CIBC Q1 2024 Earnings Conference Call

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Corporate Participants

Geoff Weiss

Senior Vice-President, Investor Relations & Performance Measurement

Victor G. Dodig

President and Chief Executive Officer

Hratch Panossian

Senior Executive Vice-President and Chief Financial Officer

Frank Guse

Senior Executive Vice-President and Chief Risk Officer

Jon Hountalas

Senior Executive Vice-President and Group Head, Canadian Banking

Shawn Beber

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

Harry Culham

Senior Executive Vice-President and Group Head, Capital Markets and Direct Financial Services, Canada

Other Participants

Ebrahim H. Poonawala

Analyst, BofA Securities, Inc.

Gabriel Dechaine

Analyst, National Bank Financial, Inc.

Meny Grauman

Analyst, Scotiabank

Lemar Persaud

Analyst, Cormark Securities Inc.

Mario Mendonca

Analyst, TD Securities, Inc.

Nigel D'Souza

Analyst, Veritas Investment Research Corp.

Darko Mihelic

Analyst, RBC Dominion Securities, Inc.

Sohrab Movahedi

Analyst, BMO Capital Markets Corp. (Canada)

Doug Young

Analyst, Desjardins Securities, Inc. (Canada)

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

Thanks very much, and good morning, everyone. We will begin this morning with opening remarks from Victor Dodig, our President and Chief Executive Officer. Followed by Hratch Panossian, our Chief Financial Officer; and Frank Guse, our Chief Risk Officer.

Also on the call today are a number of our group heads including Shawn Beber, US Region; Harry Culham, Capital Markets and Direct Financial Services; and Jon Hountalas, Canadian Banking. They're all available to take questions following the prepared remarks.

Once again, this quarter, we have a hard stop at 8:30. To give everyone an opportunity to participate, please limit your questions to one. As noted on slide 2 of our investor presentation, our comments may contain forward-looking statements which involve assumptions and have inherent risks and uncertainties. Actual results may differ materially.

With that, I will now turn the 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 a brief high level overview of our Q1 results, followed by an update on the progress we're making against key strategic initiatives. Building on the growth momentum we've established over the last few years, we delivered a strong start to this fiscal 2024 year.

We continue to successfully navigate through a fluid economic backdrop and execute on our client centric strategy supported by the addition of 700,000 net new clients over the last 12 months. Our performance this quarter was a reflection of our diversified business model and a strategy that is working.

Turning to our adjusted results for the first quarter, we reported net earnings of CAD 1.8 billion, an earnings per share of CAD 1.81. These results were driven by record revenue and prudent expense management, resulting in 8% pre-provision pre-tax earnings growth, and 2% positive operating leverage.

Our capital position remains strong with a CET1 ratio of 13%. This positions us comfortably above regulatory requirements and internal targets, allowing us to continue deploying capital in support of our clients. Our adjusted return on equity was 13.8% during the quarter.

Helping our clients realize their ambitions is our north star. As we've articulated in the past, our strategy is supported by four key priorities that are aligned to long-term market opportunities and competitive advantages that we have built within our bank.

Our first strategic priority is to grow our mass affluent franchise in Canada, as well as our private wealth franchise on both sides of the border to drive growth in deposits, investments and enhanced returns. To enable this, we've made important investments in our unique Imperial Service and Private Wealth businesses to elevate our platform capabilities.

As an example, we're leveraging our predictive client analytics to deepen relationships and accelerate high value client introductions from Personal Banking to Imperial Service, resulting in robust inflows of client assets.

In Canadian Private Wealth, financial plans completed by our clients were up 54% year-over-year. This is a great example of how we're leveraging modern financial planning technology and our strong advice capabilities to deliver improved client experience and build deeper, longer term relationships.

Finally, in the US we're building on our industry leading CIBC Private Wealth platform for high net worth client segments because during the quarter we continued to invest in our talent and our physical presence in strategic growth markets, including Boston, South Florida and San Francisco.

Our second priority is to attract and deepen relationships with our Personal Banking clients by leveraging our CIBC digital capabilities, including through our Simplii Financial platform. Improvements in our digital channels meet our clients evolving needs for self-service capabilities. This quarter we were the first of our competitors to introduce a new digital banking solution bundle, leveraging AI to streamline the application process for newcomers to Canada into a single digital application.

In our Canadian Personal Banking platform, we're seeing a digital adoption rate of 86%. While improvements in our retail offering have resulted in 38% of product sales originated digitally.

In Simplii Financial, our direct digital bank, we're also seeing strong momentum with 180,000 net new clients added over the last 12 months. We will continue to expand our digital channels and capabilities to build our pipeline of clients for future growth.

The third priority of our strategy centers on our highly connected platform across the bank to drive referrals, to generate recurring revenue and to enhance relationship returns. It's something our clients say differentiates us, and it provides us with a competitive advantage in a world where capital requirements and costs continue to increase.

On both sides of the border, we have a unique organizational structure that combines Commercial Banking with Wealth Management. In Canada, 31% of our commercial clients have a CIBC Private Wealth relationship. In the US, that number is 17%. While we've been making progress on both sides of the border, there is room to grow.

Also, core to the strategic priority is our differentiated Capital Markets business, which delivered record revenues in the first quarter. Global markets client activity was seasonally higher this quarter and is likely to normalize, but we expect a continued recovery in M&A activity and a pickup in corporate bond issuances through the year to provide a tailwind to this business. We're excited about the opportunity ahead, as we continue to leverage a connected approach across our bank to deliver a seamless and holistic client experience, to deepen our relationships and enhance returns.

Finally, our fourth priority is to enable, simplify and protect our bank to ensure that we maintain operational resilience and improve the efficiency with which we deliver for our clients.

Over the past few years, we've made significant technology investments across our businesses to improve client experience, enhance revenue growth, increase productivity, and generate positive operating leverage. As we look forward, we are increasingly leveraging AI to drive this strategy and have already unlocked high impact use cases across our bank.

This kind of innovation presents tremendous opportunity and we will continue to be responsible as we adopt these tools to create sustainable benefits for all stakeholders.

A review of our strategy would not be complete without highlighting our commitment to supporting a more sustainable world through our focus on the environment, social investment in our communities, and delivering on high standards of governance.

During the quarter, we were selected by the Government of Canada as the Sole Structuring Advisor on its recently updated Green Bond Framework. We also issued our own €500 million CIBC Green Bond to fund eligible projects aligned with our sustainability strategy.

Putting it all together, our disciplined execution will lead to growth in our client franchise and improved returns for our shareholders as we focus on targeted client segments, advance our digital capabilities, and deepen connectivity all while maintaining a laser focus on efficiency. And we expect the relative outperformance we've demonstrated to continue supported by the positive outcomes of our strategy.

And with that, I'll turn the call over to Hratch. Over to you.

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

Thank you, Victor. And good morning, to you all. As Victor said, we're pleased to deliver another strong quarter to kick off fiscal 2024 as laid out on slide 7.

Our team's consistent and strong execution against the strategic priorities Victor described, continues to drive sustainable growth and profitability in line with our targets. This quarter, solid client activity across our diversified business, margin expansion and productivity gains contributed to diluted earnings per share of CAD 1.77 and ROE of 13.5% on a reported basis. Excluding the items of note, adjusted EPS was CAD 1.81 and adjusted ROE was 13.8%.

Strong capital generation and liquidity further bolstered our resilient balance sheet, ending the quarter with a CET1 ratio of 13%, and average LCR of 137%, both of which exceed our normal course of operating targets.

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 decreased 4% year-over-year due to the impact of the credit cycle on credit losses, which Frank will discuss in more detail. Supported by the strategic investments we've made in recent years, we delivered a record revenue of CAD 6.2 billion this quarter, up 5% from a year ago.

We also continued to successfully balance ongoing investments in our business with efficiency gains to contain expense growth and generate positive operating leverage of over 2%. Resulting record pre-provision pre-tax earnings of CAD 2.9 billion increased 8% year-over-year aligned with our medium-term earnings growth target.

Slide 9 and 10 highlight key trends and drivers of net interest income. Excluding trading, NII was up 6% over the year, driven by continued balance sheet growth and improving margins.

Total bank NIM, excluding trading, was up 6 basis points from the prior quarter and year, partly helped by classification changes associated with the implementation of FRTB, which contributed 3 basis points. The balance of the increase was from continued margin expansion consistent with our guidance.

Canadian P&C NIM of 268 basis points was up 1 basis point sequentially, largely due to balance sheet repricing to higher rates net of higher interest expense on deposits.

In the US segment NIM of 349 basis points was up 5 basis points from the prior quarter, mainly due to improved loan margins and deposit growth in excess of earning assets.

As we've often communicated, we position our balance sheet to stabilize margins and drive sustainable NII growth. While we continue to expect some upwards momentum, margins will start stabilizing over the next few quarters based on current rate forecast.

With that, let's turn to further detail on our balance sheet on slide 10. Average client loans and deposits continued to grow, but slowed in line with industry trends. Average loans and deposits grew 2% year-over-year and sequentially our stable, well-diversified deposit base grew 3% and experienced a modest mix shift to higher cost term deposits during the quarter. We expect continued growth in client loans and deposits at healthy margins to support NII going forward.

Turning to slide 11, non-interest income of CAD 3 billion was up 9% from the prior year due to growth in trading revenues as well as market related and transactional fees. Excluding trading, market related fees increased 3% year-over-year as higher underwriting, advisory and investment management and custodial revenues were partly offset by a lower mutual fund fees and FX related to treasury funding activities.

Transaction related fees were up 4% year-over-year, driven by growth in credit, as well as deposit and payment fees.

Slide 12 highlights our continued success in balancing investments with productivity gains to manage overall expense growth. Year-over-year expense growth of 3% continued to moderate in line with our guidance.

Over the last year, we crystallized almost 2% in efficiencies while maintaining a higher level of strategic investment across our bank. This allowed us to deliver positive operating leverage of over 2%, as investments made over the last few years supported the revenue growth in excess of our net expense growth.

For fiscal 2024, we continue to expect expense growth at the low-end of mid-single-digits and we're targeting positive operating leverage barring a material change in the revenue outlook.

Slide 13 highlights the strength of our balance sheet. We improved our CET1 ratio to 13% over the quarter, driven by organic capital generation, share issuance and RWA reductions driven by the implementation of methodology changes net of organic growth in the quarter.

Methodology changes this quarter included the adoption of the internal ratings based approach for the majority of our US bank portfolio and the implementation of new regulatory approaches related to FRTB, CVA and negative amortization mortgages.

Based on the strength of our capital position and current outlook, we intend to eliminate the discount on our DRIP program after the payment of our Q2 dividend on April 29.

Our liquidity position improved further during the quarter, helped by deposit growth in excess of loans, resulting in the average LCR of 137%. With both our capital and liquidity ratios ahead of normal course operating targets, we are well-positioned to withstand any potential macro headwinds while deploying balance sheet to support our clients and drive growth when market activity picks up.

Starting on slide 14, we highlight our strategic business unit results. Net income in Personal & Business Banking was CAD 655 million, up 10% year-over-year, supported by core business momentum, offset by higher credit provisions.

Benefiting from recent investments and strong execution, this segment delivered a 25% increase in pre-provision pre-tax earnings supported by revenue momentum and strong operating leverage.

Revenues of CAD 2.5 billion were up 10% year-over-year, helped by a 25 basis point increase in margins, along with volume growth on both sides of the balance sheet.

Expenses of CAD 1.3 billion were down modestly from the prior year, as the business redirected resources over the last year to support its current strategic priorities. We expect expenses to increase over the year and maintain our guidance for a full year growth in the low- to mid-single-digit range.

Turning to slide 15, net income in Commercial Banking & Wealth Management for the quarter was CAD 498 million. Pre-provision pre-tax earnings of CAD 705 million were up 3% from a year ago, largely supported by the Wealth Management business. Revenues of CAD 1.4 billion were up 2% from the prior year, as Wealth Management revenues increased 3% while commercial banking revenues were comparable to last year.

Our combined Canadian personal and commercial franchise continues to exhibit strong momentum, delivering revenue growth of 8%, operating leverage of 7% and pre-provision pre-tax earnings growth of 15% over the prior year. Additional details on our best-in-class Canadian franchise have been included in the appendix.

Turning to US Commercial Banking and Wealth Management, net income of $48 million was down from the prior year, largely due to higher credit provisions in the office portfolio.

Revenues were down 4% from last year, partly due to a lower annual performance fee in Wealth Management. Excluding these performance fees in both periods, revenues were up 1% from core business momentum.

Expenses were up 4% year-over-year, reflecting investments across our business and infrastructure which we expect to sustain. We remain focused on scaling our US business and are positioned to drive long-term profitable growth across both Commercial Banking and Wealth Management.

Turning to slide 17, net income of CAD 575 million in Capital Markets and DFS was down 6% year-over-year. Revenues of CAD 1.5 billion were up 2% over the prior year, driven by strength across all business lines, which more than offset the impact of the federal budget proposal in our markets business.

Excluding the impact of this budget proposal, reported revenues were up 5%, supported by a 14% increase in Corporate & Investment Banking and a 5% increase in Direct Financial Services.

Expenses of CAD 712 million were up 10% compared to the prior year, largely due to continued investments in growth and higher employee related compensation.

Finally, slide 18 reflects the results of the corporate and other business units. Net loss of CAD 23 million compared with a net loss of CAD 47 million in the prior year as higher revenue from a lower TEB offset and lower credit provisions were partly offset by higher expenses. This quarter's expenses included one-time costs related to the outsourcing of our cheque processing operations, as we've taken yet another step to simplify our bank.

In closing, we're proud of the results our team delivered this quarter. Record revenues in pre-provision pre-tax earnings reflect strong execution against our strategy and momentum across our diversified but connected franchise. Combined with our strong balance sheet, this momentum positions us well to navigate an environment that continues to be fluid, as we remain intensely focused on achieving our medium-term strategic and financial targets.

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

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

Thank you, Hratch. And good morning, everyone. Our credit portfolio has performed within our expectations this quarter and in line with the current macroeconomic environment. In the US, we've made good progress managing through the stressed office environment and are now through the majority of substantive issues in this portfolio.

All other commercial real estate sectors within our Canadian and US portfolios have been performing well with no systemic issues. Our allowance levels remain robust for expected changes in the economy.

Turning to slide 22. Our total provision for credit losses was CAD 585 million in Q1, compared to CAD 541 million last quarter. Over the past 12 months, our allowance levels have grown by over CAD 800 million, or 14 basis points, creating further resilience for future changes in the macro economy.

Our performing provision was CAD 93 million in Q1, mainly attributable to an increase in provisions for the US office sector, model parameter updates and credit migration.

Provision on impaired loans was CAD 492 million, which is up slightly CAD 14 million quarter-over-quarter. And this was largely due to higher impairments in the Canadian real estate portfolios and was offset by lower impairments in the US commercial portfolios.

Slide 23 summarizes our gross impaired loans and formations. Gross impaired balances were up slightly in Q1, mainly driven by our Canadian retail portfolio, as well as the commercial real estate sector in the US, partially offset by write-offs in business and government loans. Overall, new formations remained relatively stable quarter-over-quarter, with the increase in retail offset by a reduction in business and government.

Slide 24 summarizes the net write-offs and 90+ day delinquency rates of our Canadian consumer portfolios. We've seen 90+ day delinquency rates trending higher over the past 12 months, reflecting the impact of higher rates and cost pressures our clients are facing. However, the overall credit quality and portfolio health of our clients remains strong. Our credit card and mortgage delinquency rates continue to remain below 2019 levels.

Slide 25 provides an overview of our Canadian real estate secured personal lending portfolio. The 90+ day delinquency rates trends reflect the continued seasoning of prior vintages coupled with the slower housing market. We remain comfortable with this portfolio given the overall reasonable loan-to-value metrics and do not expect to see material losses in this portfolio.

Consistent with last quarter, our analysis on clients who are renewing in the next 12 months demonstrates that only 1% of these renewal balances are clients at higher risk from a credit perspective.

We've included an updated version of the previous stressed mortgage disclosure slide on page 42 of this presentation.

Turning to slide 26, we are providing an updated view of our US office portfolio. Our team's focus has reduced the portfolio by more than 10% year-over-year. This quarter we also increased the performing allowance from 9.1% to 13.7%.

Assuming market conditions don't materially deteriorate, we expect to see more muted P&L and capital impacts in office for the remainder of the year. We've managed through the majority of stressed loans. In line with the comments made in prior quarters, we expect impaired levels to decline in the back half of 2024.

This quarter we've also included incremental disclosures in the appendix on our multi-family exposures, both in Canada and the US. Multi-family continues to exhibit strong credit performance with very limited watchlist and impaired exposures. We've also not seen any losses in this portfolio in the last 12 months.

In closing, while loan losses trended marginally higher in Q1, the portfolio continues to perform well within our expectations. The economy evolves, our allowance levels remain strong and provide us prudent levels of coverage. We expect our office portfolio to have the vast majority of issues well provisioned with impairment levels reducing in the quarters ahead.

I will now turn the call back to the operator.

Question and Answer Section

Operator

Thank you. We will now take questions from the telephone lines. [Operator Instructions] Thank you for your patience. The first question is from Gabriel Dechaine, National Bank Financial. Please go ahead.

Gabriel Dechaine, Analyst, National Bank Financial

Hi. Good morning. Yeah, I just want to go back to that CRE commentary. So, can you maybe explain a bit more why you believe the most problematic loans have been dealt with or are in the rearview mirror?

And at a high level, that portfolio has been about one-third of your impaired loan losses over the past four quarters. As that moderates, is it your expectation that there'll be – that'll be a natural offset to higher impaired loans across the rest of the bank portfolios like the Canadian consumer, et cetera, so that you're going to stick within your expected loss guidance, loss ratio guidance?

Frank Guse, Senior Executive Vice President and Chief Risk Officer

Yeah, sure. So I'll tackle them one by one. So on the US office, specifically, we have done and we've said that in prior quarters, we have done a very thorough assessment of the portfolio. We have a team of specialists working on that portfolio on an ongoing basis. And with that, we feel comfortable that we have identified, provisioned all of the stressed loans that we expect in that portfolio.

And with that, when I said more muted P&L impact, what we should expect to see is some migration into impaired, but that should be largely offset by a reduction in our performing allowances. And then if we take one step further, once we get into the recovery and resolution of those files, we should also see a release from an RWA perspective, given the amount of capital we hold from an unexpected loss perspective against those loans.

And to your second question, as we always guided, yeah, there will be a moderation in that and that will offset some of the expected gradual increases that we should or could see in other portfolios. And all of that well within our guidance of mid-30s that we provided earlier.

Gabriel Dechaine, Analyst, National Bank Financial

Perfect. Thanks.

Operator

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

Meny Grauman, Analyst, Scotiabank

Hi. Another credit related question. Obviously, we're seeing some stress across the group in terms of unsecured credit cards specifically. Frank, I'm curious if you're seeing any sort of interesting patterns in how these portfolios are performing. Specifically, I'm wondering, the Costco portfolio relative to the other card portfolios that you have, is there any divergence in performance there? And then also in terms of single product clients versus multiproduct clients, anything there that you would note?

Frank Guse, Senior Executive Vice President and Chief Risk Officer

Well, I mean, overall, I would say the portfolio in cards specifically is performing as expected, so well within our expectations. We always expected it to trend up. We call it normalization. We are still favorable to what we would have seen pre-pandemic.

You touched on some of the trends. So our co-brand card portfolio is exhibiting and we expect that better credit quality and that is, of course, supporting the overall portfolio. But we also continue to invest in business strategies, risk strategies to improve that and those are proving to be quite successful as well.

In all of that, I wouldn't say there's any other trends to call out specifically. I mean, one maybe we have always talked about a deeper franchise client is usually performing better from a credit perspective. So, that's something we have seen and something that we continue to expect. And that is well in line with our strategy of going deeper after client relationships and driving those shares up of those clients that have those relationships. But outside of that, as I said, we continue to be quite happy with the credit performance and it is well within our expectations.

Meny Grauman, Analyst, Scotiabank

Thanks for that. And then maybe just related, just a bigger picture question in terms of the – when do we expect to see improvement here? Is it driven by rate cuts or is there something else that's important here? Or is rate cuts really the key variable that's going to see the pressure on these unsecured portfolios really start to ease?

Frank Guse, Senior Executive Vice President and Chief Risk Officer

Yeah. So, it's probably a little bit too early to give you a longer term outlook. I think we talked about our 2024 outlook being in the mid-30s and there are various offsetting pieces in that portfolio. From what is driving that, I would say it's the overall economy driving it. So, a single rate cut or two rate cuts won't have a material impact on the portfolio. And it really depends on how unemployment continues to evolve, how rate cuts continue to evolve.

What I would reiterate is everything we are seeing so far is going well within our expectations from a forward-looking information and forecast perspective. So, assuming that everything continues to go within those expectations, we wouldn't expect any material changes to our performance here.

Meny Grauman, Analyst, Scotiabank

Thank you.

Operator

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

Mario Mendonca, Analyst, TD Securities

Good afternoon or morning, rather. Victor, this might be best for you. So, I'm watching CIBC's performance here over the last couple quarters, maybe more than a couple quarters. And there's probably little doubt that performance has been better than your peers. I think you highlighted that in your opening remarks that you expect to maintain this relative outperformance.

But I can't help observing at the same time that the bank also trades at the lowest multiple in the group. So, clearly there's a disconnect here between your performance and the way the market values it. And I can't help but think that it relates to certain things, a concern that something could go wrong. So I want to go through a couple of those. What could go wrong and get your impression.

First on US commercial real estate. I think the message here is that the issues are behind you. Domestic mortgages, that always comes up as a particular risk for CIBC if interest rates remain higher. So, the broad question for you is this, what could go wrong, what do you think investors are worried about and how would you respond to those concerns?

Victor G. Dodig, President and Chief Executive Officer

Well, good morning, Mario. Two things just on the specific concerns that you've raised. I think Frank did a very good job and the team, quite frankly, under Shawn's leadership, has done a very good job in rectifying a problem with US real estate that none of us were pleased with. We were disappointed with the performance. When these loans were originated, they were well within our risk tolerance, both in terms of size and the nature of the business. Nobody expected a global pandemic that happened. We worked through it and that issue, as we've outlined, is really in the rearview mirror as we work through the rest of the year.

On domestic mortgages, we feel very comfortable in the mortgages that we've underwritten and the client relationships that we're building. The overwhelming majority of our clients have deeper relationships with us. They have more deposits than they had pre-pandemic. They're employed, they're working through things, that doesn't mean they're not anxious. But from a bank standpoint, the loan-to-value across the board is on average about 50%. It varies location by location, so that doesn't remain a concern.

Quite frankly, what's really a bigger concern is the lack of housing. That's a bigger concern for me, that's an issue. What can go wrong for us, it's really Geo Politics in capital G capital P, but we don't own that. We don't own the economy. We own our strategy. And what we've committed to our shareholders, Mario, is to deliver on our strategy of growing in the affluent and high net worth space, attracting clients to our bank. Clients are running to our bank. There are 700,000 net new clients attracted to our bank, building connectivity across our bank and using technology and the technology investments we made to drive scale, to drive better operating efficiencies.

And what you see quarter-over-quarter over time is improved operating leverage, quarter-over-quarter over time pre-provision pre-tax earnings growth improving and our goal is just to continue to deliver on that, consistently going forward to make sure that strategy continues to work. And over time we will earn the rights of more shareholders to invest in our bank. And with that, we will close those multiple gaps and continue to grow and prosper. So, thanks for the question. I'm always worried, but I'm not worried about our strategy.

Mario Mendonca, Analyst, TD Securities

Right. And on your – for the – I can't think of a better term like your risk dashboard. Presumably you have something to that effect. Some report that you look at, is there anything...

Victor G. Dodig, President and Chief Executive Officer

Yes, we do. We have risk appetites, risk dashboards. We look at operational risk. We look at market risk. We look at credit risk. We look at reputational risk and we manage all of that.

Mario Mendonca, Analyst, TD Securities

Is there anything there on the dashboard today that you would want to highlight for us?

Victor G. Dodig, President and Chief Executive Officer

I would want to highlight our capital markets business, which has consistently delivered market-leading return on equity, market-leading VaR in terms of return on low VaR, it's just really the business is highly connected, more than 30% of revenues are connected to the rest of the bank. The US business is growing. So, when I look at all of that, our goal is just to make sure that we continue to deliver and make sure that we have operational resilience. That is something that we need to always continue to focus on.

Mario Mendonca, Analyst, TD Securities

All right. Thank you for indulging in this line of questions.

Victor G. Dodig, President and Chief Executive Officer

Thanks, Mario. Have a good day.

Mario Mendonca, Analyst, TD Securities

Yeah. Thanks.

Operator

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

Sohrab Movahedi, Analyst, BMO Capital Markets

Thank you. Maybe just a quickie for Jon Hountalas. Obviously a good set of underlying results. I wonder if you could pinpoint any of it on the Costco credit card acquisition or if there's any updates you want to give us on how that vector of growth is performing for you. Thanks.

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

Thank you for the question. Yeah, the results were good, Sohrab, you see them. Just high level I'd say the revenue was 50% rates, 25% broad volume and just 25%, let's call it pricing discipline. The Costco deal has gone well. It's still a small part of our overall results. I would tell you on the Costco transaction, every key metric we look at; revolve rate, loan losses, outstandings, new clients, every key rate is performing better than business case.

Our franchising efforts are going as well or better than we hoped. So, it's performing better than we thought. But I can't tell you that Costco is the key contributor to these results. These results are broad-based, based on a lot of hard work, a lot of execution against many smart investments that have been made over the years. I hope I answered your question.

Sohrab Movahedi, Analyst, BMO Capital Markets

Thank you. You did. Thank you very much.

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

Thank you.

Operator

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

Lemar Persaud, Analyst, Cormark Securities, Inc.

Yeah. A bit of a busy morning. So, apologies if you addressed this in your opening remarks. But for Hratch, the stability of margins through this rising rate environment, can you talk about expectations as you see rates move lower in Canada and the US and does stable rates, I guess, include potential rate cuts? And then moving forward, does this experience of lagging margin gains relative to peers and weaker stock price performance change how you're going to manage rate sensitivity over the longer term, perhaps you'd look at making the bank more rate sensitive moving forward?

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

Thank you, Lemar, for the question. And good morning. So look, I'll start with the first part of that. We're very pleased with our margin performance. And off the bat, I'll answer your question. We think we have the right approach. We're not changing our approach. Our approach in managing the balance sheet is not to take a position on rates. We don't believe that's a productive risk to take if you look at it over time.

And so we manage the margins for stability. We've shown you the slide, the stability through unprecedented movements up, down and now up and maybe back down on rates has been, we think, remarkable. And we'll continue managing that way. But in terms of what we've done, right, that margin stability has helped us. We've shown the strong track record of keeping that stable. Overall, we've expanded non-trading NIM by more than 10 basis points since the end of 2022 as we've gone on this journey. That's been supported by all the businesses, strong CAD P&C, which is up more than 20 basis points over that time.

Stable NIM in the US, if you look at it over that entire time period. Despite the dislocations that we saw last March in that market, right, and in both P&C in Canada and in the US, you had that unprecedented shift to term deposits from demand, unprecedented increase in deposit costs, a lot more dislocation in the US. And through all of that, those business margins have been stable and improving and that's what has allowed us to drive NII.

We grew NII on a non-trading basis 10% in 2023. We've got 6% year-over-year this quarter and we think there is continued momentum. In terms of what happens going forward, this stability helps us, right, but rates have plateaued and so over time we said we benefit a few basis points a quarter from the repricing of the balance sheet, that's helped us offset some of those headwinds. We will continue to have those benefits going forward.

And based on everything we see, including some further pressure on pricing and mix of deposits and so forth, we expect on the core stable to upwards trending margins which will stabilize over time. And I think we'll be more stable coming down if rates do drop as expected because of the way we manage things. So no, I wouldn't change anything.

Lemar Persaud, Analyst, Cormark Securities, Inc.

Appreciate the time.

Operator

Thank you. The next question is from Nigel D'Souza from Veritas Investment Research. Please go ahead.

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

Thank you. Good morning. I wanted to touch on US commercial real estate again. We're seeing smaller banks in the US look to asset sales in their CRE portfolio to help with the capital release. And there seems to be a disconnect between the market base there and the carrying value where the discounts on the market base start to, I guess, create a big gap to transact on these assets sales. So is that your experience when you were exploring your institutional CRE sale and how do you think that gap will eventually be bridged, because it doesn't sound like you expect another round of impairments provisions to bridge that gap between market pricing and fair value.

Frank Guse, Senior Executive Vice President and Chief Risk Officer

Well, thank you, thank you for the question. I think – I mean, we have reacted to that gap by adjusting our provisions to reflect what we believe a reasonable market value is. And we have been through a couple of successful dispositions in the market. Where we actually realized what we expected to realize and what we were provisioned for. So I think we will continue that strategy. And as I said, we believe our current allowances that we have are prudently reflecting that. And we will continue the strategy of working through those assets.

And then again, as I said before, I mean, the overall capital impact through those provisions, I'm sorry, the overall P&L impact through that provision should be more muted on a go forward basis.

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

Okay. That's helpful. Thank you.

Operator

Thank you. The next question is from Ebrahim Poonawala from Bank of America. Please go ahead.

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

Hey, good morning. I guess just wanted to follow up maybe to Mario's question about, not about what could go wrong, but what could go right. And Victor, when we look at the ROE, 13.8% this quarter, your target, I believe, still is 16% plus. Just walk-through in terms of where the franchise today is under-earning the most in order to bridge that gap. Is it excess capital, PCLs, efficiency? Would love to hear your thoughts.

Victor G. Dodig, President and Chief Executive Officer

Good morning, Ebrahim. So, that all kind of goes to our strategy. It goes to our Investor Day of June of 2022 where we laid out business by business and for the overall enterprise what we plan on achieving through the cycle. And, it's been a journey through that cycle. It always is through a cycle but we're delivering. We're delivering on our ROE targets. At 13.8%, we're still far away from the 16%.

But if you look at our strategy, again, a high net worth affluent strategy, it's capital light, it's ROE enhancing. Attracting clients for the future, where we're a leader – we have a leadership position and newcomers and students through our CIBC branded and Simplii platforms, a large majority of those become affluent. They tend to become affluent over time. So there's that growth into the future.

The connectivity strategy, Ebrahim, that we have also drives an enhanced ROE because as we do work with our balance sheet to help our clients realize their ambitions, we make sure that they're actually doing business in other parts of our bank. And what you will see from CIBC in the quarters ahead is a continued focus on that connectivity theme, because that connectivity theme is also ROE enhancing, it's capital enhancing.

And the last thing I'd say is just the fourth pillar of our strategy, which are the investments that we've made. If you look back over the last number of years as we were working through a more positive operating leverage and improving our earnings profile, it was the result of us investing for the future. We've made a lot of those investments. We continue to do so. We're not holding back, but we're now trying to scale those investments for returns, all of which should be capital enhancing.

I think when you add all of that up in terms of the quality of the revenue growth, our ability to control expenses, the credit quality and the overwhelming majority of our book, as Frank has articulated, you'll see that ROE improve over time. You'll see us continue to build capital over time, and you'll see a better return, and I can tell you that the leadership team of our bank is focused on ROE and it's focused on high quality earnings per share growth.

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

Got it. And just on that building capital, Victor, CET1 at 13%, give us a thought process. Does that build from here and your appetite if there are dislocations in the US in terms of capitalizing on M&A in the US? Thank you.

Victor G. Dodig, President and Chief Executive Officer

I'm going to share the podium here with my colleague, Hratch. So Hratch, over to you.

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

Thanks for the question, Ebrahim, and thanks, Victor. So we're very pleased with where CET1 has landed this quarter and frankly, over the last four to five quarters the progress we've made. And as we said in my remarks, Ebrahim, it is above our operating targets. We've always said what we've managed to is to be well clear of regulatory requirements and to be within the peer group. If you look at what we've done over the last five quarters, we've built up 130 basis points of CET1, which is equivalent of over CAD 4 billion of capital.

Yes, we've issued some, but we've issued just over CAD 1.5 billion's worth. The rest of it has been organic generation and discipline in our balance sheet and efficiency of the balance sheet. We've withstood some headwinds through that. We've increased our allowance by about $1 billion while doing that, and we've done all of that without constraining growth. We've delivered pre-tax pre-provision growth in our target range and we've protected our ROE by being disciplined.

And so when we end up at 13% this quarter, which is above our operating targets, as we said, we feel very comfortable. And as we said, we intend to stop the DRIP discount, that we can continue to generate that growth while having enough capital through our organic generation to fund that growth.

And we will stabilize the CET1 around where there is no reason to keep building the CET1 from the current levels. We are comfortably where we need to be and so the focus is really generating capital. Victor described exactly how we believe ROE will continue enhancing over time and that generation will keep our organic growth going. But certainly we're in a position to generate capital in excess of what we need to grow organically.

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

Sure. Thank you.

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. Just a question for Jon. I just wanted to sort of revisit the mortgages in Canada. I want to just ask like, when we look at the amount of originations in the quarter, would you say that you would be gaining share or losing share in the mortgage market with the CAD 7 billion of originations?

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

Roughly in line with – Darko, it's Jon, roughly in line with market.

Darko Mihelic, Analyst, RBC Capital Markets

Okay. And so then when I look at slide 32 and I see the inflow spread on mortgage, I question why not push for more mortgage origination? Why not compete a little bit given that that's the highest inflow spread we've seen since Q2 of 2022?

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

Thanks, Darko. I mean, we're in the mix. There just isn't a lot of mortgage volume is one. Two, if we don't chase kind of product per se, right, we are a relationship bank. Where we think we can build deep relationships, trust me, we price to win. If we think it's going to be a mortgage and three to five years later it'll be gone, it's not really our thing.

So maybe a little less about market share per se, and more about building relationships with people that appreciate what we do and want to do more with us. And that we're doing, so I think you'll continue to see us grow roughly in the mix, but we will do it with clients that we think want to do more things with us.

I think we have smart people in the front line, they can figure that out. And we have a lot of data that helps us realize the potential that we have with clients outside of our bank and what we think we can bring inside our bank. I hope that answers your question.

Darko Mihelic, Analyst, RBC Capital Markets

Yeah, it does. Would you argue that today the credit quality of a mortgage being underwritten is very high given the strict underwriting rules, the stress test being where it is? Would you say that the credit quality of what's coming in the door is solid?

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

Yes.

Darko Mihelic, Analyst, RBC Capital Markets

Okay, I mean, this gets back to the whole question that everybody is sort of asking themselves, right. If I look at this very slide and look at Q3 2022 when spreads were at almost their worst, your originations in that quarter were CAD 17 billion. And today we're at CAD 7 billion and you're saying you're roughly in the mix. I think back then you were leading the pack in terms of mortgage growth.

So it's just, I guess, maybe what you're saying to me is this is the newer, like this is a different sort of view on the mortgage portfolio and you're roughly going to be in line with industry neither leading nor lagging despite profitability metric because it really comes down to a more wholesome relationship. Would that be a – I'm paraphrasing Jon, so correct me if I'm wrong.

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

I think that's a very fair statement, Darko.

Darko Mihelic, Analyst, RBC Capital Markets

Okay. All right. Thank you very much.

Operator

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

Doug Young, Analyst, Desjardins Securities, Inc.

I'll keep this quick. Just maybe back, Hratch, to the US NIMs, and I apologize if you can't do this. But not many US banks are showing NIM expansion sequentially and I get the deposit and the loan part of it. Maybe you can kind of dial into the balance sheet mix and anything else that you're doing that's maybe different than peers that are giving you a better NIM result in the US?

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

Yeah, absolutely. Happy to take that question and thank you. And I'm going to start and I'm going to pass it on to, Shawn, because I think the business has done an excellent job managing our already strong deposit franchise and strengthening it and managing the margin. So Shawn can elaborate on that.

But, just to start with the slide, I think it's a lot of what we've been saying all along, right? We do benefit from rising rates. We manage the balance sheet in the US the same as we do Canada.

And so you've seen since Q4 of 2022 to now that is fairly stable in margins because what's happened is we've slowly benefited from rising interest rates. What you see this quarter in terms of the negative 4 basis points impact from deposits, is simply the catch up of some of the deposits are still repricing up to the latest Fed rate hikes that we had. And so that's going to start stabilizing.

But on the flip side, you had the loan portfolio really contribute through higher margins. And then in terms of the balance sheet mix, the balance sheet mix is simply because we did have deposit growth. And that's one of the areas our business has done an excellent job. The deposit growth is growing more, providing NII on the numerator and assets have been more muted on the denominator side that ends up helping NIM as more deposit NII comes in. So that's really that balance sheet mix 4 basis points that you see. But I'll pass it on to Shawn to give you more color.

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

Thanks, Hratch and Doug, thanks for the question. So to Hratch's point, I think it's both sides of the balance sheet that are being reflected here. We've had pricing discipline, we've invested in tools, including ones that are based on AI to help with pricing, make sure that we are being competitive but intelligent about how we price on the loan side.

There's also been some mix shift. We've talked about the fact that we've been deemphasizing elements of the commercial real estate book. Some of that was lower yielding and we've replaced that with commercial loan growth. That's helped on the asset side.

And on the deposit side, we're really pleased with our performance this quarter. It's a combination of – like it's a strategic focus. Our relationship managers speak to clients all the time about their deposit needs, our treasury management capabilities and how we can serve them. We also have launched a number of different initiatives, including doing some testing and learning in our digital space that is shown.

We're pleased with the early results around that. And we've done all of that with an eye towards our margin management. So all of that coupled with our hedging strategies that Hratch has talked about, have all contributed to that NIM performance. And from an overall strategy perspective, I mean, this is all aligned with our very high touch relationship focused business that we're building in the US. And there's really three elements to that. There's the highly connected Commercial Banking and Wealth Management franchise, working with clients who really value this fulsome relationship. We're building out our Private Wealth business, which does provide – it's got terrific attributes in and of itself. It also contributes significantly from a capital generation perspective, a funding perspective, and again, that feeds into our NIMs and a referral opportunity, all of which supports our Commercial Banking business.

And we're investing in our infrastructure. As I said, some of that is through pricing tools, et cetera, but making us sharper on the front side and as well as building up our infrastructure to support that growth ambition aligned with regulatory expectations. All of that we expect over time to deliver on our Investor Day targets.

Doug Young, Analyst, Desjardins Securities, Inc.

Appreciate the color. Thank you.

Operator

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

Sohrab Movahedi, Analyst, BMO Capital Markets

Okay. Thank you. I get rewarded for following directions here. Harry, everyone's had a chance to talk, you haven't. I just wanted to kind of get a feel from you. Obviously, the quarter was strong for capital markets, but I just want to get a sense of how you see the year playing out off of this strong start?

Harry Culham, Senior Executive Vice-President and Group Head, Capital Markets and Direct Financial Services

Hi. Good morning, Sohrab, and thank you for that question. As you know and you've heard today, we're really focused on the execution of our strategy, which, as Victor said in the earlier remarks, it's working well. I would say it's working very well in Capital Markets. We're really focused on delivering on our Investor Day targets and you're seeing that. Excluding the impact of the TEB, we're anticipating year-over-year growth in revenue in 2024 in the mid to high single-digits.

And we're focused on bringing our expense growth in 2024 down to the low to mid single-digits area. So that should give you an idea on how we're thinking about the year. This as Victor pointed out is a really well-diversified business. And you heard Shawn talk about our platform working together, there's a connected franchise. 30% of our revenue does come from service and commercial wealth and retail clients. So we've got 40% from corporate origination, another 30% from our institutional and trading businesses.

So I think that diversification is going to play out very well as we go forward in 2024. Clearly, there is some seasonality to this business. Our clients were very active this quarter. This is a client driven franchise that really is aligned to longer term macro trends. So it's working well, you saw that in the results in quarter one. So we're optimistic that we've had a solid start to the year. It does give us confidence that we're going to achieve our full year targets that we set out at Investor Day.

Sohrab Movahedi, Analyst, BMO Capital Markets

Okay. Thank you.

Operator

Thank you. There are no further questions registered at this time. I'd like to turn the call back over to Victor.

Victor G. Dodig, President and Chief Executive Officer

Thank you, operator. And thanks for all your questions and your interest in our bank. And I hope we were able to convey, again, that our strategy is working and we continue and plan to deliver against those strategic objectives.

So, as we move deeper into fiscal 2024, we're going to continue to lean into our purpose. We're going to help our clients achieve their ambitions. We're in a strong position today. We've made the right investments. We have a deep leadership bench. And we have a client focused strategy that is delivering results.

We're going to continue to build on our momentum as we look to the future. We have tremendous opportunities ahead of us. And as always, I want to thank the CIBC team, for what they do for our clients and what they do for our bank each and every day, with great pride and great dedication. I look forward to catching up with all of you, one-on-one or on the next call. Take care until then. Thank you.

Operator

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