CIBC Q2 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

Robert Sedran

Senior Executive Vice-President and Chief Financial Officer

Frank Guse

Senior Executive Vice-President and Chief Risk Officer

Hratch Panossian

Senior Executive Vice-President and Head of Personal and Business Banking, Canada

Shawn Beber

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

Harry Kenneth Culham

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

Jon Hountalas

Senior Executive Vice-President and Group Head, Canadian Banking

Other Participants

Matthew Lee

Analyst, Canaccord Genuity Corp.

Doug Young

Analyst, Desjardins Capital Markets

Ebrahim H. Poonawala

Analyst, BofA Securities, Inc.

Meny Grauman

Analyst, Scotiabank

Sohrab Movahedi

Analyst, BMO Capital Markets Corp. (Canada)

Nigel D’Souza

Analyst, Veritas Investment Research Corp.

Lemar Persaud

Analyst, Cormark Securities, Inc.

Gabriel Dechaine

Analyst, National Bank Financial, Inc.

Management Discussion Section

Operator

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

I would now like to turn the meeting over to Geoff Weiss, Senior Vice President, Investor Relations. Please go ahead, Geoff.

Geoff Weiss, Senior Vice-President, Investor Relations & Performance Measurement

Thank you, and good morning, everyone. We'll begin this morning's presentation with opening remarks from Victor Dodig, our President and Chief Executive Officer; followed by Rob Sedran, 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; Jon Hountalas, Canadian Banking; and Hratch Panossian, Personal and Business Banking. They're all available to take questions following the prepared remarks.

We have a hard stop this morning at 8:30, so please limit your questions to one during the Q&A to allow everyone to participate. As usual, we'll make ourselves available after the call for any follow-ups. 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. I'll begin the call today with a brief overview of our second quarter results, followed by an update on our key operating segments and progress on our strategy. We delivered strong results this quarter that reflected our differentiated business model, our diversified portfolio, and our client-centric strategy, which we continue to consistently execute on.

On an adjusted basis, we reported net income of CAD 1.7 billion and earnings per share of CAD 1.75. This performance was driven by 9% pre-tax, pre-provision earnings growth and a third consecutive quarter of positive operating leverage. Our capital position remains strong with a CET1 ratio of 13.1%. This provides us with flexibility to draw on excess capital, support our clients, and continue growing our businesses while also returning capital to shareholders.

Our adjusted return on equity was 13.4%, as we maintained focus on profitability while holding elevated capital. Looking forward, our strategy is deliberately designed to deliver a robust, long-term return profile as we prioritize specific client segments, advance our digital capabilities, deepen client relationships, and realize efficiencies across our portfolio.

Now, turning to our business units. Starting with our Canadian Personal and Business Banking franchise, we delivered a strong quarter as we continue to advance our strategic priorities. In CIBC Imperial Service, which serves the needs of the mass affluent segment in Canada, our client Net Promoter Scores are trending higher, and money-in balance growth for Imperial Service clients was up 27% sequentially.

With the support of AI, we're continuing to foster a cultural mindset of delivering an enhanced client experience. In one use case, we're using advanced analytics to compile a holistic client financial snapshot, which provides our advisors with deeper insights to guide more personalized conversations with their clients.

We're also leveraging our digital capabilities to continue deepening relationships with our Personal Banking clients. Today, 4 out of 10 core banking products are sold digitally, continuing to trend up from prior periods. In addition, we saw improved Net Promoter Scores for our digital channel clients as well.

So, turning to our Canadian Commercial Banking and Wealth Management businesses, softer economic growth and lower levels of residential construction have dampened loan demand, while financial markets have benefited from expectations of interest rate reductions later in the year. Our emphasis on client relationship returns generated significant growth in referral volumes between Commercial Banking and Wealth Management, which are on track to increase 70% relative to fiscal 2023.

In line with our strategic priorities, we recently launched a modernized platform for our investment advisors as we continue to evolve our wealth management capabilities. And during the quarter, our Asset Management business garnered first place out of our Big-6 peer group in absolute long-term and total retail mutual fund net sales. We will continue to drive growth in this business as we execute on our strategy to lead in the mass affluent and high net worth client segments.

In the US region, our results reflected continued progress on our growth agenda. During the quarter, C&I loan growth was strong and broad-based, while we continued to deemphasize certain segments of our institutional commercial real estate business.

In our Private Wealth Management business, we continue to invest in technology and infrastructure to scale our platform, attract new advisory teams, and drive connectivity. Cross-business referral volumes from the US are tracking well above our targets, supported by our ECRM investments. Scaling our highly connected US platform remains a critical imperative to our cross-border strategy and to our long-term enterprise earnings potential.

Moving to Capital Markets and Direct Financial Services, our differentiated platform delivered another strong quarter of results. We maintained our number one market share position among the Canadian peer group in equity trading, while also moving to the number one market share position for advisory fees. Revenue sourced from the US region was up 20% year-on-year on a year-to-date basis. In our DFS business, our efforts to build a best-in-class digital experience were recognized as well, with CIBC Investor's Edge ranking number one of the Big-5 Canadian banks and J.D. Power's Self-Directed Investor Satisfaction Study.

So underpinning our momentum are the investments that we've made to strengthen our bank. We're investing in technology to enhance our client experience, advance operational resilience, to protect our clients, and to deliver efficiencies in how we work. We're taking a thoughtful and proactive approach to how AI plays a role in advancing our client-focused strategy and in the governance required to do so effectively. We already use AI in key functions across our bank. Existing implementations include sophisticated risk and information security models that can detect fraud and enable our team to help prevent losses for our clients.

We're also using generative AI solutions to enhance our frontline experience, to improve our contact center efficiency, and to make head office activities easier and faster to perform. We've got many use cases currently in flight across our bank, all connected to our strategy and all with our clients at the center of our thinking.

Delivering on our commitment to build a secure, equitable, and sustainable future, our efforts were recognized by several prominent third-party organizations again this quarter. For the second consecutive year, we were recognized by Global Finance as the Best Investment Bank and for our leadership in sustainable finance. For the third consecutive year, we were recognized by MediaCorp as one of Canada's Greenest Employers. And finally, for the fourth consecutive year, we ranked number one in Canada for gender equality by Equileap. These recognitions further enforce the hallmark of consistency we're focused on delivering across our bank on a number of fronts.

So in closing, we delivered another strong quarter to build on our recent momentum. We have a skilled, tenured, and connected management team that is laser-focused on the consistent execution of our clearly defined strategy. Going forward, our focus is to continue delivering on our strategic priorities, to remain disciplined with resource allocation, and to further improve the client experience.

With that, I'm pleased to hand things over to our new CFO, Rob Sedran, to review our financial results. Rob has a deep understanding of the banking sector and will bring valuable perspective to our CIBC Executive Committee. This move, along with the other new and expanded roles announced during the quarter, are consistent with our approach to deliver a strong bench, to draw from, to lead our bank into the future.

So Rob, over to you.

Robert Sedran, Senior Executive Vice-President and Chief Financial Officer

Thank you, Victor, and good morning, everyone. Having spent 19 years with CIBC in various roles, I'm very excited to serve as our bank CFO. So, let's get started with our Q2 2024 performance. I'm on slide 6.

The results this quarter reflect our focus on the consistent execution of the strategy Victor reiterated in his remarks. Strong performance in our largest business unit, Personal and Business Banking, momentum in market-sensitive businesses, and balance between expense control and investing in our growth, contributed to diluted earnings per share of CAD 1.79 and ROE of 13.7% on a reported basis. Excluding items of note, adjusted EPS was CAD 1.75 and adjusted ROE was 13.4%.

Our balance sheet remains in a strong position, with ratios that are well above our normal course operating targets. The balance of my presentation will refer to adjusted results, starting with slide 7. Unless otherwise noted, results are being compared with Q2 of 2023.

Adjusted net income of CAD 1.7 billion increased 6%. Pre-provision, pre-tax earnings of CAD 2.7 billion were up 9%, and revenues of CAD 6.2 billion were up 8%, aligned with our growth targets and supported by expanding margins, volume growth, and higher fee income. We also continued to prudently manage expenses, while still investing to support our strategy which helped generate positive operating leverage. Provisions for credit losses continue to be elevated, up 17% from a year ago, but they are down 12% sequentially. Frank will discuss credit in detail in his presentation.

Slide 8 highlights key drivers of net interest income. Excluding trading, NII was up 9% over the year, driven by expanding margins and continued balance sheet growth. The net interest margin performance this quarter and for the next couple of quarters is muddied by the impact of benchmark reform, as we approach the June 28 cessation of CDOR. I would note that this transition is revenue neutral and it is simply a shift of revenue to NII from other income.

Excluding trading, Total Bank NIM was up 7 basis points from the prior year and stable sequentially. Canadian P&C NIM of 263 basis points was down 5 basis points sequentially. About half that decline was from revenue-neutral items in Commercial Banking, including benchmark reform. The balance of the decrease was driven by competitive pricing and business mix, also mainly in Commercial Banking, and has since largely stabilized.

In the US, NIM of 343 basis points was down 6 basis points from the prior quarter, with a continued mix shift in deposits and slightly lower loan margins. Consistent with our prior guidance, aside from the ongoing impact of benchmark reform, we continue to expect core margins to be stable for the balance of the year, based on current market rate expectations.

Turning to slide 9, non-interest income of CAD 2.9 billion was up 15% from the prior year amid growth in trading revenues as well as higher market-related and transactional fees. Excluding trading, market-related fees increased 13% due to higher underwriting and advisory fees as well as investment management and custodial revenues. Transaction-related fees were up 6%, driven by growth in deposit and payment, card and credit fees.

Slide 10 highlights our balanced approach to expense management. Excluding performance-based compensation linked to the stronger revenues and continued investments, expenses grew 4%. Over the last year, we realized efficiencies while investing to advance the four pillars of our strategy, as you can see on the slide. That combination helped us to deliver 50 basis points of positive operating leverage this quarter. With higher revenue-linked expenses, we expect expense growth to be in the mid-single digit range for the full year, and we remain committed to delivering positive operating leverage for the year.

Slide 11 highlights the strength of our balance sheet. Our CET1 ratio ended the quarter at 13.1%, up from 13% last quarter, and positions us well to absorb volatility in the operating environment while still supporting our clients. Solid organic capital generation, supported by share issuance, was partially offset by RWA increases, a combination of business growth and credit migration.

Based on our strong capital position and stable outlook, and as we signaled on our Q1 earnings call, we announced earlier this morning the formal elimination of the discount on our DRIP program, starting with our Q3 dividend payable on July 29th. Our liquidity position continues to be strong, with an average LCR of 129%, down from last quarter, and we moderated our funding activity during the period.

Starting on slide 10, with Personal and Business Banking, we highlight our strategic business unit results. Net income of CAD 653 million increased 1%, driven by strong revenue growth and operating leverage, partly offset by higher provisions for credit losses. Supported by core business momentum, pre-provision, pre-tax earnings were up 15%, as the execution of our client-focused strategy continues to deliver results.

Revenues of CAD 2.5 billion were up 9%, supported by a 16 basis point increase in the margin, along with volume growth. The sequential revenue decline was primarily owing to the impact of two fewer days in the quarter. Expenses of CAD 1.3 billion were up 4%, related to higher revenue growth and investments in strategic initiatives, partly offset by ongoing efficiencies.

On slide 13, we show Canadian Commercial Banking and Wealth Management, where net income and pre-provision, pre-tax earnings were stable to a year ago. Revenues of CAD 1.4 billion were up 4%, driven by strong Wealth Management revenue growth of 11%, with higher average fee-based assets on both increased client activity and market appreciation. This was partially offset by Commercial Banking revenue, which declined 5%.

As I mentioned a few slides back, net interest margin in this segment was affected most directly by benchmark reform, and will be for the next couple of quarters, which again has no revenue impact. We also saw the impact of deposit competition and elevated funding costs as well as the impact of business mix during the quarter. Other than the impact of benchmark reform, we are seeing these things start to level off, and so expect more stability in the core margin moving forward for this segment.

Expenses increased 7% from a year ago, mainly from higher compensation linked to the strong Wealth Management revenues. Our combined Canadian Personal and Commercial franchise delivered revenue growth of 6%, operating leverage of 3%, and pre-provision, pre-tax earnings growth of 8% over the prior year. Additional details on Canadian P&C have been included in the appendix.

Turning to US Commercial Banking and Wealth Management on slide 14. Net income of US $81 million was up from the prior year, largely from lower provisions in the office portfolio. Revenues were up 3%, with non-interest income up 10%, mainly due to market performance and wealth, partially offset by a 1% decline in net interest income.

Expenses were up 10% year-over-year, reflecting investments across our business and infrastructure. We continue to scale our US business and are positioned to drive long-term profitable growth across both Commercial Banking and Wealth Management.

Turning to slide 15 and our Capital Markets and DFS segment. Net income of CAD 509 million was up 2% year-over-year. Revenues of CAD 1.4 billion were up 4%, driven by strong results across all business lines, despite the impact of the federal budget changes on our Global Markets business. Corporate and Investment Banking benefited from growth in both equity and debt underwriting activity. And 5% growth in Direct Financial Services was helped by higher revenues in Investor's Edge, our direct investing platform. Expenses of CAD 706 million were up 6%, largely due to continued investments in growth initiatives and higher employee-related compensation.

Slide 16 reflects the results of the Corporate and Other business unit, which shows a net loss of CAD 9 million compared with a net loss of CAD 33 million in the prior year, driven by higher Treasury-related revenues and higher revenues from CIBC Caribbean, partly offset by higher expenses. This quarter's expenses included a charge related to the divestiture of certain CIBC Caribbean assets.

In periods of heightened volatility, our Treasury function can sometimes buffer the impact on our client-facing businesses. As that volatility settles back down, so too should the impact on our Corporate and Other segment, which we are now seeing. Therefore, in the current environment, we would anticipate losses of between zero and CAD 50 million, rather than our previous guidance of a loss of between CAD 50 million and CAD 100 million for this segment.

So, let me close with three takeaways from the results. First, our results reflect the consistent execution of our client-focused strategy and positive momentum across our diversified franchise. We remain very focused on controlling what we can control and positioning CIBC for consistent, strong, profitable growth. Second, our strong balance sheet combined with capital and liquidity ratios that are ahead of operating targets position us well for the present and the future as we continue to manage with a long-term lens. And third, our disciplined and balanced resource allocation approach allows us to focus our investments, support our clients, and drive sustainable shareholder value.

With that, I'll turn it over to Frank.

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

Thank you, Rob, and good morning, everyone. Our credit performance this quarter has remained stable despite a challenging environment. We completed a number of dispositions in our US office book, which reduced impaired balances in this sector. With strong allowance coverage, we remain focused on maintaining reserves for evolving macroeconomic conditions.

Turning to slide 20, our total provision for credit losses was CAD 514 million in Q2, compared to CAD 585 million last quarter. We've continued to build allowance levels by 9 basis points over the past 12 months to prepare for future changes in the economy. Our performing provision was CAD 67 million this quarter, primarily from our business and government portfolios. Provision on impaired loans was CAD 447 million, down CAD 45 million quarter-over-quarter. This was due to lower provisions in the Canadian retail portfolios, as well as both the Canadian and the US commercial lending portfolios.

Turning to slide 21, we are providing an updated view of our impaired PCLs by business. Over the past few quarters, we've seen total bank impaired PCL performing around our mid-30s guidance, with strong performance in a number of our strategic business units. In PBB, impaired PCL trended slightly higher over the past year. We expect it to move slightly higher in the coming quarters. The Canadian Commercial portfolio has yielded strong and stable performance. While some fluctuation will be normal for this portfolio, we remain pleased with these results.

I would also highlight the performance in our Capital Markets business, where impaired PCL rates over the past few quarters remain muted. US Commercial impaired PCL has seen improvements over the past few quarters, with lower provisions in the office sector, partially offset by increases in diversified commercial. We expect to see these improvements continue. Our credit performance this quarter reflects strong credit quality across all of our portfolios, driven by our underlying relationship and client-focused strategies and proactive risk management approaches.

Slide 22 summarizes our gross impaired loans and formations. Growth impaired balances were down in Q2, mainly due to the disposition of US office loans, partially offset by an increase in Canadian personal lending. Overall, new formations continued to remain stable quarter-over-quarter, with the increase in retail offset by a reduction in business and government.

Slide 23 summarizes the net write-off and 90-plus day delinquency rates of our Canadian consumer portfolios. We're seeing 90-plus day delinquency rates trending higher, reflecting the year-over-year impact of rising unemployment and elevated interest rates. The overall credit quality and portfolio health of our clients remain strong. We also remain comfortable with our mortgage portfolio, given the overall reasonable loan-to-value metrics, and we do not expect to see material losses from 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 in uninsured mortgages and at a higher risk from a credit perspective. We also continue to see positive trends in negatively amortizing mortgages that was down from CAD 38 billion in Q1 to CAD 36 billion this quarter, primarily from clients continuing to voluntarily increase payments to reduce the interest rate impact.

Slide 24 shows an updated view of our US office portfolio. Our team's focused efforts have reduced the portfolio size by more than 20% year-over-year. As mentioned in my opening remarks, the disposition actions taken have reduced our gross impaired loan ratio from 19.7% last quarter to 10.3% in Q2. With the reduction in impaired balances, our allowance coverage is now at 10.2%, down from 13.7% last quarter. Going forward, we

believe that we are through the bulk of substantive issues in this portfolio and expect losses to continue to trend lower in the coming quarters.

In closing, we continue to proactively assess the portfolio and we remain comfortable with our mid-30s guidance. Our allowance coverage remains strong for the macroeconomic environment we operate in, and we remain prudently provisioned for what is ahead. As market uncertainty persists, our team remains focused on closely monitoring portfolio performance and quality, while also staying engaged with our clients.

And I will now turn the call back to the operator.

Question and Answer Section

Operator

Thank you. [Operator Instructions] Our first question is from Matthew Lee from Canaccord. Please go ahead.

Matthew Lee, Analyst, Canaccord Genuity Corp.

Good morning, guys; and thanks for taking my question. I wanted to hone in on the Canadian PBB segment, which saw a sequential improvement in impaired PCL that sort of goes against the industry-wide trend in this space. Could you maybe talk about the puts and takes in that business and maybe how we should expect that to trend in the back half of the year, just given the increasingly strained Canadian consumer?

Frank Guse, Senior Executive Vice President and Chief Risk Officer

Thanks, Matthew. Thanks for the question. I think as we guided in my prepared remarks, we continue to expect NCLs trending up a little bit more in the second half of the year, and that should be expected against the macroeconomic environment. But we do remain overall very comfortable with our performance and credit quality in the Canadian consumer book.

We're very intentionally focused on growing relationships with clients with strong credit quality. We have invested heavily in retail strategies, focused on the mass affluent segment. Even investing in our co-brand credit card has improved overall credit quality for the portfolio. And we are also investing heavily in risk strategies. And Victor touched upon some of those using AI and bringing in more data to just be very conscious about risk decisions that we are making in the portfolio at origination, during the life cycle of the loan, and even when it comes to collection efforts and pre-delinquency strategies.

So I would say, a very intentional strategy, good investments that we are making both on the business and the risk side. And that's what you're seeing reflected there in the results. Notwithstanding, we are still guiding to net credit losses to continue to trend up moderately in the second half of the quarter.

Matthew Lee, Analyst, Canaccord Genuity Corp.

Okay. That's helpful. And then...

Victor G. Dodig, President and Chief Executive Officer

Yeah. Sorry, Matthew, yeah, you got another question? Go ahead.

Matthew Lee, Analyst, Canaccord Genuity Corp.

Oh, no, no, no. Go ahead.

Victor G. Dodig, President and Chief Executive Officer

No, I want to hear from you, Matthew.

Matthew Lee, Analyst, Canaccord Genuity Corp.

Oh, sure. I just wanted to ask about the Costco portfolio. It feels like when I go to Costco, get my groceries, enjoy my CAD 1.50 hotdog, I can see how it's really easy to end up with a Costco CIBC Mastercard and perhaps even open a bank account. But just, can you maybe elaborate on how you've been able to take that initial interaction with the consumer and turn it into a kind of longer-term multi-product relationship?

Victor G. Dodig, President and Chief Executive Officer

Yeah, sure. I'm going to hand it off to Hratch in a moment. The whole Costco strategy is very much tied to our overall client strategy, to build a product suite that is market-leading. And in that instance, we have a market-leading travel and non-travel credit card portfolio that's been performing very well. And to make sure that our clients, including you, Matthew, have an opportunity to do more banking business with us. So, franchising the client and making progress on that front is something that we're seeing in a very encouraging way in our partnership with Costco and, quite frankly, across our banking business.

So Hratch, over to you.

Hratch Panossian, Senior Executive Vice-President and Head of Personal and Business Banking, Canada

Thanks, Victor; and good morning, Matthew. The Costco portfolio overall is trending very well for us. And let me go back for a second and remind you what we had said at the time of the acquisition. The card itself is interesting to us. The economics of the card, per our business case, were good. But the real value for us was building the relationship and franchising that client base, which is several million that we've acquired and hundreds of thousands that we are acquiring on an annual basis going forward as new cardholders. And a large portion of that client base aligns with our strategy of our focus on mass affluent.

And so, what we're seeing so far on the card itself, there's some puts and takes. Cost of funds is higher because of where the environment is. That hurts us. But if I look at some of the operational metrics in terms of number of accounts, in terms of number of new accounts, in terms of balances, in terms of transaction volumes, in terms of how that spend is materializing, all of that is trending at or better than business case. And so, I would say, overall, the economics of the card are as good as we expected in the business case.

When I look at the real value of franchising though, we are ahead. We're ahead of our initial goals life to-date. We're acquiring clients. We're engaging those clients. So you asked, how are we doing that? A large portion, I would say, the vast majority of the client base that's coming to us through this portfolio, is digitally engaged. And so, we're able to engage with those clients digitally after the fact to build the relationship. We've got the data on the clients. And so, we understand those clients. And as we do with all of our client base, mind that data to generate insights and understand what other products and services could be beneficial to those clients.

And we've got a very good relationship with our partner. And we think, over time, there's more and more we can do with that partner, both with cardholders, but also the overall base that they serve, their member base, which is significantly larger than that.

Matthew Lee, Analyst, Canaccord Genuity Corp.

All right. That's really helpful. I appreciate it.

Operator

Thank you. Our following question is from Doug Young from Desjardins Capital Markets. Please go ahead.

Doug Young, Analyst, Desjardins Capital Markets

Hi. Good morning. Rob, just wanted to go back to this whole NIM discussion and maybe you can kind of clear off some stuff that I just find very cloudy, but the Canadian Commercial down 40 basis points, US Commercial down, Canadian Banking up a little. I assume the offset is in corporate. I assume there is some of that benchmarking you talked about. Just can you help me think through what's going on and maybe even put a finer point on how you think NIMs will kind of evolve maybe at the divisional level and at the all-bank level and how corporate kind of intertwines with that.

Robert Sedran, Senior Executive Vice-President and Chief Financial Officer

Thanks, Doug, and good morning. So, there's probably no piece of guidance that we give that has more underlying assumptions than the net interest margin. So, maybe I'll take you to the top of the house, and I'll explain to you how I think about it. And then you can kind of overlay your investment thesis on top of that to see how you may challenge or agree with it. So, I break it down into three buckets, right?

The first bucket is our hedging and positioning of how we hedge our balance sheet for interest rate risk. And as you know, we aim for margin stability as best we can through the cycle, including in periods of volatility, and we've had some success with that. In almost – in most plausible rate scenarios from here, the roll-on rate for the new hedge that's coming on is going to be better than the roll-off rate for the new hedge that's maturing. Like most banks, we have some version of a tractoring strategy. So, that first bucket, I look at it as a tailwind for the next little while for us.

The second bucket, I would say, comes down largely to business mix, right? So if you think higher for longer, maybe you're thinking less mortgage, you're thinking more GIC, you're thinking a little less demand deposit. All of that category of how customers react and what customers do and what choices they're making has an impact on margin. It has been – particularly as rates have been rising, it's been a headwind to the margin – to the consolidated margin over the last little while. The longer rates stay where they are at, we think it's still a bit of a mild headwind, but it's not the headwind that it was.

And then the third bucket, I would say is the competitive environment. And that third bucket is always intense competition in Canadian Banking, intense competition everywhere we operate. I would say it's generally stable though, certainly in periods of lower asset growth and lower balance sheet growth for the industry, we see a little bit more of it. But I would also say that ours is definitively not a product strategy, right? So, we will – and that's not to say that from time to time, we might not be the high rate or the low rate depending on the product, but it's certainly not our strategy. We'll test and learn every now and again, but we try to balance margin and volume for the right answer for our chosen customer segments and for the right answer for our shareholder.

So when I roll all of that together, I get a modest tailwind on the first bucket, modest headwind on the second bucket and a bit of a neutral on the third. I come around flat. If you push me one way or the other, I'd say a bit of a positive bias just because that first bucket continues to have some upside to it. And when you kind of drill

that down and it's sort of the same thinking as you drill it down into Canadian Personal and Commercial Banking, and then down into Commercial Banking and Wealth.

Now, all that guidance I gave you is excluding the impact of benchmark reform. I wouldn't spend too many brain cells on benchmark reform. It's going to be around for another quarter or two, and then we're not going to be talking about it anymore. It will have an impact on margin going forward at all of those levels. And we'll be as transparent as we can to help you understand what's really happening to the core margin going forward.

Doug Young, Analyst, Desjardins Capital Markets

So, maybe I can just think about this, like the hedging comes through the corporate, so that's the benefit. And then in the Canadian Commercial side, is that a normal – like is that a normal level of margin in like Canadian Commercial that we should be thinking of going forward? Like there's nothing unusual in there, and then I can figure out the rest of the two. But those are the two kind of things that I was hoping to maybe get a little more color on.

Robert Sedran, Senior Executive Vice-President and Chief Financial Officer

I would clarify slightly that the hedging doesn't come through the corporate. The hedging – the tractoring strategy has the benefit that gets fed into the businesses over time. And that's kind of what you're seeing in the personal and business bank as the most direct example. What you're seeing in corporate is largely the normalization of some of the Treasury volatility that you otherwise would see when rates are spiking. We do try to insulate the business and the customer-facing businesses from some of that volatility, because we want them focused on serving the client and growing the business the right way, and they need stability to be able to do that.

The Commercial Banking margin, yeah, listen, around these levels is what we're assuming from here. A number of moving parts really, and it's a bit of a noisy quarter in the Commercial Banking margin, but all the things that have affected it are generally stabilizing. And so, we would suggest more stability from here in that margin.

Doug Young, Analyst, Desjardins Capital Markets

Appreciate the color. Thank you.

Operator

Thank you. A following question is from Ebrahim Poonawala from Bank of America. Please go ahead.

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

Hey. Good morning. I just had a question – maybe a multi-part question on the outlook for CET1 capital build from the 13.1%. And if you could just respond, maybe Frank, Rob, and maybe even Victor, around how we should think about RWA migration from your balance sheet growth. Balance sheet has been shrinking, so how should we think about balance sheet growth? And then finally, how should we think about inorganic deployment? Is it too early for buybacks? And then, when we think about the impact strategy, are we back maybe open to US M&A? So, thank you.

Victor G. Dodig, President and Chief Executive Officer

So Ebrahim, thanks for the question. Capital's always an important area to focus on, and we're very pleased with the progress that we've made over the past year. We've built 120 basis points in capital from this time last year. And that was a very deliberate focus of the leadership team to continually focus on our strategy that we've laid out, a client-focused strategy, high-quality returns, and increasingly, over time, capital-light, and therefore generating capital for our business.

We were pretty clear in terms of how we're thinking about the discount on the DRIP, which we've made official in this quarter. And we saw some credit migration, which I think reflects the reality of what we see out in the marketplace. It's not our strategy, it's just what the marketplace is doing. Our strategy is working, and what I'll do with this question now is hand it off to Frank on the credit migration just to give you a little bit of a double-click there, and then we can move on to any other questions you might have in your multi-part question, Ebrahim.

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

Thanks, Victor.

Frank Guse, Senior Executive Vice President and Chief Risk Officer

Yeah, thank you, Ebrahim. And as Victor said, I think it is a reflection of the macroeconomic conditions out there. Specifically to the migration this quarter, I think it's split between our Canadian retail portfolios and some of our commercial businesses, including CRE. I think what is important to reiterate is we do not expect these migrations to lead into losses outside of our guidance, which I reiterated at the mid-35 basis point range. And a couple of reasons for that, but for instance, on the Canadian consumer side, a lot of the migration is actually driven by current LTVs changing, and changing slightly driven house prices continuing to moderate in some cities.

But those migrations happen with clients with very, very strong credit scores. So, we don't have any reason to believe that we will see large impairments or losses arising out of that. And as you can see in our disclosures, overall LTVs continue to remain very, very strong. So, yes, we do expect some of that migration to happen in an environment like that, but it's not translating into higher losses or changes to our guidance and outlook on the loss.

Victor G. Dodig, President and Chief Executive Officer

Thank you, Frank. And Ebrahim, just to kind of answer some other aspects of what you kind of put forth earlier on. When we think about our capital deployment strategy, which is what you were getting at, the first priority is continue to invest in our business, continue to make investments that are highly consistent with the strategy that we've laid out, and that we are going to continue to deliver on. That would include growth in credit formation as the interest rate environment starts to become clear and the economic environment becomes clear. We have the capital to continue to do that.

The second aspect is obviously to grow our dividends, which we do once a year, that's in line with earnings growth, and to be within our payout ratio of 40% to 50%. The third is buyback. The buyback lever obviously becomes more active when your capital gets to a higher level. But mindful of the fact that we want to be within our peer group here. We don't want to be an outlier. We want to have the strong capital to grow, not an outlier, but that active lever is there for us.

And on M&A, I'd say think about CIBC as a highly organically focused bank with the opportunities to do tuck-ins in areas that we want to strengthen, particularly in Wealth Management. Shawn's already been focused on team lift-outs. We see some of that, and there may be other opportunities to further strengthen our hand in Wealth Management. That's the way to think about it, Ebrahim. Thank you.

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

That answered it all. Thank you, Victor. Thanks, Frank.

Operator

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

Meny Grauman, Analyst, Scotiabank

Hi. Good morning. I wanted to ask about the loan sale that you did in the US office portfolio. Is there more potential for loan sales in that specific portfolio? And more broadly, are there other portfolios where that type of strategy would be appropriate in your view?

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

Good morning, Meny. It's Shawn. Thanks for the question. So, as we've talked about over the last several quarters, we've been looking at various strategies as we work through challenges in the office portfolio. That's included extensions. That's included short sales. And earlier in the year, we identified a portfolio of eight loans that we thought made sense to expose to the market and see what kind of attention and interest that would generate. We were very pleased with the level of bidder interest and the execution that we ultimately completed, which was in line with our expectations.

So, we continue to look at all of those strategies as we work through the portfolio and any challenges in it. And these aren't unique strategies in terms of how they can be employed in other circumstances. So, we continue to evaluate the portfolio on an ongoing basis and look for best execution in order to optimize the outcomes.

Meny Grauman, Analyst, Scotiabank

Thanks for that, Shawn. And just as a follow-up, in terms of the characteristics of that portfolio that you sold, either regionally and then from a credit perspective relative to sort of the average credit performance of the overall US office portfolio.

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

Yeah. So, these were loans that were – I mean, seven of eight of them were impaired at the time that we took them to market. So, they would have been some of our more troubled assets. And we presented it as a portfolio. As it happens, we got best execution by splitting it up into a few different sales transactions. And again, we're very pleased with the outcome.

Meny Grauman, Analyst, Scotiabank

Thanks, Shawn.

Operator

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

Sohrab Movahedi, Analyst, BMO Capital Markets Corp. (Canada)

Okay. Thank you very much. I wanted to go back to a comment Rob made about momentum in the markets-related businesses, and see if I could get maybe both Harry and Jon to talk a little bit about how they see that momentum for the Wealth and Capital Markets businesses over the coming quarters. Thank you.

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

Hi. Good morning. It's Harry. Just a couple of comments on the outlook, perhaps. I mean, as you know, this is a very well-diversified strategy. And so, as we saw a slowdown perhaps in some of the lending and deposit areas of our product capabilities, we saw growth in other areas. And Victor mentioned some of those areas in terms of the M&A space, the underwriting revenue. And across global markets, we're seeing some good activity.

So, I would say that the pipeline is strong. Our clients are – the activity is very robust. And you're seeing some of those results, for example, in the US where, as Victor mentioned, we've seen growth in the – north of 20% this quarter and for the first half of the year. We're really focused on driving towards those Investor Day targets that we laid out. We're quite confident that we can achieve those, while maintaining a very robust ROE and mix ratio that's Street leading. So, we're quite confident in the – the environment is such that we can continue to service our clients in a diversified manner and drive the results that you've been seeing of late.

Maybe I'll pass it over to Jon to make a couple of comments.

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

Thank you, Harry, and good morning, Sohrab. So on the wealth side, the first six months, I mean, just markets have been good. I don't expect that to stay at the same level, but still positive overall. Our investment performance has been solid. The big differentiators for us, I think, is financial advice. That would be one. We're getting better. We've been at it for a while now. We're getting better doing this digitally. Our advisors are getting better. Our focus on Imperial Service is paying off. You see it in the FICC numbers. So everything we've laid out, our plans, they're working as we expected.

Then the other leg of our strategy on wealth is just the referral volumes we do, both between retail and wealth, but also between commercial and wealth. Again, we think that's differentiated on the Street. We think it's helping us. We think M&A is going to get better in the back half. It's been pretty quiet. So again, as companies get sold, proceeds come in, the referral process works, I think it'll be good for our wealth business. So again, generally pretty positive on the back half.

Sohrab Movahedi, Analyst, BMO Capital Markets Corp. (Canada)

So Rob, I mean, prior – I would say, not exactly before COVID, but if you think about pre-COVID years, maybe you were in the low-50, maybe around 50/50 between spread income and fee income. When you looked at your total revenues, I think, for the last few quarters, it's been obviously more skewed towards spread income. Do you see that, over the next four or six quarters, kind of staying at current levels, or do you see that gravitating to closer to a 50/50?

Robert Sedran, Senior Executive Vice-President and Chief Financial Officer

Thanks, Sohrab. It's Rob. So, the strategy absolutely would have us migrate more towards fee-based income over time. As you think about the next four or six quarters, everything from benchmark reform which is actually pushing some revenue from credit fees into NII, to the tractoring strategy that I talked about earlier, delivering some help on the margin side. The ability to move that in the shorter term from a balance perspective might be a little challenged. But in terms of the strategy itself, the focus on growing fee-based income in balance with other income – with NII, excuse me, is absolutely part of the strategy. But in the short term, it may not play out quite that way.

Sohrab Movahedi, Analyst, BMO Capital Markets Corp. (Canada)

Thank you for taking my call.

Operator

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

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

Good morning. Thank you for taking my question. I wanted to confirm that the outlook for credit losses, is that based on an expectation of a higher-for-longer interest rate environment? I don't think I heard you touch on the interest rate outlook. And I noticed that your debt service ratio forecast is revised lower this quarter. So please touch on interest rates and also any potential for loss rates on your commercial portfolio to increase for the remainder of the year.

Frank Guse, Senior Executive Vice President and Chief Risk Officer

Yeah, Nigel. Thanks for the question. Yes, our mid-30s guidance for the fiscal year 2024 includes a variety of scenarios and includes a variety of scenarios also from an interest rate perspective. Well, we have been preparing for a higher-for-longer scenario, I would say, quite some time now and have been working through the portfolios and working with our clients in those portfolios. Specifically to the DSR ratios, where you saw some moderate changes from an FLI perspective, this is not so much driven by interest rate decreases; that is much more driven by continued strong income numbers driving DSRs down slightly for our clients from an FLI perspective.

We only have been very cautious and put in very moderate interest rate cuts into our plans. We also expect it will take some time before the impact of the interest rate cuts will fully migrate into some of our losses. So, it will take some time even from when the interest rate cuts come. And as such, we feel very comfortable with our mid-30s guidance under a variety of scenarios.

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

If I could touch really quickly on US commercial real estate, any comments on the risks outside of office, you see some regional banks take some potential losses on multifamily or life sciences CRE. So, any color on your portfolio outside of US office and CRE?

Frank Guse, Senior Executive Vice President and Chief Risk Officer

Yeah. As you can imagine, we watch those sectors and industry also very closely. Our multifamily loan portfolio is very stable, well-diversified, very low impaired balances in the portfolio. And we do not see anything systemic in that portfolio. And what I would say very different than office demand for those asset classes remain strong, even though we see some pressures on short-term rental rates, given that – even if you see some pressure on cap rates, demand remains very strong. And we don't expect this to translate into anything similar to office, even though we are watching it very, very closely.

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

That's it for me. Thank you.

Operator

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

Lemar Persaud, Analyst, Cormark Securities, Inc.

Yeah. Thanks. Maybe for Rob on expenses, just looking at your waterfall on slide 10, that divestiture related to CIBC Caribbean assets, is that in the operating cost bucket, that 170?

Robert Sedran, Senior Executive Vice-President and Chief Financial Officer

It is Lemar. Good morning. It's Rob. It is – it's roughly CAD 0.02 a share. It's a non-recurring expenses, where the exit closed just recently. So, it's included in that number.

Lemar Persaud, Analyst, Cormark Securities, Inc.

Okay. Thanks. And just sticking with that same question, that mid-single-digit expense growth target, do you think you could get there even with some strength in the markets-related business, or is that mid-single digit subject to what happens in Capital Markets?

Robert Sedran, Senior Executive Vice-President and Chief Financial Officer

Well, it is – we do think mid-single digit is the right range for it. But having said that, as you pointed out, when performance-based compensation is the item that's lifting our overall expense outlook, we're actually okay with it, right? The revenues come up, some of the expenses come along for the ride. But on a net basis, it's a positive for shareholders. So if revenues continue to outperform, could there be some upward pressure on our expense – on that expense number? Yes. Are we concerned about it? No.

I think what you're seeing on the slide, very much thematically linked, the efficiencies and the investments that we're making, that part we try to control very tightly. The operating costs we try to control very tightly. But in terms of investing for growth and then seeing that growth, having a little bit of higher expense growth come with it, we think it's ultimately a positive for shareholders.

Lemar Persaud, Analyst, Cormark Securities, Inc.

Thank you.

Operator

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

Gabriel Dechaine, Analyst, National Bank Financial, Inc.

Good morning. I have a detailed accounting question for Rob. No, I'm just kidding. My question's on mortgages. It seems like the pace of – the 30-year plus amortization balances, they've been declining, but it seems like the pace has slowed. I don't know if I'm reading too much into it, just more of a macro-type question, whether it's getting tougher to get people to increase their payments or take other actions to get back on track, so to speak, because of inflation and stuff like that. And just more broadly, what is your process and how easy or difficult is it?

Frank Guse, Senior Executive Vice President and Chief Risk Officer

Yeah, I think it is a very proactive process and it is very thorough conversations with clients that we are having on an ongoing basis. You're right, we are seeing that drop decelerating or the speed of how it comes down decelerating a little bit. It is still a good drop. And all of that, keep in mind, is clients making voluntary payments. Contractually, they are not obliged to do that, and this is just good financial planning we do with our clients.

Actually, we expected that to come down over time because, of course, there's clients that have an easier time of making those payments. But we also see some more sophisticated clients in that portfolio that are just saying, oh, I want to wait it out and are waiting for interest rates to drop and helping on that part. And those are good conversations as well because those are reasonable arguments that clients can bring forward. And as I said, again, all of those are voluntary adjustments that clients are making based on good financial planning.

Gabriel Dechaine, Analyst, National Bank Financial, Inc.

And then are you stepping it up, so to speak, to try to get that number down even more? Or are you just kind of normal course what you've been doing over the past year or so?

Frank Guse, Senior Executive Vice President and Chief Risk Officer

Well, we have been very proactive. We started our efforts early. I don't think we are letting down on our efforts, but there's also not a lot of what we are seeing that would give us reason to really stepping it up or forcing those discussions more broadly. Overall, the portfolio is performing well. When we look into deposit cushions, even for those non-amortizing mortgages, clients hold substantial incremental liquid assets in their portfolio that will carry them at least six to seven months of payments. So, there would be room for doing that, but I wouldn't say we will accelerate that. We will just keep it as a constant, proactive outreach to those clients.

Gabriel Dechaine, Analyst, National Bank Financial, Inc.

Got it. Thanks.

Victor G. Dodig, President and Chief Executive Officer

Gabe, it's very consistent with our strategy. Our strategy is to help each and every one of our clients, and the output of that is reflected in our financial statements, but more importantly, in our clients' financial statements. The approach we have at our bank is the relationship-oriented approach, whether that's main street Canada, affluent Canada, wealthy Canada, business owners, corporate executives, that's how we operate at CIBC. It is not product-driven, it's relationship-driven, it's planning-driven, and done right, it reflects well in our clients' financials, and done right, it reflects in our own financials. And that, we take great pride in, and that's what you're seeing in our results.

Gabriel Dechaine, Analyst, National Bank Financial, Inc.

All right. Thanks, Victor.

Operator

Thank you. There are no further questions registered at this time. I would now like to turn the meeting back over to Victor.

Victor G. Dodig, President and Chief Executive Officer

Thank you, operator, and thank you for your engagement today. As I said just now, our recent relative outperformance is a direct outcome of delivering consistency for all of our stakeholders, starting with our clients. We're going to continue to build the modern relationship-oriented bank that we've set out on the path to build, while maintaining our financial strength and maintaining our risk discipline. Again, hallmarks of what you're seeing in our results this quarter, and in several quarters now.

I'd like to thank our 48,000 CIBC team members. I'd like to thank our executive team and our leadership team, who work collaboratively to bring our purpose-driven culture to life every single day. The success of what you're seeing at CIBC is a team effort, possible with the dedication from every one of our team members. We're motivated, and we're excited to keep delivering for you, our stakeholders, and we look forward to reporting on our progress in August, and clearly engaging with you between now and then.

Thank you for your interest in our bank. Have a great day, and a good upcoming weekend. Cheers.

Operator

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