today: purpose driven to enrich people's lives, managed with a strong risk culture, technologically advanced, and more capable than ever.

Further to now picture of Equitable Bank's assets and deposits, demonstrates our transformation, scope, and, scale, becoming (inaudible) largest bank. And with that, the shareholder returns of EQB are leading compared to banks on the TSX and S&P 500.

Our progress has been accompanied by annual earnings growth, the consistent achievement of ROE above 15%, strong credit performance, and unwavering focus on doing the right thing with customer service as the beating heart of our approach. These calls are intended primarily to help our investors analysts sort out the underlying financial performance over recent history. And Chadwick will provide that insight shortly.

While the noise inevitably accompanies a change in yearend makes comparisons more difficult, EQB clearly deliver great financial results in 2023. In fact, our EPS performance of the 10 months surpassed what we achieved in 12 months in 2022. What I'm most proud of is that through this 10-year journey, we have kept our clear focus on building a better bank that improves our customers' lives. This is a hard culture and mindset to maintain, a one that is now embedded in our DNA to provide enduring competitive advantage.

Equitable Bank's defining strengths position us as the Canada bank -- Challenger Bank in Canada, a category we established and defined with customer upside that is different and better than our industry peers. I'd like to thank the entire Equitable team for delivering great results again this year, with a special shout out to those whose efforts were required to transition our reporting year.

Canada's banks got together 1965 and agreed that October would be their common year end, primarily as a favor to overworked accountants to shift year end reporting away from the time that these firms are most busy. This change predated Equitable's founding by five years. Now we have firmly established as a distinctive player in the banking industry, I think our industry analysts will be pleased with the ability to make side-by-side comparisons that include Canada's Challenger Bank, going forward.

Now the performance highlights and our outlook. I speak regularly to our focus on value creation, disciplined capital allocation, and the North Star objective of generating more than 15% return on equity. We achieved our ambition again in fiscal 2023 with 16.5% ROE in the fourth quarter, ending at 17.1% for the 10-month fiscal period. This takes our 10-year ROE average to 16.3%, which we believe is leading amongst Canadian banks. Our priority for 2024 is to again deliver ROE of greater than 15%, which in performance, that reward shareholders for their ownership while being consistent with investing in the capabilities acquired by the business to flourish in the years to come.

We ended the year with a record $111 billion of assets under management and administration, up 8% in just 10 months. The continued growth demonstrates the strength of our brand, the trust customers have in us, and the value of delivering innovation and service excellence in underserved customer segments.

On November 1, we marked one year since our Concentra Bank acquisition, which gave us additional scale advantages and made Equitable Bank the seventh largest bank in Canada. I'm pleased to say we outperformed our key business case targets ahead of schedule. ROE 16%, we find new ways to serve our credit union partners.

Recent expansions of securitization, consulting, foreign exchange, and digital banking services create the means for us to do even more for them and their 6 million members. With the experience gain in working with the people who joined Equitable through the acquisition, we are also confident that the Concentra investment is poised to continue to deliver great results for shareholders in the form of earnings accretion, non-interest revenue growth in 2024.

Foundational to the long-term franchise value and growth of Equitable Bank is EQ Bank, our digital bank. Here we had another big year on the back of highly successful Make Bank brand campaign, a new service innovation. The Forbes' number one rated bank in Canada for three years running added another 93,000 customers in just 10 months, growth of 30%, taking us past the 400,000 mark with hundreds signing up daily.

You may recall that we had launched the EQ Bank payment card at the beginning of 2023. Just a few weeks ago, the card launched in Quebec. This payment solution has been game changing for our customers and EQ Bank as a purely digital bank. Customer enthusiasm for our first to market, all digital, first home savings accounts also surpassed our expectations.

We couldn't be more excited about what lies ahead for EQ Bank for 2024. Early in the new year, you will see us expand our brand voice with a message that built on our learnings from 2023. 2024 will be the first all-digital business bank for small businesses, giving them a better way to bank. These initiatives will help us achieve our 30% to 40% EQ Bank customer growth guidance.

Another business is important to us is commercial banking. We operate through seven lines of business and our on-balance sheet loan portfolio grew to $15 billion in 2023. The vast majority of our commercial lending supports real estate where people live. We are a leader in funding the development and renovation of apartments, construction of condominiums and other types of multi-unit residential real estate properties.

In order to help Canada close the significant housing supply gap and as a matter of strategy and risk management, we focus on lending in major urban markets. We have been a reliable lender in the space for decades and are a significant player in the market to securitize insured multi-unit loans through CMHC sponsored programs.

You'll see in our MD&A guidance that our expectations for multi-unit lending continues to reflect a bullish outlook and with it an expectation that we will again realize strong earnings from the associated securitization activities. Recent actions by the Canadian federal government support our guidance, including the increase in the Canada Mortgage Bond program to fund multiunit projects insured by CMHC, which the government believes will stimulate up to 30,000 more rental apartments being built per year. In our MD&A, we described the composition of our commercial portfolio and underscored that office buildings, shopping, malls, and hotels represent about 2% of our loan assets.

In personal banking, our strategic focus has remained particularly on growing [across] decumulation lending business, particularly reverse mortgages. Our talking house TV campaign debuts this fall, and for the first time, establish a direct-to-consumer connection . I'm delighted to note that deaccumulation lending assets now total $1.5 billion or 43% in just 10 months. Expect this growth trajectory to continue in 2024 as Canadian seniors look to Equitable Bank to help them tap the wealth that their homes represent.

The single-family uninsured lending experienced moderate growth aligned to our 2023 guidance with assets increasing 3% from year end 2022. Recall that in both June and July, the Bank of Canada raised the overnight rate with a discernible market impact. On the flip side, loan low retention is much higher, and this is a tailwind you expect to continue into 2024.

For those of you worried about tail risks, I would point out that over 80% of our uninsured single-family mortgage customers had their mortgage originated or renewed in this higher interest rate environment. As you think about risks, I urge you to review the MD&A showing how the bank's historical loss rates over the past 10 years, including 2023, have always been far lower as a percentage of total loan assets in Canada's peer banks.

I'm also excited about our announced agreement to acquire 75% of ACM Advisors. Beyond adding about $5 billion in assets under management to EQB as a new subsidiary separate and distinct from Equitable Bank, ACM brings us a new opportunity to enrich people's lives and the new source of non-interest revenue for EQB. We look forward to partnering with Chad Mallow, Chad Mercer and the entire ACM team to build in the 30-year history of delivering value for institutional and accredited retail investors and commercial borrowing customers.

Now over to Chadwick.

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

Thanks, and good morning. Before I jump into the numbers, let me reinforce Andrew's earlier comments regarding the fiscal year change. Our Q4 results in 2023 are presented as a four-month period ending on October 31 and compared to a three-month Q4 that ended on December 31 in 2022. There is no Q3 and 2023, which is a one-time occurrence to enable the change. This realignment of our year end is a great strategic outcome for EQB.

As you've read in our results, we exceeded our ambitious guidance in all key earnings metrics. Our employees delivered for our customers. And in turn, we are able to reward our investors forward. [0.3%] in a challenging macro environment in the first full year with Concentra. This morning, I'll offer context on a few key performance measures before turning to Q&A, including margin and funding, revenue, credit performance, expense management, and our guidance for fiscal 2024.

As part of revenue, I'll include some comments on a top strategic priority that translated extremely well in fiscal '23 being multi-unit residential and affordable housing. That now represents nearly a third of our $62.4 billion in total loans under management.

First, margin of funding, at 2%, expanded one basis point from Q2, mainly due to higher sequential prepayment income, higher yields on the conventional loan business, and cost of funds increasing more slowly as we continue to optimize new funding sources. On a year-over-year basis, NIM expanded 10 basis points to 1.97%, primarily benefiting from the Bank of Canada rate increases in a static lower deposit data, maintain in EQ Bank.

This strong net interest margin led to a 13% increase in net interest income in fiscal 2023 compared to 2022, even with two months less of results. Our long-term efforts to diversify and strengthen sources of low-cost funding are translating. Funding markets continued to be liquid and efficient for our strategy.

In Q4, we launched our first BDN or bearer deposit note program as a new wholesale lever. And we have many others in addition to core retail, such as $1.7 billion of covered bonds, $1.6 billion of deposit notes, and $2.4 billion of credit union deposits. More than 95% of our deposits are term or insured in our matched funding focus and approach to hedging are serving us well.

Now more into revenue, particularly non-interest revenue. Anchoring back to our 2022 Investor Day, we set a goal to diversify and grow our non-interest revenue to represent 12% to 15% of total revenue by 2027. We are progressing well towards this target with noninterest revenue representing 13% of total in Q4 and 12% on a full-year basis compared to 6% in 2022.

A few key areas to call out here are multi-unit, Concentra Trust, and payments. For insured multi-unit, we now have $20 billion in loans under management, up 11% sequentially and 27% year over year. $15 billion of this amount has been derecognized through the CMHC, CMB, and NHA MBS programs. As these units are insured against default and are not prepayable, the assets are derecognized when securitized and sold.

The corresponding event and spread differential results in upfront non-interest revenue in that reporting period. This amounted to $25.9 million for Q4 and $56 million for fiscal 2023, more than double year over year.

Second to touch on is how we're building relationships and expanding product offerings to credit unions and wealth advisory firms across Canada through Concentra Trust, which contributed 23% of total noninterest revenue in 2023. Also to note is that we have been growing contributions from payments, including priorities such as EQ Bank's payment-as-a-service business, serving as BIN sponsors for third parties such as Berkeley Payments and BlackRock.

This business enables us to support the needs of the fintech community by leveraging our current infrastructure and rolling out prepaid cards of various use cases. Upcoming, the acquisition of ACM will be accretive to fee-based revenue in fiscal 2024 once the deal closes in the order of magnitude of 15% to 20% plus growth of over current levels of fee revenue.

Now the credit risk trending, the net allowance for credit loss ratio increased 2 basis points sequentially to 22 basis points, in line with our expectations, given shifts in our lending portfolio and provisioning following changes in economic conditions. As a reminder, in our lending portfolios, nearly 100% is secured and approximately 52% is insured. The average LTV for our single-family uninsured portfolio was 62% in Q4 compared to 63% in Q2.

We do not offer single-family variable-rate mortgages that could be triggering negative amortization. About one-third of our single-family lending is insured and the credit scores of our borrowers remain healthy with an average of 742 beacon on new originations in the past quarter. We are holding to our consistent risk management framework that's we've been signaling in the past few quarters. We expected impaired loans to continue to increase through the credit cycle, which you see in our results. Due to our prudent lending approach, in general, we continue to not expect to lose money on these impairments.

Gross impaired loans increased $146 million or 63% quarter over quarter to $380 million. Most of this increase related to our commercial business, with two-thirds relating to five commercial loans. We are appropriately provisioned, and these loans are expected to resolve in coming quarters without losses on many of them. This translates to a net impaired loans ratio of 76 basis points as a percentage of loan assets.

PCL is increased to $19.6 million in Q4, up from $13 million in Q2 with a PCL ratio that increased 1 point to 12 basis points. This growth was primarily related to Stage 3. Over 70% of the PCL was attributed to equipment financing, which is something we expect in price of the business plus one commercial loan. Our personal and single-family portfolios are performing well. And as Andrew noted, the majority of our single-family uninsured lending has already renewed to current pricing levels.

And now shifting to expenses, we are pleased to end another year with a world-class efficiency ratio, particularly compared to other Canadian banks. With a quarterly basis, expenses were up mainly due to there being one extra month in Q4. And for fiscal '23, while there were only 10 months, it was the first year with Concentra included, plus new investments in EQ Bank products, services, and marketing.

In terms of Concentra, as noted on our last earnings call, we set a target to achieve annualized cost savings of $30 million within 18 to 24 months post-closing and achieve this ahead of schedule. This milestone as reflected in our Q4 43.8% efficiency ratio or 44% for fiscal '23. This is particularly strong in the context of Concentra, having had a near 70% efficiency ratio. While additional earnings synergies continue to be expected over time, the most significant drivers have been substantially delivered.

There will be some continued investments on the technology side. In Q4, we also had other one-time adjustments, including for costs related to acquiring and preparing to close ACM for our fiscal year change. Our staffing level growth slowed sequentially as we leverage our economies of scale made possible with our technology stack and momentum to be a cloud-only bank.

Now wrap up with some context and guidance, while inflation has moved in the right direction, interest rates continue to present some challenges in the broader economy, which may impact short-term growth across EQB's various business lines. Rate relief for customers may come before too low, but either way, we take confidence from the fact that our business model has proven to perform across economic and credit cycles, and the ongoing diversification of sources of funding assets and revenue have further strengthened our positioning and risk management profile.

While there remains uncertainty, we have conviction in 15% plus ROE guidance. We expect some variation in returns each quarter in part due to investments in our EQ Bank franchise, but 15% plus remains our North Star performance for the year as a whole, more weighted to the second half of 2024. With our change in fiscal to help with transparency, we were again issuing dollar range guidance. For diluted adjusted EPS, we provide a range of $11.75 to $12.25, dividend growth of 20% to 25%, in book value per share growth of 13% to 15%, combined with CET1 remaining above 13%. These targets are a great reflection of EQB's business model.

To wrap up, 2023 was another year of solid execution, purpose-driven solutions introduced for Canadians, with the best service of all banks, and continued momentum for our Challenger story, as we aim to continue reducing the significant discount in our share price and expand our track record of delivering the best long-term shareholder returns of all peers.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Meny Grauman, Scotiabank.

Meny Grauman - *Scotiabank GBM - Analyst*

Hi, good morning. Andrew, I was interested in getting a little more detail in a point you made about 80% of uninsured residential mortgages, either originating or renewed in the higher rate environment. And just wanted to explore that a little more. Obviously, it's a big focus for the market. And just wanted to see if you're seeing any signs of stress in customers that are renewing at higher rates? Is there anything that you could highlight in terms of that being a stress point for any of the customers? And so curious about that first.

Andrew Moor - *EQB Inc - President & CEO*

Certainly, I have a lot of empathy for our customers here. I think lots of people wouldn't have expected interest rates to rise as fast as they have. And so when you -- we're offering renewals, our cost of funds is going up and we offer renewals that have a fair spread on those renewals. So we have a lot of empathy for our customers that have to face that challenge .

And we are seeing some people at the margin that seeing a little bit more early delinquency. People are we're having a little bit of challenge to make those payments but it's not really translating into anything in the way of losses. I assume that some people, unfortunately, are forced to maybe sell their home to find a cheaper way to live or whatever. But in general, I think it's more encouraging the other way where the vast majority of our customers are able to absorb this increase and those requires working an extra shift or whatever to get the extra income. But that seems to be the general theme as the most people because the employment situation is still very, very good or able to accommodate this shock to the mortgage payment.

Meny Grauman - *Scotiabank GBM - Analyst*

How big a factor is amortization here? Are you seeing customers increase the amortization in order to make the payments go lower and able to manage the rising rates?

Andrew Moor - *EQB Inc - President & CEO*

The amortization doesn't change, but of course, mortgage math is such that the principal payments you're paying -- as you go through an infrastructure, the principal payment per month reduces. So that does soften the blow of the interest rates going up a bit, as you call it mortgage-backed penetrates very low. The vast majority of the mortgage payments -- actually principal payments, interest rates go up, the principal payment goes down in actual number of dollars, but the number of years to (inaudible) is not being extended in general.

Meny Grauman - *Scotiabank GBM - Analyst*

And just if you could update us -- we've spoken in the past about retention rates and how they've moved higher. Is there any change there? Can you just update us on what you're seeing in terms of retention, especially relative to sort of historical levels?

Andrew Moor - *EQB Inc - President & CEO*

Yeah. So we are seeing our retention rates, roughly speaking, on renewals, sort of 10% ahead of where we would normally be. And that seems to be -- that's been the case throughout the last year or so. Fairly consistent.

Meny Grauman - *Scotiabank GBM - Analyst*

Thanks so much. That's it for me.

Operator

Mike Rizvanovic, KBW Research.

Mike Rizvanovic - *Keefe, Bruyette & Woods North America - Analyst*

Good morning. A couple of quick ones for me, but I wanted to go back to the impaired loans. And what I'm wondering is -- just looking at the ratio of 76 basis points, I get it that it's mostly in your commercial book. But it seems like it's a lot higher than it was even during COVID. And I fully understand that what you see on your impairments is certainly not necessarily correlated what you book in terms of a loss.

Can you talk a bit about the collateral or maybe first off why it's as high as it's ever been? And then secondly, talk about the collateral and why you're confident that you're not, in fact, going to see that correlation increase?

Andrew Moor - *EQB Inc - President & CEO*

Thanks, Mike, for that question. So I think, thematically, we're seeing is that we lend against good real estate, good cash flowing real estate by and large. What we're seeing is some of our customers that may have other projects that we're not lending on. But as they've seen, interest rates rise, inflation in the project costs, and so it's put a bit of stress on them.

So we're seeing the way we lend against good collateral, and essentially, what's happening is they're being forced to restructure those assets, either selling the assets, refinancing in different ways. For those of you that followed Equitable for a number of years, you've seen this pop up in the past where we've seen fairly significant impairments. And we've had the confidence to express that will resolve over the next three to six months as -- and they have resolved that. So this is not a new phenomenon in our bank, but it is one that is definitely more accentuated this quarter than you've historically seen.

But the senior executive team have been through these kind of major loans, go loan-by-loan, thinking about the underlying asset values, thinking about the path to resolution for our customers, and we certainly have pretty confident that over the next couple of quarters, you'll -- I think you'll see some good progress over Q1 but the bigger progress is going to be in the Q2 period, so the March period that you're going to see a number of things evolve.

We properties already contracting for sale, that kind of thing, I think, one (inaudible) this week or next week. So there is some pretty good resolution on the bigger ones that we're able to identify.

Mike Rizvanovic - *Keefe, Bruyette & Woods North America - Analyst*

You're confident there's no real change in the underlying risk of your book.

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

That's certainly appealing. I mean, certainly, it's a stressed environment and wants to be blind to the fact that we're in an elevated risk wells. But we've done a -- clearly, it was an issue coming into the quarter and to make sure that we did -- we took a deep dive to make sure more than normal that we were comfortable with that statement and the completion of all that work was we're pretty comfortable there.

Mike Rizvanovic - *Keefe, Bruyette & Woods North America - Analyst*

That's super helpful. Just a quick one on the mortgage growth. So the single-family growth looks somewhat stagnant this quarter, not -- certainly not surprising. We're seeing volumes in the market very, very weak in most jurisdictions, especially the [GTA]. So what's -- get an outlook for near term, say, heading into 2024, do you think this book can grow low single digits or are we looking at maybe a little bit of contraction?

I know you've got the shorter duration in your portfolio. So you'd see that bit more quickly than some of your larger peers. But if we do see rates higher for longer or rate cuts maybe not happening until the back half of the year, are we looking at maybe a little bit of shrinkage in the book?

Andrew Moor - *EQB Inc - President & CEO*

I don't think we're going to see shrinkage. I think you'll see low single digit, based on current best case, low single digit type annualized rates through the middle of next year. And clearly, the market signaling that the Bank of Canada is going to be starting an easing cycle in March or April. And as you mentioned, it may not happen. But I think as the market starts to anticipate rate cuts, you will see a bit more activity in the housing market. There's clearly pent-up activity, potential buyers sitting on the sidelines that have turned off between sellers and buyers.

So I am relatively optimistic, frankly, that as we get through the start year or so, we'll see some more activity. It would have been encouraging our teams to do is really to keep our franchise really strong, so our teams are in front of the brokers providing excellent service where we can, even when it's a bit difficult to qualify based on kind of current interest rates and the stress test under B-20 and so on. So as the market starts to come back into a more normal cadence and as we start to see interest rates perhaps soften, then we know we're the first call. So that's -- I'm feeling very comfortable that our team is really doing all the right actions. And I'm not trying to kind of measure them particularly on volume right now, but more what are we doing to buttress our franchise until markets return to a more normal period.

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

If I can add Mike as well, what you have seen in the guidance though, right, so we had 5% to 10% for single-family uninsured for 2024 compared to that 3% to 5% we have for 2023. So that does show to Andrew's point some of that conviction for later in the year. And then I just underpin that even more with how we look at our overall business mix and then that well decumulation side, that reverse mortgage side, particularly we have additional guidance of 40% to 60% growth. So you can see where we are focusing on growing and at different points in the year.

Mike Rizvanovic - *Keefe, Bruyette & Woods North America - Analyst*

Thank you for the insights.

Operator

Lemar Persaud, Cormark.

Lemar Persaud - *Cormark Securities Inc. - Analyst*

Thanks so much for taking my questions. Maybe just sticking along the lines of Mike's questioning there. Wondering if you guys could square up the 8% to 12% loan growth guidance at the consolidated level for 2024, it just seems a little bit high to me. Can you perhaps talk to what assumptions you're baking in there? Maybe you're assuming some rate cuts, how you see momentum in the first half of the year versus second half? And maybe I'll leave it there.

Andrew Moor - *EQB Inc - President & CEO*

I think as we spoke about in the script, so we are expecting a bit more growth towards the back half of the year. Chad, maybe you can sort of get into more of the details, the models, and the (multiple speakers)

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

Yeah. The one important nuance, Lemar, is that that's loans under management too, right? So what -- where you see that continued growth expectation in particular is the multi-unit residential business, the insure business, that's just increased 11% sequentially and 27% year over year. We have that 20% to 25% growth. We'd expect that to have pretty good, continued momentum in the first half as well.

Plus with our decumulation business, we think that will continue especially into Q2 really, and then the balance in the personal side, particularly in second half of the year. So it does build up, but that's where you're seeing some weighting because those are big dollar figures in the multi-unit business as well, weighting up that 8% to 12%.

Andrew Moor - *EQB Inc - President & CEO*

Just to be clear on that to give you some bit more color, we do a fair bit of CMHC construction lending. So we already know that these projects are committed and that we will start -- restarting to fund into them. So as capital is put in those buildings, we're advancing against that building, so we have a pretty good line of sight on that through Q2 through Q3 will be good.

As well as on a multifamily term business, we've got nice pipelines building even into Q2. I think we -- single family story is probably a bit more one for the -- more towards the end of the Q3, Q4 time, which I think again demonstrates the strength of franchise. If you're talking to us 10 years ago, you would all hear about that single-family growth story. And but now we are able to balance across a range of different businesses.

Lemar Persaud - *Cormark Securities Inc. - Analyst*

Would it be fair to suggest that you could come in below there, if -- I mean, we all look at the economic forecast, they're forecasting rate cuts into the second half of the year. But what if the Bank of Canada doesn't move? Is it reasonable to assume something below that 8% to 12%?

Andrew Moor - *EQB Inc - President & CEO*

I think it could always happen. I mean, first of all, we're driven by risk, right? First of all, driven by making sure we lend sensibly prudent -- as prudent bankers. And if the assets out there, that mindset, then we will grow slower. And we've always been clear about that while we -- our general growth has been running about 15% a year over the last decade. But we -- the first job is to make sure we can lend safely into a market and we're comfortable in the way the cash flows, so there the asset coverage is there and we're lending to borrowers who have good character and so on.

And so that's -- if that isn't there, then we won't be trying to trying to make it to force it. But I do think despite that, let's remember the underlying dynamics. You've got -- household formation has been -- there are people that have had children want an extra bedroom and haven't moved in the last little while because the housing market has been slow, but people coming to Canada that want to buy homes, there are people getting married that want to buy a home, and all that's been a little bit prolonged delayed for the next 12 months. I think one can think that towards the end of next year, shortly that pressure starts to kind of create a more active market.

Lemar Persaud - *Cormark Securities Inc. - Analyst*

Appreciate that. And then you guys talked about the need to invest in growth initiatives and risk management. Maybe you could spend some time in talking about how you're seeing expense growth to play out for 2024. Could you pull back on expense growth if loan growth comes in below expectations? Maybe some comments on the operating leverage and efficiency expectations would be helpful.

Andrew Moor - *EQB Inc - President & CEO*

I'll let Chadwick deal with the kind of the math on that again, but I think it's very important that we kind of move across all frontiers of the business. So sometimes, we obviously invest -- we talk about investing more in advertising. You'll see that on watching live sports on the new year, you'll see us advertising with really great campaign, so that leads to expenses.

But also, we've got to make sure that we're investing in risk management, compliance management. That's really critical to banks. And so we're not going to back away from that just because maybe a quarter or two is a little bit soft in terms of loan origination. So there's always little bit of [expertly] on the expenses, but these are nonnegotiable. We're going to make sure we've got the infrastructure to run a safe bank.

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

Yeah, I don't think that there's much to add there. That's well said. We didn't provide the efficiency guidance, but in general, as we said, we believe that's an advantage for us. I think we can stay within the ballpark, but we're going to continue to invest to grow the franchise. Or do we have levers, Lemar? Could we pull back to Andrew's point? Yeah, there are some areas we can pull back and make our choices in some select quarters, but we have the ability to continue to invest through the cycle. Those are some of the choices we've been making to grow for the long term.

So we'll keep an eye on it, which is what we've done. I think it's pretty remarkable, as we said that we also had just integrated in 70% efficiency ratio business and we are back in that 43%, high 43% range -- 43% to 44% versus our historical range of 42%.So we've shown we can be very smart and efficient with our spend and we'll apply that extra too.

Andrew Moor - *EQB Inc - President & CEO*

Well, the other banks, some other levers, they can move their executives from the business class into the back of the plane. We were already in the back of the plane, so there's not much further we can go in terms of some discretionary expense there.

Just in terms of kind of mindset, we're always very careful with our shareholders' dollars, which means we don't really have much kind of -- there's not much. We need to make sure we invest in the critical things to run this bank safely. And this is not a lot of flex and I don't think -- I also think that our executives come in here knowing they've got the permission to spend the money on the things that are going to be important five years from now, not so much about what Q3 might look like, for example.

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

We won't lose focus. I know you're leaning into which you often do. You're going to target even flat operating leverage, and that's still -- the goal over the average in the quarters is to maintain our efficiency. But you'll see the operating leverage flip based on the quarter.

Lemar Persaud - *Cormark Securities Inc. - Analyst*

Appreciate the time. Thanks.

Operator

Etienne Ricard, BMO Capital Markets.

Etienne Ricard - *BMO Capital Markets - Analyst*

Thank you and good morning. This might be premature, but with the increasing possibility of interest rate cuts in 2024, what deposit beta would you expect for your demand deposits at EQ Bank in a declining rate environment? And would you expect that data to be similar to what we've seen since the start of rising rates over the past few years?

Andrew Moor - *EQB Inc - President & CEO*

Yeah, I think it's a great question. I mean, certainly, I don't have a strong view that -- looks like the bank is going to be into easing sooner rather than later. And I think that will impact our deposit beta. So it's going to be hard for us to offer the value proposition. We want to stand up in the market, be offering great rates all the time. It will be hard for us to drop the EQ Bank and rates and to still stand out in the way that we kind of built up brand.

I would say that generally what I've observed over the years and dropping interest rate environment spreads on mortgage spreads and just general lending spreads expand, so difficulty is to manage rates. Somebody's going to make a decision to drop mortgage rates in a competitive market. That tends to lag a little bit. So maybe a bit of an offset there with spreads on mortgages themselves expanding effect. We already seeing that today. If you look at prime mortgage spreads in the market today, they are actually quite wide based on the fact that the bonds have rallied on 90 basis points over the last 30, 45 days in the five years. And yet we haven't really seen much in the way of dropping five-year rates.

We have dropped our rates a little bit in the five-year term from across a few buckets. We are already seeing that would trend. But nonetheless, the spreads tend to be wider for banks in a falling rate environment. So that may offset some of the deposit beta in EQ Bank.

Etienne Ricard - *BMO Capital Markets - Analyst*

Great. Thank you very much.

Operator

(Operator Instructions) Graham Ryding, TD Securities.

Graham Ryding - *TD Securities, Inc. - Analyst*

Good morning. I just wanted to go back to the commercial impairments. So it looks like your allowance for credit losses for commercial are 25 basis points right now, which is essentially in line with your last five-year average. I'm just wondering like why you don't think there's an argument to move those allowance for credit losses higher, given your arrears are sitting about three times higher than the last five-year average currently?

Andrew Moor - *EQB Inc - President & CEO*

Well, I mean, I think as I mentioned, this is a loan-by-loan analysis. And despite the fact we've had 25 basis points reserve in our arrears, we've never lost anything like that. If I -- I don't think we lost anything on the commercial loan loss in the last 15 years. Sounds like you already remember of any significance were in commercial loans that happened back in 2008. So we feel very comfortable with it.

I know it's sort of -- it's a very reasonable question, but I can tell you is that I referred to it earlier. Our team has really done a deep dive looking at each asset, understanding the value, understand the cash flows, pretty comfortable the position we got to. But I think I was asking similar questions, does this make sense guys when we see these numbers and does that line up. And I think having tested and product added, we feel this makes sense.

Certainly, there's a lot of the large ones you can look at say very clearly, we have an exit route. There's no loss to be made. It's just a matter of timing. So I think they are pretty good, Graham, but I can understand there might be some skepticism about that.

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

Yeah, just remember, it comes back to how we would look at the LTVs in the properties and to Andrew's point, the types of properties that were lending into, the locations of the properties. That's why we say we're very prudent. This is one thing we're extremely good at. And for a lot of the growth, remember, a lot of this has been insured and very targeted growth as well going forward.

So the diversification, the spread of these loans across each province and our understanding the property, so just reinforcing Andrew's point, there's a lot that goes in behind this, and there's quite a lot of complexity of these models. And we have conviction of this.

Andrew Moor - *EQB Inc - President & CEO*

Just as a reminder, for those perhaps observing US experience in commercial mortgages, don't forget we are always first lien, always always first lien. We typically have -- almost always have personal guarantees from the proponents of the project. So we've got a lot of backup support here. Sometimes we'll be mezzanine [that] behind us, that's people that really know how to manage real estate. So the model has always worked well and it continues to, I think, stand up well in this most stressed environment.

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

Or remember, too for commercial, 73% of the book is insured now.

Graham Ryding - *TD Securities, Inc. - Analyst*

Yeah, I'm looking at both -- your ACLs both on an insured and uninsured basis. Okay, that color is great. .

Maybe just broadly, if I could just do one more follow on. When you give us your EPS guidance for next year, what is sort of baked in there from a credit loss provisioning perspective, perhaps relative to what you've done in 2023? How do you think about that?

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

Well, we can't really project out the PCLs. I'd say we have some consistent expectations built in, Graham. But unfortunately, we can't just pick an PCL number. But we certainly have some continued -- expectation of some continuity for the next couple of quarters, probably more towards normalization and expectations in the second half. That ACL ratio, when even think of the overall ACL ratio as a percentage of lending assets, that's where we have some consistency in our assumptions.

Graham Ryding - *TD Securities, Inc. - Analyst*

Okay, understood. Thank you.

Andrew Moor - *EQB Inc - President & CEO*

This is a super tricky one just to think about this one, just intellectually, Graham, if you think about it. You've got to roll forward to 12 months and then try and to figure out what the macroeconomic forecast is going to be 12 months from now and then predict to forecast. So I think the team does a good job in putting a number that's reasonable. But of course, if there were a lot of dark clouds, that would be a bigger number at the end of the year. And if the future is bright at that point, then it's going to be positive, none of which really relates to the actual performance of the next 12 months.

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

And so (inaudible) and we go back to our earlier point that a little bit more weighting on the first half versus second half. It's reinforced that.

Graham Ryding - *TD Securities, Inc. - Analyst*

Yeah, that's helpful. Okay. Thank you.

Operator

Stephen Boland, Raymond James.

Stephen Boland - *Raymond James Ltd. - Analyst*

Good morning, everyone. Maybe just one question, Andrew and Chad, on the single-family business, the government put out their mortgage charters, a lot of media around it, but is there any impact to your existing book right now? Is there any way that you envision you may get market share gains out of -- if there's any changes with the bigger banks as well?

Andrew Moor - *EQB Inc - President & CEO*

I don't know this market share gain opportunity. Clearly, there's more obligation on banks, which we hope to treat our customers properly, and frankly, we always believe we have. So what's being asked for is entirely reasonable. So it seems sensible.

I was worried that you go from treat your customer right to that becoming a rhetoric regulatory process, which doesn't have quite the same feel to it. But we're always working with our customers if they -- looking for things to help them get through a period, but generally, we're quite disciplined on giving relief because our experience has been [getting] people without get too behind of their mortgage they could never catch-up. So there's very, very little cover. The real change that you should be concerned about is investors.

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

Just get that we're very consistent to our purpose. This is the standard (inaudible) rate in terms of how we operate. This actually reinforces the principles of our business and how we support Canadians. So the interest point is if anything, it under tones matter our entire mission. So hopefully, that gets brought more broadly reflected by customers as well.

Stephen Boland - *Raymond James Ltd. - Analyst*

Okay, so (multiple speakers)

Andrew Moor - *EQB Inc - President & CEO*

You may recall that our average LTV, as you know, some low 60s. So there's a fair bit of room to --

Stephen Boland - *Raymond James Ltd. - Analyst*

The mortgage charter, do you find it has teeth or is it just general stuff that they should be doing anyhow? When you can comment that you're already doing that work with your customers, but do you see any irrationality out there the single-family business in general? (multiple speakers)

Andrew Moor - *EQB Inc - President & CEO*

It certainly has teeth because the SEC regulates us. And so we have to -- that's teeth for sure. I don't think it really changes our behavior because I think we would have behaved in this manner in any event.

Stephen Boland - *Raymond James Ltd. - Analyst*

Okay. Thanks, guys. That's helpful.

Operator

Thank you. And there are no further questions at this time. I'd now like to turn the call back over to Mr. Moore for final closing comments.

Andrew Moor - *EQB Inc - President & CEO*

Thank you, Lara. Before we leave you today, I want to thank my fellow challengers to delivering a tremendous year. We look forward to our next analyst call at the end of February. In the meantime, I challenge you to change the status quo, open up an EQ Bank account and earn 2.5% everyday interest.

And if you have already have an account, take the next step that thousands of our customers have done this year, redirect your payroll into your EQ Bank account. This action will allow you to earn 3% of what is effectively a high-interest checking account and offers all the additional benefits of operating in the EQ Bank ecosystem. Thank you for participating and have a great day.

Operator

Thank you, sir. Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your line. Have a lovely day.