CIBC Q1 2023 Earnings Conference Call

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Forward Looking Information

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Management Discussion Section

Operator

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

I would 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 everyone. 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 our group heads, including Shawn Beber, US Region; Harry Culham, Capital Markets and Direct Financial Services; and Jon Hountalas, Canadian Banking. They're all available to take questions following the prepared remarks.

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. On today's call, I'll provide an overview of our first quarter results as well as an update on our strategy for successfully navigating the current economic environment with a clear path forward toward achieving our 2025 objectives and targets that we laid out at our Investor Day last year.

Before we get to the results, let me begin with the senior leadership change we announced last month. Following a 14-year career with CIBC, Laura Dottori-Attanasio was retired from our bank and we wish her well as she takes on new challenges. Jon Hountalas has been appointed Group Head, Canadian Banking, with expanded responsibility of leading CIBC's Personal and Business Bank, in addition to Commercial Banking and Wealth Management in Canada. Jon is a proven leader. He's had a positive impact in every business he's led at CIBC. His focus on execution, on talent and our clients will serve us well to build on the progress we've made in our Canadian retail business.

Now, turning over to our first quarter results of 2023, amidst continued Central Bank tightening and geopolitical tensions, we had a good start to the year, growing revenue and growing pre-provision pre-tax earnings to record levels. Adjusted net earnings were CAD 1.8 billion or CAD 1.94 per share. Our capital position remains strong with a CET1 ratio of 11.6%, comfortably above the regulatory minimum, and our return on equity improved to 15.5% for the quarter. This performance was supported by volume growth across all of our businesses and underscores the ongoing successful execution of our client-focused strategy, our diversified portfolio and contributions from our organic investments over the past few years.

Our expenses declined sequentially. And as we indicated last quarter, with many of our key strategic investments completed or in flight, we expect expense growth to continue to moderate through the fiscal year. This should contribute to positive operating leverage as we realize the embedded revenue growth opportunities from our past investments.

Looking at our Canadian consumer franchise, we delivered funds managed growth of 9%, almost matching last year's robust pace of 10%. Deposit growth outpaced loans for the first time in seven quarters, reflecting the shift in market sentiment given the higher interest rate environment.

Our credit card portfolios continue to perform well. Above and beyond the Costco co-brand acquisition that closed in March 2022, new account openings were up and were over 30% higher than the same period last year. This reflects our ongoing efforts to meet our clients' needs through new credit card products and enhanced client experience and expanded reward offerings. More broadly, over the past 12 months, we've driven strong client acquisition, totaling over 0.5 million net new clients to CIBC. Our focused efforts to attract clients by leveraging the structural advantages we have built in this space will enable us to further scale our retail business in the years ahead.

In our North American Commercial Banking and Wealth Management businesses, loans continued to see double-digit growth while deposits were in the low-single digits in both regions. Clients continue to be cautiously optimistic about their businesses. And in light of the tougher operating environment, they're looking to strengthen their financial position through tighter working capital and through disciplined expense management. While our pipelines remain stable, we've seen slower lending growth due to both reduced client demand and from our prudent risk posture in this environment.

Our Capital Markets franchise continued to deliver strong results, driven by robust client activity in global markets as well as strong top line growth in our direct financial services or DFS platform. As well, we continue to play a leadership role in energy transition. New Project Media recently ranked CIBC the third largest lender to US renewable energy projects in 2022.

At CIBC, we have a longstanding focus on ESG as part of our commitment to create enduring value for our stakeholders. This quarter, our efforts continued to be recognized and validated by prominent third-party organizations. First, CIBC was named to the Dow Jones Sustainability Index North America for the 18th consecutive year. Second, we were included in Bloomberg's Gender Equality Index for the eighth consecutive year. And third, CIBC was named by Mediacorp as Canada's top 100 employers for the 11th consecutive year, all recognitions that we're extremely, extremely proud of. Sustainability continues to be an essential component of our strategy, and we remain focused on ESG matters of importance to CIBC and to our stakeholders.

We're monitoring the global economy. And while pockets of strength exist, there are growing uncertainties driven by geopolitical tensions and persistent inflationary and interest rate pressures. This will have an impact on economic growth and on client activity in the near term. As the landscape evolves, we remain steadfast in our focus on our clients, in our long-term strategy of growing relationships with the high-growth, high-touch segments that we're focused on, advancing our digitization efforts, and investing in future growth differentiators, all while staying agile and adapting, as needed, to the economic environment.

We will leverage the investments we've made in the recent years to support organic growth while taking a prudent and proactive approach to expense and risk management. So, a couple of examples. In our retail business, our investments in a comprehensive suite of services and tools tailored towards the mass affluent market, which includes CIBC GoalPlanner, have been successful in deepening client relationships. To date, just under half of our Imperial Service households have completed the CIBC GoalPlanner process, and it's resulted in significantly higher growth in funds managed and favorable Net Promoter Scores.

We also continue to benefit from the investments we've made in recent years in our digitization strategy, incorporating AI, automation and cloud to further increase connectivity across our businesses. Another example, the migration of online and mobile banking applications to the cloud have vastly improved our efficiency in software releases, going from two per month to multiple per week. In addition, cloud automation will reduce costs going forward, improve resilience and enable faster change implementation to better serve our clients.

We also continue to invest in our future growth differentiators, including our direct financial services platform, which has delivered three-year revenue CAGR of approximately 15%, with revenues over CAD 1 billion for the last 12 months. We built a differentiated platform and a client-first culture that has allowed us to develop and deliver innovative products and services that enhance the client experience, grow our client base, improve efficiency and drive stakeholder returns. We expect these benefits to continue to accrue into the future. The net-net is our investments are paying off in the businesses that we're investing in, and you should see this going forward.

And with that, I'd like to pass the call over to Hratch for an update on our financials.

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

Thanks, Victor, and thank you all for joining us this Friday morning. Our team delivered solid results for the first quarter of 2023, supported by strong execution against our client-focused strategy and disciplined resource management. We maintained our revenue momentum, credit performance and balance sheet strength, while expanding margins and stabilizing expenses.

Diluted earnings per share were CAD 0.39, including items of note, most significantly, an increase in legal provision related to the previously disclosed Cerberus ruling and an income tax charge stemming from the enactment of the 2022 Canadian federal budget. Excluding items of note, we generated strong sequential growth and profitability with adjusted EPS of CAD 1.94 and ROE of 15.5%. Our balance sheet remained resilient despite the headwinds we absorbed this quarter, as evidenced by a CET1 ratio of 11.6% and LCR of 134%.

The balance of my presentation will refer to adjusted results, which exclude items of note, starting with slide 8. Adjusted net income of CAD 1.8 billion for the quarter was down 3% from the prior year, driven primarily by a credit provision against performing loans this quarter compared to a release last year. Frank will cover credit provisions in further detail later in our presentation.

Record revenues of CAD 5.9 billion and pre-provision pre-tax earnings of CAD 2.7 billion were up 8% and 6% respectively from a year ago, benefiting from balance sheet growth across our business, higher interest rates and strong trading activity. Expenses were up 9% from the prior year but down 1% on a sequential basis, as we continue to focus on balance between investment and efficiency improvements.

Slide 9 highlights the drivers of net interest income. NII of CAD 3.2 billion was up 2% from the prior year, impacted by the movement of trading revenues from interest income to other income due to rising interest rates. Excluding trading, NII was up 13% from the prior year as a result of continued loan and deposit growth across our business, as well as improving margins.

Excluding trading, total bank NIM was up 5 basis points sequentially and 3 basis points over the prior year, benefiting from higher margins in several segments as well as interest income from corporate and treasury activities. Canadian P&C NIM of 248 basis point has improved steadily over the last year, up 12 basis points from the same quarter in 2022. Sequentially, it was up 1 basis point as deposit margin expansion due to higher rates more than offset pressure on asset margins, particularly mortgages.

Margins also continued to improve in our US segment, NIM of 354 basis point this quarter was up 9 basis points from the prior year and 5 basis points sequentially, primarily due to the net impact of asset yields and deposit pricing resetting higher to reflect recent interest rate hikes. We anticipate continued growth in nontrading interest income, supported by higher funds managed as well as margin expansion, assuming the forward rate expectations in the current yield curves.

Turning to slide 10, noninterest income of CAD 2.7 billion was up 15% from the prior year, supported by growth in trading income, which was particularly strong this quarter and expected to moderate. Excluding trading, market-related fees recovered 10% sequentially but were down 4% over the prior year, largely due to investment banking and wealth management fees, which were impacted by lower client activity and market depreciation. Transaction-related fees were up 4% sequentially and 2% from the prior year, driven most notably by strong foreign exchange income from client activities this quarter.

Turning to slide 11, expenses were down 1% sequentially or substantially comparable excluding the impact of higher severance incurred last quarter. Compared to the prior year, expenses were up 9%, largely due to strategic investments made throughout 2022 as well as the impact of inflation in that year. As previously communicated, we increased the level of strategic investment in our bank over the last two years to build key capabilities and generate value through relationships, connectivity and innovation.

Approximately half of our expense growth in 2022 was related to investments against the strategy we laid out at our Investor Day, including investments in our Canadian affluent strategy, our US and Canadian private economy businesses and future differentiators like direct financial services. Our efforts have already delivered results in terms of market share gains in these segments, robust revenue growth, and a revitalized franchise with stronger customer satisfaction and employee engagement scores. And they will continue to drive diversified and profitable growth going forward, contributing a substantial portion of our forecasted growth in 2023 and 2024.

As we indicated last quarter, in light of the current macroeconomic uncertainties, we have proactively taken incremental steps to manage our expense base. In short, we're maintaining our level of strategic investment while continuing to realize opportunities for efficiency improvements. Based on our actions, we expect quarterly operating expenses to stabilize around current levels, resulting in a mid-single-digit growth over the prior year for fiscal 2023 as a whole. We also continue to be confident in our goal of delivering positive operating leverage over the medium term, as we've communicated at our Investor Day last June.

Turning to slide 12, our balance sheet remains strong despite the significant draws on capital related to the legal matter and the enactment of the 2022 Canadian federal budget. We ended the quarter with a CET1 ratio of 11.6%, down just 9 basis points from the prior quarter. A strong capital generation and share issuance largely offset the onetime headwinds and net organic RWA growth. We currently forecast our CET1 ratio to continue trending higher from here, ending 2023 around 12%. Our liquidity position strengthened this quarter, supported by continued deposit growth and moderating asset growth. We continue to monitor deposit balance trajectory and liquidity closely, given the current macroeconomic backdrop.

Starting on slide 13, we highlight our strategic business unit results. Net income in Personal and Business Banking was CAD 594 million, down 15% from the same quarter last year, but up 22% from the prior quarter. Revenues of CAD 2.3 billion were up 4% year-over-year, helped by strong loan and deposit growth, partially offset by lower net margins, wealth commissions and fees. Expenses of CAD 1.3 billion were up 13% from the same period last year, driven by strategic growth investments, including investments in our co-brand card portfolio and related employee expenses. On a sequential basis, expenses were marginally lower and we expect them to be relatively stable going forward.

Moving on to slide 14, net income in Canadian Commercial Banking and Wealth Management was CAD 469 million. Revenues of CAD 1.4 billion were up 4% from a year ago, benefiting from strong results in commercial banking, partially offset by market headwinds which impacted our wealth management business. Commercial banking revenue was up 17% from a year ago, driven by margin expansion from higher interest rates, as well as continued growth in loans and deposits. Wealth management revenue was down 5% from the prior year, primarily driven by lower commissions from decreased client activity and lower assets due to market depreciation. Expenses decreased 1% from a year ago, helped by lower performance-based compensation, partially offset by strategic initiatives.

Slide 15 shows US Commercial Banking and Wealth Management results in US dollars, where we delivered net income of $159 million, down 15% from the prior year due to higher credit provisions. Revenues were up 10% over the same period, driven by 16% increase in net interest income, partially offset by a 1% decline in noninterest income. Strong loan growth of 12%, deposit growth of 4% and expanded margins supported the higher net interest income, while in our wealth business, particularly strong annual performance fees somewhat offset the negative impact of market appreciation. Expenses were 14% higher year-over-year, driven by ongoing investments to support our growing business and infrastructure requirements. We anticipate continued investment in this segment, but expect sequential expense growth to stabilize through fiscal 2023.

Slide 16 speaks to our Capital Markets business. Net income of CAD 612 million was up 13% from the prior year and revenues of CAD 1.5 billion were up 14%. Global markets revenue grew 17%, supported primarily by client activity in foreign exchange, interest rates and commodities trading. Direct financial services revenue was also strong, increasing 38% over the year, including the impact of deposit margin expansion in our Simplii business. This was somewhat offset by lower advisory and underwriting activity due to market conditions. Expenses of CAD 650 million were up 9% compared to the prior year, due largely to investments to continue building our differentiated franchise.

Slide 17 reflects the results of the Corporate and Other business unit. Net loss of CAD 47 million was in line with a year ago and CAD 150 million better than the prior quarter. Revenues of CAD 129 million were up 23% from a year ago, driven by the impact of higher margins and FX translation on our international banking business, partly offset by lower income in treasury. Revenues this quarter also benefited from nonrecurring income related to corporate and treasury activities. Expenses were up 9% from the prior year, but down 17% sequentially. And we maintain our guidance of CAD 75 million to CAD 125 million quarterly loss in this segment going forward.

In closing, we remain focused on successfully navigating the current dynamic economic environment, as we have demonstrated this quarter. We're proactively managing expenses and our balance sheet resources, while maintaining our level of strategic investment for the future of CIBC. We started fiscal 2023 with solid momentum across our franchise and we will continue to leverage our past investments and our strong balance sheet to support our clients, drive profitable growth and generate long-term sustainable value for our stakeholders.

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. Credit performance this quarter continues to be well in line with our expectations. With the increases in allowances since Q2 of 2022, we remain well-covered for any uncertainties in the upcoming quarters.

Slide 20 details our provision for credit losses. Our total provision for credit loss was CAD 295 million in Q1, compared with CAD 436 million last quarter. The provision on impaired loans was CAD 259 million, up CAD 40 million quarter-over-quarter. We experienced higher impaired provisions in both retail and business and government loans this quarter.

In retail, write-offs trended higher, as expected, reflective of delinquencies returning towards pre-COVID levels. In business and government loans, high impaired provisions were attributable to both Canadian and US Commercial Banking across a broad range of sectors with no specific concentration. The provision on performing loans was CAD 36 million in Q1, and we are comfortable with our allowance coverage as we have had prior increases since Q2 of last year as the economic outlook deteriorated.

Turning to slide 21, we remain prudent in our allowances given the economic backdrop. Total allowance coverage ratio is consistent with prior quarters at 63 basis points and remains above pre-pandemic levels.

Slide 22 focuses on our lending portfolio mix. Consistent with previous quarters, our portfolio reflects strong credit quality. Our total loan balances were CAD 531 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 shows strong credit quality and performance.

The average loan-to-value for our uninsured mortgage portfolio was at 52%, up from 48% a year ago, as we've seen a continued house price drop in most markets. We continue to expect further moderation of house prices, and as a result, year-over-year increases of LTV ratios. House prices peaked at around May or June of last year, and we saw some slowdown of the price decreases in recent month. The business and government portion of the portfolio has an average risk rating equivalent to a strong BBB, which has remained steady and continues to perform well.

Slide 23 details our gross impaired loans. Overall, gross impaired balances were up in Q1 with an increase in both retail and business and government loans. New formations were also up in Q1. The increases of both gross impaired balances and new formations are in line with our expectations, and for the most part, still below pre-pandemic levels.

Slide 24 details the net write-off and 90-plus-day delinquency rates of our Canadian consumer portfolios. As communicated in prior quarters, we expect write-offs and delinquencies to revert towards pre-pandemic levels, which are in line with our expectations.

Slide 25 provides an overview of our Canadian real estate secured personal lending portfolio. We continue to focus our origination efforts in the segments 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 delinquencies across these portfolios continued to remain low compared with pre-pandemic levels. We will continue to take a prudent approach and are closely monitoring as interest rates rise and markets evolve.

On slide 26, we have included details on the portion of our mortgage portfolio that will be renewing in the next 12 months. Over that period, CAD 22 billion of fixed rate and CAD 9 billion of variable rate mortgages contractually.

come up for renewal. At this time, we still only see a small portion, 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%. We actively monitor our portfolios and proactively reach out to clients who are at higher risk of financial stress.

Slide 27 shows our FICO score and LTV distribution in our Canadian uninsured residential mortgage portfolio. The key takeaway is, less than 1% of our uninsured mortgage portfolio has both, a score of 650 or less and an LTV over 75%. Overall, our mortgage portfolio is well-positioned and continues to perform well within our expectations.

On slide 28, we provide details of our commercial real estate exposures in both Canada and the US. 69% of our Canadian portfolio and 60% 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 well-capitalized sponsors with strong track record and experience managing through economic cycles. Our exposures in these two regions remain well-diversified and continue to perform well.

In closing, our performance is well in line with our expectations this quarter and is also better than the pre-pandemic levels. Our credit portfolio quality and coverage continue to remain robust. And as 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] And the 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 maybe, Hratch, if you could start with slide 9 in terms of the NII outlook. Just talk to us in terms of the core NII driven by what your expectations are on NIM. And what's going to be driving that NII growth in a world where balance sheet is slowing? And then maybe how much of a drag will the trading NII be going forward if rate hikes are more or less done in Canada and the US? Thank you.

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

Morning, Ebrahim. Thanks for the question. Happy to take that. Overall, what you've seen in our trajectory of NII, as we've highlighted on the slide here in a number of quarters, is that we've got strong momentum and we expect that momentum to continue. We've got a strong balance sheet. We've got margins that are positioned to continue expanding with where interest rates are now. And on the back of that, we've produced NII growth, excluding trading, of 13% over the last year.

Going forward, we've been very clear on our guidance. We've got strong margin trajectory from here. What you saw this quarter is consistent with what we said, a few basis points positive in terms of core NIM expansion. A couple of basis points that I would call more quarter-over-quarter noise from last quarter's negatives coming back and so forth.

But I think the core NIM ex-trading from that 1.64% level is positioned to continue increasing a few basis points a quarter, particularly accelerating, I would say, the back half of the year and maybe more stable here in the shorter term. But between that and continued balance sheet growth as we continue deploying capital with our clients to grow our businesses, we think that will continue driving strong NII growth.

Now, in terms of your question, I think it was on the trading side and what that can do, again, that can create some overall noise to NII between trading and nontrading, as you can see over the last few quarters here. That may continue if rates rise. But overall, I would look at trading results in aggregate and I would advise you to look at NII excluding trading as we do.

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

Got it. And I guess maybe one question for Jon. Jon, congratulations on the new role. Maybe give us a sentiment check around commercial customers. Clearly, a lot of macro uncertainty. Credit seems to be normalizing but holding up well. So where do you see growth coming through over the next few quarters on both commercial and consumer? Thank you

Jon Hountalas, Senior Executive Vice President & Group Head-Canadian Banking

Thank you, Ebrahim. Let me start with commercial. There's several factors at play when you look at commercial loans, some are macro and some are probably specific to us. Let me start on the macro front. Last year was a blowout year in terms of loan growth across the industry. I think the average was 17%. We were probably at 19%. The average over 10 years is something like 10%. So, why so high? Economy was strong, receivables high, inventories high, dealing with supply chain. A lot of that is winding down. So, you see some sectors actually declining, all for good reasons, by the way.

Two, real estate. It's been a big area of growth. Real estate's quiet. That'll subdue growth a bit. Finally, entrepreneurial confidence is down versus six months ago. Supply chain, better; inflation, better; labor, the same; interest rates, worse. If you put that all together, I think entrepreneurs are a little more tentative. They're looking at where interest rates are going. What's the impact on the economy going to be? I think that's the macro factor.

The micro factors are maybe specific to CIBC. Like in this type of environment, we're going to be a little more conservative. To be clear, we're going to support our clients. We know them well. They've been through our due diligence. We know how they operate. For new clients, we're going to be a bit more careful. You put that all together, I see loan growth in the mid-single-digit range and I think we'll be in the mix on that. That's the commercial side.

I don't think the consumer side is that much different. I think you'll see a tentative consumer. I think you see product growth already slowing. I think you'll see growth in the – where I think loans in the commercial side will be mid-single digit, in the consumer side it might be low-mid-single digits. But the general sentiment, roughly the same.

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

Got it. Thank you for that.

Operator

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

Meny Grauman, Analyst, Scotiabank

Hi. Good morning. Jon, you were just talking about conservatism or increased conservatism as you make underwriting decisions on the commercial side going forward. Just wondering if you could provide more detail what – if you could talk about it geographically, also by sector, where you're seeing more reason for caution.

Jon Hountalas, Senior Executive Vice President & Group Head-Canadian Banking

Meny, just for clarity, right, on existing clients, we have the same formula we've had for 13 years. There's no pendulum. We keep doing the same thing. We know our clients. We're going to help them grow. We're going to support them. There's no sectors that we're looking at and saying, we don't want to get involved. What we're saying is when we look at new clients with the uncertainty out there, we're just being a bit more careful.

And again, not all clients are created equal – not all new clients, not all prospects are created equal. Less fussed about sector, more fussed about how long we know the clients. If we've been following them for three or four years and they've been in our pipeline and we have an opportunity, we're going to jump. If they're new clients that we don't know that well, and that exists in commercial banking, you meet clients over the last – some people are in your pipeline for five years and some people are in your pipeline for six months. The five-year folks, we'll be chasing them hard. The six-month folks, we might be going a bit slower.

Meny Grauman, Analyst, Scotiabank

And, Jon, specifically on the CRE side of the business, there's a lot of questions about office. We're definitely seeing return to work stall out. So, is there any change there in terms of your view or your posturing from an underwriting perspective when it comes to the CRE book in particular and office exposure?

Jon Hountalas, Senior Executive Vice President & Group Head-Canadian Banking

So, as you know, we've got – we've had a longstanding CRE business. I think I talked about it on Investor Day, 20 years, very low losses. So, the book's in good shape. I've talked many times about we don't really add new clients. We've been dealing with the same clients for a long period of time. They're just quiet. The industry is smart. They self-regulate. They know things are tough. They've made a lot of money over the last few years. Nobody is doing crazy deals. So, I think generally you'll see softness, just no big volumes.

On office specifically, we've got about CAD 4 billion, 10% of our book. Sublease rates are up, for sure. Most of our office is owned by institutional clients. We're not changing our posture on office. We probably haven't grown that asset class in at least a year, probably two years. So, no big changes, no stress, no deferred payments. We're seeing no stress yet, but it's something we're looking at, of course. It's – as you said, it's an evolving asset class.

Meny Grauman, Analyst, Scotiabank

Thanks for that.

Operator

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

Scott Chan, Analyst, Canaccord Genuity Corp.

Good morning. Maybe I'll stick with you, Jon, just on the private wealth side. Saw that you had specified 6.2% in net flows over the last 12 months. Maybe a perspective on like what the AUA is in that segment, just to kind of get a number on that. And in a very tough year, is that 6.2% hunting above historical averages?

Jon Hountalas, Senior Executive Vice President & Group Head-Canadian Banking

What was the question exactly? I'm sorry, I had trouble following.

Scott Chan, Analyst, Canaccord Genuity Corp.

Oh, just on the private wealth side…

Jon Hountalas, Senior Executive Vice President & Group Head-Canadian Banking

Yeah.

Scott Chan, Analyst, Canaccord Genuity Corp.

...on the Canadian, the 6.2% of net flows...

Jon Hountalas, Senior Executive Vice President & Group Head-Canadian Banking

Yeah.

Scott Chan, Analyst, Canaccord Genuity Corp.

...over the last 12 months and it seems like a pretty good number in a tough tape and just wondering how that stacks up versus historically and kind of the outlook and what you're doing in that segment to get that incremental as well?

Jon Hountalas, Senior Executive Vice President & Group Head-Canadian Banking

Yeah. So, thank you for the question. Net flows have been good. I guess, it's a tale of two businesses. The mutual fund business overall has been slow across the industry. Net redemptions, after a record year in 2021, 2022 was negative this year so far for the whole industry, negative. We're in the mix.

Where we're having real success is in our private bank and in our Wood Gundy franchise. It's just normal sales discipline, referrals, staying close to our clients, financial planning. Like we've got the products, we've made the investment, and we're seeing success in Gundy and in the private bank. And I think we're in the mix on the broader mutual fund sales. It feels like the industry is starting to turn even on the mutual fund sales. So, probably feeling some optimism, which I haven't felt in a while.

Victor G. Dodig, President and Chief Executive Officer

And Scott, just to build on Jon's comments. Again, this kind of ties back to our strategic investment agenda. We've been investing significantly in our private bank, and that's been driving really strong flows. We've been investing in our private wealth on the investment side, as Jon mentioned, CIBC Wood Gundy. Those flows are coming from existing clients, they're coming from new clients and they're coming from more competitive recruiting. As people see the investments that we're making in our platform on wealth management being something that they want to be part of. And that's why you're seeing those flows and you should see those flows continue going forward.

Scott Chan, Analyst, Canaccord Genuity Corp.

Okay. And then maybe just lastly on DFS, I guess, overall, very solid revenue on a year-over-year basis. But just – maybe just focusing on innovation banking, probably some headwinds on the VC side over the last 12 months. Maybe you can comment on that performance relative to the solid year-over-year growth and perhaps an outlook into fiscal 2023.

Jon Hountalas, Senior Executive Vice President & Group Head-Canadian Banking

Perfect. So it's Jon, and I'll start with innovation banking and then I'll send it over to my colleague, Harry, on DFS. So we highlighted the innovation banking business on Investor Day. We put up bold targets. I talked about exceeding every target we've put out. I'm convinced we'll exceed the targets we put on Investor Day.

All that said, the industry is quieter, for sure. We were probably doing 50% loan growth in the first three or four years of the franchise. That's not happening today. We're watching the book carefully. It's doing very well. You have to remember, we brought over a group of pros from Wellington. They've been doing this for 20 years. They've been with us since fiscal 2017. We've teamed up with our own CIBC team. There's institutional knowledge around this business. It's performing well.

Over the five years that we've had it, I think losses are under CAD 10 million. It's just we watch, we're being careful. Inflows into the business, capital going into the sector has slowed down. So we're all over it. But so far, no signs of stress. Harry?

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

And I'll just follow-on from Jon there. Thank you for that question. As we discussed at Investor Day, our DFS, our direct financial services business, is really a future differentiator for our bank, much like our innovation banking franchise. Just by a reminder, it comprises Simplii, which is our low-cost digital banking platform; our Investor's Edge, which is our digital-driven, low-cost, direct investing platform; and our what we call Alternate Solutions, which is our innovative, personal, and B2B FX platform. And it was created in 2020, just by a reminder, to really capture the accelerating market demand for direct banking solutions, leveraging our technology and capital markets and expertise, which has really – has a proven operating model for agile delivery.

We have seen our investments in technology and data really enabling these results that are in front of you today. We're a leader in FX payments. We're onboarding new clients as we execute on our capabilities. And we're using the data analytics to really make pricing decisions to expand on our margins as rates increase in Simplii and Investor's Edge. So, we're pleased with these results, and we think we continue to drive that 15% growth as we laid out at Investor Day.

Scott Chan, Analyst, Canaccord Genuity Corp.

Great. Thank you very much.

Operator

Thank you. The next question is from Doug Young from Desjardins Capital Markets. Please go ahead.

Dough Young, Analyst, Desjardins Capital Markets

Good morning. Just first question, I guess, Hratch, for you. I guess credit RWA was down sequentially. Counterparty RWA was down sequentially. Were you actively selling books or can you kind of dig into what drove this? And can you also talk a bit about the outlook for RWA as we move through fiscal 2023?

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

Yeah. Thanks for the question, Doug. So the short answer is, no. We haven't been offloading any risk from our portfolio. We haven't done anything unusual. It's all normal course. And it's really the core earnings generation from our business that helped this quarter as well as the share issuance. And we had some help from market factors, particularly counterparty credit, as you described, in AFS. But let me give you a little bit more on that.

So, if you look at the quarter, and as we've highlighted in our slides, we did generate 30 basis points of capital in terms of our growth. And the way we look at organic RWA consumption, it really was the organic core part, which you can see in the Pillar 3 pack in the back. You will see that there was about CAD 4.4 billion. If you strip out FX, you strip out counterparty, you strip out any changes in credit, etcetera, there was a little bit of negative migration this quarter. There's CAD 4.4 billion of total book growth in terms of core credit. And so net-net, you can sort of look at 14 basis points of capital generation net of the credit growth.

The market movements were something in that 10- to 14-basis-point range help as well. So counterparty credit was down CAD 2.7 billion, to your point. That's just – you'll see the mark-to-market on the asset side of derivatives also down. So mark-to-markets came down on derivative positions. That means we have a smaller receivable and we have less counterparty credit risk. Plus, AFS helped us a little bit, so that was another 14 basis points and then our issuance was 10 basis points.

So if you take those three things together, that's basically what offset the headwinds. And we had a total of 51 basis points, right, between the Canadian federal budget, between the legal reserve and the phase-out of the ECL add-back, the loss we had. So we absorbed all of that and ended up at negative 9 basis points.

So where do we go from here? We feel very confident that capital continues to grow from here. So the first thing I'll say is, as you saw in the press release, we did have a settlement on that legal file that was at a lower level. So, that adds a few basis points of capital to us. So, we start at around 11.7% going into next quarter. And from that point on, we've got the Basel III coming in. There may be some positive there. Honestly, what we're assuming at this point, there's a few things we're still landing, net neutral from the implementation of the Basel III in Q2.

And then going forward, we've got 5 to 10 basis points from that same dynamic I described. We had about 14 basis points organic net generation this quarter. 5 to 10 basis points is probably a more reasonable assumption. And so, you start from 11.7%, you add 5 to 10 basis points and that takes you 12% at the end of the year, without having to do anything in terms of taking off risk, without having to do any model or methodology changes.

And I'll remind you that we do have also the US that's still on standardized. And at some point, that will move to advanced, which will give us some positive on top of that. Hopefully, that's helpful.

Dough Young, Analyst, Desjardins Capital Markets

No, I definitely appreciate the color. Second, I guess on NIMs, Canadian NIMs were down quarter-over-quarter, but the all-bank NIM ex-trading was up. And I'm hoping you can kind of unpack a little bit about what drove that. And I think, yeah, maybe this kind of goes to the corporate. I think you talked a bit about nonrecurring items in corporate and in treasury. Now if they two tie together, maybe you can talk a bit about what those unusual or nonrecurring items were and quantify them. Thank you.

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

Yeah, absolutely happy to elaborate on what I said in response to Ebrahim's question there. So, this quarter, there was – a lot of the expansion was core NIM expansion in our businesses. And what we're seeing is what we've telegraphed all along. Our balance sheet reprices with higher interest rates. You have repricing happening on the asset side, net of repricing on the deposit side where some of that has passed on to clients. And that net dynamic adds a few basis points a quarter to our NIMs.

There's other things going on, mortgage margins being lower, it's pressuring NIMs a little bit. We've got deposit mix things going from noninterest-bearing to interest-bearing or term products. Those kinds of things net off a little bit. But we've assumed all of that in our forecasts. And so, starting from this quarter, 1.66%, as I said, look at that as more 1.64%. There was a couple of basis points of net positive. And this is the noise that can happen in Corporate and Other, particularly in treasury-related activities quarter-over-quarter.

Last quarter, we had talked about a couple of basis points negative from those items. We had said some of it is things that revert over time into P&L. Some of what we saw this quarter was that reversion. The 1.64%, when you look at the remainder, it really is the expansion in our core businesses. So you're right, if you look at Canadian PBB on its own, it was down. And that's largely the story of mortgage margins.

When you look at Canadian P&C in aggregate, as we show on the slide, when you include the commercial business, you include the Simplii business, that business was up with in NIM. And so, that contributed 1 basis point to total bank NIM expansion ex-trading. You have the FCIB business that shows up in Corporate and Other. Part of that Corporate and Other NII strength is FCIB. That business is positioned to benefit from higher US interest rates as well. And the US business was very strong. So, FCIB in the US business combined, that contributed another basis point.

And there was another basis point in Corporate and Other that I would say was core. This is part of – we talked last quarter about how we had a little bit of excess liquidity. You would have seen our cash resources were about CAD 15 billion higher than they are this quarter. So, when cash comes in through deposits, in the short term we can't deploy it. In the long term, we put that to good use in treasury and HQLA, earn a higher yield on it, and that was also helpful. So, I would say it's 3 basis points of that basis – 3 basis points of the 5 basis points is those three elements, and that continues. That's why I would start from 1.64% and go forward.

And I will say we are seeing some momentum over time. Towards the end of the year, we see more acceleration at this point, maybe a little bit more stable in the front half. And that includes some assumptions that we're making around continued pressure on noninterest-sensitive or noninterest-bearing deposits going to higher priced deposits. But that's the one risk. We have a good amount of that assumed in our forecast. But if that is more pronounced than what we're seeing, and we're seeing that across the industry, this isn't a CIBC thing, that could put a little bit more pressure but still some upward trajectory to our margins, but maybe a little less than we would have otherwise anticipated.

Today, I would tell you, we said 10 to 15 basis points Q4-to-Q4 2022 to 2023, probably closer to that 10 basis points, but still possible to be around that range.

Dough Young, Analyst, Desjardins Capital Markets

Very helpful. Thank you very much.

Operator

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

Gabriel Dechaine, Analyst, National Bank Financial

Good morning. I do want to stick to this NIM and outlook thing. And you're talking about the acceleration in the back half. I just want to know what you have in your outlook there as far as macro environment. And what if – do you still have rate hikes, flat rates? Like, what – my actual question is what happens if rates are cut to that guidance? I think that's more positive?

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

Yeah. Thanks for the question. Gabe. I'll take that. And so what we've assumed, this is always the same for us, right? We don't try to predict the market. So we take the market's view of the markets. So, as I referenced in my remarks, this assumes the current forward curves and the current forward curves don't anticipate cuts for the rest of this fiscal year. So, we're generally assuming Canada is largely done. Maybe there is another one there.

And then in the US, there's a little bit more to go, but not anticipating any cuts or assuming some, like I said, migration of deposits. We're assuming the mortgages in Canada, what we're seeing is good, positive momentum and the new commitments in terms of margins more towards normal, not quite back to normal. But we're assuming again, conservatively, we don't quite get back to normal, but it's better than what it was maybe last year. So all of those factors go into that forecast.

And so, if there is a cut, you see our disclosures around interest rate sensitivity, that does over time add up. But if you talk about a – we have 100 basis points is around CAD 300 million to the negative. If you talk about one cut over the short term, it's pretty immaterial. It might be sort of low-single-digit basis points over time and then it'll spool up after that.

Gabriel Dechaine, Analyst, National Bank Financial

But those hedges don't work the other way? I think that was the more of the...

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

They do help. They do help. That's why you don't feel as much of it right up-front, right? Remember, part of our exposure is to short-term rates. And so when you see the actual cut and the front-end of the curve declines, you feel some of that right away. And then where the hedges come in is the fact that you don't feel 100% of that. And so, generally, right around 60% of our exposure, right, upside, downside, has been to long rates. And so that takes several years to price in, but you'll feel some portion of it right away.

Gabriel Dechaine, Analyst, National Bank Financial

Okay. I don't typically ask trading questions because, I mean, it's – people don't usually like to give up their secret sauce. But this is a massive trading number, especially in rates. Just wondering what happened this quarter that was particularly beneficial. And it's a line item that fluctuates a lot. So could we see a similar number sustained or not?

And then kind of tying into the capital question, VaR was up, but market risk-weighted assets were down. Is there – the composition of your trading yielded that result? Or why didn't the risk-weighted assets go up in that category?

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

Hi. Good morning. It's Harry here again. I'll take that.

Gabriel Dechaine, Analyst, National Bank Financial

Hey, Harry.

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

Hi there. Yeah. So, indeed, it was a very strong quarter really across the platform. I talked about DFS a moment ago. So, what's happening here is we're focusing on executing on the strategy we've laid out for a number of years, and the investments in our platform are really allowing us to deliver results in the most difficult of times for our clients, certainly most challenging times. And I would say that this is a very well-diversified client franchise. You're seeing delivery of outsized returns.

We are maintaining and growing our market share with our core Canadian clients from a trading perspective and really from a corporate investment banking perspective. And we're growing our US platform, as we talked about, in the areas of relative and competitive advantage, and Victor alluded to some of that earlier, targeting growth in north of 10% there. All that comes together with our connectivity with the rest of our bank as we deliver capital market solutions to all of our clients.

The results were very strong. The trading environment was, I would say, exceptional. We continue to execute on our strategy. And so the quarter was particularly strong. We expect the results to be in line going forward with what we've outlined at Investor Day, which is a growth of around 7% to 10% a year across the Capital Markets platform. We're pretty confident in those numbers that that's helpful.

In terms of the VaR and the RWA usage, Hratch talked a little bit earlier about counterparty credit risk and so on. What I would say is we deploy risk to our clients. And so, we don't have stand-alone proprietary operations. The VaR is devoted to our client activity, and that continues and our clients are very active at this point in time.

Gabriel Dechaine, Analyst, National Bank Financial

No, I get the VaR going up, activity goes up. But just back in analyst school, I learned that that usually causes RWAs go up, but that's fine. Thanks.

Operator

Thank you. The next question is from Lemar Persaud from Cormark Securities. Please go ahead.

Lemar Persaud, Analyst, Cormark Securities, Inc.

Thanks. I want to maybe start off with Frank. Just given the normalization in impaired PCLs this quarter, can you talk to your outlook for the year? I think the message is that we should still think about normalization to historical averages, but any thoughts would be helpful.

Frank Guse, Senior Executive Vice President & Chief Risk Officer

Yeah. Thank you for the question, Lemar. And as I said in my prepared remarks, we are very pleased with the performance and resilience of our credit books, performing well within our expectations. And then, as you pointed out, we did previously communicate that we do not expect low levels that were experienced over the last one or two years to sustain in that more uncertain and challenging macroeconomic environment. And I would reiterate our outlook of normalization towards pre-COVID levels and expecting our impaired PCL ratios to trending towards that mid to – 20 to 30-basis-point range that we previously communicated. I think for fiscal 2023, we can expect to be at the lower end of that range. But overall, that guidance and outlook still remains intact.

Lemar Persaud, Analyst, Cormark Securities, Inc.

Okay. I appreciate it. And then just flipping over to Hratch, you mentioned you're building up towards a 12% CET1 ratio by the end of 2023. Is that similarly just continued normalization to historical averages or does it allow for something more, and specifically just referring to the CET1 ratio impact of normalization?

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

Yeah. Thanks for the question, Lemar. And we've been pretty conservative in terms of our outlook to 12%. And so, when we I talked about that adding 5 to 10 basis points roughly range on average on a quarterly basis, that assumes that there is some normalization of the environment, right? We did have some negative credit migration this quarter. We're actually assuming more than what we had this quarter. We're also assuming that counterparty credit risk amount that came in, look, that's based on natural gas prices, FX prices, interest rates and so forth. And so we're assuming some of that will revert back out, won't stay at these levels.

And so, the way I would think about it is, as of now, we have the ability to generate 7 to 10 basis points in terms of core earnings, net of organic RWA growth, to support profitable growth in our clients. And those negative items, they roughly add up in our forecast to what the issuances are through our DRIP program and other programs. And so, think of it as roughly in the order of 10 basis points of negative headwinds we're expecting from the environment normalization or getting more pessimistic even. And then that gets offset by the DRIP, which still allows us to continue having 7 to 10 basis points.

And so, we'll leave the DRIP on for now. And once the environment's more certain, once some of the negative outlook out there gets better, then at that point we'll revisit it. But I think it gives us the ability to absorb those headwinds for now.

Lemar Persaud, Analyst, Cormark Securities, Inc.

Appreciate the time. Thanks.

Operator

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

Sohrab Movahedi, Analyst, BMO Capital Markets

Okay. Thank you. Most of the questions have been asked and answered. Just for – quickly, Hratch, for clarification, in your comments when you were talking about the expectation for expense growth balance of the year, you made lots of reference to prior-period investments and reaping the benefits of that. I don't think I heard you mention inflation at all. Can you just talk about what sort of inflation has factored into that sort of expense growth and could that be a source of positive or negative surprise?

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

Yeah. Thank you, Sohrab. I did mention inflation in the prior year in 2022 as having been a driver. So, if you look at our expense growth last year, right, half of it was roughly our investments, the other half of it was our sort of other core operating expenses and a good portion of that was the impact of inflation.

What we've assumed going forward is pretty in line with what you're seeing, some normalization through 2023. And so you are seeing inflation currently come down. We've been a bit more scientific than just looking at headline numbers. We've looked at our expenses. We know what's already been adjusted for inflation and what may be adjusted coming forward.

And so, based on what I see right now, I don't think that's a material plus or minus. And so, overall, we're still confident. With that in mind, we will stabilize expenses around these levels. We are continuing to invest on a sequential basis as revenues grow and expenses stay stable. That's a positive result and that's what will allow us to get to our positive operating leverage over time.

Sohrab Movahedi, Analyst, BMO Capital Markets

Okay. And then maybe I'll just come back to Jon now. Jon, I think it's been less than a month maybe that you've got the official Canadian Banking's kind of segment seat. Any early impressions worth kind of sharing with us right now with just that fresh set of eyes, albeit less than a month?

Jon Hountalas, Senior Executive Vice President & Group Head-Canadian Banking

Thank you for the question, Sohrab. Yeah, I do have some first impressions. First on strategy, we outlined it on Investor Day, early days for me but I don't see major changes. We're focused on execution. And when we think about execution, it's kind of in three key themes. First, segments, you will see us push much harder in Imperial Service. I think that's a big differentiator. To win in mass affluent, we have to leverage Imperial Service. So, more on that down the road. Two, we need to get better at small business. We've made big investments over the last two years, both in people and in technology. And again, to win in mass affluent, you need to be able to deal very well with small businesses and the entrepreneurs. So, more to do there.

On the strategic investments, I think both Hratch and Victor have spoken to it. We've made some important investments over the last couple of years. There's financial planning. There's investments in CRM. We bought a co-brand – we invested in our co-brand card. And we're going to harvest those investments. Every one of those business cases had strong financial metrics against them. It's our job to deliver those metrics, and I think we can.

And finally, we're going to – how to operationalize this is always kind of tricky. There's more heavy lifting to do, there's more investments to make, but we're going to pace ourselves. We're going to focus on margins. We're going to focus on expenses. And I think what you'll see in the pretty short term is improvements on both fronts.

So, to conclude, first 30 days, if it's not obvious in my voice, I'm pretty excited.

Sohrab Movahedi, Analyst, BMO Capital Markets

Thank you very much.

Operator

Thank you. The next question is from Darko Mihelic from RBC Capital Markets. Please go ahead.

Darko Mihelic, Analyst, RBC Capital Markets

Hi. Thank you for taking my question. I know it's getting a little late here in the call. My question is also for Jon Hountalas, but it refers to the mortgage business. I was hoping maybe you can help me understand some of the dynamics that are happening on the ground. And I'm specifically looking at your slide 35. Now, when I look at this slide, the first thing that comes to mind is I think maybe in the past you may not be showing us this information in the same way. I think this slide is purely originations, correct me if I'm wrong.

So, just a few questions come to mind and I'm hoping to better understand what I see here. First, with respect to originations at CAD 9 billion, that's down 47% year-over-year. Typically, we see this progressed to higher originations in the next couple of quarters. So, I'm curious if you think that might actually happen this year.

The second observation is, when I look at the loan-to-value distribution at the bottom part of this graph, I think, correct me if I'm wrong, this pertains to the originations that happened in quarter. And if that's the case, what I see is people that put down the smallest amount of down payment are going variable rate mortgage, despite the fact that the variable rate is higher than the fixed rate. So, I'm curious if that is something that's being advised to the customer, if that's new, if that would be like relative to history something that's new that's going on. And lastly, Jon, is that experience, do you think, based on what you see kind of market-wide or might this be a little CIBC specific? Thanks.

Frank Guse, Senior Executive Vice President & Chief Risk Officer

Okay. Darko, hi, it's Frank here. I'll probably take the first few of your comments or questions. So, you're right, page 35 shows at originations and that number is down year-over-year. It's probably reflective of a slower mortgage market right now compared to a very, very strong market that we saw last year. And that, of course, had an impact on our new originations. And similarly, as you pointed out, FICO score distributions and loan-to-values as well reflect current originations in the quarter. I think, it's page 27 where we show the same statistics for our entire portfolio. So, that's how you could compare those two.

And then there's a slight, higher percentage of people in those, 75% buckets that they take variable rate mortgages. I don't think it's necessarily advised. It's a client's choice that we're working with clients. We've also seen, and Jon can add anything here, but we've also seen the share of variable rate mortgages dropping with the interest rate environment evolving. So, that number would have come down from previous quarters quite a bit.

Jon Hountalas, Senior Executive Vice President & Group Head-Canadian Banking

Yeah. 70% of – it's Jon. 70% of clients today are taking fixed rate terms. 30% are taking variable. That's a bit of a difference from last year. And again, as Frank said, advice depends client-by-client based on their individual circumstances.

Darko Mihelic, Analyst, RBC Capital Markets

And do you think, Jon, you're any different than the industry?

Jon Hountalas, Senior Executive Vice President & Group Head-Canadian Banking

What was the question? Is growth going to be different, is that the question or...

Darko Mihelic, Analyst, RBC Capital Markets

Well, no – well, yeah, I am looking for an outlook as well on originations. But do you think that – when you think about variable rate versus fixed, do you think you're any different than peers?

Jon Hountalas, Senior Executive Vice President & Group Head-Canadian Banking

No.

Darko Mihelic, Analyst, RBC Capital Markets

No. Okay.

Jon Hountalas, Senior Executive Vice President & Group Head-Canadian Banking

And in terms of – again, I think you'll see mortgages, Darko, in the low-single-digit range throughout the year. It has slowed down, right?

Darko Mihelic, Analyst, RBC Capital Markets

Okay. Thanks very much. That's very helpful.

Operator

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

Mario Mendonca, Analyst, TD Securities, Inc.

Good morning. I'll try to be quick. Harry, could I go back to you for a moment? Obviously, a big number in the trading side as other folks have offered. I went looking around for quarters that even came close to CAD 206 million in interest rate trading. And I don't think it's a coincidence, but it just happens to be those quarters when credit spreads came down.

I mean, a classic example would be Q3 2020 when credit spreads came in. So, it would appear to me that what we're seeing at least in part is some mark-to-market on the fixed income book. First of all, do I have that right?

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

Good morning, Mario. No, I don't think you have that right. This is not about the inventory we hold. This is about doing client activity, client transactions. So, very well diversified in the credit space, in the rate space, in the commodity space and the FX platform, which, as you know, we've invested in very heavily over the years. So, I would say it is an outsized quarter indeed, extreme client activity in volatile times. And we're able to actually, I think, be there for our clients in really volatile markets, given the technology and the systems we have in place and of course, our talent, back to front.

Mario Mendonca, Analyst, TD Securities, Inc.

So, Harry, just a coincidence then that every quarter where credit spreads came in, the fixed income trading was really strong? Or is it really that declining credit spreads lead to increased trading activity? Because it seems like more than just a coincidence to me.

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

Yeah, I think it's the latter. I think our clients are more active in general in that environment. I would say, though, that as you've seen, even in extremely volatile markets that are not completely disrupted, we do outperform. And you've seen that over the years. You've seen the stability earnings be front and center for us as we try to deliver consistent, sustainable earnings growth in the Capital Markets platform, really delivering all of capital markets to our clients.

So, I would say it's the latter. Our clients are very active. Larger transactions that are really about delivering the global markets products to our corporate and institutional client base that are covered by the corporate and investor client franchise. So I don't think I answered your question specifically because I think it really is symptomatic of the markets, and they're very active and we're there for our clients.

Mario Mendonca, Analyst, TD Securities, Inc.

Got it. Let me move on to deposits for a moment. We are seeing deposit attrition, like deposits actually coming off the balance sheet, not in Canada, certainly not for CIBC. Deposits look fine. But it's no secret that it's happening in an accelerated way in the US. Can anyone offer an outlook on why Canada is different? Is it simply that we just didn't – there wasn't as much of a spike in deposits during the pandemic? What's your outlook there?

Victor G. Dodig, President and Chief Executive Officer

Well, it's always difficult to ascertain why specifically Canada is different in this instance, Mario. I think it has to do with a number of different things. I think when you look at the stimulus that was provided in Canada through the emergency wage subsidy, the CEBA program, the CERB program, the student program, pound-for-pound the stimulus was large. That's number one. Number two is, Canadians, we tended to open up slower than the United States did. So there was a tendency to spend less. And three, there's a conservatism factor in there that's playing out.

That's I think, in a nutshell, why you see on a relative basis a slower burn off. I think those deposits will burn off over time. We're prepared for that. We're managing around that. The question that Hratch raised earlier is more going to go from noninterest sensitive to term. We've planned for that as well.

I think the most important thing strategically for us, as a bank, is are we growing deposits in those areas across our franchise? We're growing them in the Canadian personal bank. We're growing them in the Canadian commercial bank. We're growing them in the innovation bank. We're growing them in the US bank. We're growing them in our corporate bank. And that's just the function of how we're serving our clients. We are a diversified, relationship-oriented bank and it's coming through in terms of all of our numbers, including deposits going forward.

Mario Mendonca, Analyst, TD Securities, Inc.

And then finally, Victor, you offered that the bank did experience – or well, that could experience some deposit burn off, as you said. Can you offer an outlook on either for CIBC or if the bank has thought about it on Canada generally? How much – what would you peg our excess deposits right now in the banking system to be? Are we in that sort of CAD 400 billion range? What do you think?

Victor G. Dodig, President and Chief Executive Officer

It's CAD 150 billion to CAD 200 billion in total.

Mario Mendonca, Analyst, TD Securities, Inc.

That's what you think for the – like for the banking system in total, CAD 150 billion, CAD 200 billion right now?

Victor G. Dodig, President and Chief Executive Officer

Yeah, yeah. And some of that – most of that is stimulus but some of it is money moving from markets, from equities and from bonds into fixed term deposits, right? And just consumers are behaving rationally. When you're getting 4% on one-year money, they say, we'll park that until the certainty comes back. I think part of what's going to happen going forward is some of it will go back into the markets as situations normalize and some of it is just going to be the burn off of excess deposits from stimulus over time.

Mario Mendonca, Analyst, TD Securities, Inc.

That's helpful. Thank you.

Victor G. Dodig, President and Chief Executive Officer

Thank you, Mario.

Operator

Thank you. And this is all the time we have for questions. I'd like to turn the call back over to Victor.

Victor G. Dodig, President and Chief Executive Officer

Well, you've been extremely generous with your time, everyone. So I want to thank you for that. And thank you, operator.

So just to recap, we delivered solid first quarter results in the face of an increasingly challenging and dynamic environment. Despite continued geopolitical tensions and inflationary pressures, which we see each and every day, our core CIBC franchise demonstrated the benefits of diversification, demonstrated the benefits of our unrelenting focus on our clients. And we hope that you got the points that it's demonstrating the investments that we've made in the past in organic growth and that we believe that we can harvest going forward. You see that across all of our businesses, whether it's the innovation bank, our affluent strategy, our Capital Markets and DFS strategy and our US strategy.

We've exhibited our resilience in difficult times in the recent past, and we're confident in our ability to navigate the current economic environment. Our relentless focus on our clients will continue to deliver successful outcomes, and we're going to help them make their ambitions a reality and create value for our shareholders over the long term. Finally, we remain well-capitalized and well-provisioned with a strong balance sheet.

In conclusion, I want to thank all of our CIBC team members globally for bringing our purpose to life every day. It's thanks to our collective dedication that we have built a relationship-oriented bank that's positioned to continue to bring the best of our bank to our stakeholders, all of our stakeholders. And to our shareholders, thank you for your continued interest and support. We look forward to sharing our results next quarter. Bye now.

Operator

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