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Q4 2022 EQB Inc Earnings Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to EQB's earnings call for the fourth quarter of 2022 being held on Friday, February 17, 2023. (Operator Instructions) It is now my pleasure to turn the call over to Richard Gill, Vice President, Corporate Development and Investor Relations at EQB. Please go ahead, sir.

Richard Gill ***EQB Inc. - Vice President of Corporate Development and Investor Relations***

Thanks, Michelle. Your hosts today 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 review our accompanying quarterly investor presentation. The presentation includes on Slide 2 EQB's caution regarding forward-looking statements as well as Slide 3, outlining the use of non-IFRS measures on this call. All figures referenced today are adjusted, where applicable or otherwise noted.

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

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

Thanks, Richard, and good morning, everyone. Given the accounting complexities involved in reporting on an acquisition, I'm going to keep my remarks very brief to allow Chadwick to help investors and analysts on our call assess the various one-time impacts adjusted in our Q4 results. That said, a lot of great things have happened since our Q3 results call in November, and we'll cover those highlights today.

To my mind, it is the long-term consistency of performance that really matters to us and to fellow shareholders. And it's what EQB has proudly delivered for the past 18 years. Each and every year during that period, we've grown EPS, including in 2022, with an ROE average over that period of 16.4%. EQB's value creation method, which we have again outlined in our MD&A, applied with discipline and executed with excellence, provided these differentiated and industry-leading results.

Speaking to the here and now, what EQB demonstrated in Q4 is solid margin expansion year-over-year and very low realized loan losses. Based on a consistent and effective risk management processes and practices, we should emerge from this period of Central Bank tightening without unusual credit losses.

You can see our confidence reflect in the 2023 guidance we released in November and are reaffirming today. As for the addition of Concentra Bank, the acquisition added complementary asset growth, diversified our sources of revenue and funding and provided greater distribution capabilities across Canada. But for me, the takeaways this quarter are with the substantially increased scale and our integration plans taking flight, we're on track to realize the synergies we projected. Our engagement with credit union partners are getting off to a good start with progress across a number of initiatives, and we've succeeded in bringing great talent to Equitable Bank. It's been an absolute pleasure seeing teams come together and collaborations take shape. First of all, we know we have much more to accomplish, and we have the people to do it.

With underlying momentum as well as the advantages of enhanced scale and business positioning, I feel more optimistic about our future than ever for 3 reasons: our opportunities to grow with diversification, the market presence and capabilities of EQ Bank, and third, our bench strength.

Taking each in turn, we have a wide range of incredibly valuable opportunities ready to s erve Canadians across our diversified commercial and personal banking operations. It's important when I make that statement for everyone to appreciate the level of diversification, scale and significance of our commercial banking business lines, which collectively represent about half of the bank's earnings. I encourage you to consult our updated MD&A for details.

In our personal banking operations, there are many reasons for optimism as well as including with EQ Bank, which, to my mind, has reached a tipping point in broader consumer acceptance. I think The Globe and Mail's Rob Carrick captured in his recent color about the EQ Bank card offering entitled, "This practical new spin on a savings account might just peel away you away from your big bank." Frankly, I see no reason why it shouldn't peel you away from a traditional bank, Old Line Bank now. And our team is certainly focused on making that headline a reality for more and more Canadians. It's taken 7 years of immense progress to establish our market presence as a top digital bank in Canada. We've done that by enriching people's lives with innovative digital solutions at every term.

The story continued in December with the launch of EQ Bank in Quebec and in January with the introduction of the EQ Bank card, both are game changers. And we are seeing this in new account sign-ups and product usage as more Canadians choose to make bank with us. If you're not one of the nearly 35,000 customers who have already subscribed to the low-fee EQ Bank card over the past month, I encourage you to do so as it translates all of the Savings Plus account benefits into an everyday payment solution that works on a fee-free basis from any ATM with no charges on foreign exchange purchases plus cash back on all purchases. If you're traveling internationally this year, there is simply no better way to pay and save than with the EQ Bank card.

We have a deep understanding of how technology is changing banking. And EQB is uniquely positioned to take advantage of that in the Canadian market with a true cloud-native digital platform. This platform allow -- positions us to wow customers with faster delivery of new services. You will see us capitalize on and accelerate our investment in this advantage as we move forward.

Our team most recently visited Microsoft's headquarters in Redmond, Washington to understand how we can best utilize our technology stack for competitive advantage. We all came away, confident that we are on the right track with many opportunities for value creation ahead. Most of all, optimism comes from working with almost 1,700 challengers across Canada who not only delivered in 2022, but are absolutely capable of tackling even more ambitious challenges in the year ahead.

We've recruited great talent, nurtured great talent within, and have dedicated programs in place to develop our raw talent. As a consequence, EQB has both tremendous bench strength and the means to advance next-generation thinking and innovation. Together, we will approach all our opportunities with a clear-eyed focus on customer service and a full alignment to our value-creation method.

Speaking of great talent, it's now my pleasure to turn the call over to Chadwick. His contributions to our success have been many and include developing a first-rate team of professionals who worked incredibly hard to bring you today's integrated financial information. I think our shareholders deserve to know how good that team is and I sincerely thank them for their efforts. Chadwick?

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

Thanks so much, Andrew. Well, 2022 marked another consecutive year of EQB setting their guidance and then delivering the results. We say it every quarter, and we'll again. Our North Star and capital allocation priority is return on equity, and we delivered 15.9% in Q4 to round out the full year at 15.7% compared to guidance of 15% plus.

It's a great outcome, even in the context of our outstanding track record, considering we added incremental common equity in Q4 to fund the Concentra Bank acquisition. Today, I'll jump right into 4 key themes. First, the impact of closing Concentra in Q4; 2, margins and revenue; then credit risk management; and last, 2023 guidance. As we talked about in past quarters, including on the Q3 investor call in November, we booked several one-time adjustments to our reported results in Q4. There are no surprises here for us. And more than 1/3 of the adjustments are related to required, accounting for credit loss provisions, noise created by closing the Concentra Bank acquisition.

Our adjusted earnings achieved guidance, including book value per share and capital, which are not adjusted. Book value per share grew 13.4% year-over-year after accounting for the 6% increase in weighted average common shares outstanding in Q4, reflecting the conversion of the subscription receipts. That average share count will increase further in Q1 to fully account for the sub receipts.

Now I'll pack a few points on the onetime charges and $1.27 per share difference in reported versus adjusted diluted EPS for Q4. But 30% of the total difference is the day 2 in acquisition-related ECL from closing Concentra, which does not impact our total capital. Under IFRS, we are required to establish an ECL after having eliminated Concentra's as part of their fair valuing of their assets and liabilities upon closing. The provision for losses was booked as Stage 1 performing on the entire Concentra portfolio, followed by any migration from Stage 1 to Stage 2.

After this quarter, provisioning will follow our normal robust process. About another 30% of the difference in Q4 is software-related write-offs and write-downs with decisions mostly driven by the acquisition and some consolidation and vendors we have decided to no longer work with as an outcome. Then 20% is from planned severance with significant changes that were completed in the first 60 days following closing as part of our synergy planning. And then the remaining 20% of the difference was tax and other integration-related costs. These points are in our MD&A.

We do not expect any further material one-time charges related to the integration of Concentra, but there will be some more spend here. We'll continue to report adjusted results. When we announced the acquisition in February 2022, we estimated integration costs in the range of $45 million to $50 million, and we remain on track. That excludes the accounting-based impact from the day 2 in acquisition-related ECL and the interest costs that were booked as an offset to interest income prior to conversion of the subscription receipts to common shares. At announcement, we also stated that our anticipated annual run rate synergies should be in the range of $30 million, and that they would be substantially achieved by the second full year of ownership. Overall, our expectation has been mid-single-digit adjusted EPS accretion in the first full year post-closing, increasing thereafter. I can confirm we're on track to achieve this guidance.

Now I'll move over to point number two, context on our strong revenue growth driven by margin strength and stability. Our guidance for 2022 was flat to moderate expansion from the 1.81% NIM in 2021, and we delivered 1.87% ahead of guidance.

Going forward, we will not publish stand-alone financial statements for Concentra or a separate contribution of Concentra to EQB, especially as we continue to integrate the banks. However, you see net new disclosures in the EQB MD&A, including average yield on consumer lending assets plus points like disclosures on credit union deposits. What I can say is that in Q4, if we had not acquired Concentra, EQB NIM would have continued to expand sequentially from 1.94% in Q3. The consolidated margin of 1.87% we reported for Q4 positioned us well for momentum into 2023.

We highlighted last quarter that with our diversified funding mix and our flagship EQ Bank deposit base, we manage a lower deposit beta with funding costs moving up at a lower velocity than Bank of Canada increases. This advantage has continued to strengthen.

Our EQ Bank customers are winning with a very high everyday rate of 2.5% plus new offerings, including in Quebec and with our EQ Bank card that Andrew referenced, which further scales up our customer engagement. With Concentra, we had more diversification here, and we expect to continue our covered bond program with another issuance in 2023.

Also, we announced that at the end of November, we have more tailwinds in funding costs due to the benefits of achieving a credit rating upgrade to investment grade for Equitable Bank by DBRS Morningstar, the historic milestone in the growth of the bank. And we have conviction that there is more upside with our ratings still not reflecting our operating model, diversification, capital and liquidity.

Now over to credit risk management. I noted the onetime provision for credit losses in Q4 due to Concentra, which was about $19 million. If we excluded this, our PCL book for Q4 would have been approximately $7.8 million or 7 basis points ratio, which is moderately elevated from the $5.4 million or 6 basis points ratio in Q3. This is higher than Q3 as expected because of a couple of key factors.

While delinquencies are stable, there was broad deterioration in macroeconomic variable forecast compared to forecast at the end of Q3, including unemployment, GDP, HPI and the commercial price index. These forecasts triggered model-driven changes with Stage 1 to Stage 2 migration, which represented nearly 3/4 of the Q4 PCL excluding the onetime items. With Concentra, we added some new assets with a different risk profile, but also higher yield, including nearly $900 million in diverse consumer lending assets, which you now see as part of the personal banking portfolio. Plus, we added more than $0.25 billion in additional prime quality equipment financing assets to the commercial banking portfolio. These respective asset classes generate a higher yield but also a higher probability of default and loss given default factors and a corresponding higher ACL. This was reflected in our net ACL as a percentage of lending assets increasing from 15 to 18 basis points sequentially. But again, these translate to higher earnings and higher ROE creation.

Our gross impaired loans increased $50.6 million or 58% sequentially in Q4. Last quarter, we referenced that over 25% of impaired loans related to one loan that we expected to fully recover. That was true, and we did. Similarly, in Q4, about $43 million or around 1/3 of our net impaired loan assets related to 1 loan in Quebec. We expect to fully recover our exposure. In the coming quarters, we are prepared to see an increase in our impaired loans in this economic cycle. But we continue to expect to recover these positions if and as they transpire.

A few other reminders on credit risk that you will find referenced in our financial statements in the supplementary pack. Nearly all assets are secured. And we only take first lien positions. Our average uninsured single-family residential portfolio LTV is 65%. The average Beacon score in uninsured single-family residential is a strong 713. 44% of on-balance sheet commercial loans are insured, and we won't look at new commercial mortgages, about 75% LTVs unless they are insured. Fundamentally, nothing in our results indicates increasing credit impairment. The risks are real and present in the economy. But we always actively manage to our principle, lend to not lose the money.

Moving to 2023. We're reaffirming the guidance we provided in November with our focus remaining on our adjusted 15%-plus ROE North Star. For the full year 2023, this includes diluted adjusted EPS growth of 10% to 15%. The respective guidance by metric and asset class is in our Q4 MD&A.

We expect portfolio growth will be more muted in the first half of 2023, increasing towards these targets in the second half of the year. Note, this is 12 months guidance, and we will end up calibrating it to account for the change we announced to move our financial reporting year from ending December 31 to a fiscal year ending October 31. That means November 1, 2023 will be the start of our fiscal 2024. Aligned with industry practice for Canadian banks, our Board of Directors has approved this change to improve the timing and comparability of our bank in Canada. More details will follow at our AGM in May.

In closing, we believe our value creation method and impact on enriching people's lives will continue and broaden momentum. Consistent long-term performance is validating our Challenger Bank strategy. We have proven expert credit risk management, increasing diversification and sources and uses of capital, strong diversified personal and commercial banking business lines, the top digital bank in the country and scale and distribution tailwinds.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question will be from Meny Grauman of Scotiabank.

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

I just wanted to start off just with a question on the loss on loans and investments, about $6 million, a little bit more than I expected. We've talked about this in the past, starting in Q2. Is this just the same dynamic that we've been seeing for most of this year in terms of those fintech investments being marked down? Or is there anything else in that number this quarter?

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

Yes, that's exactly it, Meny. I mean, we're certainly hoping we're sort of at the end or close to the end of that, but that's -- so we think that will be a bit of -- as Chadwick said, a tailwind going forward that we wouldn't expect this to repeat in 2023 as a whole or the -- of course, it could always be a few little ones, but it seems like we might have borne most of the pain on that.

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

Got it. And then just another sort of more detailed question, relatively small portfolio, the insurance lending portfolio. You talk about repayment activity being impacted by increase in prime interest rates. I'm wondering if you could just provide a little bit more detail on what the dynamic is there. And I see that the expectation for 2023 is pretty strong in terms of growth. Just wondering how you see the rate picture impacting that business next year or this year in 2023 as well.

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

Yes. Thanks, Meny. I mean, as a reminder, the insurance lending business is part of our broader play on the accumulation business where we have this thesis that retired Canadians are not particularly well served by the major Canadian banks, and this is an important plank in that. Though we do compete with the big insurance companies and providing policy loans. As rates moved up, we found that their offering of rates didn't move up as fast as we would think it should have done with the underlying rates.

In general, they're priced above us. And we would expect this year that that will serve. So what happened to some of the assets we had moved back to the insurance companies, because they're offering a more competitive rate. That shouldn't be for regulatory reasons, the kind of long-term position. So we're quite optimistic for this year that it will revert to a position normal by a bit of higher growth in that portfolio. I would say it's still a fairly small portfolio. I'm very excited about the potential of the business. But I think we're still going to unpack that a little bit and get it to the level of efficiency that we need to be truly successful over the long term.

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

And then, a little bit bigger picture question in terms of competitive dynamics that you're seeing. The larger banks are dealing with higher capital requirements and maybe that's going to go up. Obviously, that doesn't impact you directly. But wondering if you're seeing any, or expect to see any impact, indirect, especially in the commercial side of your business in terms of competitiveness and is there any opportunity there for EQB in this kind of environment?

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

Certainly. We respect the skills, the treasury teams and the big banks and how they would try to price loans to yield the right returns for investors. So presumably, as they need more equity on their balance sheet to -- for regulatory reasons, that there will be a bit of price push through there, which might -- the margin make us a little more competitive. There is a broader issue for us, though generally in competing with the big 6 is that we're not an AIRB bank yet. We continue to be aggressively pursuing that program and that will be helpful to response we get there. But as we noted before, that's a couple of years away.

Operator

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

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

On the EQ Bank deposit growth guidance, how much of the 20% to 30% growth do you expect to come from first new customer acquisition, whether that be in Quebec or in other markets? And I presume the second part is how much will come from existing customers depositing more as a result of your recent initiatives?

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

It's virtually all coming from new customers. So we're not expecting the average balance per customer to go up, which -- just to give you some sort of sense is about 25,000 per customer, so somewhere around that 20,000 to 30,000. So we're not expecting that to move very much. And in fact, as we acquire more customers who are using EQ Bank as an everyday bank, depositing their payroll, using the payment card to make their payments, if anything, the average might sneak down a bit. So -- but we are seeing very strong customer acquisition now with the sort of Make Bank campaign that the broader value proposition with the payment card. The problem we've be trying to solve with the payment card is that if you have your payroll deposited in EQ Bank, historically, you wouldn't be able to go to a point of sale, say, the grocery store to spend that money. And now we've solved for that. So we're really optimistic about it becoming more and more on everyday bank solution. And that's going to be the message for the year. And we're really optimistic that we can drive that message home and really deliver a new level of available functional in the Canadian market.

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

And how is the launch in Quebec progressing relative to your plan?

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

It's very good. Yes, we're -- what we know about the Quebec market is particularly more inclined than the rest of Canada around sort of digital solutions. And we are -- we are making good progress. Now just to be clear, we -- in order to deliver great service, we launched with a slightly limited more limited product set in Quebec. Just to make sure that we didn't have any sort of flaws with the stack and everything that we offered was working well, which is the case. And now we're going to be rolling out the full product suite in Quebec. But that's going to take -- that project is going to take much of the year. So as we sort of ramp up that functionality, we would expect to see more gain and more traction in the market. But I'm very encouraged with the start we've had. And I think all of our market research that suggests this is a particularly good market for digital bank is proving to be true so far.

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

And lastly, how should we think about the mix of credit union deposits as a percentage of your overall deposit structure now that Concentra is closed? And could you remind us how the cost of those deposits compare to other sources?

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

Yes. We -- I wouldn't expect material growth in the credit union deposits as a part of our funding stack right now. I'd kind of say, its early days. We have some positive early momentum with our credit union partners and figuring how to offer them the best solutions. The rates we have not disclosed those credit union deposit rates. But you could say they're on par with some of our benchmark nominee board rates. And it sort of depends on the campaigns at a certain period of time. But just look at it for now as it's added a new great ingredient into our funding stack into diversification. And probably over the next few quarters, we'll get a better sense of the real opportunity for us.

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

So I think that's how we see it. And just to be clear, we really didn't have the chance to reach out the credit union system, though we'd like to before the deal closed. And so now we have -- I think we'll have a better -- we'll probably be able to answer that question even better in the next couple of quarters as we have more and more conversations with those important partners of us. We're really trying to be really helpful of credit union system and solutions we can offer if we can do that. And clearly, I think more deposits will come with it. But it's a holistic really learning how to work with a really important part of the Canadian financial ecosystem.

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

That's right. Like remember, too, I guess, just trying to close that point. Well, we reported $2.4 billion from credit union deposits. Remember, the whole market in Canada is about $400 billion. There's certainly a lot out there. But we need to figure out what makes the most sense as we serve the credit unions and their members.

Operator

Your next question comes from Lemar Persaud of Cormark Securities.

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

I dropped off there for a little bit. I probably need a new headset. So I apologize if one of my questions have been asked and answered already. So I just want to come back to the consolidated NIM next quarter. Given the full impact of Concentra, should we expect it to increase sequentially just given the momentum in the underlying business, net of the drag from Concentra? I think I heard you mention, Chadwick that margins ex-Concentra moved higher. And that jives with my crude estimate. But I'm really trying to figure out what the Q1 baseline should be?

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

Yes, that's fair, Lemar. It's -- one thing that -- one way to think about it is we had 2 months of impact from Concentra. And we were open about the fact that we were bringing in a lower-margin business and going to integrate it into our business. So it takes a little bit of time to see that margin increase. So that 2 months will go to 3 months in Q1. So there is a potential for a little bit more dilution. But we would still expect to see some consistency and potential expansion from our consolidated NIM at the end of 2022 overall by the end of 2023. So look at a bit of a curve through the year.

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

Would you say that -- well, I'm just trying to gauge it relative to Q4 like should I expect in Q1 for it to move up just given?

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

No, I'd say down a little bit, Lemar, so because it didn't have the full impact of Concentra in Q4, so there's a full 3 months of impact of that margin. And then in Q1, so you could see all things kind of all things equal, where we still see that the consistency in the overall EQB business, just you'll have the full impact of Concentra. It takes a little bit of time. And then I'd say some expansion by more in the second half of 2023 is the way I would think about it.

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

That's helpful. And then I want to move on to the -- your portfolio growth targets here. And I want to focus in on the Alt-A mortgages, 3% to 5% for 2023 seems to really quite light relative to what I would expect. Like is it bank intentionally slowing growth in that portfolio? I mean Royal talks about mid-single-digit growth in their portfolio, which, is prime for 2023. But I was under the impression that with the pressure from higher rates, the pool for Alt-A borrowers should move higher. So I guess, kind of why the lower target on the Alt-A mortgage growth?

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

Yes. I think it's a bit of a tough one for us to be precise about. We do tend to want to underpromise and overdeliver. Clearly, we've got a housing market that's quite slow as we speak. I'd be fairly optimistic frankly in the next 3 to 4 months, it's going to come to life once people got kind of comfortable the interest rates have peaked. But even to get that -- to get to the kind of numbers figure out what you want to communicate to the market. You really need to sort of have some views on how the housing market is going to move. We're certainly expecting a much stronger second half of the year than the first half of the year. And I'm pleasantly surprised by the level of activity on the underwriting floor as it were today, especially in Western Canada. So there's maybe an opportunity to exceed that. But I think we captured a fairly conservative terms viewing that a slowing housing market is going to be -- it's still a bit of a much uphill rather than a tailwind for sure. But there may be opportunity. And it will be interesting to see how the alt market changes vis-a-vis the prime market for sure, as you point out.

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

Yes, I'll just add 2 points, Lemar. So one is growth out there. You mentioned RBC's prime uninsured portfolio. Sure there's growth and there's growth in the alt market, but we're not going to chase growth. We're going to stick to growth that fits our risk appetite framework and fits our consistent business operating model. So we're -- in this environment, we're being very consistent where others may or may not. And 2, I'd say as well as a reminder that we just closed Concentra a couple of months ago, right? So that increased the asset base as well. So we also changed our perspective of relative growth. So the whole portfolio is bigger. But that's just -- that will look different for a few quarters, given the layer on of that portfolio.

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

And then the final one for me. I just want to revisit the synergies discussion for Chadwick. I think last quarter you said you'd provide some updates there. So now that Concentra has been under the belt for a little over 2 months. Are you feeling relative to that $30 million-ish of guidance? Do you think it's going to be easy to achieve? And is that frankly, the low watermark with potential upside from there?

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

Well, I'd say nothing is easy to achieve in banking. But no, we're working very hard. We're -- as Andrew had commented on, we're pleased with the progress out of the gate. I still -- it is still early days. But I would say as we have great velocity. You saw that in some of our Q4 results. I'd say our optimism has increased that we will achieve those synergy targets and I do think there's some upside potential. Remember that $30 million was cost synergies. And there -- and we may be able to explore some more here on the top line as well. So we'll continue to update you on that quarter -by -quarter but it's looking pretty good.

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

And what is that on the cost synergies, like systems, transformations, systems consolidation, like what is that?

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

All of that that you saw on the onetime charges, Lemar. So the software integration and contract terminations, severances, real estate, it's all, those standard -- there is really a combination of people, process and technology costs.

Operator

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

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

Maybe we could talk about the NIM first. Just what actually wasn't that drove the higher NIM in 2022 for you relative to your original forecast? I just want to figure out whether its deposit cost inflation was maybe less expected? Or was it more asset mix?

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

I think it's mostly, Graham, related to -- or a significant contributor was the lower beta than we expected on the EQ Bank deposits. And of course, coming into last year, when we were giving you guidance, we -- it wasn't as clear to us the Bank of Canada will be moving aggressively on the prime rates, on the short overnight rates. So we gained a bit through deposit beta there. And then, of course, I think our treasury team, are particularly astute and clever about balance about hedging the risk, making sure we've got to match book across the rest of the asset liability matching process. So unlike others, we didn't see the broader NIMs getting squished both through that, through rapid moves in interest rates upward tend to be things that slightly less tightly managed balance sheet. So you see a margin detraction. We didn't observe that. So a combination of great treasury management plus the beta from EQ Bank, I think as both of those things were not quite what we forecast and give you guidance.

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

The last thing I'll just note for back to even the Investor Day, Graham, remember the ROE calculator and our focus on ROE and Andrew is the pioneer here, right, of creating this. We stick to that ROE calculator that he designed with the team 15-16 years ago and that continued to play out and that plays out rate in a quarter like this as well. So those funding benefit from the ROE calculator you see translate in that margin.

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

And then I hear your message about some dilution to NIM in Q1 as you get a full quarter of Concentra. But then I think you're suggesting there should be some NIM expansion in the second half of 2023. So what is it that's driving that? Is that maybe some color there?

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

Well, there's a combination of factors, right? So there's -- we've been looking at the pricing on the asset side of the portfolio and then also leveraging the pricing capabilities on our funding stack are 2 elements to consider in terms of what will improve the margin over time. And it's just -- there's been -- as we manage our book a little bit differently from a treasury perspective, some of that just takes some time to cycle through as well.

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

There's some sort of nuances, for example, some of what we think is variable rate liabilities are at CDOR. So they've got a 1 or 3-month term. As we move to CORRA-driven swaps, which are more of an overnight rate, you'll see less of that. But in general, that's going to help with margin expansion as it all booked historically rolls off.

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

And then maybe just on the credit side, there was some migration higher in arrears. And I wouldn't call it alarming, but we saw some push higher, both in the single-family and the commercial side. So maybe just some color on what do you think it is? It's driving the higher arrears on the single-family side? Is it the housing market is not as liquid right now and people aren't able to sort of get out of default situations as easily? Or is it just employment? Maybe just some color there first.

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

Well, so the increase that we've seen in arrears. I would note that the 30 to 80, 90 -- 89-day category, we've seen the trajectory that increased -- reduced a fair bit in the quarter. So that's very encouraging as we look forward. The increase in actual impairs is a situation where the prior quarter's increase in delinquency roll through. What we're seeing with respect to that, I think there's a little bit less liquidity in the market when it comes to the opportunity to refinance out. We know that certainly some of the mix and whatnot have a little bit less liquidity. So I think that's the dynamic you're seeing on the impaireds. But with respect to that near-term delinquency, it's difficult to pinpoint because we're at levels now that are just returning to historical norms. So as you'll recall, they've increased from what were, historical lows coming out of the pandemic. And so because of that, we aren't seeing anything really unusual like the 3 or 4 different factors that you just referenced that we could point to as a causation for increase at this point.

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

I mean clearly, unemployment is not part of this. We typically see seasonally towards the end of the year, arrears a little higher. But it looks pretty good. We're not seeing -- in terms of losses at least our view. And we sort of do a deep dive as much easier on the commercial side to take each loan and look at them loan by loan. We continue to believe that losses are going to be, well, not going to be particularly elevated even with higher interest rate scenario.

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

Maybe if I could just finish on that on the commercial loan that you flagged. One is, what's the nature of that $43 million commercial loan? Like what's the -- what kind of asset is it? What's the loan to value? Why do you expect that you won't have any losses here?

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

Yes. It's a multifamily building. It's got a large B-note behind it with a partner that we work with for a long time as part of a broader issue with which I think almost every bank in the country is involved in the CCAA when we look at loan-to-value coverage, but we're very well covered. We won't realize a loss there. Whether it'll get resolved before the end of this quarter is another matter. So you might still see it roll through in Q1, but -- at the end of Q1. But I'm extremely confident. Looked at the loan file in some detail and I'm extremely confident we won't have a loss.

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

And if I could just add to what Andrew said there the -- the asset that we have ourselves is a solid asset. The issue is causing the CCAA more -- the sponsor level at the top of the house. And so that's why we can assert real confidence in our asset working its way through.

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

I think you could just generally think about that in terms of arrears. Sometimes we're lending on a very good asset, say a cash flow multi to a group that's got other say, development activities. Now you may end up with the group itself running to some challenges, but don't forget we're going to first lean on the cash flow multi. The loan-to-values we lend at, generally, you can work -- you work your way out of those things with no loss. But it can look like a bit of an arrear for a while.

Operator

Our next question comes from Jaeme Gloyn of National Bank Financial.

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

First question, maybe for Andrew. Just in terms of the Concentra Bank business and its portfolio of loans after 2 months of again, your arms wrapped around it. Are there any portfolios or types of loans that you like more or like less than originally expected and are looking to maybe shift or push further into or pull back? Are there any comments?

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

Thanks, Jaeme. I mean we've already identified a few loans, a few parts of the portfolio we weren't concerned about from a credit loss perspective I think. But we don't want to continue to be in those businesses. It's our deliberate strategic decision. So those -- that continues to be our position on those things. We haven't really seen anything that's more attractive as a result of looking at it deeper. We're still looking away. It takes a long while to really get your arms around the loan book, but seeing nothing negative at this point, pretty much right what we expected. I think there was a number we looked at like 30,000 documents or something crazy before we actually put the bid in on this asset. And I think that investment in time early on is really paying off in terms of actually having a pretty good view on this portfolio. So I would say, in general, no surprises.

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

Okay. And sorry, I missed the first part of that answer. Did you say there were some portfolios that you would look to maybe exit or diminish, did I understand correctly that?

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

Yes, exactly. There were some that we determined before we bought Concentra, we wouldn't be continuing. One is what they call the high-yield portfolio. It's lending to some commercial entities. Each asset is -- looks fine to us at this point, but it's not a business we want to be into. We don't believe we can scale it safely. There are a modest number of hotel loans. We don't -- we generally don't have a good -- we don't have a good understanding hospitality vertical. And we don't -- it's not something that we think of a strategic direction we want to be putting more capital into those -- that kind of business. So those 2 are both -- we'll still work just to be clear, in case some of those customers are listening, we will continue to support customers of Concentra Bank. We're not somebody that switches and changes. But those are not businesses that we want to lean into to expand from here.

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

If I look at the consumer lending portfolio, nice yield, 9%, that's been pretty consistent from Concentra going back in their years -- their financials as well. Maybe if you can provide us a little bit more color as to what's behind those loans and the potential growth trajectory for consumer lending?

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

I think it should grow quite nicely. Mostly a big chunk of that is home improvement loans and equipment like that. So since we're working with good partners, pretty comfortable with it. Again, it's one way I think we're excited about the portfolio in a positive way. I wouldn't like to give you too much projection for growth until we have a deeper understanding of those partners and really, really -- I think we're getting there, but just another couple of quarters, we'll have more comfort around those portfolios. But our general view on them is very positive at this point.

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

Last one for me, maybe more of a question for Ron. Just thinking about the credit provisions and your closest peer talked about higher renewal rates or higher mortgage rates for renewed mortgages as being a driver of higher provisions this quarter. Not looking for your comments on what they've done. But more just philosophically, like how would a higher rate on a renewed mortgage impact, how you think about expected credit losses and a provision that might be taken on that renewed mortgage? Any color on that?

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

Sorry, I didn't hear the Royal Bank talking about that on the call. So -- but certainly, it's a valid question in terms of what higher rates mean for our book. So I don't know, Ron if you could address that more generally?

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

Look, I mean, obviously, we have a very strong handle on it. And with respect to our competitors, we look at our own book in the context of our own risk appetite. And we've asserted it for many, many quarters, the quality of our book, the strength evidenced by LTVs, the Beacon scores, et cetera, et cetera. And so it's actually a relatively small number of loans where you would be into areas of total debt service that are exceeding, say, 50%. And those loans also have very, very strong payment histories to date. So when you take all that in context in terms of the number of loans, the quality of the book, where our risk appetite has played, Chadwick talked about how we are designed to go through cycles and the book is positioned to take you through a cycle. I'm quite confident that the provisions that you see today are reflected in what would be in the next 6 months, the renewal cycle. And it's reflected that we have taken nominally or marginally higher reserves incrementally as the economic outlook has changed. And so I certainly would not expect to see any increase in provision specifically for that factor over and above what we have in the books today.

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

Okay. So if I understand correctly, where there are loans that maybe have a total debt service ratio exceeding 50% that by itself might be a reason to maybe increase provisions from an expected credit loss perspective. But given the LTVs, given the payment history, given the underlying, I guess, maybe FICO or quality of the -- where those are all offsets where a provision, you can sort of tweak that down a little bit. Is that -- did I summarize that fairly?

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

That's entirely the right way to think about it. Let's not forget, in those GDS /TDS numbers, it doesn't include any assets outside of the house. For example, you could have money in a savings account in your RSP. That's not even -- doesn't help alleviate GDS /TDS. So presumably, you're probably likely to have relatively high Beacon score if you've got those kinds of funds put away. But I think many of the way we think about these metrics doesn't reflect the complexity of what really happens when people take a mortgage. There are family supports here. The teenagers can go and can take a job on Saturday morning. And these are family enterprises to maintain the family home, right? So that's certainly how we think about it, that's what we observed in our loan book. And not to say it doesn't put stress on our borrowers. And we have lots of empathy for our customers, obviously, with this unexpected increase in rates. But many of them have the intellectual resources to sort of figure out how to work that way through this.

Operator

(Operator Instructions) Your next question will come from Stephen Boland of Raymond James.

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

Andrew, just wondering if your thoughts on the competitive environment, if Mr. Smith is successful in acquiring Home Capital. Do you believe this is positive for Equitable or negative?

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

I think it's neutral, Steve, right? I mean Home Capital has a sort of rational management team doing sensible things and we compete with them fairly and we will do our own thing. And Stephen, obviously, is very much a rational competitive businessman. I mean, who's built the business he has without that. So I think it will be -- things will be pretty much as they were before. I guess one thing we were benefit of seeing their results in public, so that will be a bit of a disappointment for me. But other than that, I don't think much changes.

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

Okay. And you've had a very good partnership with First National for many years. Mr. Smith is one of your largest shareholders. Has there been any discussion in terms of a change in that relationship with First National going forward?

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

I think we wouldn't expect any, Steve. I mean, Stephen is also sort of one of my best pals. We do a lot of stuff together, cycle bike, ski and stuff together. And certainly, the conversations I have with him, doesn't suggest that there's going to be any change in that relationship. And probably as I'm making this call now, we've probably got 5 phone lines open, our people with First National people talking about various elements of the business we do together. So I'm expecting that will continue.

Operator

Mr. Moor, there are no further questions, so back to you for closing comments, sir.

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

Thank you, Michelle, and thank you, everyone, for attending today. We look forward to reporting our Q1 progress on May 2 and hosting our Virtual Annual General Meeting on May 17.

As a final thought, I invite everyone listening today to sign up to receive the EQ Bank card. Not only do I think you'll like it, but also from a research perspective, it's a great way to get to know Canada's Challenger Bank, the value we're creating in the consumer marketplace and why we are so positive about our digital future. Thank you for participating, and have a great day and weekend.

Operator

Ladies and gentlemen, this does conclude your conference call for this morning. Thank you all for joining, and we ask you to please disconnect your lines.