CIBC Q3 2021 Earnings Conference Call

August 26, 2021

Disclaimer

Forward Looking Information

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Management Discussion Section

Operator

Good morning, and welcome to the CIBC Quarterly Financial Results Call. Please be advised that this call is being recorded.

I would like to turn the meeting over to Geoff Weiss, Senior Vice President, Investor Relations. Please go ahead, Geoff.

Geoff Weiss, Senior Vice-President, Investor Relations & Performance Measurement

Thank you, and good morning. We will begin this morning's presentation with opening remarks from Victor Dodig, our President and Chief Executive Officer, followed by Hratch Panossian, our Chief Financial Officer, and Shawn Beber, our Chief Risk Officer. Also on the call today are a number of our group heads, including: Mike Capatides, US Region; Harry Culham, Capital Markets; Laura Dottori-Attanasio, Personal and Business Banking, Canada; and Jon Hountalas, Commercial Banking and Wealth Management, Canada. They will all be available to take questions following the prepared remarks.

During the Q&A, to ensure we will have enough time for everyone to participate, we ask that you please limit your questions and re-queue. As noted on slide 2 of our Investor Presentation, our comments may contain forward-looking statements, which involve assumptions that have inherent risks and uncertainties. Actual results may differ materially.

With that, I will now turn the meeting over to Victor.

Victor G. Dodig, President and Chief Executive Officer

Thank you, Geoff, and good morning, everyone. This quarter, we reported record revenue of just over CAD 5 billion, which is up 7% over our prior year, driven by strong growth in all of our business units. Pre-provision, pretax earnings of CAD 2.2 billion were also up 7% and earnings per share of CAD 3.93 were up 45% from last year. Our return on equity was 17.9% and our capital position remained strong with a CET1 ratio of 12.3%.

Over the course of the quarter, we saw the operating environment improve, driven by the easing of COVID related restrictions as vaccination programs across North America continued to roll out. As a result, rebounding consumer activity and increased optimism from our commercial and corporate clients contributed to both volume growth and higher client activity from new clients and our existing clients.

Our strong results underscore the strength of our client-focused strategy and the successful execution of our three strategic priorities. Those priorities are: number one, to further strengthen our Canadian consumer franchise; number two, to maintain and grow our resilient North American Commercial Banking, Wealth Management and Capital Markets businesses; and the third being to accelerate our ongoing investments in growth initiatives into the future.

On the first priority, we're delivering. We continue to strengthen our Canadian consumer franchise, with market share gains driven by strong client acquisition and improved retention. We also continued to see solid growth in our mortgage portfolio and momentum in franchising our new clients. On a year-to-date basis, CIBC ranked number one in market share growth in personal loans. As economic activity rebounds, consumer spending accelerated and overall purchase volumes have returned to pre-pandemic levels. And as the economy continues to normalize, our goal is to ensure we have both a strong travel and non-travel card presence to capture market share as consumer spending increases.

Now turning to advice - our proprietary financial planning platform, CIBC GoalPlanner, continues to resonate with our clients. In the first year, our advisors have helped our clients create more than 100,000 personalized plans, driving record mutual fund net flows, along with significantly improved client experience scores.

Now moving on to our second strategic priority, again, we're delivering on that one as well. In Commercial Banking, we saw robust lending growth on both sides of the border, driven by an improved economic outlook among our clients as well as new client activity. Wealth Management activity remained strong, with nine consecutive months of record net flows, as investors continued to look for alternatives to low deposit interest rates. And our Capital Markets franchise demonstrated the benefits of our well-diversified business model. While fixed income trading this quarter was below the record highs of last year, growth in foreign exchange and growth in equities trading as well as strong origination and advisory activity helped to offset that decline.

In project financing of North American renewable energy, CIBC is ranked third for the first half of 2021 in the league tables. This is a vast improvement from 26th just three years ago, and reflects our strong and our growing expertise in the sector, and our commitment to support our renewable energy clients. To further strengthen our presence and capabilities in the United States, we announced the strategic investment in Loop Capital, a Chicago-based financial services firm with deep relationships in key sectors across the US market. CIBC and Loop have worked closely in recent years on specific transactions for our US clients, and our investment in their firm will enable greater collaboration on future client activity as we grow our business in the US.

We're also executing on our third strategic priority and that's to accelerate our investments and initiatives that will drive sustainable and profitable growth into the future. A cornerstone of these efforts has been our technology investments. One example of this is our recent agreement with Microsoft, as we embrace a cloud-first approach to modernize our platforms and build on our resiliency and agility. It's going to enable us to support faster, real-time, data-driven decisions, and it's going to enable us to quickly launch and scale new innovations for an enhanced client banking experience.

In our consumer business, we recognize the increasingly popular buy now, pay later dynamic in the marketplace. And remember, we are first to market with our post-purchase installment plan, known in the marketplace as CIBC Pace It. To further enhance our offering, we recently announced the new Visa feature that will allow eligible clients to select installment offerings for qualifying online purchases during checkout. So we have after checkout and during checkout.

Our award-winning mobile banking app continues to be a market leader, as evidenced by the highest consumer satisfaction rating in Canada from J.D. Power, marking our second consecutive year with this honour. We also continue to invest to advance our leadership position with the recent launch of our new digital identity verification option, which is going to offer fast, easy, secure onboarding for new CIBC clients using our banking app or website, again, further supporting our client acquisition efforts.

Another important strategic focus for our bank is to achieve our shared ambition for a more sustainable world, working alongside our clients. This morning, we announced CIBC's ambition to achieve net zero greenhouse gas emissions from our operational and financing activities by 2050. To achieve this, we are establishing four areas of focus, which include refining our own operations, leading our clients through the transition to a lower carbon economy, encouraging consumer behaviors that reduce climate impacts, and sharing our progress with all stakeholders.

Recognizing the importance of making near-term progress towards net zero, we're committed to achieving carbon neutrality by 2024, including sourcing 100% of CIBC's electricity from renewable energy sources. We'll also be setting interim targets to reduce financed emissions with reporting on their progress beginning next fiscal year.

We remain committed to working with our clients to help them achieve their climate-related goals through financing and advisory services, and importantly, through investments in innovation and technology, which are going to be important drivers of a reduction in GHG emissions. We're also going to encourage consumer behaviors through education, resources and advice on our Climate Ambition Hub, which is coming soon to our website, as well as sustainable investment solutions, where a portion of CIBC's revenues from managing these solutions will be donated to organizations supporting climate transition activities.

And in support of companies worldwide using carbon offsets as a tool to achieve net zero targets, CIBC, as you know, along with three other global banks, recently announced Project Carbon, which is a voluntary carbon offset platform to bring efficiency, liquidity and global standards to the carbon offset ecosystem. The transition to a low carbon global economy will take meaningful commitment and it's going to take action from everyone. We will continue to play our part in addressing this critical global issue through collaboration and cooperation with all stakeholders to build an inclusive and sustainable future.

So, in summary, we're very encouraged by quarterly results and the progress that we're making against our priorities as the economy recovers and organic growth accelerates. While many challenges and uncertainties related to the virus remain, we're living that each and every day as you see in the news, we're going to continue to execute on our multi-year journey to advance our strategy and strengthen CIBC.

With that, let me turn it over to Hratch for a review of our financials, followed by Shawn for a risk review, and we'll then take questions from all of you. So, Hratch, over to you.

Hratch Panossian, Senior Executive Vice-President and Chief Financial Officer

Thank you, Victor, and good morning, everyone.

Starting on slide 10, this morning, we reported diluted earnings per share of CAD 3.76 for the third quarter of 2021. Excluding the amortization of acquisition-related intangibles and an increase in legal provisions, adjusted EPS was CAD 3.93. Our team executed well against our communicated strategic priorities this quarter and we are very pleased with the results we delivered for our stakeholders. Consistent with our capital deployment priorities, we continue to leverage our strong balance sheet to support clients, accelerate organic growth, and enhance shareholder returns.

Robust contributions from each of our business units drove record revenue in the quarter, demonstrating the potential of each unit as well as the benefits of our diversified franchise. And consistent with our guidance, we continue to realize the benefits of past investments while reinvesting across our bank to drive sustainable growth over the next business cycle.

The balance of my presentation will refer to adjusted results, which exclude items of note, starting with slide 11.

This quarter, we generated net income of CAD 1.8 billion and a return on equity of 17.9%, helped in part by solid credit performance, which Shawn will cover later in the presentation. Pre-provision, pre-tax earnings of CAD 2.2 billion were up 7% from a year ago, or 9% excluding the negative impact of currency translation. Revenue of CAD 5.1 billion was up 7% year-over-year due to growth in client balances and higher fees, driven by strong performance across all of our businesses and constructive markets. Expenses were up 8% from the prior year, largely due to performance-based compensation and increased strategic investment.

Slide 12 highlights the drivers of net interest income. Excluding trading, NII was up 7% from last year due to robust growth on both sides of the balance sheet and stabilizing margins. As economic activity continues to recover, we anticipate building further momentum in non-trading NII. Total bank NIM was largely stable, up 1 basis point sequentially. Canadian Personal and Commercial NIM declined 2 basis points from the prior quarter, largely due to a shift in asset mix, partly offset by strong deposit growth. Going forward, we expect continued but moderating pressure on P&C NIMs, driven primarily by changes in balance sheet mix.

NIM in our US segment was down 2 basis points relative to last quarter, as modest margin compression from lower rates, pricing and hedging adjustments was partly offset by loan higher prepayment fees and deposit growth. We continue to expect the benefits from loan prepayment activity and elevated deposit levels to subside going forward.

Turning to slide 13, non-interest income of CAD 2.2 billion was up 9% from the prior year, as higher transactional and market-related fees more than offset declines in trading revenues from a particularly active trading quarter last year. Transactional revenues continued to improve on a broad basis with higher deposit and payment, card and credit fees, reflecting increased client and economic activity. Market-related fees benefited from market appreciation and continued client flow momentum in our Wealth Management businesses as well as robust client activity in investment banking, net of declines in trading revenue.

Slide 14 speaks to the drivers behind our expenses, which remain consistent with our prior guidance. Expenses were up 8% year-over-year, with higher performance-based compensation as the most significant driver. Excluding this, expenses were up 3%, driven by increased investment against our strategic priorities. Going forward, we intend to continue investing in our business to build on the recent performance and we maintain our guidance for fiscal 2021, namely low-single-digit expense growth, excluding performance-based compensation, and mid-single-digit growth overall.

Turning to slide 15, our balance sheet remains strong and we continue to have significant resources to invest in growth through the recovery period. We ended the quarter with a CET1 ratio of 12.3%, or 12.2% excluding the ECL transitional benefit. Strong internal capital generation of 40 basis points was largely offset by higher RWAs from accelerating organic growth and the regulatory change related to the stressed VaR multiplier.

We anticipate continued deployment of capital towards organic growth at an accelerated pace through the economic recovery. Average LCR declined to 126%, as we return to more normalized liquidity reserves but remains well above the 100% regulatory minimum.

Slide 16 reflects Personal and Business Banking results, driven by our focus on client growth and franchising. Net income for the quarter was CAD 642 million, up CAD 183 million from the prior year. Pre-provision, pre-tax earnings of CAD 938 million were up 12% from the prior year, driven by robust volume growth. Revenue of CAD 2.1 billion was up 8% from the same quarter last year as the impact of mortgage and deposit growth was partially offset by lower credit card balances.

The third quarter last year was negatively impacted by a number of items including the interest rate relief provided to some credit card clients. Normalizing for those items, revenue growth was closer to 5.5% from a year ago. Expenses of CAD 1.1 billion were up 4% from the same quarter last year. Going forward we expect expenses to reflect continued strategic investments in our consumer franchise to sustain the momentum generated over the past few years.

Moving on to slide 17, net income in Canadian Commercial Banking and Wealth Management was CAD 470 million. Pre-provision, pre-tax earnings of CAD 590 million was up 19% from a year ago as both Wealth Management and Commercial Banking benefited from accelerating economic and client activity. Commercial banking revenue was up 14% from a year ago, driven by robust growth in both loans and deposits. Commercial loan growth continued to accelerate this quarter, growing 6% sequentially and 9% from a year ago, and we expect continued strong performance. Wealth management revenue was up 23% from the prior year, primarily driven by higher fee-based assets and higher commissions from increased client activity. Increased expenses were in large part due to higher performance.

Slide 18 shows US Commercial Banking and Wealth Management results in US dollars, where we delivered net income of US $226 million helped in part by credit performance. Pre-provision, pre-tax earnings were US $228 million, up 16% from the prior year supported by increased lending, deposits and AUM. Excluding PPP forgiveness, average loan growth was 3% and we originated over $900 million in loans to new clients for the second consecutive quarter. Average deposit growth of 20% has benefited from strong origination activity as well as increased liquidity held by our clients. In our wealth business, solid AUM growth of 36% benefited from strong client flows and market appreciation.

Increased expenses this quarter were driven predominantly by higher employee-related expenses. And going forward, we're planning further investment in this segment to improve client experience, drive efficiencies and support increasing regulatory requirements as our business continues to grow.

Slide 19 speaks to our well diversified Capital Markets business. Net income of CAD 491 million compared with CAD 443 million in the prior year helped by a reversal in provisions for credit losses in the current quarter. Pre-provision, pre-tax earnings of CAD 611 million was down CAD 48 million or 7% from a record quarter in the prior year. Helped by the diversified nature of our platform, revenues of CAD 1.1 billion were relatively stable from the prior year and up 4% excluding more positive credit and funding valuation adjustments in the prior year.

Lower trading revenue in fixed income and commodities was largely offset by higher equities and foreign exchange trading, robust corporate and investment banking activity, and growth in Direct Financial Services. We will continue to benefit from the diversification in this business going forward as momentum in DFS and the corporate and investment banking pipeline help offset any further normalization in trading. Expenses of CAD 529 million were up 9% compared to last year, driven by performance-based compensation as well as continued investments in growth initiatives and infrastructure.

Slide 20 reflects the results of the Corporate and Other business unit. Net loss of CAD 74 million in the quarter compared to a net loss of CAD 54 million in the same quarter last year. Revenue was down 10% from the prior year largely due to the impact of currency translation on FirstCaribbean. As highlighted in the past, expenses in this segment are impacted by enterprise strategic investments which we anticipated to increase through the balance of 2021. While up 5% sequentially and 4% from the prior year in this quarter, we continue to expect more material increases in the short-term as the planned investments are implemented.

In conclusion, we're pleased with the strong results our teams delivered yet again this quarter. Through the first three quarters of fiscal 2021, our pre-provision, pre-tax earnings are up 8% from the same period last year and we are well-positioned to build on the recent momentum across all of our business units. Going forward, we will continue advancing our strategy through balance sheet deployment and investments to accelerate our growth while doing our part to contribute to a robust economic recovery for our clients and our communities.

And with that, I'll turn the call over to Shawn.

Shawn Beber, Senior Executive Vice-President and Chief Risk Officer

Thank you, Hratch, and good morning. During the third fiscal quarter of 2021, we continue to see progress in economic reopening in most of our markets. We are of course mindful of the current reality of the Delta variant which highlights the potential for an uneven path to full economic recovery. So, with that context I'd like to reaffirm key messages I shared last quarter.

First, the quality of our portfolio remains strong and credit performance this quarter continued to exceed our expectations. Second, we're watchful of the continued challenges that COVID 19 presents, but our base case expectation remains for a continuing economic recovery over the balance of calendar 2021 and into 2022, building on the strong growth seen over the summer reopening. And finally, we remain comfortable with our risk levels and confident with our current level of provisioning, and we're well positioned going forward with the continued growth in our portfolio.

Turning to slide 23, in Q3 the provision for credit losses was a net recovery of CAD 99 million compared with the provision of CAD 32 million last quarter. Provision on impaired loans decreased CAD 138 million from last quarter to CAD 108 million, driven by lower provisions in both retail and business and government loans. In Canadian Personal and Business Banking, mortgages and personal lending had lower provisions reflective of improving 90-plus days delinquencies while credit card write-offs were also down quarter-over-quarter. In both our Canadian and US Commercial and Wealth businesses, our provisions were consistent quarter-over-quarter reflecting continued strong credit performance.

In Capital Markets, we recognize the net recovery as we experienced lower impairments and benefited from a few reversals in the oil and gas portfolio. Partially offsetting these decreases, CIBC FirstCaribbean experienced a higher impaired provision this quarter. Our performing portfolio had a provision reversal of CAD 207 million in Q3, primarily driven by improving forward-looking indicators, consistent with the continued economic recovery. Overall, this was an exceptionally strong quarter for credit performance, reflecting the resilience of our portfolio and improved economic and commodity price conditions.

Slide 24 details our allowance coverage by line of business. In Q3, our allowance coverage ratio was down from the prior quarter driven mainly by the overall favourable economic outlook. The current allowance coverage ratio remains higher than the pre-COVID level, reflecting the performing provision build we recognized following the onset of the pandemic and ongoing uncertainty with respect to the speed and consistency of the economic recovery.

Turning to slide 25, we have provided our credit portfolio mix which continues to be well diversified with strong overall credit quality consistent with previous quarters. Our total loan balances were CAD 449 billion, over half of which are mortgages. The average loan-to-value for our uninsured mortgage portfolio is currently 48%, which is lower again this quarter as a result of the strong housing market. The business and government portion of the portfolio has an average risk rating equivalent to a BBB and continues to perform well.

Slide 26 provides an overview of our gross impaired loans. Although there was a slight increase in CIBC FirstCaribbean, overall gross impaired dollars were down in both retail and business government loans. New formations were also down in the quarter.

Slide 27 details the net write-off and 90-plus day delinquency rates of our Canadian consumer portfolios. Following the higher levels of write-offs in Q2 driven by accounts that had been part of our proactive deferral program, write-offs reverted to a lower level this quarter. Overall write-off dollars were also down year-over-year. We saw 90-plus day delinquencies decrease in the third quarter due to our COVID-related risk mitigating actions, government support, as well as prudent client payment behavior.

In closing, while concerns remain over the Delta variant and other variants of concern leading to some near-term uncertainty, our general expectation is for the economic recovery to continue as vaccination rates climb in Canada and globally. Overall, we remain comfortable with the quality of our portfolios and will continue to be prudent as we determine our allowance levels in coming quarters.

I'll now turn the call back to the operator for questions.

Question and Answer Section

Meny Grauman, Analyst, Scotia Capital, Inc.

Hi. Good morning. Harry, it's a question for you. If I look at your segment, I see loans up 6% sequentially, strikes me as a big jump. So, I'm wondering what's impacting that? Is there seasonality? Is there anything unusual going on? And just a quick comment on that big sequential jump.

Harry Kenneth Culham, Senior Executive Vice-President and Group Head, Capital Markets, Canada

Good morning, Meny. Thanks for the question. The business continues to grow nicely throughout the pandemic. In the early stages of the pandemic, of course we stood by our clients and ensured that we are there to deliver capital where required. But across the platform, across the global markets platform, across the corporate banking platform delivering for our core clients, the capital required. So, we're growing in single digits the loan book in general and the financing books in general and that should continue as we move forward. And so, we're seeing our clients in general in the areas that we're focused on. If you think about sustainable finance, key areas of importance to our clients as we transition to a new economy. We're very, very involved as Victor pointed out earlier.

Meny Grauman, Analyst, Scotia Capital, Inc.

And you expect that to be sustainable? I mean I guess if I annualize that, I get a pretty big number there. But how should I think about it in terms of sort of on an annual basis given the kind of growth you're seeing – you saw in Q3?

Hratch Panossian, Senior Executive Vice-President and Chief Financial Officer

Yeah. Meny, it's Hratch. Maybe I'll jump in here. I think you're speaking to Harry about loan growth. But I think at this point you're looking at the commercial numbers as well. When you talk about the 6% commercial, that's in our commercial business which would be more in Jon's world. And so, maybe again Jon can speak a bit to that and the sustainability of that momentum as you pointed out.

Jon Hountalas, Senior Executive Vice-President and Group Head, Commercial Banking and Wealth Management, Canada

Sure. Thanks. Thank you, Meny. So, certainly, we had a strong quarter and it was well diversified by industry and by geography; 50% came from real estate, 50% came from our diversified businesses. And there's many challenges out there. You read them in the paper. They're real. They impact every client differently, inflation, labor, supply. But generally, business confidence is high. And when confidence is high, our clients are investing for growth. When they invest for growth, our pipeline grows and our pipeline is good. So, based on our pipeline, I think our Commercial Banking momentum will continue and we expect to finish fiscal 2021 comfortably with year-over-year loan growth in the double-digit range.

Meny Grauman, Analyst, Scotia Capital, Inc.

And just as a follow-up, if I look at the difference between Canadian Commercial versus US Commercial, definitely paydowns look a lot more significant in the US especially scale to the size of the loan book. What accounts for the difference there, as you see it, in terms of the differential in terms of paydowns? What's really the difference in Canada and the US that explains that?

Jon Hountalas, Senior Executive Vice-President and Group Head, Commercial Banking and Wealth Management, Canada

Most of the big pay downs are in the US. So I will – I will pass that question over to Mike Capatides. Mike are you on?

Michael G. Capatides, Senior Executive Vice-President and Group Head, U.S. Region; President and Chief Executive Officer, CIBC Bank USA

I am, Jon. Thank you. And thank you for the question. We had a good Q3 with the 3% growth net of PPP forgiveness in the quarter. Our paydowns were mostly in the US related to our institutional real estate book, which we saw significant paydowns which we frankly viewed as a good sign about the credit quality of that book. We expect that to reverse. The other dynamic in the US was given where rates were, we had many of our commercial clients go to the public markets and pay down their revolvers and their term loans. We also expect that to reverse. So, looking forward, together with our new client originations and more business with existing clients as our revolver utilization rates increase, we expect robust growth to come back.

Meny Grauman, Analyst, Scotia Capital, Inc.

Thank you.

Scott Chan, Analyst, Canaccord Genuity Corp.

Maybe, Mike, just checking with you on the US side, you kind of touched the paydowns and robust growth coming back. Maybe you can just talk about the commercial and the CRE market down there and what you're kind of seeing, if there is maybe incremental growth on one or two those books that are more?

Michael G. Capatides, Senior Executive Vice-President and Group Head, U.S. Region; President and Chief Executive Officer, CIBC Bank USA

Well, we have a very diversified book in our commercial and our C&I and our real estate portfolios. As I said, we expect the real estate portfolio to come back to significant growth in the coming quarters as the paydowns dissipate. We have a very strong pipeline in our real estate book that we expect to see come online in the coming quarters.

In our C&I book, in fact this past quarter, we initiated 165 new relationships and those were mostly on the C&I side and one of the strengths of our businesses in the US is our specialty groups where people come to us for our expertise and we've seen good growth across the board in all our specialty lending. And if you combine that, which we expected to continue, when you combine that with our more mainline commercial clients who simply have been sitting with a lot of cash as they build inventories and the US economy continues to improve, we expect to see revolving utilization rates come back to more normal levels and continue to see robust growth in that portfolio. So, we're optimistic looking forward.

Scott Chan, Analyst, Canaccord Genuity Corp.

Okay. Good. And then maybe just going to the Canadian side, the mortgage growth was exceptional, above the industry this quarter. I think last quarter you were kind of in line. Perhaps you can just maybe describe what you're seeing in the housing market now in Canada and perhaps some of the reasons that you were able to capture that incremental growth relative to the market in pretty quick order?

Laura L. Dottori-Attanasio, Senior Executive Vice-President and Group Head, Personal and Business Banking, Canada

Yeah. Hi Scott, it's Laura. So, I'll take that. Again, the housing market continues to perform well. So, we, as you pointed out, we've seen some really strong growth including some good market share gains. So, we're really pleased with our performance and a lot of that was just results of a lot of the actions and investments that we took and I think that's what you're seeing drive our performance. So, happy with the progress we've made. I'd say on a go-forward basis, again, when we look at our pipeline of activity, we expect things to continue. Although I would just say that the pace of growth will likely moderate as we come off, call it, the recent highs in the markets. So, think of it as more of a return to normal in the housing market.

Victor G. Dodig, President and Chief Executive Officer

And Meny, Scott, just Victor here. I just wanted to tie together some of the themes that you're seeing across our business, across our Capital Markets business, across our Commercial Banking franchises in Canada and United States, and our Canadian Personal and Business Banking franchise. You are seeing deeper client relationships driving growth and you are seeing new client relationships driving growth. The strategy that we've laid out of a client, a relationship-focused bank with our existing clients and attracting new clients, is working. It is driving that top line growth that you're seeing across the CIBC franchise and that is the most important message to take away from all of our activities. We are laser focused on our clients. We're laser focused on winning new business from our competition and it is paying off in all markets that we're competing in.

Scott Chan, Analyst, Canaccord Genuity Corp.

Thank you for that.

Gabriel Dechaine, Analyst, National Bank Financial, Inc.

Hi. Good morning. Question on expenses and appreciate the guidance you gave for us. That was helpful, but just more of a technical one, I guess, on the variable side of things where the costs are moving up higher and not just a CIBC issue. I'm wondering if there's some – is this entirely revenue driven or is there a component that's tied to employment dynamics or like incentives or retention costs that have been moving higher because there's a lot of competition for talent out there. I was wondering if that's playing a role at all in that line or maybe in the fixed cost element of competition.

Hratch Panossian, Senior Executive Vice-President and Chief Financial Officer

Yeah. Thanks for the question, Gabriel, and it is predominantly revenue linked. So, when we speak about our performance-linked expenses and what you're seeing in the variable line item go up, it is very much related to the areas of the business where the compensation is variable with production. And so, that's really what has been driving it. There is a little bit of noise sometimes in there from changing on timing on things and payouts but it is, vast majority of it is, performance-based. And so, we're very pleased with the fact that we're getting that revenue growth and performance. And that's why earlier this year we started guiding towards the overall expense being driven higher by those factors and we continue to see that strength and performance.

Gabriel Dechaine, Analyst, National Bank Financial, Inc.

Okay. And then if I interpret your messaging correctly that, excluding variable comp, that number we saw 3% in and around that level for the next little while in terms of growth.

Hratch Panossian, Senior Executive Vice-President and Chief Financial Officer

Yeah, I think on a full year basis we've been very clear that we expect all of our efforts, the investments that we're making and net of the expense discipline that we have across the bank to land us at that low-single-digit level and then driven up or down from there based on performance and how those variable pieces come in. And performance has been strong, so variable expenses are up and we're going to be mid-single-digits for the full year as we've said. And for the full year, again, excluding that we think low-single-digits is where we'll be despite the fact that we've accelerated some investments in the current environment and proactively pushed more into this year and the back half of this year, but we think it'll still be in that low-single-digit range without that and that's the right level for our bank at this point.

Gabriel Dechaine, Analyst, National Bank Financial, Inc.

And no outlook for 2022 yet?

Hratch Panossian, Senior Executive Vice-President and Chief Financial Officer

We look at 2022 the same way. It's a little bit early, Gabriel, to give you exact numbers, but we came into this year looking at the year with our pre-provision earnings growth targets in mind and trying to figure out what we need to do in terms of balancing the investments versus efficiencies in the expense line to get the pre-provision earnings growth we want. So, we're going to go into next year the same way. We're finalizing our planning at this point in time. We've got lots of good investment opportunities that we're going to undertake and we also have lots of opportunities to manage our expenses. And so, rather than give you an expense or operating leverage target I would say we'd come at it the same way.

Gabriel Dechaine, Analyst, National Bank Financial, Inc.

Got it.

Hratch Panossian, Senior Executive Vice-President and Chief Financial Officer

And as we solve that puzzle and have better visibility into what the environment and the top line look like, we'll land on the exact plan and we'll land on the exact numbers, and we can communicate that more to you next quarter.

Gabriel Dechaine, Analyst, National Bank Financial, Inc.

Thanks. Enjoy the rest of your summer.

Hratch Panossian, Senior Executive Vice-President and Chief Financial Officer

Thanks, Gabriel.

Ebrahim H. Poonawala, Analyst, BofA Securities, Inc.

Hey. Good morning. I guess, first, just Hratch, if you could, one quick follow-up on the tech expense, just bigger picture. So, you've talked about accelerating the strategic investments. Where are we in that cycle? I mean, I get like tech investments are here to stay. But when you think about some big undertakings, are we early, middle of the path there or coming to the later stages where you're trying to ramp up these investments? Any perspective that would be helpful.

Hratch Panossian, Senior Executive Vice-President and Chief Financial Officer

Yeah. Happy to start on that, Ebrahim. And the way we look at it is investment in our business is ongoing. We want to position the bank for growth in the long term and so we will continue investing. So, I wouldn't say I would look at it in terms of early, mid or late. We have started investing in the business more than we did in the past. We will continue investing in the business. And so, I don't think there is an a bulge here that we're getting through. It's really about continuing to invest.

As we get the benefits from those investments to the top line, we reinvest a portion of it into new initiatives and we continue to do that, and that's the way we're looking at it. So, we will manage the overall expense growth as I said by looking at the rest of the expenses outside of the deliberate strategic and growth investments that we're making and also looking at the net expense growth relative to the top-line growth in any period of time to get the pre-provision earnings growth to the place that we need to. But this isn't about making a bulge of investments and then going back and forward on investing and not investing. We always invest in our bank.

Ebrahim H. Poonawala, Analyst, BofA Securities, Inc.

Understood. And I guess just moving to the DFS business, Victor, you've talked about that as a growth avenue in the past. I was just wondering if you could – like, we are seeing revenue there flat-lined this year, around the CAD 200 million level. Maybe you or Harry, just give us a perspective on what's going on there. And also, any perspective on the impact to CIBC from what you're seeing on the discount brokerage side with zero commissions? Is it immaterial? Is it an opportunity? Would love to hear your thoughts.

Victor G. Dodig, President and Chief Executive Officer

Sure, Ebrahim. As we've said to our investors a year ago when we set up our DFS business, it was meant to provide transparency to some of the very important assets that we have that are dealing with the changes that are happening in financial landscape. Direct investing, direct banking, and fintech-related businesses that we're actually competing with in – quite successfully. So that, you're going to hear more and more about over the course of the year. We actually did see significant growth year-over-year flat-lined over the last quarter, but that business has been growing nicely, and I'm going to hand it off to Harry just to remind you of some of the elements of it and how to deal with some of the emerging themes in discount brokerage.

Harry Kenneth Culham, Senior Executive Vice-President and Group Head, Capital Marks, Canada

Yeah. Good morning. It's Harry here. Yeah. So, just take a step back for a second. As Victor said, we're combining these technology-led businesses really providing precis that direct banking, direct investing and really, with our innovative multi-currency payment solution platform, servicing our clients holistically.

So, there's three businesses there, all under one umbrella, really leveraging the expertise that they bring together to focus on further growth. And we've actually seen year-to-date revenues up 18% year-on-year. So, we're seeing some very good results over the term. Coming back to direct investing in our Investor's Edge platform, we do have a very competitive offering in the marketplace. We continue to invest in technology and the talent to enhance the client experience and grow our market share. We're focused on modernizing our core platform to that effect.

If you recall a few years ago, we actually lowered our price. Our major competitors did not follow and we continue to be lower in price generally. And so, I'd like to remind you that we have a premium Edge offering as well for a high-touch direct investing clients, and the majority of our Investor's Edge clients are multi-product bank clients. So, it really forms a nice basis for our bank in servicing and deepening our client relationships, as Victor mentioned earlier.

Ebrahim H. Poonawala, Analyst, BofA Securities, Inc.

Got it. Thanks. And just on that, Victor, any thoughts around like your stock's done well, you have a nice currency now, M&A be it fintech, be it US bank M&A, any updated thoughts on that front?

Victor G. Dodig, President and Chief Executive Officer

Ebrahim, our focus is on organic growth and investing in our business organically as priority number one. You're seeing that in the results. Our capital allocation is going to prioritize organic investment across all of our businesses. You will see the results continue to get delivered because of those investments. We've, in fact, put more methodology in place to make sure that we know exactly when the returns will be coming so that we can deliver what our shareholders are expecting.

When the regulators change the posture on dividends and share buybacks, we will activate those levers as well. And on the dividend payout side, we want to be in the midpoint of our range. We're at the lower end right now because of the restrictions. And that'll happen over time as well. And as we've been clear to all of you, when it comes to M&A, it's really a focus on tuck-in M&A, like the Loop Capital investment is a prime example of that. It strengthens our organic growth profile. So, organic growth priority number one is what you need to remember and we believe that that will deliver the earnings commensurate with what our shareholders are expecting over time.

Ebrahim H. Poonawala, Analyst, BofA Securities, Inc.

Very clear. Thanks for taking my questions.

Mario Mendonca, Analyst, TD Securities, Inc.

Good morning. Victor, his question, let me preface it by saying it may not be entirely fair, but I'm going to go with it anyway. It would seem to me that over the last little while, the banks seem to be in the crosshairs. I'm referring to the open banking proposal. Yesterday, we learned about this Canadian recovery dividend and potential increase in tax rates. What I want to ask you is, what's your impression? Does it feel like the banks may be a victim of their own success? And I'm referring to things like could the industry have to revisit mortgage insurance, interchange fees, banking fees more generally, executive compensation? Those are some of the examples I just came to mind as I was thinking about it. What's your perspective?

Victor G. Dodig, President and Chief Executive Officer

You bring up a crosshair of issues and themes there, Mario. I'd say a couple of things. Banks have always been in the crosshairs, but what you want is a healthy banking system. A healthy banking system helps the economy grow. I'm not going to comment on the campaign promises and political promises that are being made out there. But I will remind our investors and the investors on this call and investors who are not on this call the role that we played and the banking sector played during the pandemic. We worked very diligently and collaboratively to make sure that the CERB, the CEBA, the stimulus funds were available to Canadians as quickly as possible and as efficiently as possible. We, as a bank, deferred over 500,000 credit arrangements with our clients to accommodate them during the very intense time at the very beginning of the pandemic.

The second thing that I'd say is most Canadians, whether through large pension plans or through their own investments, have investments in banks and they benefit from those dividends that we pay and they benefit from our economic growth and that contributes to their livelihood. And I would say that, if anything, I would want everybody to focus on how do we grow the economy, how can we focus on foreign direct investment, how can we focus on making a more robust economy to benefit everyone - our shareholders, all Canadians, all Americans and whoever we serve as a franchise.

When it comes to open banking, it's a global movement, it's a theme, it's something that's being driven by technology. And quite candidly, we embrace it. It will make us stronger. It'll make us better. We're working with our industry partners here in Canada to make sure that we all create a standard, so that data can be exchanged between institutions and organizations in a safe and private way based on how our clients wish to do it. We're working with some of our global banking partners in a Global Open Finance Challenge to make sure that some of the best ideas are coming.

I say bring it on. And these themes will always be there. But we, as a bank, are very aware of them. We, as a bank, are very aware of how to compete with that and we will continue to deliver for our shareholders irrespective of what kind of headwinds appear.

Mario Mendonca, Analyst, TD Securities, Inc.

Just a quick follow-up on that then, and I'm not making a value judgment on this, but it does seem like the world is shifting left in the political spectrum. That shift, does it concern you? Like could we be looking at an environment a few years from now, five years from now when the banking sector profitability is managed a little bit outside of the bank, an environment where it becomes more like a utility and a certain level of ROE is acceptable but one above that isn't? Do you feel like we could be moving in that direction?

Victor G. Dodig, President and Chief Executive Officer

Well, I would like that not to happen anywhere in the world. Quite candidly, I think that what governments should be really obsessed with is making sure that their citizens are well-educated, that they have access to universal healthcare, and that they create the conditions for private capital to help everybody grow and to help everybody prosper. And that is, I think, where the world should be going. Sometimes it leans left, sometimes it leans right. But usually, usually common sense does prevail over time. And if you just get to the foundational elements, what every person wants is just good healthcare, good education, and they want a job where they feel like they could provide for themselves, for their families, and for those closest to them.

And my great hope is that you don't have intervention in any particular industry sector because that doesn't actually attract foreign capital. We need capital and we need people to come to Canada to make the country stronger and to make the country better. And the best way to do that is to make sure that people see us as the best place to invest and the best place to live and contribute to the prosperity of our country.

Mario Mendonca, Analyst, TD Securities, Inc.

Thank you for your thoughts Victor.

Sohrab Movahedi, Analyst, BMO Capital Markets Corp. (Canada)

I'm a little bit embarrassed to kind of come back to some of the details here after that. But one question quickly for Jon Hountalas. Jon, utilization rates in the Canadian Commercial, how are they, where are they relative to pre-pandemic levels?

Jon Hountalas, Senior Executive Vice-President and Group Head, Commercial Banking and Wealth Management, Canada

Thank you for the question there. They went down materially at the beginning of the pandemic. They've moved a bit, but not a lot. Again, a lot of clients asked for increases during the pandemic. The increases are still there, so we haven't seen a huge uplift in utilization.

Sohrab Movahedi, Analyst, BMO Capital Markets Corp. (Canada)

So, you would say then the growth that we are seeing is probably more new client acquisitions, if you will, as opposed to existing clients drawing down on…

Jon Hountalas, Senior Executive Vice-President and Group Head, Commercial Banking and Wealth Management, Canada

It's both. It's both. Clients are – the reality is clients are borrowing more. We also increased limits during the pandemic. So, while utilization rates may not be up, borrowings from existing clients are up. So, I think if you look at – I think our existing growth year-over-year is about 40% new clients, 60% existing clients.

Sohrab Movahedi, Analyst, BMO Capital Markets Corp. (Canada)

Okay. Thank you. And just very quickly for Laura, I think there is obviously some good momentum in your business. Do you have some statistics here around market share gains and what have you? Has the low-hanging fruit, if you will, and you kind of getting back to the mix, has that been picked or do you still see reason for you to be able to continue on that regaining market share and maybe even picking up market share beyond your natural share?

Laura L. Dottori-Attanasio, Senior Executive Vice-President and Group Head, Personal and Business Banking, Canada

Thanks, Sohrab. Look, we've been really pleased, as I said earlier, with the momentum and that's across all of our lines of business. We do want to continue to deliver consistent and sustainable market-leading growth. And I think that we still have that ability to do that. We continue to make strategic investments in our business and we're working hard to be in a position to continue to grow. So, I would expect to continue to see us on a positive trend.

Sohrab Movahedi, Analyst, BMO Capital Markets Corp. (Canada)

Thank you.

Doug Young, Analyst, Desjardins Capital Markets

Hi. Good morning. Just on the card business, just thinking about the potential for growth in the revolver side and I don't think that's what's driving any sequential increase. And our view is that there could be a lag because of that in the boost from card net interest income. So, I guess, do you worry at all that this part of the card business like doesn't return, like people don't return to using revolvers the same way they did pre-pandemic, and if not, why? And I think, Victor, you talked a bit about the installment payment options now being offered on the front end and the back end of the cards, am I correct to assume that the economics from those installment options are not as attractive as the revolvers are? Just hoping to get a little bit of colour around that

Victor G. Dodig, President and Chief Executive Officer

Doug, I'm going to hand it off to Laura in a moment. Other than to emphasize a couple of key things about our card portfolio, one is our firm belief is you need to be strong in travel and non-travel as we emerge from the pandemic, and we're consciously aware of investing in both. The second thing is that the buy now, pay later dynamic is a reality. We were first to market in terms of offering that to clients in Canada on an after-purchase basis. We do now have one at checkout that's coming out.

And one of the economics on the margin may not be as attractive as kind of normal traditional credit card economics. It does build deeper client relationships and our goal is to make sure that our clients have access to that full suite of credit card products and that we have the offerings in place to cater to a client acquisition and growth. And Laura, maybe you could talk about that because you're starting to see a dynamic in terms of growth in our card business and you have plans on what you want to do going forward.

Laura L. Dottori-Attanasio, Senior Executive Vice-President and Group Head, Personal and Business Banking, Canada

Yeah. Happy to add. Maybe just to Victor's point, I think this is all about value propositions for our clients and we continue to action and to work on evolving those offerings. When we look forward, our credit card pipeline is actually quite strong. Our applications are up around 34%. So, really happy with that. So, we'd expect to grow more in that non-travel space, so we can continue to diversify our portfolio.

I'd just say as you pointed out earlier that notwithstanding we're seeing higher purchase volumes, we do expect that to translate into higher revolving balances. But just given the high deposit base of our client base, it's going to be a much slower build in outstanding balances. That and with some of the things we're seeing in the industry on interchange and what-not, there will be pressure as it relates to the cards business, but it continues to be a very strong business and cards continue to be a dominant way to pay for purchases. So, not going away in the short term and there's still a lot of opportunity ahead.

Doug Young, Analyst, Desjardins Capital Markets

And maybe just to kind of clarify or follow up, in terms of the – so the economics may not be as attractive, but it allows you to build the relationships. So, holistically, your expectation is the economics wouldn't change as you're able to build that client relationship, is that the end goal of this?

Laura L. Dottori-Attanasio, Senior Executive Vice-President and Group Head, Personal and Business Banking, Canada

Yeah. Look, I mean, we're here to serve our clients. So, everything we do is about getting that right client experience in place. And so, it's really about that value proposition so that we're getting, if you will, consumer preference and convenience, right, being in that ecosystem.

Doug Young, Analyst, Desjardins Capital Markets

Okay. And just one last follow-up, just on the mortgage growth, Laura, 11%. If you can talk a bit about origination. But I'm more interested in where retention rates have gone now versus where they were before because I think that was a focus to improve that. So, just looking to get an update on that. Thank you.

Laura L. Dottori-Attanasio, Senior Executive Vice-President and Group Head, Personal and Business Banking, Canada

Yeah. We're actually – when we look at all of our KPIs, we are trending in the right direction, so on acquisition and retention. We are making, I would say, solid gains as it relates to our franchising efforts. If I look just at our mortgage advisor channel as an example, we're now getting close to 70% of our new mortgage clients that we're actually franchising with additional products such as our SmartBanking account. And so, this is, I'd say, up from about 40% just two years ago.

So, we're really happy with the progress we're making. I've said this before, notwithstanding the momentum and the progress we're making. We still have more work to do because it's really important for us that we be in a position to deliver consistent and sustainable performance. So, trending in the right direction. Thanks for asking.

Doug Young, Analyst, Desjardins Capital Markets

Sure. Thank you.

Lemar Persaud, Analyst, Cormark Securities

Yeah. Thanks. I hate to go down into the weeds here, but I just want to come back to a comment that credit card purchase volumes were up 20% sequentially in Personal and Business Banking. When I look at the [ph] sub-pack, I'm just not seeing that strong of an acceleration in card fees. So, first, am I looking at the right line item in non-interest income? And then, if I have it right, why isn't there more of a sequential pickup? I think perhaps the answer is that transaction volumes really contribute a small amount to overall card fee. So, I guess, any thoughts on that would be very helpful. Thank you.

Laura L. Dottori-Attanasio, Senior Executive Vice-President and Group Head, Personal and Business Banking, Canada

Hi, Lemar. It's Laura. I'll attempt to answer that one. I think some of – and maybe I'll break it down. So, on the outstandings, you're not seeing as much of it in that – we get a slower build on outstandings on the revolvers. So what we're seeing is our transactor balances that are showing the biggest signs of growth at this point in time. So, you don't see that net interest income pickup that you would expect.

And then, on the card fees front or non-interest income, I'd say that the reason you don't see that big an increase, at least in our number, part of it is the full-year's impact of a decrease in the interchange fee that we had last April, where interchange fees went from CAD 150 to CAD 140. And then, we had an increase in our points cost. So that is a contra revenue number and that is actually a good new story, because it relates to increased client acquisition for the promo offers that we give. So, that's why you don't see, if you will, everything we're talking about reflected in these numbers. So, I hope that clarifies.

Lemar Persaud, Analyst, Cormark Securities

Yeah. That helps. Thank you.

Nigel D’Souza, Analyst, Veritas Investment Research Corp.

Thank you. Good morning. I wanted to turn to slide 24, where you've outlined your performing allowances relative to total loans, and that’s declined to 49 basis points in this quarter. And based on my calculations here I get a rate of about 32 basis points in the first quarter of 2020. So, first, is my number right there? And then, second, if it is right, it looks like there's still a sizable amount of allowances that you can release. And I was wondering if you could provide some colour on what markers would accelerate the release of those allowances outside of COVID-19 because COVID-19 uncertainty may persist especially globally for quite some time. So, are you looking at unemployment or fiscal policies or vaccination rates? Any colour there would be helpful?

Shawn Beber, Senior Executive Vice-President and Chief Risk Officer

Good morning, Nigel. It's Shawn. I'll take that question. I appreciate the question. The performing provision, your numbers are right. So we do have still, call it, 60% of what was built in fiscal 2020 in terms of performing provisions that have not yet been released. What'll drive that, consistent with some of our conversations in prior quarters, is going to be really the trajectory of the economic recovery. So, as we see the macroeconomic environment play out, as long as things continue to play out, you've seen us released performing provisions over the last three quarters, a smaller amount in Q1, but a bigger number in Q2, and sort of a similar number in Q3. As that continues to play out and if that trajectory is maintained, then we would expect to see more of our performing provisions to be released over the coming quarters.

I've also talked about the fact that whenever we get to the other side of this, whatever the other side of this might look like, we do anticipate some level of higher allowance coverage. We've done parameter model updates over the course of the last, call it, 14, 15 months. That'll impact where our ultimate landing place is. I expect we'll be a little higher when we're on the other side of this, all else being equal. But you're correct, there are provision releases that we would expect to see play through so long as the path to recovery is intact.

Nigel D'Souza, Analyst, Veritas Investment Research Corp.

And just a quick clarification on that, when you referred to improved macroeconomic outlook, are you referring to that globally or is that specific to your geographic footprint in Canada and the US?

Shawn Beber, Senior Executive Vice-President and Chief Risk Officer

Yeah. It'll be more connected to where we operate and where our business has exposure to it. And so, that's why the FLI that we look at are geared more towards North America. There are some elements that are global, but a lot of the North American data points.

Nigel D'Souza, Analyst, Veritas Investment Research Corp.

All right. Appreciate that insight. Thank you.

Operator

Thank you. There are no further questions registered at this time. I'd like to turn the meeting back over to Victor.

Victor G. Dodig, President and Chief Executive Officer

Thank you, operator, and thank you all for your great questions and engagement today. So, just a couple of closing comments. Progress on vaccinations, I think we all see provided continued support from, along with continued support from fiscal and monetary policies, have enabled an economic rebound in the third quarter. But I think we all realized that it's not going to be a linear recovery. Pandemic resurgence from Delta or another variant could steer policy actions that slow global economic growth. But what I really want all of you to know is that we've demonstrated that we can and we are well prepared to face any challenges that arise.

Our client-first approach at CIBC, a resilient and diversified business model, and the actions that we've taken over the last several years have positioned us well to execute on our long-term growth priorities. Our balance sheet remains strong. It provides significant flexibility to continue to support our clients, to grow our business, and to return capital to our shareholders.

I also wanted to let you know that we're going to be having an Investor Day on Thursday, December 9. And at that Investor Day, we're going to have an opportunity to share our vision in greater detail, our strategic direction for our bank in greater detail, and showcase our CIBC leadership team. We're planning to host this event at our new headquarters at CIBC Square and in person, subject to the evolving health and safety protocols.

And in closing, I wanted to thank our 44,000 dedicated CIBC team members, who continue to help make our clients' ambitions a reality. Your contributions are key to the success of our bank. And to you, our shareholders and our investors, I thank you for your continued interest in our bank and the support you've provided, and we look forward to speaking with you in December, both on the webcast and at our Investor Day. Have a good day and enjoy the rest of the summer.

Operator

Thank you. The conference has now ended. Please disconnect your lines at this time and thank you for your participation.