CIBC Q2 2021 Earnings Conference Call

May 27, 2021

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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. Following Victor, Hratch Panossian, our Chief Financial Officer, will review our operating results. Shawn Beber, our Chief Risk Officer, will close out the prepared remarks with a Risk Management update.

We are joined by CIBC's business leaders including Mike Capatides, Harry Culham, Laura Dottori-Attanasio, and Jon Hountalas. They are all available to take questions following the prepared remarks. When we get to the Q&A, given we have a hard stop before 8:30 AM to allow you to get to another call, please limit to one question. This should provide everyone with an opportunity to participate. We are pleased to follow up after the call with any additional questions. And lastly, 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

Thank you, Geoff, and good morning, everyone. Thanks for joining us and we hope you're all keeping well. I'd like to start off our call by extending my deep appreciation to our entire CIBC team. Thank you for your continued professionalism and dedication in serving our clients. You play a critical role not only in helping our clients navigate pandemic related challenges, but also identifying new opportunities as we look to brighter days ahead. And I know you're listening on this call. This quarter, I'm proud to share that we received our highest net promoter scores ever in the second quarter Ipsos Customer Satisfaction Index and this is a good leading indicator of our performance trajectory going forward. This achievement is a testament to the unwavering commitment our CIBC team displays in serving our clients each and every day and thank you team.

Today, I'll briefly review the state of our economy, discuss our fiscal second quarter performance highlights, and provide an update on execution against our strategic priorities. So, it's been well over a year since COVID-19 first became part of our lexicon, and while we're not on the other side of this pandemic yet, there's every reason to be optimistic as the vaccine rollout builds momentum in North America and around the world.

Assuming effective mass vaccination programs continue over the spring and summer, we expect a stronger global recovery in the latter half of this year, with 2021 real GDP forecast of 5.7% domestically and 6.6% in the United States. Our neighbors to the south are slightly ahead of us on the vaccine rollout and are enjoying an economic boost that we have yet to fully experience here in Canada; that's a tailwind we can look forward to in the second half of this year.

This quarter CIBC delivered record earnings per share of CAD 3.59, a return on equity of 17.3% and a common equity Tier 1 ratio of 12.4%. We achieved these results despite the challenging backdrop, including a spike in COVID-19 cases, which resulted in restrictions across several of our major market. These results

underscore the tangible value we're delivering from our long-term client focused approach to growing our CIBC franchise, as well as the resilience of our diversified business model and the discipline in our risk management approach. Supporting these results, we continue to drive great traction against three strategic priorities, which we've been very clear on. One, the reinvigoration of our Canadian consumer franchise; two, maintaining and growing our resilient North American Commercial Banking, Wealth Management and Capital Markets businesses; and three, importantly, transforming our bank to re-enable investment for future growth. Volume growth, and I need to stress this, across all business units contributed to our record results this quarter. Our focus on reinvigorating our Canadian consumer franchise is paying off. On a year-to-date basis, CIBC was ranked number one among the big six Canadian banks in both secured and unsecured lending growth.

We also delivered record mutual fund net flows over the same period. Our focused efforts in acquiring new clients, deepening relationships with existing clients, adding mobile mortgage advisors in key markets and enhancing our card's value proposition, with a focus on the increasingly important Non-Travel Rewards segment, have all been effective in capturing market share. And while we're encouraged by recent results, we remain laser focused on consistent execution and capturing profitable growth going forward.

Our Capital Markets business unit had a record quarter supported by strong underwriting activity, solid client related trading and higher direct brokerage volumes. The results are also supported by improvements to our league table rankings across most of our business. Our differentiated capital markets business model generates both traditional and recurring revenue streams through value-added solutions for clients across our bank.

Our commercial banking and wealth management franchise, on both sides of the border, delivered a strong quarter. We reported record investment fund flows across all our platforms, and this was driven in large part by our solid investment performance and engaged client relationships. And as expected, commercial banking deposit activity remained strong on both sides of the border, while momentum continues to build in loan growth.

Our client focused strategy has been a driving force as we remain focused on helping our existing clients and adding new client. The consistent and positive momentum we have built is being fueled by the ongoing transformation of CIBC and our reinvestments in growth. As I mentioned on our last analyst call, we've reinvested over CAD 800 million into growth initiatives over the last five years, and those reinvestments are a key element in the results you're seeing today. A good example is our CIBC GoalPlanner platform that we launched last quarter. Our proprietary financial planning tool leverages insights to help our clients achieve their long-term ambitions and all in a digital format. The quality advice and convenience are resonating with our client.

For those who completed a plan, net promoter scores improved over 20 points and funds managed were up on average 8%. Another good example of how we're reinvesting is our North American Innovation Banking business. Since its launch three years ago, we've opened new offices and hired strong talent to serve clients in the high growth tech and innovation ecosystem. We now have 11 offices across Canada and the United States, more than doubling the number of bankers in this space.

Loan and deposit balances have grown multiple folds and the business is still funding. And we continue to see opportunities for growth within the innovation economy going forward. As we enter the second half of fiscal 2021, we're going to build on our foundational work to date and accelerate our ongoing transformation efforts as we reinvest in initiatives to drive sustainable and profitable growth.

I'd like to now turn to environmental, social and governance consideration, which continue to play an important role in our long-term strategy, as we remain steadfast in our commitment to a sustainable future. During the quarter, we signed on to the Partnership for Carbon Accounting Financials initiative and joined RMI's Center

for Climate-Aligned Finance, demonstrating our commitment to helping our clients develop particle and scalable solutions to reach their own GHG emission reduction goals.

In addition, we're taking a leadership role in sustainability with the creation of our energy, infrastructure and transition group within our capital markets business. This is comprised of over 100 investment banking professionals globally. We're providing targeted advice and solutions to help our clients navigate to a lower carbon future.

From a diversity, equity and inclusion perspective, we're proud to have achieved gender parity on our board this year. And for the first time in our company's 154 year history, our board is chaired by a talented woman, Kate Stevenson. Our focus on inclusion has also earned us a spot in Canada's Top 100 Best Diversity Employers for the 11th consecutive year.

At CIBC, ESG matters are increasingly important and we're committed to playing a key role in creating a more inclusive and sustainable future going forward.

So, in closing, our CIBC leadership team has never been more energized and excited about the future. We remain focused on executing our strategy, investing strategically to accelerate our growth and consistently delivering strong results for all our stakeholders.

And with that, I'll turn the call over to Hratch for a detailed review of our second quarter financial results. Hratch, over to you.

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

Thank you, Victor, and good morning everyone. Starting on slide 9, this morning we reported diluted earnings per share of CAD 3.55 for the second quarter of 2021. Excluding the amortization of acquisition related intangibles, adjusted EPS was CAD 3.59, reflecting positive momentum across our business and continued tailwinds from strong capital market and credit performance.

Before we review our results, I'd like to highlight three key drivers underlying our financials. One, our strong balance sheet continues to provide us with significant flexibility to deploy capital in support of our clients, fuel organic growth and enhance shareholder returns; two, recent investments have improved our competitive position across all business units, while advancing differentiated capabilities in key focus areas; and three, we remain committed to continued investment to further transform our bank and drive top line growth as the recovery takes hold.

The balance of my presentation will refer to adjusted results, which exclude items of note. Our team delivered a strong second quarter as highlighted on slide 10. We generated net income of CAD 1.7 billion and a return on equity of 17.3%, helped in part by strong credit performance. Pre-provision, pre-tax earnings of CAD 2.2 billion were up 14% from a year ago. Revenue of CAD 4.9 billion was up 8% year-over-year as continued strength in the capital markets and growth in client funds across our businesses overcame the impact of lower interest rates and renewed economic restrictions in Canada. Expenses were up 3% from the prior year due to higher performance-based compensation and ongoing strategic investment.

I'll now provide some color on our pre-provision earnings and Shawn will speak to credit provisions later in the presentation. Slide 11 highlights the drivers of net interest income, which accounted for 56% of revenue this quarter. Excluding the impact of fewer days and a weaker US dollar, non-trading NII continued to recover from last year's lows, driven by strong growth on both sides of the balance sheet, which offset the ongoing impact of lower rates. As economic activity picks up, we anticipate building further momentum in non-trading NII.

Total bank NIM increased 1 basis point sequentially, primarily due to actions taken to reduce the liquidity on our balance sheet, offset partly by lower P&C NIM. Personal and commercial NIM in Canada declined 4 basis

points from the prior quarter due to a shift in asset mix and the impact of lower interest rates, partly offset by strong deposit growth and favorable pricing across our commercial book.

Going forward, we expect continued, but moderating pressure on P&C NIM, driven primarily by changes in balance sheet mix. NIM in the US segment was down 2 basis points relative to last quarter, driven by lower prepayment fees, net of tailwinds from deposit growth and improving loan yield. We expect the transient benefit from prepayment activity and elevated deposit levels to subside over a number of quarters.

Turning to slide 12, non-interest income of CAD 2.2 billion was up 3% from the prior quarter and 20% from the prior year. Market related fees were particularly strong this quarter, reflecting robust client activity in capital markets, as well as strong flows and market appreciation in our Canadian and US wealth management businesses. While transactional fees improved over the prior year, the sequential decline in certain categories reflects seasonality and headwinds related to the latest pandemic response measures in Canada. As economic restrictions are lifted, we expect to see an increase in client transaction activity.

Slide 13 speaks to the drivers behind our expenses. As we've laid-out in the past, we manage our cost base as three distinct components: our operating baseline, our investment, and performance-based compensation. Higher performance compensation due to stronger results was the most significant driver of the year-over-year increase this quarter, offset in part by the impact of a weaker US dollar. Outside of these factors, recent efficiency initiatives provided a substantial offset that increased investments against our strategic priorities helping contain net expense growth.

Going forward, we intend to accelerate investment in our business to build on the recent momentum but remain committed to further productivity improvements to provide an offset. Consistent with our prior guidance, we expect this to result in low single-digit expense growth in fiscal 2021 excluding performance-based compensation. We anticipate our strong performance to continue through the back half of the year that's driving total fiscal 2021 expense growth to the mid-single digit range.

Turning to slide 14, our balance sheet remained strong and we continue to have significant resources to invest in business growth through the recovery period. We ended the quarter with a CET 1 ratio of 12.4% or 12.2% excluding the ECL transitional benefit. Strong internal capital generation of 37 basis points was partially offset by higher RWAs from accelerating organic growth, net of continued credit improvement in our retail portfolio.

We anticipate deploying capital towards organic growth at an accelerated pace as the recovery takes hold and client borrowing activity picks up. Average LCR (liquidity coverage ratio) declined to 134% as we manage down excess liquidity reserve but remains well above 100% regulatory minimum.

Slide 15 reflects our Personal and Business Banking results, where we are starting to see our revenues benefit from the positive market share momentum across the business. Net income for the quarter was CAD 603 million, up CAD 439 million from the prior year, mainly due to lower provisions on credit losses.

Pre-provision, pre-tax earnings of CAD 883 million were up 2% from the prior year, driven by robust volume growth and lower expenses. Revenue of CAD 1.9 billion was comparable to the prior year, as strong mortgage and deposit growth offset the impact of lower interest rates and credit card balances. Expenses which were down 1% from the same quarter last year benefited from a non-recurring item. We anticipate the expense rates to grow off of last quarter's run rate as we continue investing in this business.

Moving on to slide 16, net income in Canadian Commercial Banking and Wealth Management was CAD 399 million, pre-provision, pre-tax earnings of CAD 527 million were up 13% from a year ago, benefiting from improved sales momentum and stronger market. Commercial banking revenue was up 5% from a year ago driven by higher credit fees and strong deposit growth of 19%, offset in part by the impact of lower rates.

Commercial loan growth continued to accelerate this quarter growing 3% sequentially and we expect the pipeline to strengthen through the economic recovery. Wealth management revenue was up 15% from the prior year, primarily driven by higher fee-based assets resulting from market appreciation and strong client growth.

Slide 17 shows US commercial banking and wealth management results in US dollar, where we delivered net income of CAD 184 million and double-digit ROE, helped in part by lower provisions for credit losses. While we expect credit provisions to normalize, returns on marginal growth continue to be well in the double digits and will drive further ROE improvements as we scale the business.

Pre-provision, pre-tax earnings of CAD 223 million were up 27% from the prior year fueled by a 15% increase in revenue as we continue to grow funds managed with new and existing clients. Average loan growth of 4% over last year was driven by new PPP loans, C&I loans net of lower utilization rate. This quarter, we originated over $900 million in loans to new client, the highest level in the past five years, and our pipeline remains strong. Money in momentum remained robust with year-over-year growth of 34% in average deposits and 44% in AUM, which benefited from strong client flows and market appreciation.

Slide 18 covers capital markets where we continue to see strong client activity across the business and delivered net income of CAD 495 million compared with CAD 177 million in the prior year. Pre-provision, pre-tax earnings of CAD 656 million were up 38% from the prior year on the back of strong top line growth. Revenues of CAD 1.2 billion were up 23% year-over-year benefiting from growth across trading, corporate and investment banking, and DFS, while the same quarter last year included negative credit and funding valuation adjustment. Non-interest expenses of CAD 538 million were up 9% compared to last year largely due to the higher performance.

Slide 19 reflects the results of corporate and other business unit; net loss of CAD 60 million in the quarter compared to a net loss of CAD 138 million in the same quarter last year. Revenue was down 6% from the prior year but improved 13% sequentially benefiting in part from the reduction in excess liquidity.

As I mentioned last quarter, expenses in this segment are impacted by enterprise strategic initiatives and are expected to increase through 2021. This quarter they were up 6% sequentially and 9% from the prior year.

In conclusion, we're pleased with this quarter's results and believe they position us well for the future. We have significant balance sheet capacity to deploy for the benefit of our stakeholders. The profitability of our diversified franchise has substantially recovered, and we are in a stronger competitive position to generate sustainable earnings growth going forward. And we remain committed to the continued transformation of our bank by increasing the pace of investments in the coming quarters to strengthen our growth trajectory over the next business cycle.

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

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

Thanks, Hratch, and good morning. In the second fiscal quarter of 2021, we saw a continuation of the trend of increasing vaccine distribution in both Canada and the US, and further economic reopening in the US market. While much of Canada remains under various restrictions to help control case counts and provide more time to administer vaccines, we're hopeful that we will see a similar reopening in Canada over the next several months.

With that context, I'd like to share three key messages. First, our credit performance this quarter was strong and continues to exceed our expectation. Second, we're mindful of the continued challenges that COVID-19 presents. That said, our base case expectation is for an accelerating economic recovery in the latter half of

calendar 2021 and into 2022. And finally, while we're optimistic that the recovery is in sight, we're comfortable with the quality of our portfolio, we're confident with our current level of provisioning, and are well-positioned going forward.

Turning to slide 22, provision for credit losses was CAD 32 million in Q2, down from CAD 147 million in the prior quarter with a larger quarter-over-quarter reversal in provisions for performing loans, partially offset by increases in impaired loans. Provision on impaired loans of CAD 246 million was up CAD 10 million from last quarter largely due to higher provisions in retail, as we had expected, partially offset by lower provisions in our corporate and commercial loans.

In Canadian Personal and Business Banking, we recognized a higher provision in credit cards, mainly attributable to a portion of the balances that were previously part of our proactive payment deferral program and that ultimately remained delinquent and written off this quarter. We had recognized additional performing allowances last year through management overlays to address this cohort, which we transferred from stage 2 to stage 3 as part of our performing provision reversal this quarter. Our business and government portfolio performed well with lower impairments and a few reversals overall in Q2. This quarter we had a provision reversal of CAD 214 million in our performing portfolio. More than half of this reflects the net transfer of performing provision to impaired provision for loans that became impaired this quarter including the transfer in respect of our card's portfolio that I previously mentioned.

The balance reflects the net impact of forward-looking indicator improvements, expert credit judgment and other movements including portfolio growth, parameter updates as well as credit migration. While our models indicated a larger reversal in performing provision, we continue to exercise judgment in offsetting a portion of those reductions reflecting ongoing uncertainty.

Turning to slide 23, we provided details of our allowance coverage by line of business. Our allowance coverage ratio was down from the prior quarter driven mainly by the expected write-offs in credit cards. However, the allowance overall is still flat to a year ago when performing allowance increased meaningfully in response to the onset of the pandemic, and we continue to feel comfortable with the current level of coverage.

On slide 24 we show our credit portfolio mix, which is well-diversified and consistent with last quarter. Our total loan balances were CAD 432 billion and the overall credit quality of our portfolio is strong. Nearly two-thirds of our outstanding loans are to consumers, the majority of which are mortgages, and the balance of our portfolio is in business and government lending with an average risk rating for the portfolio equivalent to a BBB.

Slide 25 provides an overview of our gross impaired loans, gross impaired dollars were down in both retail and business and government loans and new formations were also down quarter-over-quarter.

Slide 26 shows the net right-off and 90 plus day delinquency rates of our Canadian consumer portfolios. As expected, we experienced a higher level of write-offs in credit cards this quarter, driven mainly by a portion of accounts that had been part of our proactive deferral program. Overall write-off dollars were up slightly year-over-year. 90-day delinquency rates were down this quarter. Again, the decrease in cards was driven by the write-offs of accounts from the deferral programs, while the decrease in mortgages was driven by portfolio growth. Personal lending also experienced a slight decrease this quarter.

In closing, while near-term uncertainty remains with respect to COVID-19, emerging variants and the pace of vaccine rollouts, we continue to expect a strengthening of the economic recovery in the second half of the year. The impaired provisions for the consumer portfolios were higher this quarter as expected and we enjoyed strong performance in our corporate and commercial portfolios. We anticipate corporate and commercial impaired provisions to trend higher in coming quarters, and should that occur, we would expect to see more of our performing allowance transfer from stage 2 to stage 3, providing a partial offset to losses in future period.

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.

And with that, I'll turn the call back to the operator for question.

Question and Answer Section

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

Good morning. So, I guess you had pretty strong volume growth in 1Q. I was wondering if you can just address an accelerating economy means different things for different loan buckets. If you could address your outlook for mortgage and credit card growth in Canada, and then in commercial loan growth, both sides of the border, in terms of how strongly do you think momentum builds relative to the commercial growth you had this quarter? Thank you.

Victor G. Dodig, President and Chief Executive Officer

Good morning Ebrahim. It's Victor here. I'll answer a high-level question.

I'm going to hand it off to Jon and Laura and to Harry for perspectives on the economy going forward. So, overall, we see the fact, there's a pent-up liquidity. We expect that with the economy opening up particularly in the domestic market you're going to see heightened consumer activity on the credit card front. You may see continued mortgage growth and I'll let Laura elaborate on that. Our clients are telling us that they're getting ready for the reopening in a very meaningful way and I think you're going to continue to see good loan growth on both sides of the border in the commercial bank, as well as in our capital markets business. So, why don't – Laura, why don't you take the first part of that and then hand it off to our colleagues.

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

Sure. Thanks Victor, and good morning Ebrahim. So, on mortgages, as you've seen growth continues to be strong. I'd tell you we have a good pipeline of activity. So, that gives us confidence that we're going to continue to have good momentum in the back half of 2021. On cards, as Victor pointed out, a lot of that will really depend on the opening up of the economy. But when we look at purchase volumes that have started to come back to pre-pandemic levels it does feel like there's positivity on the horizon and maybe over to Jon for a word on commercial.

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

Thank you, Laura. So, last quarter I spoke about entrepreneurs feeling optimistic. This continues to be the case. Across our client base, we're seeing many positive signs, sales activities up, utilization starting to rise, there's more talk of capital expenditure and we're seeing more private company M&A. So, while there's some challenges, you're hearing supply chain, labor to a lesser extent, overall, we think the good news is better than the bad news. So, you take that environment, you take a very healthy pipeline, and we see good growth over the next couple of quarters. I think we did 1% quarter-over-quarter in Q1, 3% this quarter that feels like the right zone and we'll be targeting the higher end of that over the next couple of quarters. And maybe, I'll pass it over to Cap.

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

Thank you, Jon. Much of that is echoed in the United States with the addition that the US economy has clearly started to open up and is picking up steam and our clients are ramping up for that. They too – the results and the ramping up are muted a bit by supply change and labor shortage challenges. But having said that, there's a lot of liquidity in the system and our clients are ready to deploy it and we see continued growth and a very, very healthy pipeline for Q2. Back half of the year, we think we're going to see very good growth even net of PPP forgiveness. So, it's a positive story looking forward. So, with that, I'll hand it to Harry.

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

Thanks Cap. And just a quick comment on our corporate institutional business; obviously, this business is well diversified, our clients are very active, and the pipeline is robust as we move forward. A key part of our strategy is serving our commercial wealth and retail client across our platform and the tailwinds I think as you've heard from my teammates are in place now for economic resurgence. And if that is the case, we should see good tailwinds in this business from a capital markets perspective as well.

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

Got it. Thank you.

Doug Young, Analyst, Desjardins Securities, Inc.

Hi, good morning. Just on the credit side. I think last quarter it was guided to on the impaired PCL side for fiscal 2021, 30 basis points. And I think the quarter before it was higher. So obviously, you've guided that down, and you didn't give an update. Just wanted to see, obviously, I would assume it's going to be lower. But any thoughts and updates on that.

And then, kind of attached to that, as you start to release performing loan allowances, where can the coverage ratio go to, and my question is like if you look at it 12 months, can you revert back to the average of fiscal 2018, fiscal 2019 or is there going to be probably a buffer that you're going to maintain for a prolonged period above where you were on a coverage ratio basis versus pre-COVID? Thank you.

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

Thanks, Doug. So, in terms of impaired outlook, we're very pleased with the performance this quarter. In consumer, we did see an increase in credit cards that was expected. But the overall performance exceeded our expectations, particularly in light of the insolvency write-offs that remained at historical lows. And we saw similarly in corporate and commercial strong performance and some recovery this quarter. As I said, losses in that portfolio can be lumpy over the course of time. But based on the overall performance and our outlook, I'd expect – we have every reason to expect that our performance will continue to exceed our earlier guidance for the balance of the year.

In terms of performing provision releases and where we'd end up, that's going to depend on a lot of things. Clearly, we expect as the economies reopen and as economic activity picks up, that we would expect to move back down from a performing allowance perspective. Where that ultimately ends up is going to be a function of a number of things, portfolio mix will be an impact there. Certainly, what we've learned from this pandemic and the adjustments that we've made to our models, the parameter impacts that we've talked about over the course of the last several quarters those will be continuing. So, I'd expect we'd get back down to lower levels. Best

guess sitting here today is we probably wind up at a level that's somewhat higher than we were pre-pandemic. But certainly, the trend would be back down towards those types of levels as adjusted and will be dependent on those factors that I mentioned in terms of where that ultimately shakes out.

Doug Young, Analyst, Desjardins Securities, Inc.

Thank you.

Meny Grauman, Analyst, Scotia Capital, Inc.

Yeah, hi. Just a question about rate sensitivity. We see the published rate sensitivity, but just wondering from your perspective, how do you think about it? Is there upside to that published rate sensitivity and where could it come from?

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

Thank you Meny, thanks for the question. It's Hratch, I'll take that. You are right, we do publish our sensitivity and I'll clarify a few things about that and give you a bit of colour where we stand now in the context of where we've come from, right, and where we go from here. So, our sensitivities are modeled and there's lots of assumptions in there, but they generally do hold, right? So, going into it last spring, our sensitivity was about CAD 280 million for 12 months of NII per shock of 100 basis points and we did see the market move 150 on the short end, closer to 100 in Canada on the longer end.

And commensurate with that, we've seen the impact, so we have had some impact to NII as we've gone through. We have about - as of this quarter - it was probably about CAD 60 million year-over-year impact to us versus an expectation before we hit that decline in the yield curve was being up year-over-year. So, you see that range of the numbers do actually hold.

When I look at where we stand now, and we've got that disclosure for 100 basis point, up of 439. Again, we would expect that would hold; that's maybe a little bit different than some of the assumptions our peers have said they've made around that. So, for us, that includes the impact of the deposits that we're currently carrying, and we know we're carrying some excess deposits relative to what we had before this. And some of that may go away. And if you take some of that away that 440ish could be somewhere between 300 and 440 depending on how much of that actually sticks around through this. But there's still material sensitivity upside to rising rates. And what's happened so far is we've actually seen a bit of a recovery. So, going from that significant year-over-year impact that we have now you've seen that mute particularly in this last quarter that we've seen the yield curves – the yield curve steepen – and we've seen in Canada anywhere kind of call it 20 basis points to 60 basis points depending on where on the curve you're looking at on the swap curve. And that's brought us to a point where we stand now based on the current forward – rates forward as we roll the balance sheet are a small negative, but not a material factor. So, we're close to neutral. And so, from there, if you see any further movement you can apply that sensitivity and will give you also a sense of on a year-over-year basis what that will do to NII and NIM.

Meny Grauman, Analyst, Scotia Capital, Inc.

Great. Thanks for that, especially on the positive colour. Thank you.

Scott Chan, Analyst, Canaccord Genuity

Hi. Good morning, guys. So just on the US wealth side, the one thing that stuck out to me was that, that AUM was up 43% year-over-year and AUA was up 37%, and kind of led to that non-interest income up 42%. Maybe

can you – maybe if you can talk about the asset growth, I'm assuming that was all organic. And does that clearly tie into that non-interest income line or is there other factors that can affect it?

Victor G. Dodig, President and Chief Executive Officer

Yeah. It's a good question, Scott. I'm going to let Cap comment on a few things in a moment, but I will just remind everyone that the build out of our US wealth business has been a process for us and it's been quite successful. We started off with zero in AUA in 2014 and now we're approaching the numbers you see on the slides. And that's a function of three acquisitions Atlantic Trust and the part of the Private Bank's wealth management business from Geneva Advisors. It's also due to market appreciation, but net flows continue to be quite strong. They continue to be quite strong from our high net worth clients in United States, as well as some of the connectivity to the rest of our wealth management franchise. We have very good asset management capabilities embedded within our US wealth business, and they're starting to manage some of the money that exists across our platform including in our Canadian business.

So, Cap, maybe you can give some additional colour to the strength of our wealth business and the net flows that you're seeing and what you expect to see going forward, including our private banking capabilities.

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

Yeah, thank you, Victor. Maybe I'll start with going back to that it was always our plan from day one to build a complementary commercial banking business and a wealth franchise, such as asset management and private banking. And on the wealth side, we have simply seen significant positive flows month after month, which are drawn to us for a variety of reasons. One, there is just good business development activity by our development professionals. Number two, we've had tremendous performance. And number three, people, particularly during the pandemic, were drawn to the strength of CIBC. And you add all that up together, you see month after month of positive flows; it's been part organic and part market.

If I had to look back over the past year, it's about 50/50. But we've seen tremendous growth in all of our businesses as we've started to build out a network of businesses and offices across the country that have our commercial banking businesses, both C&I and real estate, our asset managers businesses, and we'd put private bankers in, which in many cases are the glue that help deepen the relationships with the clients. So, we've seen, again, record referrals back and forth across those business segments and I think you're seeing all that in the fee income line.

Scott Chan, Analyst, Canaccord Genuity

Okay. Thank you very much.

Gabriel Dechaine, Analyst, National Bank Financial, Inc.

Hey, sorry if I missed this in the opening remarks as I hopped on late. But we're talking about the expense guidance a bit or at least I am with the investors. The mid-single digit full year, I get it that the variable comp has an end point there. Let's factor in the revenue equation because expense growth is going to be high because expense growth was low last year. But you have the same story on the revenue line, especially Q4 of last year dipped quite a bit, so notwithstanding you're going to have some normalization of expense growth. You also have normalization of revenue growth, which we've seen over the past couple of quarters, you're in the CAD 4.9 billion range. Do we maintain positive operating leverage, or does it turn negative over the next couple of quarters? What's your outlook there?

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

Good morning, Gabriel, it's Hratch. I'll take the question. I think you're thinking about it the right way. So, let me start with a reminder. Our expenses, the way we look at our expenses together with our balance sheet, they really are the key resources that we have to invest to grow our business and that's where we come at it. So, we manage that investment to solve for the PPE trajectory, the pre-provision earnings trajectory that we want to get out of the business and for positive operating leverage over time, and we've been consistent with that messaging.

So, in doing that we've talked about the three different components of our expenses the way we think about it. And performance-based compensation is a big factor and it is a big factor here this quarter. But outside of that, what we come into every year looking to do is to manage those two other elements to balance the investments in the business for the long term with the short term impact from respect to pre-provision earnings growth and with respect to operating leverage. And a lot of that depends on the top line environment, which you're touching for, right. So, 2021 is a good example. So, maybe let me touch on what's happened so far and what we expect going forward on that basis.

So, we signaled coming into the year that we were aiming to produce pre-provision earnings growth year-over-year and what we thought would be a tough environment and that we would look to contain operating leverage from being too negative. And that's why we thought that the right level based on our expectations at the time of the top line growth that would mean low single digit growth and expenses. And that's what we've been doing. And you see that in the little chart we provided in our investor presentation. We've done that in Q1, and we did it again in Q2 as we've invested, but we've also found efficiencies to contain that net expense growth. So, overall, the year's turned out better on the revenue front; it's been the case in the front half, and we believe it will be the case in the back half as you mentioned. That's been because of the environment – markets are strong – but it's also a lot of what we're doing; it's the momentum in the retail business, it's the momentum across our commercial businesses, wealth businesses and capital markets. So, it's the results of the investments we've made, and the investments are paying off and we're seeing the top line benefits of that investment. So, the first half, 9% pre-provision earnings growth, 3% positive operating leverage year-to-date, so both of those elements are exceeding our full year guidance. And so, we've taken that into account, and we look at the back half.

So, when we look at the back half, we still feel very comfortable that we're going to beat those targets of pre-provision earnings growth and contained operating leverage for the year because of the performance continuing into the back half. But as the revenue line ends up being higher, performance-based compensation will go along with that, particularly in the market businesses, and that's what's going to take us to that mid-single digit. So, X that, we still think that low single-digit expense that we were solving for is what we will do. But even underlying that, we've increased our investment levels and we've increased our efficiency relative to what we would expect is coming into it – into this year. And that's the way we're going to continue thinking about it, investing in the long term, finding efficiencies to build on the momentum that we have, but also contain that operating leverage impact and produce some growth

Gabriel Dechaine, Analyst, National Bank Financial, Inc.

So, the first half 3% op leverage, close to flat in the second half?

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

I think for the full year, we're looking to contain at around the flat level, that's the way I would look at it.

Gabriel Dechaine, Analyst, National Bank Financial, Inc.

Okay. And then, quick one on inflation, how are you factoring in inflationary pressures on your underwriting practices? Housing is an obvious area of inflation and on the commercial side you've got businesses dealing with higher input costs, so that's increasing risk there as well I would imagine?

Victor G. Dodig, President and Chief Executive Officer

Yeah, let me comment on inflation overall, and then I'll hand it off to Shawn on the underwriting practices piece, which remain consistent and of high quality I would add. So, I think we're all seeing the price pressures that are out there. I think we all know it's a function of basically three things: supply chain disruptions, labor market friction and commodity prices. And people classify it as transitory or episodic. Our belief is that that is likely the case. Our belief is that central banks will start acting. You see what the Bank of Canada has done on their tapering messages and what the Fed has started to signal as of this week. So, while it's difficult to predict where inflation is going, our belief is that central bankers lack prudently and things will settle down over time. That will hopefully result in a more normalized environment, normalized inflation, normalized interest rates, which are all good – which is all good for the banking sector.

From an underwriting perspective, let me hand it off to Shawn. We've been consistent as I said from the very outset in terms of credit quality and our focus on that, so Shawn over to you.

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

Yeah. So, Gabriel, thanks for the question. And we're focused on it as well. We've made certain changes to our practices just when we look at certain regions with very high growth, we do certain amount of risk overlay, as I call it, in terms of how we're looking at those particular markets. But from an underwriting perspective, we continue to see stable debt service metrics, which is one of the keys in terms of our underwriting practices on the RESL side. And clearly, house price appreciation for the overall portfolio is a net tailwind in so much as LTVs. But the real focus is on the income and on the debt service ability and we feel comfortable with that both from overall portfolio perspective and from a new originations perspective.

Gabriel Dechaine, Analyst, National Bank Financial, Inc.

Right, much deeper discussion for an earnings call, well, thanks for that.

Mario Mendonca, Analyst, TD Securities, Inc.

Good morning. Laura, if you could go back to your comment about credit card spend returning to pre-pandemic levels. Imagine there's a bit of a lag on when we'll see that play out in the actual credit card revenue because the numbers obviously are still lower today than they were pre pandemic. So, what do you – how do you see this evolving? Do you expect to get back to pre-pandemic revenue levels in cards in the near term or should we really think of this as a 2022 story?

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

Good morning, Mario. I think a bit of a longer-term story in that purchase volumes have come back. So, we're up like 20%/21% year-over-year. So, we're seeing continued signs of recovery there. That said, in the categories of big spend, transportation, travel, restaurants that still is much lower. So, we need to see (a) that come back. And then, the outstanding balances, those continue to remain I'd say below pre-pandemic level. So, we're like down 10% to 15% on a year-over-year basis. So, it's starting to come back. We've held up I'd

say relatively well relative to industry because we continue to have improvement in our market share. But I do think it will take time for that part of the business to come back for us to see increases in the outstanding. So, does feel more like a 2022 event as you suggest.

Mario Mendonca, Analyst, TD Securities, Inc.

Okay. And then in fact, just go to card volumes or balances as you're talking about. Sequentially, the balance has declined a little more abruptly than I expected, I think there was some seasonality here. So, if I go back, I do see that Q2's, generally, cards are lower, but it was a bit more pronounced. Was there anything in particular this quarter that would have caused that sequential decline?

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

No nothing other than seasonality as you mentioned, so nothing – nothing to highlight.

Mario Mendonca, Analyst, TD Securities, Inc.

All right. And then, just the final one on credit card losses. Hratch, I think – or Shawn – I think we know why credit card write-offs spiked so much this quarter. That was obviously a little more than I would have expected. Does it start to normalize from here or was that – essentially is that a catch-up quarter and everything should be a little more normal around the 3% range going forward?

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

Yeah, Doug, thanks for the question. And yeah...

Mario Mendonca, Analyst, TD Securities, Inc.

Mario.

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

Oh sorry. Sorry, Mario. Yes. So, you're spot on, this was a catch-up quarter to address those write-offs that were coming through that we had anticipated and so going forward we expect to see that normalize.

Mario Mendonca, Analyst, TD Securities, Inc.

Thank you.

Victor G. Dodig, President and Chief Executive Officer

Mario, if I can just comment on – just build on Laura and Shawn's comments. The credit card franchise that we've been building is a franchise that's becoming increasingly more robust and ready for the environment that we're evolving into, one that's got a travel rewards card in both the Aeroplan and the Aventura fly anywhere fly one airline. But, also importantly, the Non-Travel Rewards program, and Laura and her team have been very focused on that non-travel segment, which we see as an important segment going forward. So, the durability of the overall credit card portfolio is going to play to our advantage over time.

Mario Mendonca, Analyst, TD Securities, Inc.

Got it. Thank you.

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

Yeah, thank you. Excuse me. Just wanted to go back to Laura. For a fast forward 12, 18 months, maybe 2022, even into 2023. Obviously, you've got good momentum here in mortgage volume growth. But when you think about the mix of your business, you know sometime in the future, but not five years out, call it a year and a half – two years out, are you going to be a two-product franchise, mortgages and cards? Or are there opportunities to have a more balanced offering here beyond just mortgages and clients?

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

Good morning, Sohrab. So, our retail business is really about our clients, and it's about providing our clients with what they need. And so, if that's a mortgage, it will be a mortgage. If it's a credit card, a credit card. But we're really looking, as I said, to provide our clients with what best suits their need, dependent upon where they are in their life journey. And so, we have a strong focus on advice, and I would say the full suite of products. And so, our strategy has really been to work hard to grow and we do want to grow in all of our different businesses. So, that includes advice. It includes assets under management and the full suite of products that we sell. And so, I would expect that you will see us as we have been doing, continuing to grow in all of those businesses.

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

Okay. So, you don't have any views around maybe getting into other lending products, auto lending or any other types of consumer lending initiatives?

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

Well, we'll continue – look, as the market grows and evolves, we'll continue to be part of that ecosystem. So, if there are different offerings that we think makes sense for our clients, we'll certainly be there to offer them, absolutely.

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

Thank you.

Victor G. Dodig, President and Chief Executive Officer

Sohrab, just building on Laura's comment, full-service relationship bank for the modern world, right? Technology enables our relationship managers, enables our clients, but it's all about the relationship. You start seeing that in the Ipsos survey, where we had the highest ranking we've ever had. The largest increase of all of the banks over the last seven years. Clients are not just mortgage clients and checking account clients or card clients, they are broad, deep relationship clients. We're focused on the mass affluent. We're seeing improvements in client acquisition. All of those are playing to the strengths of the franchise and the investments that we've made, and you should expect to see that going forward.

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

And so, Victor, that should generally be therefore a lot more additive to ROE because it's a less balance sheet intensive client kind of driven growth.

Victor G. Dodig, President and Chief Executive Officer

Well, you're starting to see that in the managed money side of things where we've had five consecutive record months of mutual fund net inflows; you're starting to see that on both sides of the border. All of those things are enhancements to ROE and we're very, very focused on making sure that ROE gets to the 15-plus-percent range on a consistent basis as the economy begins to normalize.

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

Perfect. Thank you.

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

Thank you. Good morning. I wanted to follow-up on the release of allowances for performing loans. And if I heard you correctly, I think there was a management overlay that tempered the release that would have occurred if – just based on your ECL model – and that was related to uncertainty. So, I'm wondering if you have any goalpost around what level of uncertainty or risk you're comfortable with. Would that coincide with a full reopening in North America, you know 90 to 120 days after a full reopening in North America? Or do you need to see global – the COVID-19 pandemic on a global level, those risks subside and be in the rearview?

Victor G. Dodig, President and Chief Executive Officer

Thanks for the question. We'll be looking at all of those elements. Every quarter, we review our performing allowance, run our models and take into account the current state of affairs, both in North America, where most of our operations are, and globally. And so, we'll be looking for, as we move forward, sustained reopening, particularly in North America, what the virus activity looks like, how the various variants are playing out. And so, we'll continue to look both in North America, I would say more focused, but globally as well in terms of how we ultimately look at our performing releases over time.

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

Okay. Thanks for that.

Lemar Persaud, Analyst, Cormark Securities

Thanks. Just continuing on the discussion on performing releases. Shawn, can you give us a sense of what those releases would have been had you not exercised the expert credit judgment?

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

Yeah. So, we don't generally break that down that much. What I'd say is there was certainly less overlay than we've had historically. The early part of the pandemic, we were exercising a significant amount of judgment. So, it was prevalent this quarter. But, from an overall perspective, I'd say within a reasonably small band this quarter. But we haven't really broken that out over time. And we'll look to see how the economic backdrop improves over the course of time to determine how much overlay we need to continue, if at all, in coming quarters.

Lemar Persaud, Analyst, Cormark Securities

Okay. Thanks. And then, just a quick one for Laura. I'm wondering if you could talk about your thoughts on the impact of the more stringent stress test on your domestic mortgage book.

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

Yeah, sure. When we look at that, again, we think we've got a solid pipeline as we look to the future. That said, the impact could be 5%, maybe 10% on originations, so I don't expect it to have too much of an impact. I don't know if Shawn would like to add to that.

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

Yeah. So, we've looked at our originations to this point and over the last little while and compared it to that. And so, as Laura said, 5% or less would be sort of the range that I'd expect for new origination in terms of impact.

Lemar Persaud, Analyst, Cormark Securities

Thank you.

Operator

Thank you. And there are no further questions registered at this time. So, I will now turn the meeting over to Victor.

Victor G. Dodig, President and Chief Executive Officer

Thank you, Lemar. I'd just also add that irrespective of the impact, you'll continue to see us grow and deepen client relationships and move forward on market share, which is something that's notable across our franchise consistently quarter-after-quarter. That's what we're focused on. So, look, throughout the pandemic, our client focused strategy, diversified portfolio and disciplined risk management has positioned us well to deliver strong results for all our stakeholders. I said this at the beginning of the call. I hope you got that feeling from the leadership team because that's absolutely what we're focused on. Our client focused culture has enabled successful execution against our strategic priorities, and we've been very clear on the three priorities that we have.

I and my leadership team have deep confidence that our bank will continue to perform at our highest level in the next phase of our transformation journey, as we invest to accelerate long-term sustainable earnings growth. That is the focus.

Thank you for your continued support and your interest in CIBC. We are truly just getting started. We look forward to speaking with you in the three months' time and I'd encourage you all to enjoy the summer months. Thank you.

Operator

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