CIBC Q1 2022 Earnings Conference Call

February 25, 2022

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Management Discussion Section

Operator

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

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

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

Thank you and good morning. We will begin this morning's presentation with opening remarks from Victor Dodig, our President and Chief Executive Officer; followed by Hratch Panossian, our Chief Financial Officer; and Shawn Beber, our Chief Risk Officer. Also on the call today are a number of our group heads, including Mike Capatides, US 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 and finish on time, 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'll now turn the meeting over to Victor.

Victor G. Dodig, President and Chief Executive Officer

Thank you, Geoff, and good morning, everyone. I'll start our call today with some comments on our first quarter results and the operating environment. I'll then turn the call over to Hratch to review our financial performance in more detail.

Earlier this morning, we announced another quarter of record results with adjusted earnings of CAD 1.9 billion or CAD 4.08 per share, which is up 14% from last year. Our performance was supported by top line growth of 11%, which drove positive operating leverage.

Our first quarter results also underscore the ongoing strength of our highly connected franchise and increasingly supportive economic environment and steady execution against our strategic priorities. We're earning business from new clients, we're deepening relationships with existing ones, and we're continuing to build our CIBC franchise with the long-term in mind.

We also reported an adjusted ROE of 17.6% and a CET1 ratio of 12.2%, the latter being 170 basis points above the regulatory minimum. Credit quality remains strong as the economy improved and our clients maintained high levels of liquidity.

This morning, we also announced the proposed 2-for-1 stock split that'll be voted at our annual meeting in April. Our stock price has appreciated significantly. Thanks to our collective focus on living our purpose and driving consistent financial results. That makes now a good time to announce a split, which would make our shares more accessible to many retail investors.

Turning to our business results, in our Canadian consumer franchise, we delivered market share gains in deposits and loans that will be further advanced when we officially become the exclusive provider of Costco Mastercards in Canada. This serves to grow and diversify our credit card portfolio and we're looking forward to welcoming many new clients to our bank.

We also continue to invest in our digital banking capabilities to meet the needs of our clients today and in the future. As just one example, we've recently announced a fintech partnership with nCino to digitize and automate the client journey, enabling a faster, more efficient and more transparent experience for our business owners.

And earlier this week, we announced an exclusive partnership with Pollinate to launch Tyl by CIBC in Canada. Tyl, spelled T-Y-L, is a cloud-based digital-first platform for small and medium-sized businesses that enables entrepreneurs to accept payments, administer loyalty programs and gain insights into their business. It's already operating successfully in markets such as Australia and the United Kingdom, with very positive feedback from business owners. We view this as an opportunity to bring an improved, modern service to over 1 million merchants in Canada and strengthen our CIBC client offerings in Business Banking.

In our North American Commercial Banking and Wealth Management business, our unique structure provides us with an aligned focus on the private economy in both traditional and emerging industries. We co-locate our teams, we serve our entrepreneurial clients in an integrated fashion and we drive solid cross business referrals. Our structure, coupled with the constructive economic environment, led to double-digit loan growth and solid banking growth, solid deposit growth in commercial banking on both sides of the border.

Wealth management activity also remains strong with double-digit growth in assets under management in both Canada and the United States, driven by market activity, strong investment performance and solid net flows.

In Capital Markets, robust client activity and foreign exchange and equities drove double-digit growth in our trading revenue. In the US, we are delivering on our objective to grow with revenue increasing 36% from the prior year.

As well, our differentiated capital markets franchise, a business that is highly connected to the rest of our bank, continues to deliver strong results. Revenue from non-traditional capital markets clients increased 17% over the prior year.

Within our direct financial services business, we made further enhancements to our global money transfer capabilities by enabling real-time direct money transfers to eligible Visa debit and credit card holders in over 80 countries. This added capability comes at a time when client demand for digital and contactless banking options continues to grow. It's one of many examples of how CIBC is innovating at the forefront of the digital banking experience for our clients.

During the quarter, we also advanced our shared ambition of building a more sustainable future and creating social and economic opportunities for underserved communities, including an announcement of a new CAD 100 million commitment dedicated to investing in low carbon and climate tech funds to support new climate innovations. Our continued focus on enhancing environmental sustainability was also recognized by CDP, who reaffirmed our A- rating, placing CIBC amongst the highest-ranking Canadian financial institutions and in the top-tier of banks globally. More details on our progress on this and other important ESG initiatives will be available in our March publication of our Sustainability Report.

Now, before I turn the call over to Hratch, I'd like to share my thoughts on the operating environment. We can all see that there's a fair amount of uncertainty driven by geopolitical tensions, supply chain disruptions and inflationary pressures. These factors may have an impact on economic growth and client activity in the near-term.

Recognizing this economic backdrop, the most important thing I'd like to stress is that we've demonstrated over the past two challenging years that we have a strategic playbook that will not only support our clients, but also manage our risks and allow us to invest for future growth. We have a well-diversified, resilient portfolio, a strong balance sheet, prudent risk management and a dedicated CIBC team that will continue to deliver for all of our stakeholders.

And with that in mind and with those comments, I'd like to turn it over to Hratch for his commentary.

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

Thank you, Victor, and good morning all. Starting on slide 7, we are pleased to have delivered another quarter of strong growth and profitability while maintaining the resilience of our balance sheet. This performance was enabled by the investments we've made in our client-focused diversified business and purpose-oriented team.

Diluted earnings per share was CAD 4.03 for the quarter. Excluding the amortization of acquisition-related intangibles and expenses associated with the acquisition of the Costco credit card portfolio, adjusted EPS was CAD 4.08, while adjusted ROE came in at 17.6%. Strong growth in revenues and pre-provision, pre-tax earnings underpinned this quarter's results, and credit quality remains strong, as Shawn will cover later in our presentation.

The balance of my presentation would refer to adjusted results, which exclude items of note, starting with slide 8. Adjusted net income of CAD 1.9 billion for the quarter was up 15% from the prior year, while pre-provision, pre-tax earnings of CAD 2.5 billion were up 11%. Revenue was CAD 5.5 billion, up 11% year-over-year, driven by broad-based volume growth, resilient margins and robust fee income across our bank, including strong performance in our trading and wealth management businesses.

Expenses were up 1% sequentially and 10% from the prior year, largely due to performance-based compensation, continued increase in investments to fuel sustainable growth, the impact of inflation, and increasing activity, including business development across our business.

Slide 9 highlights the drivers of net interest income. Excluding trading, NII was up 11% from last year due to robust growth in client business on both sides of the balance sheet. We anticipate continued NII growth, supported by volume and strong margins, assuming the rising interest rate expectations embedded in the current forward curve are realized.

Total bank NIM was up 2 basis points sequentially. Underlying this, Canadian Personal and Commercial Banking NIM was largely stable, up 1 basis points sequentially, benefiting from continued deposit growth and an aggregate relatively stable margins otherwise. P&C NIM is positioned to continue improving, assuming the current forward curve, helped by growth in higher margin unsecured lending, including the impact of the Costco credit card portfolio.

NIM in the US segment was down 3 basis points relative to last quarter, primarily as the impact of higher interest earning assets more than offset NII contributions from deposit growth. Consistent with our prior guidance, we continue to anticipate downward pressure on NIM as loan growth outpaces deposits and PPP income subsides.

Slide 10 provides an overview of our sensitivity to interest rate increases. An instantaneous and sustained 100 basis point increase across all interest rates applied to our balance sheet as at quarter end would have an estimated benefit of around CAD 450 million on net interest income over the next 12 months. Approximately 60% of this sensitivity is to short-term rates, while the remainder is driven by the gradual repricing of our balance sheet to longer rates. As a result of this continued repricing, all else being equal, NII would be expected to benefit by over CAD 800 million in the second full year following this type of rate shock.

Turning to slide 11, non-interest income of CAD 2.4 billion was up 11% from the prior year, driven by growth in market-related and transactional fees. Robust client activity drove trading revenues 20% higher than the prior year, with particularly strong growth in equities and foreign exchange. Growth in card, credit and deposit and payment fees was also robust, reflecting the rebound in economic activity over the past year.

Our North American Wealth Management business continued to benefit from both market appreciation and client flows, driving strong growth in mutual fund and investment management and custodial fees, which, in aggregate, were up 16%from a year ago.

Turning to slide 12, expenses were up 10% year-over-year, with higher performance-based compensation being the most significant driver. Excluding this, expenses were up 7%, driven in part by higher investment related to strategic initiatives to drive our continued growth. Excluding these initiatives, expense increases were most significantly driven by inflation, increased travel and business development activity, and general business growth, offset in part by efficiency improvements from past investments in business and infrastructure simplification.

Looking ahead, we intend to continue balancing our ongoing investments with efficiency improvements and expense discipline to achieve our financial objectives in fiscal 2022 and beyond. As we said in the past, we have the ability to manage the pace of investment in the face of a more challenging operating environment in order to work towards our positive operating leverage target.

Turning to slide 13, our balance sheet remains strong, as we continue to deploy our capital and liquidity resources to support organic growth across our client franchise. We ended the quarter with a CET1 ratio of 12.2%, down 13 basis points from the prior quarter. Strong internal capital generation in the quarter was largely offset by organic RWA growth to enable our clients' ambitions.

Capital was negatively impacted this quarter by a reduction in unrealized gains in our HQLA portfolios, the continued phase-out of the transitional ECL add back and our share buybacks. Going forward, we will continue to prioritize deployment of our balance sheet resources towards organic growth and return of capital to shareholders while maintaining our resilient balance sheet position.

Starting on slide 14, we highlight our strategic business unit results. Net income in Canadian Personal and Business Banking for the quarter was CAD 697 million, up 7% from a year ago. Pre-provision, pre-tax earnings of over CAD 1 billion were up 11% from the prior year, reflecting continued momentum in our consumer franchise and market share gains. Revenues of CAD 2.2 billion were up 8% from the same quarter last year, largely due to NII supported by broad-based volume growth and double-digit growth in fee income, which benefited from mutual fund commissions and improved consumer activity. Expenses of CAD 1.1 billion were comparable sequentially and up 5% from the same quarter last year, driven by employee-related expenses and higher spend on strategic initiatives.

Moving on to slide 15, net income in Canadian Commercial and Wealth Management was CAD 462 million, up 31% from a year ago. Pre-provision, pre-tax earnings of CAD 624 million were up 21% from a year ago, benefiting from an improved commercial outlook, stronger markets and increased client activity.

Commercial banking revenue was up 24% from a year ago, driven by 19% loan growth and 12% deposit growth over the same quarter last year. Wealth management revenue was up 16% from the prior year, driven primarily by higher fee-based assets and commissions, which benefited from market appreciation, positive net sales and increased transaction volumes. Expense growth of 18% was in large part due to higher revenue performance, but also reflects increased strategic investment.

Slide 16 shows US Commercial and Wealth results in US dollars where we delivered net income of $188 million, up 21% from the prior year. Pre-provision, pre-tax earnings of $242 million were up 4% over the same period, as continued growth in strategic client relationships drove broad-based growth in funds managed.

Revenues were up 10% supported by strong growth across both commercial banking and wealth management units. Commercial banking momentum continued to benefit from the economic recovery, driving average year-over-year loan growth of 13% in the segment, excluding PPP forgiveness. In our wealth business, solid AUM

growth of 16% benefited from strong client flows and market appreciation despite being somewhat tempered by this market performance.

Expenses were elevated in Q1 as anticipated, up 16% over the prior quarter – over the prior year. The increase was driven primarily by ongoing investments in our team and business infrastructure to support our US franchise as it continues to scale. We expect sequential expense growth to moderate in the coming quarters.

Slide 17 speaks to our well-diversified capital markets business. Net income of CAD 543 million was up 10% from the prior year, while pre-provision, pre-tax earnings of CAD 708 million were up 9%. Underlying this, revenues of CAD 1.3 billion were up 11%, driven by strong performance across all businesses, particularly in equities and foreign exchange, corporate banking and direct financial services. Expenses were up 14%, driven by employee-related compensation as well as continued investments in talent and technology in support of our strategic growth.

Slide 18 reflects the results of the Corporate and Other business unit. Net loss of CAD 47 million in the quarter compared to a net loss of CAD 59 million in the same quarter last year due to lower provisions for credit losses, offset partially by lower pre-provision, pre-tax earnings.

As highlighted in the past, expenses in this segment are impacted by the timing of enterprise initiatives. Expenses were up 7% from a year ago, but down 22% sequentially as the prior quarter included higher costs associated with these initiatives, including the launch of our new brand. We anticipate a net loss between CAD 50 million to CAD 100 million a quarter in this segment going forward.

In conclusion, we've started the year with strong momentum across our business with a record quarter, which demonstrates once again the competitiveness and earnings power of our diversified franchise. We continue to leverage our strong balance sheet and profitability to support our clients, fuel organic growth and increased distribution of capital to our shareholders, all while maintaining the resilience to withstand stress in the event of deteriorating macro conditions.

We expect our continued strategic investments to sustain this momentum, but we maintain the flexibility to adapt our pace of execution to any changes in the environment. In aggregate, this positions us well to drive strong shareholder returns relative to the industry in a period of elevated uncertainty.

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

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

Thank you, Hratch, and good morning. In our first fiscal quarter of 2022, our businesses performed well across our bank, while navigating more volatile markets and changing conditions. Credit quality remains strong. As we anticipated, we're starting to see some normalization in our retail credit portfolios, though our clients continue to exhibit higher savings and payment activity than prior to the onset of the pandemic.

At the same time, this quarter saw higher case counts and hospitalizations as a result of the Omicron variant, the return in some areas of more restricted public health measures and the continuation of supply chain disruptions. Together with geopolitical developments, these conditions have contributed to higher levels of inflation and market volatility. We are monitoring these developments closely. And while uncertainty persists, particularly given events over the last 24 hours, our allowance levels are strong and provide coverage for a variety of outcomes.

Turning to slide 21. In Q1, the provision for credit losses was CAD 75 million compared with a provision of CAD 78 million last quarter. Provision on impaired loans was up modestly at CAD 126 million in Q1. Impaired provisions were up in Canadian Personal and Business Banking due to higher write offs and higher

delinquencies and in US Commercial and Wealth due to higher impairments. In Canadian Commercial and Wealth and in Capital Markets impaired provisions were lower as a result of a few reversals.

In our performing portfolio, we had a provision reversal of CAD 51 million this quarter, primarily driven by a favorable change in our forward-looking indicators, partially offset by credit migration, which we have been expecting to see increase in our retail portfolio as clients begin to revert to pre-pandemic spend patterns. Overall, credit performed well this quarter, reflecting the strength of our portfolio and underwriting discipline.

Slide 22 details our allowance coverage by line of business. In Q1, we had a slightly lower allowance dollar level from the previous quarter, resulting from the reversal in performing provision and higher impaired losses. Our coverage ratio was down by 3 basis points quarter-over-quarter, mainly driven by our portfolio growth. We continue to feel comfortable with our current coverage, which remains above pre-pandemic levels.

Slide 23 illustrates our lending portfolio mix, which remains consistent with previous quarters, reflecting good diversification and strong overall credit quality. Our total loan balances were CAD 483 billion, over half of which are mortgages. The average loan-to-value for our uninsured mortgage portfolio is currently 48%, with an average LTV for uninsured mortgages originated this quarter at 66%. The business and government portion of the portfolio has an average risk rating equivalent to a BBB and continues to perform well.

Slide 24 provides an overview of our gross impaired loans. Overall gross impaired balances were up slightly in Q1. Impaired balances in retail remained flat, while we had higher impairments in US Commercial and Wealth, as mentioned earlier. Notwithstanding a slight increase in the gross impaired balances in the quarter compared with Q4, both the gross impaired loan ratio and our new formations are still lower than our pre-pandemic run rate.

Slide 25 details the net write-off and 90-plus day delinquency rates of our Canadian consumer portfolios. While net write-offs in our retail portfolio remained relatively flat in Q1, we are seeing an increase in the 90-plus day delinquencies on a quarter-over-quarter basis in a few portfolios. We expected to see an increase in delinquencies and write-offs from the lows experienced in fiscal 2021, as the benefits of government support are removed and clients' liquidity and spending patterns start to normalize. The experience this quarter is aligned with our expectations and are somewhat favorable to our initial forecasts.

Lastly, as we work towards the closing of the Costco portfolio in early March, we've been focused on integrating the data and clients into our systems and calculations. You'll see the impact of this in our Q2 results. Overall, the credit quality of the Costco portfolio compares favorably to our existing cards portfolio.

In closing, we started fiscal 2022 with continued strong credit performance against the backdrop of the uncertainties impacting markets globally. Our allowance levels are strong and remain above pre-pandemic levels. We are monitoring developments closely as expectations for inflation, the rate environment and geopolitical conditions evolve and how that may impact our outlook. And we are well positioned to support our clients through the continued uncertainty.

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

Question and Answer Section

John Charles Robert Aiken, Analyst, Barclays Capital Canada, Inc.

Good morning. Wanted to dive in a little bit in terms of the domestic commercial loan growth that we saw, 5% growth sequentially and as noted, 19% year-over-year. Just wondering if we can get a little more color in terms of what type of activities are driving this? What are you seeing the business is doing? What's the sense of the pipeline through the remainder of the year, particularly with the volatility we're seeing in the economy? And what type of competitive response are you seeing in terms of the market share growth that presumably you're gaining?

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

Thank you for the question, John. So, for the quarter, our loan growth – for the quarter and for the year, diversified by geography, diversified by asset class. In quarter one, specifically, 25% of the growth came from our real estate business. The rest came from diversified.

Notwithstanding all the challenges you hear, demand for clients' products is high. They can push through price increases. Supply chain challenges aren't really impacting. When inventory comes in late, clients are able to sell it.

So when we talk to clients, they're talking about growth, they're talking about investment, and it's reflected in our loan growth. This quarter, about 40% of the growth came from new clients, 60% came from increases, some of it M&A, some of it natural growth.

Interestingly, the pipeline going forward is strong. It's stronger than I've seen it since 2019. So, continues to be good. You see our credit quality, very strong. So, overall, we're feeling pretty confident.

John Charles Robert Aiken, Analyst, Barclays Capital Canada, Inc.

And the competitive environment, what – are you seeing any pressures on pricing or people moving down the credit curve?

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

Nothing more than – it's an aggressive market. Pricing, we don't really see. There's deals from time to time where people are stretching. And when people stretch too far, we're not there. We know our clients well. If we stretch, it's for our clients.

So, overall, nothing I've seen over the last year or so that's any different from history. It's a competitive market and we're winning.

John Charles Robert Aiken, Analyst, Barclays Capital Canada, Inc.

Great. I appreciate the color. I'll re-queue.

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

Good morning. I guess just, Hratch, going back to slide 12 around expense growth. Talk to us, I think there was a lot of concern last quarter, [ph] or likely (00:26:32) the stock reacted negatively to your guidance for negative operating leverage in the first half. Year-over-year, the efficiency ratio was relatively flat. When we think about the 7% or the 10% year-over-year expense growth, is this the high watermark, both in terms of dollar and growth rate? And should we expect the growth rate to trend lower through the course of the year?

And what does that imply when we think about operating leverage, either quarterly basis or the full year? Any color there would be helpful.

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

Morning, Ebrahim. Thank you for the question. It's a good question and we think about this topic a lot because we believe managing our resources and deploying capital prudently for our shareholders is one of the key things we do here. So let me start with reminding everybody how we think about our investments and managing our cost base.

And as I said, we are very disciplined and deliberate in terms of how we allocate capital on behalf of our shareholders. And we think in this environment, where the banking landscape continues to evolve and uncertainty exists, it's important to allocate capital to invest to transform our bank and to create sustainable competitive advantages. And that's what we've been doing.

And alongside our balance sheet, we do see the expenses coming through our income statement as one of the key resources we have to invest, and we manage it that way. Our overall objective, as we said, is always to increase investments to generate growth while reducing operational expenses through efficiency and discipline. And through that, overall, generate top line – strong top line performance and generate positive operating leverage over time. And we've done that successfully.

If you look at the pandemic years, we've invested heavily in our business, in our team, in our clients. We're seeing great results as part of that. We're seeing the market share gains and momentum across all of our businesses. We've seen the accelerated top line growth. You're seeing that this quarter, double digits, and same with the last quarter. And we've achieved – if you look at that two-year period, we've achieved slightly positive operating leverage despite the increased investments and despite some of the disruptions to revenues from the pandemic.

And so, coming into this year, we've guided to do the same thing. And I think where we are now, looking at Q1, things look like they are at or ahead of plan. Internally, we are delivering what we expected from our strategic initiatives, in fact, a little bit ahead in terms of benefits realization. Externally, we're seeing a little bit of pressure from inflation, maybe a little bit more than what we thought. That's in that CAD 105 million on the slide here. And we're obviously seeing with the higher performance, that performance-based compensation.

So, I think this is all according to plan. And with this 10% number here, we achieved slightly positive operating leverage, which is better than what we had guided to. And that's because of that top line performance. We've seen the revenue growth outpace the higher expenses that are being driven because of that revenue and that inflation piece.

So, when we look at it forward from here, yeah, we do think that on a full year basis, the 10% watermark, whether it's high watermark or not, that will depend on performance. We think at this point, performance will continue to be strong. And if continued strong performance exists this year, we'll probably end up high single digits. I wouldn't say double-digits, but probably towards high single digits expenses total rather than mid-single digits because of that performance. But at the same time, we would feel confident about delivering that positive operating leverage.

Now, if the uncertainty that we're seeing does manifest in a slower top line environment, we have levers we can pull. We have identified contingency actions we can take, pacing of our investments and being thoughtful around that. And we will still strive, as I said in my remarks, to try to get to that positive operating leverage.

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

And just clarifications on those, Hratch. One, when you talk about high single digits on back of a stronger revenue backdrop, are you assuming some benefit from rate hikes in Canada and the US in that statement? And is some component of that CAD 71 million on that slide, does that roll off or does that become part of the run rate going forward? Thank you.

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

Yeah. Thank you. Thanks for the follow-up, Ebrahim. I think when you think about this on the strategic investment side, those are the investments that we are making that are going to continue increasing. So we see for the foreseeable future here, we're going to have that level of investment continue and be sort of more elevated. Some of that turns into ongoing revenues for us and then some of it is going to be ongoing DOE. But we think that investment level is going to continue.

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

Got it. Thank you.

Meny Grauman, Analyst, Scotia Capital, Inc.

Hi. Good morning. Harry, in your segment, we're seeing the average loan balances on a sequential basis up about 10%. And I'm just wondering what's driving that. Is it utilization or are there other factors pushing those balances up as well?

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

Good morning, Meny. Thank you for the question. As you know, within Capital Markets, we provide lending solutions really to a well-diversified client franchise. This is truly a client-driven business. So, that would include loans to our personal clients and direct banking, that's simply in direct investing Investor's Edge. That would also include corporate clients, particularly as we grow in selected industry verticals in the US and really continue to maintain our leadership position in areas such as renewables and energy transition.

And then, of course, institutional clients, which include insurance companies, asset managers, pension plans and private capital on both sides of the border. The majority of that loan growth is from corporate and institutional loan growth, particularly in the US, where we see about 70% of that growth. We have been strategically and deliberately growing our loans in the US, including institutional clients, where we're providing asset-based financing that have very strong returns and really are very well collateralized.

So, to answer your question, it's very well diversified. There is some increase in utilization as well, but it really is driven by our – the client demand for this resource, in particular, as we deepen relationships and build our client franchise.

Meny Grauman, Analyst, Scotia Capital, Inc.

And in terms of that personal side of the business, what kind of growth are you seeing there?

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

We're seeing single-digit growth in the Simplii platform. We have seen some growth as well in the Investor's Edge portion, as we strive to grow market share. So, it's very well diversified across the platform, but the majority of the growth is the corporate institutional loan growth.

Meny Grauman, Analyst, Scotia Capital, Inc.

And so, just as a follow-up, I guess what you're saying is, like, this is really – what we're seeing is not so much – so we're not seeing accounts getting more nervous from a risk perspective. This is actually sort of positive growth rather than people drawing underlying because they're getting more risk averse. Is that correct?

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

Yeah. That's absolutely correct. We've seen very robust client opportunities over the past few quarters. You've seen our strong loan growth numbers. We're really happy with the results and comfortable with the risk as we grow that franchise.

Meny Grauman, Analyst, Scotia Capital, Inc.

Thanks.

Doug Young, Analyst, Desjardins Capital Markets

Hi. Good morning. Victor, I want to go back to just the comment you made on your partnership, and I probably get this wrong, but with Tyl, T-Y-L, that's the cloud-based platform for businesses. And just I'm wondering whether you can talk about, is this an anticipation of the launch of open banking in Canada? Because I do say that because Australia and UK are two areas where open banking does exist and the SME seems like it's a tremendous opportunity for open banking. So help me just to get a little more detail on that.

Victor G. Dodig, President and Chief Executive Officer

Sure, Doug. Good morning. Let me first address open banking, and it was a question that was asked in the last quarterly webcast, and it's one I want to reaffirm that we're ready for open banking. We welcome open banking. We encourage our government policymakers to think about both the offense and the defense in open banking.

When it comes to our bank specifically, we're well set up for it, both through our personal and business banking franchise as well as through our direct financial services franchise. We've got strategies that cover the map and allow us to compete very effectively.

Today, we specific – well, this week, we specifically announced two fintech-related investments that relates specifically to our business banking franchise in our personal bank. One is the nCino platform that'll make lending easier. The Tyl platform, it's Tyl, not T-Y-L, I learned that as well on the way, has been very successfully implemented by National Australia Bank and by NatWest Bank.

We've made an equity investment in the underlying company called Pollinate that runs Tyl. We think it's a real opportunity for us to serve small and medium-sized business clients. Laura and her team have been working with their technology team on the – at the forefront of this. I'm just going to hand it off to her to talk about why Tyl is an important aspect of competing as the world changes.

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

Sure. Thanks. Thanks, Victor, and thanks, Doug, for the question. We're really excited with this partnership. We are looking forward to be able to offer our business clients more services. So this is really about having more of an integrated ecosystem for payment processing. So we think this gives us a great advantage where we can combine payment processing and small business banking services under one service provider.

And when we think of the work we'll be doing with nCino, that should actually help us as we digitize, I'd say, to grow faster and really offer better services and experiences to our client base.

Doug Young, Analyst, Desjardins Capital Markets

Appreciate the color. And then just one for Hratch. And you may have disclosed this in here, and if you have, I apologize. But you talked about the impact of PPP forgiveness on NIMs. Have you quantified what that impact was on US NIMs and on consolidated NIMs and how you anticipate that to kind of run off over the next year?

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

Yeah. Thanks. Certainly happy to take that. It's embedded in that other, when you look at our NII slide and the waterfall chart in the bottom right corner there, you'll see there is the other buckets. Within that other bucket is the impact of our PPP prepayments activity and the PPP income this quarter.

And what I can tell you breaking that out is, this quarter, it was actually down a bit. We started seeing that moderating. So, on a sequential basis, it was a negative to NIM, but it was offset by other general prepayments and repayment activity happening, [ph] we said (00:37:47) the overall to positive in that other bucket.

Going forward, I'd say there's probably a few basis points, single-digit, low-single digit basis points left in terms of help to the NIM from PPP. And we do anticipate it to go away here in the next quarter or so. It's a little bit unpredictable. But that'll go away. That's the impact to the US NIM and it really isn't a material amount of NII to total bank. And so we don't anticipate it impacting total bank NIM.

Doug Young, Analyst, Desjardins Capital Markets

Appreciate the color. Thank you.

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

Thank you. Good morning. I had a question for Shawn. Based on my calculations, it looks like you still have a sizable amount of allowances on performing loans remaining from what you built during the pandemic. And could you give us some color on whether there's a likelihood that you may not be able to fully release those excess allowances, given the headwinds that we're seeing, politically, economically, on inflation and interest rates? Should we start assuming that a good portion of those allowances may not be released?

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

Thanks for the question, Nigel. So we did build provisions, as you noted, throughout 2020 and then have been on a trend for the last several quarters in terms of releases. There are a couple of different moving parts in terms of how that performing provision behaves. And I should say, from a coverage perspective, we peaked at 89 basis points. We're down at 61 basis points, and we started immediately prior to the pandemic at 51 basis points.

So, as that coverage ratio has come down, it's been a combination of releases as a result of the improving economic backdrop and the economic outlook continuing to improve, but also as a result of portfolio growth.

And so, you've seen we've had strong portfolio growth over the course of the last couple of years. And so, as we add provisions, performing provisions in relation to that portfolio growth, that starts to, if you will, consume some of that performing PCL build.

From here, I mean, we've certainly got uncertainty in the environment. We have talked in prior quarters about the fact that the outlook, if they continue to improve, we would expect to see those releases. We'll assess the uncertainties today as we go quarter – as we move forward into subsequent quarters. But that trend has been one that we've been witnessing over the course of the last several quarters in terms of the releases as well as the consumption through organic growth in the portfolio.

So, we assess that every quarter. And as we update our FLIs, that'll help guide in terms of what ultimately happens with those provisions.

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

Okay, great. And if I could kind of just drill down a little bit further into that. When I look at your FLIs on slide 35 and your indicator on the household debt service ratio, could you give us a sense of your assumptions for rate hikes that are baked into your base case forecast? And does the rate hike assumption differ for your upside and downside case?

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

Yes. So, that ratio, we've built in – our assumption was for 100 basis points of interest rate increases and inflation based on our economic team's outlook, which was sort of in the 3 percentage range. And so that's built into those forecasts.

And then from there, we've moved it up and down across the upside and downside cases. But from a base case perspective, 100 basis points of interest rate is part of that outlook for the next year.

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

Okay. So sounds like you're beefing up the economic team outlook rather than the bond market pricing, at least [ph] six (00:41:52) rate hikes. But, yeah, that's useful color. I appreciate it. Thanks.

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

Thank you.

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

Yeah. Thank you. I just wanted to quickly go to Laura. Laura, the segment – the Canadian Personal and Small Business segment improvement in efficiency ratio quarter-over-quarter versus last year, and probably the lowest since, I don't know, Q1 2020, back then, you had much higher net interest margins. So can you just talk a little bit about how much of this is because of management of expenses as opposed to efficiency pickups from prior investments? And where do you think this may kind of trend, understanding that it's hard to talk about a particular segment? But I'm just trying to understand how you're thinking about this.

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

Good morning, Sohrab, and thanks for the question. As Hratch mentioned earlier, when Ebrahim asked this question, so this is a bit of a derivative of that, a lot of what we're seeing is the investments and the hard work that the whole team at CIBC has put in, which is allowing us to deliver, I'd say, some real quality volume

growth. So we're seeing great top line growth. We've put in a lot of work to ensure that that will be consistent and sustainable. As Hratch mentioned, we're going to continue to do that.

That said, we do expect to continue to spend and invest in our strategic initiatives. So, I would expect we're going to see volatility quarter-to-quarter as we do that. But again, as Hratch said, we're going to be prudent in terms of what we do. We're pacing our investments. We are continually looking at ways to simplify how we do things in order to deliver more bottom line to our stakeholders.

So, hopefully, that answers your question.

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

It does. But can I just drill down a little bit? For example, FTE count is up versus last year, but your efficiencies have improved. So, is it just more of a variable comp-based FTE? Do you expect the FTE trends to continue? I'm just trying to get a feel for how – what sort of control you have over your expenses and how much of this is because of the better revenue environment?

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

No, I think we have really good control over our expenses. A lot of what you're seeing there are increases in productivity. So, we've talked about in previous calls some of the great tools we've put in place for our team members, whether that's ECRM or GoalPlanner, et cetera. So, we have a lot of tools that are allowing our team members to be much more productive.

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

And stuff like Tyl and nCino, these will be additive to the productivity?

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

Absolutely. We need to – I mean, we need to start by implementing them, rolling them out. They are as good for us from a defensive perspective in terms of keeping our existing client base happy and bringing them the tools and experiences they need. And it's also about growth for us, and it will allow our team members to be more productive once we have those rolled out as well.

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

Okay. Thank you.

Gabriel Dechaine, Analyst, National Bank Financial, Inc.

Hey. Thank you. Question on your rate sensitivity. I'm not sure if you've mentioned this in the past, but when you give that, are you assuming – can you give me what assumptions you've made about the surge deposits, so-called surge deposits? Are those not included or excluded from your guidance?

And then, as far as the pace of rate hikes, what do you assume as far as passing the deposit betas? Are you assuming 50% to 75% – I mean, you probably won't give me a specific number, but can I get a sense of where that is?

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

Yeah. Thanks. Happy for the question, Gabriel. And so, I think to start, when you look at the disclosure, there are a lot of assumptions in that, as you mentioned. With respect to the deposits that are more transient in nature, those are included in this number when we provide that.

Gabriel Dechaine, Analyst, National Bank Financial, Inc.

Okay.

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

Now, we have treated those as more transient and so we've invested and hedged them accordingly, and we do anticipate some of that to moderate. And so we've managed that appropriately and we feel confident about the NII impact from those deposits and how that will progress from here. But it is included in that sensitivity.

In terms of the assumptions we make, and this goes a bit to Ebrahim's follow-up question earlier, what do we assume, generally, as we've said before, when we talk about outlook and it was all over my script, we base it on the forward curve. So when we talk about our outlook in terms of top line, when I talk about operating leverage expectations for this year, all of that assumes the increases that are in the forward curve today.

If you look at since of January and end of the quarter when we first looked at this, ironically, despite everything that happened yesterday, there was a bit of disruption, we're not far off where we were before yesterday. And in fact, rates, if I just look at three to five-year in Canada, you are in the teens basis points, even ahead on the swap curve where you were at the end of January. And so, you've seen material run-up over 100 basis points.

And based on our sensitivity, you can do the math on how much you would expect that to impact 2022 earnings. So, that is something we expect. But as we said earlier, if that – if there's any changes to that, then we can manage that. And one of the changes could be the assumptions on sensitivity, as you mentioned. Now the first thing I'll say is, when you look at our deposits, only about a third of it, frankly, is sensitive to beta assumptions. Some of it is non-interest bearing. Some of it is...

Gabriel Dechaine, Analyst, National Bank Financial, Inc.

Okay.

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

...is [ph] indexed, right to prime (00:48:17), et cetera. And so, the beta assumption really comes in only about a third of the deposits. We've modeled that on the basis of past experience that includes modeling in any convexity that we would have experienced in the past. We think about what the future environment might look like. And all of that is reflected in our outlook and it's reflected in the sensitivity that we disclosed.

Now, could it be different? Yes, there's always risk around that, but that's manageable if we see a little bit of variation in betas. And frankly, [ph] it could happen (00:48:45) both ways, right? You can have opportunities to lag on the way up in terms of deposit repricing or there could be competitive pressures that push betas a little bit further.

So, in either direction, we have the ability to manage that and we feel confident the top line will behave generally as we have outlined.

Gabriel Dechaine, Analyst, National Bank Financial, Inc.

Well, that's a lot to chew on. My next question is on the commercial growth, 18% in Canada. Jon, can you talk to me about the impact of lending to private equity sponsors, like the firm – the businesses they're acquiring?

And do you do any co-investment alongside these partners? Because, I mean, I've heard about those types of borrowers being a pretty important influence on commercial loan growth from all the banks. So, maybe throw some numbers around there.

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

So, thank you for the question. So, we don't generally co-invest. So, let's start with that.

Gabriel Dechaine, Analyst, National Bank Financial, Inc.

Okay.

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

In terms of our growth this quarter, I'd say less – it's not a big part of our business, right. We have an CAD 80 billion loan book. This would be a very small part of that. It probably contributed a few points of growth, but nothing material. Everybody's focused on it. [ph] Has leverage gone (00:50:01) a bit higher? In some cases, yes, loan funds have come in. They've made the market more aggressive.

We focus on a few sponsors. We're close to them. We get a big part of their business, and loan book's in good shape. So, they are active, for sure. There's lots of private capital, as you know. So, pick your sponsors, go deep with them, follow your clients, good things happen.

Gabriel Dechaine, Analyst, National Bank Financial, Inc.

So, it's not like half of that growth or anything like that, right?

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

No.

Gabriel Dechaine, Analyst, National Bank Financial, Inc.

Okay.

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

No, no. Not even close.

Gabriel Dechaine, Analyst, National Bank Financial, Inc.

And what's the signup bonus going to be on the Costco cards, Laura? No, I'm just kidding. I'll wait for that one. Thanks. [indiscernible] (00:50:39)

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

I hope you have a card, Gabriel, or you should have one.

Gabriel Dechaine, Analyst, National Bank Financial, Inc.

Well, my wife is the Costco shopper, so anyway.

Darko Mihelic, Analyst, RBC Capital Markets

Hi. Thank you. Good morning. I have a question on your Capital Markets business. And what I'm interested in understanding is how risk weighted assets so your market risk didn't move quarter-over-quarter. You have a pretty big jump in trading securities and those are average balances. So perhaps, maybe that stuff nosedive at the end of the quarter. But can you help me understand why risk-weighted assets, especially market risk, didn't move quarter-over-quarter? It's quite contra to what we saw yesterday at RBC, where they had a relatively big change in market risk and they suggested that there was inventory hold and so on. So I'm curious as to maybe how you're managing. I'm also curious as to how that works going forward in this volatile environment. So maybe you can just talk about the movement in market risk for me, please.

Darko Mihelic, Analyst, RBC Capital Markets

Good morning, Darko. So, clearly, trading securities have increased quarter-over-quarter and year-over-year, reasonably high percentages at 16% and 23%, really due to market appreciation. We've seen growth in our US platform, including our prime services business and our equity financing businesses, really supporting our clients and providing hedging solutions. So we're seeing market appreciation. We're seeing, in those businesses, very well diversified by client, by geography and also by product. Really, it comes down to providing hedging solutions.

The trading revenues were obviously significantly higher, partially on the back of that, and that is commensurate with the growth of our client franchise. There were some other RWA increases. Maybe I'll pass it over to Shawn to comment on that.

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

Yeah, Darko. So there was increases in market risk RWA as a result of VaR and SVaR, but those were offset in part by changes in our incremental risk charges as a function of updates to models. So that was a benefit this quarter.

Darko Mihelic, Analyst, RBC Capital Markets

Okay. And so basically, the read-through then is your actual balances are up. It didn't come down, like, spot balances didn't come down towards the very end of the quarter. And so maybe in this increased volatility, Harry, can you just talk about how trading is holding up? And if these are securities that are there really for hedging purposes, I shouldn't be concerned about trading losses. Is that a fair statement?

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

That's a fair statement. As you know, Darko, it is a very well-diversified business. We devote our VaR, we devote all of our resources to our clients. It's purely a client-driven franchise. We're building that franchise. And so we're seeing more opportunity to deploy resources to our core clients, and it's working well. And we're seeing growth across the platform, across geographies, across industries, into the new economy and we're very pleased with those results. We're very comfortable with the risk. We've seen more disruption in the markets and we continue to handle that very well.

Darko Mihelic, Analyst, RBC Capital Markets

Okay, great. Thank you very much.

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

Thank you.

Mario Mendonca, Analyst, TD Securities, Inc.

Good morning. Could you just touch on the second part of Darko's question when he asked specifically if the momentum is continuing into subsequent quarters on the trading side?

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

Good morning. So I guess I'll just reiterate again, well-diversified business, and as Victor said earlier, differentiated capital markets platform. We're really focused on maintaining that leadership position in our domestic market. We're growing our US platform, specifically in the new economy around renewables, energy transition, private capital and the product capabilities. And I mentioned prime services, as an example. We're deepening relationships with our US corporate clients and commercial clients with our partners at Bank USA under Mike Capatides.

We've seen significant growth as a result of that. And at the same time, we're enhancing our connectivity across our commercial, and wealth and retail client base. So, it's very well diversified, to answer your question. We gave you an outlook a quarter ago, where we said we would – we're confident we could drive CAD 600 million-plus in pre-tax – pre-provision, pre-tax earnings. And we're confident that we can continue to do that going forward with a little help from market tailwinds, perhaps, as we've seen in this quarter.

Mario Mendonca, Analyst, TD Securities, Inc.

Let me ask in a different way then. Was there anything specific this quarter on the trading side? Any sort of special circumstance that would have driven such high trading revenue that you – maybe we haven't seen in previous quarters? Anything special this quarter, because it's up about CAD 200 million – more than CAD 200 million from Q4 to Q1?

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

Yeah. Quarter four tends to be a slightly weaker quarter in the industry. Quarter one on quarter one, it's nice growth commensurate with the growth of franchise. I would say that, I go back to my earlier statement, this is a well-diversified business. So, across the platform, and in particular, we've just seen very strong client franchise interest and growth.

And so, we're working with our clients more closely than ever. I think we stood with our clients and worked with them very closely in difficult times. And as we move through this pandemic, we are seeing our franchise grow very nicely.

Mario Mendonca, Analyst, TD Securities, Inc.

Okay.

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

So, the answer is no. Nothing stood out.

Mario Mendonca, Analyst, TD Securities, Inc.

Okay. Let me go to Victor, if I could. So, this quarter, loan growth across the franchise looks exceptional. And when I see that, my mind sort of races to a couple of things, either you're going to give it back on the margin and we're not seeing that. Long-term losses are going to – PCLs are just going to elevate because you've just – maybe you've changed your lending practices a little bit, or the third option, which is I suspect what you're going to highlight is, the bank has improved. It's a better bank now than it was two years ago or whatever that is. So, assuming that that's your position, and I suspect that is, what is actually different today from what the bank looked like a year or two years ago that's allowing for this market share on a sustainable basis?

Victor G. Dodig, President and Chief Executive Officer

Mario, thank you for your question. I think you know, as you've been following our narrative and our evolution, is the bank has substantially changed over a number of years. And the primary focus has been the culture of the bank, the collaborative nature of how we serve our clients and a day-in and day-out focus on making sure that we can meet our clients' needs and go deeply in meeting those needs, existing clients and new clients.

If you look back over the last seven years and I look – some proof points is, what's happening, well, our client experience scores have improved more than anybody else in the industry and dramatically, and we still aren't happy with where we are. That is a reflection of how clients feel about how we're serving them. That's true in every single business across the bank.

What you're seeing is a bank that's client-focused, that's bringing the entire resources of our bank to serve our clients, that's managing well within our risk appetite, and that is investing in the underlying technologies to modernize our bank as well, so clients can self-serve on stuff that they can do day in and day out on their own, but meet with our relationship managers where we're also investing across all of our businesses, in private banking, in capital markets, commercial banking and personal banking to manage those relationships. And that is the bank that we are today. That's the bank that we will continue to be. And you should expect to see us continue to deliver good results to our shareholders, really good client experience results, and quite candidly, really good employee Net Promoter Scores, which is also something that I take great pride in. People feel good about our bank. People feel good about our client-centric strategy, and that should translate to good financial results.

Mario Mendonca, Analyst, TD Securities, Inc.

Thank you.

Victor G. Dodig, President and Chief Executive Officer

Thank you.

Scott Chan, Analyst, Canaccord Genuity Corp.

Good morning. Maybe going back to Jon or Shawn on the Canadian Commercial segment. You kind of talked about the improved commercial outlook. But just on the credit side, I noticed last year, I think the impaired loans was just 1 bp and zero bps this quarter. So, Jon or Shawn, is there like metrics like watch list that you could maybe talk about in terms of how you envision any normalization in impaired loans within the segment this year or next?

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

Thank you, Scott. So, again, fiscal 2021 was remarkable from a loan loss perspective, and it's a lumpy business, right. So, 2021 was excellent. The start of 2022 has been very good. The watch list looks good. We watch – we look at things by risk rating, size of credit. The numbers are down. There's nothing we see that causes us any great concern. I'll pass it over to Shawn in case he has anything to add. But so far, so good.

And confidence, the underlying confidence of our clients is good. And you see very few clients today going backwards. Revenues are up. Margins are good. People are doing well. I know it's uncertain, but so far, it's good. Shawn?

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

I'd just add the outlook is based more on a view towards some level of normalization over the course of time. How quickly that normalization comes is a function of what the economic backdrop is going to look like. There's been – there's additional uncertainty at this stage than there would have been when we put a pin in our FLI, but we'll see what that looks like in the next quarter. But to Jon's point, feel very good about where the portfolio sits today and we'll continue to monitor for that. And as Jon mentioned, it's lumpy. So, we're always watching for those types of stresses to develop, but no thematics at this stage.

Scott Chan, Analyst, Canaccord Genuity Corp.

And just lastly, Jon, you kind of cited in the slide, slide 5, you launched the new CIBC family office, building up a team. Perhaps you can maybe talk about the buildup and potential opportunity within that segment and maybe how it intertwines with [indiscernible] (01:01:45) and your commercial clientele?

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

Yeah. Again, so thank you, Scott. It's a big deal for us, right? We put the Commercial and Wealth business together because we knew what was coming on the private capital side. We knew kind of clients would be exiting. There'd be lots of money to be made. Entrepreneurs would make money. We've helped them make the money via the commercial bank. They trust us to manage the wealth.

So family office was just a natural evolution of our value proposition, and again, it's going well. We've had more sales. I tell people the story. The last two or three years have been more – the company sold for greater than CAD 250 million than I saw in my prior 10 years in banking.

So entrepreneurs are getting wealthy. We've [ph] built (01:02:31) structure to serve them, and the family office is a piece of that. And the referrals family office or not between commercial and wealth are up big.

Scott Chan, Analyst, Canaccord Genuity Corp.

Great. Thank you very much.

Mike Rizvanovic, Analyst, Stifel Nicolaus Canada, Inc.

Hey. Good morning. A question for Shawn. Just wanted to quickly ask about the trend in insolvencies and maybe this is more so on the consumer side. So, are there any impediments right now in this environment with COVID? And maybe the courts being backed up. Is there any sort of backlog building in terms of when things are maybe running a bit more smoothly that you get a rapid increase in insolvencies? So, I guess, what I'm asking is, are there any hindrances in your ability to petition someone into insolvency at this point in time?

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

I think that was more an issue earlier on in the pandemic. We have started to see, and we're not seeing it in our portfolio just yet, but we have started to see an uptick in, for instance, business bankruptcies. As I say, we're not seeing it in our portfolio as yet. We're not anticipating a significant wave of that at this stage, and believe we've got an appropriate level of provision coverage for the stress that we anticipate over time in the portfolio, just from a normalization perspective as opposed to any deterioration.

Mike Rizvanovic, Analyst, Stifel Nicolaus Canada, Inc.

Okay. Thanks for that. And then, just one quick numbers question for Hratch. Just looking at the gains on financial instruments, [ph] 259 (01:04:09) this quarter, somewhat elevated versus the recent run rate, but a very lumpy number, I'm wondering, can you comment on what drives this. I'm guessing most of these shows up in the Corporate segment. Is this something that you just purposefully can do and sort of pull the trigger on when it's opportunistic, or is it more so driven by market conditions?

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

Thanks for the question, Mike. We don't manage any of our portfolios on an opportunistic basis. In the Corporate and Other segment, we've got treasury portfolios of HQLA. That portfolio grows as the HQLA requirements of the bank grows – as the balance sheet grows. We manage those for stable NII. And there is, time to time, opportunities to rebalance those portfolios in order to optimize returns and yields, and that's what we do. But it's not a lever we pull opportunistically. There can be noise. It can be market driven, it could be rebalancing driven, but certainly not something we do opportunistically.

Mike Rizvanovic, Analyst, Stifel Nicolaus Canada, Inc.

Great. Thanks for the color.

Operator

Thank you. This concludes the question-and-answer session. We'll turn the meeting back over to Victor.

Victor G. Dodig, President and Chief Executive Officer

All right. Thank you, operator, and all of you for asking your questions. I know they were very technical in nature and I hope we answered all of them.

I want to take this opportunity to thank our incredible CIBC team, who continues to operate with a client-first mentality, which is a critical component to the success of our bank. Our strong performance this quarter highlights the momentum across all of our businesses as we continue to build on our 2021 accomplishments and execute against our very clear strategic priorities. This, combined with a resilient balance sheet, is enabling us to invest in client-focused, profitable growth initiatives and continue to position CIBC for the future.

Over the past few years, we have invested significant resources to enhance our banking capabilities, to grow market share and to streamline our cost base. I think you can see all of this in our results. We've seen evidence of our strategy success in our past investments as we deliver profitable growth and volume growth.

We're a very different bank today with a collaborative culture that's on the ascent. And we're going to stay focused on our client-first strategy with an investment roadmap that drives profitable growth over the short, over the medium and over the long-term.

I want to thank you for your interest in CIBC and we look forward to speaking with you on our next call. Take care.

Operator

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