CIBC Q4 2021 Earnings Conference Call

December 2, 2021

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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 now like to turn the meeting over to Mr. 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 group heads, including Mike Capatides, US Commercial Banking and Wealth Management; Harry Culham, Capital Market; Laura Dottori-Attanasio, Canadian Personal and Business Banking; and Jon Hountalas, Canadian Commercial Banking and Wealth Management. They are all available to take questions following the prepared remarks. During the Q&A to ensure we 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 and 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

Thanks, Geoff, and good morning, everyone. Fiscal 2021 was a very good year for our bank, one in which we delivered strong financial results, and importantly, we positioned our bank well for future growth. On our call today, I want to cover three things; first, highlight certain areas where we've made strong strategic progress over the fiscal year; second, provide you with our view on the economic environment as we enter this coming fiscal year; and third, after Hratch and Shawn's review of our fourth quarter results, I'd like to share some insights into our strategic priorities going forward, that we believe will build on the strong momentum we've established, and enable further growth going forward.

Our primary strategy over the past number of years has been to build a modern, relationship-oriented bank, with a strong core franchise and a diversified earnings mix. You can see that on the slide. Our success in executing on our strategy is reflected in our earnings growth in each of our business units, improved client experience scores and further earnings diversification. In fiscal 2021, out laser focus on executing our strategic priorities delivered record results, with adjusted earnings per share of CAD 14.47, which is up 49% from 2020, an ROE of 17% and positive operating leverage. Our capital position remains strong, ending the year with a CET1 ratio of 12.4%.

These results exceeded 2021 key performance targets and our rolling five-year total shareholder return of 92% outperformed the S&P/TSX Bank Composite Index. Our strong results support the announcements this morning of our share buyback program of 10 million common shares, which is just over 2% of our outstanding and CAD 0.15 dividend increase to our common shareholders, while maintaining our dividend payout ratio target of between 40% and 50%. Our results were driven by strong top line growth across all of our businesses, supported by market share gains from client acquisitions, deepening relationships with our clients, and harnessing technology to enhance the client experience.

We successfully rejuvenated and further strengthened our Canadian consumer franchise through market share gains in our core personal product, accelerated growth in DFS, our Direct Financial Services business, and record net inflows from asset management. During the year, we also returned to market level growth in our mortgage business. We also continued to invest in technology, to meet the evolving needs of our clients. The rollout of CIBC GoalPlanner to our Imperial Service clients has been instrumental in driving deeper client relationships and a better client experience. And in our DFS business, we expanded our product offerings and our capabilities for our digital savvy clients who prefer a self-directed experience. And these investments resulted in double-digit revenue growth.

Overall, the significant progress we've made in providing a modern experience for our clients is reflected in our best client experience scores on record, and over a decade of having the leading mobile banking app in Canada based on third-party surveys. During the year, we continued to build on our areas of strength. In commercial banking, as global economic activity accelerated in 2021, so did the pace of loan growth in our commercial portfolios. Market share gains were attributable not only to existing clients, but also to new relationships that we've established. As well, third class border referrals between our Canadian and US business for clients seeking seamless North American access remains strong.

In wealth management, robust funds flow and asset management and our brokerage business were supported by award-winning advisory teams. And the new ranking by the Globe and Mail and Zacks Research, 35 of CIBC Wood Gundy advisors were named among Canada's top wealth advisors, by far the largest number among participating Canadian peers. Our Capital Markets business continued to deliver strong results with the number two ranking in both debt and equity underwriting in 2021. And importantly, our business is uniquely structured in Capital Markets to leverage the strong connectivity we have across our bank, driving revenue growth of 27% in this area. This is a big differentiator for us.

Throughout fiscal 2021, we continued to seek opportunities to further strengthen our competitive position and to invest for future growth. Our announcement in the fourth quarter to become the exclusive issuer of Costco Mastercards in Canada and to acquire the existing portfolio is a clear example of this. In addition to diversifying our credit card book, the Costco partnership provides us the opportunity to bring this valued client-base deeper into our banks suite of offering. The Costco client base is highly aligned with our retail affluent strategy and their growing membership will make us a strategically important investment in the coming years.

Building on CIBC's strong history of ESG across our bank, we have released a refocused strategy that includes three key pillars. The first is accelerating climate action, which was released in August, along with our net-zero ambition. The second is creating access to opportunities for underserved and underrepresented communities to enable social and economic inclusion, and to help them realize their ambitions. And the third is building integrity and trust to safeguard data, ensure we act responsibly, promote accountability and enhance client experience by leveraging technology and empowering our people. We're activating our resources to create positive change for our CIBC team, our clients, our communities and our planet, contributing to a more secure, equitable and sustainable future.

Now, let me turn to our economic outlook for 2022. In Canada, our economist are forecasting domestic GDP growth of 4%, and unemployment is expected to average near 6%. In the United States, real GDP is expected to grow by 4.2%, while unemployment is expected to average in the 4% range. On both sides of the border, interest rates are expected to rise by 50 basis points in the latter half of the calendar year. And speaking with our clients, the recent inflation pressure is largely driven by both labor-related and non-labor-related factors. Supply side disruptions that drove pricing increases are expected to abate over time. However, wage inflation may persist until these labor shortages are resolved.

For our business, the most important takeaway is that we're well-positioned. Thanks to our strong capital position and, importantly, the depth of our client relationships, we will continue to pursue and we will deliver against our growth ambitions in the year ahead. And before I pass the call on to Hratch and Shawn to review our fourth quarter results, I wanted to also acknowledge the recent extreme weather conditions that devastated parts of British Columbia. Our thoughts are with those who have been displaced, and we'll continue to support our affected clients, colleagues and their families as they work through these difficult circumstances. Our thoughts are with you.

And with that, I'm going to turn the call over to Hratch for a financial review.

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

Thank you, Victor, and good morning, all. I'll begin my remarks with a review of our fourth quarter results on slide 13 before covering highlights of fiscal 2021 and providing some color on our expectations for 2022. Capping off the successful 2021, our fourth quarter results reflect strong performance across our diversified client franchise with solid top-line growth in all of our business units contributing to record revenues. Combined with strong credit performance, this allowed our bank to generate robust earnings growth over the prior year and maintain the resilience of our balance sheet. Reported earnings per share of CAD 3.07 for the quarter included a number of items of note detailed in the appendix of our presentation. Excluding these items, adjusted earnings per share was CAD 3.37.

The balance of my presentation would refer to adjusted results starting with slide 14. Adjusted net income of CAD 1.6 billion for the quarter was up 23% from the prior year, while ROE of 14.7% improved by 120 basis points over the same period. Pre-provision, pre-tax earnings of CAD 2.1 billion was up 6% from a year ago, or 8%, excluding the impact of currency translation, as record revenue more than offset the increase in strategic investments across our business. Revenue of CAD 5.1 billion was up 10% year-over-year, driven most notably by solid momentum across our wealth management and P&C banking businesses benefiting from broad based volume growth, as well as higher market and transaction related fees. Expenses were up 13% from the prior year, largely due to performance based compensation and the increase in business and enterprise investments we had previously communicated.

Slide 15 highlights the drivers of our continued improvements in net interest income. Excluding trading, NII was up 8% from last year, helped by double-digit growth in client business on both sides of the balance sheet. We anticipate continued improvement in non-trading NII supported by volume growth and the stabilizing impact of a more constructive interest rate environment on our margins. Total Bank NIM was largely stable this quarter, down 2 basis points sequentially. Canadian personal and commercial banking NIMs declined 2 basis points for the prior quarter, as tailwinds from continued deposit growth were more than offset by the impact of lower interest rates and the change in asset mix due to robust mortgage growth.

Going forward, we expect P&C NIMs to stabilize on the back of an improving rate environment and the resumption of growth in higher margin unsecured lending and credit cards products. South of the border, NIM in the US segment was down 1 basis point relative to last quarter, as modest margin compression from lower rates and moderating prepayment activity was partly offset by ongoing deposit growth. We continue to expect to benefit from loan prepayment activities to subside over the next few quarters, causing margins in this business to stabilize.

Turning to slide 16. Non-interest income of CAD 2.1 billion was up 15% from the prior year, driven by continued growth in transactional and market-related fees, despite modest normalization in trading revenues. Deposit and payment fees, card fees and credit fees all trended higher, reflecting the benefit of increased transactional activity by our clients. Market-related fees and wealth management continued to benefit both market appreciation and record client flows. On a combined basis, mutual fund and investment managements and custodial fees were up 20% from the prior year. Client activity also continued to be robust in investment banking, contributing to another quarter of solid underwriting and advisory revenues, up 47% over the same quarter last year. We expect these factors in aggregate to continue contributing to fee income growth.

Turning to slide 17, expenses were up 13% with higher performance-based compensation being a significant driver. Excluding this, expenses were up 7% driven by increased investment against strategic initiatives, as well as infrastructure enhancements and business growth. Looking ahead, our approach to investments and operating leverage remains unchanged. In fiscal 2022, we intend to build on our recent top line momentum through continued investments in our business to drive market leading growth, while generating further efficiency improvements to manage net expense growth and operating leverage. Our medium-term goal continues to be to deliver positive operating leverage through continued growth.

Turning to slide 18, our balance sheet remains strong. We ended the quarter with a CET1 ratio of 12.4% as strong internal cash flow generation was partially offset by higher RWAs from organic credit growth, net of asset quality improvements and lower market risk. Going forward, we expect to drive a modest decline in our CET1 ratio as we plan to prioritize accelerated capital deployment towards organic growth plans, take on the Costco credit card portfolio and return more capital to shareholder. Average LCR for the quarter was 127%, and we expect to continue operating at these strong, but normalized liquidity levels going forward.

Starting on slide 19, we highlight our strategic business unit results, all of which were strong momentum in this quarter. Net income in Personal and Business Banking was CAD 606 million, up 3% from the year ago, reflecting our progress in strengthening our consumer franchise, pre-provision, pre-tax earnings of CAD 988 million were up 7% from the prior year. Revenue of CAD 2.1 billion was up 7% over the year and increased 4% sequentially, largely due to broad-based volume growth and strong fee generating client activity. Expenses of CAD 1.1 billion were up 6% from the same quarter last year as we continue to invest in our franchise to sustain the momentum generated over the past few years.

Moving on to slide 20, net income in Canadian Commercial Banking and Wealth Management was CAD 442 million. Pre-provision, pre-tax earnings of CAD 594 million were up 21% from a year ago. Commercial banking revenue was up 20% over last year, largely due to a robust client activity, driving growth in both borrowing and deposits. Wealth management revenue was up 21% from the prior year, primarily driven by higher fee-based assets and commissions benefiting from market appreciation and increased client activity.

Slide 21 shows US Commercial Banking and Wealth Management results in US dollars where we delivered net income of $214 million. Pre-provision, pre-tax earnings of $226 million were up 12% from the prior year as continued growth in strategic clients drove increased lending, deposits and AUM. Excluding PPP forgiveness, average loan growth was 7%, driven by new and existing client needs. In our wealth business, solid AUM growth of 36% benefited from strong client flows and market appreciation. Increased expenses were driven by ongoing investment in our US franchise to sustain our growth and support increasing regulatory requirements as our business continues to scale.

Slide 22 speaks to our well-diversified Capital Markets business. Net income of CAD 378 million compared with CAD 310 million in the prior year, and pre-provision pre-tax earnings of CAD 484 million were up 2% from last year. Revenue of CAD 1 billion were up 8% over the year, driven by strong corporate investment banking activity and growth in Direct Financial Services partially offset by normalization in trading revenues. Expenses of CAD 528 million were up 15% compared to last year, driven by performance-related compensation as well as continued frontline and infrastructure investments to support our future growth.

Slide 23 reflects on the results of Corporate and Other business unit. Net loss of CAD 121 million in the quarter compared to a net loss of CAD 110 million in the same quarter last year. Revenue was in line with the prior year as improvements in treasury and CIBC FirstCaribbean offset headwinds from currency translation and other corporate revenues. As highlighted in the past, expenses in this segment are impacted by enterprise investment which increased this quarter as anticipated due to previously mentioned strategic investments.

Slide 24 highlights our full-year financial results. Throughout 2021, our team executed with purpose against our focused priorities allowing us to meet or exceed our strategic goals and financial targets for the year, while building client momentum and organizational capabilities that will fuel our continued growth going forward. As Victor mentioned in his opening remarks, we achieved all of our strategic objectives this year. We strengthened our Canadian consumer franchise and now have strong momentum to continue gaining share across all of our personal and commercial banking businesses.

Our continued focus on expanding and deepening high value client relationships resulted in record client flows contributing to 24% growth in AUM across our global wealth management business. And our differentiated Capital Markets business delivered 13% growth in pre-tax, pre-provision earnings, supported by the connectivity across our bank and growth initiatives, including US expansion in DFS. This progress allows us to deliver on the financial guidance we provided coming into the year. Pre-provision, pre-tax earnings growth of 8% or 10% excluding the impact of currency translation exceeded our target for the year, supported by growth in each of our business units. ROE exceeded 16% and was robust in all of our businesses, including 11% in our US segment, the highest since our acquisition of PrivateBank.

And we delivered positive operating leverage by containing expense growth to 2%, excluding performance-based compensation, despite significant increased investment for future growth. All in all, it was a record year with strong performance from all of our businesses. Heading into 2022, we're confident we can build on this momentum across our business to deliver strong results relative to the industry through continued top line growth. We expect continued market share gains in our P&C banking businesses, helping drive robust growth in net interest income. In parallel, we anticipate robust growth in fee revenues driven by our focus on wealth management, our diversified Capital Markets business and increasing client transaction activity.

In the context of this constructive top line outlook, we intend to continue investing to further strengthen our bank's capabilities and drive growth. While we may have periods of negative operating leverage earlier in the year, we will target positive operating leverage across our business through the course of next year and have opportunities to adjust our pace of investments in response to the environment as required. Subject to the economic outlook described in our annual report, we anticipate our efforts will generate pre-provision, pre-tax earnings growth within our target 5% to 10% range next year. While we will prioritize capital deployment towards this organic growth, our strong capital position also provides us the capacity to return capital to shareholders at a higher level over the course of next year. We are very pleased with our team's achievements in 2021 and look forward to another successful year.

I'll now turn the call over to Shawn.

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

Thanks, Hratch, and good morning. Throughout fiscal 2021, we saw significant progress in the economic reopening, supported by vaccine campaigns and lifting of the more restrictive public health measures that had been in place at various stages during the pandemic. While some of the goods industry sectors experienced supply chain disruptions that continue today, service sector activity has partially recovered, supported by job growth, higher savings from fiscal measures in 2020 and low interest rates. Both business and consumer credit quality also showed improvement over the year. We've had a strong fourth quarter and fiscal 2021 and as we enter a new fiscal year, we remain comfortable with our risk levels and are well-positioned to continue to support our clients and for portfolio growth.

Turning to slide 27, in Q4, the provision for credit losses was CAD 78 million, compared with a provision reversal of CAD 99 million last quarter. Provision on impaired loans remained near historic lows at CAD 112 million in Q4. In Canadian Personal and Business Banking, the impaired provision remained low and stable quarter-over-quarter. In Canadian commercial and capital market, impaired provisions were up slightly quarter-over-quarter as Q3 benefited from a few reversals. Partially offsetting these increases, our US Commercial and CIBC FirstCaribbean experienced lower impaired provisions this quarter. We had a provision reversal of CAD 34 million in Q4 in our performing portfolio, primarily driven by favorable portfolio credit migration, partially offset by an unfavorable change in forward-looking indicators and an unfavorable impact due to normal course model parameter updates in retail. Overall, we've had another strong quarter for credit performance, reflecting the resilience of our portfolio and improving economic conditions.

Slide 28 details our allowance coverage by line of business. As mentioned earlier, we had a reversal in performing provision and a low level of impaired loan losses. These two factors overall resulted in a lower allowance level in the quarter. We feel comfortable with the current level of coverage reflecting the performing provision build we recognized following the onset of the pandemic, the continued uncertainty with respect to the speed and consistency of the economic recovery, as well as model parameter updates that we've implemented over the past several quarters.

Turning to slide 29, we've provided our credit portfolio mix, which remains consistent with previous quarters both well diversified and with strong overall credit quality. Our total loan balances were CAD 463 billion, over half of which are mortgages. The average loan-to-value of uninsured mortgages originated in the quarter was 66%, and the average loan-to-value for our uninsured mortgage portfolio overall remains low at 49%. The business and government portion of the portfolio has an average risk rating equivalent to a BBB and continues to perform well.

On slide 30, we've provided an overview of our gross impaired loans. Overall, gross impaired balances continued to improve in Q4, and notwithstanding a slight increase in new formations in the quarter compared with Q3, both the gross impaired loan ratio and our new formations are still lower than our pre-COVID run rate. Slide 31 details the net write-off and 90-plus day delinquency rates of our Canadian consumer portfolio. Delinquencies and write-offs in our retail portfolios continued to trend lower in Q4 driven by our clients' higher saving and payment behavior, our client engagement activities and government support. We don't expect this very low level of delinquencies and write-offs to repeat in fiscal 2022. As the benefits of government support begin to wind down, the economy further reopens, and our clients' liquidity starts to normalize, retail delinquencies and write-offs are likely to revert towards more historic levels.

In closing, we've had a strong fiscal 2021 despite the effects of the ongoing pandemic and related impacts to the economy and our businesses over the past year. Our base case expectation remains for a continued economic recovery in fiscal 2022. While we expect the path to full recovery, we'll continue to be impacted by some of the same headwinds we've experienced in 2021, including disruptions in supply chains, labor availability and inflationary pressures. We expect those headwinds to abate over time with increased global distribution of vaccines helping relieve supply chain disruptions and allowing for more targeted health measures as opposed to broader economic closures. Based on our current economic outlook, we expect that our impaired loss rate will trend closer to the low to mid-20 basis-point range over the course of the year as credit reverts to more historic patterns. We're mindful of emerging variants of concern that it could affect this outlook, and we'll continue to monitor developments closely.

I'll now turn the call back to Victor.

Victor G. Dodig, President and Chief Executive Officer

Thanks, Shawn. So as we wrap up a successful 2021, I'd like to share our thoughts on CIBC's strategic focus for 2022 and beyond. As we assess our position today, we believe we're a bank built for growth. Our newly launched branding introduced in September is not a promise of something we're trying to be, it's a statement of the bank that we've worked hard to become. Our evolution as a bank is also evident in our financial performance. And our new headquarters, CIBC Square is going to be the hub for innovation, inspiration and continued value creation. And we look forward to continuing to welcome back our colleagues here in short order.

The foundation we built has positioned us well and allowed us to navigate through challenges and disruptions to emerge as a winner. Going forward, our first priority is to continue to elevate the customer experience in an increasingly digital world across all of their interactions with our bank; by one, simplifying processes and creating seamless and end-to-end client experiences; two, providing technology enabled advice solutions for our clients; and three, creating more personalized client experiences and strengthening client-facing services. For our CIBC teams, we're investing in leading technologies to make it easier to deliver on our brand promise and build lasting relationships with our clients.

Our second priority is to focus on higher growth, high touch client segments where relationships really matter; by one, prioritizing our affluent and high net worth consumer offerings; two, focusing on advice-led corporate relationships where we can offer specialized expertise; and three, scaling our commercial and wealth platform that is aligned to the fast growing private economy. We will leverage our differentiated business model with strong cross bank connectivity, again, a competitive advantage for our bank, to meet the complex needs of our clients on both sides of the border and capitalize on their growth opportunities. And our third priority is to invest in our future differentiators within faster growing market segments, and these would be Direct Financial Services, our Innovation Banking unit, and our energy transition and sustainability franchise where we have unique assets, competitive advantages and significant opportunities to build on leadership positions and grow our business and grow our client relationships.

In closing, we have engineered our organic growth plan to be flexible, so that we can adjust to the economic reality of the day. In an environment that's robust and constructive, with strong GDP growth on both sides of the border, we will continue to invest at a more elevated level. We are a bank built for growth, and we are a bank on the ascent. We have a balanced strategy to compete on all fronts and the right resources in place to grow. We are confident in our abilities to earn business, to attract talent and to deliver for our shareholders.

With that, I'd like to open the call up for questions and pass it on to the operator.

Question and Answer Section

Gabriel Dechaine, Analyst, National Bank Financial, Inc.

Hi. Good morning. Morning and thanks for taking the question. First is a bit of a housekeeping one for Shawn. Stage 2 classification is a higher risk performing loan category, up 25%. You mentioned model parameter updates, is that the main driver there, not negative migration? And if that's the case, can you give me some broad strokes on, maybe, what, sort of, assumption changes you made?

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

Yeah. Thanks for the question, Gabriel. So you're absolutely right, it's the model parameter updates that have driven the lion's share of the shift from stage 1 to stage 2. So this is part of our normal course review of our models. We are continuously updating them as part of annual review cycles. And so we are looking at a variety of different underlying drivers and items like delinquencies, utilization rates, et cetera, and that's long time series data that goes into those models. So this isn't a reflection of a particular view on credit deterioration or a function of the models and then the impact that IFRS 9 has in terms of when we make those types of changes. So from an outlook perspective, we still feel very good. And as I said in my opening remarks, from an impaired loss perspective, we're looking at sort of low to mid-20s as the economy reopens and activity normalizes.

Gabriel Dechaine, Analyst, National Bank Financial, Inc.

Great. Thanks. And Hratch, the expense, operating leverage commentary you made, continued investments in the business in 2022. It sounds like we're going to keep going with elevated expense growth perhaps. Medium-term objective of positive operating leverage, does that mean next year we might not have that outcome? It sounds like maybe first half will be a little bit soft, second half you'll get back into positive territory. And if you can clarify like what you're targeting for absolute expense growth, is it mid single-digits. Is it 6 this year on an adjusted basis, but two-thirds I guess from variable comp? Maybe clarify a few of those points if you can. Thanks.

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

Sure. Thanks, Gabriel. Thanks for the question. And it's a good opportunity to elaborate a bit on the comments I had in our opening remarks, which I think are an important point. And I'll start by saying, the way we've been managing our investments and the growth of our expenses on a net basis we think is working for us. We are continuously investing in our business, and our strategy is to generate positive operating leverage, but to do so through the top line growth rather than containing expenses or under investing. And so this year we did that, and we had signaled we'd be at the low single-digit level with respect to expense growth and without performance-based compensation and [indiscernible] (00:31:25) and we achieved that. And at the same time, we achieved positive operating leverage because we are already starting to see some of the benefits of those investments. So operating leverage for the year was positive almost 1%.

Next year, we'll continue to invest, and in fact, as I referenced, we do see our year-over-year investment against the strategic initiatives bucket, which we will provide more and more transparency to you as we've started. We see that increasing, and those are investments that will drive benefit in returns for our shareholders. We also see that probably driving about half our growth next year into more proportion of the expense growth than it did this year. And so that'll be half of it. The rest of it and why the picture next year maybe is a little bit different than the low single-digit without performance based comp this year is because we also see some inflationary impacts out there. We do see impact of the world returning back to normal, travel business development activities and so forth resuming. And that's going to be, I'll call it, a couple of percent for us on expenses. And that's really the difference between last year and this year, the increased investment and that increased amount in the expenses from those items.

So all in all, that mid single-digits is I think the right guidance. I don't want to get any more specific than that. As we said, we have the opportunity to dial that up or down. So I don't think more specificity would really be accurate at this point. And that said, we do expect that relatively constructive top line next year that we described, and so putting all of that together, we do think that we can strive for positive operating net leverage next year. And if we see the environment continue to be constructive with respect to interest rates and market growth across our products, we think we can achieve that. But the front half of next year maybe negative. We are making some investments, and there's some upfront investment for future revenues, and I'll call out just our investments upfront to get set up for the Costco credit card portfolio, for example, as revenues come later in the year. So some of those items earlier on will drive us negative. But for the full year, we're pushing for that positive.

Gabriel Dechaine, Analyst, National Bank Financial, Inc.

Great. 10% revenue growth this quarter and nothing to [indiscernible] (00:33:33). So yeah, clearly the investments are helping out paying off. Thanks.

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

Thanks, Gabriel.

Meny Grauman, Analyst, Scotia Capital, Inc.

Hi. Good morning. Victor, in slide 4, you show the improvement in terms of geographic earnings mix that you've been able to achieve at 21% coming from the US. And I'm wondering as you think about the future, where would you ideally like to get that mix?

Victor G. Dodig, President and Chief Executive Officer

Well, Meny, good morning. Thank you for your question. Slide 4 reflects the bank that we've been building over time, and the bank that we will continue to build. We've always said that we're focused on diversifying our revenue streams beyond Canada. We've achieved that. You look at this slide, in 2016 we were generating CAD 86 million in net after-tax profits in 2016, and this year it's well over CAD 1 billion, it's CAD 1.2 billion. That is a dramatic change. We made a smart investment in the PrivateBank. That is continued to prove that we are a client-focused bank that can grow.

We've retained our clients. We've retained our team. And CIBC's footprint in the US continues to grow in that regard. We've also done the same thing in wealth management where we've pulled together three separate investments that has grown from CAD 0 to CAD 100 billion in assets under administration, and become the fourth ranked wealth manager according to Barron's in the United States. And we also are growing our Capital Markets business and have almost doubled it over this period of time in the United States.

As we go forward, our goal is to continue to strengthen our hand in Canada. It's our home market, and we don't plan on ceding any territory. In fact, we plan on growing market share across all of our businesses, including some of our new and emerging businesses. And in the US, we're at 21% today. I would see us going over 25% over that four to five-year period of time. And I believe we can do that largely through organic growth with some smart tuck-in acquisitions here and there. We're really pleased with what we've achieved. Everything that we've outlined to our shareholders, we've delivered on, and we plan on doing that going forward.

Meny Grauman, Analyst, Scotia Capital, Inc.

Thanks for that. That's what I was trying to get at, that I mean you've highlighted the success you've had in the US. And I was wondering, given that success that we clearly see in the US, why not look at more significant acquisitions. And it doesn't sound like your views have changed on that, but just wondering why that is just given the kind of performance you've been able to generate from PrivateBank?

Victor G. Dodig, President and Chief Executive Officer

Well, we're seeing really, really good organic growth. I can pass it on to my colleague, Mike Capatides in a moment. And because we see really good organic growth, we're going to be investing in our US franchise in terms of our platform and our infrastructure so we can drive even more growth and press on our competitive advantages. But the highest and best use of capital for us is to continue to invest organically and deliver the kind of returns, and Gabriel just said it before he got off his call, 10% year-over-year growth this quarter is the highest in the industry year, and we plan on delivering on that going forward. Cap, I don't know if you want to add anything from a US perspective.

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

Yes. Thank you, Victor. So just to add that, that we have been – I'll use the words pleasantly surprised, but not surprised because it has been our focus and our ability to generate organic growth in all of our US businesses. That's the commercial lending, that's the wealth franchises, with a seamless connection to our Capital Markets colleagues in the US. And the growth has been across the board. We've built out our network of offices across the US and our focus has been bringing our full capabilities of CIBC to each of those major cities. So looking forward, we're just very optimistic on all our businesses in terms of lending growth, AUM growth and Capital Markets connectivity to all our clients. And frankly, we're making investments in those platforms, as Victor mentioned, this year and next year. And again, we're looking at a robust growth in all those businesses in the US.

Meny Grauman, Analyst, Scotia Capital, Inc.

Thanks again.

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

Hey. Good morning. I guess, just following up on this theme around investments, Victor, remind us, as we think about your messaging around investments, one, are there certain gaps in your franchise relative to some of the bigger competitors that you think you need to catch up on? So one that. And secondly, as we think about your competitiveness with your larger peers, just give us a sense of how you see the bank is competitively positioned? Do you need to be more aggressive on pricing in order to get business, or is it digital offering at par or better? So any perspective there would be helpful.

Victor G. Dodig, President and Chief Executive Officer

Thanks, Ebrahim. Good morning and good questions. So overall, the overarching theme at our bank and our strategic focus as a leadership team is to continue to invest to grow marker share at the expense of our competition. We don't have any evident competitive gaps relative to our competition. We just want to press on our technology advantages both with our clients as well as to our relationship managers so it's easier for them to do business. And that's effectively what we're doing. You look business by business by business. You look at Personal and Business Banking. It is rejuvenated. It is in growth mode. We are winning market share.

Laura, you can comment on that in a moment. You see that in the investments we've made in our credit card portfolio, our financial planning portfolio, our CRM portfolio, as well as on our Direct Financial Services business, which is there to attract the digital savvy clients. You see that investment being made in our Commercial Banking and Wealth Management businesses in the US and Canada. We call that the private economy focus of our bank. And the fact is, the world is shifting more and more to private markets, and we're capitalizing on that by investing in the business, investing in our wealth platforms and investing in our relationship management.

And in Capital Markets, the leadership positions that we have in foreign exchange, for example, has been a deliberate focus on investing in foreign exchange platform and in our derivatives platform. And then we have our unique growth engines. Our unique growth engines are Direct Financial Services, and you're going to hear more about that in our Investor Day. Our focus on Innovation Banking where we bought the Wellington Financial business in at CAD 152 million in venture loans. And today, we have more than CAD 3 billion in deposits and almost CAD 5 billion in authorized loans in a leading technology bank that's focused on the recurring revenue aspect of technology as well as the emerging life sciences sector.

And then finally on energy, we're the number three renewable energy lender in North America. That shows leadership. That shows investment, not only in renewables, but also our commitment to the non-renewable energy sector through the transition strategy that we have. Laura, maybe you want to highlight on the retail side how we've been winning.

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

Well, thank you, Victor. I think you said it all though. I don't know that I've much more to add. I think we've done a great job setting our strategic priorities than the rest, quite frankly it's just relentless execution and doing it with a sense of urgency. So we just continue to be, as you said Victor, focused on putting our clients first in everything that we do and just trying to remove as many pain points as we can in our client journey. And we're starting to see the results of that. And so I think we still have a lot to do, but we're incredibly pleased with the progress that we've made to date. And as you said, we strongly believe that we can continue to deliver some really good momentum and growth in our business.

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

Got it. And just a quick follow up, Hratch, not sure if you mentioned your outlook for the Canadian and US margins, and if anything around the US PPP that we should be mindful of in terms of the resetting of that margin going forward. Thank you.

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

Thanks, Ibrahim. I had a few comments in the remarks around margin outlook, but happy to provide a bit more color. And so what you've seen in our Canadian P&C business over the last – while there's a bit of stabilization, while we have been declining quarter-over-quarter, that decline has gotten smaller, and you see that 2 basis points just this quarter, and that's because the impact of lower interest rates is starting to trough, and the impact of the business mix changes with what we saw in the reduction in card balances and slowdown and reduction in unsecured credit. Those things are starting to also drop. And so as we look forward, we do think in the Canadian P&C business, even before we talk about the Costco portfolio, we think that NIM will drop here in the next couple of quarters and then stabilize from there and start turning positive.

And with a Costco portfolio, given the margins on that product, that would add even further and that would add several basis points to that. In the US NIM, it's been reasonably stable at these elevated levels, but we've been very clear all along. There is some level of prepayments activity and forgiveness activity on the PPP portfolio that is coming into margins and elevating that. It's moved around a bit, but this quarter it was about $7 million and change or CAD 10 million. And so that's about 10 basis points on the margin. So as that plays through and we think that will happen and end in the next couple of quarters, you can see margins coming back to the [ph] 3.30s (00:44:04). And then from there, it all depends on the liquidity in the system and the deposits and the trajectory of deposit growth. But core product margins there and deposits and loans are holding very strong, in fact, in some places, getting stronger. And the impact of interest rates will provide small tailwinds over time as well. So we think all of that bodes well for margins and it bodes well for NII growth for the bank.

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

Thank you.

Scott Chan, Analyst, Canaccord Genuity Corp.

Yeah. Thanks a lot. Laura, I just want to go back to you on the Canadian side and specifically on mortgages, and I think Victor you talked about getting to peer levels this quarter. So now that you're there, is it something that you want to kind of press the button and continue and perhaps punch above peers as we're look into next year, or you kind of satisfied with where you're at right now?

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

Well, thanks, Scott. Look, we're really pleased with what we've managed to do from a growth perspective, and we continue to have a really good pipeline of activity, but never pleased. There's always more to do. So our intention is to continue to deliver, I'd say, really broad-based quality client growth, and so revenue growth and volume growth. And of course, as we continue to sell across the board, we continue to really focus on franchising or differently said, deepening our client relationships. We had, I'm going to say, a fantastic year this year. So not only did we perform incredibly well when it came to new client acquisition, we did better on client retention, and we did better on client franchising. And so we've made a lot of really good progress, and we see a lot of great opportunity ahead of us to continue to deliver strong market leading growth.

Scott Chan, Analyst, Canaccord Genuity Corp.

Great. And just my second question, just on the real estate charge, I noticed you took one several quarters ago. Maybe you can describe what that charge is related to and if there's any kind of future charges on the real estate side.

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

Yeah. Happy to do that. Thanks for the question. And so this is really relating to final stage, I would say, of our move into the first tower and our headquarters in Toronto. And so you'll remember, we did take one that was a few million dollars higher last Q4, and that was related to the number of buildings we exited and the leases we exited last year. And this is the bulk of the remaining exits as we start moving in. And today, we're talking to you from CIBC Square. So as we start moving into our new headquarters, those leases that were exit. And I will remind you, as we said last year, these have positive payback over a number of years, until while we were taking the charges, we are saving ongoing real estate costs.

And so this year, the occupancy line item did actually benefit from last year's exits. And what you'll see with this new charge as well is that we will get both those charges benefiting on the occupancy line next year. And so with respect to our Toronto headquarter costs, if you will, or corporate real estate costs, what that allows us to do is moving into our new headquarters, actually keep the net cost flat from 2020 onwards. And overall occupancy includes a number of other items obviously in it, including our retail network. So there'll be some noise in that. But with respect to our headquarters cost, we've moved into the new building while retaining those expenses relatively flat with those exits.

Scott Chan, Analyst, Canaccord Genuity Corp.

All right. Thank you very much.

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

Yeah. Thank you. I just wanted to go to Harry for a second, please. A few years ago, Harry, you had said the franchise was around CAD 1 billion or so in earnings annually. In the past couple of years, you've ruled in the DFS, which I think is probably rough numbers, a couple of hundred million dollars adds. So let's say relative to a baseline of CAD 1.3 billion, CAD 1.4 billion, you did very well this year. Where do you think your franchise is going forward? And maybe you could talk us through, Harry, the geography of the income statement, because presumably adding DFS will put a little bit more pressure on your PCL line, but you'll pick it up on the pre-tax, pre-provision. Just trying to kind of get a feel for what's the franchise capability from here on and how it's going to be contributing to some of the broader metrics that Hratch and the team have talked about vis-à-vis the total bank operating leverage and so on and so forth.

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

Good morning, Sohrab, and thank you for that question. The short answer is, we see continued growth as we move forward in both revenue and PP in a very diversified manner. You've seen the delivery of strong performance in absolute and relative terms over the last several years as you point out. This has been a consistent strategy that we continue to enhance, and we really are, I think, pleased with our leading PP [indiscernible] (00:49:42) growth this year and for the previous several years. So this is a differentiated platform as Victor has said on his opening remarks. We remain very disciplined around our resources as a starting point, but we're continuing to build our leading Capital Markets platform for our core clients in Canada, and we continue to grow market share.

And you've seen growth in rankings in most league tables, and I think truly enhanced client relationships across our platform. And we're also growing our US platform as Victor mentioned. And the doubling of the size of that platform since our last investor day until now has shown a leadership position in many of the areas that we're focused on, including the new economy where we see the intersection of private capital, renewable sustainable finance, key focus areas where we think we have a strong competitive advantage. And we're also very focused, of course – by the way, just on the US, we saw a 9% growth this year in US dollar terms as well, so therefore leading to a doubling over last four years just about.

And then, of course, the area of connectivity we talk a lot about, really diversifying our franchise by delivering Capital Markets products and solutions to commercial wealth and retail clients, and that connectivity has been further enhanced by the inclusion of Direct Financial Services within the Capital Markets franchise, and we're seeing revenues from non-traditional Capital Markets clients grow significantly 27% year-over-year this year. So we may see some normalization of markets over the next little while.

We expect to see continued robust activity, however, across our corporate and institutional client base, and you've seen some significant increases in our underwriting advisory and lending capabilities. And we continue to see growth in our global markets platform as well, which has great diversification across products, industries and geographies. We think that we can deliver pre-provision earnings growth next year again, and revenue growth in the higher single-digit area as we go forward. This is well above pre-pandemic levels, as you will note. So in terms of geography, continued focus on the US, as 25% of our income is approximately the level we come from with respect to the US platform, and we expect to see further resources deployed into the United States.

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

Harry, just to be crystal clear relative to, let's say, 2018 or 2019, you're maybe CAD 800 million higher on pre-tax, pre-provision at the end of this year and you think you can grow off of this year's pre-tax, pre-provision which is, I think, around CAD 2.4 billion if I've done my math right.

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

Yeah. That's correct. It's right around CAD 2.4 billion. If you think back to pre-pandemic levels, we were in the mid CAD 400 million, call it, pre-provision earnings per quarter. And we think we can generate north of CAD 600 million per quarter on an average basis this year going forward.

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

Very much appreciated. Thank you.

Darko Mihelic, Analyst, RBC Capital Markets

Hi. Thank you. I just wanted to go down the line of questioning of your future priorities and expenses a little bit more. So I think my questions are actually though for Victor and for Laura. The first one has to do with, Victor, in your remarks, your prioritization of spending and investing, it made it sound like on the retail side that it was more about relationships. And there, I just want to understand I mean – or more of the personal experience, and I'm just trying to think my way through what that means because from a branch perspective, been very stable, very close to the next two largest banks in Canada in terms of number of branches.

It's hard to tell sometimes with your employees because each bank sort of reports differently. But I tend to think of the employee count as being relatively similar. So I'm just trying to understand what specifically the investment is to further enhance the personal experience in Canada. And when I think of further, with the question earlier about gaps relative to peers, I can think of a couple, like auto lending, for example, or maybe small business, I don't know. But maybe you can just touch on what it is you're investing on in the personal franchise to really enhance that experience and where I should look for the impact? Should I look for the impact and continued growth in mortgages or should I look for the impact somewhere else? That would be very helpful for me. Thank you.

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

Well, thanks, Darko. Why don't I start, and then Victor can take it from there? So more specifically to the personal and business bank, the investments we're going to continue to make are all about supporting the strategic priorities that I believe we've shared previously. So that includes where we want to increase our sales force effectiveness, our productivity, we want to continue with our digitization and end-to-end straight through processing. And then, we want to increase all of our client engagements, so call that personalization. So you're going to see us continue to invest in our frontline tools. So that's where we continue to roll out some of our modernized platforms, like our client relationship manager.

We're going to roll that out to all of our frontline roles in the personal and business bank. And we think that's going to help us continue to increase our sales force productivity, and we think it'll also help us with better client engagement. And then, we've talked a lot about this as it relates to digital first. So we're going to continue to build out our digital self-serve capabilities and all of our digital experiences. So I think you saw we released this year our digital identity verification tool, we had virtual card issuance for debit and credit cards, we released CIBC Insights, just to name a few, and we're going to continue to build upon that. So all of it just to ensure that we can continue to deliver sustainable performance, and all of it to allow our clients to engage with us in the way they're most comfortable. And maybe with that, I'll hand it back to Victor to elaborate more.

Victor G. Dodig, President and Chief Executive Officer

Sure. So Darko, it's good question. What we've seen is every dollar of investments that we're making is generating an uplift in our pre-provision earnings because we're laser-focused on making sure that our investments are working hard for our clients, are working hard for our shareholders. You referenced auto lending, while we're the smaller one, we're the growing market share faster than anybody else's. We've invested in that business. We're investing in relationships. Laura has articulated that. The investment we've made in CIBC GoalPlanner, our CRM investments for our relationship managers, better client experiences, is driving a better result. You see that in a higher client experience score for us. Quite frankly, a record score for us. And we still have headway to make against our competitors, and we're going to make that headway. We're going to close that gap through these further investments.

The other thing that we're going – and these investments that we're making are not only in technology, they are in our people. Our Imperial Service continues to remain a competitive advantage in the marketplace. Larger average account size at the retail level than many of our competitors because of the competitive advantage we have there. We will continue to invest in our banking centers because, I believe, they continue to be a focal point for building relationships alongside the technology investments we're making. And we will invest in this emerging direct segment where we see fintech competitors starting to nibble away a business. We know open banking is coming. Our DFS business was set up to defend, but to more importantly, get that 85% of the market that we don't own. That's going to go after the direct client while we manage our relationships through the personal and business bank. I don't know, Harry, if you want to add anything else in the DFS side, but we're going to see more client acquisition growth, particularly in a Simplii direct bank where you've been adding capability.

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

Yeah. Thank you, Victor. Clearly Direct Financial Services on a very nice growth path. Just a reminder for everybody, we've got the three businesses within Direct Financial Services. We've got investors edge. That's the direct investing for the do-it-yourself client. We've got Simplii our direct [indiscernible] (00:58:07) banking for digital savvy and value conscious clients. We've got the Alternative Solutions Group, which is really our institutional fintech business built on leading [indiscernible] (00:58:15) technology. And we believe as the economies continues to progress through the pandemic, we see an opening up in terms of travel. We see movements in interest rates that these businesses will have some very good tailwind. So we're quite optimistic about the future in terms of attaining market share and growth generally. Anything [indiscernible] (00:58:37)?

Darko Mihelic, Analyst, RBC Capital Markets

Thank you. Yes. Actually, I did have a follow-up on that, and I'm glad you sort of weaved or moved the discussion to the direct. And I'm glad you touched on it, because I do have a question on it. With respect to the direct business, the one thing that we can see, which you guys do provide us, is the revenues in the direct business, and it's up. I mean, if I look at annually anyway, it's up almost 17% in 2021. And so the question is, what's driving that? Is it Investor's Edge, is it Simplii, or is it the Alternative Solutions Group in 2021, and what are you most excited about in 2022 for that business?

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

I'll take that. Thank you for the question again. So obviously, Investor's Edge benefited from record trading volumes in the second half of fiscal 2020 and through 2021. We do expect a normalization of trading volumes, but expect our franchise to grow. We expect to take market share. So we've been making some significant investments, as Victor pointed out. We're investing in talent, we're investing in technology and we're protecting our market share, but we believe we can grow our market share and increase our penetration with our CIBC clients, our teams are working very closely together to make that happen.

The largest area of growth, perhaps, could be our Alternative Solutions Group next year, this is our fintech, as I mentioned, built on leading FX and payment solutions. And our focus on investments pre and during the pandemic are really are paying dividends, as we see outsized growth with the opening of the global economies. We're seeing increased travel, of course, international students arriving and attending universities, which is all part of that business, and that business can grow in the double-digits, perhaps north of 20% next year. And then of course our Simplii franchise, we expect to grow over the medium-term, as interest rates normalize, as we cross-sell through existing clients and onboard new clients. So we're really encouraged with the results that you've seen. So we're more confident that we can deliver value to our clients and grow these businesses as we move forward.

Victor G. Dodig, President and Chief Executive Officer

Darko, when you visit us on June the 16 for Investor Day, I'll get even more details on the business.

Darko Mihelic, Analyst, RBC Capital Markets

Thanks very much for that. I appreciate it. And to be clear, are you at zero creating commission in Investor's Edge?

Victor G. Dodig, President and Chief Executive Officer

No. We build relationships, Darko. We're very competitively priced, more competitively priced than most of the competition out there.

Darko Mihelic, Analyst, RBC Capital Markets

Great. Thanks very much.

Mario Mendonca, Analyst, TD Securities, Inc.

Good morning. I want to go to a very different topic, the legal provisions. We saw a second one this quarter, so CAD 40 million is for CAD 85 million last quarter. I know it's not appropriate to get into the details like what this actually relates to, but could you talk about, are these provisions related to the same matter? And what do you believe going forward, could we see further meaningful provisions related to this?

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

Thanks for the question, Mario. It's Hratch here. I'll take that. While we don't speak about these in detail, as you said, and specifically to matters, I'm happy to give you a bit of color. And I'll start saying, legal liabilities do arise in our business as part of the normal course, and we don't treat them all as items of note. And so we've had some this year that we haven't. What you're seeing is the ones that we truly think are unusual in nature, and therefore are treated as items of note based on their nature and based on their quantum.

And I think what I would point you to is, if you look at Note 23 to our statements in the Annual Report, you've got a listing of all of the ongoing matters. And you'll notice some of them have had some changes and updates to them, including ones where we have noted that we've got agreements to settle them. And so, that's as far as I'll go as related to those matters. And so the good news is, to your question about the future, the charges we've taken and you referenced in these two quarters, related to matters that are behind us.

Mario Mendonca, Analyst, TD Securities, Inc.

That's helpful. And then, probably sticking with you, Hratch, on the capital ratios, it sounds like the bank, through growth and buybacks, will see this CET1 ratio trend a little lower. Do you have a bogey in line? Like how much lower can you go? Could you see the bank breakthrough 12% and sink into something like 11.8% or 11.9% capital ratio to support growth in buybacks or is 12% an appropriate level?

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

Yeah. I'm happy to start with that, Mario. Look, I think we have very solid capital position to start. We also have very solid generation. Like you noticed this quarter, we had 27 basis points of generation, but that was impacted by the charges that were fairly significant this quarter. And so on an ongoing basis, we feel comfortable generating over 30 basis points of capital, and we're starting from that 12.4%. As I mentioned in my remarks, we are deliberately planning to draw down on that ratio, and that's because we continue to believe the highest and best use of our capital, given our marginal returns across all of our businesses, is to organically invest that capital, to support our clients and for the benefit of our shareholders.

So we will continue to do that to the extent that we can and to the maximum extent that we can within risk-adjusted measures. And so as we do that, plus take on the Costco portfolio, and we talked about the Costco portfolio when we announced it, that's going to be just north of 20 basis points of impact. So those things will draw down on the capital. But between the generation and the strong place we're starting from, I think that will still leave us in that sort of 12%-plus range. And from that point on, it's about what we do with the rest of the capital, and our levers remain unchanged. We've announced a 10% dividend increase this quarter. We will continue to assess our dividend and continue to try to remain in the middle of our range, and as needed, we will adjust the dividend.

And beyond that, we will look at potentials for share buyback. We announced our intention to start an NCIB program, that gives us a lever. We might look at tuck-ins in terms of acquisitions. We've talked about that. But beyond the 12%, I think this laser focus is going to be shareholder returns and generating shareholder value. And if returning capital at that point, we believe, is the better thing to do, we may return more of that capital through the buyback and go below the 12%. If we believe keeping it for future organic growth is the thing to do for shareholders, then that's what we'll do, and we will treat acquisitions with the same lens, financial and strategic value for our shareholders.

Mario Mendonca, Analyst, TD Securities, Inc.

Do you expect to go back to raising dividends twice a year, or do you think you'll go through the annual on that, the way several other banks are thinking?

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

Yeah. Mario, I wouldn't look at it as annual or twice a year. Frankly, we look at it on an ongoing basis. We assess every quarter where we're trending relative to our targets. We assess where we are with respect to our expectations of future earnings, and we'll adjust it as needed to stay at the level that we want to stay at.

Mario Mendonca, Analyst, TD Securities, Inc.

Thank you.

Doug Young, Analyst, Desjardins Capital Markets

I'll hopefully keep this relatively quick. Thanks for taking the question. So Shawn, just there was a small pickup in new retail gross impaired loan permissions quarter-over-quarter, year-over-year. It doesn't look like that's in Canada and the US, but maybe I'm wrong. Hoping to get a little bit of color on that. And then I assume as well that the performing loan billed in Canada small business banking, I assume that's related to the earlier discussion about the parameter changes, but if not, then a little color on that.

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

Yeah. Thanks, Doug. So yes, there's a slight build in performing within our PBB segment and really relates to those model parameter updates we had some deterioration in the FLIs, but that was more than offset by releases of management overlays from prior quarters. So the uptick this quarter was really reflective of that parameter update. And our outlook for performing sort of remains similar to what we've talked about in prior quarters, insomuch as we've recognized significant performing build in 2020. We've released about 44% of that so far. And as long as the economic activity sort of plays out in alignment with our outlook, we expect to continue to see releases as we saw each quarter in fiscal 2021, releases of performing provisions as we move through 2022.

Doug Young, Analyst, Desjardins Capital Markets

Okay. And then just second in the US wealth management, obviously, Victor, you've said that's a focus, but we did see a decline quarter-over-quarter in just wealth management loans, and I don't know if there's a restatement there or something is going on, but just curious.

Victor G. Dodig, President and Chief Executive Officer

didn't see any decline at all, Doug. In fact, the business has been growing, our net flows on market appreciation, on deposits and on mortgage growth in the US. So maybe there is some sort of re-categorization that we can refer to you after the call. Cap, I mean, I think you're seeing the same thing, right?

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

Yeah. Absolutely. On our wealth management businesses, on AUM growth, has been robust. And as we continue to build out our private banking capabilities across our platform, we anticipate growth looking forward.

Doug Young, Analyst, Desjardins Capital Markets

Yeah. It just relates to the – I can take it offline. It just relates to...

Victor G. Dodig, President and Chief Executive Officer

Right. It's FX-related, Doug. It's FX-related.

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

Yeah.

Victor G. Dodig, President and Chief Executive Officer

So okay?

Doug Young, Analyst, Desjardins Capital Markets

Yeah. No. Okay.

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

Thank you. Good morning. Thanks for taking the question. I wanted to follow up on the line of question on your forward-looking variables here. When I turn to your disclosure on page 44 of your presentation, and I looked your downside case, it looks like the variables there are a bit optimistic. And I say that within the context of the emergence of the recent COVID-19 variants. So is there a risk that you have to revise those assumptions lower, and would that limit the potential for future releases of performing allowances?

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

Hey, Nigel. Thanks for the question. So look, these were set as of a particular date, so before Omicron was on the horizon. That said, they were set at a time where the Delta variant activity was front and center. And we did increase slightly the weighting to our downside scenario in coming up with our ECL numbers this quarter. So I'd say, part of that activity is reflected. But to your point, we have to see how the economic activity plays out. We feel good about where we are right now. But we're all watching with great interest in terms of transmissibility, severity and the efficacy of vaccines against this newest, emerging variant of concern. But we did increase the downside slightly in our ECL calculations this quarter. So that should provide some level of coverage depending on how things play out.

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

Okay. That's helpful. And I think just quickly follow up on the same topic there. It looks like you're disclosing the household DSR assumption, the debt service ratio assumption in your forward-looking information I think. Correct me if I'm wrong, I don't think you've disclosed that in the past. So could you just provide some color, is that something you've always considered and something you're highlighting now, and how does that feed into your expected [indiscernible] (01:10:37) modeling?

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

Yeah. So it's one of the drivers of our ECL activity, and we thought it was relevant to include it in our disclosures. It really drives the consumer [indiscernible] (01:10:53) consumer businesses.

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

Okay. And you best case assumes two rate hikes in 2022, I assume.

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

Correct.

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

Okay. Great. That's it from me. Thank you.

Lemar Persaud, Analyst, Cormark Securities

Hi. Just a point of clarification on some of the earlier discussion on expenses for Hratch. Hratch, is the mid single-digit outlook on expenses inclusive of performance-based comp, or is that excluding performance-based comp?

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

Yeah. Thanks for the question, Lemar, and next year, we had a very strong year this year, and performance-based compensation for that reason was up. Next year, we also plan to have a strong year, but because we're starting from a strong year on a year-over-year basis, performance-based compensation we don't expect it to be as major a factor. And so I think you end up in that mid single-digit range with and without. And I'll take the opportunity to sort of stress some of the – there's lot of discussion on expenses and investments, but our approach to investments and the way we construct our portfolio, investing in growth for the short term, medium term and long term across all of the areas we've covered today, but we construct the portfolio in order to contribute to earnings as we go along. And so while we will have higher expenses without that performance-based compensation next year with mid single-digit versus low single-digit this year, we do expect our investments and our expenses to pay off in year-end. So there is a few percent positive contribution to pre-tax, pre-provision earnings from our strategic investment portfolio next year.

Lemar Persaud, Analyst, Cormark Securities

Okay. Thanks. I just want to continue along the lines of the expenses here. Just I want to circle back to the commentary suggesting that operating leverage at the start of 2022 maybe challenged. Is there an element of timing of expenses? So maybe you're talking about a step up in the first half and then a decline in the back half of the year, or is the improvements in operating leverage in the back half of the year more related to the expectation for acceleration of revenue growth rather than a step down in expenses? The reason I asked is because, revenue growth as mentioned, there was very strong in the back half of 2021. I think it was 7% last quarter, and then, as mentioned, 10% in Q4. So any thoughts there would be helpful.

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

Yeah. Happy to offer them, Lemar. And as we've said, we've got a bank that's built for growth and we're in a dynamic industry and we're not standing still. So we're continuing to invest and we don't manage the business on a quarterly basis. We're managing the business for the long term. And we look at our operating leverage over the long term. So there's a number of factors that are playing in. One, we continue to invest in a number of areas. And a lot of these times you're investing for technology build, you're investing to hire people who will generate revenues or to service our clients.

And so Costco was one example I mentioned, we are hiring ahead, we are building technology ahead and revenues come after the effect. In the US, we are continuing to invest. We're investing in the infrastructure. We're investing in frontline people. And again, all of those things we are continuing to invest because we believe in the returns. We've got very solid business cases and a rigorous process for tracking execution and holding ourselves accountable to deliver the benefits. That's worked for us so far. And so we've got the confidence to invest for those revenues.

And the last part I'll say is the environment. We've talked about the constructive environment and some of the loan growth continuing and accelerating potentially in the commercial businesses. We've got the interest rate environment looking better, and so all of those things will generate the revenues we expect. It is not a expense reduction in the back half of the year. We were taking a very consistent approach to our expenses and our investments. And if the top line starts looking different, I mentioned this before, we have levers we can pull, we've got a portfolio that's contributing positively next year. But the pace of some of the things that are more long-term investments can be adjusted if we need to, so that we invest more slowly if the top line is less robust.

Lemar Persaud, Analyst, Cormark Securities

That's helpful. Thank you.

Operator

Thank you. I would now like to turn the meeting back over to Victor.

Victor G. Dodig, President and Chief Executive Officer

Thank you, operator. I'm going to do the unorthodox thing and throw a minute over to my colleague, Jon Hountalas, who's one of our strategic business unit leaders that didn't have a chance to speak today. But he can give you a perspective on how things are looking, the Canadian private economy, Canadian wealth economy. Jon, over to you, and then I'll make some closing remarks.

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

Thank you, Victor. Business confidence is good. The back half, particularly on the commercial side, was strong, economies opening up, you talk to entrepreneurs, I know there's risks out there, but they're coping with them. The top line is growing, there's some operational challenges, but it's been strong, and all they are talking to us about is growth. Our pipeline is good. So we're feeling pretty confident. On the wealth side, we have good investment performance, we made some investments in tools, in people and some technology. So again, we see momentum. So we had a strong year in 2021. I think you'll see another strong year out of the SBU in 2022.

Victor G. Dodig, President and Chief Executive Officer

Thank you, Jon. I appreciate that, and I think you see the strong growth across all of our business units. So before we wrap up, and I know we went over time today, thank you for indulging us, I want to thank our 45,000 CIBC team members globally for their continued support of our clients. Their purpose-driven client-first focus is a critical component to the success of our bank. And you're seeing that in our top line revenue metrics, you're seeing that in the client experience metrics, and you're seeing that in our full year financial results. So as we look ahead to 2022, I hope that you got the sense from every business leader, from Hratch, from Shawn, that we've got everything in place to harness the strong momentum that we've created in this past year. We have a balanced strategic agenda. It's aligned with continued growth, and we're excited about the prospects in the coming years. We're looking forward to reporting on our progress again at the end of February.

Lastly, I want to – as I said earlier, our Investor Day is going to be on June 16, 2022. We moved it there because of the Ontario government guidelines in terms of health restrictions, and we're going to watch out what happens with this new variant, but that's our plan currently. And that'll also give us an opportunity to invite all of you to meet our leadership team face to face at CIBC Square, so we can share our strategic vision and direction for our bank and more granular detail because I know you're all interested in that. We're going to post more information as we get closer to the date. In the meantime, I wanted to wish all of you a happy holiday season. Thank you for your interest in our bank. Thank you for your very good questions, and we look forward to engaging in the New Year. Have a good day.

Operator

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