CIBC Q3 2023 Earnings Conference Call

August 31, 2023

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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 will begin this morning's presentation with opening remarks from Victor Dodig, our President and Chief Executive Officer; followed by Hratch Panossian, our Chief Financial Officer; and Frank Guse, our Chief Risk Officer. Also on the call today are a number of our group heads, including Shawn Beber, US region; Harry Culham, Capital Markets and Direct Financial Services; and Jon Hountalas, Canadian Banking. They're all available to take questions following the prepared remarks.

As noticed 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 hope you've all had a nice summer. I'll begin with a few brief comments about our third quarter results, including progress update against our strategic priorities. I'll then turn the call over to Hratch followed by Frank to review our performance in greater detail, before we take your questions.

This quarter we delivered solid core business performance by continuing to execute on our client-focused strategy, while building capital, expanding margins and prudently managing expenses. Net earnings of CAD 1.5 billion or CAD 1.52 per share were lower than the prior year and reflect higher provisions for credit losses, while pre-provision pre-tax earnings were up 5% during the same period. Due to changes to our forward-looking economic indicators as well as the continuing normalization of credit conditions, we increased provisions in our consumer lending portfolios. The increased provisions in the Commercial segment mainly relate to our US office portfolio, which represents less than 1% of our overall loan book. We have a robust balance sheet ending the quarter with a CET1 ratio of 12.2%. Going forward, we're focused on continuing to build our capital levels to ensure that we remain well-positioned for any changes, as well as for any opportunities.

We remain focused on our three key strategic priorities; growing our high growth, high touch segments, including our Imperial Service platform and North American Private Wealth franchise, focusing on our future differentiators, which includes delivering leading digital banking solutions to Canadian consumers, and enabling and simplifying our bank.

Now, let me give you a few highlights on our progress. Our Canadian consumer franchise continues to experience robust growth. Over the last 12 months, we've added over 650,000 net new clients to CIBC, which includes 165,000 clients in our Simplii franchise. We also continue to make good progress on our strategic

focus to deepen high touch, high growth relationships in the affluent segment. Imperial Service, our unique advice-based relationship offer for our mass affluent clients, self-funds managed growth of CAD 14 billion year-to-date driven by successful client acquisition, as well as our focus on ensuring clients are in the right offer to get the advice and solutions they need from CIBC.

Imperial Service is an important and differentiated asset for CIBC. We recently appointed dedicated leadership to directly oversee this key business platform, and we expect to see further momentum in this business. We're also focused on delivering leading digital banking solutions. We recently earned a number one ranking in customer satisfaction for mobile banking apps in Canada from J.D. Power and continue to see increasing client engagement in our digital channels. 32% of our core retail products were sold digitally and our digital adoption rate has increased to 84%.

Looking at our North American Commercial Banking and Wealth Management businesses, higher volumes and organic client acquisition drove top line growth in Commercial Banking this quarter, although the pace has moderated from peak levels a year ago. As expected, demand for loans has cooled, as business owners take a more conservative approach to borrowing in a higher rate environment and slower economy. In Wealth Management, our top ranked advisors continue to provide high quality advice to help our clients achieve their ambitions. Our high touch personalized advice model, supplemented by digital tools, supported AUM growth this quarter with positive net flows on both sides of the border in our Private Wealth business. We also continue to benefit from referral activity driven through a focus on connectivity throughout our bank.

In Capital Markets, our well-diversified business model and highly connected team across our bank, delivered another solid growth quarter driven by strong performance in our global markets business. Our strategic focus on our sustainability, renewables and energy transition franchise was also recognized by global finance as the best investment bank in Canada and for outstanding leadership in sustainable infrastructure finance. We also continue to invest in optimizing our technology infrastructure and processes to enhance productivity. This includes leveraging the cloud to drive scale and speed to market, as well as automation of manual processes to reduce costs and improve cycle time and accuracy. Our efforts have resulted in significant cost savings so far this year and are having a positive client impact with a 40% improvement in our client net promoter scores compared to last year.

So, in closing, we have a deep and experienced leadership team to make strategic decisions that position us for success, even in the face of challenging conditions. As we laid out on our prior calls, we have a clear momentum in the segments we've identified as strategic growth areas for our bank and we'll continue to focus on them. We've moderated our expense growth to the mid-single-digits, while realizing the benefits of the investments we've made heading into this fiscal year. We've continued to build our capital and we've driven improved margins across our bank. Our business momentum, coupled with prudent risk management and our strong capital position, offers us the flexibility to adeptly navigate changing market conditions, adjusting our investments as needed throughout the economic cycle.

Now, before I turn the call over to Hratch, I'd like to extend our care and concern to those affected by the devastating wildfires in British Columbia and the Northwest territories. We are making available financial relief, advice and support to our affected clients, including donations to CIBC Foundation's Relief Fund for the two provinces. Our thoughts are with you all as you begin the process of recovery and rebuilding.

And with that, let me turn the call over to Hratch.

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

Thanks, Victor, and good morning, all. Thank you for joining us late in earnings season. I'll start my remarks on slide 7.

This quarter's results reflect the strength of our client franchise as well as team CIBC's ability to proactively manage through a dynamic operating environment. We will continue leaning on these differentiators to sustainably deliver value to our stakeholders. Improving margins, solid trading results and disciplined expense management allowed us to maintain revenue growth momentum, deliver peer leading operating leverage and continue to drive strong organic pre-provision earnings growth. This helped partially offset higher credit provisions and a higher share count to deliver diluted earnings per share of CAD 1.47 for the quarter. Excluding items of note, adjusted EPS was CAD 1.52 and ROE was 11.9%. We also continued to strengthen our balance sheet, ending the quarter with capital and liquidity ratios well in excess of current regulatory requirements.

The balance of my presentation will refer to adjusted results, which exclude items of note, starting with slide 8. Adjusted net income of CAD 1.5 billion was down 15% from the prior year, driven by an increase in credit provisions, which Frank will discuss in more detail. Revenues of CAD 5.9 billion were up 6% year-over-year, benefiting from strong P&C margins, balance sheet growth and client trading activity. Expenses were also up 6% from the prior year as inflationary pressures moderate and we continue to focus on both expense discipline and strategic investment. As a result, pre-provision pre-tax earnings of CAD 2.6 billion increased 5% over the prior year.

Slide 9 and 10 highlight the trends driving our net interest income. Excluding trading, NII was up 8% over the year due to continued balance sheet growth and a disciplined margin management approach, which prioritizes stability and long-term performance. Total bank NIM, excluding trading, was up 2 basis points sequentially benefiting from strong margin expansion in our P&C businesses. Robust Canadian P&C NIM of 267 basis points reflects the high quality of our Canadian franchise. NIM was up 10 basis points sequentially, including help from non-recurring items. Excluding this, the key driver was deposit margin expansion in the quarter, supported by higher rates; which more than offset moderating pressure on mortgage margins. We have provided incremental disclosure on the factors impacting P&C margin in the appendix.

NIM in our US segment was 346 basis points, up 10 basis points year-over-year and 5 basis points from the prior quarter. The sequential increase was largely due to higher deposit margins and interest income on a recovery, partially offset by lower asset margins and prepayments. Net of the one-time benefits I just referenced, we expect both Canadian P&C and US segment margins to remain relatively stable in the near term, and we maintain our recent guidance of 165 basis points to 170 basis points for overall bank margin.

Moving on to slide 10; loan balances averaged CAD 537 billion this quarter; an increase of 5% from the prior year supported by all businesses. Growth in our high quality deposit franchise outpaced loans increasing 6% from the prior year, with an underlying stabilization of the recent mix shift from notice and demand products to term products. We continue to be focused on growing our balance

sheet prudently and profitably, with an emphasis on stable client deposits and lending focused on priority clients with strong returns.

Turning to slide 11; non-interest income of CAD 2.6 billion was up 13% from the prior year supported by growth in trading income and higher transaction related fees. Market related fees, excluding trading, increased 1% year-over-year as stronger underwriting and advisory and investment management and custodial revenues were largely offset by lower revenue from ancillary investments and Treasury activities.

Turning to slide 12, expense growth continued to slow in line with our guidance increasing 6% from a year ago, as we proactively paced steady strategic investments and emphasized efficiency against the backdrop of slowing revenue growth. On a sequential basis, expenses were up 2% with more than half of the growth resulting from the impact of more days in the quarter. Our balanced approach has allowed us to revert to positive operating leverage and deliver a solid NIX ratio of 55% this quarter. We continue to manage to mid-single-digit expense growth for the full fiscal year 2023; and we will continue to target positive operating leverage over the medium-term.

On to slide 13 to discuss our balance sheet; another area that has benefited from our focus on disciplined resource allocation and efficiency. Our CET1 ratio improved from 11.9% to 12.2% sequentially, primarily driven by organic capital generation and share issuance against relatively stable RWA, excluding the impact of currency fluctuations. We will continue to be disciplined on capital deployment and expect our CET1 ratio to continue trending higher. Our liquidity position remained well above regulatory requirements throughout the quarter, resulting in sequentially higher average LCR of 131%. While we remain cautious in the face of economic uncertainty, our strong balance sheet positions us well to accelerate growth when the economic outlook improves.

Starting on slide 14, we highlight our strategic business unit results. Net income in Canadian Personal & Business Banking was CAD 527 million, down 17% from the same quarter last year due to a higher provision for credit losses. Pre-provision pre-tax earnings were up 8% from the prior year and 14% sequentially, reflecting strong growth as a result of our focused strategy. Revenues of CAD 2.4 billion were up 6% year-over-year, helped by a robust margin expansion and volume growth. On a sequential basis, revenue was up 7%; driven by the same factors as well as additional days in the quarter. Expenses of CAD 1.3 billion were up 4% from the same period last year, resulting in 2% positive operating leverage.

Moving on slide 15, net income for a Canadian Commercial Banking & Wealth Management was CAD 467 million. Revenues of CAD 1.350 billion were up 1% from a year ago benefiting from 6% loan growth and 8% deposit growth in Commercial Banking, partly offset by a decline in Wealth Management revenue. Expenses increased 1% from a year ago and operating leverage was neutral. While Wealth Management revenues have been impacted by markets, this quarter highlights the quality of our Canadian P&C Banking franchise, where we delivered pre-provision pre-tax earnings growth of 8% from the prior year supported by strong margin performance and over 2% operating leverage. And while we've been selective recently in commercial loan growth, we have the ability to

accelerate support for existing and new clients as the environment improves to provide further momentum to our domestic P&C growth. We've included slides for the P&C segment in the appendix to this presentation.

Net income of $62 million in US Commercial Banking & Wealth Management was down 62% from the prior year due to higher credit provisions, largely in our office portfolio. Revenues were up 5% over the same period, driven by a 10% increase in net interest income, partially offset by a 5% decline in fees that are impacted by market conditions. NII benefited from 7% loan growth and strong net interest margins. While average deposits decreased 4% sequentially, outflow and remixing trends stabilized through the quarter. Expenses were stable year-over-year, resulting in positive operating leverage of over 5%, and we expect more moderate expense growth going forward as compared to the recent past. We maintain focused on balanced and profitable growth to scale our US business and our uniquely differentiated franchise is well-positioned to meet client needs as the local competitive environment evolves.

Turning to slide 17, our Capital Markets business. Net income of CAD 494 million was up 11% year-over-year. Revenues of CAD 1.4 billion were up 13% over the prior year, driven by our differentiated capabilities. Highlights this quarter include 18% growth in global markets and continued double digit growth in direct financial services which grew 26%, largely due to margin expansion in Simplii. We also saw increased activity in underwriting and advisory and continued growth in corporate banking. Reflecting the capital markets seasonality we've seen in recent years, we expect Q4 revenues to be lower sequentially in the segment with growth reverting to mid- to high-single-digits over the prior year. Expenses of CAD 673 million were up 13% compared to the prior year, largely due to investments in key growth initiatives undertaken in late-2022. We anticipate sequential expense growth to continue moderating.

Slide 18 reflects the results of the Corporate & Other business unit. Net loss of CAD 98 million compared with a net loss of CAD 50 million in the prior year, largely due to less favorable Treasury revenue and higher corporate expenses, partly offset by higher revenues from international banking. We continue to maintain our medium-term guidance of CAD 75 million to CAD 125 million quarterly loss in this segment.

In summary, we delivered another quarter of steady, profitable franchise growth as a result of our agility and an unwavering focus on our differentiated strategy. Our strong margins, moderating expense growth and disciplined approach to resource allocation give us significant flexibility to respond to changes in the environment, and to seize opportunities that present themselves. We will continue to manage proactively through a fluid environment to support our clients, maintain our balance sheet strength and emphasize profitability.

With that, let me turn the call over to Frank.

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

Thank you, Hratch, and good morning, everyone. This quarter, overall, our portfolio performed within our expectations. We saw a build in performing and allowances this quarter reflecting a prudent

outlook based on the macroeconomic environment. Our impaired loans continue to normalize and remain within expectations. We saw sustained headwinds in the US office sector. However, our exposures remain relatively small at less than 1% of our total loan portfolio, and our experienced real estate team is managing the portfolio on a loan-by-loan basis, working closely with our clients. Our other portfolios continue to perform well with demonstrated resilience in the Canadian consumer lending portfolio.

Turning to slide 22, our total provision for credit losses was CAD 736 million in Q3 compared to CAD 438 million last quarter. Total allowance coverage increased from 66 basis points in Q2 to 73 basis points this quarter. The CAD 258 million performing provision this quarter, CAD 211 million or 80% are driven by changes to our forward-looking indicators, with remaining Q2 portfolio growth, credit migration and other movements. The build this quarter was primarily a result of higher debt service ratio forecasts for the consumer books. After nearly 18 month of rate hikes, our forecast expect servicing pressures of higher interest rates and rising unemployment. Provision on impaired loans was CAD 478 million, up CAD 99 million quarter-over-quarter. This increase was driven by our US Commercial portfolio, the bulk of which was attributable to our office commercial real estate exposures. We also experienced higher impaired losses in our retail portfolio, and overall, our impaired losses continue to perform within our expectations.

Slide 23 summarizes our gross impaired loans and formations. Overall balances were up in Q3, mainly driven by business and government loans. New formations were also up in Q3, of which CAD 515 million is related to our US office exposure.

Slide 24 outlines the net write-off of a 90-plus day delinquency rate of our Canadian consumer portfolios, which overall continue to remain stable this quarter and in line with our expectations. As communicated in prior quarters, we expect write-offs and delinquencies to continue to revert towards pre-pandemic levels.

Slide 25 provides an overview of our Canadian real estate secured personal lending portfolio, which makes up 54% of our total loan balances. Our overall late-stage delinquencies remain low, especially when compared with pre-pandemic levels. Variable rate mortgages account for one-third of our mortgage book. These continue to display strong credit quality and performance. As a result of the interest rate hikes this past quarter, the portion of non-amortizing variable rate mortgages has increased to CAD 50 billion, up from CAD 44 billion last quarter. We continued our proactive client outreach and see good responses with around 8,000 clients increasing their monthly payments and just over 1,000 clients making lump sum payments, removing themselves from negative amortization status. We'll continue to work closely with our clients through this high interest rate environment and other market developments.

On slide 26, we provide further disclosure on our US office exposure. As mentioned, this represents less than 1% of our total loan book. Given the sector headwinds, we increased our allowance coverage from 4.1% to 7.6% quarter-over-quarter. While our maturity profile is weighted more towards fiscal 2023 and 2024, we have already seen CAD 1.5 billion in net outstandings being renewed, reduced or paid out over the past few quarters. We work through the balance of maturities. We expect to see losses in and around the current level for the portfolio for the next few quarters, which is consistent with what we noted last quarter.

I want to close by noting that our overall credit quality and coverage remains robust. Given the economic headwinds and sustained pressures in the US office space, we expect our fiscal 2023 loan losses on impaired to be at the high end of our guidance of 25 basis points to 30 basis points for impaired losses. We believe our additional provisions this quarter continue to provide prudent coverage for market conditions that will evolve.

I will now turn the call back to the operator.

Question and Answer Section

Operator

Thank you. [Operator Instructions] Our first question is from Ebrahim Poonawala from Bank of America. Please go ahead.

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

Hey, good morning. I guess, maybe a question for Frank. Starting with you on just the performing PCLs; clear what you said, but as we think about – you mentioned, I think, 80% of the build this quarter was on forward-looking indicators. And what I'm trying to understand is how much of that is just the model output versus your expectation around the macro and how that evolved. So, talk to us fundamentally how you see credit playing out in the consumer book, if rates stay higher for longer. I'm assuming your base case is for the unemployment to go up to higher. Within the consumer book, where do you see the loss drivers and just how quickly can things deteriorate?

Frank Guse, Senior Executive Vice President and Chief Risk Officer

Yeah. A couple of things to unpack there. So, what I would say is, it is driven by our model outcomes. It is driven by our forward-looking expectations, as I said, by about 80% of the overall performing build. What we saw this quarter is a higher interest rate expectation. We saw two rate hikes in the market; one of which, I would say, was not necessarily widely expected. And we see that playing out in debt service ratios, that have an impact on all of our consumer lending products, probably the biggest one playing out in our unsecured personal books. And again, those are forward-looking expectations.

What I would also say is those are forward-looking expectations for the next couple of years. And I don't want to get too technical, but IFRS 9 in stage 2 is asking for lifetime expected losses. The average lifetime in our consumer lending books is a couple of years. So, what we see as a build this quarter is certainly a reflection of what we would expect to see to play out over a couple of years. So, it's not an imminent change in our outlook. It is an outlook change over those couple of years.

And I think what I would say, as you asked for, it is playing out in the unsecured books where we do see stress, but we see that stress playing out as indicated as a normalization of net write-offs that we expected, that we are seeing playing out. The other point I will make on, on performing allowances overall, there is a large increase this quarter. If you normalize that over the last couple of quarters, if you normalize it year-over-year, it is certainly something that is not unexpected. It is prudent to increase our coverage ratios this quarter and that's what we are seeing play out.

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

Understood. And maybe one question; just because it's the first time since some of the articles around the mortgage underwriting surfaced in the press. Maybe, Victor, for you, I mean, I think you spend a lot of time under your leadership culturally turning around things at commerce from a risk management standpoint. So just to the extent not to make too much of what was out there in the press, but give us your sense both in terms of the risk framework at the bank to the extent you can discuss that? And also, culturally, in terms of leadership – in terms of – like what should we make from the outside when we see some of these leaks coming through and making their way through the press? How should we interpret that? Thanks.

Victor G. Dodig, President and Chief Executive Officer

Good morning, Ebrahim, and thank you, for your question. So, let me just first of all say that our regulators play an incredibly important role in ensuring strength and stability in the financial system in Canada. And I think they've done that, over a century and a half, and they do it well. So, as you can appreciate, I can't comment on the specific regulatory matters. I can tell you that we maintain an ongoing transparent engagement with all of our regulators, in all of the jurisdictions that we operate and with our board. We've also got effective controls to ensure compliance with supervisory expectations, and we continue to manage all of our businesses, including our mortgage business prudently and with a client focus. So, what I will say about articles like that is it's disappointing to see when things are being reported publicly. They're presented in a way that simply does not reflect the way we actually operate.

There's always going to be a healthy tension in running a large, complex business, but I can tell you this. We got strong governance. We got an incredibly strong culture. We got really strong employee engagement scores and a team that cares about how we build our business going forward and that as investors you need to know. And we're happy to engage with you on anything that's on your mind to the extent that we can, but I can tell you, we run it well. We run it prudently, we run it with good governance, and we run it very transparently.

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

Got it. Thanks, Victor. Thanks for taking my questions.

Victor G. Dodig, President and Chief Executive Officer

Thanks, Ebrahim. Have a good day.

Operator

Thank you. [Operator Instructions] Our next question is from Gabriel Dechaine with National Bank Financial. Please go ahead.

Gabriel Dechaine, Analyst, National Bank Financial

Hi. Good morning. Couple of questions here. Thanks for the margin guidance, Hratch, and I'm wondering, if this could be like, maybe some bouncing around to use that term, the US in particular, I'm thinking about the impact it might have because deposits are down quite a bit sequentially and that may require you to use more FHLB deposits or wholesale funding. And how does that play into your outlook then, if that's an issue?

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

Yeah. Thank you for the question, Gabe. Look, I think, everything is playing out in terms of margins as we had guided, right. And as I said in my remarks, we have strong franchises both in the US and Canada that plays into it. You've got a strong deposit franchise in the US. We've got a strong strategy that focuses on the right clients, and our focus is on profitability. And we have a strong ALM framework. We've talked about this before. We manage the US balance sheet the same way we do the parent balance sheet, where we stabilize for rate fluctuations, and we manage for overall margin stability over time. So that's really what you're starting to see play out.

When you have a rate cycle like the one we did, and this applies to broader than the US right, rates went up very quickly and intensely. And so that plays out a bit different upfront because you did see quite a bit of fluctuation in non-interest deposits going to interest-bearing or to term. And that actually did not allow as much margin expansion as you would have otherwise expected, and what you would compute from doing our interest rate sensitivity calculations based on the disclosures. And so, that was muting a little bit the results in margins in all the businesses, including the US but that has stabilized. And I think that goes to the stability of the client franchise. And Shawn can speak to more details, but we did see the demand deposits and the non-interest deposits stabilize this quarter. We saw the mix shift stabilize. So, I don't expect us to need any funding that will lead to higher costs as you alluded to.

Gabriel Dechaine, Analyst, National Bank Financial

Okay.

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

And so we go back to our guidance. With respect to the US, there was a little bit of one-time noise, as I mentioned in my remarks. We had a recovery on a loan and the interest on that recovery comes into NII. So you got to adjust for that, a couple of basis points, but outside of that, I would expect stable to slight upwards momentum in the US from here.

Gabriel Dechaine, Analyst, National Bank Financial

Okay. And my next question is on capital. Very little RWA inflation this quarter and I think very little last quarter as well. I'm wondering how close are you to the output floor? And especially if we look at the Q1 2024, could we trigger that and see a little RWA inflation? And then, I guess, also I might as well mention the fundamental review of the trading book in that context, if there's any impact there.

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

Yeah. Thanks, Gabe. Let me comment on capital more broadly and address your questions. Again, we've been very clear about our goals on capital and how we're managing to it and what we've guided to in terms of forecast. Frankly, we're ahead of that. We're ahead of schedule and we're very pleased with that. So, let me remind you how we look at capital. We look at our capital levels with respect to where regulatory requirements are, where our own needs are; and we like having a bit of capital for flexibility well above those regulatory requirements, if you look at the peer group and so forth. And so with all of that, as we looked at the environment, we managed to try to get to above 12% at the end of this year, as we said. We're ahead of

schedule, I think, into the mid-12s is what we're forecasting at this point that we would like to get to, getting into the next year. And we are very well-positioned to do that.

How we've been doing that? We've been prudent with how we're allocating our balance sheet. And as I mentioned in my remarks, right. The balance sheet is important. Our ROE is extremely important to us. Costs have gone up. Cost of capital is up. RWA requirements are up. Capital requirements are up. And so all of that is reflected when we deploy capital to support our clients. And so we're not necessarily conserving capital, but we're prudently allocating our capital. Where we are now? We can continue growing our business. I don't see constraints on our ability to grow our business to still get to that goal of mid-12% over the next few quarters here. And from a regulatory perspective, I would guide you to net all the impacts that are coming at us the next few quarters, and net slight positive from all the changes including we're working on our US transitioning to the advanced approach, which will be a positive.

Gabriel Dechaine, Analyst, National Bank Financial

Okay.

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

Once that comes in, net of everything else, a net slight positive is what I would expect.

Gabriel Dechaine, Analyst, National Bank Financial

So maybe a dip, but then – I mean, these are my words but just trying to visualize, you might see a dip early in 2024. And if you could touch upon those two items I asked about, that'd be great and then after the conversion AIRB in the US more than offset that.

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

There's a few things there, Gabe. I think you've got the CVA and FRTB changes. You've got the change related to the negative amortization mortgages coming. You've got the floors, obviously, which was not a factor for us at this point in time.

Gabriel Dechaine, Analyst, National Bank Financial

Okay.

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

And then you've got the US. Frankly, the timing of the rate changes is known. The timing of the US going to advanced is not known. And so depending on how that comes in, you could have a little bit of up and then a down, you could have net neutralizing in the same quarters, you could have a little bit of a dip and then going up, but we'll see.

Gabriel Dechaine, Analyst, National Bank Financial

Thanks a lot. And enjoy the Labor Day weekend.

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

Thank you.

Operator

Thank you. [Operator Instructions] Our next question is from Meny Grauman with Scotiabank. Please go ahead.

Meny Grauman, Analyst, Scotiabank

Hi. Good morning. I want to go back to credit and follow-up on something Ebrahim was talking about, just in terms of the volatility of your PCL line, especially the performing bucket and especially Canadian Personal & Business Banking, the performing line and definitely seeing quite a bounce quarter-to-quarter from recovery to CAD 279 million build this quarter. And I'm just wondering, how should investors interpret that? And is there anything you can do to temper that kind of volatility or is anything you want to do to temper that kind of volatility?

Frank Guse, Senior Executive Vice President and Chief Risk Officer

Yeah, so great question. So how do we look at it? One, we look at coverage ratios. We look at how we are building coverage ratios over time. And we think given the macroeconomic uncertainties, that is a prudent approach to take. You're absolutely right. And I mentioned that a little bit. We had a slightly more optimistic outlook last quarter that drove a release in particular, as it related to interest rates, where they would peak and how long they would stay at that peak; that was a little bit more optimistic, that has reversed. We do not like to see that volatility, but part of the IFRS 9 is you have to incorporate those forward-looking indicators and you have to run those outcomes. As you can imagine, it is a very tightly governed process. We have lots of discussions around that. We look at those drivers. We look at the outcomes of those drivers. And again, in particular this quarter, I would stress it is prudent to take that economic uncertainty into account and to reflect that in our provisions.

The other thing I would stress is pointing back to our actual credit results. The Canadian consumer book is holding up very strong. We see impaired losses normalizing, but we see them normalizing well within our expectations. And again, then it is a little bit a question of how that plays out. And that was what Ebrahim and you probably are asking about as well. I mean, that is the uncertainty ahead of us, but everything we are seeing is pointing towards very strong credit quality, quite a good resilience in the Canadian consumer books. And again, if you look at delinquency rates, if you look at impairment rates and so on, we are pleased with that resilience because it is performing better than our expectations.

Victor G. Dodig, President and Chief Executive Officer

And Meny, if I could just build on Frank's comments but also take a step back. I think it's really important to focus on the earnings fundamentals of the core bank this quarter, which represent client growth – very robust client growth translating to revenue growth. Margin expansion, which suggests that not only are we conscious of our margins and where we want to take them, but we're also pricing business appropriately with a client and shareholder lens in mind. Pre-provision earnings that are at top end of the peer group in terms of year-over-year growth. Expense management that we're way ahead of the curve in terms of getting that expense

management. Our investments have been made last year; the year before. So we are in a good place now and we will continue to manage those expenses to a good place.

When it comes to credit, I think Frank said it all. I think on a year-to-date basis, when you compare our provisioning on the performing side, we're very much in line with our peer group when you factor in mix differentials across businesses. So, fundamentally, I feel like our business is in a very good place. We don't like the volatility in the models. We'll work toward looking at variables that are more predictive as we go forward because we understand that our investors want consistency, and believe me, we want to deliver that consistency as well. So fundamentally, we're delivering it. We'll continue to deliver it going forward across all aspects of our P&L.

Meny Grauman, Analyst, Scotiabank

Thank you, Victor.

Operator

Thank you. [Operator Instructions] Our next question is from Mike Rizvanovic with KBW Research. Please go ahead.

Mike Rizvanovic, Analyst, KBW Research

Hi. Morning. Just a quick question for Hratch on the non-interest bearing deposits. I think sequentially last quarter, the outflow sort of flat-lined and now it's sort of picked up. I'm guessing it's because of the two rate hikes we had during the quarter. And I'm wondering in your margin guidance or just your outlook overall, what do you see on the NID run-off? If rates do stay higher for longer and let's say we don't get any rate relief until maybe mid-2024, how do you see that NID run-off trajectory from here?

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

Good morning, Mike. Thanks for the question. Yeah, look, it's a very good question, right. As I mentioned, we've gone through a cycle that we haven't before in terms of the speed of rate rises. And so, I don't think anybody can predict exactly where we go from here. But what we're definitely seeing in the trends is a stabilization. And so if you look at this year, we've had tremendous growth in term product and interest-bearing product and it did come partly at the expense of a reduction in our overall demand deposit balances. And we've seen, on a year-over-year basis, demand deposits will be down and they'll be down a substantial percentage.

Over the last little while, if you go from the beginning of the rate cycle to now, we've seen about a 10% shift, but that has stabilized. And you're right. This quarter we did see a few billion dollar reduction in demand deposit, but it's a lot more stable than what we've seen over the prior quarters. And we're seeing that in the US as well as in the Canadian franchise. And so, if rates stay where they are now, I think we will continue to see this stability play out. If rates go further, you could see a little bit further fluctuation, right. If you look at it on a historical basis, we were actually starting to converge on the mix of term to non-term products that we've typically had over the last several years. And even if you go back to prior areas of very high rates, we're starting to get to within that range. So, if there is more remixing to go, it would be more muted and less than the 10% or so that we've seen so far, but I think it does stabilize around here.

Mike Rizvanovic, Analyst, KBW Research

Okay. That's very helpful. And just a quick follow-up. So in a scenario where rates are in fact declining, let's just pick mid-2024 as a sort of talking point. Is it fair to assume that you don't see this number start to reflate, like you'd have to – is it fair to say that you'd have to have a significant drop in rates before you could potentially get a better mix here. Does it sort of just stabilize and stays roughly at those levels is what I'm sort of getting at?

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

Yeah. I think that's right, Mike. And I think again, the speed, it makes a big difference, right? If you go back to our interest rate sensitivity disclosures which assume a static balance sheet, that hasn't played out this cycle on the way up, right. We had tremendous increase in rates, but very quickly. And what you actually saw is more than half of that, the big driver that has netted off interest rate increase benefits we would have otherwise had in our margins, has been this deposit remixing. More than half of the benefit you would have gotten has eroded away through this remixing.

Now, on the way back down, I think it all depends, right? It depends, again, at the speed at which it happens and when it happens and how the markets are. And therefore, will money flow to the markets? Will it flow to demand accounts, et cetera. So lots of factors to consider; but I think your assumption is right. As a base case, is it probably stays more stable for a while, if it's a gradual decrease.

Mike Rizvanovic, Analyst, KBW Research

Okay. That's very helpful. Thanks for the color.

Operator

Thank you. [Operator Instructions] Our next question is from Lemar Persaud with Cormark Securities. Please go ahead.

Lemar Persaud, Analyst, Cormark Securities, Inc.

Yeah. Thanks. Just for Frank, a question on the US office exposure. I appreciate the 7.6% ACL coverage ratio and the increase from 4.1% last quarter. Can you talk to us about how you see that number evolving? Like, is the point that you think like we're done building here just given the strong coverage ratio and significant maturities through the end of the year, or do you see the risk of future material builds like perhaps that 7.6% to go to north of 10%? How should we think about that?

Frank Guse, Senior Executive Vice President and Chief Risk Officer

Yeah. So what I would say is, as I guided in my prepared remarks, we expect provisions to remain elevated in the US office sector specifically. How exactly that will play out from a performing versus an impaired perspective and then write-offs over time is a little bit uncertain. What I would want to reiterate is, overall, our credit portfolio is performing very well in the US. So it is isolated to the office sector, everything that we are seeing. And as I said in my prepared remarks, we have worked through 40%. By end of year, we will have worked through 50% off of the entire book. But we are doing so on loan-by-loan basis. We are doing so on a very, very granular and very intense basis and we have a dedicated team doing that, but then again, coming

back to your question, how exactly that will play out is a little bit more uncertain and it is very hard to predict or very hard to give you concrete guidance on.

Lemar Persaud, Analyst, Cormark Securities, Inc.

Okay. And then just sticking with you on the change in the debt service ratio that drove the performing build this quarter. Was it all related to the, I guess, the unexpected rate hikes? I guess, is it as simple as that or was it a combination of the higher rates, and changes in other expectations like lower income expectations or something along those lines? I guess, where I'm going is you suggested there is two rate hikes, one of which was unexpected. It just seems like a relatively sharp build for one, an unexpected rate hike.

Frank Guse, Senior Executive Vice President and Chief Risk Officer

Yeah. And I did comment a little bit about model sensitivity. So, to answer your question, it is mainly driven by debt service ratio. It is mainly driven by the interest rate hikes. We actually see income still trending higher and that would, in part, offset but not fully offset debt service ratio. So, it is driven by that. And well, as I said, it's coming back to debt service ratios and it is coming back on how that plays out for our Canadian consumer portfolios and from an expectations perspective.

Lemar Persaud, Analyst, Cormark Securities, Inc.

Okay. Appreciate the time.

Operator

Thank you. [Operator Instructions] Our next question is from Mario Mendonca with TD Securities. Please go ahead.

Mario Mendonca, Analyst, TD Securities

Good morning, and sorry, little technical difficulty, but can you hear me okay?

Operator

Yes.

Mario Mendonca, Analyst, TD Securities

Right. So, I want to go back to US commercial real estate. There's no doubt you can look at your supplement, look back a few years that the bank grew US commercial loans, commercial real estate in particular. There was some robust growth there for a period. So, while I think it's fair to say US commercial real estate losses might be messy quarter-to-quarter, they're not going to impact the bank's capital in any meaningful way. So what matters more to me now is, does this change CIBC's strategic strategy in the US. Now that you've seen sort of the uncomfortable side of all that growth, does this sort of have you revisit your growth strategy in the US?

Shawn Beber, Senior Executive Vice-President and Group Head, US Region; President and CEO, CIBC Bank USA

Mario, it's Shawn. Thanks very much for the question. So I'll come back to that question specifically, but just stepping back for a minute for some context. Other than the Office portfolio, our US business continues to demonstrate strength and solid performance. Notwithstanding the current environment, we generated strong quality loan growth. We're pleased with our deposit performance, as Hratch talked about seeing that stabilizing with the rate environment stabilizing. We had NIM improvement year-over-year and our outlook for NIMs are stable. And while we continue to invest in our business, as you've seen, the rate of growth in our expenses has moderated significantly, and that combined with really realizing on the investments we've been making over the last couple of years and staying really focused on the connectivity and bringing all of our businesses and our capabilities across capital markets, wealth management and commercial to our clients generated double digit pre-tax pre-provision earnings.

What we are seeing – and credit as a general matter is performing well. So where we are seeing the issues is in commercial real estate and in particular in the institutional office space. It's a part of the business we're deemphasizing. And as that transition continues, you'll see CRE wind up being a smaller percentage of the overall US portfolio as our commercial and industrial and our wealth businesses continue to grow.

Victor G. Dodig, President and Chief Executive Officer

And Mario, just to build on those comments from Shawn, we absolutely feel good about the strategic investment thesis that we laid out years ago about investing in the United States. Our investment has been a very good investment. On top of that commercial banking investment, we've built a really strong Wealth Management business that we're going to continue to grow now, especially when our technology gets implemented this fall. Our capital markets business, as you see in some of the slides that Harry's business has, are growing. And Harry it might be worthwhile commenting on the Capital Markets business in the US. We've grown our US earnings, pre-tax, pre-provision from what was 2% many years ago to over 20% today, and we plan to continue to grow that because we think it's a good diversifier for our bank and it's a well-diversified, well-managed portfolio, aside from the noise of the US commercial office real estate piece, which we will work through. Harry, maybe you want to build on that.

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

Yes. Good morning. I'd just add that the US part of our Capital Markets business is really well connected to Shawn's world in Commercial & Wealth, like it is in Canada to Jon's world in Commercial & Wealth and our retail franchise. And so we're really focused on delivering for clients in the US and that's working really well. We're very, very well diversified. We're specific in the industries we operate in. We're very focused on the new economy. We've got a great team in the US and we're delivering outsized returns. And you see the numbers year-on-year. So we're very pleased with the results, a very highly connected franchise and really a differentiated platform that's working well.

Mario Mendonca, Analyst, TD Securities

I appreciate all those comments. They certainly resonate with me, but I want to go back to this for a moment. So even if these credit losses and US commercial real estate, other than causing some lumpy quarters and assuming they don't affect capital, which I strongly suspect they won't, there's still an implication here. What I'm getting at is, commercial – real estate and construction lending in the US is the single largest category of loan

in the US business and government loans. And if you're deemphasizing that, maybe this is going to Shawn, if you're deemphasizing that, doesn't that necessarily point to slower growth in the US over the next couple of years, as you deemphasize that business?

Shawn Beber, Senior Executive Vice-President and Group Head, US Region; President and CEO, CIBC Bank USA

Yeah. I think it's fair to say relative to the rate of growth that we saw over the last couple of years, part of that is environment and part of that is going to be strategic choices. And as that portfolio transitions, that will mute growth certainly on the CRE side, but we are still looking at – our outlook is still for mid-single-digit loan growth in the business and it's going to be driven primarily through our C&I business and our Wealth Management business.

Victor G. Dodig, President and Chief Executive Officer

Businesses that, I think if you look at the mix out five years, there'll be more capital light in nature, they're more ROE enhancing in nature. And part of our business model is connectivity concept that Harry touched on, that drives a better ROE. So while that may – that real estate aspect may slow down, I think the team's got a good handle on how we can grow the of the business.

Mario Mendonca, Analyst, TD Securities

Just maybe something quick on US margin, I feel like, like I watch these Canadian banks carefully, I watch the US banks carefully and I think CIBC might be the only where US margins were actually up in Q3. It's a surprise given what played out for everybody else. Now, I also observed the deposits are down. So what I'm kind of wondering is, if there's going to be a quarter where CIBC decides it needs to protect those deposits share. And we actually see the margins come under pressure like we're seeing for virtually every other bank. So, what it appears to me is that CIBC is protecting the margin, but willing to give up some deposit share. Am I reading the tea leaves correctly now?

Shawn Beber, Senior Executive Vice-President and Group Head, US Region; President and CEO, CIBC Bank USA

Hi, Mario. It's Shawn. So what I'd say is, our non-interest bearing deposits held pretty steady this quarter. And you're right. On a average basis, quarter-on-quarter deposits were down, but frankly on a spot basis, they're actually up somewhat. And so we've had – our deposit betas on our interest bearing are higher than they've been through the cycle. So we've been paying for deposits with our – but it's a very client-focused strategy and we're working with our clients to price those deposits. We're also making investments in our deposit franchise in terms of additional capabilities and new products. So we'll be launching those just to enhance our overall deposit franchise, but it's not been seeding deposits like seeding share for margin.

Our margins have held in on the asset side as spreads have been a help offsetting some of the cost of funds pressure and on the deposit margin side; we've had the benefit of both the rising rate environment but also the impact of the hedging program that Hratch spoke about earlier. So, that combined to that, couple of basis points.

As Hratch mentioned, there was a bit of noise in the quarter. You take a couple to a few basis points off of that increment, but the 2 basis points is not one-time. It's a function of all those elements that I just went through.

Mario Mendonca, Analyst, TD Securities

Thank you very much.

Operator

Thank you. [Operator Instructions] Our next question is from Nigel D'Souza from Veritas Investment Research. Please go ahead.

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

Thank you. Good morning. I wanted to follow-up with Frank on the debt service ratio, and should we read into the impact that CIBC has a more interest rate sensitive borrower? And then, in terms of the outlook, when I look at your forecast for the debt service ratio next 12 months, you expect that to run materially above where it was at in 2019 and kind of remain at the 2019 level for the rest of your forecast period. And you're also forecasting unemployment rate to roughly be at the 2019 levels, maybe a little bit higher. So given that context, wouldn't it be reasonable to expect that your credit losses next year or the next 12 months would run above the losses we saw in 2019?

Frank Guse, Senior Executive Vice President and Chief Risk Officer

Well, so a couple of points. One, I wouldn't take that as an indication that our clients are more interest rate sensitive. There's certainly some elements of mix in there, but overall we do not see that as being a big driver. As I said before, I think we may be having models that are a little bit more sensitive to changes in that metric, but I don't take that as an indication of a difference in credit for client profiles, because we are not seeing that in other betas that we really use to prepare ourself.

From an outlook perspective, yes, I think part of the indications is, if the economic environment plays out, as our models predict and as we expect interest rates to come back a little later, we could expect that part of 2024 or technically all of 2024 runs a little bit ahead of 2019, but again there is a lot of moving parts here and it's certainly too early to give you a good outlook on fiscal 2024 altogether, but overall I would say, yeah, it's certainly not an indication of credit quality. It is an indication of what we have put into our forward-looking indicator, and how our models react to that. And then what we will see over time is how that plays out in reality as the economic environment evolves.

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

Okay. That's helpful. That's it for me. Thanks.

Operator

Thank you. [Operator Instructions] Our following question is from Darko Mihelic from RBC Capital Markets. Please go ahead.

Darko Mihelic, Analyst, RBC Capital Markets

Hi. Thank you. Good morning. Again going back to Frank. I really appreciate the disclosures that you provide. But sometimes I think the disclosures may not actually help me. And I'm asking you this question, Frank, because your bank had a bit of a bounce in performing PCLs. Last quarter was a release. So, I kind of want to

get to the bottom of a couple of things. And really what I'm looking at is one of your slides. So, I'm looking at slide 40 and you show the mortgages that are coming up due for renewal this year, CAD 37 billion. And then you show me the high risk clients' CAD 330 million, which is fairly small. But when I look at the definition of what you're calling a high risk client, it would diabolically be different from what I'm worried about.

I do not care about people who have a shallow relationship with CIBC. What we worry about, I think, are clients with a deep relationship with CIBC that have credit cards and unsecured credit. We worry about those same clients that might have low bureau scores and clients that are facing a large increase in mortgage payments and don't have cash resources. So that would be my definition of higher risk, not shallow relationships. So, am I wrong in thinking that that is the cohort that I'm describing would be the cohort driving the performing PCL increases? And how big is this cohort not just for 2024, but also 2025? And so, I realize I'm asking for a lot and don't expect you to throw out some numbers right now, but maybe you can tell me where I'm wrong in thinking about what I should really be concerned about.

Frank Guse, Senior Executive Vice President and Chief Risk Officer

Yeah. So, Darko thanks for the question. I'll probably not throw numbers as you indicated. What we are looking at is deep relationship clients. We know how they behave on their credit card. We know how they behave on their unsecured lines. The deeper the relationship is with us, the better the behavior, the better the actual results are. And one thing that is giving us comfort is we are actually seeing more of that client over time, and we have an opportunity to react faster than we would do on a mortgage only or on a shallow relationship. So that is why – and you're absolutely right. We are watching those segments very, very closely, which is why we may be a little less concerned about those segments, just because we have more information. We have more opportunities to work with those clients and addressing that early.

The other point I will make is, I mean, we are very, very closely monitoring our variable rate mortgage clients. We know their renewal schedules. We look very closely into what payment shocks are, again, under assumptions of where interest rates are over time. And we do feel comfortable as we disclose on the slides here, that those payment shocks, even though they are high and they will certainly go higher over time, are manageable for those clients. And a couple of points that help in that is, one, a lot of those clients would have been qualified at lot higher rates in the past and yet they may still go into an even higher rate. And yes, that is a real payment shock coming. But at least from a qualification perspective, those clients were tested and underwritten at a lot higher rates.

And one thing I can tell you as well is, we had around, call it, close to 100,000 clients already renewed into that higher interest rate environment, CAD 25 billion of mortgages in the last or year-to-date. And what we are doing is we are monitoring that cohort very, very closely from a delinquency rate perspective. And in particular, if you go back to what we call the six to eight month performance in that book. So going back to all renewals and refis in Q1 of this year, those clients are performing broadly in line with what we would have seen in 2019. So there's no areas of concern that we had seen so far emerging, because clients are absorbing higher payments in and at renewal. I don't know whether that addresses your question and it's probably all I can mention here.

Darko Mihelic, Analyst, RBC Capital Markets

No, but thanks. I realize I'll have some follow-ups for you after Frank and some technical questions around everything you just said. So, I appreciate it. I just – I scramble a little bit because if debt service ratios are

climbing and I appreciate that many of these customers were underwritten with a stress test on interest rates, but I'm not certain that the stress test also would have incorporated high inflation. And I just worry that especially not necessarily the next 12 months, but the 12 months after where the payment shock is really high, that even if you've seen customers with a bit of a payment shock recently, that the outcome could still be quite different. So, happy to discuss offline, Frank, but thank you very much for the answer. It is helpful.

Frank Guse, Senior Executive Vice President and Chief Risk Officer

Thank you. Thanks, Darko, and looking forward to your follow-up questions.

Operator

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

Sohrab Movahedi, Analyst, BMO Capital Markets

Okay. I know we've gone over. Thank you for squeezing me in. Maybe a couple of quickies. Frank, can you tell us what the loan-to-value on the office properties are after the allowance and how that compares to last quarter please?

Frank Guse, Senior Executive Vice President and Chief Risk Officer

Well, I can't give you a number here. It's certainly in line with expectations. I'm not certain what number I could give you here because the biggest driver in itself is certainly not the allowance. It is driven by whenever we get a new appraisal, we see market evolving. And again, that is a location-by-location answer where the values can go down significantly from what we would have seen in appraisals that we would have gotten six months, nine months or a year ago. And from an LTV perspective, I think that is the biggest driver, but it's also one where we don't have an ongoing review of appraisals for every single file, but we all do appraisals when whenever we feel it's right. And as I said, that is probably the bigger driver which is why I can't give you a real – give you one number on your question.

Sohrab Movahedi, Analyst, BMO Capital Markets

Okay. And maybe just for the broader management team. You get paid a lot of money. Was there any subjectivity exercised over the models, specific to performing reserve builds this quarter or the releases last quarter or are the models running the bank?

Frank Guse, Senior Executive Vice President and Chief Risk Officer

Yes, there was. And yes, there was in both cases.

Sohrab Movahedi, Analyst, BMO Capital Markets

Did you add or subtract for this quarter? Did the subjectivity add to the provision build for this quarter or did it hold it back?

Frank Guse, Senior Executive Vice President and Chief Risk Officer

A lot of moving parts, but we certainly reduce the increase that we would have seen in our Canadian Personal businesses. And what we do is that expert credit judgment is essentially balancing a little bit what we talked

about this call, namely, what is the model predicting versus what are we seeing from a credit risk perspective? And we felt the model was going a little bit more sensitive than we would have thought. So we dampened that increase. And why do I say we did see a lot of moving parts? We certainly added a little bit on the US office portfolio. So there's always moving parts and that is directionally what I would say for this quarter.

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

And maybe I'll add on that, Sohrab, right. As you know, look, this isn't just management judgment and gut instinct, right. There is an accounting standard. There are requirements under the accounting standard. We manage to an appropriate allowance that follows the IFRS 9 guidelines which require us to provision and have an allowance based on the expectation, based Stage 1 for one year and lifetime for anything that's in stage 2. It's a very governed process, as Frank has said. The models produce the results. We look at that versus expectations, apply the credit judgment however is required to get to the right answer and the appropriate prudent allowance number. And then we go through our governance processes in order to finalize that.

Sohrab Movahedi, Analyst, BMO Capital Markets

Okay. Thank you for squeezing me.

Victor G. Dodig, President and Chief Executive Officer

Okay, good. And thank you, Sohrab, for that question. As I said earlier, we are going to continue to work on refining our models so that they deliver even greater consistency quarter-to-quarter. Again, on a year-to-date basis I think it's important to know where we relative to the peer group and very much in line on the performing standpoint when you factor mix differentials. And as I also said during the call, it's really important to focus on the earnings fundamentals of our business. We've had solid results on those earning fundamentals due to the strength and diversity of our business model in all of our business units, in Canadian banking, in our US region, and our Capital Markets. And we've got prudent risk management. I think that stance we have is prudent with little less volatility, it'll even be better.

We continue to demonstrate steady organic growth. We have clients building relationships with our bank. It's fueled by a client focus strategy. And it's supported by an increasingly digitized infrastructure, which in fact, quite frankly, has allowed to start reducing our costs in certain areas, including head count which you see on a year-over-year basis. And that, again stands out differently from our peers. I think our achievements are a testament to the unwavering dedication of our team, whose hard work and commitment have contributed to our success, and I want to extend my sincere appreciation to each CIBC team member who is driving better client net promoter scores and deeper relationships.

We've implemented initiatives that not only address our client's evolving needs, but also align with the long-term strategy to deliver sustained value to our shareholders. As we continue to navigate that dynamic economic landscape, we remain steadfast in our dedication to the purpose of helping our clients realize their ambition and to deliver value for our shareholders. So I thank you for your trust and continued support and for your questions. And I look forward to our ongoing engagement with our team as frequently as you would like. Thank you. Have a good day and a good Labor Day weekend.

Operator

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