23-May-2018

Canadian Imperial Bank of Commerce

(CM)

Q2 2018 Earnings Call

CORPORATE PARTICIPANTS

Amy South
Senior Vice-President, Chief Financial Officer, Functional Groups & Head of Investor Relations, Finance, Canadian Imperial Bank of Commerce

Victor G. Dodig
President, Chief Executive Officer & Director, Canadian Imperial Bank of Commerce

Kevin A. Glass
Senior Executive Vice President & Chief Financial Officer, Canadian Imperial Bank of Commerce

Laura L. Dottori-Attanasio
Senior Executive Vice President & Chief Risk Officer, Canadian Imperial Bank of Commerce

Larry D. Richman
Senior Executive Vice-President and Group Head, US Region; President and CEO, CIBC Bank USA, Canadian Imperial Bank of Commerce

Christina Kramer
Senior Executive Vice-President and Group Head, Personal and Small Business Banking, Canada, Canadian Imperial Bank of Commerce

Jon Hountalas
Senior Executive Vice-President and Group Head, Commercial Banking and Wealth Management, Canada, Canadian Imperial Bank of Commerce

OTHER PARTICIPANTS

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch

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

Meny Grauman
Analyst, Cormark Securities, Inc.

Steve Theriault
Analyst, Eight Capital

Gabriel Dechaine
Analyst, National Bank Financial, Inc.

Sumit Malhotra
Analyst, Scotiabank

Nigel D'Souza
Analyst, Veritas Investment Research Corp.

Doug Young
Analyst, Desjardins Securities, Inc.

Scott Chan
Analyst, Canaccord Genuity Corp.

Sohrab Movahedi
Analyst, BMO Capital Markets (Canada)

Mario Mendonca
Analyst, TD Securities, Inc.

Mike Rizvanovic
Analyst, Macquarie Capital Markets Canada Ltd.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning. 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 Amy South, Senior Vice President, CFO, Functional Groups and Head of Investor Relations. Please go ahead, Amy.

Amy South

Senior Vice-President, Chief Financial Officer, Functional Groups & Head of Investor Relations, Finance, Canadian Imperial Bank of Commerce

Thank you, operator. Good morning and welcome to CIBC's 2018 second quarter results conference call. My name is Amy South, and I'm the Senior Vice President of Investor Relations. This morning's agenda will include opening remarks from Victor Dodig, CIBC's President and Chief Executive Officer; Kevin Glass, our Chief Financial Officer, will follow with a financial review; and Laura Dottori-Attanasio, our Chief Risk Officer, will provide a risk management update.

With us for the question-and-answer period following the formal remarks are CIBC's business leaders including Harry Culham, Jon Hountalas, Christina Kramer, and Larry Richman, as well as other senior officers.

Before we begin, let me remind you of the caution regarding forward-looking statements in slide 2 of our investor presentation. Our comments may contain forward-looking statements, which involve applying assumptions which have inherent risk and uncertainties. Actual results may differ materially.

With that, let me now turn the meeting over to Victor.

Victor G. Dodig

President, Chief Executive Officer & Director, Canadian Imperial Bank of Commerce

Thanks, Amy. Good morning, everyone, and thank you for joining us. With our financial results released this morning, we continue to demonstrate strong and sustainable earnings performance that is aligned to the targets we set out at our Investor Day late last year. Our team is making good progress in executing against our client-focused strategy, which is transforming our bank and delivering results, and we expect this to continue.

Our adjusted earnings for the quarter were CAD 1.3 billion. On a per share basis, this quarter's adjusted earnings of CAD 2.95 is our 15th consecutive quarter of year-over-year EPS growth. All of our strategic business units are performing well, underscoring the strength of our franchise as we work together as one team to earn the trust and confidence of our clients.

In Canada, our Personal and Small Business Banking, Commercial Banking and Wealth Management businesses delivered strong and diversified earnings with disciplined expense management. Our results reflect our ability to deepen relationships and grow market share across a range of client needs and segments.

South of the border, our U.S. Commercial Banking and Wealth Management businesses are exceeding our expectations as our team continues to expand relationships with our clients and build out cross-border flows. And then, our global Capital Markets franchise, we continue to drive growth in all key operating markets by working closely with our clients to give them access to the full strength of our CIBC platform.

Our focus on strengthening our U.S. business is also evident in yesterday's announcements of several products aimed at better serving our clients. We launched CIBC Agility, a new digital high-interest savings account for our U.S. clients. It offers a competitive rate to attract deposits, and is the first step in building out our retail offering for clients in the U.S.

We've also enhanced our suite of products for Canadian clients, who frequently travel to or work in the United States. We launched a new transactional U.S. dollar Smart Account as well as enhancing our existing U.S. dollar solutions to better enable our clients to shop, pay bills, transfer money, and withdraw U.S. funds on either side of the border.

Turning to our capital, our Common Equity Tier 1 capital ratio increased to a strong 11.2% compared to 10.8% last quarter. Capital deployment remains important. We are confident in our ability to continue to deliver solid earnings growth and build on our capital strength. With that view, today, we announced a normal course issuer bid to purchase approximately 2% of our outstanding shares for cancellation over the next 12 months. We plan to commence share purchases imminently.

Our results also continue to reflect the strength and focus of our team in improving operational efficiency and investing prudently in initiatives that drive growth. This quarter, our adjusted efficiency ratio of 56% was a 300-basis point improvement over the same period last year. We're pleased with this progress as we continue to drive toward our medium-term target of 52%.

So, at this time, I'd like to turn over the call to my colleague, Kevin Glass, to review our results in greater detail. And I'll come back to you after the Q&A with some final comments. Kevin?

Kevin A. Glass

Senior Executive Vice President & Chief Financial Officer, Canadian Imperial Bank of Commerce

Thanks, Victor. So my presentation will refer to the slides that are posted on our website starting with slide 5. CIBC reported net income of CAD 1.3 billion and earnings per share of CAD 2.89 for the second quarter of 2018. Adjusting for items of note detailed in the appendix to this presentation, our net income was CAD 1.3 billion and EPS was CAD 2.95, up 12% from a year ago.

We generated revenue of CAD 4.4 billion for the quarter, which is up 18% year-over-year. Revenue growth and prudent expense management resulted in positive operating leverage of 5.9% and an efficiency ratio of 55.9%. All of our businesses generated strong results as we executed on our client-focused strategy. We also continue to track well against our medium-term targets.

Turning to capital on slide 6, our CET1 ratio was 11.2% as at April 30, up 40 basis points from the prior quarter. Solid organic capital generation was partially offset by the impact of RWA growth. We also benefited from the change in [indiscernible] (00:06:12) floor methodology in the quarter. Basel I Floor adjustment that was included in our RWA last quarter was eliminated this quarter, contributing 16 basis points to our CET1 ratio.

We continue to strengthen our capital position. And as Victor noted, today, we announced a normal course issuer bid that will permit us to purchase for cancellation up to CAD 9 million or approximately 2% of our outstanding common shares over the next 12 months. Our leverage and liquidity ratios remained strong.

The balance of my presentation will be focused on adjusted results, which exclude items of note. Let me now turn to the performance of our business segments.

Slide 7 reflects the results of our Canadian Personal and Small Business Banking segment. Net income for the quarter was CAD 586 million, up 16% from last year. Revenue for the quarter was CAD 2.1 billion, up 8% from last year, primarily driven by strong and balanced volume growth as well as favorable rates. Net interest margin was up 3 basis points from last quarter, helped by favorable rates and a run-off of deposit promotions.

Noninterest expenses of CAD 1.1 billion, up 3% from the prior year, primarily due to investments we continue to make to generate growth and to support our transformation into a modern, convenient and relationship-oriented bank. Expense discipline, along with strong revenue growth, generated pre-provision earnings growth of 14%, operating leverage of 5% and a 250-basis point year-over-year improvement in our NIX ratio.

Provision for credit losses of CAD 203 million was up CAD 12 million from same period last year. Underlying credit quality remained stable with a provision increase due primarily to an increase in loss for non-impaired loans.

Slide 8 is extra information we're providing this quarter to show our continued progress in deepening relationships with our personal and small business clients. A year ago, two-thirds of our revenue growth was generated from our real estate secured lending business as we completed the build-out of our mobile advisor team and approach full productivity of the sales force. This past quarter, real estate secured lending represented less than a third of our year-over-year revenue growth with over two-thirds driven by higher volume growth, margin expansion, and higher non-interest income growth across other lines of business.

The bottom charts on the slide show our recent market share trend in money-out and money-in relative to a year ago. Over the past six months, as anticipated, money-out growth converged towards industry levels, and our market share remained steady. Over the same period, we have gained share in money-in with balanced contribution from deposits in mutual funds. We've included a market share slide in the appendix to this presentation.

Operating leverage is particularly high this quarter in Canadian Personal and Small Business Banking, largely as a result of timing of investment spend in the prior year. We are, however, on track to achieve full-year operating leverage above our 1% to 2% target range.

Slide 9 shows the results of our Canadian Commercial Banking and Wealth Management segment. Net income for the quarter was CAD 310 million, up 9% from last year. Commercial Banking revenue was up 12%, driven by strong deposits and lending volume growth, and higher credit-related fees. Deposit balances were up 12% and lending balances were up 8% from the same period last year.

Wealth Management revenue was up 2%, driven by higher AUM, reflecting market appreciation and positive net sales. Lower commission revenue in our full service brokerage business negatively impacted revenue growth this quarter.

Noninterest expenses were up 3%, primarily due to higher performance-based and employee-related compensation. The solid top line growth and expense discipline contributed to positive operating leverage of 2.5% and resulted in a 130-basis point year-over-year improvement in our efficiency ratio.

Slide 10 shows the results of our U.S. Commercial Banking and Wealth Management segment, which includes results of CIBC Bank USA, Atlantic Trust and the Real Estate Finance business. Net income for the quarter was

CAD 142 million compared to CAD 27 million a year ago. Revenue for the quarter reflected solid business performance aided by a stronger U.S. dollar.

Higher loan volume and the benefit of a higher rate environment helped to offset the impact of three less days and higher syndication fees reverting to more normalized levels this quarter. In addition, beginning this quarter, trading revenue was included in the Capital Markets segment, where all global markets business is now managed.

Average loans grew CAD 1 billion or 4% from the prior quarter, driven by organic growth and a stronger U.S. dollar. Notwithstanding seasonal outflows, average deposit balances grew CAD 300 million or 1% from the prior quarter. We continue to capitalize on further opportunities to do more for our combined U.S. client base. Overall, credit quality remains stable.

On side 11, we show the contribution of the CIBC Bank USA in U.S. dollars. Adjusted net income was $73 million compared with $58 million for private bank in the first calendar quarter of 2017, an increase of 26%. As I mentioned in the U.S. Commercial Banking and Wealth Management segment, contribution from CIBC Bank USA was also impacted by lower syndication fees and the reappointing of trading revenue to the Capital Markets segment. These two items reduced year-over-year revenue by approximately $10 million and quarter-over-quarter revenue by approximately $15 million.

Net interest margin for CIBC Bank USA increased 18 basis points from the prior quarter, reflecting repricing of the largely variable loan book in a higher rate environment. Deposit activity for the quarter reflected some seasonal outflows offset by referrals from our large corporate and cross-border clients. Deposits sourced from referrals drove a $450 million increase in average deposits from Q1 2018.

Turning to Capital Markets on slide 12, net income for the quarter was CAD 249 million, down 7% from a year ago. Revenue this quarter was CAD 710 million, up CAD 18 million or 3% from a year ago. Core revenue, which excludes synthetic equity arrangements and IFRS 9 changes, was up north of 15% year-over-year, reflecting higher foreign exchange, interest rates and commodity trading revenue, and higher corporate banking revenue, partially offset by lower underwriting revenue.

Noninterest expenses were up CAD 29 million or 8% from a year ago. We remain disciplined around our expenses and are investing in areas of future growth. The increase reflects the investment in technology and talent as we continue to build recurring revenue streams, grow in the U.S., and enhance connectivity with the rest of the bank.

Slide 13 reflects the results of the Corporate and Other segment. Net income for the quarter was CAD 58 million compared with a net loss of CAD 14 million in the prior year, reflecting improved results from treasury activities and higher revenue in CIBC FirstCaribbean. Expenses were lower due to certain nonrecurring recoveries, and the current quarter also benefited from tax credits which are not expected to repeat.

It's difficult to predict the run rate for this segment since revenue, particularly in treasury, can be volatile and is impacted by a number of market variables. As noted in prior quarters, going forward, we expect to report breakeven results plus/minus CAD 20 million for the segment.

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

Laura L. Dottori-Attanasio

Senior Executive Vice President & Chief Risk Officer, Canadian Imperial Bank of Commerce

Thanks, Kevin, and good morning, everyone. I will be speaking on the risk review covered on slide15 to 18 of the investor presentation.

While our overall loan losses are up quarter-over-quarter, we focus on our stage 3 losses, which continue to perform well at a 24-basis-point loss rate, up marginally from the first quarter and consistent with prior quarters. The increase of CAD 15 million in stage 3 losses from last quarter was largely driven by seasonally higher write-offs in the cards portfolio and a small number of new impairments in our CIBC Bank USA portfolio that was partially offset by lower losses in CIBC FirstCaribbean.

As we discussed last quarter, our stage 1 and 2 buckets could be more volatile quarter-to-quarter, which is why we tend to focus on stage 3. As a result of mostly stable quarterly updates to our forward-looking macroeconomic factors and some slight portfolio migration within these buckets, there was a CAD 5 million net reversal in stage 1 and 2 buckets as compared to a CAD 49 million release last quarter. Overall, we are pleased with our credit performance.

Slide 16 provides an overview of our gross impaired loans. Overall, gross impaired loans remained stable quarter-over-quarter and year-over-year with a 1-basis-point increase to 41 basis points. We do show a small increase from 23 basis points to 25 basis points in our mortgage portfolio. This is mainly a result of seasoning of the portfolio as it matures. And as you'll see on our next slide, write-offs remain flat at 1 basis point, which is consistent with the strong credit quality of our mortgage portfolio.

Slide 17 provides a more granular view of our net write-off rates by portfolio. Overall, our net write-off ratio was 26 basis points, up 6 basis points quarter-over-quarter, but stable on a year-over-year basis. Net write-offs of our mortgage portfolio continue to remain flat, while cards and personal lending were up this quarter, mainly due to seasonality, reflecting higher delinquencies after the holiday season. They continue to trend lower on a year-over-year basis.

Business and government loans were up due to a write-off of an account in the pre-acquisition U.S. real estate finance portfolio with no PCL impact in the current quarter.

CIBC Bank USA continued to remain stable. As for FCIB, we did experience an increased write-off rate both last quarter and this quarter, mainly due to a recovery initiative in our consumer portfolios that resulted in higher write-off, although no impact to losses as we had previously taken a full allowance.

On slide 18, we've highlighted our Canadian credit card and unsecured personal lending portfolios. As expected, the late-stage delinquency rate of our Canadian credit cards portfolio peaked in the first quarter after the holiday season and has reverted to a lower level in the second quarter.

On a year-over-year basis, the delinquency rate was up primarily due to the adoption of IFRS 9, which you will recall I discussed in a lot of detail last quarter. The late-stage delinquency rate of our Canadian unsecured personal lending portfolio continues to remain stable in the second quarter. And so, overall, we continue to be very pleased with our credit performance and the quality of our credit portfolios.

And with that, I'll turn things back to Amy. Thanks, Amy.

Amy South

Senior Vice-President, Chief Financial Officer, Functional Groups & Head of Investor Relations, Finance, Canadian Imperial Bank of Commerce

Thanks, Laura. That concludes our prepared remarks. We're now going to move to the question-and-answer section of the call. As a reminder, can you please try to keep your questions to one question?

So, operator, can we have the first question, please?

QUESTION AND ANSWER SECTION

Operator: Thank you, Amy. [Operator Instructions] Our first question is from Ebrahim Poonawala with Bank of America Merrill Lynch. Please go ahead.

Ebrahim H. Poonawala

Analyst, Bank of America Merrill Lynch

Q

Good morning. I was wondering if we can just touch upon on the outlook for the U.S. private bank margin expansion this quarter in light of the negative deposit growth. I know, Victor, you mentioned about some of the new promotion and the CIBC Agility, which I assume are higher-rate products. So, I would love to get your thoughts in terms of how sustainable the margin expansion is going forward or how we should think about that and how you expect deposit growth to play out from hereon.

Victor G. Dodig

President, Chief Executive Officer & Director, Canadian Imperial Bank of Commerce

A

Ebrahim, Larry is in the room with us. He's going to take you through all of that. So, Larry, over to you.

Larry D. Richman

Senior Executive Vice-President and Group Head, US Region; President and CEO, CIBC Bank USA, Canadian Imperial Bank of Commerce

A

Good morning. How are you?

Ebrahim H. Poonawala

Analyst, Bank of America Merrill Lynch

Q

Good morning.

Larry D. Richman

Senior Executive Vice-President and Group Head, US Region; President and CEO, CIBC Bank USA, Canadian Imperial Bank of Commerce

A

Good morning. Let me begin by saying the NIM really rose to 3.24% principally driven by rates and a stable portfolio. We actually feel good about the variable rate loan portfolio that will rise if interest rates continue to rise. We are seeing deposit pressures as all U.S. banks are. But again, we also have roughly a 30% to 32% non-interest-bearing DDA balance, which offers that to some degree as well.

Deposit growth relative to other U.S. banks and also relative to our same period last year was up, because this is usually a seasonal – the February through April timeframe typically sees deposit outflows for taxes, bonuses, and also distributions. So, we see good deposit growth. We're going to remain competitive from a pricing perspective. Deposit pressures continue. But at the same time, we feel good that our rates, given the variable nature of our loan book, that we will benefit from increasing rates.

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch

Q

And can you quantify, Larry, in terms of if the fed again moves in June, what's the right way to think about the benefit of the margin from every additional fed rate hike?

Larry D. Richman
Senior Executive Vice-President and Group Head, US Region; President and CEO, CIBC Bank USA, Canadian Imperial Bank of Commerce

A

Yeah. Roughly 90-plus percent of our loan book is variable priced. The majority of it is tied to 30-day LIBOR. So, you can see the impact that, that could have.

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch

Q

Understood. And just tied to that, any thoughts on the acquisition announcement we saw, sort of into your market on Monday, with Fifth Third buying MBFI. Does that create opportunities, make it more competitive that you have a larger regional bank more aggressively competing in Chicago?

Larry D. Richman
Senior Executive Vice-President and Group Head, US Region; President and CEO, CIBC Bank USA, Canadian Imperial Bank of Commerce

A

Yeah. That was a very interesting announcement. And first and foremost, I want to congratulate both companies for making that deal. I know the leadership, and I want to congratulate them, particularly Mitch, on that acquisition.

It, I think, in my view, reflects a real strong market in Chicago, and this is really further validation of the interest in Chicago. We have a very strong and a very growing position, client base, and very experienced leadership in that market. We also believe that disruption and change sometimes creates opportunity. We've made a living, so to speak, on seizing those opportunities over time. And we're very optimistic that it'll continue.

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch

Q

Got it. Thanks for taking my question.

Larry D. Richman
Senior Executive Vice-President and Group Head, US Region; President and CEO, CIBC Bank USA, Canadian Imperial Bank of Commerce

A

Thank you.

Operator: Thank you. Our next question is from John Aiken with Barclays. Please go ahead.

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

Q

Good morning. Now, that we've seen the residential mortgage growth moderate, and as you say, come back to the market, how much of this is actually being predicated by CIBC's strategic shift? And how much of that is related to the disruption that's been going on, in terms of the policy, in terms of the outlook? And as we look forward, how are we going to offset this growth on the platform, at least on a loan basis?

Christina Kramer
Senior Executive Vice-President and Group Head, Personal and Small Business Banking, Canada, Canadian Imperial Bank of Commerce

A

Sorry, I didn't have the mic on. So, John, thank you for the question. It's Christina speaking. Specific to the mortgage growth, across the industry, we've seen the slowdown occur, as you've mentioned. And that started as we had communicated several quarters ago. It started about a year ago at this time. And so, we've started to converge towards the market, as also indicated that we would do.

When we take a look at our growth today, the good news is when you take a look at the quarter's results, and as Kevin covered in his prepared remarks, it is well-diversified. And we have balanced growth today across all of our businesses. And so, very much a reflection of the strategy and the performance that we had indicated and guided that we would be focusing on. So, our relationship-focused strategy, our investments in our teams and our digital capabilities, and our transformation are in fact driving the results. So, in terms of our outlook, we consider it to be a strong revenue year for the rest of the balance of the year.

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

Q

Great. Thank you.

Operator: Thank you. Our next question is from Meny Grauman with Cormark Securities. Please go ahead.

Meny Grauman
Analyst, Cormark Securities, Inc.

Q

Hi. Good morning. Just following-up on John's questions, just trying to understand better the dynamics between how much of the slowdown is coming from B-20 versus what you've communicated just in terms of your own specific circumstances in your mortgage book. And I guess one question in particular is you talked about renewals as being a potential offset for some of the impacts of B-20, could you comment to what you're seeing in terms of renewals? Are you seeing increased renewals and any other of the offsets to B-20 that you talked about? What are you seeing in terms of amortization trends and other things like that?

Christina Kramer
Senior Executive Vice-President and Group Head, Personal and Small Business Banking, Canada, Canadian Imperial Bank of Commerce

A

So, while it's still a bit early to actually pull apart exactly what change impacted what on the trend line, I would suggest that most of the slowdown that we've seen in the last few months is likely due to the B-20 regulation changes. Only time will tell. We've actually seen a very soft start to the spring market. Well, we don't know whether that's a bit of a pause in the market or consumers changing behavior or waiting to see what happens in the market. We still do see activity in the market particularly in the condo space. So, overall, still mortgage market, but it is slowing down in terms of overall performance.

Meny Grauman
Analyst, Cormark Securities, Inc.

Q

Thank you. Can you just...

Christina Kramer
Senior Executive Vice-President and Group Head, Personal and Small Business Banking, Canada, Canadian Imperial Bank of Commerce

A

Does that answer your question?

Meny Grauman
Analyst, Cormark Securities, Inc.

Q

Well, I was wondering if you could just talk about renewals specifically and the trend there.

Christina Kramer
Senior Executive Vice-President and Group Head, Personal and Small Business Banking, Canada, Canadian Imperial Bank of Commerce
A

Yeah. So, on the retention front, we're just seeing a pretty consistent retention rate. We haven't, at this point, yet seen any marked changes to retention. It also might be particularly early given timing of the regulatory changes to actually see the outcome of that.

Meny Grauman
Analyst, Cormark Securities, Inc.
Q

Okay. And then just a follow-up, if you're saying sort of the slowdown that we're seeing is related to B-20. So, would you expect an even bigger slowdown as you're sort of lapping the big comps that you had before? You talked before about the ramp up in the mobile mortgage sales force and the impact on that going forward, so.

Christina Kramer
Senior Executive Vice-President and Group Head, Personal and Small Business Banking, Canada, Canadian Imperial Bank of Commerce
A

Yeah. We expect loan growth to moderate in the back half of the year. So, at this point, in terms of outlook, we're seeing that the mortgage market will, by the end of the year, get to low-single digit based on our current understanding of the market and what we're seeing so far. But, again, I'd point to the overall performance of the business. It's very much in line with our strategy, and that was about focusing on depth of relationship with our clients. You see growth across all aspects of our business. We're quite pleased with what we're seeing, the growth that is coming from rate increases, volume increases, as well as mix changes. So, it is very balanced across the portfolio.

Meny Grauman
Analyst, Cormark Securities, Inc.
Q

Thank you.

Operator: Thank you. Our next question is from Steve Theriault with Eight Capital. Please go ahead.

Steve Theriault
Analyst, Eight Capital
Q

Good morning. I wanted to ask a question on cards, but if I could just sneak one in for Kevin first on the treasury gains. Usually, I think of elevated treasury in the context of a steeper yield curve in particular. We didn't see that this quarter. Sometimes securities gains, but securities gains look pretty normal to me. Can you flush out a little what drove the higher treasury contribution this quarter?

Kevin A. Glass
Senior Executive Vice President & Chief Financial Officer, Canadian Imperial Bank of Commerce
A

Sure, Steve. So, actually, we did benefit from some rebalancing on our portfolios, where we did actually have higher than usual bond gains. So that combined with – just on our hedges, there's sometimes some volatility on that. And with rising rates, just some of our commitment hedges and the way that that played out also led to gains. So, if you take the volatility, the bond gains and just some of the portfolio rebalancing, that was about CAD 25-odd million. So, that's what drove treasury in the current quarter.

Steve Theriault
Analyst, Eight Capital

Q

And if I look at the – in the non-interest revenue section, the AFS gains look pretty normal. Was it the mix of those gains this quarter that was more pushed towards the corporate line or can we just not see it through that line item directly?

Kevin A. Glass
Senior Executive Vice President & Chief Financial Officer, Canadian Imperial Bank of Commerce

A

I mean, I think what you would have seen is partly in our capital markets area. AFS would have been down on a year-over-year basis. But, certainly, from a treasury perspective, it was higher.

Steve Theriault
Analyst, Eight Capital

Q

Okay. That makes sense. And if could for Victor or Christina. Victor, we talked about the bank wanting to do a bit better on the card side and the growth and balances. It was a pretty modest 2% year-on-year I see this quarter. Can you or Christine (sic) [Christina] talk a little bit about any initiatives issues underway in cards that might help improve the growth outlook maybe later this year or into next year?

Christina Kramer
Senior Executive Vice-President and Group Head, Personal and Small Business Banking, Canada, Canadian Imperial Bank of Commerce

A

I'll take that question, if that's okay, Victor.

Victor G. Dodig
President, Chief Executive Officer & Director, Canadian Imperial Bank of Commerce

A

Absolutely.

Christina Kramer
Senior Executive Vice-President and Group Head, Personal and Small Business Banking, Canada, Canadian Imperial Bank of Commerce

A

So, we're performing around the rate of the market; its low-single digits in terms of growth year-over-year. What you'll see is improvement over the quarter from Q1; see some pick up from us in this space. And we're out in market right now, marketing our Aventura product and we're pleased to see the early results of that marketing campaign. So, in travel, we continue to grow our active accounts and purchase volumes. We're feeling really good about that space. And over time, you will see picked up performance and more meaningful revenue contribution from this business.

Steve Theriault
Analyst, Eight Capital

Q

Has there been any change in the rewards grid for Aventura, or is it more just a straight pickup in marketing?

Christina Kramer
Senior Executive Vice-President and Group Head, Personal and Small Business Banking, Canada, Canadian Imperial Bank of Commerce

A

What you're actually seeing is a growth as a result of marketing, but also as a result of our teams out in in-market with the increased focus on this space. So, you will see this pick up. We anticipate it to pick up.

Steve Theriault
Analyst, Eight Capital
Q

All right. Thanks for that.

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

Gabriel Dechaine
Analyst, National Bank Financial, Inc.
Q

Good morning. I got a couple questions on the real estate book, both the retail business and the wholesale business on retail. So, we saw originations down nearly 40% year-over-year. As I look over the next two quarters and what your originations were last year, CAD 16 billion in Q3 and CAD 12 billion in Q4, I'm just wondering how we possibly get close to guidance that originations could be down 10% or so this year, granted that's for the whole book, not just the uninsured portfolio? But maybe you can walk me through how you're seeing things today.

And then, on the wholesale part of the business, in the supplement there, I see a real estate and construction portfolio of CAD 29.6 billion. That's up 5% quarter-over-quarter, and year-over-year has got noise because you didn't have PrivateBancorp there. But I'm just wondering what's in that portfolio? What's driving that growth, because that's phenomenal, and how that might be linked to the overall housing market in Canada? Thanks.

Christina Kramer
Senior Executive Vice-President and Group Head, Personal and Small Business Banking, Canada, Canadian Imperial Bank of Commerce
A

I'll start with the beginning of that, Gabriel. It's Christina speaking. So, the original 10% was related to what we thought or anticipated the B-20 impact would be, so that was on that part of the business. When we take a look at the second half, we continue to see that there will be origination decline probably around the 50% range relative to the same period last year, so...

Gabriel Dechaine
Analyst, National Bank Financial, Inc.
Q

50%?

Christina Kramer
Senior Executive Vice-President and Group Head, Personal and Small Business Banking, Canada, Canadian Imperial Bank of Commerce
A

Yeah. And that's on the overall market as well. And so, when we take a look at, again, our performance, it is very much diversified. So, Kevin talked about it in his prepared remarks. A year ago, two-thirds of our revenue would be directly related to our mortgage performance and our mortgage business, and today, that's about a quarter. And we've seen good growth in all other aspects of our business. And that's related to the clients that we've acquired through our mortgage business, but also depths of relationship, and making sure we're advising clients on the balance of their needs, both on money inside and the money outside.

So, when we do see a moderation in loan growth occurring over the back half of the year, we do see it more than offset by the growth in the revenue and the revenue line through margins, through mix, and through volumes. So, we're feeling pretty confident around the overall top line growth.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.
Q

Fair enough. I see that, too. And the revenue growth overall was quite solid year-over-year. I'm just wondering how we get to the CAD 10 million to CAD 50 million there or whatever number, I'm just...

Christina Kramer
Senior Executive Vice-President and Group Head, Personal and Small Business Banking, Canada, Canadian Imperial Bank of Commerce
A

Yeah. I think...

Gabriel Dechaine
Analyst, National Bank Financial, Inc.
Q

The B-20 and then market softness overall, is that...

Christina Kramer
Senior Executive Vice-President and Group Head, Personal and Small Business Banking, Canada, Canadian Imperial Bank of Commerce
A

Yeah. The CAD 10 million was originally related to B-20, and that was an estimate at that time. And the CAD 50 million is more related to what we're actually seeing in the market. It is a slower market.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.
Q

And at those levels, we might see mortgage balances actually decline or flatten...

Christina Kramer
Senior Executive Vice-President and Group Head, Personal and Small Business Banking, Canada, Canadian Imperial Bank of Commerce
A

No, we're still seeing growth year-over-year. It's just not what it was last year.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.
Q

Okay. All right. Thanks for the wholesale business there.

Jon Hountalas
Senior Executive Vice-President and Group Head, Commercial Banking and Wealth Management, Canada, Canadian Imperial Bank of Commerce
A

So, it's Jon, and I'll speak to the Canadian piece, which is a big part of it. So, year-over-year, I know there's noise at the top of the house, but just on Canadian banking, real estate has not grown any faster than the rest of the book, in fact, it's growing slower. Quarter-over-quarter, it was a good quarter, but overall, going in line or slower than the rest of our book.

We've taken a good look at the correlation between kind of residential slowdown and impact on the Commercial business. We don't think it's material. The residential piece of the commercial real estate book is growing in line with the rest of the bank. So, again, no overshooting in the residential, commercial mortgage space. So, nothing major on that front.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.
Q

Okay. It'd be helpful to know what's actually in there. I think, you were – by far, your biggest wholesale exposure. You're not unique there. All the other banks are like that, so, anyway, just a request. Thanks.

Jon Hountalas
Senior Executive Vice-President and Group Head, Commercial Banking and Wealth Management, Canada, Canadian Imperial Bank of Commerce

A

Thank you.

Operator: Thank you. Our next question is from Mr. Malhotra with Scotia Capital. Please go ahead.

Sumit Malhotra
Analyst, Scotiabank

Q

Thanks. Good morning. Victor, I wanted to ask about your filing for your normal course issuer bid. The share request is for 2%. Is that a cap that the bank is limited to in terms of the NCIB request, or was that the level that you and the management team felt comfortable with?

Victor G. Dodig
President, Chief Executive Officer & Director, Canadian Imperial Bank of Commerce

A

Sumit, thanks for your question. So, on capital deployment, just let me remind everybody our strategy on capital deployment. We said that our CET1 target range is in the 10.4% to 10.7% area. We said that once we get comfortably above 10.7% and we get regulatory clarity, we will be more definitive in terms of buybacks., so in terms of capital deployment overall. Primarily organic, organic growth and over-indexing on the U.S. and Canadian Commercial and Wealth Management businesses; staying well within our dividend target payout range of 40% to 50% and really being toward the midpoint of that; and to execute on buybacks.

And as the leadership team got together and looked at our capital levels at 11.2%, we felt that the right level to be at was 2% over the next 12 months. And we will be executing on that imminently. So, that is the number that we feel comfortable with, given the horizon that we're dealing with currently. And we're just going to start executing that.

Sumit Malhotra
Analyst, Scotiabank

Q

I ran some quick numbers and...

Victor G. Dodig
President, Chief Executive Officer & Director, Canadian Imperial Bank of Commerce

A

Yeah.

Sumit Malhotra
Analyst, Scotiabank

Q

...you'll correct me if I'm wrong, please. If you bought the entire 9 million shares not just imminently but immediately, the impact on your CET1 would be around 50 basis points. So, you'd still be at the high end of your target range. Obviously, this bank, with your high return on risk-weighted assets does generate a lot of capital organically. And to your point, it seems like we have more regulatory clarity. If you were to finish that 9 million shares well before the 12-month timeframe, is there any restriction to the bank going back and requesting an increase, or is that something that the regulator allows?

Victor G. Dodig
President, Chief Executive Officer & Director, Canadian Imperial Bank of Commerce

A

I think it's 54 basis points, actually, so good quick math from you, Sumit. I expected that.

Sumit Malhotra
Analyst, Scotiabank

Q

I've still got the one trick to fall back on.

Victor G. Dodig
President, Chief Executive Officer & Director, Canadian Imperial Bank of Commerce

A

I think the one thing to take away from our buyback is a great confidence in our earnings trajectory. One of the things that we highlighted at our Investor Day is we're going to be in the 5% to 10% range of earnings growth on a year-over-year basis. We are well within that range, and we feel comfortable that we can deliver against that across all our business lines, both in terms of top line growth, as well as our ability to continue to repurpose our cost base.

As we continue to deliver against that, as we go further and deeper into that strategy, there will obviously be more opportunity to buy back stock. But for now, very clearly, we're going to go and focus on the 2% on the 9 million shares, and we'll come back to you every three months as we always do, with updates in terms of how we're executing against that.

Sumit Malhotra
Analyst, Scotiabank

Q

And certainly, we'll keep an eye on that. And I only bring this up in the context of somebody mentioned the deal and the Midwest footprint. And we saw valuations on that purchase price at close to 17 times forward earnings. And I'm sure the management team is very happy with the results. You've delivered in the first half, and yet you see the stock trading at a sub-10 times multiple. It certainly seems, mathematically anyway, that from an allocation perspective, the better investment would not necessarily be in the U.S. right now, but in your own business.

Victor G. Dodig
President, Chief Executive Officer & Director, Canadian Imperial Bank of Commerce

A

Well, clearly, there's an opportunity to buy back stock. I mean, we look at our earnings trajectory, we look at our valuation, and we think that there's a gap there, which is why we plan on executing on this imminently. As opportunities arise for acquisitions, we really are focused on our smaller tuck-ins that would complement our existing footprint. But really, the primary focus of the CIBC team is to deliver results, to invest organically, and to start buying back our stock.

Sumit Malhotra
Analyst, Scotiabank

Q

One last one for me, and it's probably for you again, Victor. It wasn't really discussed today, but obviously, since we last spoke, the bank made a decision not to go ahead with the partial listing of FirstCaribbean in the U.S. Just wanted to get an update from you.

I know this was, at least in my words, more testing the water than anything else in terms of a partial listing and maybe getting more price discovery on that asset. What happens from here as far as that business is concerned? Does the listing have any kind of an impact on the business itself? And how will you pursue any partial monetization of that business going forward?

Victor G. Dodig
President, Chief Executive Officer & Director, Canadian Imperial Bank of Commerce

A

So, Sumit, in terms of the listing, I mean, the company is already partially listed, as you know, in thinly traded markets. And we thought it was just a natural step to list it in a deep capital pool, where it's very liquid. We did that for long-term capital planning purposes. The bottom line is that the business is performing well. Revenues are growing; credit conditions remained benign; the management team is doing a really great job of engaging with our clients. We thought that this provided some long-term strategic flexibility. If the market didn't see the value, we saw no reason in freeing up any capital because we have plenty of capital. And we just said, you know what, let's just continue to run our business as we're running it. It's part of our CIBC franchise, and it's performing very well.

Sumit Malhotra
Analyst, Scotiabank

Q

Thanks for your time.

Operator: Thank you. Our next question is from Nigel D'Souza with Veritas Investment. Please go ahead.

Nigel D'Souza
Analyst, Veritas Investment Research Corp.

Q

Thank you. Good morning. I actually have two quick questions for you. The first on your HELOC book. So, we're seeing...

Victor G. Dodig
President, Chief Executive Officer & Director, Canadian Imperial Bank of Commerce

A

Hey, Nigel. You want to speak up a little bit. You get a weak microphone there at Veritas.

Nigel D'Souza
Analyst, Veritas Investment Research Corp.

Q

[indiscernible] (00:42:10) is that better?

Victor G. Dodig
President, Chief Executive Officer & Director, Canadian Imperial Bank of Commerce

A

No, it's worse.

Nigel D'Souza
Analyst, Veritas Investment Research Corp.

Q

Okay. So, I had a question on HELOC, and...

Victor G. Dodig
President, Chief Executive Officer & Director, Canadian Imperial Bank of Commerce

A

Nigel, we cannot hear you. Why don't we come back to you once you figure out the technical difficulties. We'd like to answer your question.

Operator: I do apologize, Mr. D'Souza. We barely hear you at this time. We'll go to our next question from Doug Young with Desjardins Capital. Please go ahead.

Doug Young
Analyst, Desjardins Securities, Inc.

Q

Hi. Good morning. I guess two quick ones. One just on the U.S. side, credit as obviously within the Private Bancorp book has been relatively benign, but I think there has been a little deterioration in the U.S. healthcare book. I'm just hoping you can elaborate a little bit on that, and how we should think about the outlook for PCLs on that U.S. Private Bancorp book?

And then second just, Christina, I guess following up on your deepening client relationship, and you've given us stats of real estate has become less of a driver of growth, can you talk a bit about penetration stats that kind of point us to how those relationships have been deepening over the last year? Anything on that front would be helpful. Thank you.

Laura L. Dottori-Attanasio
Senior Executive Vice President & Chief Risk Officer, Canadian Imperial Bank of Commerce

A

Hi, Doug. It's Laura. I'll kick it off on your question of that migration in the U.S. portfolio. So, we do see some continued downward migration, and that's really in the health care portfolio, which continues to exhibit weakness. So, that sector's trending down somewhat. It's really a function of the system adapting to a new managed care payment structure from various levels of government. There's heightened labor costs, all that to say that our teams are proactively staying close to that segment of the business.

It's a small part of the overall business. We expected to see some of this. We might see some impairs as we go forward. But from an overall portfolio perspective, there's really nothing of concern. We continue to be pleased with the credit performance of the portfolio notwithstanding some of this migration we're seeing in the healthcare space.

Larry D. Richman
Senior Executive Vice-President and Group Head, US Region; President and CEO, CIBC Bank USA, Canadian Imperial Bank of Commerce

A

It's Larry. Let me let me add just a couple points. One, we really believe it's very well-managed. And two, we have a very experienced team that have been in this industry segment for 10, 20-plus years. And it's a very good client base.

Doug Young
Analyst, Desjardins Securities, Inc.

Q

So, it doesn't feel like you're expecting any large amount of noise on the credit side within the U.S., but there's been some normal bumps within the healthcare side of it, but there's nothing else from an outlook perspective that concerns you. Is that a fair characterization?

Laura L. Dottori-Attanasio
Senior Executive Vice President & Chief Risk Officer, Canadian Imperial Bank of Commerce

A

Yeah, I think Larry and I certainly agree that that's a fair characterization. Again, the only thing I would point out and it's sort of standard is that when you're in commercial banking, you would expect occasional losses, so it can be lumpy in terms of how they come. So, with that caveat, I would say, yes, Larry and I are comfortable.

Christina Kramer
Senior Executive Vice-President and Group Head, Personal and Small Business Banking, Canada, Canadian Imperial Bank of Commerce

A

And to the question around pen rates or penetration rates, well, we don't publish product use count rates. I can talk to a few points that I think are very relevant to our strategy and good proof points. So, we know more clients are choosing the bank with CIBC. Our net client position is up year-over-year. We've previously talked about the transformation of the mortgage clients acquired via the non-banking center teams. Previously, it was largely through our FirstLine business, and now through our mortgage advisor team. Previously, it – in 2012, would have been largely single-product clients, and now is deeper relationship clients. And so, we've covered that previously.

We're deepening existing client relationships through focus on advice and planning across our network. So, we are seeing that pen rate improve. And then, we're also seeing particular success with newcomers to Canada. It's a key growth market in the industry, and we're experiencing significant funds managed increase across that portfolio. So, lots of different aspects to how we're seeing the growth come to life and very much in line with our relationship-focused strategy.

Doug Young
Analyst, Desjardins Securities, Inc.

Q

Okay. Thank you.

Operator: Thank you. Our next question is from Nigel D'Souza with Veritas Investment. Please go ahead.

Nigel D'Souza
Analyst, Veritas Investment Research Corp.

Q

Thank you. I hope you can hear me now. I hope that's better.

Victor G. Dodig
President, Chief Executive Officer & Director, Canadian Imperial Bank of Commerce

A

Much better, Nigel.

Nigel D'Souza
Analyst, Veritas Investment Research Corp.

Q

Perfect, and apologies for that. So, I had two quick questions. First, on your HELOC balances; so across the industry, we're seeing HELOC growth tick up in the last few months. And in terms of your HELOC book, it appears to be flat right now. But do you expect that to accelerate in kind of the back half of 2018, and to offset some of that slowdown you're seeing in the res book, the res mortgage book?

Christina Kramer
Senior Executive Vice-President and Group Head, Personal and Small Business Banking, Canada, Canadian Imperial Bank of Commerce

A

So, we've seen about 4% year-over-year growth in the HELOC part of our business. We're growing in line with our position in market. And we don't see any significant pickup in this pace. Some banks record some of their – we have a Home Power Plan product, so that's a secured line as well as mortgage product in the mortgage business, and some counted in the HELOC business. So, when you look at the overall business, we take a look at total [ph] Russell (00:48:05) performance, and that would be a better indication of how we're performing relative to the market.

Nigel D'Souza
Analyst, Veritas Investment Research Corp.

Q

Okay, great. Thank you. And last question I had was on your card book and the write-off rate. So, I took a look at F 2017, and the write-off rate was essentially flat Q1 to Q2. So, is the uptick in seasonality this year in Q2, is that just from Q1 being kind of a suppressed blip in your write-off rate, in your 3%? And do you expect that write-off rate to kind of trend lower as we go further into 2018?

Laura L. Dottori-Attanasio
Senior Executive Vice President & Chief Risk Officer, Canadian Imperial Bank of Commerce
A

Hi, Nigel. It's Laura. I'll take that. So that would be yes to both of your questions.

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

Okay. So, there's no reason that the seasonality shown in Q1 is just a blip that happened this year, but shouldn't expect that going forward?

Laura L. Dottori-Attanasio
Senior Executive Vice President & Chief Risk Officer, Canadian Imperial Bank of Commerce
A

Well, seasonality, we would expect to see a similar pattern, if you will, sort of next year around the same quarters. But, no, we wouldn't expect to see increased write-offs, if you will, next quarter.

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

Okay, great. Thank you.

Operator: Thank you. Our next question is from Scott Chan with Canaccord Genuity. Please go ahead.

Scott Chan
Analyst, Canaccord Genuity Corp.
Q

Hi. Good morning. Perhaps for Larry, if I look at the Atlantic Trust, Real Estate Finance and other, I saw good sequential net income growth and double if you look at year-over-year. But if I look at Atlantic Trust, it's kind of flattish AUM growth. We have less days in the quarter. Maybe you can just piece out what kind of drove the sequential increase and kind of how to think about that going forward?

Larry D. Richman
Senior Executive Vice-President and Group Head, US Region; President and CEO, CIBC Bank USA, Canadian Imperial Bank of Commerce
A

Sure. The Atlantic Trust business, which I'll define as our Wealth Management business, I'm very optimistic and very encouraged by not only the quality, the client focus, but also the momentum that we have in that business. It's both AUM, but it's also now private banking, deposits and connections throughout the U.S. operation. Very strong leadership, I expect that we'll have continued growth and opportunities in that business as well as deepening client relationships that our advisory clients, that if they have a need, can do private banking and deposit taking with us now that we have a U.S. bank.

Scott Chan
Analyst, Canaccord Genuity Corp.
Q

Okay. And maybe just one for Kevin; noticed the tax rate was a bit lower at 20% this quarter. I think two quarters ago, you guided 20% to 22%. Does that hold true still?

Kevin A. Glass
Senior Executive Vice President & Chief Financial Officer, Canadian Imperial Bank of Commerce
A

I think longer term that does hold true. One of the factors that reduced the tax rate this quarter was the recovery that we mentioned in our Corporate and Other segment. So that would have reduced the tax by just over 1% in the current quarter. So, I think that kind of range is probably appropriate moving forward.

Scott Chan
Analyst, Canaccord Genuity Corp.
Q

Okay. Thank you very much.

Operator: Thank you. Our next question is from Sohrab Movahedi with BMO Capital Markets. Please go ahead.

Sohrab Movahedi
Analyst, BMO Capital Markets (Canada)
Q

Thank you. Just a couple of Canadian Commercial Banking-type questions for Jon maybe. Jon, if you could, maybe tell us where the loan growth is coming from, maybe by industry or by type of activity, and talk just to the Commercial Banking segment's NIM, which by my math, I think is up about 10 basis points. Is that on the asset side or is that the combination of better yields and lower-funding costs?

Jon Hountalas
Senior Executive Vice-President and Group Head, Commercial Banking and Wealth Management, Canada, Canadian Imperial Bank of Commerce
A

So, let's start with where's the growth coming from. In terms of industry, it's pretty broad-based. In terms of geography, they vary year-by-year, but I'd say, in the last year-over-year, the strongest areas have been here in the GTA and in Quebec. And it's really a function of quality of teams. I think we've talked a fair bit about adding relationship managers over the last few years. And we've had a kind of strategy of growing our own talent, and we've been on this for five or six years. So, the combination of adding relationship managers, the relationship managers getting experience, a higher sales management culture. I think it's all those things. There's nothing specific. There's no specific industry that we've seen outside growth in..

Sohrab Movahedi
Analyst, BMO Capital Markets (Canada)
Q

And on the NIM?

Jon Hountalas
Senior Executive Vice-President and Group Head, Commercial Banking and Wealth Management, Canada, Canadian Imperial Bank of Commerce
A

The NIM, I think we've been – our 8% loan growth, we've been actually a bit higher in the past, but we're pretty disciplined on loan pricing. I think we've been public on our kind of move to get out of commercial mortgages that had low NIMs. So, we're quite disciplined on the lending side, so that's been a help. Rates generally have been a help. The deposit growth rate is maturely higher than loan growth rate this quarter, so that's been a help. But all in all, there's a strong pricing discipline in the business that, again, I don't think you'll see that type of improvement quarter-over-quarter too often but we're focused on pricing.

Sohrab Movahedi
Analyst, BMO Capital Markets (Canada)
Q

Okay. And just to stick with it, I mean, again, by my quick math, it looks like the expense to revenue ratio in the Commercial Banking segment by itself in Canada is now closer to maybe 30%, 31%. How much better can you get from there?

Jon Hountalas
Senior Executive Vice-President and Group Head, Commercial Banking and Wealth Management, Canada, Canadian Imperial Bank of Commerce
A

Yeah, I think we can get better, high-20s, a couple of points. We continue to grow. Again, it's a loan mix business. It has capital attached to it. It's a loan mix business. We still have plans to add about 150 RMs, or relationship managers, over the next three years. But again, growth is good, so I still see improvement to the mix ratio.

Sohrab Movahedi
Analyst, BMO Capital Markets (Canada)
Q

So, Jon, do you think that you can maintain NIMs, because you're disciplined on origination, and you've had higher than 8% loan growth in this particular segment, so 8% is a repeatable number?

Jon Hountalas
Senior Executive Vice-President and Group Head, Commercial Banking and Wealth Management, Canada, Canadian Imperial Bank of Commerce
A

The 8% loan growth we think is repeatable. I think we've guided to kind of that range. The deposit number at 12% is very strong this quarter. We'll try to keep that up. That's helpful to NIMs as well.

Sohrab Movahedi
Analyst, BMO Capital Markets (Canada)
Q

Thank you.

Jon Hountalas
Senior Executive Vice-President and Group Head, Commercial Banking and Wealth Management, Canada, Canadian Imperial Bank of Commerce
A

Thank you.

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

Mario Mendonca
Analyst, TD Securities, Inc.
Q

Good morning. Victor, this question I would normally wait until Q3 or Q4 to start asking, but the topic is becoming more timely. Part of the sentiment being expressed by investors certainly as I meet with them is that the slowdown in mortgage growth, well manageable in the near term, becomes more and more challenging as it persists.

So, when you think about 2019, if we're going through a prolonged period of much slower mortgage growth, call it, 2% a year, what is your confidence level about being able to generate this type of earnings growth, the kind of [ph] we're in (00:55:30). And to be clear, I'm not suggesting that 12% is normal for any bank, the 12% reported this quarter, but something in the neighborhood of 5% to 7% to 10% in an environment where mortgage growth is this low.

Victor G. Dodig
President, Chief Executive Officer & Director, Canadian Imperial Bank of Commerce
A

If the macroeconomic environment conditions are benign, relatively positive. Even if mortgage growth slows, Mario, I believe that we can continue to deliver in that 5% to 7% range or better. I mean, we look at the opportunities ahead of us in terms of deepening client relationships. I know Christina speaks about it a lot. Well, it's actually happening, which is what we telegraphed to our investor base some time ago. We continue to execute against that. We believe that there's still significant opportunity to go deeper with our Personal and Small Business clients. I think Jon's been pretty clear in terms of growing the commercial bank and getting positive operating leverage as we do that.

Harry's business – and Harry's been silent on this call, but he hasn't had any questions. But our Capital Markets business is working very, very closely with the rest of our bank, which has been a real hallmark in terms of how we manage our bank going forward. We manage it from a broad, horizontal client relationship standpoint. And clearly, the performance that Larry and his team are delivering on the U.S. is something that we will continue to expect. That is all top line.

We also continue to stay focused on the $10 billion in expenses that we have. And we believe that there's continued opportunities to get those into better shape. So, our confidence level of delivering that earnings growth in excess of the 5% target is quite high.

Mario Mendonca
Analyst, TD Securities, Inc.
Q

So, just philosophically then, because I suspect that your peers, the other banks might offer a similar outlook for 2019, and I'll certainly check on that as the calls go by. And maybe you could just describe then, philosophically, why would the Canadian banking sector be able to generate earnings growth of say 2 times nominal GDP, when in fact, the industry is simply just a reflection of the economy? Philosophically, why would you believe that to be true?

Victor G. Dodig
President, Chief Executive Officer & Director, Canadian Imperial Bank of Commerce
A

Well, Mario, it's a good question, but it'd be awfully presumptuous of me to be a spokesperson for the industry. What I can do is speak for our bank. So, when you look over the last decade, and we've had missed opportunities for growth. And what the leadership team has done over the last less than half decade is really rally around a strategy where we're trying to take back that part of the market that we've lost.

We said to you quite some time ago that we're looking to put the commerce back into CIBC. We're doing that in the Canadian market. We're doing that now in the U.S. market. We're doing that with the Capital Markets business that's highly aligned with the rest of the bank. And we're simply trying to recapture some of the ground that we had lost in the first half of that decade. So, while the industry and every one of our competitive peers will have their views on their performance, I can tell you what we're going to deliver as a leadership team, assuming the macroeconomic conditions remain constructive.

Mario Mendonca
Analyst, TD Securities, Inc.
Q

Thanks again, Victor.

Victor G. Dodig
President, Chief Executive Officer & Director, Canadian Imperial Bank of Commerce
A

Thank you, Mario.

Operator: Thank you. Our last question is from Mike Rizvanovic with Macquarie Capital. Please go ahead.

Mike Rizvanovic
Analyst, Macquarie Capital Markets Canada Ltd.
Q

Good morning. I just want to go back to Christina briefly. So, when originations are falling as much as we've seen in the last few months, it makes me wonder about your fee-based revenue around mortgage origination. So, can you quantify that for us? And I'm assuming that will be largely around – the fees around refinancing and perhaps the mortgage breakage. How important is that as far as the revenue stream for your P&C banking segment?

Christina Kramer
Senior Executive Vice-President and Group Head, Personal and Small Business Banking, Canada, Canadian Imperial Bank of Commerce
A

So, we are seeing pressure on fee-based revenue. But when, again, I'd go back to that overall performance that you've seen in the first and second quarters around the diversification of our business and that top line revenue growth, and to the former question around outlook for mortgages and its contribution, we still feel that given unemployment continues to remain low and GDP continues to grow as expected, we're going to have strong revenue growth over the remainder of the year. And our outlook, as it relates to all of the key metrics that we've positioned at Investor Day, has not changed.

Mike Rizvanovic
Analyst, Macquarie Capital Markets Canada Ltd.
Q

So, that revenue stream around origination that's not related to NII, is that de minimis?

Christina Kramer
Senior Executive Vice-President and Group Head, Personal and Small Business Banking, Canada, Canadian Imperial Bank of Commerce
A

Yes.

Mike Rizvanovic
Analyst, Macquarie Capital Markets Canada Ltd.
Q

Okay. And then, just a quick follow-up. If you do see a mortgage market that's slowing materially in the next year or two, do you see any potential impact on other personal lending at all? And does that impact your credit card growth, your indirect auto lending, personal loans?

Christina Kramer
Senior Executive Vice-President and Group Head, Personal and Small Business Banking, Canada, Canadian Imperial Bank of Commerce
A

It could have somewhat of an impact. But again, if you step back and take a look at what our strategy is, it's really about conversations with our clients to provide them advised financial planning and advice around their entire portfolio of needs, both on money in and money out. So, we have lots of opportunity to do more with our clients well beyond mortgage business. And I think you're seeing that reflected in our numbers.

Mike Rizvanovic
Analyst, Macquarie Capital Markets Canada Ltd.
Q

All right. Thank you.

Operator: Thank you. That's all the time we have for questions today. I would now like to turn the meeting back over to Victor.

Victor G. Dodig

President, Chief Executive Officer & Director, Canadian Imperial Bank of Commerce

Thanks very much, operator. So, let me just close with a few remarks. Our strong results this quarter reflect the continuing success of our client-focused strategy and our ability to generate sustainable organic growth. I want to emphasize that. We're going to build on this momentum going forward with our overriding focus on putting our clients at the center of all that we do, as we continue to transform CIBC into the relationship-oriented bank for modern world.

We'll continue to execute against the commitments we made to you. And those commitments are: First, to instill a strong, client-focused culture. Whether those relationships are high touch and focused on ideas and advice, or whether they're primary, digital and high tech, we're getting the balance right at CIBC, and we're always doing the right thing for our clients.

Second, we're continuing to diversify our platform for growth. We will continue to bring the strength of our broader franchise to bear in our growing presence in the United States.

The third is we're going to remain really disciplined around our approach to capital deployment. We went through the math on the buyback. We went through our comments on executing on it imminently. And we're primarily focused on organic growth with only complementary tuck-in acquisitions, as those appear in the near term.

And, finally, on efficiency, and this is an important point, we're taking a very disciplined view to managing our cost base. And the bottom line is we drive to our next efficiency target of 52% in 2022.

So, I want to close with a note of thanks. To our CIBC team, our ongoing success is the result of our unrelenting focus on our clients in all the markets and where we serve them. Together, our team is ensuring that CIBC is a leading North American bank that delivers high-quality and sustainable earnings growth. And I'd like to thank our entire team for their continued leadership and contributions to our bank.

And finally, to you, our shareholders and our investors, thank you for your continued support and confidence, and your investment in CIBC. Have a great day.

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