CIBC Q4 2022 Earnings Conference Call

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Disclaimer

Forward Looking Information

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

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Management Discussion Section

Operator

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

I would now like to turn the meeting over to 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'll 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 Frank Guse, our Chief Risk Officer. Also on the call today are a number of our group heads, including Shawn Beber, US Region; Harry Culham, Capital Markets and Direct Financial Services; Laura Dottori-Attanasio, Canadian Personal and Business Banking; and Jon Hountalas, Canadian Commercial Banking and Wealth Management. They're all available to take questions following the prepared remarks.

With a hard stop at 8:30, please limit your questions to one. As noted on slide 2 of our investor presentation, our comments may contain forward-looking statements, which include assumptions and have inherent risks and uncertainties. Actual results may differ materially.

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

Victor G. Dodig, President and Chief Executive Officer

Thank you, Geoff, and good morning, everyone. My remarks this morning will focus on our performance and achievements over the past year and our outlook for the year ahead. But before I get into these details, I wanted to acknowledge members of our CIBC leadership team who are taking on new roles as we start our new fiscal year.

Mike Capatides, most recently the head of our US Region, has transitioned to the role of Vice Chair-CIBC Bank USA. With more than 25 years of banking experience, Mike is going to focus on developing and deepening client relationships in our US region.

Shawn Beber, most recently our Chief Risk Officer, succeeds Mike. Shawn was instrumental in the acquisition of the private bank in 2017. And with his deep knowledge of our US business, strong client focus, and proven execution in senior leadership roles across our bank, he will continue building out our momentum and leading our US region.

I'm also pleased to introduce Frank Guse as our new Chief Risk Officer. Some of you may be familiar with Frank from his most recent role, leading Strategy and Transformation and Personal and Business Banking. Frank's global expertise in all facets of risk management, coupled with his strategic perspective, position him well for his new role.

These leadership changes leverage our strong and experienced internal talent, and they allow us to focus on delivering relative outperformance going forward.

So, turning to our adjusted fiscal 2022 full year results, revenue of CAD 21.8 billion was up 9%, and pre-provision pre-tax earnings of CAD 9.4 billion was up 7% from last year. These results were driven by robust volume growth across all our businesses, which was a direct result of the continued execution of our client-focused strategy and the investments that we are making in growth, which will benefit our business in fiscal 2023 and beyond.

Adjusted net earnings of CAD 6.6 billion or CAD 7.05 per share were down 2% from the prior year, merely a result of more normal credit provisions coming off a year of performing credit releases in fiscal 2021. The credit quality of our portfolio remains strong with impaired provisions down 1% compared to last year.

Operating leverage was negative in fiscal 2022, and it relates to the investments we made this year and our current and future growth capabilities. While our structural expense growth remained in the mid single digits, investments in strategic initiatives, as well as employee-related compensation and a normalization of business development activities, drove year-over-year expense growth of 11%. Our accelerated investments in growth was essential to strengthen our market position and to generate the strong top line results we're seeing across our business units.

With many of our key strategic and compensation-related investments now completed, we're now shifting to more moderate expense growth in 2023 to the mid single-digit range as we've previously conveyed to you.

Our capital position remains strong with a CET1 ratio of 11.7%, while our return on equity for the year was 14.7%. We're also announcing a CAD 0.02 dividend increase to our common shareholders while maintaining our payout ratio between 40% and 50%.

Reflecting back on fiscal 2022, we made a lot of progress as we continued on our client-focused journey. At the enterprise level, we're delivering on our three key strategic priorities that we had laid out at Investor Day. That's the focus on high-growth, high-touch segments where we're well-positioned at making notable progress; elevating the banking experience for our clients through investments and technology and further increasing connectivity across our bank; and we're investing in future growth differentiators, particularly in our Innovation Banking franchise, our fintech capabilities, and renewable energy platform. As well in support of our net zero ambition, we announced 2030 interim targets to reduce the carbon intensity of financed emissions in our oil and gas and power generation portfolios.

In Canadian Personal and Business Banking, we demonstrated positive momentum with our strongest client growth since 2017 where we added over 350,000 net new clients to our bank, 38% of which are from the affluent segment, almost 3 times the index of our market share in that segment. In addition to this, we successfully transitioned over 2 million Costco co-brand card clients. And while it's still early days, we have already deepened our banking relationship with over 30,000 of these new card clients to hold additional CIBC products and services. Again, these clients also tilt heavily to the affluent segment.

Our client growth and success in franchising drove year-over-year deposit and asset growth of 9% and 12% respectively, which resulted in market share gains versus the Big 6 Canadian bank peer group. Contributing to these positive outcomes is our relentless focus on living our purpose, and that's to help or make our clients' ambitions a reality. And we've done that by introducing enhanced digital tools for both our retail and business banking clients, underpinned by a focus on advice for the long term. And our efforts for this were rewarded with a second place ranking in the J.D. Power client satisfaction survey and being recognized for delivering outstanding digital client experience by Digital Banker.

Our Canadian Commercial Banking and Wealth Management business also demonstrated strong momentum throughout 2022 with loan and deposit growth of 20% and 12% respectively, along with higher net wealth flows. In Commercial Banking, we continue to expand programs tailored to high-growth industries, modernize our systems, and streamline our processes to support enriched client conversations.

In Private Wealth, we have added new planning professionals to further support our integrated wealth franchise, and we launched a series of exclusive private banking offers. The net result is a record year of inflows – net inflows for the – our CIBC Wood Gundy franchise, which were up 27% compared to the prior year. Our Private Wealth offering is underpinned by the strength of our investment advisors and private bankers. This year, 30 of CIBC Wood Gundy advisors were named to Canada's Top Wealth Advisors list by The Globe and Mail.

And in Asset Management, we incorporated a climate policy and a responsible investing policy as we continue to focus on sustainability and our investment strategies. And despite industry challenges impacting net flows across all Big 6 Canadian banks, CIBC was ranked third in long-term mutual fund net flows as a percent of AUM.

Our US Commercial Banking and Wealth Management franchise made significant technology and infrastructure investments in the business, and that's to support our above-market growth now and going forward. In 2022, we had strong loan growth. It was up 15%, and three quarters of that was originated from new client relationships. Our focus on the private economy and high-growth client segments also drove strong client growth of 6% in wealth and private banking funds. Our efforts to build a best-in-class US Private Wealth franchise were recognized again by Barron's, who ranked us as a top 10 registered investment advisor for the third consecutive year.

In Capital Markets, our differentiated business model continued to deliver results. Our focus on strong cross-bank connectivity and growing our US presence was rewarded with revenue growth from nontraditional capital markets clients of 14% and from the US of 17%. We also made strategic investments in high-growth areas, including the expansion of our renewables and energy transition industry vertical.

In 2022, we were the recipient of Global Finance's North American Regional Awards for Outstanding Leadership in Green Bonds and Transition and Sustainability-linked Bonds. We also continued to rank in the top 10 in North America for financings in the renewables industry as tracked in Inframation's most recent league tables; notable accomplishments in our Capital Markets business.

If we look ahead to 2023, global economic growth is expected to be slower as central banks continue with their monetary policy tightening to tame inflation. And in response to these headwinds, and as I just mentioned earlier in my remarks, we are going to continue to take actions to reposition our business to adjust to these new realities, but also continue to grow our client franchise and moderate our expense growth in 2023 to the mid single-digit range. While we can't control the environment, we can control our execution. We have successfully navigated through challenging circumstances in the past, and we are confident in our ability to do so going forward.

And with that, I'd like to pass the call over to Hratch. Over to you, Hratch.

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

Thank you, Victor, and good morning to you all. I'll begin my remarks with the review of our fourth quarter on slide 9 before covering the highlights of fiscal 2022 and providing some color on our expectations going forward. Again, for deteriorating backdrop, we reported earnings per share of CAD 1.26 for the fourth quarter, down 18% from the prior year primarily due to higher provisions for credit losses. Excluding the items of note detailed in the appendix to our presentation, adjusted EPS was CAD 1.39.

While market and economic headwinds impacted our financial results this quarter, we maintained a strong balance sheet and made meaningful progress against our strategic priorities. We continue to be focused on driving long-term stakeholder value and remain committed to delivering on our medium term financial targets. To that end, while still early days, I will reference our progress against key targets laid out at our June Investor Day during my remarks on segment results.

The balance of my presentation would refer to adjusted results which exclude items of note, starting with slide 10. Adjusted net income of CAD 1.3 billion for the quarter was down 17% from the prior year, driven primarily by a provision for credit losses against performing loans this quarter as compared to a provision released last year. This was predominantly the result of a change in economic outlook as Frank will cover in further detail later in our presentation.

Pre-provision pre-tax earnings of CAD 2.1 billion were down 2% from a year ago, largely due to elevated expenses which were up 12% from the prior year including the impact of inflation and severance charges in this quarter. Revenue of CAD 5.4 billion was up 6% driven by strong volume growth across all businesses and solid trading, partly offset by lower market-related fees.

Slide 11 highlights the drivers of net interest income. Excluding trading, NII was up 12% from last year, supported by strong loan and deposit growth across our franchise. Excluding trading, total bank NIM was down 7 basis points sequentially and was comparable to the prior year as changes in certain product margins and mix across our balance sheet more than offset the benefit of rising interest rates. While we are seeing a shift in client preference towards term deposits, a substantial portion of our indeterminate maturity deposits are noninterest-bearing or are low-cost and will continue to benefit from rising rates. We anticipate continued growth in non-trading NII supported by volume and the continued upward trend in deposit margins if interest rates stabilize at current levels or higher.

Slide 12 details the changes in key segment margins. Our consistent approach across Canada and the US is to position the balance sheet in a manner that stabilizes margins and supports more predictable net interest income through changes in interest rates. As shown on the slide, we have benefited from that approach through the recent period of lower rates, and we'll continue to benefit steadily from higher interest rates going forward.

This quarter, Canadian P&C NIM declined 4 basis points sequentially. Higher deposit margins benefited from the impact of rising interest rates on the more than 40% of indeterminate maturity deposits in this segment that are noninterest sensitive. This was more than offset by lower margins on recent mortgage originations and lower mortgage prepayment activity.

NIM in our US segment was up 13 basis points relative to last quarter or 8 basis points excluding CRE investment gains, which are episodic. Excluding these gains, the core NIM increased primarily due to higher deposit margins, which benefited from higher interest rates, partly offset by lower margins on loans.

We continue to anticipate a positive NIM trajectory in the medium term across both of these segments, helped by higher interest rates. However, we expect some continued pressure from Canadian mortgage origination spreads and lower noninterest-bearing deposit growth in the early part of 2023.

Turning to slide 13. Noninterest income of CAD 2.2 billion was up 6% from the prior year or down 3% excluding trading. Market-related fees were up 5% driven by trading income and declined excluding trading predominantly due to lower fees from market-sensitive businesses which were impacted by market deterioration. Transaction-related fees were generally stable over the prior quarter and up 5% from the prior year driven by higher volume of client activity.

Turning to slide 14. Expenses were up 12% year-over-year including severance incurred in the quarter as we reposition the business in response to the changing economic outlook. Excluding severance, year-over-year expense growth of 10% was lower than prior quarters in 2022 as our increase in strategic investments starts to peak. Approximately half of the 10% growth was related to higher investment on strategic initiatives discussed in the past. Our base operating expenses were up 5% from prior year including the significant impact of inflation, and they remain in the low single-digit range excluding inflation.

Our approach to expense management remains consistent, generating positive operating leverage in aggregate over the medium term while continuing to invest to advance our strategic agenda. As such, we've taken proactive steps over the last several months with actions that position us well for 2023, namely restricting discretionary expenses, pacing our investments, and repositioning our team through the incurred severance and other actions. These actions will allow us to stabilize core expenses around this quarter's levels, resulting in mid single-digit growth for the full-year 2023 as we communicated in our Investor Day.

Turning to slide 15. Our balance sheet remains strong as we continue to focus on disciplined deployment of resources. We ended the quarter with a CET1 ratio of 11.7%, down 4 basis points from the prior quarter. The internal capital generation almost covered growth than risk-weighted assets from organic growth and modest credit migration. We continue to expect strong internal capital generation to fund moderating RWA growth going forward, and our current capital level positions us well in the context of economic uncertainty. Our liquidity position strengthened this quarter, supported by continued growth in deposits and moderating asset growth resulting in higher average LCR of 129%.

Starting on slide 16, we highlight our strategic business unit results. Net income in Personal and Business Banking was CAD 485 million, down 20% from the same quarter last year primarily due to higher provisions for credit losses. Pre-provision pre-tax earnings of CAD 968 million were down 2% from last year, and revenue of CAD 2.3 billion was up 6%. Our strategic focus in 2022 resulted in strong net client growth and franchising success, driving net client growth of over 350,000 as Victor covered, and growth in loans and deposits of 12% and 9%, respectively. Importantly, a large portion of our net client growth was in the affluent segment where we continue to gain share. These new clients, along with over 2 million co-brand clients who transitioned to CIBC earlier this year, are fueling our momentum. Expenses of CAD 1.3 billion were up 13% from the same quarter last year and 3% sequentially driven by higher strategic investments including the impact of the acquired co-brand portfolio.

Moving on to slide 17, net income in Canadian Commercial Banking and Wealth Management was CAD 469 million, up 6% from the prior year. Pre-provision pre-tax earnings of CAD 658 million were up 11% from last year, benefiting from strong results in Commercial Banking that helped drive 28% growth in NII, net of market headwinds to our Wealth Management business. Our client-focused approach and ongoing investments underpin this financial result, driving over CAD 5 billion in referrals over fiscal 2022 and support fund managed growth and net flows in private wealth.

Slide 18 shows US Commercial Banking and Wealth Management results in US dollars, where we delivered net income of $125 million, down 42% from the prior year due to higher credit provisions. Pre-provision pre-tax earnings of $232 million increased 3% from the prior year. Revenues were up 8% over this period due to an 18% growth in net interest income, partially offset by 12% decline in noninterest income, largely related to the impact of market deterioration on wealth management fees.

Over 2022, our strategy allowed us to grow and deepen our US client franchise, generating above-market loan and deposit growth 13% and 7% respectively, as well as strong private wealth management net flows in a challenging market. Increased expenses were driven by ongoing investment to support our growing business and increasing regulatory requirements. We invested over $90 million in fiscal 2022 to enhance our technology and infrastructure and to enable the next phase of our US growth. We expect these investments to moderate in 2023, resulting in the core expense base in this segment to stabilize starting around next quarter.

Slide 19 speaks to our well-diversified and differentiated Capital Markets business. Net income of CAD 378 million was in line with the prior year, while pre-provision pre-tax earnings of CAD 526 million were up 9%. Revenues of CAD 1.2 billion were up 17% over the year, driven by strong performance across all lines of business.

The differentiated elements of our Capital Markets business and our focused strategy continue to contribute to the strength of our results throughout 2022. In our high-growth DFS business, revenue was up 18% for the full year. And the contribution from our US business, which benefits from connectivity with our commercial franchise, was up 17% on a full year basis.

Slide 20 reflects the results of the Corporate and Other business unit. Net loss of CAD 197 million in the quarter compared to a net loss of CAD 121 million in the same quarter last year in large part due to market headwinds to treasury revenues and elevated expenses in the segment this quarter. Revenue was CAD 147 million lower than the prior year, largely driven by higher funding and liquidity-related costs in treasury which were impacted by the increased cost of liquidity, as well as significant interest rate and FX volatility experienced in the quarter.

Revenue in CIBC FirstCaribbean was strong, benefiting from volume growth and higher margin. Expenses were up 37% sequentially including severance incurred in the quarter. Going forward, we maintain our guidance of CAD 75 million to CAD 125 million quarterly loss for the segment, but expect to be on the higher end of that range in the short term.

Slide 21 highlights our full year financial results. As Victor mentioned in his opening remarks, notwithstanding a challenging fourth quarter, our fiscal 2022 results were generally in line with our guidance and demonstrate our progress in executing our strategy. Revenue growth of 9% and pre-tax pre-provision earnings growth of 7% were both in line with our high single-digit guidance and our medium term targets. Operating leverage was negative 2% for the year and below our target as a result of market revenue deterioration later in the year and the proactive measures we took this year to reposition our bank. Our intention is to offset this year's result and generate positive operating leverage in aggregate through 2025.

Adjusted ROE was 14.7%, generally in line with our target despite market pressures in the fourth quarter and a higher CET1 ratio than communicated at our Investor Day as a result of the current uncertain environment.

Turning to slide 22, we've entered fiscal 2023 confident that we will continue to make progress against our client-focused strategy and deliver resilient financial performance given our diverse business mix, conservative credit culture, and strong capital position. Assuming the base economic outlook in our annual report, we continue to anticipate financial results consistent with our Investor Day targets through 2025, namely, positive operating leverage, earnings CAGR of 7% to 10%, and an ending ROE of 16%-plus. We recognize, however, that the environment is uncertain and likely to be more challenging in 2023. And as a result, we've taken proactive measures to reposition our business as outlined by Victor in his remarks.

In aggregate, we anticipate our plans to generate continued but moderating revenue growth through share gains, mid single-digit expense growth, and improving operating leverage for fiscal 2023.

I will now turn the call over to Frank.

Frank Guse, Senior Executive Vice-President and Chief Risk Officer

Thank you, Hratch, and good morning, everyone. Fiscal 2022 was a dynamic year in terms of the macroeconomic environment. Starting in Q2 of the year, we began increasing our allowance levels, reflecting the deteriorating environment. However, our credit performance remained strong throughout the year.

Slide 24 details our provision for credit losses. Our total provision for credit loss was CAD 436 million in Q4 compared with CAD 243 million last quarter. The provision on impaired loans was CAD 219 million in Q4. We experienced high impaired provisions in both retail and business and government loans this quarter. In retail, high impaired provisions were mainly due to an allowance increase as expected, reflective of higher delinquencies returning towards pre-COVID levels. In business and government loans, high impaired provisions were largely attributable to our US Commercial portfolio, reflecting lower reversals this quarter coupled with a few minor increases in Canadian Commercial and CIBC FirstCaribbean and lower reversals in Capital Markets. The provision on performing loans was CAD 217 million in Q4, mainly driven by deterioration in our forward-looking indicators.

Turning to slide 25, we remain prudent in our allowances given the economic backdrop. And so it increased 4 basis points to 62 basis points mainly due to the increase in our performing allowance, driven by the unfavorable change in our forward-looking indicators as I just mentioned, as well as high impaired provisions incurred this quarter, which are still performing well overall.

Slide 26 focuses on our lending portfolio mix. Consistent with previous quarters, our portfolio reflects strong credit quality. Our total loan balances were CAD 529 billion, of which 55% is real estate secured lending. Our variable rate mortgage portfolio accounts for a little over one-third of our mortgage portfolio and show strong credit quality and performance. The average loan-to-value for our uninsured mortgage portfolio was at 48%, which is down from 49% a year ago, but up from 45% in Q3 as we have now seen the house price index drop in certain regions. The business and government portion of the portfolio have an average risk rating equivalent to a BBB, which has remained steady and continues to perform well.

Slide 27 details our gross impaired loans. Overall, gross impaired balances were up in Q4 with an increase in both retail and business and government loans. The increase is in line with our expectations. While the gross impaired dollar increased quarter-over-quarter, new formations remain stable and low from a historical perspective. And both the gross impaired loan ratio and new formations remain lower than our pre-pandemic run rate.

Slide 28 details the net write-off and 90-plus-day delinquency rates of our Canadian consumer portfolios. As expected, both net write-off and delinquencies trended higher in Q4 with client activity continuing to revert towards pre-pandemic spending patterns. As has been noted in prior quarters, we continue to expect an increase in retail delinquencies and write-offs from the lows experienced in previous fiscal years and are well within those expectations.

Slide 29 provides an overview of our Canadian Real Estate Secured Personal Lending portfolio. We continue to focus our origination efforts in the segment where clients have deep and balanced relationships with us. The majority of our mortgage growth over the last two years have been with clients where we have those relationships. 88% of mortgages are owner-occupied, with the balance being principally investor mortgages. Our late-stage delinquency rates across these portfolios continue to remain low and stable, with the Vancouver and Toronto portfolios outperforming our Canadian average. We will continue to take a prudent approach and are closely monitoring as the interest rates rise and markets evolve.

On slide 30, we have included details on the portion of our mortgage portfolio that we'll be renewing in the next 12 months. Over that period, CAD 20 billion of fixed rate and CAD 8 billion of variable rate mortgages contractually come up for renewal. At this time, we still only see a small, less than CAD 20 million of mortgage balances, with clients we see as being at higher risk from a credit perspective and whose LTVs are in excess of 70%. These ratios are very stable quarter-over-quarter. We actively monitor our portfolios and proactively reach out to clients who are at high risk of financial stress.

Slide 31 shows our FICO score and the LTV distribution in our Canadian uninsured residential mortgage portfolio. The key takeaway is less than 1% of our uninsured mortgage portfolio have both a score of 650 or less and an LTV over 75%. Overall, our mortgage portfolio is well positioned and we do not expect to see material losses.

On slide 32, we provide detail of our commercial real estate exposures in both Canada and the US. 68% of our Canadian portfolio and 34% of our US portfolio are investment grade at the quarter-end. We have prudent lending standards for our CRE exposures in both Canada and the US with a strategic focus remaining on wellcapitalized sponsors with strong track record and experience managing through economic cycles. Our exposures in both regions remain well-diversified and continue to perform well.

In closing, our performance is well in line with our expectations this quarter, our credit portfolios are performing as expected, and we have strong coverage. And as the economic conditions evolve, we continue to proactively work with our clients who are more at risk to provide solutions that ultimately drive positive outcomes.

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

Question and Answer Section

Operator

Thank you. [Operator Instructions] We thank you for your patience. Our first question is from Ebrahim Poonawala from Bank of America. Please go ahead.

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

Hey. Good morning. I guess I'm actually just following up. I don't think you mentioned your revenue growth expectation for 2023. When we look at the mid single-digit expense growth number – and I appreciate the uncertainty around the macro, but is the mid single-digit expense growth tie into mid single-digit revenue growth or high single-digit revenue growth? Just talk to us how you're thinking about that. And if the revenue environment is worse, can the mid single-digit expense growth go lower? Thanks.

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

Yeah. Thank you. Thank you for the question, Ebrahim. As I said in my remarks, there is uncertainty with respect to 2023. In terms of our long-term strategy and our results through 2025 and our Investor Day targets, we feel very confident that we'll deliver that high single-digit growth to the bottom line and positive operating leverage and strong ROE.

2023 specifically, what I – as I said in my remarks, the guidance is more to continue revenue growth, but we expect that that to moderate from this year's 9% level. We didn't provide specific guidance. Is that mid single digits? Is that mid to high single digits? Because of the fact that there is uncertainty in the environment. What we are confident of is, we will continue growth with our clients across all of our segments. We will continue to gain share. We continue to have the benefits from interest rates as tailwinds. And we will stabilize expenses around this quarter's levels, which will result in a full year year-over-year expense of around mid single-digit. And that is something that we're very focused on.

The revenue side can move around, depends on markets and fee revenues derived from that. There's lots of uncertainly. So, between mid single digits or little less, a little more, I wouldn't forecast that at this point or guide to it, Ebrahim. If things do get more uncertain, as we have done this quarter, you can rely on us to continue to manage to deliver our target and continue to take actions to reposition the business and to try to deliver positive operating leverage over time, which is always our target.

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

But any strong views on operating leverage in 2023?

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

Sorry. I didn't – Ebrahim, I'm having...

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

Yeah. I was just asking, any strong views around I think positive operating leverage in 2023?

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

Yeah. As I said, we are confident we will deliver in aggregate positive operating leverage in – over a period of a few years. We've taken the extra step in our annual report – you may have noticed or maybe not yet – to define more specifically what we mean by our medium term targets. And so we do look at them through the cycle over a three- to five-year period. And so we feel very confident about that.

In terms of 2023, as I said in my remarks, we're looking for better operating leverage than this year. We're looking for operating leverage that is improving over time. And we're confident that we can do that. And as always, in any given year, we would prefer positive operating leverage. However, we know we can control the expense side. We know we have more levers we can pull on the expense side if we needed to. But the revenue side could make positive operating leverage challenging in any short period of time.

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

Got it. Thank you.

Operator

Thank you. The following question is from Meny Grauman from Scotiabank. Please go ahead.

Meny Grauman, Analyst, Scotiabank

Yeah. Hi. Good morning. Apologies if I missed this, but I was hoping we could get an update in terms of your views for mortgage and commercial loan growth in 2023 specifically.

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

Good morning, Meny. It's Laura. So, I will start that off, and then I'll hand it over to Jon for the commercial for the commercial side. When we look at our housing and economic outlook and looking at our application pipeline, that is down. Expect to see, I'd say, low single-digit growth for 2023.

I would like to highlight and maybe even a shout-out, if I may, to our CIBC team members involved in mortgages because, over the years, we've really delivered consistent growth. I also want to point out we've made really good strides in our franchising of our mortgage clients. So, as at October, 92% of our client base that have mortgages now have deeper relationships with us. So, while we will see volume come off of 2022 levels, we do expect to continue to do really well on the franchising side and to grow in other areas of the bank that I think are going to offset some of the decrease that we see in the mortgage side of the business.

And maybe over to Jon for commercial?

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

Thank you, Laura. So, 2022 was a robust year for the industry in terms of commercial loan growth. I think the industry did about 15% this year, 15% to 20%. We were at the high end of that. Historically, the industry is in the high single, low double-digit range. Most years, 9% to 11%. When I look at the client entrepreneur confidence, when I look at the macro environment, our feeling is that growth rates are going to go back to historical levels high single, low double. And we'll continue to be kind of in the mix, hopefully outgrowing.

Shawn, let me pass it over to you.

Shawn Beber, Senior Executive Vice-President and Group Head, U.S. Region; President and Chief Executive Officer, CIBC Bank USA

Thanks, Jon, and good morning, Meny. Thanks for the question. Really quickly, we had strong growth in fiscal 2022 similar to what Jon talked about for the Canadian Commercial business. It's a function of the investments, the strategic investments we've been making. We expect that to moderate in 2023 and expect for high single digits growth in loan growth for the US segment.

Meny Grauman, Analyst, Scotiabank

Thanks for that. And then I just want to ask on Canadian Wealth Management deposits. A pretty big quarter-over-quarter decline. I presume that's related to the rate environment. But the question is, how much of that is being retained at CIBC? So, I assume these deposits are going to higher yielding places, but how much of that is staying at CIBC?

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

Thank you for the question. It's Jon. The entire amount that dropped in the Wealth business moved over to the rest of the bank.

Meny Grauman, Analyst, Scotiabank

Thank you.

Operator

Thank you. The following question is from Gabriel Dechaine from National Bank Financial. Please go ahead.

Gabriel Dechaine, Analyst, National Bank Financial

Hi. Good morning. So, I want to dive into one of Victor's comments there. Client acquisition was the best since 2017; and that was a period, I believe, when CIBC was growing mortgages at 2x the industry average, if I recall correctly. I want to draw a dotted line from that period to today as far as the impact of the high period of mortgage growth to the influence that has on your margins today such that is CIBC disproportionately exposed to lower renewal margins in the mortgage book because you grew so fast five years ago? Because that's typically a term that consumers…

Victor G. Dodig, President and Chief Executive Officer

So, Gabriel, just let me comment on a couple of things, and then I'm going to hand it off to Laura. This year was a year of significant growth for our Personal Banking franchise in Canada. We grew our Canadian retail client base by over 25% with the acquisition of the Costco portfolio. We were growing our affluent segment at 3 times the level of our market share in our personal bank. We've put in place over 1,400 financial advisors that are focusing on the emerging affluent that are dealing with that bulk of mortgages that is increasingly being franchised. So, with that, that's all aligned with our strategy, all aligned with that high-touch, high-growth segment.

Gabriel Dechaine, Analyst, National Bank Financial

Yeah.

Victor G. Dodig, President and Chief Executive Officer

Laura, maybe you can elaborate on that.

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

Sure. Thanks, Victor, and thanks for the question, Gabriel. As Victor pointed out, we've actually – not just have we grown in mortgages, but we have grown across all of our products. In fact, our leading product for a while has been in the deposit side of the business, everyday banking. And so that's actually a really positive sign.

And it's worth pointing out, like, we had an incredibly strong year once again this year on all of client acquisition, retention, and franchising. And so when we look at client growth, as I said, net client growth, we were at 4.1%. We're told our peer average was only at 2.5%. So, we did really well. And we had our best retention rates ever. So, above 95%. So, I think that really speaks to how well we've been doing, not just on the franchising front, but on the client experience front. Franchising is going quite well.

But the reality is, to your point on margins, I mean, mortgages is a large part of our book. We've done a great job growing. And, again, across all of our products, we have delivered market-leading growth. But because mortgages are a large part of our asset base, when we go through some NIM compression there, it does affect our overall results.

Now, we've shown leadership, and I'm sure you've seen that on multiple occasions in mortgages when it comes to raising client rates. So, we did that to protect our margins, and we did give up some near-term market share growth. However, as we've experienced like many, the pace of market rate increases far, far outweighed our client rate increases. That, along with the slowing mortgage market and really intense competition, saw our inflow margins, I'd say, come under more pressure than we've ever seen before.

And I tell you, notwithstanding how selective we were in the market in that we focused really on our deeper client relationships, we had our lowest inflow margins in October. And we also had, as you saw – and this was probably kind of bigger impact – but we had a big drop in prepayment activity this quarter with the rapidly rising interest rate environment. Last quarter, we benefited from that; and this quarter, it fell.

And if this can give you some comfort, if you will, into the future – and, again, we've just started – but when we look at November, I'd tell you that we expect our prepayment activity to remain low. So, we shouldn't see as much volatility sort of next quarter as we did this quarter. And when we look into our November mortgage commitment pipeline, we are seeing much higher spreads than we saw in our October lows.

So, again, I think, just given – we have to digest the rapid increase in our cost of funding. It's got to work its way, if you will, through the system. That we're going to continue to see some margin pressure in the first and into the second quarter of 2023, but I would expect our margins to gradually improve thereafter. And as I said earlier, we are growing across all of our products in the bank, and we're doing really well in deposits and we do expect to see continued margin expansion in those products.

I hope that answers the question, Gabriel.

Gabriel Dechaine, Analyst, National Bank Financial

It does. I could go on, but in the interest of time, I'll say have a good day.

Operator

Thank you. The following question is from Mario Mendonca from TD Securities. Please go ahead.

Mario Mendonca, Analyst, TD Securities, Inc.

Good morning. I'm sure what you guys are suggesting from a margin perspective is consistent with each other, but I was having a little trouble piecing it together. Hratch, you talked about how the bank would continue to benefit from raising rates, but doesn't sound like Canada retail will in the near term. Could you perhaps, Hratch, take a global look at the bank and think about what margins might do in the first half of the year relative to the second half of the year? Because my suspicion is that it'll look a little bit better in the second half, at least relative to peers. Can you help me think that through?

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

Yeah. Good morning, Mario. Happy to do that. And in general, I would say you're right. I think we will see better margin trajectory as interest rates stabilize because some of the factors Laura spoke about will stabilize. It's been a bit of noise given the pace of increases in terms of Bank of Canada rates, in terms of Fed rates, the pace and extent, and then how that reprices through our balance sheet.

But I would start by saying, look, we've got a strong balance sheet. We've got strong businesses that are growing on both sides, loans and deposits, generating margins on both sides of the balance sheet, and overall contributing to NIM trajectory. There's a number of factors at the total bank level that impact this, and we've talked about that in the past. So, there's mix changes. If you look at what happened this quarter to total bank NIM, mix changes were a factor. You saw more liquidity. You saw our LCR go up to 129%. You would have seen our cash resources, a lot of it sitting at Bank of Canada. You would have seen that on our balance sheet increase. So, some of those costs affect overall margin. Those things will normalize, and then the core trend of benefiting from interest rates will come in that will help total bank margin.

If I go now to Canadian P&C to answer your question, we will see benefits there as well. And so you will continue to see the same benefit a few basis points a quarter. We've been very consistent with this. Our guidance is set from interest rates. We will benefit a few basis points a quarter on an ongoing basis, which puts you in the territory of 10% to 15% – 10 basis points to 15 basis points over a year over four quarters, if you will, on a spot basis. So, we still feel pretty good about that.

The factors that are impacting margins of that business, Laura covered in the short term, right? Prepayments was a negative now. We don't expect that to impact it going forward. So, I don't expect sequentially that put pressure in the first half of the year.

But the mortgage margin piece Laura spoke about I think will be a factor for a little while longer. The commitment spreads are starting to go up. But when those hit your book, are a little bit delayed, as you know, a few months later. And so I think as that stabilizes and some of the other noise around the cost of funds increases passes through, you will see a better trajectory in the back half than the first half.

Mario Mendonca, Analyst, TD Securities, Inc.

Okay. So, moving to a different topic, the performing loan reserve clearly stands out there a little more than what your peers are reporting. What would be helpful is understanding what product specifically or region specifically got the lion's share of that performing loan reserve increase? And maybe not regions because I can figure that out for myself, but more of what product?

Frank Guse, Senior Executive Vice President & Chief Risk Officer

Yeah. Morning, Mario, and thank you for the question. So, as you said, well, PBB and the US Commercial and Wealth, if you're asking about regions, that's where the performing allowances are being build. And what I would say overall is, despite that performing allowance build, when we look at the underlying credit quality, we remain very, very positive. And we see strong performance in impairments, in delinquencies, in early delinquencies as well. What's driving that performing build is, really, our forward-looking indicators. So, Canadian GDP, DSRs coming down. And that is impacting – to your question, that is impacting mostly our personal lending book and our credit card book in Canada.

And then in the US, it's really our US GDP outlook coming down; and that, of course, is then having an impact on our US book. So, in particular, the commercial book in the US.

Mario Mendonca, Analyst, TD Securities, Inc.

Okay.

Frank Guse, Senior Executive Vice President & Chief Risk Officer

We additionally...

Mario Mendonca, Analyst, TD Securities, Inc.

Yeah. Sorry. Please go ahead.

Frank Guse, Senior Executive Vice President & Chief Risk Officer

Yeah. We additionally saw smaller but regular model adjustments, and those had a small impact as well. But as I said, overall, we continue to be very comfortable with our allowance level.

Mario Mendonca, Analyst, TD Securities, Inc.

So, on Canada cards, when you say personal lending, you're referring to mortgages as well. Is that right?

Frank Guse, Senior Executive Vice President & Chief Risk Officer

No. Just very limited in the mortgage space. When I say personal lending, it's mostly our unsecured personal lending books.

Mario Mendonca, Analyst, TD Securities, Inc.

Got it. Thank you. That was helpful.

Frank Guse, Senior Executive Vice President & Chief Risk Officer

Thank you.

Operator

Thank you. The following question is from Sohrab Movahedi from BMO Capital Markets. Please go ahead.

Sohrab Movahedi, Analyst, BMO Capital Markets

Thanks. Just – first, Hratch, just for – sorry to be a stickler around this. When we talk about this mid single-digit expense growth next year, is it off your reported expenses or adjusted expenses?

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

Morning, Sohrab. It would be adjusted.

Sohrab Movahedi, Analyst, BMO Capital Markets

Okay. And so maybe the bigger question, really, Victor. I think a couple of times, you mentioned repositioning, and it's a messy quarter. There's lots of stuff that, I don't know, is not uncommon to have in the fourth quarter. You increased the dividend. Can you kind of zoom it out and just remind us what you see the earnings power of the bank, please?

Victor G. Dodig, President and Chief Executive Officer

Sure, Sohrab. Thank you for your questions. So, this quarter doesn't really reflect the earnings power of the bank. If I look back at the full year, I think that reflects the earnings power of the bank. Our revenue growth led peers over the course of the year. Our pre-provision earnings growth led peers over the course of the year. What was distinctive about our strategy is that we went into fiscal 2022 continuing with our investment agenda. We invested in a large credit card portfolio. We grew our retail client base by 25%. We continue to grow market share in Capital Markets and Commercial Banking in the US. We continue to focus on the affluent client segment when it comes to Wealth Management and Personal Banking.

So, all of those markers, which we see as key indicators, are working really, really well. If we were a private company, we continue to invest at those levels. But we're a public company. We recognize the economy is shifting. We need to deliver constructive operating leverage to our shareholders, so we're pivoting. And this quarter is a bit of a pivot quarter. This does not reflect the full earnings power of CIBC.

We feel very good about the investments that we've made. We feel that we will get scale and leverage on those investments. And as I said in my remarks, we've made our compensation investments. It's a competitive market. We don't want our own team to be left behind. And we've made significant strategic investments that now we're at a point where you're going to see benefit as we head into 2023.

Sohrab Movahedi, Analyst, BMO Capital Markets

Okay. Thank you.

Operator

RBC Capital Markets. [Technical Difficulty] So, Mr. Mihelic, your line is open. You may proceed with your question.

Darko Mihelic, Analyst, RBC Capital Markets

Oh, hi. I apologize. My bad. Good morning, everyone. I just wanted to key in a little bit more, Hratch, if I may, on the net interest margin and sort of what we're seeing. And forgetting the segmented for a moment, getting back to Mario's question with respect to the sort of view in the short term, can I just ask, what was the deciding factor in this quarter that sort of increased your liquidity portfolio? Looks like you've increased – you took in a lot of deposits in the quarter. Can you just describe for me the thought process behind building liquidity in this quarter at a very high cost? And what does that...

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

Thank you.

Darko Mihelic, Analyst, RBC Capital Markets

I'm sorry. And just – and what does that mean going forward? Does this mean that we should expect CIBC to continue to build liquidity going forward in this uncertain environment? And is that going to be a further drag?

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

Yeah. Thank you for your question, Darko. Look, I would say that the liquidity build this quarter was predominantly – and you keyed in on it, right – due to our success on deposits. We continue to be focused on serving our clients' needs, both sides of the balance sheet, balanced growth. And as you know, deposits – cost of funding on deposits is preferable to cost of funding in the wholesale markets, particularly when you've seen wholesale costs go up on the longer end, 100 basis points or so on credit spreads of banks; on the shorter end, about half of that. And so the margins on deposits and the incremental funding cost benefit that deposits have, whether they are term or indeterminate maturity to wholesale funding is larger today than it is.

And so we've been focused on deposit growth. We've been serving clients on that side and had good deposit success, and that built up some excess liquidity. And that gets deployed over time. It just takes a little bit of time for us to deploy it. And so in this short term, it becomes excess liquidity. I would not anticipate us continuing to build that excess liquidity. Our focus is on deploying those deposits to support clients, to grow our strategy, and to grow our margins. And over time, you've seen that, right? You've seen our NII at the total bank level, up 12% year-over-year this year. And that's what we're focused on. We will continue growing NII. Margins overall, as I said, will have a positive trajectory as we go forward. Deposits will keep coming. Loans will keep coming. And there is a little bit of sometimes timing mismatch between those two things. So, I wouldn't extrapolate past this quarter on that one.

And on the deposit front, we will continue to see benefits of rates. As I mentioned in my remarks, a large part of our client deposit base is noninterest-bearing or low-cost, and we don't pass on the benefits of rising rates to those deposits. I would say less than a quarter of the deposit margin expansion that we would see based on where rates are now has yet – has made it into our deposit. And so there is a lot more to go to benefit from rising interest rates by raising deposits and continuing to deploy that to support clients on the lending side.

Darko Mihelic, Analyst, RBC Capital Markets

But to be clear, Hratch, the big deposit growth that I see by segment is in your Capital Markets business. I mean, it's up CAD 112 billion – it's CAD 112 billion versus CAD 98 billion just last quarter and versus... And so, are those the high-quality deposits you're referencing? And what kind of deposits are those? Maybe you can maybe flesh that out for us.

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

Yeah. Certainly. So, one of the things I'll say, and I'll turn it to Harry in a second here, remember that that segment covers across a number of different areas. We've got our DFS business in that segment as well. There are deposits that cut across the corporate bank that we've got structured notes, deposits. We've got deposits with clients across the board. And there's also FX. So, keep in mind the FX component. We do have deposits in there that are not Canadian dollar-denominated, and some of that could impact that.

But I'll pass it on to Harry and he can speak to more specifics.

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

Thanks, Hratch, and good morning. Both sides of the balance sheet are so important to our business, of course. And we've been very focused over the last, I'd say, medium term on driving our deposit growth across the product areas that Hratch just mentioned. And we were very focused, as you know, based on our Investor Day discussions around our growth in the US which has gone well. We've actually doubled the size of that business over the last five years, as you'll know.

And so we're focused on both sides of the balance sheet in the US. These are core clients we're dealing with, that we're showing all of CIBC and that we're delivering all of CIBC to those clients, and this is a need for our clients. So, we're going to continue to focus in that area, really driving the funding side, as well as the asset side – liability side.

Victor G. Dodig, President and Chief Executive Officer

Darko...

Darko Mihelic, Analyst, RBC Capital Markets

Thank you.

Victor G. Dodig, President and Chief Executive Officer

...just strategically, I know you're kind of querying on this specific space, we've actually took a very leaned in approach to offering our clients competitive deposit rate as they shifted their own mindset from equity markets and noninterest sensitive deposits to term deposits. And that if you look at the delta growth for us in that space, it's been notable. I think that's going to serve us well in terms of having franchised those clients as we come out of this and get into a more benign environment. It's driven better Net Promoter Scores, a better client experience; and quite frankly, our clients are winning. Our job now is to make sure that our clients and our shareholders win in a very balanced way going forward.

Darko Mihelic, Analyst, RBC Capital Markets

Thanks, Victor. I appreciate the color.

Victor G. Dodig, President and Chief Executive Officer

Thank you.

Operator

Thank you. The following question is from Scott Chan from Canaccord Genuity. Please go ahead.

Scott Chan, Analyst, Canaccord Genuity Corp.

Good morning, everyone. I'll keep it brief. Hratch, on your mid single-digit expense target for 2023 and some of the conversations about the first half and second half and parts of your business like with margins, do you have a sense for us on – because I know you talked about kind of keeping the flat line on CAD 3.3 billion in fiscal Q4. Like, is it a straight line, or is there stuff to think about in certain quarters from a seasonality or strategic basis in terms of the – how those expenses will flow through in the year?

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

Thank you. Thank you for the question, Scott. It's never a complete straight line in our business, right? There is variability time-to-time. But maybe I'll go back to reminding everybody, right, where we are in terms of our expenses, and the guidance we had all year is consistent. Our core expense growth can be in the low single-digit range in terms of BAU, and that's where it was. That was about – another so much because of inflation. We do expect inflation to go away. And so with the inflation, we were around that 5%. And then we had – the other roughly, so much of it is our strategic investments, which year-over-year was a higher spend, but those are stabilizing.

And so we continue to execute on our strategy, we continue to invest, but there is no increase in the level of investment anymore. And so that level of investment stabilizes, inflation starts to backtrack, and the actions that we've taken essentially can offset the rest of the low single-digit structural increase that you would have seen in the normal course. And so that gives us the confidence to say we can generally go stable from here, but there's going to be some pluses and minuses in any quarter. And you can do the math, right? If you take that 3.31 and you take something in that magnitude, plus or minus any quarter into 2023 and you look at what that is, just because of the growth through 2022 and our expenses, that will give you a result that's a mid single-digit, and we're confident we can deliver that.

Scott Chan, Analyst, Canaccord Genuity Corp.

Okay. Thanks, Hratch.

Operator

Thank you. That's all the time we have for questions. I would now like to turn the meeting over to Victor.

Victor G. Dodig, President and Chief Executive Officer

Thank you, operator. So, I just want to apologize to those viewers still in the queue because I know there are other calls happening and you're all backlogged. I want to let you know that we are all available for any questions you may have, including myself, over the next day, two days, next week, to answer anything that you'd like to ask us and to give you confidence that we have a plan that we'll deliver on in 2023.

So, before we end the call, and on behalf of the board and the executive committee, I wanted to thank all of our CIBC team members globally for your continued support of our clients. Your purpose-driven, client-first focus is a critical component of the success of our bank, and that's what you're seeing in terms of client experience, client retention, client acquisition. And while there may be headwinds as we enter the new year, I have confidence in our strategy, I have confidence in our leadership team, and I have confidence in our team members globally who helped establish clear growth momentum for Canada – for CIBC, across all business lines. That was a little Freudian slip because I hope Canada does win at 10:00 today when they face Morocco. And for those of you who care, I hope Croatia beats Belgium.

Anyway, together, we built a relationship-oriented bank for a modern world. And we're building that bank. We're confident in the strategy that we have. We're going to compete. We're going to win for business each and every day to grow our franchise. But we're also mindful of the economic environment that we're in, and we're adjusting our rate of expense and investment growth to that mid single-digit level over the course of 2023.

I want to wish all of you and yours a very festive holiday season and look forward to engaging with you in the new year. Thank you.

Operator

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