CWB Financial Group

First Quarter 2021 Financial Results Conference Call

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Matt Rudd — *Executive Vice President and Chief Financial Officer*

Patrick Gallagher — *Vice President, Strategy and Investor Relations*

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PRESENTATION

Operator

Welcome, everyone, to CWB's First Quarter 2021 Financial Results Conference Call and Webcast.

Mr. Patrick Gallagher, you may begin your conference.

Patrick Gallagher — Vice President, Strategy and Investor Relations, CWB Financial Group

Good morning, and welcome to our First Quarter 2021 Financial Results Conference Call. My name is Patrick Gallagher and I'm the Vice President leading our Strategy and Investor Relations team.

I would like to remind listeners and webcast participants that statements about future events made on this call are forward-looking in nature and based on certain assumptions and analysis made by Management. Actual results could differ materially from expectations due to various risks and uncertainties associated with CWB's business. Please refer to our forward-looking statement advisory on Slide 14.

The agenda for today's call is on the second slide. Presenting to you today are Chris Fowler, our President and Chief Executive Officer, and Matt Rudd, our Executive Vice President and Chief Financial Officer. Following their presentations, we'll open the lines for a question-and-answer session. I'll now turn the call over to Chris, who will begin his discussion on Slide 3.

Chris Fowler — President and Chief Executive Officer, CWB Financial Group

Thank you, Patrick. Good morning, we had a very strong start to the year. Our teams delivered first quarter financial performance that surpassed our expectations as we execute on our strategic objectives. While we benefited from a lower provision for credit losses this quarter, the primary driver of our strong financial performance was growth in our net interest income. Pre-tax, pre-provision income increased 12 percent compared to last quarter and improved our base case EPS expectations for the year. As we emerge from the pandemic, we may see a further upside if vaccine rollout occurs faster and opportunities to prudently grow loans accelerate earlier than currently anticipated.

A key strategic objective has been to grow and diversify our funding sources, and we delivered a strong first quarter result. Branch-raised deposit growth was 6 percent sequentially, marking the eighth consecutive quarter with a very strong increase. Improved diversification of our funding base with strong growth and lower costs branch-raised deposits supports net interest margin resilience and revenue growth in this low interest rate environment.

Another key strategic objective is to diversify our geographic footprint through accelerated growth in Ontario, and we also delivered a strong first quarter result. Ontario loan growth accounted for over 40 percent of total loan growth this quarter. While it is early days for a new banking center in Mississauga, its current business pipeline is one of the strongest in the country.

Our approach to managing credit risk has proven to be very effective, and we continue to experience low write offs as a percentage of total loans. While our impaired loans increased in the quarter, the increase is consistent with our expectations. The increase included two specific connections, and we remain confident in the strength, diversity, and underwriting structure of the overall loan portfolio.

Our strategic objective to transform capital management from the standardized approach to the advanced internal ratings-based approach is in the parallel run process. Transition to the AIRB approach for regulatory capital includes tools and processes for day-to-day risk management that better equip us to allocate resources to target business segments that generate the most attractive risk adjusted returns and conduct stress testing at a very granular level. Carolyn Graham, our new Chief Risk Officer, expects to use the full year to validate our AIRB tools and processes while we operate under the parallel run. Once complete, we will resubmit our application to OSFI for review in the first half of 2022.

Our strong performance reflects our relentless focus on creating unrivaled experiences for our clients. In today's environment, we are combining our responsive personal service with innovative digital solutions. We launched end-to-end digital onboarding for all personal clients in 2020 to allow accounts to be opened online with the immediate ability to transact. In 2021, we will deliver the same end-to-end digital onboarding for all small and medium-sized business owners.

In addition to our partnership and collaboration with Temenos, we are creating an innovative solution using their Infinity digital banking product with explainable AI to support small and medium-sized business owners. Our new digital program will provide a seamless end-to-end digital banking experience to complement our high touch personalized service. Our enhanced and targeted digital capabilities enables us to continue to grow and diversify our business across Canada by winning new clients both within and outside our brand’s footprint, while further broadening our access to lower cost funding.

We also completed organizational redesign initiatives that enhance our full service client experience in our target markets by repositioning and consolidating branches in Alberta and British Columbia. Including our branch in Mississauga that opened in August, we opened new branches in both BC and Alberta that feature our refreshed client inspired design. The initial feedback we've received from both our clients and teams is our new spaces are open and collaborative.

We are focused to drive a positive and inclusive culture and employee experience that creates value for our people and a clear destination for top talent. Operating as an essential service during the pandemic has provided unique challenges for our client facing team members in our banking centers. To thank them for their efforts and actions, we provided each of them a one-time bonus in December. We also broadened the resources available to all our teams to build awareness and provide additional support around mental health and wellness.

I am impressed with our team's efforts as we continue to deliver our strategic objectives, transform our capabilities and deliver strong financial results. Our team's performance and their dedication to our strategy and clients make me proud to lead CWB.

I will now turn the call over to Matt, who will provide greater detail on our first quarter performance and improved outlook for 2021.

Matt Rudd — Executive Vice President and Chief Financial Officer, CWB Financial Group

Thanks, Chris. Good morning, everyone.

Turning to Slide 4. On a full year basis, branch-raised deposit growth of 20 percent reflects our continued focus to grow our full-service relationships with existing and new clients. Demand and notice deposits, our lowest cost source of funding, increased 36 percent and now accounts for 41 percent of total funding, that compares to 34 percent last year. In the quarter we also issued a $500 million senior deposit note at our longest ever term length of seven years and at attractive interest rate. We continued to drive a reduction in the outstanding balance of broker deposits, which now represent 22 percent of our total funding, down from 27 percent last year.

Looking at Slide 5, our total loans increased 6 percent in the past year. Now that was supported by 15 percent growth from our strategically targeted general commercial portfolio, and 14 percent growth in Ontario. Our very strong general commercial growth reflects ongoing efforts to increase full service relationships across our national footprint. Ontario continues to represent a significant proportion of our overall loan growth, and Ontario based loans now represent 24 percent of our total loans.

Reflecting our current base case expectations for gradual recovery of the Canadian economy, we continue to expect to deliver mid single-digit percentage annual loan growth similar to last year. This includes a continued focus on growing in Ontario, in full service general commercial clients, and with secured loans that offer both an appropriate return and acceptable risk profile.

As Slide 6 shows, we had a very strong start to the year with our teams delivering first quarter financial performance that surpassed our expectations. Our common shareholders net income increased 10 percent and pre-tax, pre-provision income increased 9 percent compared to last year, despite the very low interest rate environment. Adjusted EPS increased by $0.10 from the same quarter last year, and that was with growth of net income adding about $0.12 to EPS. The 7 percent increase in net interest income compared to last year reflects the benefit of 6 percent loan growth, partially offset by seven basis point declining net interest margin, which has been fairly stable considering the 150 basis point drop in the Bank of Canada policy rate over that same period. The wealth acquisition added $0.01 to EPS. That's consistent with our expectations of modest initial contributions to earnings per share at first, with further accretion expected starting next year.

Excluding the impact of the wealth acquisition, non-interest income growth provided another $0.01 to EPS, largely from gains on securities. Also, excluding the wealth acquisition our non-interest expenses were up 6 percent year-over-year, that included the incremental costs associated with operating our AIRB tools and processes, and the continued investment in our teams and technology to support strategic execution. Our total provision for credit losses of 18 basis points this quarter was flat to last year and did not contribute to growth in EPS compared to the prior year.

Our very strong sequential performance is shown on Slide 7. Our common shareholders' net income increased 25 percent and pre-tax pre-provision income increased 12 percent compared to last quarter. Adjusted EPS increased $0.18 from last quarter. A net recovery of $4 million in our estimated provision for credit losses on performing loans, compared to a charge of $12 million last quarter, did provide $0.05, but that was less than a third of the sequential EPS increase. The remaining $0.13 increase in EPS was driven by strong core operating performance, with $0.07 from higher net interest income now reflected loan growth and a two basis point improvement in net interest margin, and $0.05 of EPS improvement reflected the expected seasonal decline in certain expenses. That was partially offset by higher costs associated with operating our AIRB tools and processes for the parallel run, which did commence this quarter.

Our delivery of strong revenue growth again this quarter in a very challenging environment is shown on Slide 8. Our net interest margin stabilized in the third quarter last year and has continued to build since then. During this quarter, our net interest margin increased by two basis points, as we were able to both drive very strong branch-raised deposit growth, in demand and notice primarily, while also reducing the interest rates of certain deposit products to capture NIM. This benefit was partially offset by the impact of higher cash and securities balances. The continued NIM expansion this quarter, combined with 1 percent loan growth, generated a 4 percent sequential growth in net interest income.

Turning to Slide 9, the credit quality of our portfolio and provision for credit losses continues to reflect the secured nature of our lending portfolio, disciplined underwriting practices, and practical management. The first quarter provision for credit losses on total loans as a percentage of average loans was 18 basis points, flat to pre-pandemic period of Q1 last year and down from 26 basis points last quarter. The estimated provision for credit losses on performing loans was a net recovery of six basis points, compared to a charge of three basis points last year, and a charge of 16 basis points last quarter. Last quarter, the performing loan provision charge reflected a further significant deterioration in macroeconomic assumptions related to the estimated economic impact of the COVID-19 pandemic, and that resulted in a larger proportion of loans classified in Stage 2 last quarter. The recovery this quarter reflected an improvement in near-term economic forecast, and resulted in a migration of loans back to Stage 1, with the percentage of loans in Stage 2 dropping from 34 percent to 13 percent this quarter.

At January 31, our allowance for credit losses on performing loans totaled $126 million, the decrease of $4 million I previously referenced. Ongoing shifts in macroeconomic factors, portfolio defaults or increases in the risk rating of our loans will continue to impact the performing loan allowance in future quarters. We are currently very comfortable with the adequacy of our performing loan allowance at this level. At 24 basis points, our provision on impaired loans was just slightly above our five-year trailing average. While last year and last quarter were both significantly lower than our historical experience, gross impaired loans at January 31 totaled $284 million. That was about 93 basis points of total loans, up from $257 million or 85 basis points last quarter.

Our realized write-offs remained low this quarter, which has been consistent with our historical experience, even through periods of elevated levels of gross impaired loan formations. Our solid credit performance reflects our prudent underwriting, the secured nature of our lending portfolio, and our disciplined management of impaired loans through to resolution while limiting realized loan losses.

Based on our current outlook for the Canadian economy, as we do describe further in our MD&A, we continue to expect that our total provision for credit losses for Fiscal 2021 will remain at elevated levels compared to 2019, a pre-pandemic period, but lower than the provision for credit losses we recognized for the full year of Fiscal 2020. We believe we could be on the high end of that range, based on the expectation of an increase in gross impaired loan formations through this year – that's consistent with what we've experienced in past recessions. That said, we acknowledged that the current recession is unique, as is the level of government support and stimulus currently being provided, which makes the expected level of impaired loans and provisions required against those loans difficult to predict.

As we note on Slide 10, our capital ratios remain strong and stable through the volatile economic conditions of the last year. Calculated using the Standardized approach, at January 31 our Common equity Tier 1 ratio was 8.8 percent – that's consistent with last quarter, and 30 basis points lower than last year, but that's entirely as a result of our wealth management acquisition. Both our Tier 1 and Total capital ratios are above prior year, that reflects the benefit of $175 million of Tier 1 limited recourse capital notes we issued last quarter. At 8.4 percent, our leverage ratio remains very strong.

As Chris noted earlier, our progression towards AIRB approval continues with a parallel run of our tools and processes currently underway. We expect that approval will provide a boost to our regulatory capital ratios compared to the standardized approach. That's due to the more risk sensitive measurement of risk weighted assets under AIRB, which will reflect our history of strong credit performance and low loan losses.

Yesterday, our Board declared a common share dividend of $0.29 per share consistent with the dividend declared last year and last quarter.

Looking forward on Slide 11, despite the provision for near-term volatility, we continue to expect a gradual recovery of the Canadian economy through 2021. Under this assumption, and building off our strong first quarter results, we now expect to deliver mid single-digit percentage growth of adjusted earnings per common share for Fiscal 2021. Higher net interest income is expected to be driven by loan growth and a modest increase in net interest margin compared to last year, and that will reflect lower funding cost and strong branch-raised deposit growth. We also continue to expect non-interest income growth across all categories in Fiscal 2021, with the exception of net gains on securities, where we benefited from some one time gains last year and do not expect to realize significant gains in the current year. Non-interest income is expected to continue to represent approximately 12 percent of our total revenue on a full-year basis.

We'll continue to make the planned investments in our strategic priorities to deliver an unrivaled experience for our clients. This is expected to drive a higher level of non-interest expenses through the remainder of the year compared to the first quarter – that's based on the timing of these planned expenditures. As the year progresses, we'll ramp up our activity on our project to deliver an enhanced digital banking offering for business clients, and that will position us for accelerated and scalable growth as the economy recovers. We do expect to hold our efficiency ratio below 50 percent on a full-year basis – that's driven by stronger net interest income growth than previously expected. If we exclude the impact of the wealth acquisition we made last year, we expect that our efficiency ratio would be just outside the upper end of our previous target range of between 45 percent to 47 percent. But, we look at that as reasonable as we'll continue to make the investments now to position us to capitalize on the growth opportunities that will emerge as the economy recovers.

With that, let's go ahead and open the lines for Q&A.

Q & A

Operator

Your first question comes from the line of Paul Holden from CIBC. Your line is open.

Paul Holden — Analyst, CIBC

Thank you. Good morning. The guidance you just provided there is very helpful and answers some of the questions I had. But where I want to start, I guess, is on the branch-based deposit growth. It's been a strategic priority for a while now, and you have seen good growth in prior quarters that seem to really accelerate in Q1. Are you gaining increasing traction with the strategy, or is there some kind of market-related tailwind that helped this quarter specifically? Just trying to get a better sense of sustainability around this type of growth rate versus what we've seen previously.

Matt Rudd — Executive Vice President and Chief Financial Officer, CWB Financial Group

Yes, I'll start and Chris can pipe in if I missed anything. Really what we've seen this quarter is not much different from what we've seen in previous, in that new client acquisition has been fueling that growth. We did convert a lot of clients from lending only to full service this quarter. On the trust services side of things, we won some new mandates and new clients. So, it's really new client acquisition that continues to fuel that growth. We did see a continued increase in our existing levels of cash balances held by our existing clients, but new client growth continued to be the primary driver of that increase. We continue to expect that to be the case as the year progresses. Of course, some of the cash we do have parked in these accounts will unwind, but we believe we can offset that impact with strong growth as the year progresses.

Paul Holden — Analyst, CIBC

Okay, great. Then just in terms of the release of performing allowances and I guess the mechanics behind it, and the economic model assumption update. But when you look at actual credit performance and what you're hearing from your customers, was there anything in there that gave you additional confidence to release reserves today?

Matt Rudd — Executive Vice President and Chief Financial Officer, CWB Financial Group

Yes. The macroeconomic factors you've highlighted, that was especially helpful to our personal retail lending portfolio. It was an improvement in unemployment and house price outlook that was a bit more bullish than what you'd see we would have used last quarters as assumptions into the models. On the commercial lending side, we've seen something that's different from what we had expected last quarter. We had presumed that default and delinquency rates would really start ramping up here. On delinquency especially, we've actually seen the exact opposite happen through the last quarter. We saw the overall level of delinquency in our commercial lending book decrease, and actually decreased to a level even below pre-pandemic levels. So that's different than what we would have expected last quarter and did fuel a bit of our recovery in our performing loan allowance right now.

But we like where we are in terms of an overall performing loan allowances as a base and working from here as the year progresses. We feel like it's adequate and able to absorb some of the volatility uncertainty we'll see here. We're pretty comfortable right now, Paul.

Paul Holden — Analyst, CIBC

Just a follow up on your comment regarding delinquencies coming in lower than expected. Do you feel this is simply a delay and maybe it comes in future quarters? Or do you feel the economic improvement and government stimulus and low borrowing costs, etc., have really permanently impacted where delinquencies will go this cycle?

Chris Fowler — President and Chief Executive Officer, CWB Financial Group

I think borrowing costs definitely help. We do anticipate, and have experienced in past economic downturns, a bit of a delay where you do have companies that hang on, hang on, hang on, and then things turn, and they don't have the working capital to go forward. We are going to monitor very closely, but we anticipate that our guidance would be that we expect to see on the impaired side more on the impaired side of the PCL than on the performing side of the PCL.

Paul Holden — Analyst, CIBC

Got it all. I'll wrap it up there. Thank you.

Chris Fowler — President and Chief Executive Officer, CWB Financial Group

Thank you.

Operator

Your next question comes from the line of Meny Grauman from Scotiabank. Your line is open.

Meny Grauman — Analyst, Scotiabank

Hi, good morning. Question on the guidance, it seems given the results you've put up this quarter that it's very conservative or I'd even say very, very conservative, it seemed like you could do much better. If I look at EPS in 2020 at $2.93, and then factoring in the $0.93 that you did this quarter, mid single-digits would imply an average of $0.72 per quarter for the rest of the year. That really seems low. So I'm trying to understand kind of what I'm missing here and how you're thinking about how you get to that mid single-digit result, again, given what you put up. Then, also, it sounds like you are more positive about the outlook than you were even in Q4. Thanks.

Matt Rudd — Executive Vice President and Chief Financial Officer, CWB Financial Group

Yes, I'll help you unpack that, Meny. Performing loan provision for credit losses we expect to remain stable. What we do see, as we think about total PCL looking forward, would be an increase from current levels. If we're thinking about the earlier guidance I provided in the prepared remarks of sort of being on the higher end of a range of PCL in 2019 to 2020, of call it 21 to 32 basis points, our current base expectation is to end up at the high end of that range, so 30 basis points or so, somewhere in that magnitude. If you just take the 18 basis points we were this quarter and think about in the 30s for the remainder of the year, that would drive about an $0.11 or so decline in earnings per share from a Q1 level.

The other thing I referenced was the fact that last year we did have some gains we recognized in rebalancing our liquidity portfolio at the onset of COVID. Overall for the year, we had about $9.5 million of those gains, and those really started in Q2 and then did decline as the year progressed. On an average basis, that gives us about a $0.02 headwind to earnings per share.

Then the other big factor here that I think might be getting missed, we issued LRCNs in October of last year. Those are semi-annual coupon payments, and we make our first semi-annual coupon coming up in Q2 in April. The coupon on those is about $0.05 or so of an earnings per share drag that will hit us in Q2 and Q4. So, I suspect that fills in most of your doubts, Meny.

Meny Grauman — Analyst, Scotiabank

Okay, that helps me understand all those points. Just to sum it up on the credit side, going back to your answer to Paul's question, it does sound like you're being prudent in your outlook for credit. But it sounds like it could surprise and come in better than expected, given recent trends. I don't want to put words in your mouth, but I just want to see if you would agree with that assessment that you're just not sure, you're basing your outlook more on typical kind of credit cycles, but that there is a chance here that the credit could actually outperform what you're guiding us to. Is that correct?

Chris Fowler — President and Chief Executive Officer, CWB Financial Group

Yes, we're maintaining a conservative outlook on credit. We believe we've got a very strong, well underwritten, highly secured portfolio that we monitor closely, but we're just making sure that we are being very proactive as we think about guidance on credit, as we come out of the pandemic.

Meny Grauman — Analyst, Scotiabank

Thanks, Chris.

Chris Fowler — President and Chief Executive Officer, CWB Financial Group

Thanks, Meny.

Operator

Your next question comes from the line of Doug Young of Desjardins Capital. Your line is open.

Doug Young — Analyst, Desjardins Capital

Good morning. I just wanted to stick maybe with the guidance, Matt. What level of runoff in deposits are you factoring into your guidance around NIM? Are you assuming that it's going to stay at the same—the branch-raised deposits—will stay at the same percentage of your total funding? Do you expect it to go up or down? Are you factoring in a bit of runoff as the economy gets going and people start to spend? Just trying to get a sense of that.

Matt Rudd — Executive Vice President and Chief Financial Officer, CWB Financial Group

Yes, good question. Yes, we are. We do not look at the 6 percent sequential growth we put up this quarter as our sort of ongoing sequential growth run rate in those deposits. We really had zero runoff in the first quarter here, so we would expect that sequential growth to taper down. That's our base case assumption. Of course, if we don't see that happen, or we continue to grow new clients, such that it completely offsets and then some—the runoff—that is something that could provide some upside to our expectations on NIM and therefore earnings.

Doug Young — Analyst, Desjardins Capital

Okay. Then the second, just on your non-interest expense ratio. You talked a bit about seasonality quarter-to-quarter, is that just the fact that this quarter was a little bit light because of a timing perspective? Or is there just naturally from quarter-to-quarter going to be more seasonality as we move through the year? If so, can you just maybe flush that out?

Matt Rudd — Executive Vice President and Chief Financial Officer, CWB Financial Group

Yes. Q4 is always a bit higher: we have typically some year-end training activities, a bit of a marketing push that happens in that fourth quarter, and in Q1 those activities are typically much lighter, and that will continue to be the case this year.

The other thing that maybe is a bit outside of seasonal factors, but really just a timing of when the project scope is rolling out, is our digital project. It's been focused on the personal retail side of things and onboarding for personal clients—that's a lighter lift. That wrapped up through the first quarter. It's really second quarter onwards where we ramp up the big digital build, which is on our digital offering for small business and medium-sized enterprises—that's a heavier lift, but also one that's more impactful to our growth rate looking forward once we get that over the finish line. It's a case of buckling down and getting that project done, which will incur some upfront expense, but positions us for a really good growth trajectory coming out of it.

Doug Young — Analyst, Desjardins Capital

Okay. Then just lastly, on the performing loan release. I get the fact that there is migration and the economic environment, BFLIs improved. Did you make any changes in your model to temper the amount of the release? Did you change your weightings to the pessimistic or to be more towards the pessimistic scenario. I'm just trying to get a sense of, if this really could have been a lot larger but you tried to bring that back a little bit through other means.

Matt Rudd — Executive Vice President and Chief Financial Officer, CWB Financial Group

Yes. When we look at our provision for performing loan losses, one element is what our models tell us. The other element is expert credit judgment, and that's a consideration of when you look at our base case, do we see more upside potential or downside risk. I'd say, looking forward, it's a bit murky in terms of how vaccine rollout occurs, how the economy responds to that. I'd say our performing loan provision for credit losses appropriately reflects the uncertainty and forward-looking outlook for the economy, and does give us the ability to absorb some volatility as we look forward.

Doug Young — Analyst, Desjardins Capital

You did, essentially, use your extra credit judgment to kind of rein in the amount that would have otherwise been used, is that?

Matt Rudd — Executive Vice President and Chief Financial Officer, CWB Financial Group

We left ourselves feeling very comfortable with our performing loan allowance.

Doug Young — Analyst, Desjardins Capital

Perfect. Okay, good. Thank you very much.

Operator

Your next question comes from the line of Nigel D'Souza from Veritas Investment Research. Your line is open.

Nigel D'Souza — Analyst, Veritas Investment Research

Thank you. Good morning. I wanted to touch on deposits, and apologies if you already went over this, but I was wondering if you could expand on your expectations for how your funding mix will shift through 2021, and if you see deposits draining at a higher rate as the economy reopens. Or, what are your expectations for deposits as we move throughout the year? What do you expect that to translate to in terms of the margin pick up?

Matt Rudd — Executive Vice President and Chief Financial Officer, CWB Financial Group

Yes. We do expect some runoff in deposits. On balance for the year, we do expect our branch-raised deposits to continue to be the strongest growth we see in our deposit mix. They'll continue to grow from here, albeit not at the same level we put up in Q1, and that will help our net interest margin. If you look at just this quarter, we got a lift of a couple basis points or so, just from our shift in mix and the growth in branch-raised deposits. We continue to expect that even through the economic recovery to support stability in our NIM and upside potential working through recovery here. Mix of deposits in terms of how it looks right now. Likely won't be materially different when you look at how we exit the year, and that'll be a bit more weight to the branch-raised deposit component reflecting the continued growth we still expect to deliver.

Nigel D'Souza — Analyst, Veritas Investment Research

Okay. That's helpful colour. Thank you.

Operator

Your next question comes from the line of Sohrab Movahedi from BMO Capital Markets.

Sohrab Movahedi — Analyst, BMO Capital Markets

I just wanted to ask a clarifying question. Just for crystal clarity, is the colour you provided around the AIRB conversion suggesting the benefits to shareholders are probably unlikely to be fully realized until the earliest Fiscal 2023?

Matt Rudd — Executive Vice President and Chief Financial Officer, CWB Financial Group

I'll start and Chris can add. Our goal would be to submit our AIRB application as soon as we're ready and also timing when we believe will have the highest likelihood for both, an approval — obviously is our primary objective —, but secondary objective is to negotiate the most favorable capital floor that we can coming with our approval. So that's our goal, and that's what we're trying to time. I'd say if you look at the range that we provided of within resubmission to OSFI, within the first half of 2022, the front end of that range remains credible and the back end of that range would be us optimizing timing and working towards the outcome we're trying to achieve.

If we hit the back end of that range, then yes, I'd say depending on how long it would take OSFI to work through application, which is out of our control, we could be looking at a later in the year 2022, maybe pushing into 2023, but that would be the outside end of our expectations on timing.

Sohrab Movahedi — Analyst, BMO Capital Markets

Matt, maybe just for additional colour, this go around, how long did it take for OSFI to suggest that you run a parallel year? Since from the time you submitted the application to the time they said, let's take another year, a parallel one. How long did that process take?

Matt Rudd — Executive Vice President and Chief Financial Officer, CWB Financial Group

Yes, it was in or around the six-month range.

Sohrab Movahedi — Analyst, BMO Capital Markets

In late March probably then?

Matt Rudd — Executive Vice President and Chief Financial Officer, CWB Financial Group

If we resubmit to them at the back end of the range we provided, yes. But as I said, the front end and anywhere within that range remains a credible outcome.

Sohrab Movahedi — Analyst, BMO Capital Markets

Thank you.

Operator

Your next question comes from the line of Lemar Persaud from Cormark. Your line is open.

Lemar Persaud — Analyst, Cormark Securities

To just continue along that thought process on the AIRB update there, are you guys seeing any issues being identified which could suggest that it would be pushed out a little bit further?

Chris Fowler — President and Chief Executive Officer, CWB Financial Group

I would say, Lemar, the process we're running is of course we're in a very significant economic situation compared to the more of benign times prior to March of last year, when the pandemic was declared. So , as we think about managing the portfolio and ensuring the parallel run, we have put in place all of the processes for us to implement, manage, and report AIRB, which has been a significant investment in our branch origination, underwriting, reporting, structure. We've supported it all with a very significant investment in our computer infrastructure. We see ourselves in pretty good shape, so we're working hard towards that.

Carolyn has stepped into the role of CRO, and wants to just make sure that everything that we are doing is 100% validated. Running it for four quarters really is the plan, so that's where we changed our messaging to say that we'd be running parallel for Fiscal 2021 with the view that we'd be putting forward that the results and that resubmission in 2022. The point at which we—as Matt just explained—it depends, it's the front end or back end, that would be where we're comfortable.

We will be comfortable that as we work through this process, we're happy with it all. I would say we built all of the plumbing, we're happy with the structures, our teams are working well, it's giving us great feedback, it's helping us on stress testing. The benefits that we're seeing from it are already tangible, and, again, we just want to make sure as we go forward, we just put our absolute correct foot forward, and that's what we will do.

Lemar Persaud — Analyst, Cormark Securities

Okay, thanks. Then just moving on to the loan growth outlook. I think I heard you suggested you're sticking with the mid single-digit growth outlook for 2021. But when I think about what's changed between last quarter and today, there's been a significant momentum and energy. Why are you guys sticking with the mid single-digit loan growth target? Why not move up to say high single-digit or low double-digit? Just your thoughts around that.

Chris Fowler — President and Chief Executive Officer, CWB Financial Group

Well, I think we will be prudent as we think about loan growth opportunities. There's definitely the improvements in the price of oil is a positive, and certainly that's helpful for Alberta, which is still

31% of our total loans. We are focused to grow our bank in a prudent disciplined manner. Clearly, if that puts some tailwinds into Alberta, that would be fantastic, but we will be stepping forward in our normal fashion, making sure that we're building the book that we want to build. We've got the right funding structures. We're allocating capital appropriately and taking on the risk that meets our risk appetite.

Matt Rudd — Executive Vice President and Chief Financial Officer, CWB Financial Group

Yes, I'd say to add. In our guidance, we're presuming a lot of our growth comes from market share winds and not necessarily from the economy providing a lot of tailwind in our sales. If the economy did then that could suggest there's further upside.

Chris Fowler — President and Chief Executive Officer, CWB Financial Group

Yes.

Lemar Persaud — Analyst, Cormark Securities

Okay. Thanks.

Operator

Your next question comes from the line of Gabriel Dechaine from National Bank. Your line is open.

Gabriel Dechaine — Analyst, National Bank

Hi, good morning. Sorry if I missed this, but we saw the gross impaired loans move higher in commercial mortgages and oil and gas loans. Did you take a provision against those? Because, sometimes we talk about that as in you're fully secured or whatever.

Chris Fowler — President and Chief Executive Officer, CWB Financial Group

Yes. As we look at our gross impaireds, we called out two connections that increased, in particular for the formations, and one in the commercial market side and one in the oil and gas side, and the answer is, yes, we have a provision on both of those.

Gabriel Dechaine — Analyst, National Bank

Okay. Then—and I'm not trying to go negative on credit here, actually the opposite. In the past, when you have these big impaired loan numbers, the bank has said the numbers can stay elevated for quite some time, because there's a difficult and lengthy resolution process. Could we see it drop faster than it would have historically, because there's so much liquidity out there that the secondary market looking for investment opportunities is active and desperate, I guess—maybe not the right choice of words. But could we see easier, certainly, but also faster resolution on some of these impairments?

Chris Fowler — President and Chief Executive Officer, CWB Financial Group

Well, I would say that we do our best to resolve these as quickly as possible, we've got a really strong team that manages our high risk loans. As we've explained in prior quarters, we've bolstered that, and we've got a strong leader and a really good working team to manage our processes. If we have early exits, we would be keen for those of course, because then just frees up capacity to work on other things. But yes, we will be as proactive as possible in resolution for sure. But with the clear goal that we don't look to exit just to exit, we want to maximize your returns.

Gabriel Dechaine — Analyst, National Bank

I'm not suggesting you don't have capacity. I'm wondering if market dynamics are such that it could be easier, and then you talk about maximizing returns, like the likelihood of recoveries could even be greater, because the liquidity out there is just so elevated. Are you seeing that? Or do you anticipate that being something that could actually be an underappreciated boost to you from your standpoint?

Chris Fowler — President and Chief Executive Officer, CWB Financial Group

Yes, to be frank, we've seen some great resolutions coming up to this quarter and we will continue working for it, but I couldn't actually put my finger on that right now to say that, "yes, you've absolutely seen that." But every situation is often quite different and we just manage the facts as they present themselves.

Gabriel Dechaine — Analyst, National Bank

Okay, fair enough. Then just a quick little bit of the commercial mortgage. Can you tell me a bit like what kind of property it was?

Chris Fowler — President and Chief Executive Officer, CWB Financial Group

It's an industrial property in Edmonton.

Gabriel Dechaine — Analyst, National Bank

All right. Well, have a good weekend. Thank you.

Chris Fowler — President and Chief Executive Officer, CWB Financial Group

Great. Thanks, Gabe.

Operator

Your next question comes from the line of Marcel McLean from TD securities, your line is open.

Marcel McLean — Analyst, TD Securities

Okay. Thank you. Just wanted to go back to expenses for a minute. There has been a number of sort of moving pieces in that line item, and I understand there is seasonality within it too, but just wondering if you could provide some guidance sort of what you're looking for on a full-year basis sort of growth versus 2020 or even compared to 2019.

Matt Rudd — Executive Vice President and Chief Financial Officer, CWB Financial Group

Yes. It's not looking really much different than we thought last quarter, we're still planning on making the investments we plan to make, that hasn't changed. That's driving NIE growth on a gross basis kind of in that mid-teens as a percentage year-over-year. A big chunk of that is the wealth management acquisition. You back that out, you're now down kind of in that high single-digit percentage growth year-over-year. A chunk of that is AIRB and going live, and starting to operate those models. You start backing that out and you're now down to a level of NIE growth that likely doesn't look much different than the revenue growth we're expecting for the year.

Kind of similar in what you're seeing shakeout on the efficiency ratio, and excluding the wealth acquisition being sort of in that 48% range on a full-year basis – that's what we're seeing. Embedded within that outlook, we have presumed that things like travel, business development, employee training cost, say those all start ticking back to normal at some point this year. And that remains to be seen. We'll see what happens with vaccine rollout, and maybe there's the opportunity to avoid some of those expenses, but that's not included in our outlook right now. Pretty consistent with last quarter is what we're seeing.

Marcel McLean — Analyst, TD Securities

Okay. Thank you.

Operator

Your next question comes from the line of Sohrab Movahedi from BMO Capital Markets. Your line is open.

Sohrab Movahedi — Analyst, BMO Capital Markets

Matt, you've done a really good job of giving pretty good transparency into expectations. One last one. Where do you think your effective tax rate is going to go? Is it going to trend higher? Or do you think it's going to stay where it's at?

Matt Rudd — Executive Vice President and Chief Financial Officer, CWB Financial Group

No, it's going to trend down. We had some deferred tax noise this quarter. A bit of re-measurement on some of our deferred tax assets and liabilities that did drive up the effective rate a bit beyond where we might have expected in Q1. On a full-year basis, at year end, we guided towards 110 basis point decline year-over-year in effective tax rate. That's probably pretty consistent. But with Q1 being a bit higher, we're probably more like 90 basis points to 100 basis points of year-over-year declines. An annual effective tax rate in kind of that 25.3-ish range is what we'd expect.

Sohrab Movahedi — Analyst, BMO Capital Markets

Okay. Perfect. Thank you very much.

Operator

That concludes Q&A this morning. I now turn the call back over to Chris Fowler for closing remarks.

Chris Fowler — President and Chief Executive Officer, CWB Financial Group

Thanks a lot, Operator.

We're very happy with a strong start to the year. Our performance benefits from the strategic investments we deployed, our more diversified funding supports our net interest margin, and our expanded footprint in Ontario supports diversification and growth. The integration and growth of our wealth management business is meeting our expectations.

We recognize and are working to manage the near-term COVID-19 volatility and are ready to prudently support the trajectory of the expected economic recovery. We remain confident in the solid foundation of our secured high quality credit portfolio and know how to capitalize on opportunities that emerge as the economy rebounds. Our coming digital platform will further optimize our business to deliver future opportunities to unrivalled experiences for our clients.

In closing, we appreciate your continued support as we build momentum and unlock opportunities to accelerate our growth. Thank you for your confidence in CWB. We look forward to reporting second quarter financial results on May 28.

With that, we wish you all a good day. Thank you.