CIBC Q3 2022 Earnings Conference Call

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Disclaimer

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

As usual during the Q&A, to ensure we have enough time for everyone to participate, please limit your questions to one and then re-queue if need be. As noted on slide 2 of our investor presentations, our comments may contain forward-looking statements which involve assumptions and have inherent risks and uncertainties. Actual results may differ materially.

With that, I'd like to turn the meeting over to Victor.

Victor G. Dodig, President and Chief Executive Officer

Thank you, Geoff. Good morning, everyone, and thank you for joining us today. My remarks this morning will include comments about our third quarter results and the operating environment, as well as a summary of our key strategic priorities, which we outlined to you on Investor Day. Hratch will then provide a more detailed review of the quarter, followed by Shawn, who will cover our credit performance, after which, all of us will be happy to take any questions you may have.

Against an increasingly challenging macro environment, our CIBC team delivered solid third quarter results with earnings of CAD 1.7 billion. Revenue growth of 10% was underpinned by strong net interest income and fee growth, as well as a 19% year-over-year increase in our connectivity revenue. Our asset quality remains very strong with a net write-off ratio that is well below our pre-pandemic levels. Our earnings generate a return on equity of 15.1%, and our capital position remains strong with a CET1 ratio of 11.8%.

The results were driven by organic growth in all of our businesses. We delivered solid volume growth in both consumer and commercial loans and deposits, and higher fee income. We also had strong contributions from direct financial services, a key differentiator for CIBC, which I'll speak to later.

Let me turn now to our business segment highlights, starting with Personal and Business Banking. Our consumer segment continues to see good momentum as we remain focused on executing against our strategy. Our priorities are to gain market share in the high growth, high touch, affluent segment while delivering exceptional client experiences to all of our clients through leading edge technology. As a proof point, our strategic investments in providing personalized advice are contributing to solid client acquisition growth. On a rolling 12 months basis and excluding our Costco acquisition, we've added over 300,000 clients, 25% of which are in the affluent segment. This compares to our baseline of 11% in our current book of business.

The continuous improvements we're making to our online banking platform have also been recognized with three awards this quarter. The number one ranking from J.D. Power for online banking customer satisfaction, and two leadership awards in the Digital Banker's 2022 Global Digital Client Experience Banking Awards. Our commitment to making our clients' lifetime ambitions a reality led to our recently announced partnership with Willful, an online platform for will creation. With this collaboration, we can offer our clients peace of mind through a convenient and affordable online estate planning tool. Going forward, we will continue to seek new and innovative enhancements to our digital banking platforms as we advance our digitalization strategy and build our business with the affluent segment.

So turning to our North American Commercial Banking and Wealth Management platform, we see continued solid loan and deposit growth on both sides of the border in commercial banking. Despite economic uncertainties, entrepreneurs remain cautiously optimistic about near-term growth opportunities. As a result, we expect to see continued growth with our clients across our commercial business banking business. Our Wealth Management segment also performed well. The market declines in AUM were offset by positive net sales. We remain focused on growing our private wealth business to generate stable, fee-based revenue, as well as increasing connectivity with the rest of our bank to drive referrals and to deepen client relationships.

Our Capital Markets business performed well in a volatile market, with top-line growth in all business segments, benefiting from increased advisory services, higher foreign exchange trading revenue, and growth in our direct financial services business. The latter was helped by rising interest rates, robust volume growth and new client relationships in both Simplii Financial and in our Alternate Solutions Group. We also increased currency transactions which arise from a recovery in travel and continued growth in our international student banking offer.

As we enter the second half of this year, the geopolitical tensions and macroeconomic challenges from the first half are expected to continue, leading to more tempered outlook for second half GDP performance in both our operating regions. Now, despite the economic uncertainties, our CIBC team remains confident in our ability to navigate the market, serve our clients and create long-term value for our shareholders while maintaining a disciplined approach to risk. We have a client-centric growth strategy, a disciplined leadership team and an ability to manage the pace of our investments as the economic environment evolves.

As presented at our Investor Day in June, our client-focused strategy consists of three priorities, the first of which is to focus on growing our share of high growth, high touch segment, where we're well positioned. We have close to 4,000 CIBC professionals dedicating to building our business with the affluent and high net worth client segments. We have a unique co-location of our commercial and wealth management professionals to drive long-term relationship opportunities in the private economy. Our second priority is to continue to elevate the CIBC banking experience for our clients through investments in digitization, cloud-based technology and further increasing connectivity across our businesses. We're focused on continuously adapting to the evolving financial services landscape.

And our third priority is to continue to invest in our future differentiators that will make a difference to the growth profile of our bank. These differentiators include our direct financial services business, comprised of Simplii Financial, Investor's Edge, and our Alternate Solutions Group, all of which are well positioned to reach higher growth, digital savvy and value conscious clients.

Another differentiator is our Innovation Banking franchise, which supports early stage companies in technology, life sciences, healthcare and clean tech sectors. We're also focused on modernizing our payments platform to better serve our clients as attitudes, behaviors and preferences of consumers and retailers evolve, and our leading renewables and energy transition platform, to support our clients on their journey to a low carbon economy.

So in closing, we're mindful of the challenges in the current operating environment and we're confident that we have a strategy and a foundation in place to deliver sustainable value consistently to all of our stakeholders. Our CIBC team has demonstrated a resilience in challenging environments in the past and we'll continue to demonstrate that resilience going forward.

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

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

Thank you, Victor, and good morning to all of you. Our team delivered yet another successful quarter in Q3, resulting in reported net income of CAD 1.7 billion or diluted earnings per share of CAD 1.78. Excluding items of note, adjusted EPS was CAD 1.85. While provisions for credit losses against performing loans trended higher, driven by the negative shift in the economic outlook, credit performance remains strong as evidenced by an impaired loan loss ratio of 12 basis points. Shawn will cover credit provisions in further detail later in our presentation. The balance of my presentation will refer to adjusted results which exclude items of note, starting with slide 8.

Executing against the strategic priorities we outlined at our recent Investor Day, we maintained a strong growth momentum across our bank. Pre-provision, pre-tax earnings of CAD 2.5 billion and revenue of CAD 5.6 billion were both up 10% from the prior year, supported by broad-based balance sheet growth, improving margins as well as higher trading and investment gains. The strength of our Canadian P&C franchise underpinned this quarter's results, delivering revenue and pre-provision, pre-tax earnings growth of 16% and 19%, respectively, over the prior year. Total bank expenses were up 2% sequentially or 10% from the prior year as the impact of inflation and increased strategic investments begins to stabilize.

As highlighted on slide 9, net interest income growth continues to be strong, up 14% excluding trading compared to the prior year. NII was helped by diversified loan and deposit growth across our franchise, up 16% and 12%, respectively, over the prior year. Total bank NIM was stable sequentially and up 4 basis points excluding trading. Canadian Personal and Commercial Banking NIM was up 13 basis points, mainly due to product margins, which benefited from higher interest rates, partly offset by lower margins on new mortgage originations. Growth in higher margin assets and elevated mortgage prepayment activity also supported margin expansion.

NIM in our US segment was down 3 basis points over the quarter, primarily due to lower prepayment investment gains, partly offset by higher product margins. We anticipate NII growth momentum to remain strong in the medium term, supported by volume growth and higher rates, but expect some offsetting pressure from mortgage origination spreads in the short term.

As shown on slide 10, we continue to be positioned to benefit from rising interest rates. We've included additional disclosure this quarter to provide more color on our interest rate sensitivity. Over 80% of the benefit from 100-basis point rate increase relates to the structural repricing of capital and deposit balances across our various segments. As depicted on the slide, the Canadian P&C businesses account for approximately 65% of this NII increase, primarily due to expansion of deposit margins.

Turning to slide 11, non-interest income of CAD 2.3 billion was up 8% from the prior year. Trading income, as well as investment management and custodial fees were up from the prior year, despite market driven sequential declines. Market-related fees excluding these items faced headwinds from market conditions this quarter, which negatively impacted assets under management and commissions on securities. Transaction related fees were up 6% from the prior year, benefiting from credit as well as deposit and payment fees. Client card activity continued to improve and purchase volumes now exceed pre-pandemic levels.

Turning to slide 12, expenses were up 10% over the prior year or 11% excluding performance-based compensation, resulting in relatively neutral operating leverage. Ongoing strategic investments contributed 5% to year-over-year expense growth with investments in our US platform and in our Canadian affluent strategy through the acquisition of the co-brand portfolio accounting for over half of the increase.

Excluding strategic investments, in addition to business as usual growth, expenses were impacted by higher inflation and normalizing travel and business development costs. We expect inflationary factors to start stabilizing over the next few quarters and we're proactively managing the pace of our strategic investments to deliver against our operating leverage targets in the context of a moderating market environment.

Turning to slide 13, our capital and liquidity position remained strong this quarter as we continue to deploy balance sheet resources towards organic growth across our client franchise. We ended the quarter with a CET1 ratio of 11.8%, up 4 basis points from the prior quarter as a result of internal capital generation, partly offset by organic growth in risk-weighted assets. We continue to expect internal capital generation in our organic deployment to be largely balanced going forward and our current capital level positions us well to withstand any emerging risks.

Starting on slide 14, we highlight our strategic business unit results. Net income in Canadian Personal and Business Banking for the quarter was CAD 637 million. Reflecting our continued progress in strengthening our consumer and business franchise, pre-provision, pre-tax earnings of CAD 1.1 billion were up 14% from the prior year and 11% from the prior quarter. Revenues of CAD 2.3 billion were up 13% year-over-year, supported by 17% growth in net interest income and stable noninterest income. Expenses of CAD 1.3 billion were up 6% sequentially and 12% from the same quarter last year, driven by higher strategic investments including costs related to the co-brand portfolio and employee-related expenses.

Moving on to slide 15. Net income in Canadian Commercial and Wealth Management was CAD 484 million. Pre-provision, pre-tax earnings of CAD 668 million were up 13% from a year ago, benefiting from strong results in Commercial Banking, partially offset by the impact of unfavorable markets on the Wealth Management business. Commercial Banking revenues were up 27%, driven by double-digit loan and deposit growth, increased client transaction activity, and favorable margins. We expect lending and deposit growth to continue but to moderate from current levels over the next few quarters.

Wealth Management revenue was comparable to the prior year, as higher fee-based revenues and net interest income in our brokerage and private banking businesses was offset by the impact of 5% lower AUM, driven by market depreciation as well as lower commissions due to decreased transactional activity. Increased expenses were, in large part, due to the higher performance and continued investments. Net income in US Commercial and Wealth was $162 million, down 28% from the prior year due to normalizing credit provisions compared to a reversal on provisions last year.

Pre-provision, pre-tax earnings of $225 million were marginally lower than the prior year. Revenues were up 8% over the same period, supported by strong growth in loans and deposits and stable margins, excluding the impact of lower prepayment activity. Expenses were up 4% sequentially and 18% from the prior year, partly due to our ongoing investments in infrastructure and client-facing capabilities across our US operations. We expect expenses to stabilize starting next quarter as we complete the ongoing investments.

Slide 17 speaks to our diversified Capital Markets business. Net income of CAD 447 million was down 9% from the prior year, while pre-provision, pre-tax earnings of CAD 606 million were comparable. Revenues of CAD 1.2 billion were up 5% from last year as stronger trading, direct financial services, and corporate banking revenues were partially offset by lower underwriting in investment banking. Expenses were up 12%, driven by employee-related expenses as well as continued investments.

Slide 18 reflects the results of Corporate and Other segment. A net loss of CAD 50 million in the quarter, compared to a net loss of CAD 74 million in the same quarter last year. Revenue was comparable year-over-year, while expenses were lower due to timing of strategic initiatives and lower enterprise costs retained in the center. Consistent with our prior guidance, we anticipate quarterly losses in this segment to remain in the CAD 75 million to CAD 125 million range.

To close, we're proud of the results our team delivered this quarter. We maintain strong revenue momentum across the business in a less constructive environment, while our disciplined resource allocation framework allowed us to proactively manage execution of our strategic initiatives and drive improving operating leverage despite continued investments. As we look forward, we remain confident in our strategic plan and are well-positioned to continue delivering value for our stakeholders in a broad range of economic outcomes.

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

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

Thank you, Hratch, and good morning. Our overall credit performance remains strong this quarter, reflecting the resilience of our portfolio, notwithstanding various headwinds impacting the overall economy. We've continued to support our clients while proactively managing our underwriting activity in response to the evolving environment. And we remain comfortable with our risk levels and coverages.

Slide 21 details our provision for credit losses. Our PCL was CAD 243 million in Q3, compared with a provision of CAD 303 million last quarter on a reported basis or CAD 209 million on an adjusted basis. Provision on impaired loans was CAD 156 million in Q3. Impaired provisions were down quarter-over-quarter across our businesses. Other than in Canadian Commercial Banking and Wealth Management, we've had a small provision this quarter versus a recovery last quarter.

The relatively low level of impaired provisions this quarter was partly driven by a few provision reversals in our business and government loan portfolio. Impaired provisions in retail remained stable quarter-over-quarter and continued to perform better than pre-pandemic levels. Provision on performing loans was CAD 87 million this quarter, driven by deterioration in our forward-looking indicators from last quarter and other portfolio movements.

Turning to slide 22, our allowance coverage ratio remained flat at 58 basis points in Q3. Allowance dollars were up quarter-over-quarter mainly due to an increase in performing allowance, as mentioned earlier, partially offset by a decrease in the impaired allowance. We continue to be comfortable with our coverage ratios, which remain above pre-pandemic levels.

Slide 23 details our lending portfolio mix. Consistent with previous quarters, our portfolio reflects good diversification and strong overall credit quality. Our total loan balances were CAD 517 billion, of which 56% is real estate secured lending. Our variable rate mortgage portfolio accounts for a little over a third of our mortgage portfolio and shows strong credit quality and performance.

The average loan-to-value for our uninsured mortgage portfolio has decreased further this quarter and is now at 45%. Recently published data indicates a small drop in the housing price index. And should that continue, we would expect average loan-to-value to increase somewhat over future quarters but still provide strong coverage. I'll provide more comments on our mortgage portfolio in a few slides. The business and government portion of the portfolio has an average risk rating equivalent to a BBB and continues to perform well.

Slide 24 details our gross impaired loans. Overall gross impaired balances were down in Q3. Retail impaired balances were up slightly while the business and government portfolio experienced a decrease principally due to write-offs of two loans. Despite the slight increase quarter-over-quarter, new formations remain stable and low from a historical perspective, and both the impaired – the gross impaired loan ratio and new formations remain lower than our pre-pandemic run rate.

Slide 25 details the net write-off and 90-plus day delinquency rates of our Canadian consumer portfolios. Net write-off dollars trended higher in Q3 as expected as client activity continues to revert towards pre-pandemic spending patterns. Overall, retail 90-plus day delinquency rates remain flat in Q3 with a delinquency dollar increase in credit cards and personal lending. As I've noted in prior quarters, we continue to expect an increase in retail delinquencies and write-offs from the lows experienced in fiscal 2021 as clients' liquidity and spending patterns normalize over coming quarters.

Slide 26 provides an overview of our Canadian real estate secured personal lending portfolio. Our business strategy has been to focus our origination efforts with clients where we have deep and balanced relationships, and we've seen that in our results. Almost three quarters of our mortgage originations 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.

Investor mortgages are subject to heighted credit qualification and, as shown on the slide, demonstrate strong performance that compares favorably to owner-occupied mortgages. Our late-stage delinquency rates across these portfolios continue to remain low and stable, with the Vancouver and Toronto portfolios outperforming our Canadian average. We'll continue to take a prudent approach and are closely monitoring as interest rates rise and markets evolve.

On slide 27, we've included additional disclosure on the portion of our mortgage portfolio that we'll be renewing in the next 12 months. Over that period, CAD 19 billion of fixed rate and CAD 7 billion of variable rate mortgages contractually come up for renewal. Almost all of our variable rate mortgages have fixed payments during the term and are therefore impacted by rising rates through an extension of amortization rather than an immediate change to the monthly payment.

At renewal, mortgages are reverted to the original amortization schedule, which may require additional payments. At this time, we see only a small portion, less than CAD 20 million of mortgage balances with clients that 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 and we don't expect to see material losses from our portfolios.

Slide 28 shows our FICO score and LTV distribution in our Canadian uninsured residential mortgage portfolio. Only 4% of our uninsured mortgages have a current FICO score of 650 or less, and 3% of the portfolio have LTVs over 75%. And less than 1% of our uninsured mortgage portfolio has both a score of 650 or less and an LTV over 75%.

In closing, we continue to see good overall performance this quarter. Our portfolios exhibit strong credit quality, driven by our disciplined underwriting through the cycle and we're pleased with credit performance to-date. We continue to expect a return to more normalized credit losses over time and maintain prudent allowance coverages. And as economic conditions evolve, we work proactively 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 John Aiken from Barclays. Please go ahead.

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

Good morning. Was hoping that you could give us a bit of an update in terms of the Costco portfolio, how the performance has been working through the system and whether or not you can speak to any early wins in terms of cross-selling into that customer base?

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

Good morning, John. It's Laura. Happy to take that question. Maybe I'll just start from a financial perspective to say that we do continue to track within our expectation of delivering positive net income within two years. So, that's good. I'd tell you, we're really pleased with our strategic investment.

As we've talked about, it really is a key part of our strategy to grow in the mass affluent segment. So, when we look at the early client results, we're really encouraged. I'd tell you that the portfolio has performed well above our expectations and that's in terms of client migration, engagement, purchased volumes, and new client acquisition. We're actually about two times greater than we had expected when it comes to new client acquisition. So, feeling really good about that.

And when it comes to the strategic, if you will, value of this acquisition, it was all about franchising these affluent clients. What I'd tell you is, while the bulk of our activities really start to kick off this fall, we've already made some pretty encouraging progress. So, we've franchised about 20,000 clients so far. So, early days, we're only five months in but we're really pleased with our momentum when we think how early on we are. So, thanks for the question, John.

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

Thanks, Laura. If I could just do a quick follow-on. With the plans that you have later on in the year, should we continue – should we expect to see continued expenses to pursue that strategy?

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

I would tell you, yes, over the next few quarters. So, we did show, I think in our disclosures, so Costco contributed about 3.5% increase to our expenses. And so, you can expect to see that in the next few quarters.

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

Great. Thanks, [ph] Laura (00:26:30).

Victor G. Dodig, President and Chief Executive Officer

I think most important thing, John, just to reaffirm what Laura was saying, is we strengthened our hand in the credit card segment and we're a strong number three and we're chasing number two and number one. We've got an opportunity here with a very, very attractive client base. Things have gone really well and the growth prospects over the medium term are what we're particularly encouraged by, especially with the franchising opportunity. This falls into the heart of our affluent segment growth strategy that we laid out at our Investor Day.

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

Great. Thanks for the color, guys. I'll re-queue.

Operator

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

Ebrahim Poonawala, Analyst, BofA Securities, Inc.

Hey. Good morning. I guess, maybe, Hratch, if we can just spend some time in terms of the margin outlook, a two-fold question. One, when we think about the margin at the top of the house, give us a sense of the outlook for the trading NII. Is that inherently liability sensitive?

So, as we keep going higher, that CAD 141 million should continue to go down. And then, just give us some color around the trajectory for the margin and the percentage both in Canadian and US P&C, and deposit pricing pressure that you're seeing in the US in particular. Thank you.

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

Thank you, Ebrahim. Thanks for the question. Look, in general, we feel very good about NII trajectory, as I said in my remarks, as well as the NIM outcomes over time. But let me give you a bit of color in it. In terms of total bank, as you know, the mix across the business can affect that, and so the mix this quarter on a sequential basis was actually a positive to total bank margins, as was the P&C increases that we saw in the Canadian business.

The trading side was negative. That's why we'd like looking at it from a non-trading perspective, right, because the trading what happens is, between the NII line and the other income line, depending on what markets are doing and how our desks are positioned in terms of what the client flows are on the underlying and then what hedges on some of those trades would be, sometimes the hedges are in the money, sometimes the underlying is more profitable; and so it can move around between those two. You have to look at trading overall. And so, trading, I would look at the results this quarter which are more than CAD 60 million up year-over-year, so a strong result there and we expect to see good trading volume going forward.

Now, let me go back to the non-trading side. On the non-trading side, the two big components are what we always highlight for you, the Canadian margin and the US margin. Both of them will have long-term positive – long-term and medium-term positive trajectory, benefiting from good, strong margins in the products and rising interest rates.

What we'll see in Canada, as we've said, is there's a few basis points positive per quarter with the underlying momentum from interest rates. We have some mix elements that helped us this quarter. We had some mortgage prepayments that helped this quarter. So, some of those elements may moderate but that upwards trajectory of a few basis points over the medium-term I would expect in the short term might be a little more stable, and that's because we're expecting some of that prepayment activity to be lower and because some of the mortgage origination margins in the short term are looking a little bit tighter than what we would have usually had. So, those are the elements of the Canadian one.

The US margin, our US margin strategy is very similar to the Canadian one. We hedge the US interest rate exposure. We have a structural interest rate hedging program. We have a longer duration of equity that we set on those, and we do that deliberately to protect margins to create stability in NII. And when you go back to pre-pandemic levels to now and you look at our margins relative to what you may see in US mid-market banks or other US units of other banks, we've had tremendous stability; and we compare favorably. The current margins where they are in the US are better than they would have been if we hadn't hedged. But on the flip side, you will just see slower participation in the rising interest rates. So, we'll see the same thing. We'll see margins rising over time, but they'll be a little bit more stable in the short term.

Ebrahim Poonawala, Analyst, BofA Securities, Inc.

Thanks for that. Just as a follow-up, if you can talk to what you see in terms of deposit spreads and pricing both in the US and Canada? Thank you.

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

Yeah, maybe I'll start with that and maybe the businesses can jump in as well, Ebrahim. So, we are seeing very strong momentum on margins, on deposits so most of the benefit from rising rates comes in on the deposit side. You would have seen overall disclosure we provided, we have 25% of our deposits are non-interest-bearing. Those benefit from rising rates. If you look at the interest-bearing part of the portfolio, that's not termed that’s 50 basis points, it splits half and half, right, half sort of mid – what we would call mid-beta, so sensitive to betas; and half of it really indexed, and so, not that much sensitivity to betas.

Where we have beta sensitivity, we've held very well. I would say, at least as good as the assumptions in our interest rates sensitivity disclosures. And so, we don't see anything in the short term that would change that. When you look at the US particularly, the US mix is even better than that. 35% of our deposits in the US are non-interest-bearing, and that's been pretty stable. Balances have been growing, percentage has been pretty stable. And again, our betas seem to be holding. So if you feel comfortable about deposit margins going forward.

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've got three great questions, but I'll stick to one. Actually, it's not that great. I just want to delve into the expense commentary a little bit. If I look at the first half, excluding variable comp, it was a 10% growth this quarter; I'm including the initiative spending and all that with Costco, but it's – we're at 11%. And it sounds like we could be running at that rate for the next little while? Just if you can kind of give me the glide path over the next four quarters because, I figure, some of that should fade, if only because we've got easy comps?

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

Morning, Gabe. It's Hratch. Happy to take that. Let me backtrack for one second and say, our approach to investing in our bank, investing in our strategy and the financial targets we're striving for, it's remained consistent. It's done that for the last couple of years. We have a well-thought out strategic plan, we outlined it in our Investor Day. We're executing against that plan and we're getting the results, as you see.

So, financially, we've guided that that will translate to accelerated revenue growth, share gains, 7% to 10% pre-provision earnings growth, positive operating leverage over the medium-term, and we've been delivering on all of that. You mentioned some of the results on the expense side, but I would look at all of it, right, I'll have, over the 12-month period, if you look at the last four quarters trailing, we've delivered revenues that's been 10% and we've been delivering expenses 11% [ph] on 12-month basis (00:33:51) 10% this quarter, right?

In terms of this quarter, happy to give you a little bit of color. Our increased expenses are a large part, as we've highlighted in the presentation, still impacted by the investments, as well as the inflation piece. In the quarter, 5% of it was the investments. About half of that, as we've highlighted, was Costco and the US. And so, the number Laura gave, 3.5% Costco – call it, 3.5% of the PBB expenses, on a total bank basis, it's about 1% and change, and combined US and Costco is that 2.5% we show.

Both of those are plateauing. And so, I would look at those – we have a full quarter of expenses related to Costco this quarter. There's some variability going forward, but largely stable. And our US investments are plateauing. And so, we expect, starting in Q4, the sequential expenses in the US to also plateau. And so, those will contribute to the stabilization. We are proactively managing the remaining part of the portfolio in order to solve for our operating targets – operating leverage targets. And the inflation elements as well we see over the next few quarters, that's probably about a third to a half of the remaining expenses we've highlighted there on the slide, and we see that moderating over time.

So, where do we go? We're focused on delivering what we've committed to. We've guided to high-single-digit PPPT this year and neutral-ish operating leverage. We feel very good about delivering the pre-tax, pre-provision; and we continue to work on the operating leverage. This quarter, we delivered near-neutral operating leverage despite some pressures on revenue from the markets that were unanticipated, and we're focused on continuing on that positive operating leverage trajectory next quarter and going forward, and getting to the mid-single-digit expense growth over time that we've talked about at Investor Day as we get into next year.

Gabriel Dechaine, Analyst, National Bank Financial

Into next year, so...

Victor G. Dodig, President and Chief Executive Officer

That's well outlined. And Gabriel, just – we have, as a leadership team, an overarching view on growth, profitable growth, and we need to invest to generate that growth across all our businesses. We have the goal of being top of class in everything that we're doing. Everything that we laid out for you on Investor Day – being number one in affluent client growth, being number one in client experience, investing in our future differentiators – all of these investments are driving the kind of results that you're seeing in our bank; market share gains, top line growth, margin expansion, and we will continue along that path.

From time to time, you may see operating leverage lag in the US business, that's the case. And I'm going to hand it off to Cap in a second. The bottom line is that our view on growth in the US is quite optimistic, but our focus is on organic growth. And we're gearing up for more organic growth in the Commercial Bank, which is why we're investing. We're gearing up for more growth in our Wealth Management segment, which is why we're investing. So, Cap, maybe you can just give a flavor as to what is going on in the US, why we – where we're going into the new year when it comes to our financials and our strategic growth priorities?

Michael G. Capatides, Senior Executive Vice-President and Group Head-US Region, President & Chief Executive Office CIBC Bank USA, USA

So, thank you, Victor. Again, as we outlined on Investor Day, we're making – simply making investments in our people, our technology, our product offers, and our infrastructure teams in the US; and we're doing all that to fuel organic growth and we – that we've achieved and planned for for the coming quarters and years. As Hratch mentioned, starting next quarter, we expect those expense levels to plateau. And combined with our robust revenue growth in all of our US businesses, we hope to achieve in the US Commercial and Wealth segment a positive operating leverage by mid next year.

Gabriel Dechaine, Analyst, National Bank Financial

Great. That's very helpful and thorough. Enjoy the rest of your summer.

Operator

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

Scott Chan, Analyst, Canaccord Genuity Corp.

Good morning. For Harry on Capital Markets, generally resilient on a segment basis but one of your peers yesterday took a write-down on their leveraged loan book. And I was wondering if you can comment on your kind of book in the US and that if you see any issues near-term?

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

Well, thank you for the question. As I mentioned in the past, in Investor Day and other calls, we really do have a differentiated platform that is highly connected with the rest of our bank, and we're building a true client-centric North American business that delivers relatively lower volatility pre-provision earnings. So, with that backdrop, we're highly selective and disciplined with respect to the area you're referring to. It's a very small area, essentially immaterial part of our business, and we really focus on our client needs. And so, we experienced no losses due to this exposure in quarter three and we really feel comfortable with our platform as we move forward in that respect.

Scott Chan, Analyst, Canaccord Genuity Corp.

Okay. Thank you very much.

Operator

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

Meny Grauman, Analyst, Scotiabank

Hi. Good morning. Just a question on your estimate of the impact of the Canada Recovery Dividend based on the draft that was just made public, I believe, on August 9? I'm just wondering how much certainty you have in that number, given that it's a draft? Is the fact that you gave the number, I guess, a good indication that you don't see this changing too much by the time it gets finalized?

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

Yes. Thanks for your question, Meny. I wouldn't read that into it. In terms of how much certainty we have in the number, calculating the number is pretty easy, just given the draft legislation. So, we have lots of certainty in the number given the draft legislation, as we said in our disclosures. But it's draft legislation, it's still up for public comment. And if the legislation changes, then the number will change. But we felt it was important, since we can calculate the number, to disclose that to our shareholders at this point in time.

And I will say our capital position, we're very comfortable, can absorb that, right? If that were to come in all at once and impact capital, it's 18 to 20 basis points of capital and it still allows us to stay around the capital levels that we discussed at Investor Day, continue to invest in our business. So, it's not going to be that significant to us. And so, we disclosed the number. We thought it was the right thing to do.

Meny Grauman, Analyst, Scotiabank

All right. That makes sense. And just to clarify, it's reasonable to assume that it could still change though, right, is that a fair assumption?

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

I know as much as you do on that. It's draft legislation and it will, at some point, presumably get finalized.

Meny Grauman, Analyst, Scotiabank

Thanks, Hratch.

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. Shawn, just a quick one for you. I think you have some interesting stats here, one of which was the average credit quality of the business and government book is investment-grade at BBB. Do you have a sense of what it would have been 5 or 10 years ago? And is there any reason to believe that in the next cycle then, because of the improving credit quality there, and also in retail I suppose being more secured, that you're through-the-cycle kind of PCL shouldn't be lower than it would have been over the last 5 to 10 years? Thank you.

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

Sohrab, thanks for the question. So, we're very comfortable with our business and government portfolio across the board. Obviously, over the last several years, we had the acquisition of the private bank, now CIBC Bank USA. And so, its profile is very strong. We're very comfortable with the portfolio that we acquired, it's performed in line with our expectations. We've continued to maintain our underwriting discipline through cycles, including recent originations. We feel good about those originations across the commercial and corporate banking platforms. And similarly with our retail portfolios, again, strong and steady and consistent underwriting discipline.

Our clients are in good shape coming into this – whatever this new period may ultimately unfold. Having come through the pandemic, we saw good client behavior, we saw deposit balances and investment balances and bureau scores all improve. So, from an overall perspective, we've given some guidance during the Investor Day as to what we would expect our impaired losses to be over the coming years and we don't – we're not changing that perspective today.

Sohrab Movahedi, Analyst, BMO Capital Markets

Thank you.

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 had a couple of questions for you on your forward-looking variables, if you could bear with me, that you've outlined on slide 37. The first was on your household debt service ratio outlook. It looks like that was revised lower this quarter relative to the last. But I'm wondering what led to that downward revision in your outlook? Has there been a change in your outlook for interest rates? Just trying to get a sense of why you expected DSR to be lower?

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

Yeah. Good morning. So, yes, there was a small change in the interest rate outlook in the outer years. And so, that really impacted principally on the mortgage DSR calculations in the models. So, that's really what's driven that change quarter-on-quarter.

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

Okay. I assume that you're assuming all your revision was the lower pace of interest rate hikes [ph] not interest rate cuts (00:44:11), is that correct?

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

Yes.

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

Okay. And then, sticking with the theme here, looking at your downside scenario or the HPI, you have a decline in the first 12 months, which makes sense, that's typical, but you also have a sustained decline in the remaining forecast periods. So, wondering what your rationale was there for the HPI to continue to climb not just in the near-term but over the medium-term in your downside scenario?

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

Well, again, it's a downside scenario, so it anticipates a longer period of low growth. In fact, this quarter, it's more of a recessionary sort of profile than it was in prior quarters. So, over that – the period that – the FLI cover, we saw some reduction there. And it's the outlook from our macroeconomics department, we build that into our models and incorporate that as part of our overall assessment of the quarter. But that's really what's driving the change quarter-on-quarter.

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

Yeah. And last question for me on this. Comparing Canadian versus US GDP, across all these scenarios, you have Canada – Canadian GDP growth outperforming the US. I'm trying to get a sense of, again, what's the rationale there? I mean, what we're actually seeing right now is perhaps more interest rate sensitivity in the Canadian economy. So, why do you expect Canada [ph] to perform in your (00:45:40) downside scenario, you have US in a model recession but Canada not entering a recession, at least from a GDP standpoint?

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

Well, I think that there's a few things that the economists have been looking at, including sort of the starting point from where the recovery happened between Canada and the US. Canada was slower to recover so we've got a bit of that, I would say, relative tailwind, if you would, between the two geographies. We also have certain elements within the Canadian economy from a commodities perspective and strong employment that continued to, let's say, provide some level of cushion to the Canadian economy, relative to some of the other headwinds. And so, it's a bit of a relative call based on those factors that results in a bit of a different perspective on where GDP goes from here.

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

Okay. That's it for me. Thank you.

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

Thank you.

Operator

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

Mario Mendonca, Analyst, TD Securities, Inc.

Good morning. Hratch, could you help me reconcile two things that you've offered on this call so far that it's hard for me to see how they come together. One, you said that you don't expect a lot of margin improvement in Canada and the US in those Personal and Business Banking segments in the near term, and fairly modest going forward. But your sensitivity suggests – this is in your presentation – that there is meaningful upside to the NII from changes in the rates. Is the reconciliation of those two concepts really that the margin and the NII benefits will accrue to the center of the house in Treasury and not the segments? Is that the right way to reconcile those two statements?

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

I wouldn't say so, Mario. So, if you look at the sensitivity and you run the numbers on CAD 354 million plus 100 bps, remember that's over four quarters in the first year. And if you run the math on basis points to the total bank, right, so total bank NIM, that's 4 basis points. And so, if you look at that on a segment basis and you look at it on a quarterly basis, you get to something that's again in that modest quarter-over-quarter impact perspective as that ramps up, right?

And so, when you look at even to-date, if I look at what's happened from an interest rate perspective, if I look at quarter-over-quarter trajectory, purely isolating the impact of interest rates as those have started coming up, that's what we've seen, a few basis points positive contribution to the margins in P&C, to the margins overall to the bank. So, that's what we expect from interest rates and that's part of the gradual repricing of the balance sheet as we manage that interest rate sensitivity to our targets. So, over time, it does add up, but we do expect good healthy momentum. It just comes slowly quarter-over-quarter.

Mario Mendonca, Analyst, TD Securities, Inc.

And then the year two sensitivity, would you offer a similar explanation that it might just be slightly better in year two but it's entirely consistent with your guidance then on what margins can do?

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

Yeah. That's right. And actually what happens, right, is you get – it's lower, the year two part, because if you look at the first year, the amount of that, that we disclosed that's due to short-term rates, that's basically the short resets that happens within a quarter even, and then the rest of it is the longer term repricing that takes several years to price through.

Once you get to the second year in that interest rate sensitivity, it's just assumed that you get this 100-basis point increase and then rates stay there. And so there is no more short-term impact, so it's just that ongoing repricing of the long exposure. So, it's even more gradual when you get into the second year.

Mario Mendonca, Analyst, TD Securities, Inc.

All right. I think I got it. Thanks, Hratch.

Victor G. Dodig, President and Chief Executive Officer

Mario, just to add one other point is that our ability to grow market share is not factored into that. So if you look at the flows on money in at CIBC, we're number two in the market today and our goal is to be number one. So, we are focused on continuing to grow deposits from our client base, continuing to grow investment management business from our client base. And as we go forward and we see the balance shifting perhaps away from loan growth and more to continued deposit growth, we are going to be driving those numbers going forward, Mario, and just watch out for that across all of our businesses.

Mario Mendonca, Analyst, TD Securities, Inc.

Perfect. And, Victor, do you – now that you mentioned, do you believe that CIBC's 11.8% capital ratio can support that type of market share gain?

Victor G. Dodig, President and Chief Executive Officer

I think deposit growth actually contributes to capital origination as does investment management. We're very focused on that.

Mario Mendonca, Analyst, TD Securities, Inc.

Got it. Thank you.

Operator

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

Lemar Persaud, Analyst, Cormark Securities, Inc.

Thanks. I'm just going to come back to just a more detailed question on sup pack, so page – if I go to page 6, non-interest income, that other, can you talk a bit about what drove that increase to CAD 114 million this quarter? Typically, it's below CAD 70 million.

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

Yeah. Thank you for the question, Lemar. Happy to take that one. So, I'll say there is a little bit of accounting noise here and technicality between the different line items, so let me try to decompose that for you and leave you with the punch line. So, the large fluctuation in that line this quarter, if you dig underneath it, it's a specific subline that's gains and losses on non-trading derivatives, and that's where we had CAD 76 million quarter-over-quarter increase, CAD 53 million year-over-year increase. So, that's basically the movement.

There's two things that impact that. One is, a lot of our Treasury activities related to, again, non-trading derivative used for hedging, and that's hedging of interest rate positions, hedging or funding that we issue both on the interest rate and the currency side. And then also financing activities in capital markets. So, sometimes derivatives are used in those structures where we're financing securities positions, providing leverage to clients, and so that can come through that line item.

And so the noise part, there's about CAD 30 million to CAD 35 million of that number, whether you look at it on a year-over-year or quarter-over-quarter, that's actually noise that's offset in other line items. So, this is similar to what I was saying on the trading thing, sometimes you've got an underlying position and that comes through NII, and then there's a hedge on it with the derivative and that comes through this line item. So, CAD 30 million, CAD 35 million is offset either in NII declines or declines in the FX other than trading lines. So that I would consider as there is no net impact to our revenues.

The remainder of it is real. And really, if you look at it quarter-over-quarter, about CAD 40 million of that, that's related to our Treasury hedging activities, which had a positive impact. So, that's the only real net revenue benefit that I would highlight. The rest of it is noise.

Lemar Persaud, Analyst, Cormark Securities, Inc.

Okay. That's understood. Thanks a lot. And then, just sticking with that same schedule on non-interest income and card fees, I know this has come up in the past, but it's the lowest level in two years, you've added on the Costco portfolio, purchase volumes are increasing. So, can you talk to me a little bit about why is that card fees line not increasing? And the number I'm referring to is the CAD 98 million.

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

Yes. Thanks, Lemar, and good question on that one as well. So, as the Costco portfolio has come in, it actually put some pressure on the card fees in PBB. And remember, we talked about this a little bit in the past. The way the revenue on that program works, there is revenue in the fee line item, but there is also expenses that go as contra revenue on that line item related to points and so forth on the cards. So, the Costco program on its own, as it came in, it's put about, call it, around a CAD 30 million of pressure on the fee line item. That's in now. On a go-forward basis, I don't expect it to put – it's going to be neutral on the fee line item. So, going forward quarter-over-quarter as we grow the program, no contribution to fees but also no further pressure. So, that puts pressure on that line item if you look at it now relative to prior quarters, but it won't going forward. And on the NII side, it more than offsets that, and that's how the revenues of that particular program come in. So, hopefully, that's helpful.

Lemar Persaud, Analyst, Cormark Securities, Inc.

That is. Thank you.

Operator

Thank you. The next question is from Mike Rizvanovic from KBW. Please go ahead.

Mike Rizvanovic, Analyst, Keefe, Bruyette & Woods, Inc.

Hey. Good morning. First question, just a couple of numbers questions for you, maybe for Jon, just looking at the Canadian Wealth, so I'm just thinking your adjusted numbers – and correct me if I have the numbers wrong here, but when I calculate Canadian Wealth on its own, it looks like you had a pretty sizable decline quarter-over- quarter in the adjusted earnings number and it looks like it's all revenue driven. Can you comment on Canada Wealth specifically this quarter?

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

Yeah. So, the flow piece of the Canadian Wealth business was very good. On a retail mutual fund basis, we're in line with the industry. The industry is soft. In Gundy, we had a record flow. So, we've had record flows in the third quarter, record flows year-over-year. What you see there is just market fluctuations. It's a Canadian business, markets were choppy in Q3. And that's the – nothing else but the market and reasonable flows within that market.

Mike Rizvanovic, Analyst, Keefe, Bruyette & Woods, Inc.

Okay. I guess I'm just surprised by the magnitude. Just based on my numbers, it's CAD 94 million this quarter, down from CAD 139 million. It just seems like a sizable decline, just even given the market conditions. Anything else in that? Is there anything related to mix or what the flows have been?

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

The flows have been good. It's market. There's nothing else in there.

Mike Rizvanovic, Analyst, Keefe, Bruyette & Woods, Inc.

Okay. So, no difference in the flows that are coming in being maybe the less profitable type, lower fee type?

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

So, again, the industry in retail mutual funds, those are the best margin flows. The industry is negative on flows in Q3. I think we rank number two in the industry, less redemptions than most, and our Gundy flows are at record levels now. Now, Gundy flows are always – full service brokerage flows are lower margin but that would not explain any of the drop. The drop is market.

Mike Rizvanovic, Analyst, Keefe, Bruyette & Woods, Inc.

Okay. Appreciate that. And then a quick one for Laura. Just wanted to ask about the Canadian residential mortgage book. And if you look at page 34 of your report to shareholders, it shows that 22% of your book is greater than 35 years on amortization. And I think that was 12% last quarter, it was zero at the end of last year and, I don't know, at the top of my head I'm guessing that's probably higher that peers. But is there any reason to look at this and think that maybe CIBC's forward base on the mortgage side in Canada are just more highly levered than what we see with the peers? Any color on that would be appreciated.

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

Yeah. Mike, I'm happy to answer that and Shawn can add on if he likes. Yeah. I don't see any issue with that, as you know, and Shawn talked about it with the rise in rates and the variable rate mortgages with how our book functions, you see increased capitalization as rates rise because our clients' payments that are under variable rate mortgage doesn't change until they hit a threshold. And so that's why you see higher amortization. Shawn talked about it, what we're seeing is our clients proactively start to make payments. So that's why you see increased amortization, but nothing to worry about as Shawn pointed out. And a lot of that will get reset at renewal time from our clients, so not concerned. I don't know, Shawn if you wanted to add...

Mike Rizvanovic, Analyst, Keefe, Bruyette & Woods, Inc.

Okay. That's...

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

Go ahead, Mike

Mike Rizvanovic, Analyst, Keefe, Bruyette & Woods, Inc.

Sorry. Sorry. No – sorry, go ahead, Shawn. My apologies.

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

Look, I'd just say that this is a function of – as we talked about, it's a fixed payment, but the more – as interest rates rise, more of the fixed monthly payment goes towards interest rather than principal, which then just mathematically extends the amortization. So – and if that continues to a level, then clients can start to capitalize that interest, which we're not seeing at current rates. But to the extent that rates continue to rise, you could see some of that happen.

And then, as we've talked about in prior discussions, if that capitalization continues to a level that it hits what we call the designated amount, which is 105% of the original principal amount, then there's a need to be an immediate payment to deal with that. But at this point, the 22% of the portfolio that has extended the amortization beyond is really the mathematical outcome of more of the monthly payment going towards interest rather than principal, and automatically therefore, extending out with the calculated amortization would be based on that payment.

Mike Rizvanovic, Analyst, Keefe, Bruyette & Woods, Inc.

Okay. Got it. And then just to your knowledge, Shawn or Laura, would you think that CIBC would have a higher number than peers? Because the structure on that variable product is pretty similar for most of the banks, I'm just wondering if it's something that's maybe a bit more elevated at CIBC and why that would be. It would suggest potentially maybe borrowers taking on a bit more leverage, at least with respect to the most – more recent originations. Any thoughts on that?

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

Yeah. I haven't seen the other results. I'd just say that this is the way the product would work given we've got the fixed monthly payment that doesn't adjust with interest rates. And as Laura said, we are seeing some clients just proactively making payments to keep that amortization flat, but we don't have concerns based on what we're seeing to-date in terms of credit quality or issues building.

Mike Rizvanovic, Analyst, Keefe, Bruyette & Woods, Inc.

Okay. Thanks for the color. Appreciate it.

Operator

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

Doug Young, Analyst, Desjardins Securities, Inc.

Hi. Good morning, and thanks for taking the question. Hopefully, this will be relatively quick. But, Victor, at the very beginning, you talked about the addition of 300,000 clients. I think that was Canadian banking, and you gave some stats around that. What I'm particularly interested in is where those clients are going. Are you having success attracting them into core deposit accounts where paychecks are going into as there's more mortgage origination? Is it across all of it? And how much and how many of these clients would be multiple product clients and how is the cross-selling on that side? Just trying to get a sense. Can you talk about growth? It's obviously an important part of that, so just color would be much appreciated.

Victor G. Dodig, President and Chief Executive Officer

Thanks, Doug. And if you go back to first principles in our key strategic priority is to grow within the affluent segment and to over index there. So, as we took you through the data on Investor Day and Laura's presentation, she outlined our current portfolio of clients, 11% of our households are in the affluent segment. Our strategy is to over index on that and to grow our market share in that affluent segment. And when you see us bringing 300,000 clients, 25% of which are in the affluent segment, that strategy is on track. Overall, clients in the affluent segment tend to have deeper relationships with us. They go through the CIBC GoalPlanner platform. They tend to have business on both sides of the balance sheet. That is exactly the kind of business we're focused on building. That is highly aligned with the strategy that Laura's outlined at Investor Day, and we continue to deliver on that.

Laura, I don't know if you want to add anything to it, but we're highly encouraged that one of our key priorities is well on track and we plan on delivering on that quarter after quarter after quarter.

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

Well said, Victor. I would just add that, to your question where are we seeing it, it's across all of our products, but really leading the way, and this is great, is in the deposits side, so with everyday banking products. And so that is how we see real engagement with our clients. So, we're really happy with how we're leading in that regard. So, thanks for the question, Doug.

Doug Young, Analyst, Desjardins Securities, Inc.

And Laura...

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

Go ahead.

Doug Young, Analyst, Desjardins Securities, Inc.

Just more on the deposit side, is this more on the term side? Is this more checking account? Can you give a little more granularity on that side?

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

Yeah. It's across the board that we're seeing it. So, again, very solid and we continue to see really impressive new client acquisition and retention in our everyday banking account. So, those are our transactional accounts.

Doug Young, Analyst, Desjardins Securities, Inc.

Okay. I'll leave it there. Thanks.

Operator

Thank you. Ladies and gentlemen, this is all the time we have for your questions. I will now turn the call over to Victor.

Victor G. Dodig, President and Chief Executive Officer

Thank you, operator, and thank you all for your very insightful questions and we hope we answered them to your satisfaction. I just want to close by saying couple of things. The solid results we reported this quarter demonstrate our strength and agility in a challenging economic environment. As we've laid out to you at Investor Day, we have a strategic plan that's built for sustainable growth and our continued capital strength enables us to focus on targeted high return investments to deliver value to our shareholders over the long term.

Our senior leadership team at CIBC is highly focused on delivering against these objectives. We're going to continue to take a disciplined approach to our risk and expense management. We're going to proactively calibrate our growth investments to changes in economic conditions. If things get better, we'll continue on the path. If things soften up, we'll adjust accordingly, but we're always focused on strategic growth for the long run and we're going to continue to leverage technology to improve efficiency and the banking experience we offer to our clients.

So in closing, I'd like to thank our entire CIBC team for being on purpose as we deliver for all of our stakeholders. And I want to thank you for your continued interest in our bank, your investment in our bank and we look forward to speaking with you at the next quarter call and certainly in between then.

Take care. Enjoy the rest of summer.

Operator

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