CANADIAN IMPERIAL BANK OF COMMERCE

ANNUAL REPORT 1998

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Designed and produced by **Sutton Javelin Communications,** Toronto

CIBC

CANADIAN IMPERIAL BANK OF COMMERCE

# 1998

## ANNUAL REPORT

CIBC HAS BEEN A PIONEER IN THE GROWTH OF CANADA FOR MORE THAN 130 YEARS. WE'VE HELPED CANADIANS FROM COAST TO COAST BUILD THEIR BUSINESSES AND REACH THEIR FINANCIAL GOALS. TODAY, WE CONTINUE TO FORGE OPPORTUNITIES FOR GROWTH WITH CUSTOMERS IN CANADA, THE UNITED STATES AND AROUND THE WORLD.

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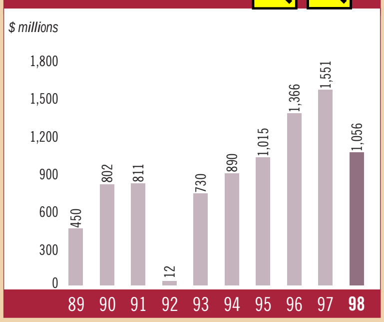
***On our cover:*** *frontiersmen in Dawson in 1898; Sir Edmund Walker, General Manager of the Canadian Bank of Commerce at the turn of the century; Nimet Manji, CIBC Account Manager, Calgary; Bob McGeehan, Chairman and Chief Executive Officer of Kennametal Inc. of Latrobe, Pennsylvania; customer Francine Côté, lawyer and partner of Côté & Associés in Montreal.*

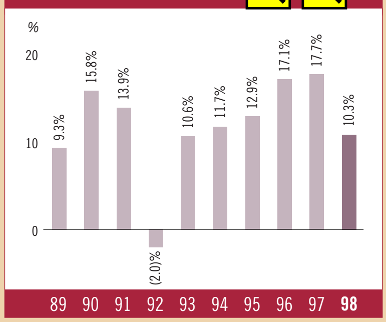
# CIBC AT A GLANCE

CIBC is a full-service financial institution operating around the world, comprising two strategic business units: CIBC Personal and Commercial Bank and CIBC World Markets. With $281.4 billion in total assets, CIBC is one of the largest banks in North America and has a strong Tier 1 capital ratio of 7.7%.

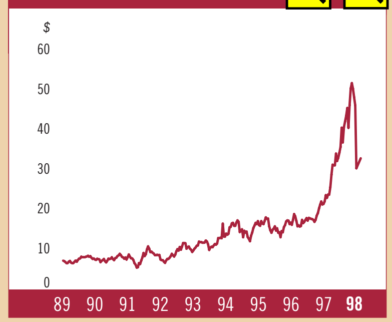
**NET INCOME**




**RETURN ON EQUITY**




**SHARE PRICE PERFORMANCE**

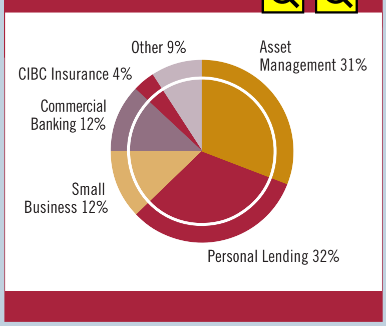



CIBC listed its shares on the NYSE, Nov. 13, 1997

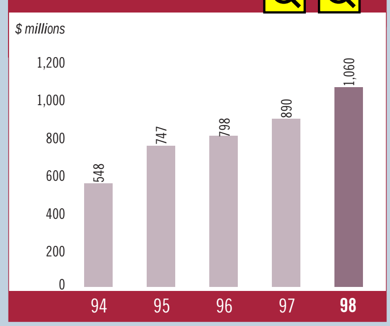
## PERSONAL AND COMMERCIAL BANKING: TRUSTED FINANCIAL ADVICE AND SERVICE

Personal and Commercial Bank provides a complete range of financial services to more than 6.5 million individuals, 325,000 small and 10,000 medium-sized businesses across Canada, as well as to customers in the West Indies and at banking centres around the world. It provides more than $87 billion in loans, holds $77 billion in deposits and manages $16.4 billion in mutual funds and other investment products on behalf of its clients.

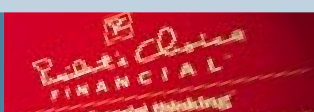
**REVENUE: $5.5 BILLION**



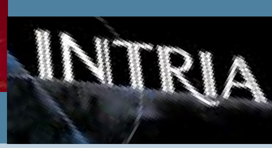

**NET INCOME**




### 1998 Strategic Highlights

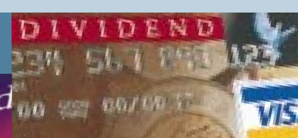



- Formed President's Choice Financial, a leading-edge alliance between one of the country's best-known brands and CIBC's electronic banking expertise



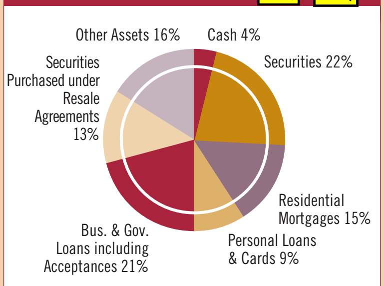

- Joint venture announced between Hewlett-Packard and INTRIA, CIBC's transaction processing subsidiary
- Ranked North American best-in-class telephone banking service
- Recognized market leader in on-line banking with more than 320,000 registered PC Banking customers


- Innovation and growth in wealth management services
- Best 3-year combined equity and fixed income mutual fund performance of the 13 largest mutual fund companies in Canada *(Based on % of funds in first or second quartile for period ended October 31, 1998)*

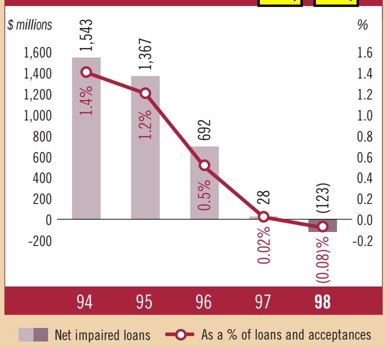



- Largest credit card business in Canada
- Four new VISA cards launched
- No.1 ranked point-of-sale provider to 100,000 merchant locations in Canada

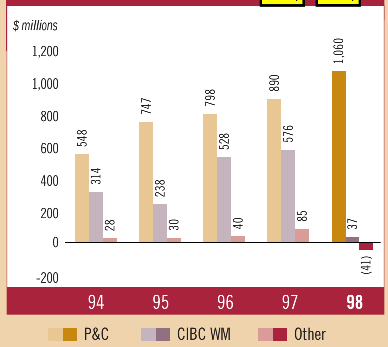
ASSETS: $281.4 BILLION




NET IMPAIRED LOANS



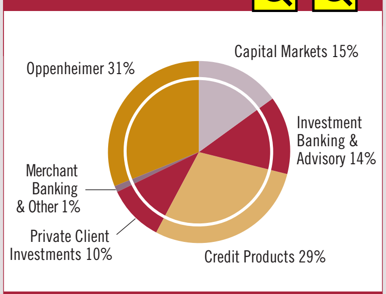

SEGMENTED NET INCOME



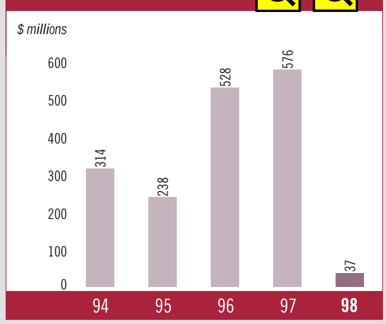

## CORPORATE AND INVESTMENT BANKING: INTEGRATED FINANCIAL SOLUTIONS

CIBC World Markets, the corporate and investment banking business, is a world-class provider of advice and capital to growth-oriented clients, and has broad expertise in certain industry sectors. Integrated corporate, investment, merchant banking and wealth management services are used to develop one-source, multi-faceted solutions for clients.

REVENUE: $3.5 BILLION




NET INCOME




### 1998 Strategic Highlights





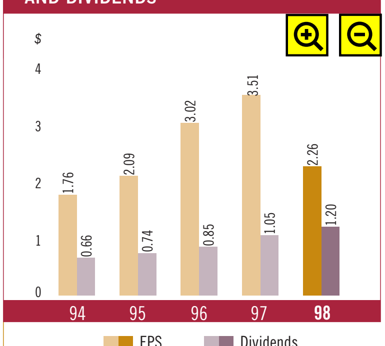

- Created CIBC Oppenheimer following the acquisition of Oppenheimer & Co., Inc., to build on a strong U.S. presence and provide full range of financing options
- Established strategic alliance with The Edmond de Rothschild Group to offer clients cross-border M&A advice and financing between North America and Europe
- For the second year in a row, *The Financial Post* named CIBC Wood Gundy the leading Canadian underwriter
- No. 1 foreign exchange service provider to the Canadian energy sector, *Risk Advisory*
- Leader in global loan underwriting and distribution
- Leading Canadian and U.S. equity research

## FINANCIAL HIGHLIGHTS

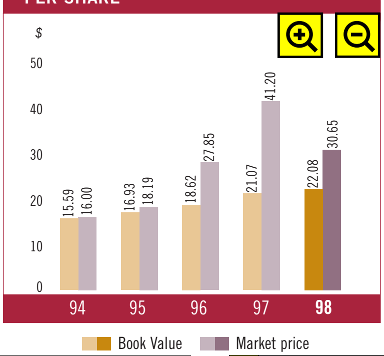
| *$ millions, for the years ended October 31* | | 1998 | 1997 | 1996 | 1995 | 1994 | US$ 1998 |
|---|---|---|---|---|---|---|---|
| **COMMON SHARE INFORMATION** | | | | | | | |
| Per Share | - basic earnings | **$ 2.26** | $ 3.51 | $ 3.02 | $ 2.09 | $ 1.76 | **$ 1.54** |
| | - fully diluted earnings | **$ 2.25** | $ 3.50 | $ 3.02 | $ 2.09 | $ 1.76 | **$ 1.54** |
| | - dividends | **$ 1.20** | $ 1.05 | $ 0.85 | $ 0.74 | $ 0.66 | **$ 0.82** |
| | - book value | **$ 22.08** | $ 21.07 | $ 18.62 | $ 16.93 | $ 15.59 | **$ 14.31** |
| Share Price | - high | **$ 59.80** | $ 41.75 | $ 28.30 | $ 18.57 | $ 18.13 | **$ 38.76** |
| | - low | **$ 24.40** | $ 26.55 | $ 18.00 | $ 15.57 | $ 14.00 | **$ 15.81** |
| | - closing | **$ 30.65** | $ 41.20 | $ 27.85 | $ 18.19 | $ 16.00 | **$ 19.86** |
| Shares Outstanding | - average *(thousands)* | **415,030** | 413,545 | 415,028 | 432,614 | 425,464 | **415,030** |
| | - end of period *(thousands)* | **415,515** | 414,294 | 411,914 | 432,690 | 432,546 | **415,515** |
| Market Capitalization *($ millions)* | | **$ 12,736** | $ 17,069 | $ 11,472 | $ 7,871 | $ 6,921 | **$ 8,254** |
| **VALUE MEASURES** | | | | | | | |
| Price to earnings multiple | | **13.5** | 11.7 | 9.2 | 8.7 | 9.1 | **13.5** |
| Dividend yield (based on closing share price) | | **3.9 %** | 2.5 % | 3.1 % | 4.1 % | 4.1 % | **3.9 %** |
| Market value to book value ratio | | **1.39** | 1.96 | 1.50 | 1.07 | 1.03 | **1.39** |
| **OPERATING RESULTS INFORMATION** *($ millions)* | | | | | | | |
| Total revenue on a taxable equivalent basis *(TEB)* | | **$ 9,242** | $ 8,621 | $ 7,459 | $ 6,427 | $ 6,359 | **$ 6,310** |
| Provision for credit losses | - specific | **280** | 360 | 387 | 680 | 880 | **191** |
| | - general | **200** | 250 | 93 | – | – | **137** |
| | | **$ 480** | $ 610 | $ 480 | $ 680 | $ 880 | **$ 328** |
| Non-interest expenses | | **$ 7,125** | $ 5,372 | $ 4,584 | $ 3,991 | $ 3,907 | **$ 4,864** |
| Net income | | **$ 1,056** | $ 1,551 | $ 1,366 | $ 1,015 | $ 890 | **$ 721** |
| **OPERATING MEASURES** | | | | | | | |
| Net interest margin *(TEB)* | | **1.59 %** | 1.97 % | 2.33 % | 2.51 % | 2.64 % | **1.59 %** |
| Net interest margin on interest earning assets *(TEB)* | | **1.91 %** | 2.27 % | 2.67 % | 2.90 % | 3.00 % | **1.91 %** |
| Non-interest expenses to revenue ratio | | **77.1 %** | 62.3 % | 61.5 % | 62.1 % | 61.4 % | **77.1 %** |
| Return on equity | | **10.3 %** | 17.7 % | 17.1 % | 12.9 % | 11.7 % | **10.3 %** |
| **BALANCE SHEET AND OFF-BALANCE SHEET INFORMATION** *($ millions)* | | | | | | | |
| Cash and securities | | **$ 71,765** | $ 53,183 | $ 47,937 | $ 53,674 | $ 38,189 | **$ 46,511** |
| Loans and acceptances | | **$ 163,252** | $ 155,864 | $ 142,551 | $ 118,436 | $ 107,197 | **$ 105,804** |
| Total assets | | **$ 281,430** | $ 237,989 | $ 210,232 | $ 186,508 | $ 157,375 | **$ 182,395** |
| Deposits | | **$ 159,875** | $ 138,898 | $ 127,421 | $ 129,482 | $ 115,462 | **$ 103,615** |
| Common shareholders' equity | | **$ 9,175** | $ 8,729 | $ 7,670 | $ 7,324 | $ 6,744 | **$ 5,946** |
| Average assets | | **$ 278,823** | $ 236,025 | $ 196,063 | $ 165,846 | $ 155,640 | **$ 190,352** |
| Assets under administration | | **$ 404,500** | $ 245,100 | $ 205,300 | $ 181,900 | $ 170,000 | **$ 262,200** |
| Assets under management | | **$ 29,900** | $ 15,700 | $ 11,100 | $ 8,500 | $ 8,100 | **$ 19,400** |
| **BALANCE SHEET QUALITY MEASURES** | | | | | | | |
| Common equity to risk weighted assets | | **6.3 %** | 5.9 % | 6.0 % | 6.2 % | 6.0 % | **6.3 %** |
| Tier 1 capital ratio | | **7.7 %** | 7.0 % | 6.6 % | 7.0 % | 7.1 % | **7.7 %** |
| Total capital ratio | | **10.8 %** | 9.8 % | 9.0 % | 9.6 % | 9.9 % | **10.8 %** |
| Net impaired loans to net loans and acceptances | | **(0.08)%** | 0.02 % | 0.5 % | 1.2 % | 1.4 % | **(0.08)%** |

*US$ balance sheet figures are reflected at the year-end rate of $0.6481, whereas operating results are reflected at the average rate of $0.6827.*

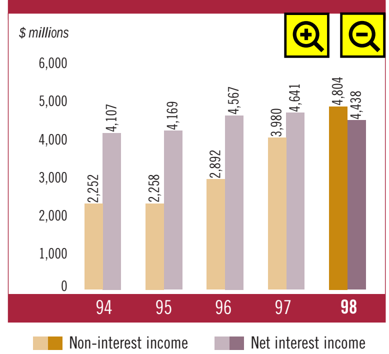
### EARNINGS PER SHARE (EPS) AND DIVIDENDS




### BOOK VALUE AND MARKET PRICE PER SHARE




### REVENUE



Holder Kluge, President Personal and Commercial Bank

A.L. (Al) Flood, Chairman and Chief Executive Officer

John S. Hunkin, President CIBC World Markets

THIS HAS BEEN A CHALLENGING YEAR FOR CIBC. THERE HAS BEEN UNPRECEDENTED VOLATILITY IN THE WORLD'S FINANCIAL MARKETS. WE HAVE FORGED SIGNIFICANT NEW ALLIANCES AND HAVE TAKEN IMPORTANT STEPS IN TRANSFORMING OUR BUSINESSES TO MEET NEW CUSTOMER DEMANDS. CIBC ALSO HAS ANNOUNCED AGREEMENT IN PRINCIPLE TO FORM AN HISTORIC PARTNERSHIP BY MERGING WITH TORONTO DOMINION BANK. ALTHOUGH UNUSUAL CONDITIONS NEGATIVELY AFFECTED OUR CAPITAL MARKETS BUSINESSES, THE DIFFICULT ENVIRONMENT ALSO UNDERSCORED CIBC'S FUNDAMENTAL STRENGTH AS A DIVERSIFIED, FULL-SERVICE FINANCIAL SERVICES COMPANY.

## FINANCIAL HIGHLIGHTS

CIBC's net income for the year was $1.06 billion and return on equity was 10.3%. This is down from a net income of $1.55 billion and return on equity of 17.7% in 1997.

Our Personal and Commercial Bank achieved record profitability in 1998, with net income exceeding one billion dollars for the first time.

Operating results in CIBC World Markets were directly affected by the downturn in the capital markets in the latter part of the year. As a result, net income fell to $37 million. Excluding acquisition-related and integration costs associated with the acquisition of Oppenheimer & Co., Inc., World Markets net income was $180 million compared with $576 million a year ago.

CIBC has worked over the past several years to diversify its businesses and strengthen its balance sheet. Our loan portfolio is solid and well diversified, with the allowances for credit losses exceeding the level of impaired loans. In addition, CIBC has $2.1 billion of unrealized securities gains in our investment portfolio. Our exposure to vulnerable economies in Asia, Eastern Europe and Latin America is modest relative to our total loans. Our capital positioning is very strong. CIBC's capital ratios are among the highest ratios of the major Canadian banks with a Tier 1 capital ratio of 7.7% and a total capital ratio of 10.8%.

| KEY PERFORMANCE MEASUREMENT | 1998 Performance | Medium-Term Objective |
|---|---|---|
| ROE | Return on average common shareholders' equity fell to 10.3% in 1998 from 17.7% in 1997. The unfavourable impact of capital markets volatility offset strong profitability in other major business lines. | We remain committed to achieving our 16% – 18% return on equity objective and will allocate capital and resources to those strategic businesses we anticipate will generate the best returns for our shareholders. |
| REVENUE GROWTH | Revenue growth in 1998 of 7% fell below our objective of 10%, primarily as a result of the sharp decline in trading revenues. | We continue to target 10% annual revenue growth. While weaker market conditions may impede growth in the near term, we are focusing on core strategies to generate sustainable revenue growth over the medium and longer term. |
| EARNINGS GROWTH | Earnings fell 32% in 1998. | We continue to target long-term earnings growth of 10% annually. A sharp focus on cost cutting positions us to generate higher earnings growth in 1999. |
| CAPITAL STRENGTH | Our Tier 1 ratio increased from 7% in 1997 to 7.7% in 1998. Disciplined balance sheet management contributed to this success. | We intend to maintain high capital ratios in excess of 7% Tier 1 and 10% total capital. We have announced a program to repurchase up to 20 million common shares as circumstances are appropriate. |

We will continue to build on this strength as we go forward. We are also addressing the impact of market volatility on our earnings. We are exiting or reducing certain activities in businesses with highly variable revenues, and will continue to focus our growth in North America and on more stable client-fee and retail-based businesses.

Improving our productivity ratio is a priority. We are consolidating our capital markets businesses, pursuing cost efficiencies throughout the bank and concentrating on becoming a low-cost provider of pre-eminent financial services. We are sharply focused on allocating capital and resources to those strategic initiatives that generate the best returns on risk capital.

In 1998 we continued to make progress on our core strategies. We have anticipated the impact on our industry of demographic changes, globalization and rapid advances in technology, and have positioned ourselves to meet the changing needs of our customers. We have developed the capabilities and expertise to provide integrated financial solutions for both our individual customers and business clients – solutions that enable them to achieve their goals in an increasingly complex and continually changing world.

## Personal and Commercial Bank

Customers are driving change in our personal and commercial business. They have become more sophisticated about their finances, more comfortable with technology and more willing to shop for financial services. CIBC has responded with new levels of convenience, service and professional advice aimed at earning our customers' business and their loyalty.

We have developed an integrated, multi-channel delivery system through branches, automated banking machines (ABMs), telephones and personal computers to provide customers with more choice in where, when and how they bank. As a key component of this strategy, in the past year we remodeled our branches in the Greater Toronto Area, to better provide sales and financial advisory services to our customers.

Electronic banking is a key part of our multi-channel strategy. A full 89% of individual transactions are handled electronically, the highest rate in the industry.

Use of CIBC debit cards is up 40%, telephone banking up 62%, and PC banking up 174% in the past year. In PC Banking, which we launched in early 1997, we now have more than 320,000 registered customers, the leading market share.

Our ABM capability continues to grow. An agreement with Silcorp Ltd. to place 750 machines in their convenience stores will give CIBC the largest ABM network in Canada in 1999, with 5,500 machines.

Recognition of our leadership in electronic banking led Loblaws to select CIBC as the exclusive supplier for President's Choice Financial services. Building on its high brand recognition, President's Choice Financial will offer no-fee, in-store and electronic banking services to Loblaws' seven million customers.

In 1998, CIBC's transaction processing subsidiary, INTRIA, entered into a joint venture with Hewlett-Packard to expand its presence in electronic commerce and to attract customers both inside and outside the financial services industry.

Ongoing investment in important strategic initiatives will ensure a strong platform for continued growth. And core strengths, such as in cards, mortgages and insurance, will enable CIBC to provide a full range of service to our customers and solid profitability for our shareholders.

### CIBC World Markets

Globalization of capital markets has changed how our corporate clients meet their financing needs and has driven our strategy in CIBC World Markets. Over the past four years, CIBC World Markets has expanded from a bank focused on providing credit products, into one with a global presence in capital markets, offering a full range of financing and risk management solutions to its North American clients. The increased breadth of product capabilities and global reach has strengthened our leading position in Canadian capital markets, where, for the second year, we were the recognized leader in corporate finance.

The acquisition of Oppenheimer early in the fiscal year represented both good value and an excellent strategic fit. It provides new strengths in asset management and retail distribution as well as a full range of equity capabilities. These strengths complement our existing expertise in Canada and the U.S. in credit, high yield, merchant banking, financial products, structured finance and government securities. Many of our clients need access to the important U.S. capital markets. Through CIBC Oppenheimer, we now offer clients direct access to New York equity markets, leading U.S. equity research, a strong distribution capability for new financings, and a full range of debt capital finance and advisory solutions.

The integration of Oppenheimer is taking place in a period of challenging markets. However, integration is proceeding rapidly; and with cost efficiencies and lower integration costs, Oppenheimer is expected to make a strong contribution in 1999.

While we expect market conditions to remain challenging in the coming months, CIBC World Markets has in place the capabilities and global market presence to be a true financial partner to our North American clients.

### Wealth Management

CIBC is committed to the wealth management business as a major, strategic growth area. This business, with $122 billion in administered assets, contributed 14% of CIBC's total revenue in 1998, up from 8% last year. Our objective is to significantly increase this contribution over the coming years.

In Canada, we offer full-service brokerage capabilities through Wood Gundy Private Client Investments as well as the services of the more than 1,900 branch employees who had completed their financial adviser accreditation by the end of 1998. In the U.S., brokerage services are provided by CIBC Oppenheimer's 550 professionals in 15 offices.

In 1998, the CIBC family of mutual funds was named one of the best fund families in Canada by the Fund Counsel. We are a leader in index funds with the launch during the year of seven new customized funds. Overall, mutual funds grew to $16.4 billion from $13 billion a year ago and we now rank seventh largest in Canada.

### Industry Consolidation

Consolidation is a world-wide trend, not only in banking, but in a host of other industries. We have held the view for several years that consolidation within our industry is necessary if we are to have strong, Canadian-owned financial services companies able to compete, both in Canada and abroad, with the rapidly growing number of foreign firms that are many times our size.

On April 17, we announced the proposed merger with TD Bank. Our two banks are an excellent strategic fit. Our aim is to provide customers with more convenience, and more products and services, at better prices. A merger would enhance our ability to expand in a North American market as a strong competitor, and to provide support to Canadian businesses operating abroad.

The trend toward consolidation in financial services is irreversible. It is driven by the natural inclination of successful companies to grow. Customers benefit and communities thrive when companies focus on growth and renewal. Allowing Canadian banks to merge will enable Canada to retain the many important benefits – taxes, jobs and community development – that come from having vital, competitive, Canadian-owned institutions.

We await the government's decision on bank mergers. But whatever the decision, CIBC's future will, of necessity, be shaped by strategic partnerships, acquisitions and mergers. Standing still is not an option in this rapidly evolving industry.

## Communities and people

In 1998, we enhanced our commitment to community economic development and, in particular, to addressing the challenges facing Canada's young people. As part of our leadership on this issue, we launched our most recent initiative, Youthvision, an $8 million program of scholarships, literacy training and apprenticeship opportunities aimed at encouraging those young people most at risk of dropping out to stay in school. In another important milestone, we expanded our national CIBC Run for the Cure for breast cancer research to 22 cities. More than 5,600 CIBC employees and family members ran for the cure in 1998, raising over $540,000 for their communities and loved ones. In total, the run raised more than $4 million.

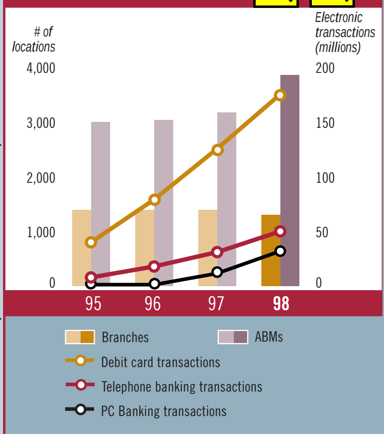
Our people are the key to our success in meeting the changing needs of our customers. And as a leading employer, we are proud of our ability to attract and retain highly skilled individuals required in our growing businesses. CIBC is also proud of the commitment of employees across our entire organization to lifelong learning and to skills development.

CIBC is well positioned to enter 1999. We have a solid foundation of excellent people, a strong balance sheet and strategies that are aligned with changing consumer and business needs. Our challenges remain very much as they have for most of our history. We must respond to an ever-changing competitive environment, protect and grow our franchise, and lead change for the benefit of our shareholders, our customers, our employees and the communities where we do business.

A.L. (Al) Flood,
Chairman and Chief Executive Officer

| STRATEGIC INITIATIVES | 1998 ACCOMPLISHMENTS |
|---|---|
| **PERSONAL AND COMMERCIAL** | |
| Develop leadership in innovative service and delivery | • Transformed 250 branches in the Greater Toronto Area into sales and advice centres<br>• Launched Imperial Service providing specialized advice and product solutions<br>• Increased electronic transactions to 89% of total transactions<br>• Ranked in top tier in telephone banking in North America; leading market share in Canada<br>• Ranked among top five in PC banking in North America; leading market share in Canada<br>• One of fastest growing direct sellers of insurance products: No. 2 in Canada in direct auto and property insurance<br>• Leading credit card issuer: introduced four new VISA cards and maintained ranking as No. 1 issuer in Canada |
| Develop strategies with high-growth potential | • Became exclusive supplier of President's Choice Financial services<br>• Entered agreement to place 750 CIBC ABMs in Mac's Milk, Becker's and Mike's Mart convenience stores<br>• Entered agreement with Hewlett-Packard to form INTRIA-HP to provide electronic processing services to financial and non-financial users<br>• Introduced first Web-enabled ABMs and launched Web-TV with Microsoft and Sony Canada |
| Provide tailored financial solutions in commercial banking to meet complex corporate needs, and fast and convenient banking services to small business clients | • Acquired Penfund, the leading mid-market institutional fund manager in Canada<br>• Provided an additional $100 million to our Small Business Job Creation Loan Fund, which has generated more than 4,000 new jobs |
| **CORPORATE AND INVESTMENT** | |
| Maintain leadership in Canadian corporate and investment banking franchise | • Ranked No.1 in Canadian credit products and asset securitization<br>• Named leading Canadian underwriter by *The Financial Post* |
| Focus on improving shareholder return through balance sheet and capital management | • Moved $6.1 billion of corporate loans off balance sheet through a securitization<br>• Reduced risk limits in fourth quarter to reflect changed market conditions |
| Expand the U.S. platform to become a leading provider of advice and capital to mid-market growth companies | • Acquired and integrated Oppenheimer<br>• Expanded industry expertise<br>• Lead-managed 18 U.S. equity underwritings<br>• Participated in 248 equity underwritings |
| Provide integrated financial solutions through combined corporate, investment and merchant banking capabilities | • Developed highest-valued IPO of a start-up company; provided high yield, debt underwriting and merchant banking support<br>• Acquired 20-member securitization team in Europe, Asia and Australia to extend worldwide our leading North American franchise<br>• Launched US$1.3 billion leveraged instrument fund to invest in instruments that support high yield issuers |
| **WEALTH MANAGEMENT** | |
| Develop leadership position through customer-centred approach, offering a full range of investment management solutions to individual and institutional clients around the world | • Increased administered assets to $122 billion<br>• Increased revenue contribution to 14% of CIBC's total revenues<br>• Acquisition of Oppenheimer added $51 billion of administered assets<br>• Created one customer-centred organization from five separate business lines<br>• Imperial pools managed assets more than doubled to $3.8 billion<br>• Mutual funds assets under management grew 26.2%, versus industry average of 10.5%<br>• Increased mutual fund ranking and market share, leader in index mutual funds<br>• Launched Index Portfolio Services, the first such service in Canada to combine index-fund investing with active asset-mix management by professional advisers |

## MULTI-CHANNEL DELIVERY




Become a world-class leader in customer satisfaction and loyalty

Expand branch transformation to Alberta and British Columbia

Build on the success of our retail electronic banking platform to provide convenient and seamless access to electronic commerce for our small business and commercial clients

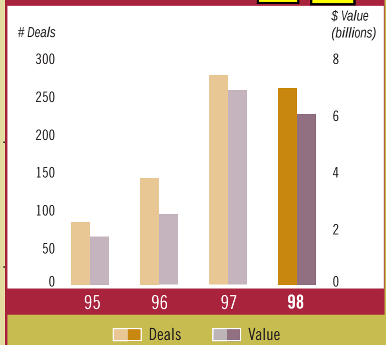
Pursue opportunities for expansion of retail business in the U.S.

Meet the needs of small businesses in Canada by simplifying the credit process and introducing tiered pricing for higher credit risks

Continue to introduce differentiated and high value products:

- expand co-branded mortgages with President's Choice Financial, Air Canada and Zellers
- introduce three new credit cards

## CANADIAN INVESTMENT BANKING LEADERSHIP




*Ranked #1 in 1998 & 1997 (Debt & Equity Underwritings by fiscal year giving bonus credit to lead)*

Take advantage of our product development and U.S. capital markets capability to grow our strong, profitable Canadian franchise

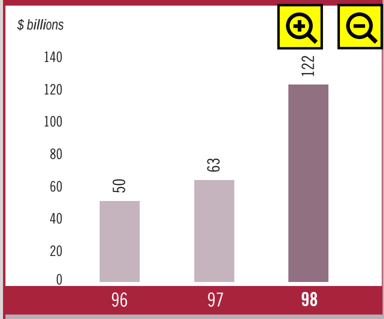
Reduce the amount of capital allocated to low return and more market sensitive businesses – focus on generation of fee-based revenues and use securitization and other methods to reduce the amount of capital required for on-balance sheet loans and unused credit lines

Continue to reduce risk authorization levels for products with low return or highly variable revenues

Achieve increased profitability through cost efficiencies

Generate increased retail revenue growth by focusing on opportunities in North American retail brokerage and by providing unique financial products for our individual customer base

## WEALTH MANAGEMENT SERVICES ADMINISTERED ASSETS




Continue to build relative contribution of Wealth Management to CIBC earnings

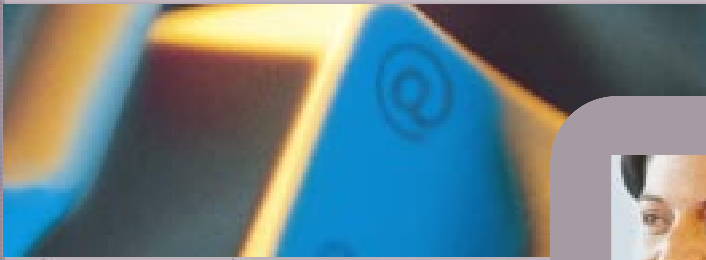
Expand distribution capability both in Canada and the U.S.

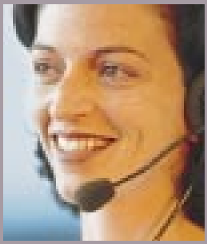
Take advantage of product capability in World Markets to provide expanded products and services

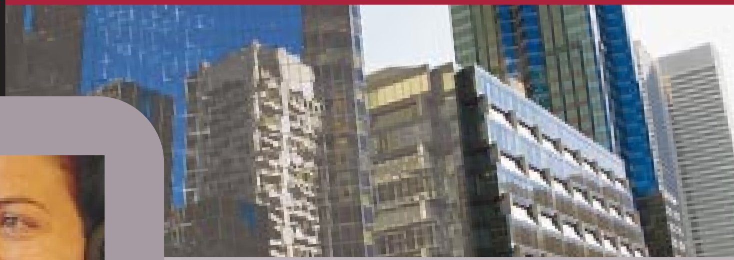
Strengthen high net-worth offers in domestic markets by taking full advantage of our product and service delivery capabilities:

- Imperial Service
- advisory and other financial services to high net-worth individuals through remodeled branches
- new mutual funds and performance improvement in TAL Global Asset Management Inc.
- sale of third-party products
- launch a new integrated investment management account and three new wealth management products that provide capital protection and market appreciation

**PROFILE | FRANCINE CÔTÉ • MONTREAL • PC BANKING CUSTOMER**







**PROFILE | JOANNE BOYD • HALIFAX • SALES AND SERVICE SPECIALIST**

*By linking with CIBC by telephone and personal computer, Francine Côté can focus more time on her growing family and her legal work in the Canadian broadcasting industry. Sales and service specialist Joanne Boyd of Halifax is helping to spur the tremendous growth of CIBC's telephone banking capability and customize the way we serve the financial needs of Canadians.*

## PERSONAL AND COMMERCIAL BANKING

# TRUSTED FINANCIAL ADVICE AND SERVICE

**A new kind of customer is driving the way CIBC does retail banking. • Well educated. Comfortable with technology. Intolerant of poor service. Increasingly price conscious and pressed for time. Determined to achieve financial success and security. Demanding higher levels of quality, innovation, service and value. • Our success in meeting these high standards is reflected in the strong performance of our core businesses and in the superior returns this has delivered over the years to our shareholders. • In 1998, we continued to build on our success with creative responses to our customers' needs in critical business areas – our delivery network, electronic commerce and processing, lending products and small business.**

### A CUSTOMER-CENTRED DELIVERY NETWORK

At CIBC, the Personal and Commercial Bank is making strides toward transforming its delivery network into a fully integrated multi-channel delivery system.

This transformation is being driven by our customers. More and more, they are doing their everyday banking electronically rather than through branches. At the same time, customers tell us they intend to keep visiting branches for financial advice and assistance with more complex transactions and problem resolution.

To ensure that our branches continue to meet customer needs and generate sustained earnings growth, we are dramatically changing the function of the branch network. By the year 2000, all CIBC branches will provide trusted financial advice and service through accredited financial advisers. While most transactions will be performed electronically, customers will deal with us through the delivery channels of their choice.

During the year, we made significant progress toward this vision:

- All branches in the Greater Toronto Area have been converted to sales and advice centres. This program is now under way in Alberta and British Columbia, with other regions to follow.
- Our Imperial Service initiative, launched in 1998, offers customers a customized blend of information, expert advice and financial solutions.
- By the end of 1999, all our financial advisers will have completed externally recognized investment or financial advice programs.

We invested in building world-class customer-centred database and relationship marketing capabilities, which significantly enhanced our ability to provide customers with timely, relevant information and products customized to meet their needs. This has

**BUILDING A CUSTOMER-CENTRED DELIVERY NETWORK**

improved the effectiveness of marketing programs, and has improved customer receptivity to our product and service offers.

Our customers have access to one of the most advanced electronic platforms of any financial institution in North America.

Our ABM network is a world leader in terms of functionality and by the end of 1999, is projected to be the largest in Canada with 5,500 machines.

We piloted the world's first Smart ABM, which uses Internet technology and expanded features such as personal messaging and the ability to review movie listings or purchase tickets.

CIBC and Silcorp Ltd. announced an agreement that will result in more than 750 ABMs being placed in Mac's Milk, Becker's and Mike's Mart convenience stores across Canada.

PC Banking achieved the highest market share of any on-line banking service in Canada. Product sales doubled and customers conducted 32 million on-line banking and discount brokerage transactions in 1998.

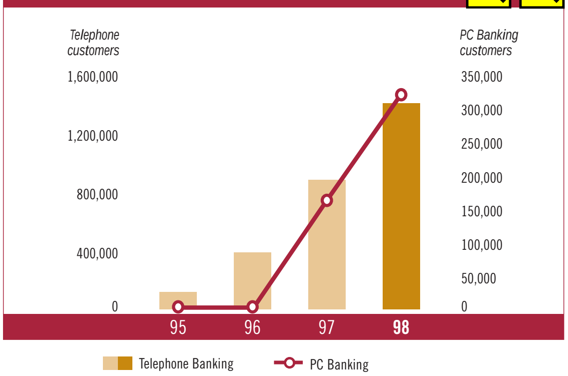
We were the founding financial services partner in the Canadian launch of WebTV, in partnership with Microsoft and Sony Canada, which enables customers to access our PC Banking services through their televisions.

We announced an investment of over $10 million in our call centre operations to ensure customers receive uniform service from all centres.

In 1998, we enhanced this platform by opening a third major call centre that has generated 500 new jobs in the Toronto area.

Telephone Banking achieved the highest market share of any Canadian bank. It was ranked in the top tier of North American financial institutions in a best-practices benchmark study designed to measure memorable and consistent experience from a customer perspective.

CIBC PC AND TELEPHONE BANKING CUSTOMERS

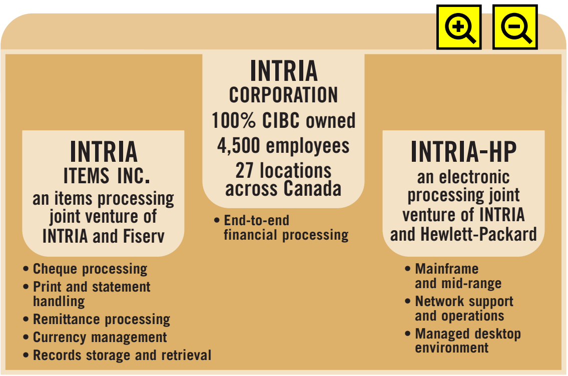



## INNOVATIVE LEADER IN ELECTRONIC COMMERCE AND PROCESSING

CIBC is also a leader in providing electronic banking and other advanced technology services to its customers, who are increasingly demanding the convenience and reliability of doing business electronically.

Our subsidiary, INTRIA, is one of the most efficient and successful processing operations anywhere in North America and handles 20 million paper and electronic transactions a day and more than four billion transactions a year for CIBC branches. By taking processing work out of our branches, INTRIA has enabled branch employees to focus exclusively on our customers and their financial needs.

INTRIA also provides the technology platform to operate CIBC's electronic delivery network at peak efficiency. Our ABM availability, for example, is now 99.9% – the highest in the industry.




INTRIA provides processing services and electronic commerce services to banks and financial institutions throughout Canada. In 1998, it strengthened its capability as a provider of technology solutions by entering into a joint venture with Hewlett-Packard to expand electronic commerce and attract customers both inside and outside financial services. The result is INTRIA-HP, the first company in Canada dedicated to providing comprehensive financial processing, information technology infrastructure, and electronic commerce services to businesses in North America.

CIBC's leadership as an innovator in electronic commerce was also acknowledged this year when Loblaw Companies Ltd. selected us over domestic and international competitors to be the exclusive supplier for President's Choice Financial services. This is the first time a major Canadian retailer has developed a banking offer specifically for its own customers under its own brand. President's Choice Financial provides no-fee telephone, ABM and Internet access with in-store pavilions providing the personal touch. Customer response has been overwhelmingly positive since the February launch.

## EXPANDING CHOICE IN PERSONAL LENDING PRODUCTS

CIBC's personal lending business offers customers a wide and innovative selection of credit products and services.

### Cards

CIBC is Canada's leading credit card issuer.

In 1998 we increased sales volumes by $1.7 billion – despite powerful new competition from the U.S. and lower consumer spending in the card market overall.

**CARD PRODUCTS**

| CORE PRODUCTS | NEW ADDITIONS IN 1998 | NEW PRODUCT LAUNCH UPDATE |
|---|---|---|
| *CLASSIC* |  Platinum Dividend | The Dividend VISA card is the most successful new launch to date, surpassing the Aerogold launch, with 100,000 cards issued in the first three months |
| *GOLD* |  Dividend | |
| *CLUB Z CLASSIC* |  Firstline Platinum Plus | |
| *AEROGOLD* |  U.S. Dollar | |
| *PURCHASING CARD* | | |

Our success is driven by our ability to develop innovative card products that truly satisfy customer needs. We have 11 card products, including four launched during the year – U.S. Dollar VISA card, two Platinum VISA cards, and a no-fee Dividend VISA card, which earns customers dividends of up to 1% on all purchases. The launch of the Dividend VISA was our most successful ever.

Our performance in cards is supported by our strong commitment to risk management, cost management and creating a best practice infrastructure. In these areas, 1998 achievements included securitizing over $2 billion of our VISA portfolio and investing an additional $3.7 million in our Toronto call centre to enhance customer service nation-wide.

### Personal Lending

We continued to experience strong growth in our core personal lending products, particularly in personal line of credit with more than 20% of all bank market share and annual growth of more than 19%. This growth in personal line of credit can be attributed to the continued success of our unique "one-visit" home equity product, which provides customers with more financial flexibility and convenience at a competitive rate.

Enhancing the customer experience is the cornerstone of our lending strategy. During 1998, this strategy was supported through innovative new products and features, including our one-phone-call RSP loan, streamlined processes and expansion of electronic access points.

### Mortgages

CIBC Mortgages Inc., our mortgage bank subsidiary, is a recognized leader and innovator in the Canadian market. We are No. 2 in market share at 11.76% and our success is built on offering multiple brands through multiple channels. Customers can obtain mortgages electronically or through CIBC branches, from our direct sales force, or through our FirstLine Mortgage division. This was an exciting year of innovation in which a broad slate of new offers was introduced:

- AeroMortgage, developed in partnership with Air Canada, gives free air-travel points on regular mortgage interest payments.
- Club Z mortgage, enables customers to earn Zellers Club Z points on regular mortgage interest payments.
- FirstLine Access mortgage, developed for clients who may not qualify for our other mortgage options.
- Four uncomplicated mortgage options, developed for President's Choice Financial, with low interest rates, approvals in as little as four hours, and the opportunity to earn points toward free groceries.

### Business Banking

CIBC has made significant inroads into supporting the growth and stability of our 325,000 small business and 10,000 commercial banking customers. We have focused on initiatives to improve the lending process and these efforts have enhanced our position in a competitive market. For small business clients, we:

- Introduced a simplified credit offer, allowing customers to get loans or lines of credit of up to $100,000 based on a personal guarantee and a simple, two-page application, with a guaranteed 48-hour turnaround.
- Relaunched the Small Business Job Creation Loan Fund with an additional $100 million. The initial fund created more than 4,000 jobs nationally.
- Launched the Year 2000 First Step program, in conjunction with Industry Canada, to help small businesses plan for the technology changes necessary for the new millennium.

In commercial banking, we continued to expand our range of product capabilities to provide total financing solutions to middle-market companies. Highlights were:

- Introduced new loan products, including a mezzanine financing program.
- Acquired Penfund, the leading mid-market institutional fund manager in Canada, to add broad private placement and institutional fund management to our commercial financing capabilities

In addition, we sold Comcheq, a non-core business, for a $116 million pre-tax gain on sale.

File Edit Search Help CIBC

PROFILE | BOB McGEEHAN • CHAIRMAN & CEO • KENNAMETAL INC., LATROBE, PA


PROFILE | ED EPPLER • RELATIONSHIP MANAGER • CIBC OPPENHEIMER • NEW YORK

*Bob McGeehan has grown Kennametal into a leading global manufacturer, marketer and distributor of tools, supplies and services for the metalworking, mining and highway construction industries. With Ed Eppler and the newly integrated capabilities of the CIBC Oppenheimer team, Kennametal has strengthened the capital structure of a recent acquisition with a US$178 million share placement, solely underwritten by CIBC World Markets. That enables Bob and his Kennametal team to remain focused on growth.*

# CORPORATE AND INVESTMENT BANKING

## INTEGRATED FINANCIAL SOLUTIONS

?

**Several years of excellent markets were sharply interrupted in 1998 with a downturn in global markets. • Volatility in equity markets, a dramatic widening of credit spreads, reduced levels of business activity and a restructuring charge eroded earnings in the second half of the year. Fourth quarter trading losses in our high yield, international equities and financial products activities contributed to the significant drop in earnings. • Clearly, CIBC World Markets performance was disappointing. Like many investment banks active in the global capital markets, we have responded to the difficult market conditions by consolidating our operations and reducing our market risk profile. • Our risk management policies and people have ensured that our exposure to the Latin American and Asian markets is well managed, with diminishing exposure to more volatile countries, nominal exposure to Russia and to hedge funds, and that we maintain a highly diversified loan book with a prudent level of general allowances for credit losses. Thanks to strong balance sheet management and our strength in securitization, we removed more than $6 billion from our balance sheet this year.**

The past year marked the fourth year of CIBC World Markets strategy to provide integrated financial solutions to clients globally. We set out on this strategy because clients were growing their businesses in new markets around the world and were looking to New York's capital markets for financing alternatives.

Our strategy entailed a marked redefinition of CIBC's corporate and investment banking arm. It required a rapid transformation from a domestic franchise to an international franchise, and from a traditional focus on credit products to a multi-product capability. While this strategy is key to our viability in a rapidly changing industry, its implementation during weak markets has made 1998 a very difficult year for our shareholders.

However, it is important to remember what we have accomplished. We have built a North American capability, unique among Canadian banks, delivering full debt, equity and advisory capabilities. New strengths in derivatives, high yield, securitization, research and corporate finance made possible our strong revenue growth in 1997. In the U.S., through our acquisition of Oppenheimer & Co., Inc., we now have an excellent institutional equity research and distribution capability, and a significant retail brokerage capability. As well, we have built 13 industry-specialized groups. We successfully defended our leadership position in Canada and continue to earn recognition in new markets for innovative financing solutions.

Our private client activities grew dramatically in 1998, reflecting business in Canada, our acquisition of Eyres Reed in Australia, and Oppenheimer & Co., Inc.'s long-established high net-worth business in the U.S. and the U.K. With more than 1,200 financial advisers in North America and more than $75 billion in assets under management, we have considerably expanded our penetration of the high net-worth investor market.

### GOING FORWARD

In the fourth quarter, we took a $79 million restructuring charge, reflecting severance costs in several World Markets businesses and the exit from non-strategic businesses obtained through the acquisition of Oppenheimer, including mortgage-backed securities, emerging market debt and risk arbitrage. Further restructuring will continue to be guided by a risk-adjusted return on capital measurement, which will enable us to focus resources on our most profitable businesses.

As we move to a lower cost base, we will consolidate our North American franchise and capability, while continuing to provide a high level of service to clients in Europe and Asia.

## Building Client-Focused Solutions

**MERCHANT BANKING**
- Private equity or mezzanine debt financing

**INDUSTRY EXPERTISE**
- Specialists in 13 sectors

**FULL-SERVICE BROKERAGE**

**ADVISORY SERVICES**
- Mergers and acquisitions
- Corporate finance and investment banking

As the leading corporate and investment bank in Canada, we recognize the importance of maintaining a strong domestic franchise. This we accomplished throughout 1998, while building a strong U.S. operation focused on growth-oriented companies.

In 1999, we expect new revenue streams to flow from our U.S. investment banking initiative, our continued success in structured finance, merchant banking and loan syndication and further synergies from our 1997 acquisition of Oppenheimer. Significant opportunities remain to be exploited in our extensive North American retail broker network, our leadership ranking in equity research – both in the U.S. and Canada – and the complementary, combined forces of our U.S. and Canadian industry-specialized groups.

### ACCOMPLISHMENTS

The complexity and size of mandates awarded to us this year by clients is a testament to the value of our strategy. Growth-oriented companies require solutions based on industry expertise, credit and structuring skills, capital commitment and distribution capabilities.

The transactions listed below were brought to market following extensive collaboration among several parts of CIBC, including origination, marketing and risk management.

#### Global Telecommunications

Our relationship with Global Crossing Ltd., the world's first independent provider of global and long-distance telecommunications services using undersea fiber-optic systems, began in 1996. Since then, we have provided advice and capital to help this successful company build its global network, including a co-lead on a US$800 million senior note issue, a lead on a US$800 million project finance bank facility, participation in a US$300 million IPO underwriting, and an ownership position in the company.

#### Gaming & Lodging

In December 1996, CIBC World Markets became the exclusive investment adviser to London Clubs International plc. We helped negotiate a US$50 million equity investment and joint venture between London Clubs and Aladdin Gaming Holdings, LLC. In 1998, the two gaming companies approached us to complete the funding of the Aladdin Hotel & Casino, a 35-acre, US$1.4 billion world-class resort in Las Vegas. We won the advisory mandate, our loan products group co-arranged Aladdin Gaming's bank credit facility, and our high yield group managed a US$115 million senior note issue.

### Capital Goods

In 1998, CIBC World Markets undertook its first U.S. bought deal for Kennametal, a global manufacturer, marketer and distributor of tools, supplies and services for metalworking, mining and highway construction industries. The US$178 million offering of 3.45 million common shares, including the exercise of the 450,000 share over-allotment option, was solely underwritten by CIBC World Markets.

### Financial Institutions

In November 1997, CIBC World Markets led a syndicate of underwriters in Canada's largest equity bought deal, raising $1.77 billion for Newcourt Credit Group Inc. and allowing it to acquire New Jersey-based AT&T Capital Corp.

### Forest Products

NORAMPAC Inc., the leading corrugated packaging company in Canada, was created this year when two Canadian forest products companies, Cascades, Inc., and Domtar Inc., combined their corrugated packaging assets into the new joint venture. NORAMPAC is the largest containerboard and corrugated packaging company in Canada and a major presence in North America.

CIBC World Markets Forest Products Group proposed the combination to the two companies, and was hired as adviser to both Domtar and Cascades. We provided a bridge commitment of $625 million to help create the $1 billion joint venture, and lead-managed a cross-border high yield offering of US$150 million senior notes and Cdn$100 million senior notes following the transaction's close.

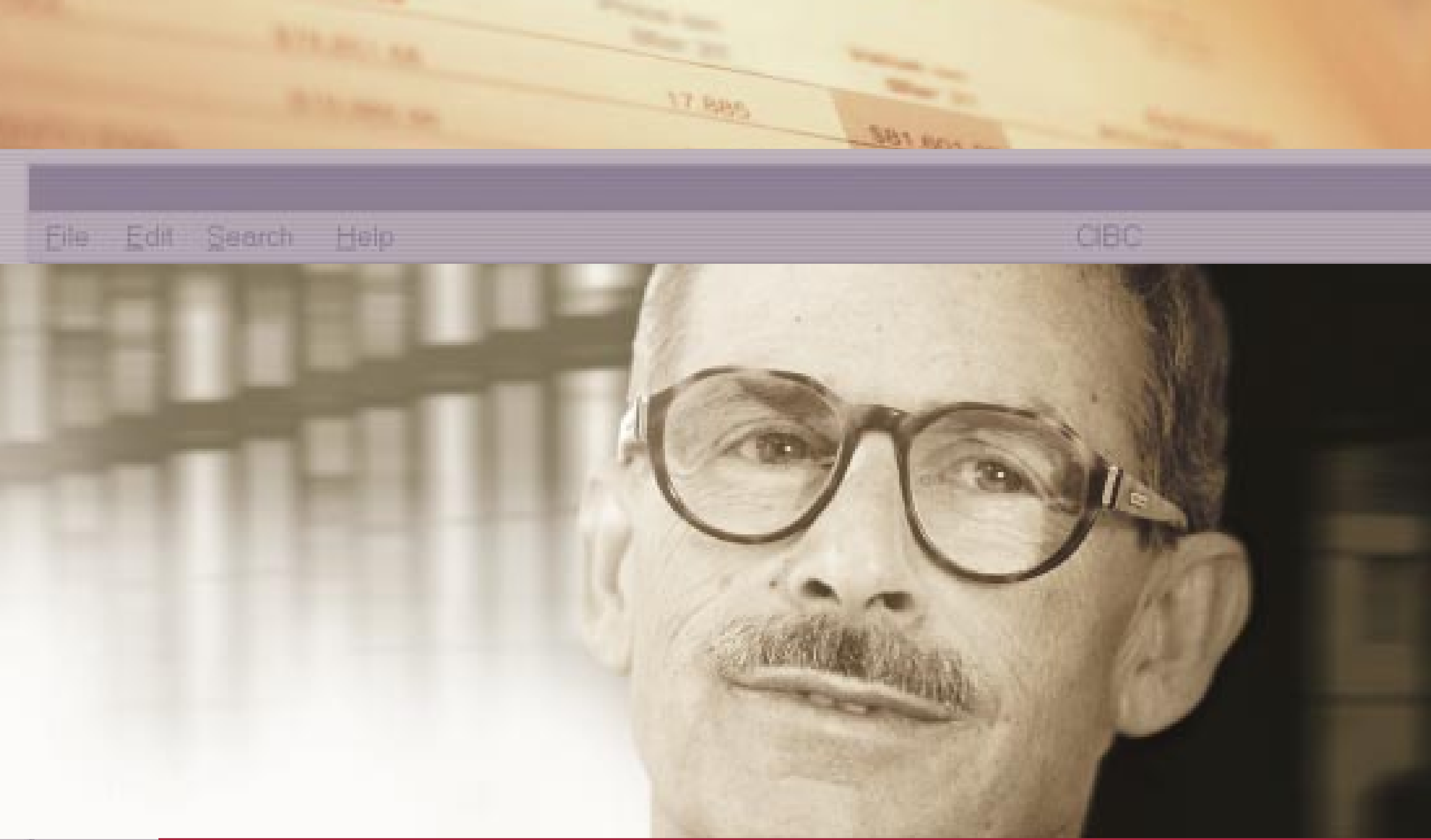
### Mining

CIBC World Markets played a leading role in the creation of the fifth-largest mining company in North America. In February 1998, we lead-managed a $193 million equity financing coincident with the $1.2 billion merger between Toronto-based Kinross Gold Corporation and Amax Gold Inc., based in Denver. We also acted as co-adviser to Kinross on the merger, which created a world-class gold producer with major producing assets in North and South America and Russia.

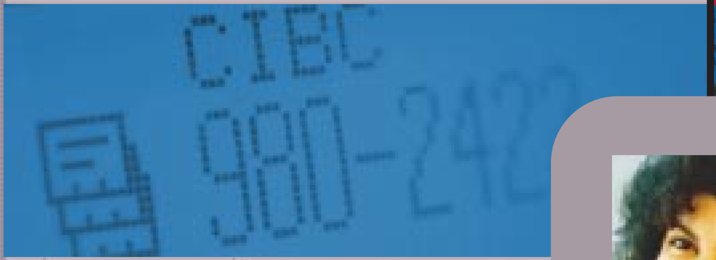
We also led a US$100 million high yield debt issue and co-led a US$40 million revolving credit facility for Pen Holdings Inc., a U.S. coal mining company, to refinance existing debt and provide project financing for mine development.

### Power & Utilities

In 1998, CIBC World Markets created a global Power & Utilities Group consisting of over 30 professionals focused on the industry's continued evolution to a fully deregulated energy market. In the U.S., CIBC World Markets co-managed high yield offerings for Calpine Corporation and CMS Energy, and in Canada, we lead-managed TransAlta's $296 million offering of limited partnership units in April 1998. The group was also selected as financial adviser to the Ministry of Finance for the Province of Ontario's restructuring of the Ontario electricity sector, including the recapitalization and restructuring of Ontario Hydro.




**PROFILE | MORRIS DANCYGER • CALGARY • WEALTH MANAGEMENT CUSTOMER**




**PROFILE | NIMET MANJI • ACCOUNT MANAGER**

*CIBC has supported the vision of Morris Dancyger from 1969, when he opened his first Calgary pharmacy, to today, with a chain of 15 stores and his current focus on semi-retirement and securing the future of his family. Account manager Nimet Manji brings together a range of investment and banking services for Morris to ensure that CIBC meets his every financial need.*

## WEALTH MANAGEMENT

# CUSTOMIZED INVESTING

**CIBC's Wealth Management business, directed at customers in both P&C Bank and CIBC World Markets, helps individual and institutional clients make the most of their money – regardless of age, income level, investment style or delivery preference. • CIBC meets this mandate by surrounding the customer with products, programs and services aimed at meeting their investment needs. We offer an array of investment opportunities including full-service brokerage, GICs, a full slate of mutual funds, portfolio rebalancing, index funds, trust, estate planning, and offshore financial services.**

In 1998, CIBC restructured its wealth management operations to provide clients with integrated and tailored services to meet the full spectrum of their wealth management needs. Customers can access wealth management services through the telephone, their computer, or at a branch, brokerage office or private-client banking facility.

Customers also benefit from the advisory expertise of our people. By the end of 1998, more than 1,900 of our branch employees will have completed their financial planning accreditation. This level of qualification is the highest among Canadian banks. This is in addition to the considerable advisory capability that already exists within TAL, Wood Gundy Private Client Investments, and CIBC Oppenheimer's U.S. brokerage network.

This enhanced customer focus enables Wealth Management to develop innovative and relevant products and services that succeed with our customers and in the marketplace. Recent examples include:

- Professional Investment Management Services (PIMS), which currently includes Imperial pools (formerly Personal Portfolio Services) and Index Portfolio Services, offers clients a choice of investment portfolios with asset allocation to match their risk profile. PIMS grew by $2.2 billion in 1998 to $3.8 billion in assets under management at year end.
- Portfolio Re-balancing Service, and Index Portfolio Re-balancing Service which automatically adjusts mutual fund portfolios twice a year to ensure long-term consistency with our customers' original asset allocation objectives.
- Index Portfolio Services, the first such service in Canada to combine index-fund investing with active asset-mix management by professional advisers. Since its introduction less than a year ago, sales have reached $73 million.
- Our Market Mix GIC, which offers risk-sensitive customers both the safety of GICs and the superior returns of an investment product. In 1998, customers purchased more than $325 million of Market Mix GICs.
- CIBC Choice Funds Program, which enables CIBC customers to benefit from high performing mutual funds outside the CIBC funds family – the first time our branches have offered this service. Sales in 1998 were $70 million.
- A new European Index Fund, which brings our total number of index mutual funds to nine – the greatest choice in the industry. With 30 mutual funds and nine index funds, CIBC offers investment opportunities to meet every client's investment goals and risk tolerance profiles.

These and similar accomplishments have enabled Wealth Management to deliver significant value to our customers and shareholders. This year, Wealth Management generated total revenues of $1,289 million – a 90% increase over 1997 revenues of $678 million.

***Wealth Management:*** Personal and Commercial Bank

- CIBC Mutual Funds, rated "one of the best fund families in Canada" by the Fund Counsel of Canada.
- CIBC Investor's Edge, the second largest discount broker in Canada.
- TAL Global Asset Management Inc., Canada's third largest money manager.
- Global Private Banking and Trust, which includes CIBC Trust – a Canadian leader in estate and investment

management services; and a network of offices strategically located in key offshore centres around the world providing a full range of leading wealth management services.

***Wealth Management:*** CIBC World Markets

- Wood Gundy Private Client Investments – No. 1 in Canada in revenue per financial consultant.
- CIBC Oppenheimer – No. 5 in the U.S. in revenue per account executive.

CIBC Oppenheimer and Wood Gundy Private Client Investments are our full-service brokerage operations serving high net-worth individuals and small businesses.

## WEALTH MANAGEMENT SERVICES

### INVESTMENT MANAGEMENT

**TAL Global Asset Management Inc.**

- 66.6% CIBC owned
- Canada's third largest money manager with $40.6 billion under management including $16.7 billion of CIBC assets
- Serves affluent individuals with $1 million in liquid assets

### OFFSHORE BANKING

- Offers an extensive range of offshore banking, investment, trust and advisory services to an internationally oriented client base of affluent individuals, corporations and institutions
- $14.6 billion under administration
- Operations are in the Bahamas, Barbados, Cayman Islands, Channel Islands and Switzerland, and through an alliance with CEF in Hong Kong and Singapore

### FULL-SERVICE BROKERAGE

**Private Client Investments**

- North American full-service brokerage
- 1,250 financial consultants/account executives
- $83 billion under administration worldwide

### ESTATE, TRUSTS AND WILLS

**CIBC Trust**

- A provider of integrated investment and estate management solutions
- Includes executor services and expertise in estate, trust and tax law
- $500 million under administration

### DISCOUNT BROKERAGE

**CIBC Investor Services Inc.**

- Provides asset consolidation services and brokerage trading services through PC, telephone and CIBC branches
- 13.1% of discount brokerage market share
- $7.5 billion under administration

### MUTUAL FUNDS

**CIBC Securities**

- Provides investors with high-quality mutual funds and investment selection options
- $16.4 billion in mutual funds including Professional Investment Management Services
- Seventh largest in Canada
- Funds managed by TAL Global Asset Management Inc.

**Professional Investment Management Services**

- $3.8 billion in CIBC Imperial pools (formerly Personal Portfolio Services) under management
- Investment portfolios more than $100,000
- Structured to individual risk tolerance and investment objectives

***CIBC WEALTH MANAGEMENT $146 BILLION ADMINISTERED****

** CIBC $122 billion*
*TAL $24 billion*

# COMMUNITY AND EMPLOYEES


THE CIBC RUN FOR THE CURE

In 1998, CIBC contributed $26 million in donations and sponsorships.

CIBC also contributes to community economic growth, spending about $1.9 billion in Canada annually on outside goods and services that support thousands of jobs and companies.

CIBC has made a special commitment to youth employment. We support many programs involving research, mentoring, educational funding and job creation aimed at helping young people succeed in today's changing and demanding workplace.

During the year we launched Youthvision – an $8 million initiative to improve education and job opportunities for Canada's youth. Youthvision includes:

- A Scholarship Program, in partnership with Big Brothers and Sisters and the YMCA, to provide Grade 10 students with financial support and mentoring until they complete their post-secondary education.
- Financial support to expand the literacy programs and volunteer activities of Frontier College, Canada's oldest literacy organization.
- A pre-apprenticeship program, in partnership with the Toronto District School Board and the Maintenance and Construction Skilled Trades Council to assist young people interested in pursuing careers in the skilled trades.
- A grant to the University of Toronto to create the CIBC chair in youth employment and student scholarships.

Other youth initiatives include: co-founding the Canadian Youth Business Foundation, sponsorship of the YTV Achievement Awards, and Year 2000 First Step – a joint venture with the Canadian government to train 700 post-secondary student advisers to identify year 2000 problems for small businesses.

In addition, CIBC is involved in many community sponsorships across Canada, ranging from the National

PROFILE: FIONA GRANT • VICTORIA, B.C.
1998 YTV ACHIEVEMENT AWARD, ENVIRONMENTAL CATEGORY

Aboriginal Achievement Awards to major environmental projects such as the Waterfront Regeneration Trust. In the U.S., our community affairs program focuses on the health, education and welfare of children. Activities include the CIBC/New York Rangers Children's Charities Program which supports the New York City Police Benevolent Association Widows' and Children's Fund. CIBC Oppenheimer sponsored the Canadian Spotlight Series, featuring Canadian playwrights and performers.

Our employees are vital to CIBC's community commitment. In 1998, more than 5,600 employees and their families participated in the CIBC Run for the Cure in support of breast cancer research. CIBC and its employees raised more than $5 million for the United Way. And employees at CIBC World Markets raised more than $4.5 million in donated fees and commissions during their annual Children's Miracle Day in December, 1997. Our employees also contribute significantly to their communities as volunteers, giving their time and expertise to local charities, sports, hospitals and associations.

## EMPLOYER OF CHOICE

CIBC's goal is to be the employer of choice wherever it operates. Each year, we spend more than $40 million on employee development to enhance the skills of our team and encourage relationship building and leadership training. Our programs are devoted to ensuring that our employees are focused on the customer. We employ 46,000 people in Canada, 1,500 in the West Indies, 4,300 in the U.S. and 1,100 in Europe and Asia Pacific, with a mandate to provide excellent service and financial solutions to every customer.

# OVERVIEW

**SELECT HIGHLIGHTS**

| *As at or for the years ended October 31* | **1998** | 1997 | 1996 | 1995 | 1994 |
|---|---|---|---|---|---|
| **OPERATING RESULTS INFORMATION AND MEASURES** *($ millions)* | | | | | |
| Net income before the following | **$ 1,135** | $ 1,408 | $ 1,325 | $ 1,015 | $ 890 |
| – disposal of corporate assets | **64** | 143 | 41 | – | – |
| – Oppenheimer acquisition-related and integration costs | **(143)** | – | – | – | – |
| Net income | **$ 1,056** | $ 1,551 | $ 1,366 | $ 1,015 | $ 890 |
| Net income applicable to common shares | **$ 940** | $ 1,453 | $ 1,254 | $ 904 | $ 749 |
| Non-interest expenses to revenue ratio (%) | **77.1%** | 62.3% | 61.5% | 62.1% | 61.4% |
| Return on equity (%) | **10.3%** | 17.7% | 17.1% | 12.9% | 11.7% |
| Earnings per share - basic | **$ 2.26** | $ 3.51 | $ 3.02 | $ 2.09 | $ 1.76 |
| - fully diluted | **$ 2.25** | $ 3.50 | $ 3.02 | $ 2.09 | $ 1.76 |

## EARNINGS

CIBC's net income in 1998 was $1,056 million, a decrease of $495 million or 32% from 1997. Earnings per share of $2.26 were down $1.25 or 36% from 1997 and return on equity declined to 10.3% from 17.7%.

Costs associated with the November 3, 1997 acquisition and subsequent integration of Oppenheimer & Co., Inc. reduced net income by $143 million in 1998. A gain on the sale of a payroll processing subsidiary, Comcheq, increased net income by $64 million, while disposals of corporate assets in the prior year increased 1997 results by $143 million. Excluding these items, net income totaled $1,135 million compared with $1,408 million in 1997. Earnings in 1998 were adversely impacted by losses from trading activities in the latter part of the year and growth in expenses, primarily related to strategic initiatives.

CIBC World Markets incurred significant trading losses in the fourth quarter of the year as global turmoil in financial capital markets caused a sharp drop in the price of equities and unprecedented, sustained market volatility. Additionally, as a result of a flight to quality, the spreads between risk free and higher risk securities widened dramatically, causing a downward valuation in the price of non-government debt instruments. CIBC took action to minimize losses associated with these market aberrations, including exiting certain businesses, reducing authorized risk and asset levels and increasing hedging activities to reduce income volatility.

Non-interest expenses were high in 1998 relative to revenues, with a non-interest expenses to revenue ratio of 77.1%, up from 62.3% in 1997. The ratio deteriorated as a result of the combined impact of lower CIBC World Markets revenue levels and higher costs resulting primarily from Oppenheimer acquisition-related and integration expenses, costs of expanding investment banking activities in the U.S. and spending by the Personal and Commercial Bank (P&C Bank) on strategic initiatives. The inclusion of Oppenheimer's operations, which by their nature have a higher ratio of expenses to revenue than CIBC's retail banking operations, also adversely impacted the ratio.

CIBC's primary operations are organized within two industry segments, P&C Bank and CIBC World Markets. The operating results of these segments are discussed on pages 40-43. CIBC has distinct wealth management businesses within each of these industry segments. Wealth management is discussed on page 44.

### A NOTE ABOUT FORWARD LOOKING STATEMENTS

*This report may contain forward looking statements about the operations, objectives and strategies of CIBC. These statements are subject to risks and uncertainties. Actual results may differ materially due to a variety of factors, including legislative or regulatory developments, competition, technological change, issues relating to year 2000 readiness, global capital market activity, interest rates and general economic conditions in Canada, North America or internationally. These and other factors should be considered carefully and readers should not place undue reliance on CIBC's forward looking statements.*

## SELECT HIGHLIGHTS

| As at or for the years ended October 31 | 1998 | 1997 | 1996 | 1995 | 1994 |
|---|---|---|---|---|---|
| **BALANCE SHEET INFORMATION AND QUALITY MEASURES** (*$ millions*) | | | | | |
| Total assets | $ 281,430 | $ 237,989 | $ 210,232 | $ 186,508 | $ 157,375 |
| Common shareholders' equity | $ 9,175 | $ 8,729 | $ 7,670 | $ 7,324 | $ 6,744 |
| Tier 1 capital ratio (%) | 7.7 % | 7.0% | 6.6% | 7.0% | 7.1% |
| Total regulatory capital ratio (%) | 10.8 % | 9.8% | 9.0% | 9.6% | 9.9% |
| Net impaired loans to total net loans and acceptances (%) | (0.08)% | 0.02% | 0.5% | 1.2% | 1.4% |
| **COMMON SHARE INFORMATION AND MEASURES** | | | | | |
| $ per share - dividends | $ 1.20 | $ 1.05 | $ 0.85 | $ 0.74 | $ 0.66 |
| - book value | $ 22.08 | $ 21.07 | $ 18.62 | $ 16.93 | $ 15.59 |
| - closing share price | $ 30.65 | $ 41.20 | $ 27.85 | $ 18.19 | $ 16.00 |
| Market capitalization (*$ millions*) | $ 12,736 | $ 17,069 | $ 11,472 | $ 7,871 | $ 6,921 |

### ASSET GROWTH AND QUALITY

CIBC's total assets were $281.4 billion at October 31, 1998. The increase of $43 billion or 18% over 1997 was largely attributable to growth in trading-related assets and market valuation on derivative instruments.

CIBC's asset quality remains high. Gross impaired loans fell to $1,486 million, 0.9% of net loans and acceptances at the end of 1998, down from 1.0% in 1997. Allowances for credit losses reflected in the consolidated balance sheets include a general allowance of $850 million and exceeded gross impaired loans by $123 million at the end of 1998. Net loans and acceptances outstanding to borrowers in Asia, Eastern Europe and Latin America are closely monitored and totaled $5.0 billion or 3.0% of CIBC's net loans and acceptances at the end of 1998.

### CAPITAL

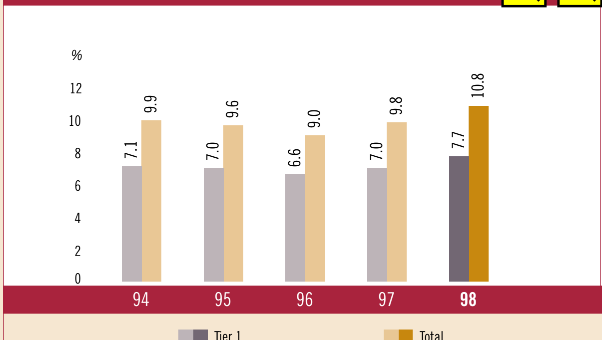
CIBC continued to improve its strong capital position during 1998. Total regulatory capital increased $1.3 billion to $15.8 billion and Tier 1 and total regulatory capital ratios were 7.7% and 10.8% respectively, an increase from 7.0% and 9.8% at the end of 1997. Commitment to capital strength is a continuing priority for CIBC.

### SHAREHOLDER VALUE

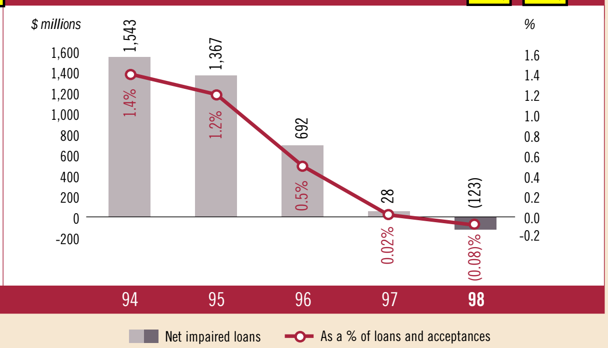
CIBC's common share price declined to $30.65 at the end of the year, while book value per share increased to $22.08. Dividends of $1.20 per common share increased from $1.05 per common share in 1997 and provide a 3.9% yield based on the closing 1998 share price.

CIBC is addressing the many challenges that occurred in the latter part of 1998. Growth in operating costs will be contained through expense management programs, outsourcing and partnership opportunities. CIBC World Markets will direct more of its resources to stable, fee-oriented businesses. Cost efficiencies will be achieved through further consolidation of operations and other expense reduction initiatives, while securitization and other programs will continue to be used to improve capital efficiency and return on equity. P&C Bank will focus on expansion of its wealth management and electronic banking capability.

#### REGULATORY CAPITAL RATIOS




#### NET IMPAIRED LOANS



## ECONOMIC ENVIRONMENT

The Canadian economy entered 1998 on a strong note, buoyed by low interest rates, healthy job creation and strong consumer confidence. However, this favourable environment was pressured by events such as the January ice storm, the GM strike in the United States, declining stock prices and a spike in interest rates in the latter part of the year. Despite these pressures, overall low interest rates and comparatively strong consumer confidence throughout most of the year led to reasonably strong growth in personal lending. Although housing demand remained strong in 1998, sales of new and existing homes slowed as a result of construction strikes in the major Ontario market. This limited new mortgage approvals and growth in residential mortgages.

Slower growth in business revenues, particularly from export sales, had an impact on corporate profits in 1998. Nevertheless, low interest rates, low commercial and industrial vacancy rates and strong investor confidence helped to sustain business non-residential investment. Business lending reflected this trend, growing at a healthy, albeit slower pace in 1998 than in 1997.

As 1998 progressed, several international developments – the deepening Asian crisis, a failure by Russia to honour its debts and increased pressure on Latin American economies – caused an erosion of investor confidence, resulting in a stock market correction in the fourth quarter. Financial markets volatility escalated and investors shifted to high-quality government bonds. This resulted in increasing interest rate premiums for non-government debt and especially for non-investment grade debt. Commodity prices weakened, causing the currencies of a number of industrialized commodity exporting countries, including Canada, to depreciate against the U.S. dollar. This eventually forced the Bank of Canada to increase interest rates and widen the spread between Canadian and U.S. short-term interest rates in an effort to shore up the Canadian dollar.

Many investors fled capital markets in the late summer. This resulted in liquidity problems, which simultaneously created turmoil in equity, fixed income and currency markets. Revenues, which were already weak in several capital markets areas, such as initial public offerings, declined even further. The extended period of high market volatility and reduced securities trading and sales adversely affected trading revenues for participants in international capital markets.

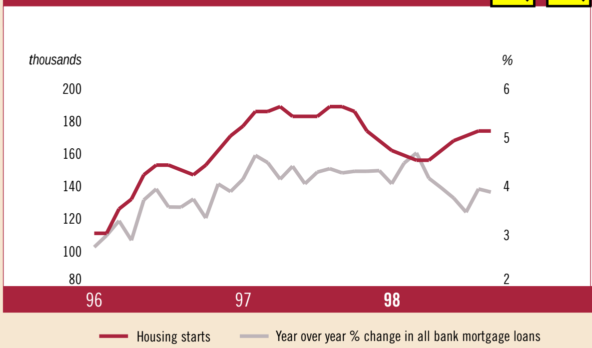
Late in the year, despite strong growth in the United States, the U.S. Federal Reserve Board expressed concern that weakness in many economies outside Europe and North America might spread, and put the U.S. economy at risk. To reduce pressure on volatile world financial markets, the Federal Reserve Board cut U.S. interest rates. The Bank of Canada quickly responded by lowering interest rates in an effort to strengthen consumer and investor confidence.

The 1999 outlook remains unclear due to uncertainty about the ongoing effects of volatility in world equity markets and declines in commodity prices. Concerns about the health of several major economies, including persistent problems in Asia and South America may dampen investment and investment related revenues throughout 1999, although investor confidence in Europe remains comparatively strong, in part due to the introduction of a new common currency, the euro.

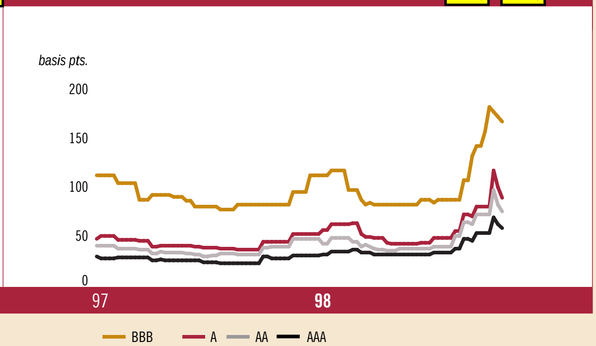
In North America, although weak Asian demand may hurt export markets, recent declines in interest rates should support consumer spending and demand for housing. Declining corporate profits will likely cause business investment to slow further in 1999; however, increased spending on year 2000 computer software problems by small and medium-sized companies could help offset some of this weakness. Domestic spending in Canada in 1999 may benefit from the impact of tax cuts.

The economic fundamentals of Canada and the United States remain quite strong approaching 1999. However, the economic health of the region is more at risk than at any time since the late 1980s. Recent precautionary moves by the Federal Reserve Board and the Bank of Canada to lower interest rates indicate that monetary authorities are sensitive to the situation. As well, both Canada and the United States have budget surpluses that provide the flexibility to cut taxes and/or increase government spending in the event of a widespread economic slowdown.

**HOUSING STARTS AND MORTGAGE LOAN GROWTH**




**INTEREST RATE SPREAD OVER YIELD ON 10 YEAR GOVERNMENT OF CANADA BONDS**



# FINANCIAL STATEMENT REVIEW

## CIBC CONSOLIDATED NET INCOME

| $ millions, for the years ended October 31 | 1998 Personal and Commercial Bank | 1998 CIBC World Markets | 1998 Other(1) | 1998 CIBC Total | 1997(3) Personal and Commercial Bank | 1997(3) CIBC World Markets | 1997(3) Other(1) | 1997(3) CIBC Total | 1996(3) Personal and Commercial Bank | 1996(3) CIBC World Markets | 1996(3) Other(1) | 1996(3) CIBC Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Net interest income | **$ 3,614** | **$ 722** | **$ 102** | **$ 4,438** | $ 3,596 | $ 913 | $ 132 | $ 4,641 | $ 3,510 | $ 1,051 | $ 6 | $ 4,567 |
| Non-interest income | **1,934** | **2,809** | **61** | **4,804** | 1,703 | 1,997 | 280 | 3,980 | 1,486 | 1,359 | 47 | 2,892 |
| Total revenue *(TEB)*(2) | **5,548** | **3,531** | **163** | **9,242** | 5,299 | 2,910 | 412 | 8,621 | 4,996 | 2,410 | 53 | 7,459 |
| Non-interest expenses | **3,596** | **3,519** | **10** | **7,125** | 3,369 | 1,989 | 14 | 5,372 | 3,094 | 1,488 | 2 | 4,584 |
| Provision for credit losses | **254** | **26** | **200** | **480** | 397 | (37) | 250 | 610 | 457 | 23 | – | 480 |
| Income taxes and minority interests(2) | **638** | **(51)** | **(6)** | **581** | 643 | 382 | 63 | 1,088 | 647 | 371 | 11 | 1,029 |
| Net income | **$ 1,060** | **$ 37** | **$ (41)** | **$ 1,056** | $ 890 | $ 576 | $ 85 | $ 1,551 | $ 798 | $ 528 | $ 40 | $ 1,366 |

*(1) Other comprises those revenue and expense items not expressly attributed to either of Personal and Commercial Bank or CIBC World Markets, plus the operating results of CIBC's real estate company, CIBC Development Corporation and a general provision for credit losses of $200 million (1997: $250 million). In 1996, the general provision for credit losses of $93 million was included in the results of each of the main operating segments. Results in 1997 were boosted by gains on the sale of shares of National Trust and Commcorp, and on the sale of certain real estate holdings in Toronto, generating a combined after tax gain of $129.3 million.*
*(2) Taxable equivalent basis (TEB). Net interest income includes tax-exempt income on certain securities. Since this income is not taxable to CIBC, the rate of interest or dividend received by CIBC is significantly lower than would apply to a loan of the same amount. As the impact of tax-exempt income varies from year to year, such income has been adjusted to a taxable equivalent basis to permit uniform measurement and comparison of net interest income. An equal and offsetting adjustment is made to increase the provision for income taxes.*
*(3) Certain prior year results have been restated in respect of allocations of income by segment to conform with the methods used in 1998.*

## TOTAL REVENUE

*Total revenue consists of net interest and non-interest income.*

Total revenue for the year was $9,242 million, up $621 million or 7% from 1997. The acquisition of Oppenheimer added $1,092 million to revenues in 1998. This increase was partially offset by a decline of $612 million in trading revenues.

### Net interest income and margin

*Net interest income includes interest and dividends earned on assets, net of interest paid on liabilities. Net interest margin is net interest income expressed as a percentage of average assets.*

Net interest income declined by 4% in 1998 to $4,438 million. The overall decline was $203 million and consisted of a decrease of $434 million attributable to reductions in net interest rates, partly offset by an increase of $231 million from asset growth. Securitization of assets during the year reduced net interest income by $107 million.

While CIBC asset volumes grew appreciably, much of the growth was in CIBC World Markets and occurred in low margin and non-interest bearing assets, such as securities purchased under resale agreements and derivative instruments market valuation. Corporate loan volumes grew, but spreads were lowered by competitive pressures. Loan growth in personal banking was strong, however growth was funded using more expensive wholesale deposits as customers continued to switch from low cost personal deposits to mutual funds and other investment alternatives. Margins on personal loan products were also under pressure because of increased competition.

Additional analysis of net interest income and margin is provided on pages 92 to 93.

## NET INTEREST INCOME AND MARGIN

| $ millions, for the years ended October 31 | 1998 | 1997 | 1996 |
|---|---|---|---|
| Average assets | **$ 278,823** | $ 236,025 | $ 196,063 |
| Average interest earning assets(1) | **$ 232,113** | $ 204,121 | $ 171,365 |
| Net interest income *(TEB)* | **$ 4,438** | $ 4,641 | $ 4,567 |
| Year over year change in net interest income due to: | | | |
| Increase in average assets | **$ 231** | $ 219 | $ 359 |
| Changes in net interest rates | **(434)** | (145) | 39 |
| | **$ (203)** | $ 74 | $ 398 |
| Net interest margin on average assets | **1.59%** | 1.97% | 2.33% |
| Net interest margin on average interest earning assets(1) | **1.91%** | 2.27% | 2.67% |

*(1) Average interest earning assets are defined as Deposits with Banks, Securities and Loans.*

## NON-INTEREST INCOME

| $ millions, for the years ended October 31 | 1998 | 1997[1] | 1996[1] | 1995 | 1994[2] | Increase (decrease) 1998 vs 1997 $ | % |
|---|---|---|---|---|---|---|---|
| Underwriting fees and commissions on securities transactions | **$ 1,880** | $ 912 | $ 597 | $ 382 | $ 467 | 968 | 106 |
| Deposit services | **486** | 481 | 482 | 437 | 422 | 5 | 1 |
| Credit services | **415** | 432 | 408 | 322 | 329 | (17) | (4) |
| Trading activities | **66** | 572 | 296 | 157 | 278 | (506) | (88) |
| Card services | **315** | 326 | 289 | 288 | 241 | (11) | (3) |
| Mutual funds management and fiduciary services | **501** | 230 | 170 | 150 | 156 | 271 | 118 |
| Insurance | **207** | 185 | 140 | 159 | 106 | 22 | 12 |
| Income from securitized assets | **120** | 44 | 6 | – | – | 76 | 173 |
| Gains on sale of assets | | | | | | | |
| - Investment securities | **96** | 236 | 68 | 74 | – | (140) | (59) |
| - Other assets | **163** | 120 | 36 | (9) | 8 | 43 | 36 |
| Other | **555** | 442 | 400 | 298 | 245 | 113 | 26 |
| Total non-interest income | **$ 4,804** | $ 3,980 | $ 2,892 | $ 2,258 | $ 2,252 | 824 | 21 |

(1) In 1998, certain foreign exchange commissions, previously reported in trading revenues, are reflected in other. The 1997 and 1996 results have been restated to conform with the 1998 presentation.
(2) 1994 results have not been restated to reflect certain 1997 adjustments as the adjustments are not readily available.

## Non-interest income

*Non-interest income includes all revenues not classified as net interest income.*

Non-interest income was $4,804 million, an increase of $824 million or 21% over 1997. The acquisition of Oppenheimer at the beginning of the year added $978 million to revenue. A decrease of $506 million in revenue from trading activities partially offset other increases in the year. The increase of $1,088 million or 38% in 1997 over 1996 reflects the particularly strong revenue from underwriting, commissions on securities transactions, trading activities and gains on sale of assets in 1997.

*Underwriting fees and commissions on securities transactions* were $1,880 million, up $968 million or 106% from 1997. This follows a 53% increase in 1997 compared with 1996, reflecting strong 1997 equity markets. The 1998 increase is mainly due to the inclusion of $942 million of Oppenheimer revenues.

*Deposit services* revenue includes service charges on personal and non-personal deposits as well as Interac fees. Revenue totaled $486 million, up slightly from 1997.

*Credit services* revenue comprises fees from standby loans, mortgages, acceptances, letters of credit and participations and placements. Revenue of $415 million was down slightly from 1997.

*Trading activities* generated $66 million in revenues in 1998, down from $572 million in 1997. The reduction was primarily due to volatile capital markets and widening interest spreads in the fourth quarter. Further details on trading activities are provided on page 30.

*Card services* revenue was $315 million, down from $326 million in 1997, primarily due to the securitization of $2 billion in VISA receivables. This decline was offset by an increase in income from securitized assets. Four VISA cards introduced in 1998 added to revenue during the year.

*Mutual funds management and fiduciary services* revenue increased $271 million or 118% from 1997. Increased revenue relates to the acquisition of Oppenheimer, which added $56.8 billion in assets under administration, and the inclusion of a full year's revenues from the pension and institutional trust and custody business acquired from Canada Trust in the third quarter of 1997. CIBC's mutual funds and other assets under management, which grew due to improved performance and new products, also contributed to the increase in revenue.

*Insurance* income includes net premiums earned less claims and policy benefits. Revenues continued to grow, increasing $22 million or 12% in 1998. CIBC Insurance is one of the fastest growing direct writers of property and casualty insurance in Canada and this product group accounted for most of the growth.

*Income from CIBC's securitized assets* was $120 million, an increase of $76 million over 1997. A $2 billion VISA securitization in the first half of 1998 accounted for a significant portion of the increase in revenues. For further details on asset securitizations, refer to page 35.

*Gains on sale of investment securities* include realized gains and losses on disposals as well as write-downs to reflect other than temporary impairments of securities held for investment purposes and totaled $96 million in 1998, down $140 million from 1997. Gains in 1997 included $90 million on the sale of CIBC's 45.7% interest in Commcorp Financial Services Inc. and $54 million on the sale of National Trust shares.

*Gains on sale of other assets* were $163 million in 1998, compared with $120 million in 1997. Gains in 1998 included $116 million on the sale of Comcheq, while 1997 results included a gain of $75 million on the sale of land interests and gains on the reorganization of CIBC's Caribbean operations.

*Other*, which includes fees for sundry services, totaled $555 million, an increase of $113 million over 1997.

### Trading revenue

Trading revenue was $137 million, compared with $749 million in 1997. CIBC incurred trading losses in the fourth quarter totaling $427 million. This resulted in a disappointing overall decline of $612 million from record trading revenue in 1997.

Trading revenue includes net interest income earned on trading portfolios together with net gains or losses from trading activities which occur in various businesses mainly within CIBC World Markets. CIBC holds positions in both liquid and less liquid traded financial instruments as a fundamental component of providing integrated financial solutions to meet client investment and risk management needs. Trading revenue is generated from these transactions with clients and, to a lesser extent, from proprietary trading. Traded instruments include debt and equity securities, as well as foreign exchange, commodity and derivative products. Positions are recorded at fair values, with realized or unrealized gains and losses from changes in fair value recognized in trading activities non-interest income, while net interest earned on trading positions is reflected as net interest income in the consolidated statements of income.

While trading positions provide the opportunity to generate trading gains, they are also subject to the risk of trading losses. A sophisticated risk management infrastructure permits measurement of the separate risk components and the overall risk that exist in trading portfolios. The overall risk position is expressed as a measure of potential one-day revenues/losses that, in normal markets, should not be exceeded more than 1% of the time. The ability to measure risk by component and in total permits management to increase or decrease risk exposures as tolerance levels change, and to increase or decrease the potential for gains or losses accordingly.

The trading units of CIBC actively trade positions within authorized levels, and attempt to generate trading revenue by managing client and proprietary positions using strategies that factor in market expectations, correlations and anticipated volatilities.

In the first three quarters of 1998, notwithstanding a difficult trading environment and the inclusion of a first quarter loss of $70 million from Asian exposures, trading revenue was slightly ahead of the equivalent period in 1997. However, significant market volatility in the fourth quarter, combined with illiquid markets and the breakdown of normal market correlations, sharply reduced the value of traded instruments, resulting in significant trading losses for CIBC along with many global investment banks. Widespread concern about the vulnerability of western markets to the effects of Asian and Eastern European economic problems prompted a widespread flight to quality which increased credit spreads, reduced equity prices and strengthened the U.S. dollar at the expense of other currencies including the Canadian dollar.

Widening credit spreads affected the market value of CIBC's high yield and other fixed rate instruments, producing interest rate products trading losses of $125 million in the fourth quarter, and an overall $282 million revenue decline year-over-year. Strong performance in equity arbitrage and equity derivatives over the first nine months was offset by the impact of the sharp decline in equity markets and by exceptionally high and sustained levels of price volatility. As a result, equity products trading losses were $272 million in the fourth quarter, and on an annual basis results were down $260 million from 1997. Trading revenues in other product classes also declined year-over-year, but less significantly.

Risk limits in the trading portfolios were reduced in the fourth quarter in response to market events and conditions. In addition, certain businesses were curtailed or discontinued.

A substantial component of trading losses is unrealized and CIBC may recoup some of its losses if the contributing conditions revert to historic norms.

**TRADING REVENUE**

| *$ millions, for the years ended October 31* | **1998** | 1997 | 1996 | (Decrease) 1998 vs 1997 $ | % |
|---|---|---|---|---|---|
| Net interest income *(TEB)* | **$ 71** | $ 177 | $ 141 | (106) | (60) |
| Trading activities | **66** | 572 | 296 | (506) | (88) |
| Total trading revenue | **$ 137** | $ 749 | $ 437 | (612) | (82) |
| By product: | | | | | |
| Interest rate | **$ 97** | $ 379 | $ 245 | (282) | (74) |
| Foreign exchange | **50** | 78 | 38 | (28) | (36) |
| Equities | **(40)** | 220 | 121 | (260) | (118) |
| Commodities and other | **30** | 72 | 33 | (42) | (58) |
| Total trading revenue | **$ 137** | $ 749 | $ 437 | (612) | (82) |

## EXPENSES

**NON-INTEREST EXPENSES**

| $ millions, for the years ended October 31 | 1998 | 1997 | 1996 | 1995 | 1994 | Increase (decrease) 1998 vs 1997 $ | % |
|---|---|---|---|---|---|---|---|
| Employee compensation and benefits: | | | | | | | |
| Salaries | **$ 2,330** | $ 1,858 | $ 1,704 | $ 1,604 | $ 1,568 | 472 | 25 |
| Incentive bonuses | **988** | 808 | 471 | 270 | 258 | 180 | 22 |
| Brokerage commissions | **463** | 172 | 126 | 84 | 101 | 291 | 169 |
| Benefits | **349** | 302 | 277 | 229 | 270 | 47 | 16 |
| | **4,130** | 3,140 | 2,578 | 2,187 | 2,197 | 990 | 32 |
| Occupancy costs | **556** | 436 | 434 | 429 | 439 | 120 | 28 |
| Computer and other equipment | **683** | 513 | 474 | 432 | 413 | 170 | 33 |
| Communications | **747** | 518 | 462 | 351 | 337 | 229 | 44 |
| Business and capital taxes | **130** | 152 | 125 | 128 | 123 | (22) | (14) |
| Professional fees | **229** | 153 | 131 | 105 | 108 | 76 | 50 |
| Deposit insurance premiums | **86** | 92 | 93 | 89 | 75 | (6) | (7) |
| Other | **564** | 368 | 287 | 270 | 215 | 196 | 53 |
| Total non-interest expenses | **$ 7,125** | $ 5,372 | $ 4,584 | $ 3,991 | $ 3,907 | 1,753 | 33 |

*Certain prior year results have been restated to conform with the presentation used in 1998.*

*Non-interest expenses include all of CIBC's costs except interest expenses, provisions for credit losses and income taxes.*

Non-interest expenses were $7,125 million, an increase of $1,753 million or 33% over 1997. The acquisition of Oppenheimer added $1,474 million to expenses, including $240 million of acquisition-related and integration costs, which affect the comparability of expenses year-over-year. Spending on strategic initiatives, a $79 million restructuring charge at CIBC World Markets and higher volumes in certain businesses also contributed to the increase in expenses in 1998.

The non-interest expenses to revenue ratio increased to 77.1%, from 62.3% in 1997. Excluding Oppenheimer acquisition-related and integration costs and the restructuring charge, the non-interest expenses to revenue ratio was 73.6%. By their nature, several of Oppenheimer's businesses have high expense to revenue ratios and their inclusion affects the comparison of the overall ratio for CIBC year-over-year. The ratio was also significantly affected by the decline in overall capital market revenues and particularly by the fourth quarter decline in trading revenue. A number of cost management initiatives are in place to constrain expense growth in 1999.

*Employee compensation and benefits* were $4,130 million, up $990 million or 32% from 1997. Oppenheimer accounted for an increase of $1,015 million, while compensation and benefits expenses in other units declined year-over-year.

*Salaries* were $2,330 million, an increase of $472 million or 25% over 1997. Severance costs included in the restructuring charge, Oppenheimer salaries and the recruitment of top-tier expertise in various industry and product areas in the United States contributed the bulk of the increase.

*Incentive bonuses* totaled $988 million, an increase of $180 million or 22% over 1997. Oppenheimer bonuses of $423 million, including $184 million of acquisition-related costs, more than accounted for the increase. Excluding Oppenheimer, incentive bonuses totaled $565 million, a decrease of $243 million or 30% from 1997. The decrease is primarily the result of lower revenues and operating results in CIBC World Markets. Oppenheimer acquisition-related costs will decline in 1999 by approximately $145 million.

*Brokerage commissions* were up $291 million to $463 million, primarily due to the additional commissions paid on Oppenheimer generated revenue.

*Computer and other equipment* costs were $683 million, an increase of $170 million or 33% over 1997. Of the total amount, computer technology costs were $643 million, up $159 million or 33% over 1997. Oppenheimer and strategic initiatives, including branch reconfiguration and electronic banking projects in P&C Bank, the U.S. expansion by CIBC World Markets, and the year 2000 program accounted for the increase.

*Communications* costs were $747 million, an increase of $229 million or 44% over 1997. Increases in advertising costs of $54 million, telecommunications and quotations costs of $61 million and business development expenditures of $97 million accounted for the growth. Reflected within those increases were Oppenheimer expenses of $160 million.

*Professional fees*, which include external consulting and legal fees, were $229 million, an increase of 50% over 1997, largely due to the implementation of strategic initiatives during the year.

*Deposit insurance premiums* decreased 7% to $86 million, primarily due to lower insured deposit levels.

*Other* comprises a variety of business expenditures including personnel costs, unrecoverable losses, outside services and donations. Oppenheimer accounted for $97 million of the $196 million increase.

## TAXES

Total taxes in the consolidated statements of income were $1,206 million in 1998, down $424 million from 1997, primarily as a result of reduced income levels.

The combined Canadian federal and provincial income tax rate is the parent bank's statutory income tax rate. Variations in this rate can result from legislative changes to corporate income tax rates enacted by the federal and provincial governments and from fluctuations in the allocation of earnings among provinces. There was minimal change in the statuory income tax rate in 1998.

Income taxes as a percentage of net income before income taxes declined to 34.3% in 1998, from 40.2% in 1997. This reduction resulted mainly from an increase in the mix of earnings attributable to lower tax rate foreign jurisdictions. The reduction was moderated by the effects of the large corporations tax and the federal temporary capital tax on large deposit-taking institutions, which do not decline when income falls, and by an increased share of earnings from domestic subsidiaries, which attract tax at higher rates. The 1998 federal budget, following the pattern of the 1996 and 1997 budgets, extended the temporary capital tax for another year.

Income tax as a percentage of net income before income taxes varies from the statutory income tax rate due to the effects of international income, tax-exempt interest and dividends and other factors, which are set out on page 77 in Note 14 to the consolidated financial statements.

Indirect taxes were $645 million, up $76 million or 13% from 1997 as a result of increases in payroll and sales taxes, partially offset by a decrease in capital taxes.

*Capital taxes* decreased because of lower taxable capital and legislative changes to the tax base.

*Business taxes* declined and *property taxes* increased by roughly offsetting amounts owing to changes in how Ontario municipalities assess local taxes.

*Payroll taxes* increased due to an increase in the number of employees and higher compensation.

*Sales taxes* increased in part because of increases in the provincial taxable base. In addition, rate changes in certain provinces that were enacted part way through 1997 were in effect for all of 1998.

**TAXES**

| *$ millions, for the years ended October 31* | **1998** | 1997 | 1996 | 1995 | 1994 |
|---|---|---|---|---|---|
| Income taxes | | | | | |
| Income taxes | **$ 460** | $ 937 | $ 911 | $ 635 | $ 550 |
| Taxable equivalent adjustment | **101** | 124 | 104 | 95 | 105 |
| | **561** | 1,061 | 1,015 | 730 | 655 |
| Indirect taxes | | | | | |
| Deposit insurance premiums | **86** | 92 | 93 | 89 | 75 |
| Capital taxes | **101** | 109 | 86 | 89 | 91 |
| Insurance premium sales taxes | **13** | 11 | 8 | 5 | 4 |
| Business taxes | **16** | 33 | 31 | 34 | 28 |
| Property taxes | **69** | 48 | 52 | 51 | 49 |
| Payroll taxes (employer portion) | **194** | 153 | 133 | 118 | 114 |
| GST and sales taxes | **166** | 123 | 112 | 106 | 114 |
| | **645** | 569 | 515 | 492 | 475 |
| Total taxes | **$ 1,206** | $ 1,630 | $ 1,530 | $ 1,222 | $ 1,130 |
| Combined Canadian federal and provincial tax rate | **43.2%** | 43.2% | 43.0% | 42.9% | 42.6% |
| Income tax as a percentage of net income before income taxes *(TEB)* | **34.3%** | 40.2% | 42.4% | 41.5% | 41.6% |
| Total taxes as a percentage of net income before deduction of total taxes *(TEB)* | **53.6%** | 51.1% | 52.9% | 54.9% | 56.1% |

## BALANCE SHEET

**CONDENSED BALANCE SHEETS**

| $ millions, as at October 31 | 1998 | 1997 | 1996 | 1995 | 1994 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash resources | **$ 10,795** | $ 7,931 | $ 8,120 | $ 15,419 | $ 9,436 |
| Securities held for investment and loan substitutes | **12,907** | 14,742 | 18,118 | 17,611 | 15,735 |
| Securities held for trading | **48,063** | 30,510 | 21,699 | 20,644 | 13,018 |
| Residential mortgages | **43,172** | 40,009 | 36,889 | 34,659 | 32,225 |
| Personal and credit card loans | **24,382** | 22,118 | 19,980 | 18,537 | 16,807 |
| Business and government loans, including acceptances | **59,405** | 56,108 | 53,148 | 51,067 | 51,581 |
| Securities purchased under resale agreements | **36,293** | 37,629 | 32,534 | 14,173 | 6,584 |
| Derivative instruments market valuation | **37,157** | 21,977 | 13,314 | 9,207 | 7,100 |
| Other assets | **9,256** | 6,965 | 6,430 | 5,191 | 4,889 |
| | **$ 281,430** | $ 237,989 | $ 210,232 | $ 186,508 | $ 157,375 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | | |
| Deposits | **$ 159,875** | $ 138,898 | $ 127,421 | $ 129,482 | $ 115,462 |
| Obligations related to securities sold short | **16,049** | 15,564 | 12,825 | 10,436 | 7,077 |
| Obligations related to securities sold under repurchase agreements | **32,610** | 28,368 | 29,082 | 11,775 | 3,492 |
| Derivative instruments market valuation | **36,245** | 21,376 | 12,500 | 8,135 | 6,373 |
| Other liabilities | **20,801** | 18,642 | 15,774 | 14,330 | 13,095 |
| Subordinated indebtedness | **4,714** | 4,894 | 3,892 | 3,671 | 3,441 |
| Shareholders' equity | **11,136** | 10,247 | 8,738 | 8,679 | 8,435 |
| | **$ 281,430** | $ 237,989 | $ 210,232 | $ 186,508 | $ 157,375 |

Total assets at October 31, 1998 were $281.4 billion, up 18% or $43.4 billion over 1997, primarily as a result of increases in securities held for trading, loans, derivative instruments market valuation and foreign currency translation. The acquisition of Oppenheimer accounted for approximately $7 billion of the increase. Liabilities were up primarily as a result of increases in deposits and derivative instruments market valuation.

Note 22 to the consolidated financial statements on page 86, provides details pertaining to the geographic distribution of major assets.

### Securities

*Securities held for investment* were $12.8 billion, down $1.8 billion from 1997. The reduction reflects a $3.9 billion reclassification of securities to the trading portfolio. All securities other than those held for trading are classified as securities held for investment and are recorded at cost. This includes government and corporate debt and equity.

As at October 31, 1998, the unrealized excess of market value over book value of CIBC's investment securities portfolio totaled $2.1 billion, up from $550 million in 1997. The change was largely due to a substantial increase in the market value of an investment in shares as a result of an initial public offering. The unrealized excess of market value over book value of securities held for investment is not included in income until realized. Note 3 to the consolidated financial statements on page 68 provides further details on the carrying and estimated market values of securities held for investment.

**SECURITIES HELD FOR INVESTMENT**

| $ millions, as at or for the years ended October 31 | 1998 | 1997 | 1996 |
|---|---|---|---|
| Securities held for investment | | | |
| Market value(1) | **$ 14,930** | $ 15,112 | $ 18,237 |
| Book value | **12,799** | 14,562 | 17,916 |
| Unrealized excess of market value over book value | **$ 2,131** | $ 550 | $ 321 |
| Unrealized excess of market value over book value at beginning of year | **$ 550** | $ 321 | $ 104 |
| Realized gains from the sale of securities | **(96)** | (236) | (68) |
| Appreciation in market value of securities held for investment | **1,677** | 465 | 285 |
| Unrealized excess of market value over book value at end of year | **$ 2,131** | $ 550 | $ 321 |

(1) Market values have not been reduced for any expenses associated with disposals, for illiquidity discounts, or for income taxes.

*Securities held for trading* increased $17.6 billion to $48.1 billion in 1998, primarily due to growth in securities which are held for short-term liquidity management and for resale to clients, as well as the result of the reclassification of securities from the investment portfolio. Securities held for trading are stated at estimated fair value with both realized and unrealized gains and losses included in trading activities in the consolidated statements of income.

## Loans and Acceptances

**LOANS AND ACCEPTANCES**

| (NET OF ALLOWANCE FOR CREDIT LOSSES) $ millions, as at October 31 | 1998 | 1997 | 1996 | Increase (decrease) 1998 vs 1997 $ | % |
|---|---|---|---|---|---|
| Residential mortgages | **$ 43,172** | $ 40,009 | $ 36,889 | 3,163 | 8 |
| Personal loans | **21,288** | 17,317 | 15,302 | 3,971 | 23 |
| Credit card loans | **3,094** | 4,801 | 4,678 | (1,707) | (36) |
| Total consumer loans | **67,554** | 62,127 | 56,869 | 5,427 | 9 |
| Non-residential mortgages | **2,508** | 2,586 | 2,783 | (78) | (3) |
| Trades and services | **23,358** | 17,647 | 16,412 | 5,711 | 32 |
| Manufacturing | **10,288** | 11,324 | 11,188 | (1,036) | (9) |
| Real estate | **4,763** | 4,627 | 5,155 | 136 | 3 |
| Agriculture | **2,610** | 2,409 | 2,133 | 201 | 8 |
| Natural resources | **5,631** | 5,570 | 4,164 | 61 | 1 |
| Transportation and communications | **7,051** | 9,180 | 8,912 | (2,129) | (23) |
| Other | **4,046** | 3,415 | 2,801 | 631 | 18 |
| Total business and government loans, including acceptances | **60,255** | 56,758 | 53,548 | 3,497 | 6 |
| Securities purchased under resale agreements | **36,293** | 37,629 | 32,534 | (1,336) | (4) |
| General allowance | **(850)** | (650) | (400) | (200) | (31) |
| Total net loans and acceptances | **$ 163,252** | $ 155,864 | $ 142,551 | 7,388 | 5 |

**EXPOSURES TO SELECT GEOGRAPHIC AREAS (1)**

| $ millions, as at September 30, 1998 (2) | Securities | Net Derivatives (3) | Lending-Related and Other Assets (4) | Lending-Related Off-Balance Sheet (5) | 1998 Total (6) |
|---|---|---|---|---|---|
| Asia: | | | | | |
| Indonesia | $ 2 | $ – | $ 76 | $ 71 | **$ 149** |
| Korea | 143 | 43 | 153 | 178 | **517** |
| Thailand | 51 | – | 93 | 48 | **192** |
| Malaysia | 50 | – | 32 | 31 | **113** |
| Philippines | 69 | – | 23 | – | **92** |
| | 315 | 43 | 377 | 328 | **1,063** |
| Japan | 1,281 | 178 | 2,278 | 1,499 | **5,236** |
| Hong Kong | 220 | 136 | 1,851 | 2,308 | **4,515** |
| Singapore | 6 | 44 | 814 | 823 | **1,687** |
| Taiwan | 331 | 25 | 461 | 874 | **1,691** |
| China | 18 | 26 | 490 | 127 | **661** |
| Other | 5 | – | 66 | – | **71** |
| | 2,176 | 452 | 6,337 | 5,959 | **14,924** |
| Latin America: | | | | | |
| Mexico | 49 | – | 108 | – | **157** |
| Brazil | 59 | – | 121 | – | **180** |
| Other | 190 | – | 391 | – | **581** |
| | 298 | – | 620 | – | **918** |
| Eastern Europe | 4 | – | 336 | 3 | **343** |
| | $ 2,478 | $ 452 | $ 7,293 | $ 5,962 | **$ 16,185** |

*(1) The information presented is consistent with that used by CIBC's credit risk management policies in assessing CIBC's exposure to select countries.*
*(2) This information is presented at September 30 for consistency with regulatory reporting which is on a calendar quarter basis. On and off-balance sheet items are allocated based on location of ultimate risk.*
*(3) Derivatives represent mark-to-market exposure of risk management instruments. Mark-to-market is a measure, at a point in time, of the value of a derivative contract in the open market. The impact of legally enforceable master netting agreements on these derivative contracts reduced exposure by $2.0 billion.*
*(4) Includes loans, mortgages, acceptances and $2.3 billion of deposits with banks.*
*(5) Includes undrawn letters of credit and loan commitments.*
*(6) Amounts by country differ from assets reflected in Note 22 to the consolidated financial statements which are not reduced for the effects of master netting agreements and exclude lending-related off-balance sheet amounts.*

### Portfolio Diversification

CIBC's loans and acceptances portfolio is well diversified to ensure that concentrations by customer, geographic region, industry and currency are within prudent and acceptable limits.

The overall mix of the portfolio between consumer and business and government loans is substantially unchanged from 1997 and 1996. The personal loan portfolio grew strongly, while a steady 8% growth in residential mortgages allowed CIBC to maintain its 12% share of the national market. The reduction in credit card loans is mainly the result of the securitization of $2 billion of the portfolio in April, 1998. Business and government loans also grew strongly, increasing by 6.1% despite the securitization of $6.1 billion of loans.

CIBC's economic exposure to Asia, Latin America and Eastern Europe totaled $16.2 billion. Exposures are low relative to CIBC's total assets of $281.4 billion and total outstanding credit commitments of $153 billion, however, management continues to monitor positions very closely. Net impaired loans in these regions at year end amounted to $15.3 million.

### Asset Securitization

CIBC periodically securitizes certain asset portfolios to manage asset concentration and growth. Securitization involves the sale of groups of loans or receivables to special purpose vehicles (SPVs) which issue securities to investors. Securitization transactions transfer substantially all of the risks and rewards of ownership and therefore meet accepted criteria for recognition as sales and, as such, the securitized assets are removed from the seller's consolidated balance sheets. This reduces corresponding risk-weighted assets and regulatory capital requirements and facilitates a more efficient deployment of capital.

Securitization affects the components of income reported in the consolidated statements of income. Amounts that would otherwise be included in net interest income and provision for credit losses are instead reflected in non-interest income. Non-interest income from securitization comprises gains on sales and servicing income, less losses under recourse arrangements. The gain on sale is recognized only when earned and received in cash and the SPV has no recourse to the cash.

The effects of securitization are illustrated in the following table:

**ASSET SECURITIZATION**

| *$ millions, as at or for the years ended October 31* | **1998** | 1997 | 1996 |
|---|---|---|---|
| Income statement effect on: | | | |
| Net interest income | **$ (107)** | $ (60) | $ – |
| Non-interest income | **67** | 39 | – |
| Provision for credit losses | **41** | 18 | – |
| Overall effect on income | **$ 1** | $ (3) | $ – |
| Assets securitized during the year: | | | |
| Dealerplan loans | **$ –** | $ 1,520 | $ 453 |
| Investment and non-investment grade loans and facilities | **6,100** | 3,340 | – |
| Credit card receivables | **2,000** | – | – |
| Total assets securitized during the year | **$ 8,100** | $ 4,860 | $ 453 |
| Outstanding at end of year | **$ 10,331** | $ 4,676 | $ 453 |
| Effect on risk-weighted assets for regulatory capital purposes | **$ (10,331)** | $ (3,532) | $ (453) |

During 1998, CIBC completed a securitization of investment and non-investment grade loans and facilities and a securitization of VISA receivables. CIBC also repurchased a similar pool of investment grade loans and facilities originally securitized in 1997. Both the investment grade loans and facilities and the credit card receivables were securitized on a revolving basis, wherein the value of the assets outstanding remains constant through the life of the securitization. In contrast, the automobile dealerplan loans were securitized during 1996 and 1997 on an amortizing basis. As borrowers repay these loans, the value of the securitized assets outstanding reduces. The recourse against CIBC for credit losses associated with the outstanding securitization portfolios totals $320 million, and is deducted against regulatory capital.

### Securities purchased under resale agreements

*Securities purchased under resale agreements* (reverse repos) totaled $36.3 billion, a decrease of $1.3 billion or 3.5% from 1997. In a reverse repo transaction, a security is purchased from a counterparty who provides an undertaking to repurchase it at a set price at a future date. Reverse repos are a low risk form of secured lending and have minimal capital requirements. They provide an attractive return relative to their low risk. In absolute terms, the interest earned on reverse repos is lower than on other loans, therefore this asset class reduces CIBC's overall net interest margin in percentage terms.

## Derivative instruments market valuation

*Derivative instruments market valuation* represents unrealized derivative gains and losses that are presented on the consolidated balance sheets as assets and liabilities, respectively. The balances have increased compared with 1997, primarily due to increased volumes of derivative transactions. These unrealized gains and losses tend to offset one another. At October 31, 1998, gains exceeded losses by $912 million compared with $601 million in 1997.

## Deposits

*Deposits* totaled $159.9 billion at October 31, 1998, an increase of 15.1%, or $21.0 billion over 1997.

Deposits from individuals were $60.0 billion, a marginal increase from 1997 levels, reflecting a continued low interest rate environment coupled with potentially higher yielding, off-balance sheet investment alternatives which have been more attractive to investors.

The increase of $16.4 billion or 27.2% in deposits from businesses and governments is required to fund asset growth. Deposits from businesses and governments include operating and investment accounts, as well as commercial paper and term certificates that are issued through domestic and international capital markets.

Note 7 to the consolidated financial statements on page 71 and the supplementary annual financial information on page 98, provide further details of the composition of deposits.

**DEPOSITS**

| *$ millions, as at October 31* | **1998** | 1997 | 1996 | 1995 | 1994 |
|---|---|---|---|---|---|
| Individuals | **$ 59,993** | $ 59,188 | $ 61,484 | $ 61,061 | $ 59,040 |
| Businesses and governments | **76,642** | 60,272 | 43,705 | 45,738 | 36,213 |
| Banks | **23,240** | 19,438 | 22,232 | 22,683 | 20,209 |
| | **$ 159,875** | $ 138,898 | $ 127,421 | $ 129,482 | $ 115,462 |
| Canadian currency | **$ 85,297** | $ 83,040 | $ 81,310 | $ 83,142 | $ 77,140 |
| Foreign currencies | **74,578** | 55,858 | 46,111 | 46,340 | 38,322 |
| | **$ 159,875** | $ 138,898 | $ 127,421 | $ 129,482 | $ 115,462 |

## Subordinated indebtedness

*Subordinated indebtedness* of $4.7 billion was down $0.2 billion from 1997. Redemptions and maturities totaled $1.1 billion. The decline in total subordinated indebtedness was moderated by $800 million of new issues during the year and by foreign currency fluctuations. Note 9 to the consolidated financial statements on page 72 provides further details on subordinated indebtedness.

## Shareholders' equity

*Shareholders' equity* increased to $11.1 billion from $10.2 billion in 1997. The increase was the result of the issuance of preferred shares and retention of earnings during the year. Note 11 to the consolidated financial statements on page 74 provides further details on share capital.

## CAPITAL STRENGTH

CIBC is strongly capitalized. Capital strength protects depositors and creditors, allows CIBC to undertake profitable business opportunities as they arise and helps to maintain favourable credit ratings. Internal policies require that CIBC exceed not only regulatory capital requirements, but also capital levels expected in the marketplace. Internal measures of required capital are based on sophisticated risk measurement techniques (see pages 45 to 55) and, within this context, capital levels and capital mix are managed to maximize shareholder value.

### REGULATORY CAPITAL AND CAPITAL RATIOS

The components of regulatory capital and required levels of capital are set out in guidelines issued by the Office of the Superintendent of Financial Institutions (OSFI). The guidelines were developed from standards issued by the Bank for International Settlements (BIS) and were first introduced in November, 1988 to address capital required to absorb potential credit losses. Effective January 1, 1998, amendments to the BIS and OSFI guidelines came into effect to address capital required to allow for market risk in trading portfolios. Subject to OSFI approval, banks are now allowed to use internal risk models to measure market risk for capital adequacy purposes. OSFI has approved CIBC's internal models and the required capital arising from trading activities is now based upon levels of specific risk and general market risk as measured by these models.

Regulatory capital comprises three tiers. Tier 1 capital is the most permanent and, therefore, most important. The components of CIBC's Tier 1 and Tier 2 capital are shown in the table. General allowances for credit losses may be included in Tier 2 capital, subject to approval from OSFI, but only to the extent of 0.75% of risk-weighted assets. Effective January 1, 1998, Tier 3 capital was introduced within the guidelines and consists of shorter term subordinated indebtedness with certain payback restrictions and can only be used to support a portion of the market risk required for trading portfolios. CIBC has not issued any Tier 3 capital to date. OSFI guidelines stipulate that the sum of Tier 2 and Tier 3 capital cannot exceed the amount of Tier 1 capital.

**REGULATORY CAPITAL AND CAPITAL RATIOS**

| *$ millions, as at October 31* | **1998** | 1997 | 1996 |
|---|---|---|---|
| **TIER 1 CAPITAL** | | | |
| Common shares | **$ 3,128** | $ 3,105 | $ 3,055 |
| Retained earnings | **6,047** | 5,624 | 4,615 |
| Non-cumulative preferred shares | **1,961** | 1,518 | 851 |
| Non-controlling interests in subsidiaries | **230** | 126 | 71 |
| Goodwill | **(154)** | (135) | (132) |
| | **11,212** | 10,238 | 8,460 |
| **TIER 2 CAPITAL** | | | |
| Perpetual debentures | **788** | 720 | 688 |
| Cumulative preferred shares | **–** | – | 217 |
| Other debentures (net of amortization) | **3,767** | 3,503 | 2,722 |
| General allowance for credit losses | **850** | 650 | – |
| | **5,405** | 4,873 | 3,627 |
| Total Tier 1 and Tier 2 capital | **16,617** | 15,111 | 12,087 |
| Securitization related deductions | **(320)** | (148) | (25) |
| Equity accounted investments | **(532)** | (494) | (532) |
| **TOTAL CAPITAL AVAILABLE FOR REGULATORY PURPOSES** | **$ 15,765** | $ 14,469 | $ 11,530 |
| **TOTAL RISK-WEIGHTED ASSETS (see page 38)** | **$ 145,475** | $ 147,259 | $ 128,044 |
| **REGULATORY CAPITAL RATIOS** (1) | | | |
| Tier 1 capital | **7.7%** | 7.0% | 6.6% |
| Total capital | **10.8%** | 9.8% | 9.0% |
| **LEVERAGE RATIO** (2) | **17.5x** | 17.0x | 18.6x |

*(1) Regulatory guidelines for banks in the United States differ in some respects from Canadian guidelines. It is estimated that under U.S. rules, CIBC's total capital ratio would have been 11.4% as at October 31, 1998.*
*(2) In addition to meeting minimum risk-weighted capital ratios, banks cannot exceed a leverage ratio of 20 times capital.*

Key measures of capital strength are the Tier 1 and total regulatory capital ratios which are calculated by dividing Tier 1 and total regulatory capital, respectively, by the calculated amount of risk-weighted assets. CIBC's Tier 1 and total regulatory capital ratios were 7.7% and 10.8% respectively, at October 31, 1998, significantly above the minimum regulatory requirements of 4% and 8% and well above OSFI's definition of a well capitalized financial institution of 7% Tier 1 and 10% total capital.

## RISK-WEIGHTED ASSETS

OSFI guidelines specify weighting factors to be applied to balance sheet assets and off-balance sheet exposures to recognize the varying degrees of risk on these items and to reflect both counterparty and market risks. The balance sheet asset and off-balance sheet exposure amounts are multiplied by the weighting factors to produce standardized measures of risk exposure referred to as risk-weighted assets. The guidelines specify requirements that must be met by value-at-risk simulation models used in deriving market risk measures associated with an institution's trading portfolios.

Risk-weighted assets were $145.5 billion at the end of 1998, down $1.8 billion from the prior year. The level of risk-weighted assets was influenced by several factors. Market risk capital guidelines introduced on January 1, 1998 reduced the risk weighting of certain traded assets to recognize risk-reduction mechanisms that are a normal part of trading activity. An increase in the proportion of derivative netting agreements in force reduced counterparty risk and permitted a further reduction in risk-weighted assets. As well, in April, the counterparty credit risk weighting applicable to regulated investment dealers was significantly reduced. Securitized assets and the purchase of CMHC insurance on a selected portfolio of residential mortgages reduced risk-weighted assets by $11.1 billion. These developments and initiatives offset normal risk-weighted asset growth in the lending and trading portfolios.

### RISK-WEIGHTED ASSETS

| | | | *Risk-Weighted Amounts* | |
|---|---|---|---|---|
| *$ millions, as at October 31* | Amount | **1998** | 1997 | 1996 |
| **ON-BALANCE SHEET ASSETS** *(Balance sheet amounts)* | | | | |
| Cash resources | $ 10,795 | **$ 1,729** | $ 1,449 | $ 1,409 |
| Securities issued or guaranteed by Canada, provinces, municipalities, OECD banks and governments | 33,111 | **522** | 487 | 395 |
| Other securities | 27,859 | **4,276** | 16,091 | 11,261 |
| Loans to or guaranteed by Canada, provinces, territories, municipalities, OECD banks and governments | 9,341 | **287** | 162 | 99 |
| Mortgage loans | 45,680 | **14,760** | 14,971 | 14,861 |
| Other loans | 97,236 | **62,103** | 62,192 | 57,460 |
| Derivative instruments market valuation | 37,157 | **–** | – | – |
| Acceptances | 10,995 | **10,379** | 9,932 | 8,503 |
| Other assets | 9,256 | **5,886** | 5,916 | 5,217 |
| Total on-balance sheet assets | $ 281,430 | **$ 99,942** | $111,200 | $ 99,205 |
| **OFF-BALANCE SHEET INSTRUMENTS** *(Contract/Notional amounts)* | | | | |
| Credit Related Arrangements | | | | |
| Lines of credit | $ 121,544 | **$ 17,879** | $ 18,448 | $ 14,550 |
| Guarantees and letters of credit | 31,342 | **6,945** | 8,975 | 8,324 |
| Other | 244 | **244** | 223 | 226 |
| | 153,130 | **25,068** | 27,646 | 23,100 |
| Derivatives | 2,166,729 | **8,896** | 8,413 | 5,739 |
| Total off-balance sheet instruments | $ 2,319,859 | **$ 33,964** | $ 36,059 | $ 28,839 |
| Total risk-weighted assets before adjustment for market risk | | **$ 133,906** | $147,259 | $128,044 |
| Add: Market risk for trading activity[1] | | **11,569** | NA | NA |
| **TOTAL RISK-WEIGHTED ASSETS** | | **$ 145,475** | $147,259 | $128,044 |

*(1) Under the 1998 Capital Accord, effective January 1998, trading assets are subject to market risk calculations. Risk-weighted assets for 1997 and 1996 have been calculated under the terms of the 1988 Capital Accord.*

## CAPITAL GENERATION

Total regulatory capital increased $1,296 million during the year, of which $498 million or 38% was internally generated.

External capital market activities contributed $798 million of net new capital in 1998 as the issuance of preferred shares and subordinated indebtedness more than offset the regulatory capital reductions from the redemption and conversion of existing issues.

On September 17, 1998, CIBC announced a program to repurchase up to 20 million of its outstanding common shares under the terms of a normal course issuer bid. The amounts and timing of repurchases, if any, are entirely at CIBC's discretion and can only be made prior to September 21, 1999, at prevailing market prices. No repurchases occurred during the fiscal year.

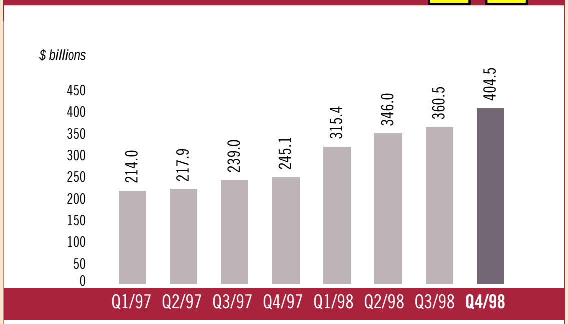
**CAPITAL GENERATION**

| *$ millions, for the years ended October 31* | **1998** | 1997 | 1996 |
|---|---|---|---|
| **INTERNALLY GENERATED CAPITAL** | | | |
| Net income | **$ 1,056** | $ 1,551 | $ 1,366 |
| Effect of implementing new accounting standard for impaired loans | **–** | – | (94) |
| Other amounts charged to retained earnings | **(19)** | (10) | – |
| Capital from operations | **1,037** | 1,541 | 1,272 |
| Dividends | **(614)** | (532) | (464) |
| General allowance for credit losses | **200** | 650 | – |
| Goodwill, equity accounted investments and securitization related deduction | **(125)** | (33) | (5) |
| | **498** | 1,626 | 803 |
| **EXTERNAL FINANCING** | | | |
| Subordinated indebtedness | **332** | 813 | 40 |
| Preferred shares | **443** | 450 | (321) |
| Common shares | **23** | 50 | (147) |
| Premium on repurchase of common shares | **–** | – | (281) |
| | **798** | 1,313 | (709) |
| **TOTAL INCREASE IN REGULATORY CAPITAL** | **$ 1,296** | $ 2,939 | $ 94 |

## ASSETS UNDER ADMINISTRATION

Assets under administration are assets that CIBC administers on behalf of clients for a fee. Administrative services include safekeeping of securities, collection of interest and dividends and settlement of purchase and sale transactions.

**ASSETS UNDER ADMINISTRATION(1)**




*(1) Excluded from CIBC's assets under administration are assets administered by our associates, TAL Global Asset Management Inc. and CEF Investment Management Limited, which totaled $26.3 billion at year end (excluding $16.9 billion of CIBC assets), an increase of $2.3 billion or 10% over last year.*

Assets under administration totaled $404.5 billion at the end of 1998, representing a $159.4 billion or 65% increase over 1997. The acquisition of Oppenheimer added $56.8 billion of administered assets to CIBC's portfolio. Wealth Management administered assets of $122 billion are included in assets under administration. Also included are assets administered for institutions, securitized assets and assets under custody for individuals. As these assets are owned by clients and not by CIBC, they are not included on the consolidated balance sheets.

## PERSONAL AND COMMERCIAL BANK

*The Personal and Commercial Bank (P&C Bank) is a full-service bank providing a wide range of credit, investment, advisory and insurance services to over 6.5 million individuals, 325,000 small businesses and 10,000 medium-sized corporate customers, primarily in Canada.*

### EARNINGS

In 1998, P&C Bank net income exceeded $1 billion for the first time, and return on equity was a record 29.3%. Net income totaled $1,060 million, an increase of $170 million or 19% over 1997. After excluding a $64 million gain on the sale of Comcheq, a non-core business, net income was $996 million, an increase of $106 million or 12% over last year. The provision for credit losses was reduced by $143 million, which increased net income by $80 million, as a result of both improved credit risk management and continued economic strength.

### REVENUE

P&C Bank's total revenue was $5,548 million on a taxable equivalent basis, an increase of $249 million or 5% over 1997. Revenue growth was driven by an increase of $231 million in non-interest income. This increase included $116 million from the sale of Comcheq, as well as growth in mutual funds, fiduciary services and insurance, and reflects P&C Bank's continued success in establishing diversified sources of revenue.

Net interest income was comparable to 1997. Revenue increases due to higher average earning assets were offset by lower margins due to intense price competition from both new and existing competitors and higher funding costs. These trends are expected to continue in 1999.

### EXPENSES

Non-interest expenses were $3,596 million, up $227 million or 7% over 1997 due to increased business volumes and spending on strategic initiatives. The non-interest expenses to revenue ratio increased to 64.8% from 63.6% in the prior year and was 66.2%, excluding the Comcheq sale proceeds.

Spending on strategic initiatives is required to provide customers with the best possible access to products and services and to ensure P&C Bank remains competitive. Furthermore, P&C Bank is committed to providing customers with the benefits of the latest technology in accessing a host of innovative products and services. Major initiatives in progress during 1998 included the transformation of the branch network to sales and advice centres, implementation of President's Choice Financial services to provide in-store and electronic financial services, the expansion of telephone, ABM and PC Banking, and continued investment in the year 2000 program. Total spending on these initiatives was $320 million in 1998, up from $221 million in 1997. In 1999, the challenge will be to contain expense growth while continuing to invest in these necessary initiatives.

### AVERAGE BALANCE SHEET

Average assets in 1998 were $99 billion, up $6 billion or 7% from 1997. Growth in loans and acceptances accounted for $5 billion of the increase and reflect the impact of low interest rates and the strong economy during most of 1998. Growth in personal loans, mortgages and commercial loans and acceptances was particularly strong. Average deposits increased moderately over last year, despite the continuing trend of customers migrating their investments to off-balance sheet products such as mutual funds and indexed portfolio services. To free up capital for business growth and investment, P&C Bank securitized $2 billion of VISA receivables during 1998. Slower economic growth is expected to moderate asset growth in 1999.

### BUSINESS DEVELOPMENTS

During 1998, P&C Bank had many notable achievements in all business lines.

- Market leader in PC and telephone banking, ranking in the top tier for best-in-class telephone banking service.
- Partnered with Loblaws in implementing President's Choice Financial services to provide in-store and electronic financial services.
- Created a joint venture with Hewlett-Packard Company, called INTRIA-HP, to provide electronic commerce to North American companies.
- Converted most Greater Toronto Area branches to sales and advice centres.
- Hired and trained over 600 financial advisers.

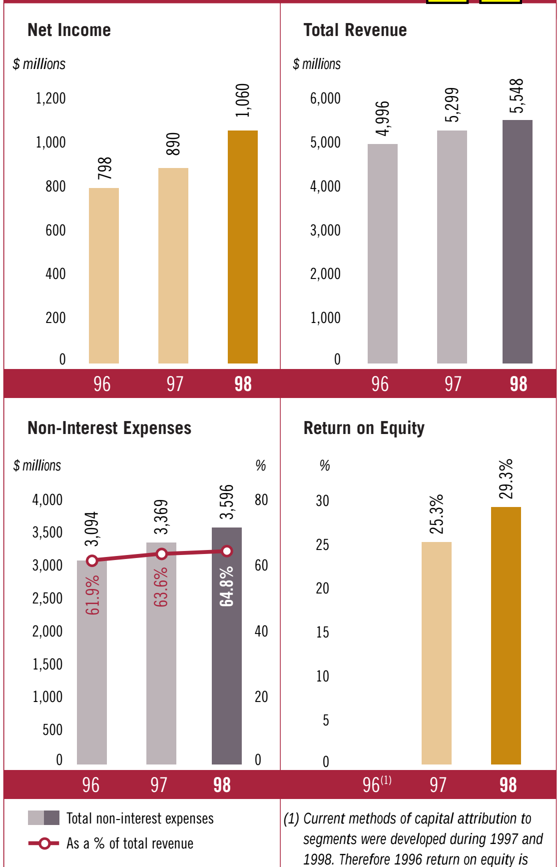
P&C Bank's main businesses are outlined on the next page. P&C Bank also earns revenue from its West Indies operations, Global Private Banking and certain treasury management activities. These areas generated revenues of $495 million in 1998, an increase of $24 million from 1997.

## PERSONAL AND COMMERCIAL BANK

| *$ millions, as at or for the years ended October 31* | **1998** | 1997 | 1996 |
|---|---|---|---|
| Net interest income (taxable equivalent basis) | **$ 3,614** | $ 3,596 | $ 3,510 |
| Non-interest income | **1,934** | 1,703 | 1,486 |
| Total revenue | **5,548** | 5,299 | 4,996 |
| Non-interest expenses | **3,596** | 3,369 | 3,094 |
| | **1,952** | 1,930 | 1,902 |
| Provision for credit losses | **254** | 397 | 457 |
| Net income before income taxes | **1,698** | 1,533 | 1,445 |
| Income taxes | **611** | 618 | 634 |
| Minority interests | **27** | 25 | 13 |
| Net income | **$ 1,060** | $ 890 | $ 798 |
| Selected average balance sheet items | | | |
| Loans and acceptances | **$ 86,774** | $81,441 | $76,942 |
| Total assets | **$ 99,394** | $93,034 | $84,416 |
| Deposits | **$ 77,289** | $77,073 | $77,370 |
| Selected statistics | | | |
| Return on equity | **29.3%** | 25.3% | (1) |
| Non-interest expenses to revenue ratio | **64.8%** | 63.6% | 61.9% |
| Full-time equivalent employees | **36,023** | 35,053 | 34,918 |

*(1) Current methods of capital attribution to segments were developed during 1997 and 1998. Therefore 1996 return on equity is excluded.*

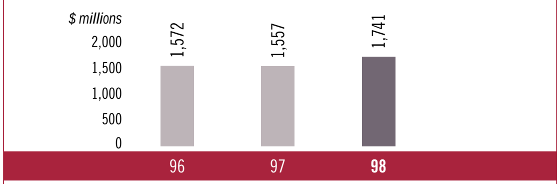
## PERSONAL AND COMMERCIAL BANK



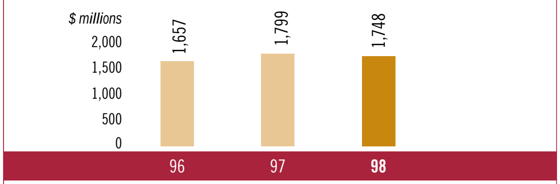

*(1) Current methods of capital attribution to segments were developed during 1997 and 1998. Therefore 1996 return on equity is excluded.*

## PERSONAL AND COMMERCIAL BANK REVENUE

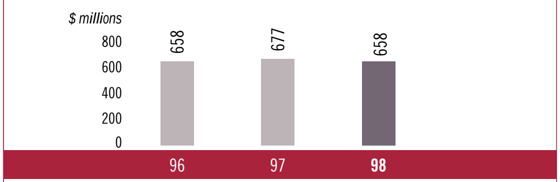
### Asset Management



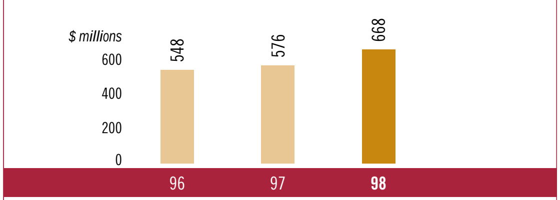

### Personal Lending



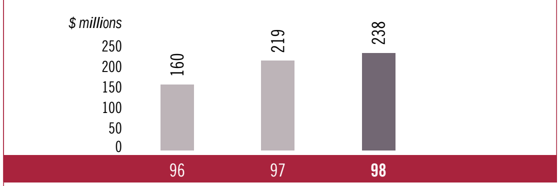

### Small Business




### Commercial Banking




### CIBC Insurance



## PERSONAL AND COMMERCIAL BANK – BUSINESSES AT A GLANCE

| BUSINESS UNIT | 1998 IN REVIEW | 1999 FOCUS |
|---|---|---|
| **ASSET MANAGEMENT**<br>*Investment management solutions, including fund management, discount brokerage, global private banking and trust, and fiduciary services* | **Highlights:**<br>• Revenue increased $184 million or 12% over 1997.<br>• Business volume growth was $6.4 billion or 8% over 1997.<br>**Objectives Achieved:**<br>• Introduced new deposit investments, mutual funds, and an index portfolio service.<br>• Enhanced marketing capability by investing in a customer-centred database to improve customer information delivery.<br>• Facilitated investor diversification by offering more products and aligning investors' portfolios with their objectives. | • Develop leadership position through a customer-focused approach that offers a full range of investment management solutions.<br>• Strengthen and further enhance high net worth offers in both domestic and global markets.<br>• Expand distribution capability.<br>• Enhance customer satisfaction by improving customer service responsiveness.<br>• Introduce a full range of capital protection mutual funds. |
| **PERSONAL LENDING**<br>*Consumer lending, card products, residential mortgages, and other credit services to individual customers* | **Highlights:**<br>• Revenue decreased $51 million or 3% from 1997, due to competitive pressures on interest margins in the residential mortgage and card products market and higher cost of funds.<br>• Volume growth was 8% over 1997, excluding securitization.<br>**Objectives Achieved:**<br>• Launched 4 VISA cards and a range of new value-added mortgage products, including AeroMortgage and Club Z Mortgage.<br>• Improved credit quality throughout the entire Personal Lending portfolio.<br>• Expanded electronic access points to provide more flexibility and convenience for customers. | • Strengthen customer loyalty through high service levels and new product offerings.<br>• Expand distribution channels and capability including further development of partner relationships by providing co-branded product offerings.<br>• Increase residential mortgage market share. |
| **SMALL BUSINESS**<br>*Lending, banking and investment services to small owner-operated businesses* | **Highlights:**<br>• Revenue decreased $19 million or 3% from 1997, a reflection of higher interest funding costs and competitive pricing.<br>• Average loans outstanding reached $7.5 billion in 1998.<br>**Objectives Achieved:**<br>• Launched Small Business Credit Offer with up to $100,000 of unsecured credit, a new streamlined application process and a 48-hour turnaround.<br>• Introduced the Year 2000 First Step Program to assist small businesses.<br>• Committed an additional $100 million to the Small Business Job Creation Loan Fund. | • Further simplify the credit application process.<br>• Improve customer access by offering more options on the Small Business Information Exchange.<br>• Assist Canadian small businesses to prepare for the new millennium with the Year 2000 First Step Program.<br>• Help create additional new jobs through the Job Creation Loan Fund. |
| **COMMERCIAL BANKING**<br>*Lending, banking and investment services to medium-sized companies* | **Highlights:**<br>• Revenue increased $92 million or 16% from 1997. Revenue excluding Comcheq business increased $19 million or 4% from 1997, as a result of volume growth.<br>• Loans and acceptances increased 8% and deposit volumes increased 13%.<br>• Loan loss was net recovery of $52 million.<br>**Objectives Achieved:**<br>• Introduced new products, including a mezzanine-financing program.<br>• Acquired Penfund to enhance our mid-market private placement and institutional funds management capability.<br>• Reduced non-core assets by completing the sale of Comcheq, our payroll subsidiary. | • Enhance electronic capability through a new business banking platform and seamless access to E-commerce.<br>• Maintain the high quality of the loan portfolio. |
| **CIBC INSURANCE**<br>*Direct seller of a full range of insurance products to individual customers* | **Highlights:**<br>• Premiums earned increased $50 million or 12% over 1997.<br>• Revenue, which comprises premiums earned less claims and policy benefit expense, plus investment income, increased $19 million or 9% over 1997.<br>• Policies in-force grew to 2.6 million, an increase of 7% over 1997.<br>**Objectives Achieved:**<br>• Maintained company growth despite slow growth of the property and casualty industry overall.<br>• Entered into strategic partnership with Customer Care Insurance Agency to ensure call centre and customer service excellence. | • Maintain a leadership position in direct insurance through an integrated, customer-focused organization.<br>• Continue to expand the offerings of creditor insurance to CIBC customers.<br>• Further enhance operational capabilities through streamlined technology and distribution. |

# CIBC WORLD MARKETS

*CIBC World Markets provides corporate and investment banking services to more than 7,000 corporate, government and institutional clients around the globe, as well as personal investment services to more than 200,000 individuals, primarily in Canada and the U.S.*

## EARNINGS

Financial results for 1998 were disappointing. Net income was $37 million, down from a record $576 million in 1997. Lower trading revenues accounted for approximately $344 million of the decline, while $143 million related to Oppenheimer acquisition-related and integration costs, and a further $44 million related to a restructuring charge for staff reductions and exiting or reducing certain business activities. Generally weaker capital markets revenues and expenses associated with building the U.S. business also contributed significantly to the year-over-year decline.

The first quarter presented a difficult business environment as Asian volatility reduced trading revenues and generally slowed North American capital markets activities. In the second quarter, markets rallied and revenues increased. Notwithstanding signs of strength in certain areas, financial results began to suffer with the emergence of a global market slowdown in the third quarter, and deteriorated further with the sharp capital markets declines in the fourth quarter.

## REVENUE

CIBC World Markets total revenue increased 21% to $3,531 million on a taxable equivalent basis. However, after excluding the $1,092 million increase attributable to Oppenheimer, 1998 revenues were down $471 million from 1997. The revenue decline was most evident in Capital Markets, due to the decline in trading revenues from the record levels of 1997, as discussed on page 30.

The prospects for capital markets in the coming year are uncertain; however, conditions did improve in October. The expansion of investment banking capabilities in the U.S. through the addition of specialized industry teams, the continued growth of the Structured Finance area and the strength of the Canadian franchise position CIBC World Markets to initiate and take advantage of business opportunities.

## EXPENSES

Non-interest expenses increased by $1,530 million or 77%, to $3,519 million in 1998. Oppenheimer operating costs accounted for $1,217 million of the increase, while an additional $240 million was due to the acquisition-related and integration costs. The increase in expenses in part reflects investment to achieve CIBC World Markets' goal of becoming a leading adviser and capital provider to mid-market growth companies and financial entrepreneurs in the U.S. In this regard, $106 million was invested in advertising and in the recruitment of top-tier research, industry and product specialists in 1998. Expenses also increased due to a $79 million restructuring charge and the strong U.S. dollar.

In the third quarter of 1998, Oppenheimer integration costs were increased by $55 million because of an intended consolidation of New York office premises. In the fourth quarter, consolidation plans were reconsidered and the charge was reversed.

## AVERAGE BALANCE SHEET

Average assets grew 26% in 1998 to $177 billion. Approximately $7 billion of the increase was attributable to the inclusion of Oppenheimer, $12 billion to appreciation of the U.S. dollar and the remainder to increases in select capital market activities. In 1998, CIBC World Markets securitized $6.1 billion of balance sheet assets as part of CIBC's capital management program.

## BUSINESS DEVELOPMENTS

Much was achieved in 1998 to advance CIBC World Markets strategy to be a premier provider of investment banking services in North America.

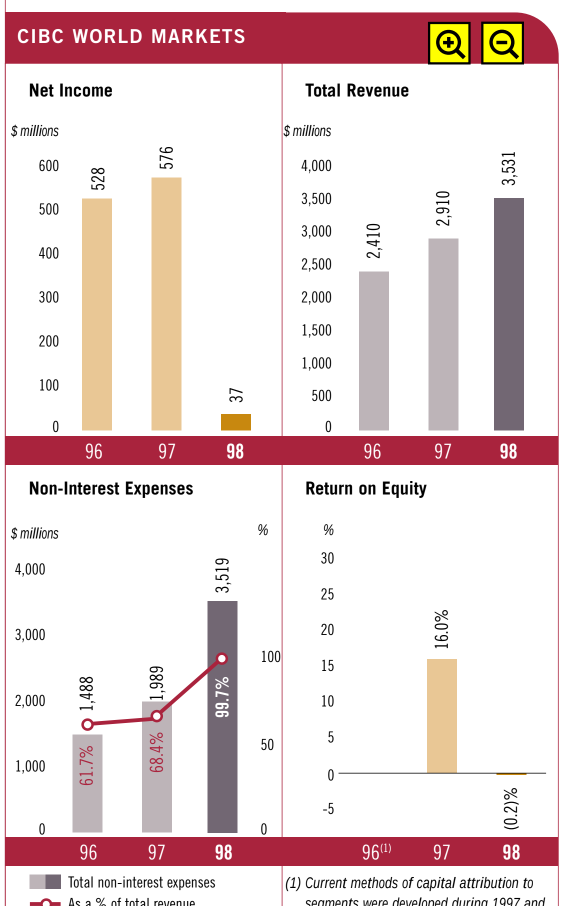
- Oppenheimer was integrated into CIBC World Markets operations.
- Specialized capital markets and investment banking industry group advisory capabilities were acquired.
- Structured Finance was expanded into a global securitization franchise covering Canada, the U.S., Europe and Asia.
- The Canadian Investment Banking business was again ranked #1 by The Financial Post.

CIBC World Markets main businesses are outlined on the next page. Revenue is also earned from sundry sources such as CEF Capital, an affiliated Asian merchant banking holding company and CIBC Mellon. Revenues from these sources were negative $23 million in 1998, compared with net revenue of $5 million in 1997. Revenues in CEF Capital were affected by Asian economic problems. During 1998, revenues from CIBC Mellon's custody and stock transfer business doubled largely due to the inclusion of a full year's revenues on the business acquired from Canada Trust in 1997.

## CIBC WORLD MARKETS

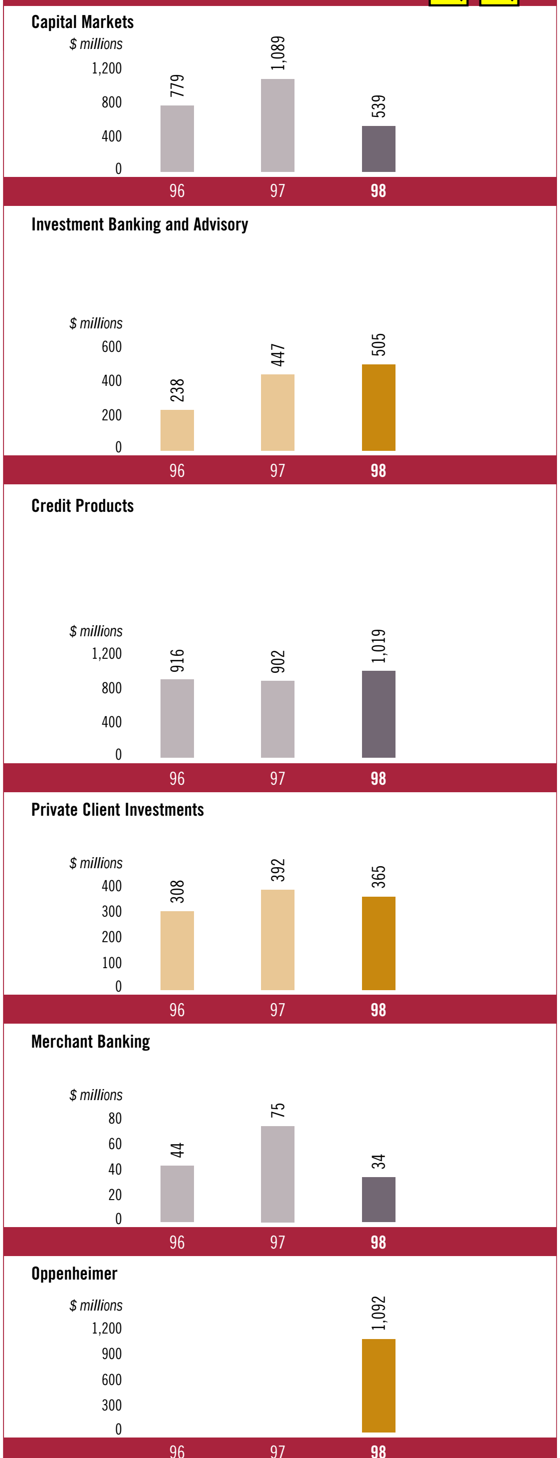
| *$ millions, as at or for the years ended October 31* | **1998** | 1997 | 1996 |
|---|---|---|---|
| Net interest income | | | |
| (taxable equivalent basis) | **$ 722** | $ 913 | $ 1,051 |
| Non-interest income | **2,809** | 1,997 | 1,359 |
| Total revenue | **3,531** | 2,910 | 2,410 |
| Non-interest expenses | **3,519** | 1,989 | 1,488 |
| | **12** | 921 | 922 |
| Provision for credit losses | **26** | (37) | 23 |
| Net income before income taxes | **(14)** | 958 | 899 |
| Income taxes | **(44)** | 380 | 370 |
| Minority interests | **(7)** | 2 | 1 |
| Net income | **$ 37** | $ 576 | $ 528 |
| Selected average balance sheet items | | | |
| Trading securities and repo loans | **$ 86,921** | $ 71,766 | $ 41,718 |
| Loans and acceptances | **$ 38,746** | $ 32,413 | $ 30,437 |
| Total assets | **$176,979** | $140,863 | $110,098 |
| Selected statistics | | | |
| Return on equity | **(0.2)%** | 16.0%. | (1) |
| Non-interest expenses to revenue ratio | **99.7 %** | 68.4% | 61.7% |
| Full-time equivalent employees | **9,158** | 5,523 | 5,000 |

*(1) Current methods of capital attribution to segments were developed during 1997 and 1998. Therefore 1996 return on equity is excluded.*




*(1) Current methods of capital attribution to segments were developed during 1997 and 1998. Therefore 1996 return on equity is excluded.*

## CIBC WORLD MARKETS REVENUE



# CIBC WORLD MARKETS – BUSINESSES AT A GLANCE

| BUSINESS UNIT | 1998 IN REVIEW[1] | 1999 FOCUS |
|---|---|---|
| **CAPITAL MARKETS**<br>*Trading, sales and distribution of debt, equity and derivative instruments, as well as research, syndication and funding and liquidity management* | **Highlights:**<br>• Revenue decreased $550 million or 51% from 1997.<br>• Severe market declines and volatility in the fourth quarter significantly reduced trading asset valuations, and therefore, aggregate trading revenues.<br>**Objectives Achieved:**<br>• Continued to be a leader in all Canadian markets.<br>• Integrated Oppenheimer's highly rated investment research capability. | • Focus on risk mitigation and cost management.<br>• Emphasize value-added solutions, to enhance client relationships. |
| **INVESTMENT BANKING AND ADVISORY**<br>*Equity, investment grade debt and high yield securities underwriting, as well as merger and acquisition and other financial advisory services* | **Highlights:**<br>• Revenue increased $58 million or 13% over 1997, despite minimal new issue activity in the fourth quarter.<br>• Advisory revenues were strong.<br>**Objectives Achieved:**<br>• Named Canada's leading underwriter by The Financial Post.<br>• Integrated U.S. industry groups from Oppenheimer, and expanded teams in Power and Utilities, Telecommunications, and Mergers and Acquisitions.<br>• Further strengthened our top-10 position in U.S.high yield. | • Aggressively pursue attractive fee based revenue.<br>• Utilize cross-referrals and coordinate marketing with Capital Markets, Credit Products and Merchant Banking.<br>• Focus of activities will be in North America. In Europe and Asia, the emphasis will be in selected industry groups. |
| **CREDIT PRODUCTS**<br>*Lending to large corporate clients, asset securitization, trade finance and asset based financial services* | **Highlights:**<br>• Revenue increased $117 million or 13% over 1997.<br>• Net interest income declined from 1997 as the portfolio was realigned.<br>• Securitization fee revenues increased.<br>**Objectives Achieved:**<br>• Canadian leader in credit products and asset securitization.<br>• Achieved a strong presence in the U.S. collateralized loan obligation market.<br>• Provided several loans forming part of multi-tier acquisition financings.<br>• Acquired a world-ranked securitization team located in Europe, Asia and Australia. | • Expand leadership in securitizations.<br>• Continue to develop world-class loan portfolio management capability.<br>• Selectively utilize credit products with clients where we are the lead bank or have a multi-product relationship. |
| **PRIVATE CLIENT INVESTMENTS**<br>*Retail brokerage business, including equity and debt investments and mutual fund products, as well as advisory and financial planning services for individuals* | **Highlights:**<br>• Revenue in Canada decreased $27 million or 7% from 1997, reflecting the adverse investment climate.<br>**Objectives Achieved:**<br>• Maintained our position as No.1 in Canada in assets managed per financial consultant.<br>• Integrated the U.S. sales force and implemented a deferred compensation plan. | • Maintain our leadership position in Canada by growing the sales force and continuing training and infrastructure development programs.<br>• Expand the U.S. sales force and number of offices.<br>• Continue to develop U.S. technology platform. |
| **MERCHANT BANKING**<br>*Equity capital and mezzanine debt financing for private companies, recapitalizations, project finance, management buyouts and bridge financings* | **Highlights:**<br>• Revenue decreased $41 million or 55% from 1997.<br>• Limited divestitures in the year.<br>• The portfolio holds investments with significant unrealized gains (revenue is recognized at time investments are sold).<br>**Objectives Achieved:**<br>• Generated a substantial increase in market value over book value in the investment portfolio. | • Pursue opportunities in the U.S. and U.K.<br>• Expand expertise to additional industry sectors.<br>• Divest holdings opportunistically as market and other considerations dictate. |
| **OPPENHEIMER**<br>*Acquired on November 3, 1997. Primary businesses comprise: Investment Banking, Capital Markets, and Private Client Investments.* | **Highlights:**<br>• Revenues of $1,092 million were below expectations due to weak markets in 1998.<br>**Objectives Achieved:**<br>• Operational integration is complete.<br>• Financial systems integration essentially complete. | • In 1999, operations will be reported in Capital Markets, Investment Banking and Advisory and in Private Client Investments. |

*(1) The financial systems integration of Oppenheimer, which was acquired effective November 3, 1997, was ongoing through 1998, and substantially completed by the year-end. For 1998, Oppenheimer revenues have been reported separately, rather than being combined with the revenue for the related CIBC World Markets business line.*

## WEALTH MANAGEMENT

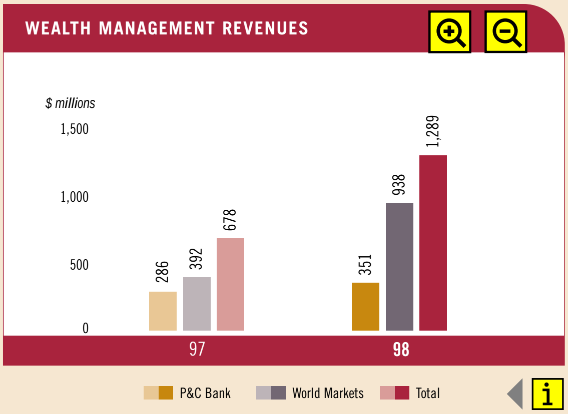
CIBC has Wealth Management businesses directed at individual customers in both P&C Bank and CIBC World Markets. CIBC World Markets Wealth Management services and revenues were significantly enhanced by the acquisition of Oppenheimer & Co., Inc. at the beginning of fiscal 1998. The major components of Wealth Management Administered Assets are shown in the table.

| BUSINESS | WEALTH MANAGEMENT ADMINISTERED ASSETS[1] | | | SERVICE |
|---|---|---|---|---|
| *$ billions as at October 31* | **1998** | 1997 | 1996 | |
| **P&C BANK** | | | | |
| Investors Edge Discount Brokerage | **$ 7.5** | $ 5.3 | $ 3.2 | Asset consolidation and brokerage trading services are offered through PC Banking, telephone banking and CIBC branches. |
| Trusts and Estates | **0.5** | 0.3 | 0.3 | Integrated investment, executor and estate management solutions. |
| Mutual Funds – includes Imperial pools (formerly Personal Porfolio Services) | **16.4** | 13.0 | 8.3 | Mutual funds and personal investment portfolios. |
| Global Private Banking and Trust | **14.6** | 11.1 | 10.9 | Offshore banking, investment, trust and advisory services are offered to a client base of affluent individuals. |
| | **$ 39.0** | $ 29.7 | $ 22.7 | |
| **CIBC WORLD MARKETS** | | | | |
| Private Client Investments | | | | Full-service retail brokerage businesses providing equity, debt and mutual fund products, as well as advisory and financial planning services to individuals. |
| Canadian Operations | **$ 31.6** | $ 32.9 | $ 27.2 | |
| U.S. Operations (CIBC Oppenheimer) | **51.1** | – | – | |
| | **$ 82.7** | $ 32.9 | $ 27.2 | |
| | **$ 121.7** | $ 62.6 | $ 49.9 | |

*(1) Excludes TAL Global Asset Management Inc.'s other managed assets.*

### REVENUES

Revenue from Wealth Management businesses totaled $1,289 million in 1998, an increase of 90% over 1997. P&C Bank's Wealth Management revenues totaled $351 million, up $65 million or 23% from 1997. CIBC World Markets Wealth Management revenues totaled $938 million, an increase of $546 million or 139% over 1997 due to the inclusion of Oppenheimer, which added revenues totaling $573 million. The Wealth Management business is particularly valued because of its growth potential, low capital requirements and generally predictable revenue streams.



# RISK MANAGEMENT

CIBC manages risk through a comprehensive framework of infrastructure, policies and methods that support active and effective management.

## OVERVIEW AND INFRASTRUCTURE

Two standing comittees of CIBC's Board of Directors oversee management's activities that result in risk. The board reviews and approves all credit, investment and market risk policies annually.

At the operational level, four management committees, comprised of senior management and business line representatives, oversee and direct CIBC's risk exposures arising from business activities.

The two board and four management committees establish risk management policies, limits and procedures, approve risk management strategies, and monitor portfolio performance and trends.

The Risk Management Division works closely with the lines of business and the board and management committees to manage CIBC's exposure to three basic types of risk – credit, market and operational. A discussion of these types of basic risk follows on pages 46-57.

**BOARD OF DIRECTORS**

**RISK MANAGEMENT AND CONDUCT REVIEW COMMITTEE:**
- Ensures policy guidelines and systems exist and are adhered to (credit, market, operational).
- Reviews and approves policies on loan concentrations.
- Reviews and approves procedures for dealing with related party transactions and conflict of interest issues.
- Reviews year 2000 program.

*Chair: External Director*

**AUDIT COMMITTEE:**
- Oversees CIBC's financial reporting process on behalf of the Board of Directors.
- Reviews CIBC's financial statements.
- Liaises with internal and external auditors.
- Reviews internal control procedures and loan loss provisions.

*Chair: External Director*

**MANAGEMENT COMMITTEES[1]**

**CREDIT AND INVESTMENT POLICY COMMITTEE:**
- Approves credit risk management and investment policies.
- Reviews the diversity and composition of the asset portfolio.
- Approves specific business plans.

*Chair: Chairman & CEO, CIBC*

**ASSET LIABILITY MANAGEMENT COMMITTEE (ALCO):**
- Establishes and enforces market risk policies.
- Assesses strategies for management of assets, liabilities and capital.

*Chair: Chairman & CEO, CIBC*

**CREDIT COMMITTEE:**
- Approves credit requests over $100 million.
- Presents new credit requests and certain renewals over $100 million to Board of Directors.

*Chair: Sr. Executive Vice-President, Risk Management*

**INVESTMENT COMMITTEE:**
- Approves merchant banking investments within delegated limits.

*Co-Chairs: Sr. Executive Vice-President, Risk Management*
*Chairman & CEO, CIBC Wood Gundy Securities Inc.*

**RISK MANAGEMENT DIVISION**

- Designs, recommends and implements infrastructure to manage risk.
- Develops, recommends and monitors adherence to risk management policy.
- Establishes methods and tools to give effect to risk management.
- Manages CIBC's global exposure to credit, market and operational risk through offices located across Canada, and in New York, London, Singapore and the West Indies.

*(1) In addition to the management committees described, there are committees comprised of senior risk and business management personnel in each of CIBC's business segments. These committees are responsible for ensuring compliance with risk management policies as part of on-going operational activities.*

## CREDIT RISK MANAGEMENT

In the normal course of business, credit risk arises when CIBC relies on another party to honour or perform contractual obligations that have economic value to CIBC.

*Direct credit risk* arises on the loan portfolio and represents the possibility that customers will be unable or unwilling to repay some of, or the entire principal amount they have borrowed, or to make interest payments when due.

*Contingent credit risk* arises on derivative instruments. When CIBC's entitlements under a derivative contract have developed value, CIBC is dependent on the counterparty honouring its obligations so that CIBC can realize that value. The contingent credit risk is represented by the market value of the contract, plus an allowance for potential increases in market value in the future. Market value is the amount CIBC's counterparty would be required to pay another party to assume obligations to CIBC under the contract.

### Infrastructure

CIBC's credit authority emanates from the Board of Directors and is delegated through the chairman and chief executive officer to the senior executive vice-president, risk management. This authority is ultimately delegated, in part, to senior officers of risk management and to the presidents of CIBC's two major business segments, P&C Bank and CIBC World Markets. The risk management division directs the delegation of credit authority within CIBC's line organization.

CIBC's risk management structure controls the credit process and is designed to instill a strong sense of accountability and a disciplined approach throughout the organization.

### Policies

Direct credit risk and contingent credit risk are aggregated and subjected to the same credit policies and processes.

Policies designed to prevent concentrations within CIBC's loan portfolio are fundamental to the management of direct credit risk. Two key policies are:

- the single name/common risk concentration policy which limits CIBC's exposure to any individual borrower or group of related borrowers, based on risk rating.
- the industry concentration policy which limits the percentage of the business loan and securities portfolios, within 16 industry groups.

Other credit risk policies address management of geographic and product concentrations, requirements for real estate appraisals, maintenance of portfolio lending standards, delegation of lending authority and conflicts of interest with respect to mergers and acquisitions.

### Methods

CIBC imposes a disciplined approach to risk by continuously monitoring all credit exposures and aggressively managing past due and impaired accounts. Computer-based loan management models, formal risk rating guidelines for commercial and corporate clients, and credit scoring for small business and consumer clients are some of the tools used by credit officers and risk managers in identifying and managing risk. Specific industry profiles have been developed, outlining factors such as key credit risks, and appropriate products and terms to assist lending officers and risk managers in adhering to policies and standards.

*Country risk* arises when CIBC is exposed to the possibility that our assets could become frozen in a foreign country because of imposed exchange controls or other economic or political disturbances. With the exception of Canada and the United States, the credit worthiness of all countries in which CIBC operates is assessed and rated at least annually. Formal restrictions are in place against transactions in high risk or sensitive countries to ensure exposures are subject to review and approval by Risk Management Division and appropriate management committees.

*Environmental risk* associated with lending activities is proactively managed through a formal Environmental Risk Management program. Under the program, lenders and risk managers receive training and support to identify and evaluate potential environmental risk exposure and to help customers understand their environmental risks. Where appropriate, environmental assessments are conducted to evaluate and mitigate these risks.

*Year 2000 risk* arises as CIBC customers face the possibility of business interruption due to the inability of computer applications and systems to recognize the year 2000 and beyond. Disruption of customer businesses, should they occur, may impact the ability of customers to honour their obligations. Therefore, CIBC assesses customer preparedness and the potential impact of the year 2000 on customer business operations as part of the credit process. CIBC has also developed strategies to increase customer awareness of the year 2000 issue.

### Impaired loans

Impaired loans are those for which, in the opinion of management, there no longer is reasonable assurance of the full and timely collection of principal and interest. Note 1 to the consolidated financial statements, commencing on page 64, outlines the criteria and processes for designating and accounting for impaired loans.

CIBC's gross impaired loan portfolio declined in 1998 for the sixth consecutive year. During the year, $1,227 million of loans were newly classified as impaired, a decline of $93 million from 1997, while reductions in gross impaired loans through remediation, repayment or sale amounted to $768 million. Gross impaired loans prior to write-offs increased $459 million. After deducting write-offs of $592 million, gross impaired loans totaled $1,486 million, down $133 million or 8% from 1997.

CIBC's gross impaired loans are more than offset by the allowance for credit losses, resulting in a negative net impaired loans position.

Impaired real estate loans totaled $327 million, down $2.1 billion from the peak of $2.4 billion in fiscal 1993.

In Asia, gross impaired loans amount to $76.6 million while net impaired Asian loans amount to $15.3 million. The Asian portfolio is appropriately provisioned for known losses.

The reduction in gross impaired loans reflects general stability in levels of newly classified impaired loans over the last few years of healthy economic growth, continued success in remediation and a realistic policy towards write-offs.

**CHANGES IN NET IMPAIRED LOANS**

| *$ millions, as at or for the years ended October 31* | Commercial loans | Consumer loans | General allowance | 1998 Total | Commercial loans | Consumer loans | General allowance | 1997 Total | Commercial loans | Consumer loans | General allowance | 1996 Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **GROSS IMPAIRED LOANS** | | | | | | | | | | | | |
| Balance at beginning of year | $ 1,203 | $ 416 | $ – | $ 1,619 | $ 1,668 | $ 446 | $ – | $ 2,114 | $ 2,318 | $ 465 | $ – | $ 2,783 |
| New additions | 485 | 742 | – | 1,227 | 511 | 809 | – | 1,320 | 519 | 821 | – | 1,340 |
| Returned to performing status, repaid or sold | (388) | (380) | – | (768) | (736) | (458) | – | (1,194) | (774) | (444) | – | (1,218) |
| | 97 | 362 | – | 459 | (225) | 351 | – | 126 | (255) | 377 | – | 122 |
| Write-offs | (250) | (342) | – | (592) | (240) | (381) | – | (621) | (395) | (396) | – | (791) |
| Increase (decrease) in gross impaired | (153) | 20 | – | (133) | (465) | (30) | – | (495) | (650) | (19) | – | (669) |
| Balance at end of year | $ 1,050 | $ 436 | $ – | $ 1,486 | $ 1,203 | $ 416 | $ – | $ 1,619 | $ 1,668 | $ 446 | $ – | $ 2,114 |
| **ALLOWANCES** | | | | | | | | | | | | |
| Balance at beginning of year | $ 724 | $ 217 | $ 650 | $ 1,591 | $ 827 | $ 195 | $ 400 | $ 1,422 | $ 960 | $ 206 | $ 372 | $ 1,538 |
| Write-offs | (250) | (342) | – | (592) | (240) | (381) | – | (621) | (395) | (396) | (65)[1] | (856) |
| Provisions | 18 | 262 | 200 | 480 | 31 | 329 | 250 | 610 | 84 | 303 | 93 | 480 |
| Recoveries | 53 | 79 | – | 132 | 83 | 74 | – | 157 | 51 | 62 | – | 113 |
| Foreign exchange and other | 6 | (8) | – | (2) | 23 | – | – | 23 | (18) | – | – | (18) |
| Adjustment for accounting change | – | – | – | – | – | – | – | – | 145 | 20 | – | 165 |
| Balance at end of year[2] | $ 551 | $ 208 | $ 850 | $ 1,609 | $ 724 | $ 217 | $ 650 | $ 1,591 | $ 827 | $ 195 | $ 400 | $ 1,422 |
| **NET IMPAIRED LOANS** | | | | | | | | | | | | |
| Balance at beginning of year | $ 479 | $ 199 | $ (650) | $ 28 | $ 841 | $ 251 | $ (400) | $ 692 | $ 1,358 | $ 259 | $ (372) | $ 1,245 |
| Net change in gross impaired | (153) | 20 | – | (133) | (465) | (30) | – | (495) | (650) | (19) | – | (669) |
| Net change in allowance | 173 | 9 | (200) | (18) | 103 | (22) | (250) | (169) | 133 | 11 | (28) | 116 |
| Balance at end of year | $ 499 | $ 228 | $ (850) | $ (123) | $ 479 | $ 199 | $ (650) | $ 28 | $ 841 | $ 251 | $ (400) | $ 692 |

*(1) The $65 million write-offs in general represented realized losses on Lesser Developed Countries (LDCs) debts.*
*(2) Excludes allowances on letters of credit totaling $17 million (1997: $4 million; 1996: $19 million).*

## IMPAIRED LOANS

| $ millions, as at October 31 | Gross impaired loans 1998 | 1997 | 1996 | Allowance for credit losses 1998 | 1997 | 1996 | Net impaired loans 1998 | 1997 | 1996 |
|---|---|---|---|---|---|---|---|---|---|
| Residential mortgages | **$ 135** | $ 134 | $ 207 | **$ 27** | $ 30 | $ 43 | **$ 108** | $ 104 | $ 164 |
| Personal loans | **301** | 282 | 239 | **181** | 187 | 152 | **120** | 95 | 87 |
| Credit card loans[1] | **–** | – | – | **–** | – | – | **–** | – | – |
| Total consumer loans | **436** | 416 | 446 | **208** | 217 | 195 | **228** | 199 | 251 |
| Non-residential mortgages | **64** | 78 | 121 | **41** | 57 | 80 | **23** | 21 | 41 |
| Trades and services | **230** | 295 | 260 | **110** | 172 | 132 | **120** | 123 | 128 |
| Manufacturing | **105** | 139 | 126 | **61** | 73 | 84 | **44** | 66 | 42 |
| Real estate | **327** | 514 | 977 | **185** | 318 | 417 | **142** | 196 | 560 |
| Agriculture | **27** | 20 | 16 | **8** | 5 | 4 | **19** | 15 | 12 |
| Natural resources | **13** | 10 | 10 | **8** | 7 | 6 | **5** | 3 | 4 |
| Transportation and communications | **263** | 128 | 126 | **125** | 80 | 82 | **138** | 48 | 44 |
| Other | **21** | 19 | 32 | **13** | 12 | 22 | **8** | 7 | 10 |
| Total business and government loans | **1,050** | 1,203 | 1,668 | **551** | 724 | 827 | **499** | 479 | 841 |
| | **1,486** | 1,619 | 2,114 | **759** | 941 | 1,022 | **727** | 678 | 1,092 |
| General allowance[2] | | | | **850** | 650 | 400 | **(850)** | (650) | (400) |
| | **$ 1,486** | $ 1,619 | $ 2,114 | **$ 1,609** | $ 1,591 | $ 1,422 | **$ (123)** | $ 28 | $ 692 |
| As a percentage of total net loans and acceptances | | | | | | | **(0.08)%** | 0.02% | 0.5% |
| As a percentage of shareholders' equity | | | | | | | **(1.1)%** | 0.3% | 7.9% |

*(1) OSFI requires credit card loans, where payment is contractually 180 days in arrears, to be written off.*
*(2) For purposes of this presentation, the general allowance for credit losses, which is available for the loan portfolio as a whole, has been deducted from impaired loans.*

### Allowances – general and specific

At October 31, 1998, the accumulated total allowance for credit losses was $1,609 million, up $18 million from a year ago. Allowances now represent 108% of the gross impaired loans and acceptances portfolio, up from 98% in 1997. Specific allowances now account for 47% of the total allowances, down from 59% in 1997, reflecting the continued build-up of general allowances and decline in gross impaired loans. The general allowance of $850 million accounted for 53% of the total allowance, and increased for the fourth consecutive year.

Allowances specifically related to the consumer portfolios were substantially unchanged from 1997, while net impaired loans, before general provisions, were marginally higher. Allowances required for the business and government loan portfolio declined in line with the decline in gross impaired loans. Net impaired business and government loans increased by $20 million before the general allowance.

*General Allowance*

During 1998, OSFI issued a letter providing further guidance on general allowances for credit risk and reflecting further developments in OSFI's approach to assessing the adequacy of general allowances. This guidance builds upon the principles in a policy statement, General Allowances for Credit Risk, issued in July 1997. OSFI has increased the amount of general allowance that may be included in Tier 2 capital in 1998 to 0.75% of risk-weighted assets, on approved application, up from 0.625% in 1997. CIBC has been advised that during the 1999 fiscal year, OSFI will formally introduce general allowance assessment criteria.

CIBC has increased its general allowance by $200 million to $850 million or 0.584% of risk-weighted assets, as at October 31, 1998. This amount, which is available to absorb losses that arise on the portfolio as a whole, was derived from CIBC's historical records of the pattern of credit deterioration on individual loans and loss statistics, a view of economic conditions and management judgment. It represents the level of allowance which, in the opinion of management, provides adequately for deterioration in the loan portfolio when considered together with specific allowances.

### Provisions

During 1998, the provision for credit losses charged to income was $480 million, compared with $610 million in 1997 and $480 million in 1996. The 1998 provision included $280 million to establish the appropriate level of specific allowance and $200 million to increase the general allowance. The specific allowance is calculated by reference to the present value of expected future cash flows on impaired loans as described on page 65 in Note 1 to the consolidated financial statements.

Within the consumer loan portfolio, the provision for credit card loans had the largest improvement, declining by $49 million or 31%. This decline was due to the improved quality of the portfolio and securitization of $2 billion or 39% of the loans. Adding back the effect of the securitization, the provision for credit losses on credit card loans would have been $136 million, a decrease of $23 million or 14% from 1997, on a portfolio that grew 6%.

Over the past two years, specific provisions for losses on business and government loans have declined while CIBC has also realized recoveries on certain loans written off in prior years. This trend may come under pressure in view of current world economic conditions. If economic conditions slow in North America or deteriorate internationally, CIBC expects that further increases in the provision for credit losses may be appropriate. CIBC is also monitoring specific sectors, such as natural resources.

**PROVISION FOR CREDIT LOSSES**

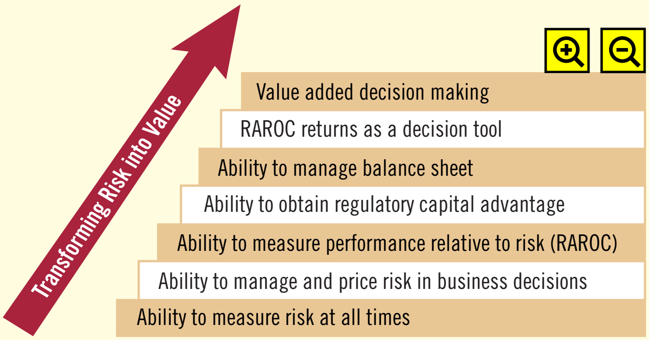
| *$ millions, as at October 31* | | **1998** | 1997 | 1996 |
|---|---|---|---|---|
| **PROVISION (RECOVERY) IN CANADA** | | | | |
| Residential mortgages | | **$ 8** | $ 11 | $ 27 |
| Personal loans | | **139** | 155 | 119 |
| Credit card loans | | **110** | 159 | 155 |
| Total consumer loans | | **257** | 325 | 301 |
| Non-residential mortgages | | **1** | 12 | 22 |
| Trades and services | | **14** | 28 | 32 |
| Manufacturing | | **(3)** | 12 | 36 |
| Real estate | | **(94)** | (9) | 27 |
| Agriculture | | **2** | – | – |
| Natural resources | | **(2)** | – | (2) |
| Transportation and communications | | **33** | 2 | 14 |
| Other | | **6** | 4 | 1 |
| Total business and government loans | | **(43)** | 49 | 130 |
| **PROVISION (RECOVERY) OUTSIDE CANADA** | | | | |
| United States | | | | |
| Trades and services | | **14** | 57 | (1) |
| Manufacturing | | **5** | 17 | 9 |
| Real estate | | **(11)** | (59) | (33) |
| Transportation and communications | | **(1)** | 2 | 1 |
| Other | | **9** | (10) | – |
| | | **16** | 7 | (24) |
| Other countries | | | | |
| Trades and services | | **1** | (2) | 14 |
| Manufacturing | | **15** | (7) | 13 |
| Real estate | | **2** | (10) | (49) |
| Transportation and communications | | **23** | (5) | (1) |
| Other | | **9** | 3 | 3 |
| | | **50** | (21) | (20) |
| Credit losses charged to income | - specific provision | **280** | 360 | 387 |
| | - general provision | **200** | 250 | 93 |
| Total credit losses charged to the consolidated statements of income | | **$ 480** | $ 610 | $ 480 |
| As a percentage of total net loans and acceptances | | **0.3%** | 0.4% | 0.3% |

## MARKET RISK MANAGEMENT

*Market risk* is the risk of loss arising from changes in values of financial instruments, and includes interest rate, foreign exchange, equity, commodity and liquidity risks. *Credit risk* on trading products is the risk of loss from changes in debtor or counterparty credit quality. CIBC engages in transactions, in the normal course of business, that encompass both market risk and some aspects of credit risk and which together are often referred to as price risk.

CIBC's framework for risk management comprises infrastructure, policies and methods, and CIBC considers its current framework to meet best practice risk management standards.

Within CIBC, an independent market risk management group oversees all market risks associated with trading portfolios as well as structural market risks associated with CIBC's balance sheet. Market risk management processes ensure that overall price risk, and its components, are well understood within the organization.




***CIBC's framework for best practice risk management sets a foundation for sound stewardship, and promotes value added decision-making.***

The building blocks of market risk processes provide the opportunity for competitive advantage by providing a rigorous approach to measuring the risks and rewards of many business alternatives. CIBC uses Risk Adjusted Return on Capital (RAROC) as a tool in active portfolio management to optimize the allocation of capital to those businesses that will provide the highest returns relative to the risk assumed. In addition, regulatory acceptance of CIBC's proprietary risk measurement models permits CIBC to better deploy capital by using assets more effectively than would be possible under the standardized model developed by the Bank for International Settlements (BIS) 98 Accord related to market risk capital requirements.

In January 1998, CIBC received approval from OSFI to use proprietary risk measurement models for all aspects of BIS 98 related to market risk capital requirements. In September 1998, CIBC's U.K. subsidiary received approval from the Bank of England to use CIBC's proprietary credit risk model to calculate capital under its regulatory directives.

For purposes of BIS 98, CIBC measures general and specific market risks.

- *Interest rate risk* is risk relating to the parallel and non-parallel shifts upward or downward in yield curves;
- *Credit spread risk* is risk arising from changes in the market's perception of generic and individual credit quality and liquidity;
- *Equity risk* is risk arising from movements in share prices or share indices;
- *Foreign exchange risk* is risk arising from exchange rate movements;
- *Commodity risk* is risk arising from movements in commodity prices.

Specific market risk relates to debtor or counterparty credit quality for both interest rate risks and equity risks.

### Infrastructure

The market risk management group is independent of the business units. Its activities are reviewed and approved, as appropriate, by the ALCO and, ultimately, by the Risk Management and Conduct Review Committee of the Board. In addition to understanding, measuring and monitoring risks, market risk management ensures that, on a daily basis, the individual components and overall trading market risk exposures of CIBC are within approved risk limits. The quality and skills of risk managers are critical to achieving best practices risk management. Each of the distinct but related functions of the market risk management group is led by qualified risk managers. CIBC has developed Frontier, a proprietary risk management information system which captures and consolidates data from trading systems in Toronto, New York, Europe and Asia. The centralized control of risk measurements and access to large amounts of risk management data enable market risk to be managed on a global basis. Centralization of the official risk calculation and faster access to data by risk management personnel is an important contribution to the integration of risk management support applications and allows timely monitoring and management of risk.

## Policies

CIBC has developed comprehensive policies and procedures for market risk management. These policies relate to identification and measurement of the various types of market and trading credit risk, and to the establishment of limits within which CIBC manages its overall price risk exposure. The policies explicitly state risk tolerance levels, expressed in terms of a potential "worst case" loss. The Risk Management and Conduct Review Committee approves overall levels of risk CIBC may assume.

CIBC uses a two-tiered approach to set price risk limits on the amounts of interest rate, credit spread, foreign exchange, commodity and equity risks that the organization can assume. The first-tier limits reflect CIBC's overall price risk limits and are set by ALCO. The second-tier limits are set by market risk management at levels below the ALCO approved limits. They are designed to control the risk profile of trading activities at the trading-desk level. Market risk management policies further limit possible exposures by setting limits for results of scenario analysis and stress testing. Policies also outline mark-to-market methodologies, yield curve and model construction and require independent valuations of positions.

CIBC's policies require maintaining a hedged position to minimize structural foreign exchange risk on balance sheet assets and liabilities. Structural interest rate risk associated with all of CIBC's on and off-balance sheet positions is actively managed within ALCO policies and is discussed in the sections on Asset Liability Management and Liquidity Risk on page 54.

## Methods

### Overview

CIBC's processes for measuring risks put it at the forefront of the banking community in terms of the sophistication of general risk measurement techniques.

The key methods for managing risks are:

- limit management – the identification and monitoring of risk;
- risk analysis – RMU methodology complemented by stress testing and scenario analysis;
- the use of RAROC as an active portfolio management tool.

Controls are in place to ensure that each business activity undertaken is compatible with CIBC's risk management philosophy and that only authorized activities are undertaken. The Frontier database enables CIBC to generate a detailed risk report each morning, based on the previous day's trading, which provides an enterprise-wide view of market risk. This reporting is integral to the review of risk exposure at CIBC's daily trading room meeting. Each day all risk positions are monitored against authorized limits by an independent risk manager. Positions that exceed authorized limits are promptly reported to senior management. Reports on compliance with risk limits are made quarterly to the Risk Management and Conduct Review Committee of the Board and the CIBC World Markets Risk Committee ensures that internal and external audit findings are appropriately addressed.

### Risk Measurement Units (RMUs)

CIBC has developed and adopted a comprehensive Value at Risk (VAR) price risk measurement methodology that measures risk in terms of risk measurement units (RMUs). The VAR, or RMU methodology, is a statistically-defined, probability-based approach that uses volatilities and correlations to quantify price risks, in dollar terms.

The RMU is CIBC's price risk measure of the potential "worst case" loss that can occur overnight under normal market conditions based on historical data and recent market experience. A worst case loss is defined as a loss with less than a 1% probability of occurring, in normal markets. The RMU methodology uses advanced methods which, for example, for interest rate risk, include parallel and complex non-parallel shifts in the yield curve, correlations among points on the curve, and actual historical volatilities of the curve. A composite RMU measure is determined by aggregating the RMU measures for each of interest rate, credit spread, equity, foreign exchange and commodity market risks and the reduction due to the portfolio effect of combining the risks. The composite RMU is then expressed as a potential worst case loss that can occur over one day, no more than 1% of the time, or equivalently, within a confidence interval of 2.3 standard deviations, in normal markets.

The measurement of the credit risks associated with many trading products also utilizes a VAR approach which quantifies the credit equivalent risk of a transaction as the actual mark-to-market of the transaction, at any time, plus a worst case probability based potential exposure over the remaining life of each transaction.

CIBC has implemented a program of "back testing" that compares the daily RMUs with actual daily net trading-related revenues (losses). Back testing over an extended period has confirmed that the worst case loss assumption, under normal market conditions, is valid. However, there are very rare occasions in which domestic and foreign capital markets, behaving abnormally, experience rapid and large price movements that may result in actual losses that exceed RMU. This occurred in 1998 and is discussed in detail on the following pages.

**Scenario Analysis & Stress Testing**

The RMU methodology is complemented by scenario analysis and stress testing processes that address conditions related to unlikely market environments that fall outside of what would be considered normal market conditions. (Such conditions might include the October 1987 market crash and the more recent Asian crisis, including the Russian default on debt obligations.) Scenario analysis measures the effects on portfolio values by subjecting the portfolio to extreme moves in market prices based on actual historical experiences, or based on the hypothetical occurrence of economic events, political events and natural disasters suggested and designed by economists, business leaders, and risk managers. Stress testing is similar to scenario analysis, but instead of relating changes in portfolio values to actual economic events, the portfolio is subjected to a range of large arbitrary price and rate moves. Scenario analysis and stress tests are conducted and reviewed daily by market risk management personnel.

**Risk Adjusted Return On Capital (RAROC)**

RAROC facilitates the comparison, aggregation and management of market, credit and operational risks across an organization and provides the framework for measuring risk in relation to return at each level of CIBC's business activity, and for facilitating pricing consistent with target returns on capital.

CIBC is implementing a RAROC methodology to support effective utilization of its risk assessment and measurement applications. Implementation is complete within CIBC World Markets and substantially complete in P&C Bank. RAROC will allow management to view credit, market and operational risks on a comparative basis that differentiates by risk class. These comparisons, which can be performed by transaction, customer and line of business, will enable management to better understand sustainable performance, actively manage the composition of portfolio risk, and allocate capital to those businesses with the greatest potential to maximize shareholder value.

## Review of 1998 Trading Activities

CIBC trades a wide range of products globally, including foreign exchange, derivatives, debt securities, equities, and commodities. Trading activities relate primarily to customer flows, market making and to a lesser extent, proprietary trading. The market conditions of the fourth quarter were unlike any experienced this decade and CIBC along with many other organizations with significant global capital markets exposures, experienced sharp declines in trading revenues.

The RMU by risk type chart shows the "mix" of price risks through fiscal 1998, expressed in terms of estimated worst case potential overnight losses, or RMU, by type of risk and total risk. The risks are inter-related and consequently, are only additive after taking into account the diversification effect which reflects the reduction of risk due to portfolio effects among the trading positions.

**RMU BY RISK TYPE**

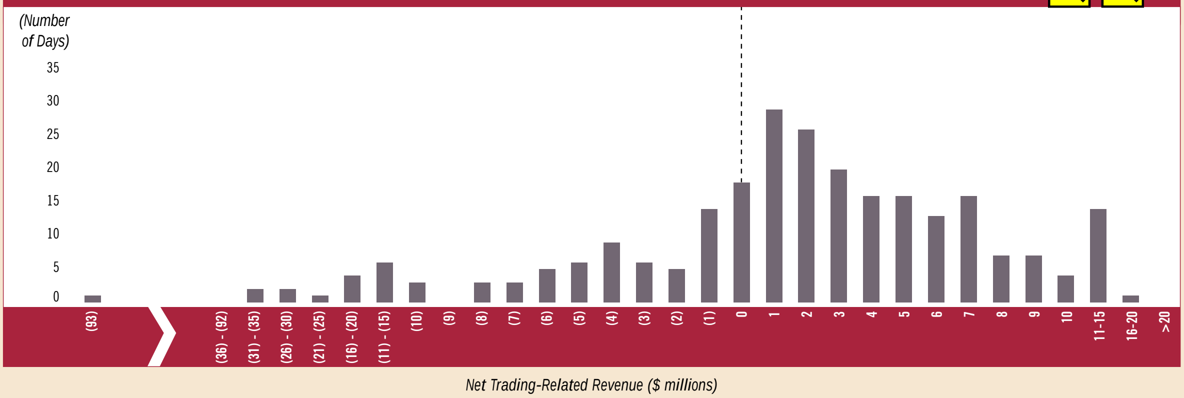
| *$ millions* | **1998 Year end** | 1998 Average |
|---|---|---|
| Interest rate risk | $ 10.3 | $ 11.8 |
| Credit spread risk | 8.7 | 10.8 |
| Equity risk | 23.7 | 21.8 |
| Foreign exchange risk | 2.0 | 2.5 |
| Commodity risk | 2.8 | 2.3 |
| Diversification effect | (20.0) | (20.6) |
| Total risk | $ 27.5 | $ 28.6 |

The pattern of CIBC's net trading related revenues for 1998, particularly in the fourth quarter, provides an illustration of the application of the RMU methodology together with stress testing and scenario analysis to measure general and specific market risk.

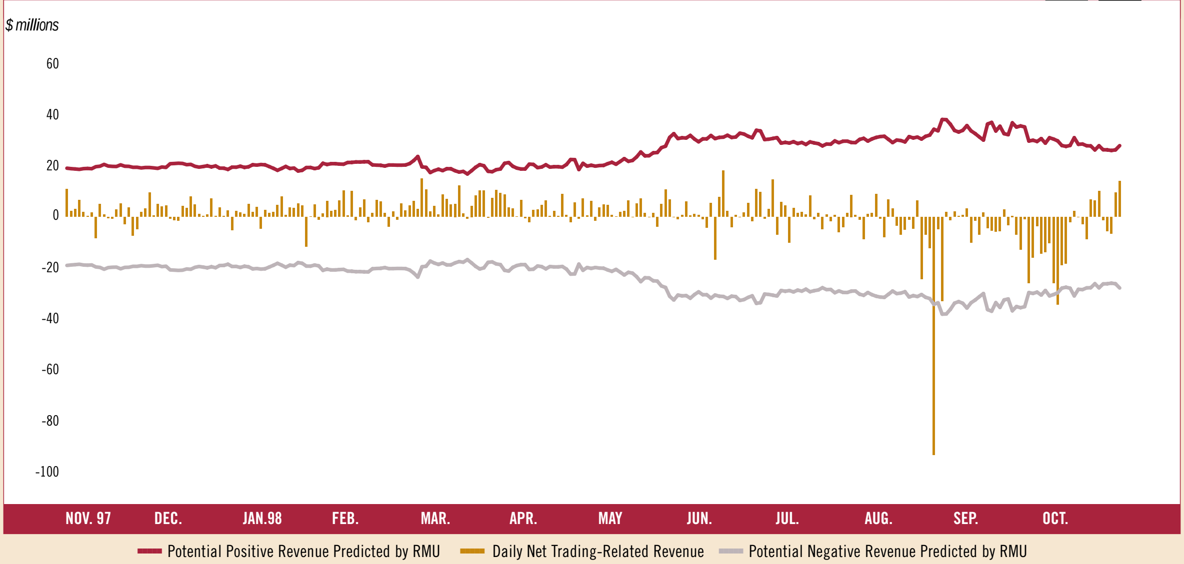
The histogram presents the frequency distribution of net revenues generated by trading-related businesses of CIBC World Markets in fiscal 1998. Net trading-related revenues include the daily change in value of mark-to-market trading portfolios and any net interest income earned on the net trading assets. Net trading-related revenues were positive for 66% of the days in 1998 compared with 85% in 1997 and 93% in 1996. The average daily net trading-related revenue was $500 thousand in 1998, compared with $3.3 million in 1997 and $2.1 million in 1996. Through the first nine months of 1998, daily net trading-related revenues had averaged $2.6 million.

In the fourth quarter of fiscal 1998, CIBC's net trading-related revenue was negative on 69% of the days and the average daily trading-related revenue was negative $9.9 million. On six separate days, CIBC's net trading related losses exceeded $20 million. On August 27, the combined effects of a sharp increase in credit spreads and decline in treasury yields, large declines in global equity markets and high volatility in currency markets created an abnormal market that resulted in net trading-related losses of $93 million. In contrast, during the first nine months of 1998 and through all of 1997 and 1996, there were no daily trading losses exceeding $20 million.

FREQUENCY DISTRIBUTION OF 1998 DAILY NET TRADING-RELATED REVENUES




ACTUAL NET TRADING-RELATED REVENUE COMPARED WITH PREVIOUS DAY'S POTENTIAL REVENUE PREDICTED BY RMU




The net trading-related revenue and RMU graph compares the 1998 actual daily net trading-related revenue with the previous day's predicted RMU measures. As indicated previously, the potential positive and potential negative revenues are derived from statistically defined probability-based models that utilize CIBC's market positions and prior market correlations and volatilities under normal market conditions. Statistically, the actual net trading-related losses would be expected to exceed the potential negative revenue predicted an equivalent of two to three times per year. Despite the abnormal markets experienced in the fourth quarter of 1998, the lower boundary was exceeded only two times during all of 1998.

In exceptional market conditions, characterized by high volatilities relative to historical levels, when correlations break down, the RMU methodology is complemented with stress testing and scenario analysis. In July and again in October, ALCO reduced the authorized levels of risk in the trading portfolios in response to market conditions. In all cases, the daily trading losses were within the range predicted by the combination of the RMU methodology, scenario analysis and stress testing.

## Asset Liability Management

Asset liability management processes are managed as a separate component of market risk management and report through the ALCO. Compliance with ALCO policies limiting interest rate risk is monitored daily by the market risk management group.

Interest rate risk results primarily from differences in the maturities or repricing dates of assets and liabilities, both on and off-balance sheet. These interest rate risk exposures, or gaps, and option exposures are reviewed weekly by the ALCO using the RMU framework. A variety of cash instruments and derivatives, principally interest rate swaps, futures, and options are used to manage and control interest rate risks. Derivatives are used to modify the interest rate characteristics of related balance sheet instruments and to hedge anticipated exposures when market conditions of price and liquidity are deemed beneficial.

Foreign exchange risk also arises from non-trading areas of the bank, principally from investments and earnings in foreign operations. CIBC adopts a prudent approach to hedging these foreign exchange exposures with the objective of achieving stability in its Canadian dollar income. Market risk management monitors compliance with ALCO policies daily.

On and off-balance sheet assets and liabilities are reported in time frames based on the earlier of their contractual repricing date or maturity date. CIBC's total interest rate risk exposure as at October 31, 1998 is outlined in Note 10 of the consolidated financial statements on page 73. It should be noted that this reported gap position presents CIBC's risk exposure only at a point in time. Exposure can change depending on the preferences of customers for product and terms, changes in CIBC's expectations of interest rate movements, and the nature of CIBC's transaction activities in managing the various and diverse portfolios that make up the consolidated gap position.

Given CIBC's consolidated maturity and repricing portfolio profile at October 31, 1998, as adjusted for estimated prepayments, an immediate 1% increase in interest rates across all maturities would reduce net income after taxes by approximately $61 million over the next 12 months and common shareholders' equity, as measured on a present value basis, by approximately $408 million.

## Liquidity Risk

CIBC's liquidity policy is to maintain a level of liquid assets for normal operating purposes that could be sold immediately, if necessary, to meet cash requirements. The policy emphasizes that higher quality asset holdings be readily available to meet typical requirements.

The ALCO establishes liquidity policies that include guidelines and limits for cash management, asset liquidity and funding diversification. Limits governing the maximum levels of net cash outflows have also been established.

The objective of liquidity management is to ensure the availability of sufficient funds to honour financial commitments, including those arising from customers' liquidity needs. CIBC manages liquidity by monitoring actual and expected inflows and outflows of funds on a daily basis, by projecting longer term inflows and outflows across the entire maturity spectrum, and by developing diverse sources of funding with the objective of maintaining stability while reducing funding costs.

CIBC's large base of Canadian dollar deposits by individuals, which stood at $53 billion at October 31, 1998, provides a stable and secure source of funding for a significant proportion of CIBC's asset base. This reduces pressure on CIBC's cash flows and provides a favourable liquidity position with less reliance on more costly corporate deposits or money market financing.

CIBC maintains a portfolio of readily marketable Canadian dollar and foreign currency securities. The total securities portfolio of $61 billion at October 31, 1998 is summarized in Note 3 to the consolidated financial statements and includes liquid assets of $50.5 billion. These liquid assets represent 18% of CIBC's total assets and are equal to 51% of non-personal deposits. In addition to providing liquidity in major currencies, these holdings generate significant income through CIBC's active participation in global securities markets.

CIBC emphasizes diversification of international funding sources and has developed a broad global funding base by varying the currencies, markets, instruments and maturities of deposits. In the United States, CIBC's commercial paper program stands at US$1.7 billion, one of the largest programs of any foreign bank. This program complements other funding sources and, by enhancing and expanding the range of products, enables CIBC to attract deposits worldwide. Access to geographically diverse capital and money markets allows the issue of a wide variety of funding instruments, including inter-bank deposits, which facilitate liquidity management. At October 31, 1998, deposits from other banks were $23.2 billion.

CIBC actively participates in capital markets funding through debenture and preferred and common share issues. CIBC also maintains active asset securitization and loan syndication programs which facilitate the liquidation of assets when appropriate. CIBC World Markets participation in the U.S. government securities market as a primary dealer provides access to collateral-based financing through repurchase agreements, significantly extending its global customer base. Contingency programs also exist and can be implemented to minimize the risk associated with extraordinary changes in market conditions.

Prominent international credit rating agencies continue to assign credit ratings that enable CIBC to access global capital and money markets on favourable terms. Access to these markets with an assured credit rating provides CIBC with a broad range of liquidity management alternatives.

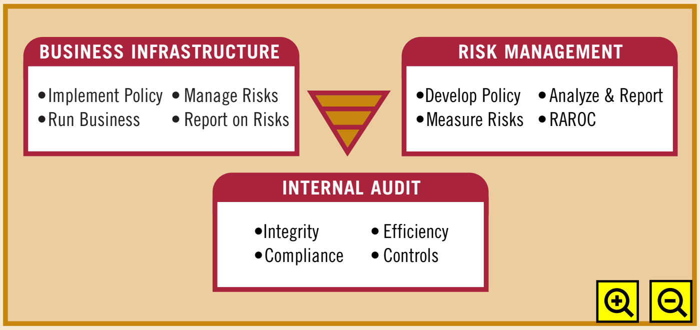
## OPERATIONAL RISK MANAGEMENT

Operational risks are inherent in all CIBC activities, from the client interface (front office) to the processing of client transactions (back office), and all related internal supervisory activities (the middle office).

*Operational risk* is defined as the potential for material dollar losses arising from events relating to people, process and technology. It incorporates all risks other than market and credit risk.

### Infrastructure

Operational risk is managed through a three-way partnership of business infrastructure, risk management and internal audit.




Risk management, legal, compliance, internal audit, environmental risk, security, information technology, finance and the corporate insurance departments regularly report on the effectiveness of, and adherence to policies and procedures to the Board of Directors, the chairman and chief executive officer, and to senior committees of management. The Board of Directors and its committees supervise, manage, and review the effectiveness of internal control systems that are established to manage operational risk while senior management is accountable to the board for maintaining a strong and disciplined control environment to provide reasonable assurance to shareholders and creditors that risks are soundly and prudently managed.

### Policies and Methods

Management of operational risk includes developing comprehensive risk identification and measurement techniques, and employing effective methods of risk monitoring and control, and integrating operational risk analysis into all risk reward considerations.

*People risk* is associated with losses pertaining to key people leaving, staff competencies and capabilities, and employee fraud. The commitment, competence and capability of CIBC staff are critical for effective management of this risk. Therefore, substantial investment has been made in human resource policies and practices including employee training and development. In addition, comprehensive recruiting and screening programs, and selection criteria are in place and each employee must comply with CIBC's formal code of conduct.

*Process risk* is associated with losses due to improper completion of transactions, incorrect reporting of information or process breakdowns. To mitigate process risk, clear delegation of authority and segregation of duties are reflected in all CIBC operating procedures and manuals and the provision of timely and accurate management information is fundamental to CIBC's strategic and financial planning processes.

*Technology risk* is associated with losses due to technology or telecommunication failures and improper programming and systems security. Proper and prudent controls are in place for information and technology systems, record keeping, evaluation of on and off-balance sheet items, and safeguarding of CIBC's assets and those of our customers.

In addition, there are risks of property loss or of losses of income arising from business interruption caused by unforeseen disaster. CIBC has a comprehensive business recovery planning process to ensure that key business functions continue and normal operations are restored effectively and efficiently.

## Year 2000 Program

The year 2000 issue refers to the business implications resulting from a failure of computer software when dealing with dates in the next century. These implications arise because many computer programs process transactions using two digits, rather than four to represent the year. Systems that process year 2000 transactions may incorrectly recognize a date using only the two digits “00” as the year 1900 instead of the year 2000. Significant processing problems could result.

CIBC initiated its year 2000 program in 1996. The program is structured to ensure that remedial work is prioritized to minimize CIBC’s business risk. CIBC’s goal of having all critical year 2000 business and technology changes completed by the end of 1998 has been substantially achieved, with certain management approved exceptions for which revised completion dates have been established for early 1999. The focus for 1999 will be on completing changes, final testing and implementing contingency plans. CIBC’s progress to date, and plans for 1999 indicate that CIBC’s internal software applications are well positioned to be year 2000 ready in advance of December 31,1999.

The effect of the year 2000 issue on CIBC also depends on the year 2000 readiness of third parties such as vendors, suppliers, customers, other financial institutions, government agencies, payment systems, exchanges and depositories worldwide. Because of the uncertainity surrounding third party readiness and notwithstanding the steps taken by CIBC, there cannot be absolute assurance that uncertainties surrounding the year 2000 issue will not materially and adversely impact CIBC’s business operations and its customers.

Year 2000 modification costs, which are expensed as incurred, are expected to reach $200 million by the time the program is complete. During the 1998 year, costs of $103 million were expensed. Total program expenses to date are $136 million.

Progress against plan is reviewed monthly by the year 2000 steering committee staffed by senior executives and chaired by CIBC’s chief information officer. The status of the year 2000 program is also reported to the Risk Management and Conduct Review Committee of the Board of Directors at their regular meetings.

## REGULATORY ENVIRONMENT

The CIBC group of companies is subject to complex and changing legal and regulatory environments. The principal regulators include the federal and provincial governments in Canada and the governments of other countries in which CIBC carries on business. In addition, securities regulators and self-regulatory bodies, such as stock exchanges, also regulate CIBC's activities.

CIBC is subject to the bylaws of the Canada Deposit Insurance Corporation. These bylaws require standards of sound business and financial practices intended to ensure that member institutions are prudently managed.

Comprehensive policies and procedures are in place to promote compliance with applicable laws and regulations by CIBC and its subsidiaries, their directors, management and employees. Management is responsible for ongoing compliance with such laws and regulations, and CIBC's compliance and internal audit functions each have a mandate to assess and report on the performance of management in discharging its governance responsibilities.

The Task Force on the Future of the Canadian Financial Services Sector delivered its report in September. The report contained 124 recommendations aimed at creating greater competition, improved responsiveness to consumers and communities, and improved regulation. Review of the report was under way as these comments were written. The outcome and the government's responses will have an impact on CIBC and the financial services industry as the adoption of certain report recommendations could result in significant changes in the regulation of the Canadian financial services industry.

## PROPOSED MERGER

Under the terms of a pre-amalgamation agreement entered into April 16, 1998, CIBC and The Toronto-Dominion Bank (TD) have agreed to amalgamate under the Bank Act (Canada). The significant terms of the pre-amalgamation agreement include:

- The amalgamated bank will be named Canadian Imperial Bank of Commerce.
- Upon the amalgamation, CIBC shareholders will receive one common share of the amalgamated bank for each CIBC common share held and TD shareholders will receive 1.318 common shares for each TD common share held. As a result, CIBC and TD shareholders will receive approximately 51.5% and 48.5%, respectively, of the common shares of the amalgamated bank.
- The Board of Directors of the amalgamated bank will have equal representation from CIBC and TD.
- CIBC's Chairman and Chief Executive Officer A.L. Flood will serve as Chairman of the Board of Directors; and TD's Chairman and Chief Executive Officer A. Charles Baillie will serve as Chief Executive Officer and President of the amalgamated bank.
- A termination fee of $400 million will become payable under certain circumstances involving the termination of the pre-amalgamation agreement in the context of a competing proposal and in certain other limited cases.
- The amalgamation is subject to shareholder and regulatory approvals, including the approval of the Minister of Finance under the Bank Act (Canada) and approval under the Competition Act (Canada).

Both banks are currently involved in the processes required to obtain the necessary regulatory approvals.

## FINANCIAL REPORTING RESPONSIBILITY OF MANAGEMENT

The management of Canadian Imperial Bank of Commerce is responsible for the preparation of the Annual Report including the consolidated financial statements. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions, Canada.

In meeting its responsibility for the reliability and integrity of the consolidated financial statements, management has developed, and maintains, a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded and liabilities are recognized. The system recognizes the need for the employment and training of qualified and professional staff, effective written communication between management and staff and management guidelines and policies. The system also recognizes the need for established policies on social responsibility and corporate conduct, and a management organization philosophy which reflects accountability within delineated areas of responsibility. Of necessity, the consolidated financial statements contain some items which reflect the best estimates and judgments of management.

The accounting, reporting and internal control systems are reviewed by the Chief Inspector and his staff who examine and review all aspects of CIBC's operations. Systems and procedures to ensure employee compliance with conflict of interest rules and with securities legislation are monitored by the Compliance Officer. The Chief Inspector and the Compliance Officer have full and free access to the Audit Committee of the Board of Directors of CIBC.

CIBC's interim and annual consolidated financial statements are discussed and reviewed by the Audit Committee with management, the Chief Accountant and the shareholders' auditors, in the presence of the Chief Inspector and the Compliance Officer, before the statements are reviewed by the directors.

In addition, the Audit Committee has the duty to review the adoption of and changes in accounting principles and practices which have a material effect on the consolidated financial statements; to review such investments and transactions that could adversely affect the well-being of CIBC which are brought to the attention of the Committee by the Chief Inspector and the shareholders' auditors or any officer of CIBC; to review financial reports requiring Board approval prior to submission to securities commissions or other regulatory authorities; to help develop CIBC's financial disclosure philosophy; to assess and review key management estimates and judgments material to reported financial information; and to assess the shareholders' auditors' fees.

The Annual Report has been reviewed and approved by the Board of Directors upon the recommendation of the Audit Committee.

| | |
|---|---|
| **A.L. FLOOD** | **J.C. DORAN** |
| CHAIRMAN AND | CHIEF FINANCIAL OFFICER |
| CHIEF EXECUTIVE OFFICER | DECEMBER 3, 1998 |

## AUDITORS' REPORT TO SHAREHOLDERS

We have audited the consolidated balance sheets of Canadian Imperial Bank of Commerce as at October 31, 1998 and 1997 and the consolidated statements of income, changes in shareholders' equity and changes in financial position for each of the years in the three-year period ended October 31, 1998. These consolidated financial statements are the responsibility of CIBC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of CIBC as at October 31, 1998 and 1997 and the results of its operations and the changes in its financial position for each of the years in the three-year period ended October 31, 1998 in accordance with generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions, Canada.

| | |
|---|---|
| **ARTHUR ANDERSEN LLP** | |
| **PRICEWATERHOUSECOOPERS LLP** | TORONTO, CANADA |
| CHARTERED ACCOUNTANTS | DECEMBER 3, 1998 |

## CONSOLIDATED BALANCE SHEETS

| *$ millions, as at October 31* | 1998 | 1997 |
|---|---|---|
| **ASSETS** | | |
| **CASH RESOURCES** | | |
| Cash and non-interest-bearing deposits with Bank of Canada and other banks | $ 1,989 | $ 1,354 |
| Interest-bearing deposits with other banks | 8,806 | 6,577 |
| | 10,795 | 7,931 |
| **SECURITIES** *(NOTE 3)* | | |
| Securities held for investment | 12,799 | 14,562 |
| Securities held for trading | 48,063 | 30,510 |
| Loan substitute securities | 108 | 180 |
| | 60,970 | 45,252 |
| **LOANS** *(NOTE 4)* | | |
| Residential mortgages | 43,172 | 40,009 |
| Personal and credit card loans | 24,382 | 22,118 |
| Business and government loans | 48,410 | 45,733 |
| Securities purchased under resale agreements | 36,293 | 37,629 |
| | 152,257 | 145,489 |
| **OTHER** | | |
| Derivative instruments market valuation | 37,157 | 21,977 |
| Customers' liability under acceptances | 10,995 | 10,375 |
| Land, buildings and equipment *(NOTE 5)* | 2,201 | 2,071 |
| Other assets *(NOTE 6)* | 7,055 | 4,894 |
| | 57,408 | 39,317 |
| | $ 281,430 | $ 237,989 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **DEPOSITS** *(NOTE 7)* | | |
| Individuals | $ 59,993 | $ 59,188 |
| Businesses and governments | 76,642 | 60,272 |
| Banks | 23,240 | 19,438 |
| | 159,875 | 138,898 |
| **OTHER** | | |
| Derivative instruments market valuation | 36,245 | 21,376 |
| Acceptances | 10,995 | 10,375 |
| Obligations related to securities sold short | 16,049 | 15,564 |
| Obligations related to securities sold under repurchase agreements | 32,610 | 28,368 |
| Other liabilities *(NOTE 8)* | 9,806 | 8,267 |
| | 105,705 | 83,950 |
| **SUBORDINATED INDEBTEDNESS** *(NOTE 9)* | 4,714 | 4,894 |
| **SHAREHOLDERS' EQUITY** | | |
| Preferred shares *(NOTE 11)* | 1,961 | 1,518 |
| Common shares *(NOTE 11)* | 3,128 | 3,105 |
| Retained earnings | 6,047 | 5,624 |
| | 11,136 | 10,247 |
| | $ 281,430 | $ 237,989 |

*The accompanying notes are an integral part of the consolidated financial statements.*

**A.L. FLOOD**
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

**S.A. MILNER**
DIRECTOR

## CONSOLIDATED STATEMENTS OF INCOME

| *$ millions, for the years ended October 31* | | 1998 | 1997 | 1996 |
|---|---|---|---|---|
| **INTEREST INCOME** | | | | |
| Loans | | **$ 11,731** | $ 10,211 | $ 9,500 |
| Securities | | **2,645** | 2,246 | 2,368 |
| Deposits with banks | | **624** | 434 | 523 |
| | | **15,000** | 12,891 | 12,391 |
| **INTEREST EXPENSE** | | | | |
| Deposits and other liabilities | | **10,271** | 8,028 | 7,621 |
| Subordinated indebtedness | | **392** | 346 | 307 |
| | | **10,663** | 8,374 | 7,928 |
| **NET INTEREST INCOME** *(NOTE 3)* | | **4,337** | 4,517 | 4,463 |
| **PROVISION FOR CREDIT LOSSES** *(NOTE 4)* | | **480** | 610 | 480 |
| | | **3,857** | 3,907 | 3,983 |
| **NON-INTEREST INCOME** | | | | |
| Underwriting fees and commissions on securities transactions | | **1,880** | 912 | 597 |
| Deposit services | | **486** | 481 | 482 |
| Credit services | | **415** | 432 | 408 |
| Trading activities *(NOTE 3)* | | **66** | 572 | 296 |
| Investment securities gains | | **96** | 236 | 68 |
| Card services | | **315** | 326 | 289 |
| Mutual funds management and fiduciary services | | **501** | 230 | 170 |
| Insurance | | **207** | 185 | 140 |
| Income from securitized assets | | **120** | 44 | 6 |
| Other | | **718** | 562 | 436 |
| | | **4,804** | 3,980 | 2,892 |
| | | **8,661** | 7,887 | 6,875 |
| **NON-INTEREST EXPENSES** | | | | |
| Employee compensation | | **3,781** | 2,838 | 2,301 |
| Employee benefits | | **349** | 302 | 277 |
| Occupancy costs | | **556** | 436 | 434 |
| Computer and other equipment | | **683** | 513 | 474 |
| Communications | | **747** | 518 | 462 |
| Business and capital taxes | | **130** | 152 | 125 |
| Professional fees | | **229** | 153 | 131 |
| Deposit insurance premiums | | **86** | 92 | 93 |
| Other | | **564** | 368 | 287 |
| | | **7,125** | 5,372 | 4,584 |
| **NET INCOME BEFORE INCOME TAXES** | | **1,536** | 2,515 | 2,291 |
| **INCOME TAXES** *(NOTE 14)* | | **460** | 937 | 911 |
| | | **1,076** | 1,578 | 1,380 |
| **NON-CONTROLLING INTERESTS IN NET INCOME OF SUBSIDIARIES** | | **20** | 27 | 14 |
| **NET INCOME** | | **$ 1,056** | $ 1,551 | $ 1,366 |
| **DIVIDENDS ON PREFERRED SHARES** *(NOTE 11)* | | **$ 116** | $ 98 | $ 112 |
| **NET INCOME APPLICABLE TO COMMON SHARES** | | **940** | 1,453 | 1,254 |
| | | **$ 1,056** | $ 1,551 | $ 1,366 |
| **AVERAGE NUMBER OF COMMON SHARES OUTSTANDING** *(in thousands)* | - Basic | **415,030** | 413,545 | 415,028 |
| | - Fully diluted | **425,303** | 422,403 | 422,148 |
| **NET INCOME PER COMMON SHARE** *(in dollars) (NOTE 15)* | - Basic | **$ 2.26** | $ 3.51 | $ 3.02 |
| | - Fully diluted | **$ 2.25** | $ 3.50 | $ 3.02 |
| **DIVIDENDS PER COMMON SHARE** *(in dollars) (NOTE 11)* | | **$ 1.20** | $ 1.05 | $ 0.85 |

*The accompanying notes are an integral part of the consolidated financial statements.*

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

| *$ millions, for the years ended October 31* | **1998** | 1997 | 1996 |
|---|---|---|---|
| **PREFERRED SHARES** *(NOTE 11)* | | | |
| Balance at beginning of year | **$ 1,518** | $ 1,068 | $ 1,355 |
| Issue of preferred shares | **641** | 653 | 200 |
| Redemption of preferred shares | **(250)** | (217) | (490) |
| Translation adjustment on foreign currency preferred shares | **52** | 14 | 3 |
| Balance at end of year | **$ 1,961** | $ 1,518 | $ 1,068 |
| **COMMON SHARES** *(NOTE 11)* | | | |
| Balance at beginning of year | **$ 3,105** | $ 3,055 | $ 3,202 |
| Issue of common shares | **23** | 50 | 13 |
| Purchase of common shares for cancellation | **–** | – | (160) |
| Balance at end of year | **$ 3,128** | $ 3,105 | $ 3,055 |
| **RETAINED EARNINGS** | | | |
| Balance at beginning of year, as previously reported | **$ 5,624** | $ 4,615 | $ 4,122 |
| Adjustment for change in accounting policy (1) | **–** | – | (94) |
| Balance at beginning of year, as restated | **5,624** | 4,615 | 4,028 |
| Net income | **1,056** | 1,551 | 1,366 |
| Dividends | **(614)** | (532) | (464) |
| Premium on redemption of preferred shares | **(10)** | – | (34) |
| Premium on repurchase of common shares | **–** | – | (281) |
| Foreign currency translation adjustment, net of income taxes | **1** | 10 | 5 |
| Other | **(10)** | (20) | (5) |
| Balance at end of year (2) | **$ 6,047** | $ 5,624 | $ 4,615 |

*(1) Represents the effect of implementing CICA Handbook section 3025, "Impaired loans", which introduced the requirement to discount expected cash flows on impaired loans when determining the allowance for credit losses.*
*(2) The cumulative charge in the foreign currency translation account is $2 million (1997: $3 million; 1996: $13 million).*

*The accompanying notes are an integral part of the consolidated financial statements.*

## CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

| *$ millions, for the years ended October 31* | **1998** | 1997 | 1996 |
|---|---|---|---|
| **CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES** | | | |
| Net income | **$ 1,056** | $ 1,551 | $ 1,366 |
| Adjustments to determine net cash provided by operating activities | | | |
| Provision for credit losses | **480** | 610 | 480 |
| Amortization | **294** | 257 | 256 |
| Future income taxes | **(97)** | (8) | 184 |
| Investment securities gains | **(96)** | (243) | (75) |
| Accrued interest receivable | **(772)** | 33 | (171) |
| Accrued interest payable | **1,045** | (84) | (61) |
| Net change in securities held for trading | **(17,278)** | (8,811) | (1,055) |
| Current income taxes payable | **(641)** | (78) | 11 |
| Other, net | **1,653** | 480 | 203 |
| | **(14,356)** | (6,293) | 1,138 |
| **CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES** | | | |
| Deposits, net of withdrawals | **20,027** | 11,477 | (2,061) |
| Obligations related to securities sold short | **485** | 2,739 | 2,389 |
| Net obligations related to securities sold under repurchase agreements | **892** | (714) | 17,307 |
| Issue of debentures | **785** | 993 | 600 |
| Redemption of debentures | **(1,095)** | (4) | (274) |
| Issue of preferred shares | **641** | 653 | 200 |
| Redemption of preferred shares | **(260)** | (217) | (524) |
| Issue of common shares | **23** | 50 | 13 |
| Purchase of common shares for cancellation | **–** | – | (441) |
| Dividends | **(614)** | (532) | (464) |
| Other, net | **(735)** | 325 | (243) |
| | **20,149** | 14,770 | 16,502 |
| **CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES** | | | |
| Other balances on deposit with other banks | **(2,229)** | (111) | 7,630 |
| Loans, net of repayments | **(16,423)** | (10,229) | (6,449) |
| Proceeds from securitizations | **7,958** | 3,043 | 468 |
| Purchase of securities held for investment, net of proceeds of sales | **1,931** | 3,619 | (432) |
| Net securities purchased under resale agreements | **4,562** | (5,095) | (18,361) |
| Acquisition of subsidiary, net of cash received | **(460)** | – | – |
| Land, buildings and equipment, net of disposals | **(337)** | (239) | (200) |
| | **(4,998)** | (9,012) | (17,344) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING YEAR** | **795** | (535) | 296 |
| Cash and cash equivalents at beginning of year | **836** | 1,371 | 1,075 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | **$ 1,631** | $ 836 | $ 1,371 |
| Cash and non-interest-bearing deposits with Bank of Canada and other banks | **$ 1,989** | $ 1,354 | $ 1,654 |
| Cheques and other items in transit, net *(NOTE 8)* | **(358)** | (518) | (283) |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | **$ 1,631** | $ 836 | $ 1,371 |
| Cash interest paid | **$ 9,618** | $ 8,408 | $ 7,757 |
| Income taxes paid | **$ 860** | $ 917 | $ 730 |

*The accompanying notes are an integral part of the consolidated financial statements.*

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Canadian Imperial Bank of Commerce and its subsidiaries (CIBC) have been prepared in accordance with Canadian generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions, Canada.

A reconciliation of the impact on total assets, liabilities, net income and retained earnings arising from differences between Canadian and U.S. generally accepted accounting principles is provided in Note 25. Disclosures reflected in these consolidated financial statements comply in all material respects with those required under U.S. generally accepted accounting principles.

A description of new accounting standards not yet implemented is provided in Note 26.

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The following paragraphs describe the significant accounting policies:

### Basis of consolidation

The consolidated financial statements include the accounts of all subsidiaries on a consolidated basis. Goodwill, representing the excess of the purchase price over the fair value of the net assets of the subsidiaries acquired, is amortized to income over its estimated useful life, not exceeding 20 years, using the straight-line method, except where a write-down is required to reflect permanent impairment. Intercompany accounts and transactions have been eliminated.

Investments in companies over which CIBC has significant influence are accounted for by the equity method and are included in securities held for investment in the consolidated balance sheets. CIBC's share of earnings from these investments is included in interest income.

### Foreign currency translation

Assets and liabilities arising from foreign currency transactions are translated into Canadian dollars at rates prevailing at the dates of the consolidated financial statements while the associated revenues and expenses are translated using prevailing monthly exchange rates. Realized and unrealized gains and losses arising on the translation are reported in the current year consolidated statements of income.

Assets and liabilities of CIBC's foreign operations are translated using rates prevailing at balance sheet dates while the associated revenues and expenses are translated at the monthly exchange rates in effect. Exchange gains and losses arising from the translation of the net investment positions and from the results of hedging these positions are reported in retained earnings.

### Securities

Dividend and interest income, including the amortization of premiums and discounts on debt securities, are included in interest income.

Interest expense on debt trading securities sold short is charged against interest income.

*Securities held for investment* comprise all securities other than those which are held for trading. Equity securities are stated at cost and debt securities at amortized cost, determined on the average cost basis. Realized gains and losses on disposal and write-downs to reflect other than temporary impairments in value are included in investment securities gains in the consolidated statements of income.

*Securities held for trading* are purchased for resale over a short period of time and are stated at estimated market value. Gains and losses realized on disposal and unrealized gains and losses from market value fluctuations are included in trading activities in the consolidated statements of income.

*Loan substitute securities* are accounted for in the same manner as loans. They represent after-tax financing arrangements, which provide issuers with tax effective borrowings.

*Obligations related to securities sold short* are recorded as liabilities and are carried at their fair values. Realized and unrealized gains and losses thereon are included in trading activities in the consolidated statements of income.

### Loans

Loans are stated net of unearned income and allowances for credit losses.

*Loan fees*

Fees relating to loan origination, including loan commitment, restructuring and renegotiation fees, are considered an integral part of the yield earned on the loan and are deferred as unearned income and amortized to interest income over the term of the loan. Commitment fees which do not result in a loan are included in income immediately. Loan syndication fees are included in non-interest income on completion of the syndication arrangement, provided that the yield on any portion of the loan retained by CIBC is at least equal to the average yield earned by the other lenders involved in the financing; otherwise, an appropriate portion of the fee is deferred as unearned income and amortized to interest income to produce an equal average yield over the term of the loan.

*Securitizations*

CIBC periodically sells groups of loans or receivables to special purpose vehicles (SPVs) which issue securities to investors. If these transactions transfer the risks and rewards of ownership from CIBC and meet accepted criteria for recognition as sales, the assets are removed from the consolidated balance sheets.

Securitization affects the components of income reported in the consolidated statements of income. Amounts that would otherwise be included in net interest income and provision for credit losses are instead included in non-interest income. Non-interest income from securitized assets comprises gains on sale, losses under recourse arrangements, servicing income and present value of future spread. All of these components are recognized only when earned, received in cash and the SPV has no recourse to the cash.

*Impaired loans*

A loan is classified as impaired when, in the opinion of management, there no longer is reasonable assurance of the timely collection of the full amount of principal and interest. Generally, loans on which repayment of principal or payment of interest is contractually 90 days in arrears are automatically considered impaired unless they are both fully secured and in the process of collection. Notwithstanding management's assessment of collectibility, such loans are considered impaired if payments are 180 days in arrears. Exceptions are as follows:

Credit card loans are not classified as impaired but are instead fully written-off when payments are contractually 180 days in arrears.

Loans guaranteed or insured by the Canadian government, the provinces or a Canadian government agency are classified as impaired only when payments are contractually 365 days in arrears.

When a loan is classified as impaired, all uncollected interest is recorded as part of the loan's carrying value for the purpose of determining the loan's estimated realizable value and establishing necessary allowances for credit loss; interest recognition ceases when a loan is classified as impaired. No portion of cash received on a loan subsequent to its classification as impaired is recorded as income until such time as any prior write-off has been recovered or any specific allowance has been reversed and it is deemed that the loan principal is fully collectible in accordance with the original contractual terms of the loan.

*Allowances for credit losses*

Management establishes and maintains allowances for credit losses which it considers the best possible estimate of probable credit-related losses existing in CIBC's portfolio of on and off-balance sheet financial instruments, giving due regard to current conditions. Impaired loans are carried at their estimated realizable values determined by discounting the expected future cash flows at the interest rate inherent in the loan. When the amount and timing of future cash flows cannot be estimated reliably, the loan is carried at either the fair value of the security underlying the loan or the market price of the loan. Any changes in the estimated realizable amounts over time are reported wholly as a charge or credit for loan impairment. The allowances for credit losses consist of specific and general components which are deducted from the related asset categories, and specific allowances relating to off-balance sheet items which are included in other liabilities in the consolidated balance sheets.

Management conducts ongoing credit assessments of the portfolio on an account-by-account basis and establishes specific allowances when doubtful accounts are identified. The personal and credit card loan portfolios consist of large numbers of homogeneous balances of relatively small amounts, for which specific allowances are established by reference to historical ratios of write-offs to balances outstanding.

In addition to specific allowances, management maintains general allowances for unidentified losses.

*Securities purchased under resale agreements and obligations related to securities sold under repurchase agreements*

Securities purchased under resale agreements are stated at cost and are secured loans insofar as they represent a purchase of securities by CIBC effected with a simultaneous agreement to sell them back at a future date, which is generally near term. Interest income thereon is included in loan interest income in the consolidated statements of income. Obligations related to securities sold under repurchase agreements are stated at cost and represent the borrowing equivalent of securities purchased under resale agreements. Interest thereon is reflected in deposits and other liabilities interest expense in the consolidated statements of income.

**Derivative instruments**

Derivative instruments are contracts that require or provide the opportunity to exchange cash flows or payments determined by applying certain rates, indices or changes therein to notional contract amounts.

CIBC utilizes derivatives in two broadly defined activities, trading operations and, to a lesser extent, in asset-liability management operations. Note 19 provides details on their relative use.

*Derivatives held for trading purposes*

CIBC's derivative trading activities are driven by client and, to a lesser extent, by proprietary trading activities. Clients transact with CIBC as part of their own risk management, investing and trading activities. To facilitate these activities, CIBC acts as a derivatives dealer or market maker, and is prepared to transact with clients by quoting bid and offer prices, with the objective of providing a spread to CIBC. CIBC also takes proprietary trading positions with the objective of earning income by taking positions in the interest rate, foreign exchange, debt, equity and commodity markets.

All financial and commodity derivative instruments entered into for trading purposes, including derivatives used to hedge risks created by assets and liabilities which are marked to market, are stated at fair values. Quoted market prices, when available, are used to determine the fair values of derivatives held for trading. Otherwise, fair values are estimated using pricing models. Where appropriate, a valuation adjustment is made to cover market, model and credit risks, as well as administrative costs. Realized and unrealized trading gains and losses are included in trading activities in the consolidated statements of income. Cash flows related to such trading derivatives are included in operating activities in the consolidated statements of changes in financial position. Derivatives with a positive fair value are reported as assets while derivatives with a negative fair value are reported as liabilities in the consolidated balance sheets, in both cases as derivative instruments market valuation. Assets and liabilities with the same counterparty are netted only where CIBC has both the legal right as well as intent to settle the assets and liabilities on a net basis.

*Derivatives held for asset liability management purposes*

CIBC uses derivative financial instruments, primarily interest rate swaps and, to a lesser degree, futures, forward rate agreements and options contracts, to manage financial risks such as movements in interest rates and foreign exchange rates. These instruments are used for hedging activities or to modify interest rate characteristics of specific on-balance sheet assets and liabilities, or groups of similar on-balance sheet assets and liabilities.

When derivative instruments, primarily interest rate swaps, modify the interest rate characteristics of specific financial assets or liabilities or groups of similar financial assets or liabilities, these derivative instruments are accounted for using the accrual method. Amounts accrued on these derivative instruments are included in interest income or expense in the consolidated statements of income and reported in other assets or other liabilities in the consolidated balance sheets. Cash flows related to these instruments are included in operating activities in the consolidated statements of changes in financial position.

Derivative instruments may be designated as hedges of financial risk exposures of on-balance sheet assets or liabilities, firm commitments and anticipated transactions or, of foreign currency exposures if, both at the inception of the hedge and throughout the hedge period, the changes in the market value of the derivative instrument substantially offset the effects of price or interest rate changes on the exposed items.

Gains and losses on derivative instruments used to hedge interest rate risk exposures of on-balance sheet assets and liabilities, except for hedges of foreign currency denominated assets and liabilities, are recognized as interest income or expense at the same time as interest income or expense related to the hedged on-balance sheet assets and liabilities. There is no recognition in the consolidated balance sheets of unrealized gains or losses on derivatives used to hedge on-balance sheet assets and liabilities. Cash flows related to these instruments are included in operating activities in the consolidated statements of changes in financial position.

Foreign currency derivative instruments that hedge foreign currency risk exposures from foreign denominated assets and liabilities are revalued each period using the spot foreign exchange rate and included in other assets or other liabilities in the consolidated balance sheets. Resulting gains and losses are recognized as non-interest income or expense in the consolidated statements of income. The hedged items are also revalued using the spot foreign exchange rate with the resulting gains or losses recognized as non-interest income or expense. Cash flows related to these instruments are included in operating activities in the consolidated statements of changes in financial position.

Gains and losses on derivative instruments used to hedge firm commitments or anticipated transactions are deferred and recognized in income or as adjustments to the carrying amount of the assets and liabilities which they hedge in the period that the committed or anticipated transactions occur. Anticipated transactions are hedged only when significant characteristics and expected terms of the anticipated transactions are identified and it is probable that the anticipated transaction will occur. There is no recognition in the consolidated balance sheets of unrealized gains or losses on derivatives hedging anticipated transactions. Cash flows related to these instruments are included in operating activities in the consolidated statements of changes in financial position when the gains or losses are included in income; in investing activities when the gains or losses are reported as adjustments to the carrying amount of assets acquired; and in financing activities when the gains and losses are reported as adjustments to the carrying amount of liabilities. Premiums for options used for hedging purposes are amortized over the life of the contract.

A hedging relationship is terminated if the hedge ceases to be effective; the underlying asset, liability or future transaction being hedged is liquidated or terminated and the derivative instrument is still outstanding; or, if the derivative instrument is no longer designated as a hedging instrument.

If the relationship of hedging or modification of interest rate characteristics is terminated, the derivative instrument is measured at fair value and transferred to the trading portfolio. Any resulting gains or losses on termination or change in designation are recorded as other assets or other liabilities in the consolidated balance sheets. The gains and losses are included in interest income or expense or as adjustments to the carrying amount of the assets or liabilities on the basis of the original relationship.

### Acceptances and customers' liability under acceptances

Acceptances constitute a liability of CIBC on negotiable instruments issued to third parties by customers of CIBC. CIBC earns a fee for guaranteeing and then making the payment to the third parties. The amounts owed to CIBC by its customers in respect of these guaranteed amounts are reflected in assets as customers' liability under acceptances in the consolidated balance sheets.

### Land, buildings and equipment

Land is reported at cost. Buildings, equipment and leasehold improvements are reported at cost less accumulated amortization. Gains and losses on disposal are reported in non-interest income. Costs specifically associated with modifying computer software for the year 2000 are expensed as incurred. Amortization is recorded on a straight-line basis as follows:

| | |
|---|---|
| Buildings | 40 years |
| Computers and equipment | 4 to 10 years |
| Leasehold improvements | over estimated useful life |

### Future income taxes

In fiscal 1998, CIBC adopted the asset and liability method, required by the Canadian Institute of Chartered Accountants (CICA) Handbook section 3465, to provide for income taxes on all transactions recorded in the consolidated financial statements. The asset and liability method requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets or liabilities and their tax bases. Future income tax assets and liabilities are determined for each temporary difference based on the tax rates which are expected to be in effect when the underlying items of income and expense are expected to be realized. There was no material impact on the consolidated financial statements from the retroactive application of the new standard.

### Pensions and other post-retirement benefits

CIBC is the sponsor of two major pension plans, the contributory and the non-contributory defined benefit pension plans, under which all eligible employees are entitled to benefits based on length of service and rates of pay.

Based on management's best estimate assumptions, actuarial valuations of the pension obligations are made periodically for accounting purposes using the projected benefit method prorated on service. The valuations are made by an independent actuary who provides management with advice and assistance in arriving at their best estimate assumptions. Market-related values are used to value pension fund assets.

The annual pension expense includes the estimated present value of the cost of future pension benefits payable in respect of services rendered in the current period, interest on projected pension obligations net of interest earned on plan assets and the amortization of experience gains and losses. Amortization is charged on a straight-line basis over the expected average remaining service life of the employee groups covered by the plans.

CIBC also provides certain health care and life insurance benefits to eligible pensioners. The costs of such benefits are expensed as incurred.

### Stock based compensation

CIBC provides compensation to certain employees in the form of stock options. CIBC follows the intrinsic value based method of accounting for such awards, consequently no expense is recognized for stock options as the strike price thereon is set at the market price on the issue date of the awards. When options are exercised, the proceeds received by CIBC are credited to common shares.

Details of stock based compensation arrangements involving purchases of stock for employees or payments to employees based on the appreciation of share prices, including those which are expected to arise as an alternative under the stock option plan, are set out in Note 12.

### Insurance revenues and expenses

Premiums less claims and changes in actuarial liabilities are reflected in non-interest income while administrative costs are included in non-interest expenses in the consolidated statements of income. Investment income is included in income from securities in the consolidated statements of income.

### Assets under administration

Assets under administration comprise assets under management, assets securitized and still administered by CIBC and assets administered by CIBC in the capacity of custodian. Mutual fund assets managed by CIBC on behalf of its clients are considered assets under management. Assets under administration are not the property of CIBC and are not included in the consolidated balance sheets.

### Stock split

All comparative per share amounts have been restated to reflect a two-for-one stock split, by way of stock dividend, declared and paid March 27, 1997, as applicable.

### 1997 and 1996 financial information

Certain 1997 and 1996 financial information has been reclassified, where necessary, to conform with the presentation adopted in 1998.

## 2 ACQUISITION AND SALE OF BUSINESS

### Oppenheimer acquisition

On November 3, 1997, CIBC completed the acquisition of Oppenheimer Holdings, Inc., the sole shareholder of Oppenheimer & Co., Inc., a full service securities firm operating in the United States. CIBC Wood Gundy Securities Corp., Oppenheimer Holdings, Inc., and Oppenheimer & Co., Inc. and the corresponding operations were merged into CIBC Oppenheimer Corp. (Oppenheimer).

The acquisition was accounted for by the purchase method and the results of operations have been included in the consolidated statement of income from the date of acquisition.

Details of the aggregate consideration given and the fair values of net assets acquired are as follows:

| *$ millions* | |
|---|---|
| Acquisition cost (paid in cash) | $ 493 |
| Adjustments to acquisition cost | 27 |
| Direct acquisition expenses | 12 |
| Aggregate consideration given | 532 |
| Fair value of net assets acquired | 500 |
| Goodwill | $ 32 |

The goodwill resulting from this acquisition is being amortized over 7 years.

On closing, a further amount of US$175 million was deposited into a Compensation Trust Fund. This Fund is intended to compensate selected Oppenheimer personnel as the business is integrated into CIBC Oppenheimer Corp. Of this amount, $154 million (US$100 million), plus interest, was payable on November 3, 1998 and $116 million (US$75 million), plus interest, will be payable on November 3, 2000. In 1998, $184 million (US$125 million) was expensed, and in each of 1999 and 2000, $39 million (US$25 million) will be expensed.

The following table reflects, on a pro-forma basis, the combined results of CIBC as if the Oppenheimer acquisition had taken place at the beginning of fiscal 1997.

| *$ millions, for the year ended October 31 (unaudited)* | 1997 |
|---|---|
| Net interest income | $ 4,554 |
| Provision for credit losses | (610) |
| Non-interest income | 5,152 |
| Non-interest expenses | (6,698) |
| Net income before income taxes | 2,398 |
| Income taxes and non-controlling interests | 890 |
| Net income | $ 1,508 |
| Basic earnings per share | $ 3.40 |

**Sale of business**

On March 10, 1998. CIBC sold Comcheq Services Limited, a payroll processing subsidiary, for an after-tax gain of $64 million. The pre-tax gain of $116 million is included in other non-interest income.

## 3 SECURITIES

| | WITHIN 1 YEAR | | 1 TO 5 YEARS | | 5 TO 10 YEARS | | OVER 10 YEARS | | NO SPECIFIC MATURITY | | RESIDUAL TERM TO CONTRACTUAL MATURITY 1998 TOTAL | | 1997 TOTAL | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *$ millions, as at October 31* | Carrying value | Yield(1) | Carrying value | Yield(1) | Carrying value | Yield(1) | Carrying value | Yield(1) | Carrying value | Yield(1) | **Carrying value** | **Yield(1)** | Carrying value | Yield(1) |
| **SECURITIES HELD FOR INVESTMENT** | | | | | | | | | | | | | | |
| Canadian federal government | $ 598 | 5.4% | $ 1,055 | 5.6% | $ 298 | 5.3% | $ 241 | 5.7% | $ – | –% | **$ 2,192** | **5.5%** | $ 3,043 | 6.1% |
| Other Canadian governments | 698 | 5.5 | 687 | 5.6 | 222 | 5.9 | 17 | 5.2 | – | – | **1,624** | **5.6** | 1,358 | 5.9 |
| U.S. Treasury | 128 | 5.0 | – | – | – | – | – | – | – | – | **128** | **5.0** | 154 | 5.4 |
| Other U.S. agencies | 243 | 5.2 | 2,731 | 5.3 | 75 | 5.2 | – | – | – | – | **3,049** | **5.3** | 4,313 | 5.6 |
| Other foreign governments | 421 | 5.4 | 389 | 5.6 | 40 | 5.4 | 69 | 5.8 | – | – | **919** | **5.5** | 879 | 7.1 |
| Corporate debt | 243 | 5.4 | 601 | 5.8 | 613 | 5.5 | 480 | 5.4 | 241 | 5.2 | **2,178** | **5.5** | 2,854 | 5.3 |
| Corporate equity | 152 | 6.0 | 95 | 6.3 | 71 | 4.8 | 1 | 4.9 | 2,192 | 4.7 | **2,511** | **4.9** | 1,787 | 4.8 |
| Equity accounted investments (2) | – | – | – | – | – | – | – | – | 198 | – | **198** | – | 174 | – |
| Total debt securities | | | | | | | | | | | | | | |
| Carrying value | $ 2,331 | | $ 5,463 | | $ 1,248 | | $ 807 | | $ 241 | | **$ 10,090** | | $ 12,601 | |
| Estimated market value | $ 2,378 | | $ 5,544 | | $ 1,296 | | $ 881 | | $ 241 | | **$ 10,340** | | $ 12,770 | |
| Total equity securities | | | | | | | | | | | | | | |
| Carrying value | $ 152 | | $ 95 | | $ 71 | | $ 1 | | $ 2,390 | | **$ 2,709** | | $ 1,961 | |
| Estimated market value (3) | $ 153 | | $ 85 | | $ 71 | | $ – | | $ 4,281 | | **$ 4,590** | | $ 2,342 | |
| Total investment securities | | | | | | | | | | | | | | |
| Carrying value | $ 2,483 | | $ 5,558 | | $ 1,319 | | $ 808 | | $ 2,631 | | **$ 12,799** | | $ 14,562 | |
| Estimated market value (3) | $ 2,531 | | $ 5,629 | | $ 1,367 | | $ 881 | | $ 4,522 | | **$ 14,930** | | $ 15,112 | |
| **SECURITIES HELD FOR TRADING (4)** | | | | | | | | | | | | | | |
| Canadian federal government | $ 3,822 | | $ 7,896 | | $ 1,105 | | $ 696 | | $ – | | **$ 13,519** | | $ 9,720 | |
| Other Canadian governments | 133 | | 441 | | 348 | | 512 | | – | | **1,434** | | 2,325 | |
| U.S. Treasury and agencies | 3,068 | | 1,993 | | 539 | | 249 | | – | | **5,849** | | 3,124 | |
| Other foreign governments | 2,177 | | 390 | | 135 | | 56 | | – | | **2,758** | | 1,465 | |
| Corporate debt | 6,013 | | 2,266 | | 2,333 | | 710 | | 212 | | **11,534** | | 6,650 | |
| Corporate equity | 48 | | 16 | | 1 | | 26 | | 12,878 | | **12,969** | | 7,226 | |
| Total trading securities | $ 15,261 | | $ 13,002 | | $ 4,461 | | $ 2,249 | | $ 13,090 | | **$ 48,063** | | $ 30,510 | |
| **LOAN SUBSTITUTE SECURITIES** | | | | | | | | | | | | | | |
| Carrying value | $ 6 | 5.0% | $ 102 | 4.2% | $ – | | $ – | | $ – | | **$ 108** | **4.2%** | $ 180 | 4.7% |
| Estimated market value | $ 6 | | $ 102 | | $ – | | $ – | | $ – | | **$ 108** | | $ 180 | |
| **TOTAL SECURITIES** | | | | | | | | | | | | | | |
| Carrying value | $ 17,750 | | $ 18,662 | | $ 5,780 | | $ 3,057 | | $ 15,721 | | **$ 60,970** | | $ 45,252 | |
| Estimated market value (3) | $ 17,798 | | $ 18,733 | | $ 5,828 | | $ 3,130 | | $ 17,612 | | **$ 63,101** | | $ 45,802 | |

*(1) Represents the weighted average yield which is determined by applying the weighted average of the book yields of individual fixed income securities and the stated dividend rates of corporate equity securities.*
*(2) For purposes of this disclosure, the estimated market value has been assumed to equal the book value.*
*(3) The fair value of publicly traded equities held for investment does not take into account any adjustments for resale restrictions that expire within one year, or adjustments for liquidity or future expenses.*
*(4) Since securities held for trading are recorded at market value, carrying value equals market value.*

## ESTIMATED MARKET VALUES OF SECURITIES HELD FOR INVESTMENT

| $ millions, as at October 31 | 1998 Carrying value | 1998 Unrealized gains | 1998 Unrealized losses | 1998 Estimated market value | 1997 Carrying value | 1997 Unrealized gains | 1997 Unrealized losses | 1997 Estimated market value |
|---|---|---|---|---|---|---|---|---|
| Securities issued or guaranteed by: | | | | | | | | |
| Canadian federal government | **$ 2,192** | **$ 110** | **$ (12)** | **$ 2,290** | $ 3,043 | $ 86 | $ (4) | $ 3,125 |
| Other Canadian governments | **1,624** | **68** | **(1)** | **1,691** | 1,358 | 51 | (1) | 1,408 |
| U.S. Treasury | **128** | **–** | **–** | **128** | 154 | – | – | 154 |
| Other U.S. agencies | **3,049** | **21** | **–** | **3,070** | 4,313 | 6 | (18) | 4,301 |
| Other foreign governments | **919** | **63** | **–** | **982** | 879 | 16 | (2) | 893 |
| Corporate securities | | | | | | | | |
| Debt | **2,178** | **7** | **(6)** | **2,179** | 2,854 | 72 | (37) | 2,889 |
| Equity | **2,511** | **1,966** | **(85)** | **4,392** | 1,787 | 399 | (18) | 2,168 |
| Equity accounted investments(1) | **198** | **–** | **–** | **198** | 174 | – | – | 174 |
| | **$12,799** | **$ 2,235** | **$ (104)** | **$14,930** | $14,562 | $ 630 | $ (80) | $15,112 |

*(1) For purposes of this disclosure, the estimated market value has been assumed to equal book value.*

Trading revenue is earned through the trading of securities, foreign exchange and derivative products. Trading activities include dealing and other securities and derivatives trading activities measured at fair value with gains and losses recognized in earnings, but exclude underwriting fees and commissions on securities transactions which are shown separately in the consolidated statements of income. Net interest income on trading assets is integral to trading activities and is therefore shown in the table as part of total trading revenue.

## TRADING REVENUE

| $ millions, for the years ended October 31 | 1998 | 1997 | 1996 |
|---|---|---|---|
| Net interest income consists of: | | | |
| Non-trading related | **$ 4,334** | $ 4,399 | $ 4,364 |
| Trading related | **3** | 118 | 99 |
| Net interest income | **$ 4,337** | $ 4,517 | $ 4,463 |
| Trading revenue consists of: | | | |
| Trading related net interest income | **$ 3** | $ 118 | $ 99 |
| Non-interest income - trading activities | **66** | 572 | 296 |
| Trading revenue | **$ 69** | $ 690 | $ 395 |
| Trading revenue by product line consists of: | | | |
| Interest rates | **$ 97** | $ 379 | $ 245 |
| Foreign exchange | **50** | 78 | 38 |
| Equities | **(108)** | 161 | 79 |
| Commodities and other | **30** | 72 | 33 |
| Trading revenue | **$ 69** | $ 690 | $ 395 |

## 4 LOANS

| $ millions, as at October 31 | 1998 Gross amount | 1998 Allowance | 1998 Net total | 1997 Gross amount | 1997 Allowance | 1997 Net total |
|---|---|---|---|---|---|---|
| Residential mortgages | **$ 43,199** | **$ 27** | **$ 43,172** | $ 40,039 | $ 30 | $ 40,009 |
| Personal and credit card loans | **24,563** | **181** | **24,382** | 22,305 | 187 | 22,118 |
| Business and government loans | **49,811** | **551** | **49,260(1)** | 47,107 | 724 | 46,383(1) |
| Securities purchased under resale agreements | **36,293** | **–** | **36,293** | 37,629 | – | 37,629 |
| General allowance for credit losses | **–** | **850** | **(850)(1)** | – | 650 | (650)(1) |
| | **$ 153,866** | **$ 1,609** | **$ 152,257** | $ 147,080 | $ 1,591 | $ 145,489 |
| Canadian currency(1) | | | **$ 94,343** | | | $ 92,634 |
| Foreign currencies | | | **$ 57,914** | | | $ 52,855 |
| Of which, impaired loans are: | | | | | | |
| Residential mortgages | **$ 135** | **$ 27** | **$ 108** | $ 134 | $ 30 | $ 104 |
| Personal and credit card loans | **301** | **181** | **120** | 282 | 187 | 95 |
| Business and government loans | **1,050** | **551** | **499** | 1,203 | 724 | 479 |
| General allowance for credit losses | **–** | **850** | **(850)(1)** | – | 650 | (650)(1) |
| | **$ 1,486** | **$ 1,609** | **$ (123)** | $ 1,619 | $ 1,591 | $ 28 |
| Canadian currency(1) | | | **$ (406)** | | | $ (192) |
| Foreign currencies | | | **$ 283** | | | $ 220 |

*(1) The general allowance for credit losses is available for the portfolio as a whole. However, for purposes of presentation in the consolidated balance sheets, the general allowance for credit losses is netted against business and government loans and in the table above has been entirely applied to Canadian dollar based lending.*

As at October 31, 1998, other past due loans totaled $77 million (1997: $62 million) of which $26 million (1997: $38 million) was in Canada and $51 million (1997: $24 million) was outside Canada. Other past due loans, excluding credit card loans and government guaranteed loans, are loans where repayment of principal or payment of interest is contractually in arrears between 90 and 180 days. These loans have not been classified as impaired loans because they are both fully secured and in the process of collection. When the arrears reach 180 days, the loans become non-accrual notwithstanding the security held.

As at October 31, 1998, the interest entitlements on loans classified as impaired was $96 million for Canadian domiciled loans (1997: $97 million; 1996: $133 million) and $34 million for foreign domiciled loans (1997: $27 million; 1996: $51 million), of which interest recognized on loans classified as impaired was $41 million for Canadian domiciled loans (1997: $39 million; 1996: $42 million) and $10 million for foreign domiciled loans (1997: $11 million; 1996: $16 million).

**LOAN MATURITIES**

| | Residual term to contractual maturity | | | | |
|---|---|---|---|---|---|
| *$ millions, as at October 31* | Within 1 year | 1 to 5 years | 5 to 10 years | Over 10 years | **1998 Total** |
| Residential mortgages | $ 10,051 | $ 30,938 | $ 2,030 | $ 153 | **$ 43,172** |
| Personal and credit card loans | 16,352 | 7,661 | 366 | 3 | **24,382** |
| Business and government loans | 28,854 | 13,219 | 5,022 | 2,165 | **49,260** |
| Securities purchased under resale agreements | 36,293 | – | – | – | **36,293** |
| | $ 91,550 | $ 51,818 | $ 7,418 | $ 2,321 | **$ 153,107** |
| General allowance for credit losses | | | | | **(850)** |
| | | | | | **$ 152,257** |

**ALLOWANCE FOR CREDIT LOSSES**

| | Specific | | | General | | | Total(1) | | |
|---|---|---|---|---|---|---|---|---|---|
| *$ millions, as at or for the years ended October 31* | **1998** | 1997 | 1996 | **1998** | 1997 | 1996 | **1998** | 1997 | 1996 |
| Balance at beginning of year | **$ 945** | $ 1,041 | $ 1,166 | **$ 650** | $ 400 | $ 372 | **$ 1,595** | $ 1,441 | $ 1,538 |
| Adjustment for accounting change(2) | **–** | – | 165 | **–** | – | – | **–** | – | 165 |
| Write-offs | **(592)** | (621) | (791) | **–** | – | (65) | **(592)** | (621) | (856) |
| Recoveries | **132** | 157 | 113 | **–** | – | – | **132** | 157 | 113 |
| Provision for credit losses charged to the consolidated statements of income | **280** | 360 | 387 | **200** | 250 | 93 | **480** | 610 | 480 |
| Foreign exchange and other adjustments | **11** | 8 | 1 | **–** | – | – | **11** | 8 | 1 |
| Balance at end of year | **$ 776** | $ 945 | $ 1,041 | **$ 850** | $ 650 | $ 400 | **$ 1,626** | $ 1,595 | $ 1,441 |

*(1) Includes allowances on letters of credit totalling $17 million (1997: $4 million; 1996: $19 million).*
*(2) Represents the effect of implementing CICA Handbook section 3025, "Impaired loans", which introduced the requirement to discount expected future cash flows on impaired loans when determining the allowance for credit losses.*

## 5 LAND, BUILDINGS AND EQUIPMENT

| *$ millions, as at October 31* | **Cost** | **Accumulated amortization** | **1998 Net book value** | 1997 Net book value |
|---|---|---|---|---|
| Land | **$ 216** | **$ –** | **$ 216** | $ 201 |
| Buildings | **1,305** | **405** | **900** | 897 |
| Computers, office furniture and other equipment | **2,116** | **1,316** | **800** | 735 |
| Leasehold improvements | **569** | **284** | **285** | 238 |
| | **$ 4,206** | **$ 2,005** | **$ 2,201** | $ 2,071 |

*Amortization of buildings, equipment and leasehold improvements for the year amounted to $266 million (1997: $231 million; 1996: $232 million).*

## 6 OTHER ASSETS

| *$ millions, as at October 31* | **1998** | 1997 |
|---|---|---|
| Accrued interest receivable | **$ 1,979** | $ 1,207 |
| Brokers' client accounts | **1,375** | 691 |
| Prepaid pension cost *(NOTE 13)* | **271** | 253 |
| Goodwill (1) | **172** | 156 |
| Other prepayments and deferred items | **120** | 90 |
| Other, including accounts receivable | **3,138** | 2,497 |
| | **$ 7,055** | $ 4,894 |

*(1) Amortization of goodwill for the year amounted to $28 million (1997: $26 million; 1996: $24 million).*

## 7 DEPOSITS

| $ millions, as at October 31 | Payable on demand (1) | Payable after notice (2) | Payable on a fixed date(3) Within 1 year | 1 to 5 years | 5 to 10 years | Over 10 years | 1998 Total | 1997 Total |
|---|---|---|---|---|---|---|---|---|
| Individuals | $ 3,653 | $ 17,591 | $ 23,633 | $ 14,862 | $ 254 | $ – | **$ 59,993** | $ 59,188 |
| Businesses and governments | 11,631 | 5,528 | 49,854 | 8,513 | 1,024 | 92 | **76,642** | 60,272 |
| Banks | 730 | 77 | 22,409 | 24 | – | – | **$ 23,240** | 19,438 |
| | $ 16,014 | $ 23,196 | $ 95,896 | $ 23,399 | $ 1,278 | $ 92 | **$ 159,875** | $ 138,898 |
| Canadian currency | | | | | | | **$ 85,297** | $ 83,040 |
| Foreign currencies | | | | | | | **$ 74,578** | $ 55,858 |
| | | | | | | | **$ 159,875** | $ 138,898 |
| Total deposits include: | | | | | | | | |
| Non-interest-bearing deposits | | | | | | | | |
| In domestic offices | | | | | | | **$ 5,708** | $ 5,342 |
| In foreign offices | | | | | | | **908** | 883 |
| Interest-bearing deposits | | | | | | | | |
| In domestic offices | | | | | | | **81,030** | 76,622 |
| In foreign offices | | | | | | | **71,269** | 56,051 |
| U.S. federal funds purchased | | | | | | | **960** | – |
| | | | | | | | **$ 159,875** | $ 138,898 |

*(1) Deposits payable on demand include all deposits for which CIBC does not have the right to require notice of withdrawal. These deposits are, in general, chequing accounts.*
*(2) Deposits payable after notice include all deposits for which CIBC can legally require notice of withdrawal. These deposits are, in general, savings accounts.*
*(3) Deposits payable on a fixed date include all deposits which mature on a specified date. These deposits are generally term deposits, guaranteed investment certificates and similar instruments.*

## 8 OTHER LIABILITIES

| $ millions, as at October 31 | 1998 | 1997 |
|---|---|---|
| Accrued interest payable | **$ 2,985** | $ 1,940 |
| Gold and silver certificates | **452** | 672 |
| Brokers' client accounts | **1,000** | 1,112 |
| Cheques and other items in transit, net | **358** | 518 |
| Deferred items | **454** | 343 |
| Future income taxes *(NOTE 14)* | **223** | 241 |
| Non-controlling interests in subsidiaries | **230** | 126 |
| Other, including accounts payable and accruals | **4,104** | 3,315 |
| | **$ 9,806** | $ 8,267 |

## 9 SUBORDINATED INDEBTEDNESS

The following indebtedness is unsecured and subordinated to deposits and other liabilities. Foreign denominated indebtedness either funds foreign denominated assets or is combined with cross currency swaps to create synthetic Canadian dollar liabilities.

### TERMS OF SUBORDINATED INDEBTEDNESS

*$ millions, as at October 31*

| Interest rate[1] % | Maturity date | Earliest date redeemable by CIBC: at greater of Canada Yield Price[12] and par | Earliest date redeemable by CIBC: at par | Denominated in foreign currency | 1998 Amount | 1997 Amount |
|---|---|---|---|---|---|---|
| 9.5 | November 07, 1997 | | | | $ – | $ 67 |
| 6.375 | June 06, 1998 | | | | – | 163 |
| 10.071 | November 04, 1998[9] | | | | – | 49 |
| 10.071 | November 04, 1998[9] | | | | – | 14 |
| 9.5 | December 30, 1998 | [8] | | LUF 1.5 billion | **68** | 59 |
| 10.375 | January 31, 2000[10] | [8] | | | **41** | 150 |
| 5.7 | September 13, 2000[9] | | | | – | 210 |
| 12.45 | December 01, 2000[10] | [8] | | | **9** | 150 |
| 7.3 | January 27, 2001[13] | | | | – | 105 |
| 7.88 | July 28, 2001 | | July 28, 1999 | Yen 5 billion | **66** | 59 |
| 10.75 | March 15, 2003[9] | | | | – | 150 |
| 5.5 | June 21, 2003 | [8] | | Yen 5 billion | **66** | 59 |
| 5.7 | September 29, 2003[9] | | | | – | 59 |
| 7.5 | November 28, 2003[13] | | | | – | 59 |
| 11.125 | February 10, 2004 | [8] | | | **50** | 50 |
| 7.1 | March 10, 2004 | March 10, 1999 | | | **250** | 250 |
| 6.91 | July 19, 2004 | | July 19, 1999 | Yen 5 billion | **66** | 59 |
| 8.55 | May 12, 2005 | May 12, 2000 | | | **70** | 70 |
| 8.65 | August 22, 2005 | August 22, 2000 | | | **200** | 200 |
| 5.52 | September 05, 2006 | | September 05, 2001 | | **220** | 220 |
| Floating[2] | March 07, 2007 | | March 07, 2002 | | **100** | 100 |
| Floating[3] | October 30, 2007 | | October 30, 2002 | | **250** | – |
| Floating[3] | March 04, 2008 | | March 04, 2003 | | **50** | – |
| Floating[4][6] | May 19, 2008 | | May 19, 2003 | US$ 250 million | **386** | – |
| 7.4 | January 31, 2011 | | January 31, 2006 | | **250** | 250 |
| 8.15 | April 25, 2011 | April 25, 2001 | April 25, 2006 | | **250** | 250 |
| 7.0 | October 23, 2011 | October 23, 2001 | October 23, 2006 | | **250** | 250 |
| Floating[5][6] | August 14, 2012 | | August 14, 2007 | US$ 300 million | **463** | 423 |
| 5.89[11] | February 26, 2013 | February 26, 1998 | February 26, 2008 | | **120** | – |
| 9.65 | October 31, 2014 | November 01, 1999 | | | **250** | 250 |
| 8.7 | May 25, 2029 | [8] | | | **25** | 25 |
| 8.7 | May 25, 2032 | [8] | | | **25** | 25 |
| 8.7 | May 25, 2033 | [8] | | | **25** | 25 |
| 8.7 | May 25, 2035 | [8] | | | **25** | 25 |
| 11.6 | January 07, 2031 | January 7, 1996 | | | **200** | 200 |
| 10.8 | May 15, 2031 | May 15, 2021 | | | **150** | 150 |
| Floating[4] | July 31, 2084 | | July 27, 1990 | US$ 285 million[7] | **440** | 401 |
| Floating[4] | August 31, 2085 | | August 20, 1991 | US$ 226 million | **349** | 318 |
| | | | | | **$ 4,714** | $ 4,894 |

*(1) Interest rates applicable to certain issues will change subsequent to the earliest date redeemable by CIBC. The impact of these changes is immaterial.*
*(2) Interest rate is based on the three month bankers' acceptance rate plus 0.20% until the earliest date redeemable by CIBC and thereafter, on the three month bankers' acceptance rate plus 1.00%.*
*(3) Interest rate is based on the three month bankers' acceptance rate plus 0.21% until the earliest date redeemable by CIBC and thereafter, on the three month bankers' acceptance rate plus 1.00%.*
*(4) Interest rate is based on the three month London inter-bank offered rate (LIBOR) plus 0.25% until the earliest date reedemable by CIBC and thereafter, on three month LIBOR plus 0.75%.*
*(5) Interest rate is based on three month LIBOR plus 0.35% until the earliest date reedemable by CIBC and thereafter, on three month LIBOR plus 1.35%.*
*(6) Issued by CIBC Wood Gundy plc and guaranteed by CIBC on a subordinated basis.*
*(7) US$3 million of the indebtedness was repurchased during 1997.*
*(8) Not redeemable prior to maturity date.*
*(9) Redeemed early through normal provisions of the debenture agreement.*
*(10) A portion of the amount outstanding was converted to deposit liabilities during 1998.*
*(11) Interest rate is fixed at 5.89% until February 26, 2008 and thereafter is based on the three month bankers' acceptance rate plus 1.00%.*
*(12) Canada Yield Price: a price calculated to provide a yield to maturity equal to the yield of a Government of Canada bond of appropriate maturity plus a predetermined spread.*
*(13) Redeemed early through agreement with debenture holders.*

### REPAYMENT SCHEDULE

*$ millions*

| | |
|---|---|
| Within 1 year | $ 1,559[1] |
| Over 1 to 2 years | 570 |
| Over 2 to 3 years | 720 |
| Over 3 to 4 years | 350 |
| Over 4 to 5 years | 502 |
| Over 5 years | 1,013 |
| | $ 4,714 |

*(1) Includes amounts that may be redeemed immediately at the option of CIBC.*

## 10 INTEREST RATE SENSITIVITY

CIBC is exposed to interest rate risk as a consequence of the mismatch, or gap, between the assets, liabilities and off-balance sheet instruments scheduled to reprice on particular dates. The gaps which existed at October 31 are detailed below.

| $ millions, as at October 31 | Floating rate | Within 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Not interest rate sensitive | Total |
|---|---|---|---|---|---|---|---|
| | *Maturity or repricing date of interest sensitive instruments* | | | | | | |
| **1998 ASSETS** | | | | | | | |
| Cash resources | $ – | $ 8,609 | $ 1,135 | $ – | $ – | $ 1,051 | **$ 10,795** |
| Effective yield (1) | | 5.2% | 5.6% | | | | |
| Securities held for investment | 1,067 | 2,813 | 1,190 | 3,030 | 1,585 | 3,222 | **12,907** |
| Effective yield (1) | | 5.5% | 5.5% | 5.8% | 6.6% | | |
| Securities held for trading | – | 10,516 | 5,310 | 12,918 | 6,178 | 13,141 | **48,063** |
| Effective yield (1) | | 5.7% | 5.2% | 5.1% | 5.6% | | |
| Loans | 34,360 | 68,556 | 11,003 | 33,361 | 4,174 | 803 | **152,257** |
| Effective yield (1) | | 5.4% | 6.8% | 7.0% | 6.6% | | |
| Other | – | 37,159 | – | – | – | 20,249 | **57,408** |
| Total assets | 35,427 | 127,653 | 18,638 | 49,309 | 11,937 | 38,466 | **281,430** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | | | | |
| Deposits | 23,727 | 61,594 | 38,138 | 19,510 | 1,019 | 15,887 | **159,875** |
| Effective yield (1) | | 4.5% | 5.0% | 5.3% | 6.7% | | |
| Obligations related to securities sold short | – | 455 | 1,303 | 5,212 | 4,795 | 4,284 | **16,049** |
| Effective yield (1) | | 4.9% | 5.2% | 5.2% | 5.2% | | |
| Obligations related to securities sold under repurchase agreements | – | 32,456 | 154 | – | – | – | **32,610** |
| Effective yield (1) | | 4.8% | 5.3% | | | | |
| Subordinated indebtedness | – | 1,756 | 482 | 336 | 2,140 | – | **4,714** |
| Effective yield (1) | | 5.9% | 6.2% | 6.3% | 8.6% | | |
| Other | – | 36,245 | – | – | – | 31,937 | **68,182** |
| Total liabilities and shareholders' equity | 23,727 | 132,506 | 40,077 | 25,058 | 7,954 | 52,108 | **281,430** |
| On-balance sheet gap | 11,700 | (4,853) | (21,439) | 24,251 | 3,983 | (13,642) | – |
| Off-balance sheet gap | – | (20,604) | 21,079 | (5,943) | 5,468 | – | – |
| Total gap | $ 11,700 | $ (25,457) | $ (360) | $ 18,308 | $ 9,451 | $ (13,642) | $ – |
| Total cumulative gap | $ 11,700 | $ (13,757) | $ (14,117) | $ 4,191 | $ 13,642 | $ – | $ – |
| **GAP BY CURRENCY** | | | | | | | |
| On-balance sheet gap | | | | | | | |
| Canadian currency | $ 16,400 | $ (14,278) | $ (6,288) | $ 22,066 | $ (252) | $ (17,648) | $ – |
| Foreign currencies | (4,700) | 9,425 | (15,151) | 2,185 | 4,235 | 4,006 | – |
| Total on-balance sheet gap | 11,700 | (4,853) | (21,439) | 24,251 | 3,983 | (13,642) | – |
| Off-balance sheet gap | | | | | | | |
| Canadian currency | – | (24,994) | 16,438 | 3,060 | 5,496 | – | – |
| Foreign currencies | – | 4,390 | 4,641 | (9,003) | (28) | – | – |
| Total off-balance sheet gap | – | (20,604) | 21,079 | (5,943) | 5,468 | – | – |
| Total gap | $ 11,700 | $ (25,457) | $ (360) | $ 18,308 | $ 9,451 | $ (13,642) | $ – |
| **1997 GAP BY CURRENCY** | | | | | | | |
| On-balance sheet gap | | | | | | | |
| Canadian currency | $ 13,760 | $ 2,388 | $ (11,232) | $ 11,511 | $ (692) | $ (15,735) | $ – |
| Foreign currencies | (1,147) | (141) | (10,739) | 3,506 | 8,458 | 63 | – |
| Total on balance sheet gap | 12,613 | 2,247 | (21,971) | 15,017 | 7,766 | (15,672) | – |
| Off-balance sheet gap | | | | | | | |
| Canadian currency | – | (11,325) | (5,941) | 10,265 | 7,001 | – | – |
| Foreign currencies | – | 12,214 | (5,247) | (6,100) | (867) | – | – |
| Total off-balance sheet gap | – | 889 | (11,188) | 4,165 | 6,134 | – | – |
| Total gap | $ 12,613 | $ 3,136 | $ (33,159) | $ 19,182 | $ 13,900 | $ (15,672) | $ – |
| Total cumulative gap | $ 12,613 | $ 15,749 | $ (17,410) | $ 1,772 | $ 15,672 | $ – | $ – |

(1) Represents the weighted average effective yield based on the earlier of contractual repricing or maturity date.

## 11 SHARE CAPITAL

### Authorized

*Preferred Shares*

An unlimited number of Class A Preferred Shares and Class B Preferred Shares without par value issuable in series for an aggregate consideration not exceeding $5,000 million for each class.

*Common Shares*

An unlimited number of Common Shares without par value issuable for an aggregate consideration not exceeding $10,000 million.

### Share rights and privileges

*Class A Preferred Shares*

Each series of Class A preferred shares bears quarterly non-cumulative dividends and is redeemable for cash by CIBC on or after the specified redemption dates at the cash redemption prices indicated below. Each series, with the exception of Series 18, also provides CIBC with the right to convert the shares to CIBC common shares on or after a specified conversion date. Each share is convertible into a number of common shares determined by dividing the then applicable cash redemption price by 95% of the average common share price (as defined in the short form prospectus or prospectus supplement), subject to a minimum price of $2.00 per share. Shareholders acquire the same conversion option at a specified conversion date. Furthermore, subject to the approval of the Superintendent of Financial Institutions, Canada, CIBC may elect to redeem for cash any shares tendered for conversion or to arrange for their cash sale to another purchaser.

On April 30, 1998, the Series 9 Class A preferred shares were redeemed for cash at a price of $26.00 per share.

**TERMS OF PREFERRED SHARES**

| | | | | Conversion for Common | |
|---|---|---|---|---|---|
| | Quarterly dividends per share | Specified redemption date | Cash redemption price | CIBC conversion date | Shareholders conversion date |
| Series 12 | US$ 0.406250 | October 31, 2000 | US$ 26.00 | October 31, 2000 | July 31, 2003 |
| | | October 31, 2001 | US$ 25.50 | | |
| | | October 31, 2002 | US$ 25.00 | | |
| Series 13 | $ 0.437500 | October 31, 2000 | $ 26.00 | October 31, 2000 | July 31, 2003 |
| | | October 31, 2001 | $ 25.50 | | |
| | | October 31, 2002 | $ 25.00 | | |
| Series 14 | $ 0.371875 | July 31, 2003 | $ 26.00 | July 31, 2003 | July 31, 2006 |
| | | July 31, 2004 | $ 25.50 | | |
| | | July 31, 2005 | $ 25.00 | | |
| Series 15 | $ 0.353125 | July 31, 2004 | $ 26.00 | July 31 2004 | July 31, 2007 |
| | | July 31, 2005 | $ 25.50 | | |
| | | July 31, 2006 | $ 25.00 | | |
| Series 16 | US$ 0.353125 | October 29, 2004 | US$ 25.50 | October 29, 2004 | October 29, 2007 |
| | | October 29, 2005 | US$ 25.25 | | |
| | | October 29, 2006 | US$ 25.00 | | |
| Series 17 | $ 0.340625 | October 29, 2004 | $ 25.50 | October 29, 2004 | October 29, 2007 |
| | | October 29, 2005 | $ 25.25 | | |
| | | October 29, 2006 | $ 25.00 | | |
| Series 18 | $ 0.343750 | October 29, 2012 | $ 25.00 | not convertible | not convertible |
| Series 19 | $ 0.309375 | April 30, 2008 | $ 25.75 | April 30, 2008 | April 30, 2013 |
| | | April 30, 2009 | $ 25.60 | | |
| | | April 30, 2010 | $ 25.45 | | |
| | | April 30, 2011 | $ 25.30 | | |
| | | April 30, 2012 | $ 25.15 | | |
| | | April 30, 2013 | $ 25.00 | | |
| Series 20 | US$ 0.321875 | October 31, 2005 | US$ 25.50 | October 31, 2005 | April 30, 2008 |
| | | October 31, 2006 | US$ 25.25 | | |
| | | October 31, 2007 | US$ 25.00 | | |

## OUTSTANDING SHARES AND DIVIDENDS DECLARED

| For the years ended October 31 | 1998 Shares outstanding No. of shares | 1998 Shares outstanding $ millions | 1998 Dividends declared $ millions | 1998 Dividends declared $ per share | 1997 Shares outstanding No. of shares | 1997 Shares outstanding $ millions | 1997 Dividends declared $ millions | 1997 Dividends declared $ per share | 1996 Dividends declared $ millions | 1996 Dividends declared $ per share |
|---|---|---|---|---|---|---|---|---|---|---|
| Class A Preferred Shares | | | | | | | | | | |
| Floating rate shares entitled to cumulative dividends | | | | | | | | | | |
| Series 4 | – | $ – | $ – | $ – | – | $ – | $ 4 | $ 3.41 | $ 5 | $ 4.74 |
| Series 5 | – | – | – | – | – | – | 4 | $ 0.82 | 5 | $ 1.16 |
| | | – | – | | | – | 8 | | 10 | |
| Fixed rate shares entitled to non-cumulative dividends | | | | | | | | | | |
| Series 9 | – | – | 11 | $ 1.14 | 10,000,000 | 250 | 23 | $ 2.28 | 23 | $ 2.28 |
| Series 10 | – | – | – | – | – | – | – | – | 28 | US$ 2.07 |
| Series 11 | – | – | – | – | – | – | – | – | 15 | $ 2.41 |
| Series 12 | **6,000,000** | **232** | **14** | **US$ 1.63** | 6,000,000 | 212 | 13 | US$ 1.63 | 13 | US$ 1.63 |
| Series 13 | **8,000,000** | **200** | **14** | **$ 1.75** | 8,000,000 | 200 | 14 | $ 1.75 | 14 | $ 1.75 |
| Series 14 | **8,000,000** | **200** | **12** | **$ 1.49** | 8,000,000 | 200 | 12 | $ 1.49 | 9 | $ 1.12 |
| Series 15 | **12,000,000** | **300** | **17** | **$ 1.41** | 12,000,000 | 300 | 17 | $ 1.41 | – | – |
| Series 16 | **5,500,000** | **212** | **12** | **US$ 1.41** | 5,500,000 | 194 | 6 | US$ 0.82 | – | – |
| Series 17 | **6,500,000** | **162** | **9** | **$ 1.36** | 6,500,000 | 162 | 5 | $ 0.79 | – | – |
| Series 18 (1) | **12,000,000** | **300** | **16** | **$ 1.36** | – | – | – | – | – | – |
| Series 19 (1) | **8,000,000** | **200** | **6** | **$ 0.74** | – | – | – | – | – | – |
| Series 20 (1) | **4,000,000** | **155** | **5** | **US$ 0.77** | – | – | – | – | – | – |
| | | **1,961** | **116** | | | 1,518 | 90 | | 102 | |
| Total preferred share capital and dividends at end of year | | **$ 1,961** | **$ 116** | | | $ 1,518 | $ 98 | | $ 112 | |
| Common Shares (2) | | | | | | | | | | |
| Total common share capital at beginning of year | **414,293,851** | **$ 3,105** | – | – | 411,913,544 | $ 3,055 | – | – | – | – |
| Share exchange (3) | – | – | – | – | 866,212 | 24 | – | – | – | – |
| Issued pursuant to the Employee Stock Option Plan | **1,221,283** | **23** | – | – | 1,514,095 | 26 | – | – | – | – |
| Total common share capital and dividends at end of year | **415,515,134** | **$ 3,128** | **$ 498** | **$ 1.20** | 414,293,851 | $ 3,105 | $ 434 | $ 1.05 | $ 352 | $ 0.85 |
| Total dividends declared | | | **$ 614** | | | | $ 532 | | $ 464 | |

*(1) Issued during 1998 for cash.*
*(2) Shares outstanding have been restated to reflect the stock dividend paid on March 27, 1997 to common shareholders of record at the close of business on that date at the rate of one fully paid and non-assessable common share of CIBC for every common share outstanding.*
*(3) On November 18, 1996, 11,834,000 CIBC Wood Gundy Corporation shares were exchanged for 866,212 CIBC common shares.*

### Restrictions on the payment of dividends

CIBC is prohibited by the Bank Act (Canada) from declaring any dividends on its preferred or common shares when CIBC is, or would be placed by such declaration, in contravention of the capital adequacy and liquidity regulations or any regulatory directives issued under the Act. In addition, the ability to pay common share dividends is restricted by the terms of the outstanding preferred shares whereby CIBC may not pay dividends on its common shares at any time unless all dividends to which preferred shareholders are then entitled have been declared and paid or set apart for payment.

### Shareholder investment plan

Under the Shareholder Investment Plan, eligible shareholders have the right to participate in one or more of the Dividend Reinvestment Option, the Share Purchase Option and the Stock Dividend Option.

### Shares reserved for issue

As at October 31, 1998, 4,924,831 common shares have been reserved for issue pursuant to the Employee Stock Option Plan.

### Share repurchase

On September 17, 1998, CIBC announced a program to repurchase up to 20 million of its outstanding common shares. The amounts and timing of repurchases, if any, are entirely at CIBC's discretion and can be made between September 21, 1998 and September 20, 1999 at prevailing market prices. No such repurchases had been made by year end.

## 12 STOCK BASED COMPENSATION

CIBC has three stock-based compensation plans, which are described below. Compensation expense recognized in respect of the plans totaled $45 million (1997: $158 million; 1996: $43 million).

*Employee Stock Option Plan*

Under CIBC's Employee Stock Option Plan, stock options are periodically granted to designated employees. Options provide the employee with the right to purchase CIBC common shares from CIBC at a fixed strike price equal to the market price of the stock at the grant date. The options vest evenly over a four year period and expire 10 years from the grant date, except for the options expiring in February 2001, which vest based on certain operating results.

Up to 50% of vested options can be exercised as Stock Appreciation Rights (SARs). SARs can be exchanged for a cash amount equal to the difference between the option strike price and the weighted average price of the common shares on the Toronto Stock Exchange the day immediately preceding the day the SARs are exercised.

CIBC accrues compensation expense on SARs over the vesting period as a function of the expected exercise rate and the excess of quoted market price over strike price. The compensation cost (recovery) recorded in the year in respect of this plan amounted to $(16) million (1997: $17 million; 1996: $21 million).

*Employee Share Purchase Plan*

Under CIBC's Employee Share Purchase Plan, qualifying employees can choose each year to have up to 6% of their annual base earnings withheld to purchase CIBC common shares. CIBC matches 50% of the employee contribution amount. All contributions are used by the plan trustee to purchase common shares each pay period in the open market. CIBC contributions vest after two years of continuous participation in the plan and all subsequent contributions vest immediately. CIBC's contribution is expensed as paid and totalled $25 million (1997:$24 million; 1996: $22 million).

*Long Term Incentive Plan*

Under CIBC's Long Term Incentive Plan, certain key CIBC World Markets' employees are provided with common share-based awards.

The funding for awards under this plan is paid into a trust which purchases CIBC common shares in the open market. The awards vest over a three year period. Compensation expense is recognized in an amount equal to the sums to be transferred to the trust in respect of current fiscal year allocations and totalled $36 million (1997: $117 million).

### EMPLOYEE STOCK OPTION PLAN

| As at or for the years ended October 31 | 1998 Number of stock options (1) | 1998 Weighted average exercise price | 1997 Number of stock options (1) | 1997 Weighted average exercise price | 1996 Number of stock options (1) | 1996 Weighted average exercise price |
|---|---|---|---|---|---|---|
| Outstanding at beginning of the year | **11,131,619** | **$ 23.02** | 9,467,660 | $ 18.08 | 7,425,250 | $ 16.52 |
| Granted | **3,632,980** | **$ 40.65** | 3,862,300 | $ 32.09 | 3,255,500 | $ 21.13 |
| Exercised | **(1,221,283)** | **$ 19.14** | (1,514,095) | $ 17.16 | (823,516) | $ 16.28 |
| Forfeited/Cancelled | **(200,846)** | **$ 32.55** | (452,500) | $ 19.83 | (265,250) | $ 18.01 |
| Exchanged for SARs | **(235,645)** | **$ 18.94** | (231,746) | $ 16.92 | (124,324) | $ 16.29 |
| Outstanding at end of the year | **13,106,825** | **$ 28.20** | 11,131,619 | $ 23.02 | 9,467,660 | $ 18.08 |
| Exerciseable at end of the year | **5,084,611** | **$ 19.83** | 3,921,654 | $ 17.31 | 2,962,430 | $ 16.42 |

(1) Options outstanding have been restated to reflect the stock dividend paid on March 27, 1997.

### OPTIONS OUTSTANDING

| Exercise price | Stock options outstanding | Stock options vested | Expiry |
|---|---|---|---|
| $ 15.375 | 837,501 | 837,501 | February 2003 |
| $ 17.813 | 1,121,395 | 1,121,395 | February 2004 |
| $ 16.375 | 1,606,017 | 1,204,513 | February 2005 |
| $ 21.125 | 2,394,077 | 1,197,039 | February 2006 |
| $ 31.700 | 2,896,651 | 724,163 | February 2007 |
| $ 33.850 | 702,000 | – | February 2001 |
| $ 40.650 | 3,549,184 | – | February 2008 |
| | 13,106,825 | 5,084,611 | |

### Pro-forma disclosures

CIBC uses the intrinsic-value based method of accounting for stock based compensation. The fair value of each option granted in 1998 has been estimated at $13.90 (1997: $13.46) using the Cox-Rubinstein model for pricing American options.

The pricing model assumes risk-free short-term interest rates of 5%, expected dividend yields of 2.95% annually, expected common stock price volatility of 30%, and the exercise of options when economically advantageous.

The fair-value based method requires that the compensation cost related to SARs be measured as the intrinsic value of the SARs at the exercise date. Consequently, under the fair-value based method, compensation cost on SARs is measured on a straight line basis over the vesting period based on the excess of quoted market price over strike price, assuming that all options eligible for SARs are exercised as SARs.

Had the fair-value method been used for awards granted subsequent to 1995, 1998 net income would have been reduced by $14 million (1997: $8 million), and basic and fully diluted earnings per share by $0.03 (1997: $0.02).

## 13 POST-RETIREMENT BENEFITS

CIBC provides pension benefits to qualified employees. The benefits are in general based on years of service and compensation near retirement. The funding policy is based on the funding standards of local regulatory authorities which require contributions to provide for the accumulated benefit obligation and current service cost, except for certain plans to which contributions are not required and are not tax-deductible.

Assets held are principally treasury bills, government bonds, corporate bonds and equities.

Post-retirement life insurance, health and dental care benefits are expensed as incurred and amounted to $14 million in 1998 (1997: $6 million; 1996: $5 million).

The funded status of the principal pension plans and the amounts recognized in CIBC's consolidated balance sheets are as follows:

**FUNDED STATUS OF PENSION PLANS**

| *$ millions, as at October 31* | **1998** | 1997 |
|---|---|---|
| Accumulated benefit obligation | | |
| Vested | **$ 1,453** | $ 1,210 |
| Non-vested | **45** | 98 |
| | **$ 1,498** | $ 1,308 |
| Plan assets at market related value | **$ 2,155** | $ 2,212 |
| Projected benefit obligation | **(1,812)** | (1,656) |
| Funding excess | **343** | 556 |
| Unrecognized prior service cost | **42** | 40 |
| Unrecognized transition net assets | **7** | (1) |
| Unrecognized net experience (gains) losses | **(121)** | (342) |
| Prepaid pension cost *(NOTE 6)* | **$ 271** | $ 253 |

Pension expense and actuarial assumptions relating to the pension plans reported in employee benefits consist of the following:

**PENSION EXPENSE**

| *$ millions, for the years ended October 31* | **1998** | 1997 | 1996 |
|---|---|---|---|
| Service cost – benefits earned | **$ 47** | $ 41 | $ 37 |
| Interest cost on projected benefit obligation | **130** | 126 | 118 |
| Actual earnings on assets | **(135)** | (408) | (332) |
| Net amortization and deferral | **(35)** | 249 | 194 |
| Net pension expense | **$ 7** | $ 8 | $ 17 |

**ACTUARIAL ASSUMPTIONS**

| *For the years ended October 31* | **1998** | 1997 | 1996 |
|---|---|---|---|
| Discount rate for benefit obligation | **7.5%** | 8.0% | 8.0% |
| Rate of compensation increase | **4.5%** | 5.0% | 5.0% |
| Expected long term rate of return on plan assets | **7.5%** | 8.0% | 8.0% |
| Expected average remaining service life of the employee service groups | **13 years** | 13 years | 13 years |

## 14 INCOME TAXES

The components of income tax expense reported in the consolidated statements of income consist of the following:

**COMPONENTS OF INCOME TAX EXPENSE**

| *$ millions, for the years ended October 31* | **1998** | 1997 | 1996 |
|---|---|---|---|
| Current income taxes | | | |
| Federal | **$ 362** | $ 516 | $ 443 |
| Provincial | **162** | 214 | 166 |
| Foreign | **33** | 215 | 118 |
| | **557** | 945 | 727 |
| Future income taxes | | | |
| Federal | **(66)** | (13) | 22 |
| Provincial | **(24)** | (6) | 13 |
| Foreign | **(7)** | 11 | 149 |
| | **(97)** | (8) | 184 |
| | **$ 460** | $ 937 | $ 911 |

Income taxes are reported in the applicable consolidated financial statements as follows:

**TOTAL INCOME TAXES**

| *$ millions, for the years ended October 31* | **1998** | 1997 | 1996 |
|---|---|---|---|
| Consolidated statements of income | | | |
| Income taxes | **$ 460** | $ 937 | $ 911 |
| Consolidated statements of changes in shareholders' equity | | | |
| Adjustment for change in accounting policy (1) | **–** | – | (71) |
| Foreign currency translation adjustment | **(238)** | (84) | 7 |
| Other | **(7)** | (5) | – |
| | **$ 215** | $ 848 | $ 847 |

(1) *Represents the effect of implementing CICA Handbook section 3025, "Impaired loans", which introduced the requirement to discount expected cash flows on impaired loans when determining the allowance for credit losses.*

Future income tax balances are included in other liabilities (Note 8) and consist of temporary differences between the tax basis of assets and liabilities and their carrying amount in the balance sheet.

The combined Canadian federal and provincial income tax rate varies each year according to changes in the statutory rates imposed by each of these jurisdictions and according to changes in the proportion of CIBC's business carried on in each province. CIBC is subject to Canadian taxation on income of foreign branches and earnings of foreign subsidiaries when distributed to Canada.

The effective rates of income tax in the consolidated statements of income are different from the combined Canadian federal and provincial income tax rate of 43.2% (1997: 43.2%; 1996: 43.0%) as set out below.

**RECONCILIATION OF INCOME TAXES**

| $ millions, for the year ended October 31 | 1998 | 1997 | 1996 |
|---|---|---|---|
| Combined Canadian federal and provincial income tax rate applied to income before income taxes | $ 663 | $1,087 | $ 985 |
| Income taxes adjusted for the effect of: | | | |
| Earnings of international subsidiaries | (177) | (123) | (63) |
| Tax-exempt interest and dividends | (61) | (76) | (57) |
| Federal large corporations tax | 20 | 14 | 8 |
| Temporary tax on capital | 10 | 11 | 9 |
| Earnings of domestic subsidiaries | 10 | 9 | 17 |
| Other | (5) | 15 | 12 |
| Income taxes in the consolidated statements of income | $ 460 | $ 937 | $ 911 |

**SOURCES OF FUTURE INCOME TAX BALANCES**

| $ millions, as at October 31 | 1998 | 1997 | 1996 |
|---|---|---|---|
| Future income tax liabilities | | | |
| Lease receivables | $ 488 | $ 412 | $ 331 |
| Premises and equipment | 124 | 97 | 82 |
| Prepaid pension costs | 86 | 91 | 89 |
| Undistributed earnings of foreign subsidiaries | 92 | 82 | 87 |
| Securitization receivables | 14 | 10 | 20 |
| Unrealized foreign currency translation gains | 143 | 37 | 25 |
| Other | – | – | 4 |
| | 947 | 729 | 638 |
| Future income tax assets | | | |
| Allowance for credit losses | 447 | 331 | 222 |
| Unearned income | 44 | 45 | 57 |
| Investment write-downs | 35 | (3) | 53 |
| Tax loss carry forwards | 26 | 9 | 20 |
| Reserves | 74 | 32 | 36 |
| Deferred charges | 89 | 56 | 9 |
| Other | 9 | 18 | 9 |
| | 724 | 488 | 406 |
| Future income taxes | $ 223 | $ 241 | $ 232 |

## 15 NET INCOME PER COMMON SHARE

Net income per common share is determined as net income minus dividends on preferred shares, divided by the average number of common shares outstanding.

Fully diluted net income per common share reflects the potential dilutive effect of exercising the employee stock options outstanding and any other dilutive conversions.

## 16 CAPITAL REQUIREMENTS

CIBC's regulatory capital requirements are determined in accordance with guidelines issued by the Office of the Superintendent of Financial Institutions, Canada (OSFI). The OSFI guidelines evolve from the framework of risk-based capital standards developed by the Bank for International Settlement.

Total regulatory capital is the sum of Tier 1, Tier 2 and Tier 3 capital less certain deductions. Tier 1 capital consists of common equity, non-cumulative perpetual preferred shares and non-controlling interests in subsidiaries, less any unamortized goodwill. Tier 2 capital consists of cumulative preferred shares, general allowances for credit losses and unamortized subordinated indebtedness. Tier 3 capital consists of shorter term subordinated indebtedness with certain payback restrictions. CIBC has not issued any Tier 3 capital to date.

As of January 1, 1998, CIBC incorporated OSFI's new market risk capital guidelines into the calculation of risk-based ratios. The new guidelines include a measure for market risk for trading positions. Under the new standard, risk-based capital ratios take into account both the general market risk and specific risk of equity and debt trading portfolios and the general market risk associated with all trading and non-trading foreign exchange and commodity positions.

CIBC's capital ratios calculated under the guidelines are as follows:

**CAPITAL RATIOS**

| $ millions, as at October 31 | Regulatory requirements | 1998 (1) | 1997 (2) |
|---|---|---|---|
| Tier 1 capital | | 11,212 | 10,238 |
| Total risk-based capital | | 15,765 | 14,469 |
| Tier 1 capital ratio | min 4.0% | 7.7% | 7.0% |
| Total capital ratio | min 8.0% | 10.8% | 9.8% |
| Leverage ratio (3) | max 20.0x | 17.5x | 17.0x |

(1) Calculated under new OSFI guidelines adopted January 1, 1998.
(2) Calculated under former OSFI guildelines followed prior to January 1, 1998.
(3) In addition to meeting minimum risk-based capital ratios, banks cannot exceed a leverage ratio of 20 times capital (calculated under OSFI guidelines).

## 17 RELATED PARTY TRANSACTIONS

In the ordinary course of business, the parent bank provides normal banking services to its subsidiaries and affiliated companies on terms similar to those offered to non-related parties.

Loans, at varied rates and terms are made to directors, officers and employees.

**AMOUNTS OUTSTANDING FROM RELATED PARTIES**

| $ millions, as at October 31 | 1998 | 1997 |
|---|---|---|
| Mortgage loans | $ 738 | $ 858 |
| Personal loans | 309 | 304 |
| | $ 1,047 | $ 1,162 |

## 18 FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables present the fair value of on and off-balance sheet financial instruments of CIBC based on the valuation methods and assumptions as set out below.

Fair value represents the amount at which a financial instrument could be exchanged in an arm's length transaction between willing parties under no compulsion to act and is best evidenced by a quoted market price, if one exists.

The quoted market price of publicly traded equities held for investment does not take into account any adjustments for resale restrictions that are less than one year from the reporting date or adjustments for liquidity and future expenses.

Quoted market prices are not available for a significant portion of CIBC's financial instruments. Consequently, the fair values presented are estimates derived using present value or other valuation techniques and may not be indicative of the ultimate net realizable value.

Due to the judgment used in applying a wide range of acceptable valuation techniques and estimations in calculating fair value amounts, fair values are not necessarily comparable among financial institutions. The calculation of estimated fair values is based on market conditions at a specific point in time and may not be reflective of future fair values.

The fair values disclosed exclude the values of assets and liabilities that are not considered financial instruments, such as land, buildings and equipment. In addition, items such as the value of intangible assets such as customer relationships and leases, which in management's opinion add significant value to CIBC, are excluded in the disclosures below.

**FAIR VALUE OF FINANCIAL INSTRUMENTS**

| *$ millions, as at October 31* | 1998 Book value | 1998 Fair value | 1998 Fair value over book value | 1997 Book value | 1997 Fair value | 1997 Fair value over book value |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash resources | **$ 10,795** | **$ 10,795** | **$ –** | $ 7,931 | $ 7,931 | $ – |
| Securities | **60,970** | **63,101** | **2,131** | 45,252 | 45,802 | 550 |
| Loans | **152,257** | **152,724** | **467** | 145,489 | 146,422 | 933 |
| Acceptances | **10,995** | **10,995** | **–** | 10,375 | 10,375 | – |
| Other assets | **3,354** | **3,354** | **–** | 1,898 | 1,898 | – |
| **LIABILITIES** | | | | | | |
| Deposits | **$ 159,875** | **$ 160,353** | **$ 478** | $ 138,898 | $ 139,526 | $ 628 |
| Acceptances | **10,995** | **10,995** | **–** | 10,375 | 10,375 | – |
| Obligations related to securities sold short | **16,049** | **16,049** | **–** | 15,564 | 15,564 | – |
| Obligations related to securities sold under repurchase agreements | **32,610** | **32,610** | **–** | 28,368 | 28,368 | – |
| Other liabilities | **3,985** | **3,985** | **–** | 3,570 | 3,570 | – |
| Subordinated indebtedness | **4,714** | **5,059** | **345** | 4,894 | 5,443 | 549 |
| **DERIVATIVE FINANCIAL INSTRUMENTS** | | | | | | |
| Net assets | **$ 909** | **$ 1,824** | **$ 915** | $ 764 | $ 1,386 | $ 622 |

## FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

| | 1998 Fair Value | | | 1997 Fair Value | | |
|---|---|---|---|---|---|---|
| *$ millions, as at October 31* | **Positive** | **Negative** | **Net** | Positive | Negative | Net |
| **HELD FOR TRADING PURPOSES** | | | | | | |
| Interest rate products | | | | | | |
| Forward rate agreements | **$ 353** | **$ 411** | **$ (58)** | $ 165 | $ 159 | $ 6 |
| Futures contracts | **–** | **–** | **–** | – | – | – |
| Swap contracts | **15,258** | **15,219** | **39** | 8,193 | 8,234 | (41) |
| Purchased options | **1,106** | **–** | **1,106** | 715 | – | 715 |
| Written options | **–** | **1,006** | **(1,006)** | – | 611 | (611) |
| Total interest rate products | **16,717** | **16,636** | **81** | 9,073 | 9,004 | 69 |
| Foreign exchange products | | | | | | |
| Spot and forward contracts | **7,450** | **6,501** | **949** | 5,537 | 4,884 | 653 |
| Futures contracts | **–** | **–** | **–** | – | – | – |
| Swap contracts | **6,409** | **4,238** | **2,171** | 3,907 | 4,178 | (271) |
| Purchased options | **1,878** | **–** | **1,878** | 1,480 | – | 1,480 |
| Written options | **–** | **2,227** | **(2,227)** | – | 1,353 | (1,353) |
| Total foreign exchange products | **15,737** | **12,966** | **2,771** | 10,924 | 10,415 | 509 |
| Other | **4,703** | **6,643** | **(1,940)** | 1,980 | 1,957 | 23 |
| Total held for trading | **37,157** | **36,245** | **912** | 21,977 | 21,376 | 601 |
| **HELD FOR ASSET LIABILITY MANAGEMENT PURPOSES** | | | | | | |
| Interest rate products | | | | | | |
| Forward rate agreements | **3** | **3** | **–** | – | – | – |
| Futures contracts | **–** | **–** | **–** | – | – | – |
| Swap contracts | **1,092** | **482** | **610** | 1,125 | 309 | 816 |
| Purchased options | **23** | **–** | **23** | 36 | – | 36 |
| Written options | **–** | **–** | **–** | – | – | – |
| Total interest rate products | **1,118** | **485** | **633** | 1,161 | 309 | 852 |
| Foreign exchange products | | | | | | |
| Spot and forward contracts | **41** | **72** | **(31)** | 197 | 140 | 57 |
| Futures contracts | **–** | **–** | **–** | – | – | – |
| Swap contracts | **478** | **189** | **289** | 375 | 499 | (124) |
| Purchased options | **–** | **–** | **–** | – | – | – |
| Written options | **–** | **–** | **–** | – | – | – |
| Total foreign exchange products | **519** | **261** | **258** | 572 | 639 | (67) |
| Other | **21** | **–** | **21** | – | – | – |
| Total held for asset liability management | **1,658** | **746** | **912** | 1,733 | 948 | 785 |
| **TOTAL FAIR VALUE** | **38,815** | **36,991** | **1,824** | 23,710 | 22,324 | 1,386 |
| Less impact of master netting agreements | **(20,262)** | **(20,262)** | **–** | (7,781) | (7,781) | – |
| | **$ 18,553** | **$ 16,729** | **$ 1,824** | $ 15,929 | $ 14,543 | $ 1,386 |
| Average fair value of derivatives held for trading | | | | | | |
| Interest rate products | **$ 11,247** | **$ 11,254** | **$ (7)** | $ 7,696 | $ 7,456 | $ 240 |
| Foreign exchange products | **12,527** | **11,445** | **1,082** | 8,073 | 7,349 | 724 |
| Other | **4,177** | **4,695** | **(518)** | 1,207 | 1,217 | (10) |
| | **$ 27,951** | **$ 27,394** | **$ 557** | $ 16,976 | $ 16,022 | $ 954 |

### Methods and assumptions – on-balance sheet financial instruments

*Financial instruments valued at carrying value*

Due to their short-term maturity, the carrying values of certain on-balance sheet financial instruments are assumed to approximate their fair values. These include cash resources, customers' liability under acceptances, other assets, acceptances, obligations related to securities sold short, obligations related to assets sold under repurchase agreements, and other liabilities.

*Securities*

The estimated fair values of securities are detailed in Note 3 and are based on quoted market prices, when available; otherwise, fair values are estimated using quoted market prices of similar securities.

*Loans*

The estimated fair values for performing variable rate loans that reprice frequently are assumed to be equal to the carrying values. The fair values of other loans are estimated using a discounted cash flow calculation that uses market interest rates currently charged for loans with similar terms and credit risks.

*Deposit liabilities*

The fair values of floating rate deposits are assumed to be equal to their carrying values. The estimated fair values of fixed rate deposits are determined by discounting the contractual cash flows, using market interest rates currently offered for deposits of similar terms.

*Subordinated indebtedness*

The fair values are determined by reference to current market prices for the same or similar debt.

### Methods and assumptions – off-balance sheet financial instruments

*Derivative instruments*

The fair values of derivatives are based on quoted market prices or dealer quotes when available. Otherwise, fair values are estimated on the basis of pricing models which incorporate current market and contractual prices of the underlying instruments, time value of money, yield curve and volatility factors. Average fair values represent monthly averages.

*Credit related arrangements*

The commitments to extend credit are primarily variable rate and, therefore, do not expose CIBC to interest rate risk.

## 19 DERIVATIVE INSTRUMENTS

As explained in Note 1, in the normal course of business, CIBC enters into various derivative instruments which will limit or give rise to varying degrees and types of risk.

### Derivative products used by CIBC

The majority of CIBC's derivative contracts are over-the-counter transactions that are privately negotiated between CIBC and the counterparty to the contract. The remainder are transacted through regulated exchanges and consist primarily of options and futures.

*Interest rate products*

Forward rate agreements are contracts that effectively fix a future interest rate. The agreement provides that, at a predetermined future date, a cash settlement will be made between the parties for the difference between the contracted rate and a specified current market rate, based on an agreed notional principal amount. No exchange of principal amount takes place.

Interest rate futures are standardized contractual obligations with a specified financial exchange to make or to take delivery of specified quantities of a financial instrument on specified future dates, at a price established on the exchange. These contracts differ from forward contracts in that they are in standard amounts with standard delivery dates and are transacted on an established exchange.

Interest rate swaps are financial transactions in which two counterparties exchange interest flows over a period of time based on rates applied to a notional principal amount.

Purchased interest rate options are contracts in which the right, but not the obligation, is acquired by the option purchaser from the option writer either to buy or sell, on a specified future date or within a specified time, a stipulated financial instrument at a stated price.

Written interest rate options are contracts in which the writer, for a fee, allows the purchaser the right, but not the obligation, to buy or sell on a specified future date or within a specified time a stipulated financial instrument at a stated price.

*Foreign exchange products*

Foreign exchange spot and forward contracts are transactions in which a foreign currency is purchased or sold for delivery currently, in the case of a spot contract, or at a specified future date or within a range of future dates, for a forward contract.

Foreign exchange futures contracts are similar in mechanics to forward contracts but differ in that they are in standard amounts with standard delivery dates and are transacted on an established exchange.

Swap contracts comprise cross currency swaps and cross currency interest rate swaps. Cross currency swaps are transactions in which a foreign currency is simultaneously purchased in the spot market and sold in the forward market, or vice-versa. Cross currency interest rate swaps are transactions in which counterparties exchange principal and interest flows in different currencies over a period of time. These contracts are used to manage both currency and interest rate exposures.

*Other derivative products*

CIBC also transacts equity, commodity (including precious metal), energy-related and agricultural-related products and credit derivatives in both over-the-counter and listed exchange markets.

### Notional amounts

The following table presents the notional amounts of derivative instruments as at October 31, 1998 and 1997 by residual term to contractual maturity and by their purpose as held for trading or held for asset liability management purposes.

The notional amounts are not recorded as assets or liabilities on the consolidated balance sheets as they represent the face amount of the contract to which a rate or price is applied to determine the amount of cash flows to be exchanged. Notional amounts represent the volume of outstanding transactions and do not represent the potential gain or loss associated with market risk or credit risk of such instruments. At October 31, 1998, the notional amount of derivatives held for trading purposes was $2,100 billion (1997: $1,822 billion), or 97% of total notional amounts (1997: 96%). The notional amount of derivatives used for asset liability management purposes was $67 billion (1997: $65 billion), or 3% of total notional amounts (1997: 4%).

#### NOTIONAL AMOUNTS

| $ millions, as at October 31 | Residual term to contractual maturity: Under 3 months | 3 to 12 months | 1 year through 5 years | Over 5 years | 1998 Total notional amounts | Analyzed by use: 1998 Trading | 1998 ALM (1) | 1997 Trading | 1997 ALM (1) |
|---|---|---|---|---|---|---|---|---|---|
| Interest rate products | | | | | | | | | |
| Over-the-counter | | | | | | | | | |
| Forward rate agreements | $ 132,000 | $ 142,729 | $ 26,004 | $ – | **$ 300,733** | **$ 300,722** | **$ 11** | $ 361,654 | $ – |
| Swap contracts | 100,210 | 287,634 | 334,131 | 129,031 | **851,006** | **803,765** | **47,241** | 612,401 | 45,477 |
| Purchased options | 3,722 | 12,033 | 31,189 | 16,577 | **63,521** | **63,145** | **376** | 59,372 | 5,151 |
| Written options | 7,527 | 16,691 | 30,741 | 10,335 | **65,294** | **64,404** | **890** | 60,704 | 524 |
| | 243,459 | 459,087 | 422,065 | 155,943 | **1,280,554** | **1,232,036** | **48,518** | 1,094,131 | 51,152 |
| Exchange traded | | | | | | | | | |
| Futures contracts | 47,569 | 72,380 | 76,852 | – | **196,801** | **196,801** | **–** | 130,606 | – |
| Purchased options | 6,853 | 29,632 | 1,394 | – | **37,879** | **37,879** | **–** | 12,012 | – |
| Written options | 9,201 | 19,753 | 4,492 | – | **33,446** | **33,446** | **–** | 19,572 | – |
| | 63,623 | 121,765 | 82,738 | – | **268,126** | **268,126** | **–** | 162,190 | – |
| Total interest rate products | 307,082 | 580,852 | 504,803 | 155,943 | **1,548,680** | **1,500,162** | **48,518** | 1,256,321 | 51,152 |
| Foreign exchange products | | | | | | | | | |
| Over-the-counter | | | | | | | | | |
| Spot and forward contracts | 129,307 | 152,292 | 26,602 | 154 | **308,355** | **291,991** | **16,364** | 287,939 | 11,842 |
| Swap contracts | 4,377 | 16,127 | 45,635 | 18,778 | **84,917** | **83,526** | **1,391** | 58,791 | 1,990 |
| Purchased options | 25,862 | 25,146 | 3,577 | 179 | **54,764** | **54,764** | **–** | 65,323 | – |
| Written options | 29,869 | 27,346 | 3,054 | 89 | **60,358** | **60,358** | **–** | 69,989 | – |
| | 189,415 | 220,911 | 78,868 | 19,200 | **508,394** | **490,639** | **17,755** | 482,042 | 13,832 |
| Exchange traded | | | | | | | | | |
| Futures contracts | 438 | 3 | – | – | **441** | **441** | **–** | 2,213 | – |
| Purchased options | 17 | 20 | – | – | **37** | **37** | **–** | 340 | – |
| Written options | 35 | – | – | – | **35** | **35** | **–** | 682 | – |
| | 490 | 23 | – | – | **513** | **513** | **–** | 3,235 | – |
| Total foreign exchange products | 189,905 | 220,934 | 78,868 | 19,200 | **508,907** | **491,152** | **17,755** | 485,277 | 13,832 |
| Other (2) | | | | | | | | | |
| Over-the-counter | 10,195 | 20,005 | 48,559 | 13,335 | **92,094** | **91,198** | **896** | 76,435 | – |
| Exchange traded | 10,500 | 6,548 | – | – | **17,048** | **17,048** | **–** | 3,930 | – |
| Total other | 20,695 | 26,553 | 48,559 | 13,335 | **109,142** | **108,246** | **896** | 80,365 | – |
| | $ 517,682 | $ 828,339 | $ 632,230 | $ 188,478 | **$2,166,729** | **$2,099,560** | **$ 67,169** | $1,821,963 | $ 64,984 |

(1) ALM: asset liability management.
(2) Includes equity futures, swaps and options; precious metals and other commodity forwards, futures, swaps and options, and credit derivatives.

### Risk

*Market risk*

Derivative instruments, in the absence of any compensating upfront cash payments, generally have no market value at inception. They obtain value, positive or negative, as relevant interest rates, exchange rates, equity or commodity prices or indices change such that the previously contracted derivative transactions have become more or less favourable than what can be negotiated under current market conditions for contracts with the same remaining period to expiry. The potential for derivatives to increase or decrease in value as a result of the foregoing factors is generally referred to as market risk.

The market risks arising through client and proprietary trading activities are managed together in order to mitigate risk and to maximize trading revenues. To further manage risks and revenues, CIBC enters into contracts with other market makers and undertakes cash market hedges. The effect of these activities is that the net market and credit risks to which CIBC is exposed are low relative to the high notional values of contracts to which CIBC is a party.

*Credit risk*

Credit risk arises from the potential for a counterparty to default on its contractual obligations and the risk that prevailing market conditions are such that CIBC would incur a loss in replacing the defaulted transaction. CIBC limits the credit risk of derivatives traded over-the-counter by dealing with counterparties that are creditworthy and by actively pursuing risk mitigation opportunities through the use of multi-product master netting agreements, collateral and other credit mitigation techniques. Credit risk on exchange traded futures and options is limited as these transactions are standardized contracts executed on established exchanges that assume the obligations of counterparties and are subject to initial margins and daily settlement of variation margins. Written options have no credit risk as the counterparty has already performed in accordance with the terms of the contract through an upfront payment of the premium.

The following table summarizes the credit exposure of CIBC arising from derivative instruments. The current replacement cost is the estimated cost of replacement of all contracts which have a positive market value, representing an unrealized gain to CIBC. The replacement cost of an instrument is dependent upon its terms relative to prevailing market prices and will fluctuate as market prices change and as the derivative approaches its scheduled maturity.

The credit equivalent amount is the sum of the current replacement cost and the potential credit exposure. The potential credit exposure is an estimate of the amount that the current replacement cost could increase over the remaining term of each transaction, based on a formula prescribed by the Office of the Superintendent of Financial Institutions, Canada (OSFI). OSFI prescribes a standard measure of counterparty credit risk to be applied to the credit equivalent amount to arrive at the risk weighted amount. This is presently used in determining the regulatory capital requirements for derivatives.

CIBC negotiates master netting agreements with counterparties with which it has significant credit risk through derivatives activities. Such agreements provide for the simultaneous close out and netting of all transactions with a counterparty in an event of default. An increasing number of these agreements also provide for the exchange of collateral between parties in the event that the mark-to-market value of outstanding transactions between the parties exceeds an agreed threshold. Such agreements are used both to accommodate business with less creditworthy counterparties as well as to help contain the build up of credit exposure resulting from multiple deals with more active counterparties.

## CREDIT RISK

| | | | | | **1998** | | | | | 1997 |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Current Replacement Cost** | | | **Credit equivalent** | **Risk weighted** | Current replacement cost | | | Credit equivalent | Risk weighted |
| *$ millions, as at October 31* | **Trading** | **ALM (1)** | **Total** | **amount** | **amount** | Trading | ALM (1) | Total | amount | amount |
| Interest rate products | | | | | | | | | | |
| Forward rate agreements | **$ 353** | **$ 3** | **$ 356** | **$ 486** | **$ 107** | $ 165 | $ – | $ 165 | $ 626 | $ 126 |
| Swap contracts | **15,258** | **1,092** | **16,350** | **19,865** | **4,910** | 8,193 | 1,125 | 9,318 | 12,126 | 3,035 |
| Purchased options | **1,106** | **23** | **1,129** | **1,533** | **403** | 715 | 36 | 751 | 1,154 | 305 |
| | **16,717** | **1,118** | **17,835** | **21,884** | **5,420** | 9,073 | 1,161 | 10,234 | 13,906 | 3,466 |
| Foreign exchange products | | | | | | | | | | |
| Forward foreign exchange contracts | **7,450** | **41** | **7,491** | **11,139** | **2,902** | 5,537 | 197 | 5,734 | 8,450 | 2,104 |
| Swap contracts | **6,409** | **478** | **6,887** | **10,781** | **2,996** | 3,907 | 375 | 4,282 | 6,861 | 2,051 |
| Purchased options | **1,878** | **–** | **1,878** | **2,581** | **675** | 1,480 | – | 1,480 | 2,256 | 602 |
| | **15,737** | **519** | **16,256** | **24,501** | **6,573** | 10,924 | 572 | 11,496 | 17,567 | 4,757 |
| Other (2) | **4,703** | **21** | **4,724** | **9,515** | **3,235** | 1,980 | – | 1,980 | 7,232 | 2,483 |
| | **37,157** | **1,658** | **38,815** | **55,900** | **15,228** | 21,977 | 1,733 | 23,710 | 38,705 | 10,706 |
| Less impact of master netting agreements | **(20,262)** | **–** | **(20,262)** | **(25,126)** | **(6,332)** | (7,781) | – | (7,781) | (9,876) | (2,293) |
| | **$ 16,895** | **$ 1,658** | **$ 18,553** | **$ 30,774** | **$ 8,896** | $ 14,196 | $ 1,733 | $ 15,929 | $ 28,829 | $ 8,413 |

*(1) ALM: asset liability management.*
*(2) Includes equity futures, swaps and options, precious metals and other commodity forwards, futures, swaps and options, and credit derivatives.*

## 20 CREDIT-RELATED ARRANGEMENTS

Credit-related arrangements are off-balance sheet instruments and are typically entered into to meet the financing needs of customers or to facilitate international trade. CIBC's policy of requiring collateral or other security to support credit-related arrangements and the types of security held is generally the same as for loans. The contract amounts shown for credit-related arrangements represent the maximum amount of additional credit that CIBC could be obligated to extend. The contract amounts also represent the credit risk amounts should the contracts be fully drawn down, the counterparties default and any collateral held proves to be of no value. As many of these arrangements will expire or terminate without being drawn upon, the contract amounts are not necessarily indicative of future cash requirements or credit risk.

Lines of credit are undrawn lending facilities that have been approved by CIBC to meet the business requirements of customers. The majority of such commitments are of a general nature with annual review provisions and/or various conditions for draw-down. The credit risk associated with undrawn lending facilities arises from the possibility that a commitment may be drawn down as a loan. Therefore, a lending commitment is subject to the same credit review process as a loan. The amount of collateral obtained, if deemed necessary by CIBC, is based on management's credit evaluation of the borrower and may include a charge over present and future assets of the borrower.

Direct credit substitutes include guarantees or equivalent instruments, such as standby letters of credit, which back financial obligations of the customer. Also included as direct credit substitutes are securities lent against collateral amounting to $16,903 million and $6,837 million as at October 31, 1998 and 1997, respectively. The credit risk associated with direct credit substitutes is essentially the same as that involved in extending loan commitments to customers. The amount of collateral obtained, if deemed necessary by CIBC, is based on management's credit evaluation of the borrower and may include a charge over present and future assets of the borrower.

Transaction-related contingencies are guarantees which back particular performance obligations rather than customers' financial obligations. Examples of transaction-related contingencies are performance bonds, warranties and indemnities.

Documentary letters of credit are short-term instruments on behalf of a customer, authorizing a third party, such as an exporter, to draw drafts on CIBC up to a specified amount, subject to specific terms and conditions. CIBC is at risk for any drafts drawn that are not ultimately settled by the customer. Amounts are collateralized by the related goods.

| | Contract amounts | |
|---|---|---|
| *$ millions, as at October 31* | **1998** | 1997 |
| Lines of credit [1] | **$ 121,544** | $ 108,619 |
| Direct credit substitutes | **28,433** | 19,665 |
| Transaction-related contingencies | **2,399** | 1,969 |
| Documentary letters of credit | **510** | 471 |
| Other [2] | **244** | 224 |
| | **$ 153,130** | $ 130,948 |

*(1) Includes irrevocable lines of credit totalling $97,721 million (1997: $81,125 million) of which $58,154 million (1997: $40,272 million) will expire in one year or less, and excludes lines of credit for credit cards as the lines are short-term in nature and are revocable at CIBC's discretion.*
*(2) Includes forward asset purchases.*

## 21 CONCENTRATION OF CREDIT RISK

Concentrations of credit exposure may arise with a group of counterparties which have similar economic characteristics or that are located in the same geographic region. The ability of such counterparties to meet contractual obligations would be similarly affected by changing economic, political or other conditions.

The amounts of foreign and domestic credit exposure associated with CIBC's on-balance sheet financial instruments are included in the table "Geographic Distribution of Major Assets" in Note 22.

The amounts of credit exposure associated with CIBC's off-balance sheet financial instruments including such concentrations of credit exposure by ultimate risk are summarized in the table below.

**CREDIT EXPOSURE**

| *$ millions, as at October 31* | **Canada** | **United States** | **Other Countries** | **1998 Total [1]** | Canada | United States | Other Countries | 1997 Total [1] |
|---|---|---|---|---|---|---|---|---|
| Credit-Related Arrangements | | | | | | | | |
| Lines of credit | **$ 48,884** | **$ 65,661** | **$ 6,999** | **$ 121,544** | $ 45,243 | $ 56,116 | $ 7,260 | $ 108,619 |
| Other credit-related arrangements | **15,824** | **9,286** | **6,476** | **31,586** | 7,508 | 10,822 | 3,999 | 22,329 |
| | **$ 64,708** | **$ 74,947** | **$ 13,475** | **$ 153,130** | $ 52,751 | $ 66,938 | $ 11,259 | $ 130,948 |
| Derivative instruments: | | | | | | | | |
| By counterparty type | | | | | | | | |
| Financial institutions | **$ 2,206** | **$ 7,525** | **$ 18,274** | **$ 28,005** | $ 1,258 | $ 4,777 | $ 11,251 | $ 17,286 |
| Governments | **919** | **–** | **83** | **1,002** | 774 | – | 99 | 873 |
| Other | **3,260** | **5,094** | **1,454** | **9,808** | 1,745 | 2,702 | 1,104 | 5,551 |
| | **6,385** | **12,619** | **19,811** | **38,815** | 3,777 | 7,479 | 12,454 | 23,710 |
| Less: impact of master netting agreements | **(5,461)** | **(4,204)** | **(10,597)** | **(20,262)** | (1,240) | (2,454) | (4,087) | (7,781) |
| Total derivative instruments | **$ 924** | **$ 8,415** | **$ 9,214** | **$ 18,553** | $ 2,537 | $ 5,025 | $ 8,367 | $ 15,929 |

*(1) No industry segment accounted for more than 15% (1997: 12%) of total loans.*

## 22 SEGMENTED INFORMATION

CIBC provides financial services through two distinct industry segments, Personal and Commercial Bank and CIBC World Markets. Previously, segmented results were reported on the basis of one industry segment – the financial services industry.

These segments differ in services, products, and the geographic location of customers. Personal and Commercial Bank provides a wide range of credit, investment, advisory and insurance services to customers primarily in Canada. CIBC World Markets provides capital markets and advisory services and products worldwide, including global corporate and investment banking services.

Results for CIBC's major segments are based on CIBC's internal financial reporting systems and are consistent with those followed in the preparation of CIBC's consolidated financial statements. The assets and liabilities of the business units are transfer priced, using a funding methodology which best reflects their nature and term, at wholesale market rates. Non-interest expenses are matched against the revenues to which they relate. Indirect expenses are allocated to the segments based on appropriate criteria. During 1998, CIBC introduced certain modifications to transfer pricing and to the allocation of capital to business units coincident with changes in regulatory capital requirements. Additionally, certain strategic investments are now reported in Other. Comparative figures have been presented to conform with the 1998 presentation.

### Net Income

Net Income for each industry segment is detailed in the following table:

**CIBC SEGMENTED INCOME STATEMENT**

| *$ millions, for the years ended October 31* | | Personal and Commercial Bank | CIBC World Markets | Other [1] | CIBC Total |
|---|---|---|---|---|---|
| **1998** | Net interest income | **$ 3,606** | **$ 630** | **$ 101** | **$ 4,337** |
| | Non-interest income | **1,934** | **2,809** | **61** | **4,804** |
| | Total revenue | **5,540** | **3,439** | **162** | **9,141** |
| | Non-interest expenses | **3,596** | **3,519** | **10** | **7,125** |
| | Provision for credit losses | **254** | **26** | **200** [3] | **480** |
| | Income (loss) before taxes | **1,690** | **(106)** | **(48)** | **1,536** |
| | Income taxes and non-controlling interests | **630** | **(143)** | **(7)** | **480** |
| | Net income (loss) | **$ 1,060** | **$ 37** | **$ (41)** | **$ 1,056** |
| | Average assets [2] | **$ 99,394** | **$ 176,979** | **$ 2,450** | **$ 278,823** |
| **1997** | Net interest income | $ 3,588 | $ 815 | $ 114 | $ 4,517 |
| | Non-interest income | 1,703 | 1,997 | 280 | 3,980 |
| | Total revenue | 5,291 | 2,812 | 394 | 8,497 |
| | Non-interest expenses | 3,369 | 1,989 | 14 | 5,372 |
| | Provision for credit losses | 397 | (37) | 250 [3] | 610 |
| | Income before taxes | 1,525 | 860 | 130 | 2,515 |
| | Income taxes and non-controlling interests | 635 | 284 | 45 | 964 |
| | Net income | $ 890 | $ 576 | $ 85 | $ 1,551 |
| | Average assets [2] | $ 93,034 | $ 140,863 | $ 2,128 | $ 236,025 |
| **1996** | Net interest income | $ 3,501 | $ 967 | $ (5) | $ 4,463 |
| | Non-interest income | 1,486 | 1,359 | 47 | 2,892 |
| | Total revenue | 4,987 | 2,326 | 42 | 7,355 |
| | Non-interest expenses | 3,094 | 1,488 | 2 | 4,584 |
| | Provision for credit losses | 457 | 23 | – | 480 |
| | Income before taxes | 1,436 | 815 | 40 | 2,291 |
| | Income taxes and non-controlling interests | 638 | 287 | – | 925 |
| | Net income | $ 798 | $ 528 | $ 40 | $ 1,366 |
| | Average assets [2] | $ 84,416 | $ 110,098 | $ 1,549 | $ 196,063 |

*(1) Comprised of revenues and expenses not expressly attributed to either Personal and Commercial Bank or CIBC World Markets. This includes investments of a corporate nature, the results of CIBC Development Corporation, earnings on capital not attributed to the strategic business units, differences in the actual amount of corporate costs incurred and charged to each of the operating segments, and any residual balances from transfer pricing.*
*(2) Assets are disclosed on an average basis as this measure is most relevant to a financial institution and is the measure reviewed by CIBC's chief operating decision maker.*
*(3) Represents an increase in the general provision for credit losses.*

### Geographic Distribution

CIBC earns revenues and incurs expenses from foreign activities, and has assets from which foreign income is earned. Assets are allocated based on location of ultimate risk, while net income and related income taxes are allocated based on the geographic location in which income is booked.

**GEOGRAPHIC DISTRIBUTION OF NET INCOME**

| *$ millions, for the years ended October 31* | | Canada | United States | Other Countries | Total |
|---|---|---|---|---|---|
| **1998** | Net interest income | **$ 3,224** | **$ 334** | **$ 779** | **$ 4,337** |
| | Non-interest income | **3,109** | **1,677** | **18** | **4,804** |
| | Total revenue | **6,333** | **2,011** | **797** | **9,141** |
| | Non-interest expenses | **4,501** | **2,073** | **551** | **7,125** |
| | Provision for credit losses | **402** | **20** | **58** | **480** |
| | Income (loss) before taxes | **1,430** | **(82)** | **188** | **1,536** |
| | Income taxes and non-controlling interests | **605** | **(58)** | **(67)** | **480** |
| | Net income (loss) | **$ 825** | **$ (24)** | **$ 255** | **$ 1,056** |
| **1997** | Net interest income | $ 3,640 | $ 299 | $ 578 | $ 4,517 |
| | Non-interest income | 2,962 | 684 | 334 | 3,980 |
| | Total revenue | 6,602 | 983 | 912 | 8,497 |
| | Non-interest expenses | 4,149 | 648 | 575 | 5,372 |
| | Provision for credit losses | 620 | 29 | (39) | 610 |
| | Income before taxes | 1,833 | 306 | 376 | 2,515 |
| | Income taxes and non-controlling interests | 750 | 139 | 75 | 964 |
| | Net income | $ 1,083 | $ 167 | $ 301 | $ 1,551 |
| **1996** | Net interest income | $ 3,540 | $ 433 | $ 490 | $ 4,463 |
| | Non-interest income | 2,373 | 301 | 218 | 2,892 |
| | Total revenue | 5,913 | 734 | 708 | 7,355 |
| | Non-interest expenses | 3,783 | 402 | 399 | 4,584 |
| | Provision for credit losses | 465 | (24) | 39 | 480 |
| | Income before taxes | 1,665 | 356 | 270 | 2,291 |
| | Income taxes and non-controlling interests | 669 | 176 | 80 | 925 |
| | Net income | $ 996 | $ 180 | $ 190 | $ 1,366 |

**GEOGRAPHIC DISTRIBUTION OF MAJOR ASSETS(1)**

| *$ millions, as at September 30 and October 31* | | **1998** | 1997 | 1996 |
|---|---|---|---|---|
| Canada | | **$ 152,737** | $ 137,515 | $ 130,182 |
| United States | | **87,560** | 63,491 | 43,905 |
| Europe | United Kingdom | **10,349** | 7,541 | 5,585 |
| | France | **4,336** | 2,431 | 2,582 |
| | Germany | **6,921** | 3,591 | 2,748 |
| | Other European countries | **11,628** | 6,107 | 5,380 |
| | | **33,234** | 19,670 | 16,295 |
| Latin America and West Indies | | **5,224** | 3,788 | 3,171 |
| Asia and Pacific | Japan | **5,403** | 4,954 | 3,597 |
| | Hong Kong | **2,412** | 2,829 | 1,804 |
| | Australia | **790** | 683 | 799 |
| | Other Asia and Pacific countries | **3,222** | 3,986 | 2,500 |
| | | **11,827** | 12,452 | 8,700 |
| Middle East and Africa | | **771** | 607 | 206 |
| General allowance for credit losses(2) | | **(850)** | (650) | (400) |
| Major assets(1) | | **290,503** | 236,873 | 202,059 |
| Other assets | | **11,182** | 6,854 | 6,074 |
| Total assets as at September 30(3) | | **$ 301,685** | $ 243,727 | $ 208,133 |
| Net change in October | | **(20,255)** | (5,738) | 2,099 |
| Total assets as at October 31 | | **$ 281,430** | $ 237,989 | $ 210,232 |
| Canadian currency(2) | | **$ 146,944** | $ 136,832 | $ 126,888 |
| Foreign currencies | | **$ 134,486** | $ 101,157 | $ 83,344 |

*(1) Major assets consist of loans, securities, deposits with other banks, customers' liability under acceptances, derivative instruments market valuation and cash, after deduction of specific allowances for credit losses.*
*(2) For purposes of presentation, the general allowance for credit losses has been entirely applied to Canadian dollar based lending.*
*(3) The information presented here is compiled for regulatory purposes and reported on a calendar quarterly basis.*

## 23 COMMITMENTS AND CONTINGENT LIABILITIES

### Long-term commitments for leases

CIBC has obligations under non-cancellable leases for buildings and equipment. Future minimum lease payments for such commitments for each of the five succeeding years and thereafter are as follows:

**LEASE COMMITMENTS**

| $ millions | |
|---|---|
| 1999 | $ 244 |
| 2000 | 224 |
| 2001 | 202 |
| 2002 | 185 |
| 2003 | 164 |
| 2004 and thereafter | 960 |

*Total rental expense in respect of buildings and equipment charged to the consolidated statements of income was $374 million (1997: $278 million)*

### Other commitments and contingent liabilities

In the ordinary course of business, securities and other assets are pledged against liabilities or used to facilitate certain activities. The table presents the details of amounts pledged.

**AMOUNTS PLEDGED**

| $ millions, as at October 31 | 1998 | 1997 |
|---|---|---|
| Bank of Canada (1) | $ 45 | $ 45 |
| Foreign governments and central banks(1) | 2,685 | 1,793 |
| Clearing systems, payment systems and depositories (1) | 261 | 150 |
| Margins for exchange traded futures and options, and collateralized derivative transactions | 634 | 376 |
| Collateral related to securities sold short and securities sold under repurchase agreements | 44,342 | 42,834 |
| | $ 47,967 | $ 45,198 |

*(1) Includes assets pledged in order to participate in clearing and payment systems and depositories or to have access to the facilities of central banks in foreign juridictions.*

CIBC is subject to recourse for potential losses in connection with asset securitizations. As at October 31, 1998, the recourse against CIBC under securitization transactions totaled $320 million (1997: $148 million) and is deducted from regulatory capital.

Various actions and legal proceedings arising in the normal course of business are pending against CIBC and its subsidiaries. Management considers the aggregate liability, if any, of these actions and proceedings to be immaterial.

## 24 YEAR 2000

The year 2000 issue arises because many computer systems use only two numbers to identify a year in the date field and assume that the first two digits are always 19. This may result in errors when these systems process data or utilize dates subsequent to 1999. In addition, similar problems may arise in 1999 because some systems may use the digits '99' in date fields to represent something other than the year 1999. The effects of the year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the year 2000 issue affecting the entity, particularly those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

## 25 RECONCILIATION OF CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The consolidated financial statements of CIBC are prepared in accordance with Canadian generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions, Canada (Canadian GAAP). These principles conform, in all material respects, with generally accepted accounting principles in the United States (U.S. GAAP), except as described below:

### Impaired loans

While Statement of Financial Accounting Standards (SFAS) 114 and 118, "Accounting by Creditors for Impairment of a Loan", are similar in content to CICA Handbook section 3025, which was adopted in 1996, the initial impact of adopting any accounting standard must be charged to earnings in the year of adoption under U.S. GAAP.

### Stock based compensation

CIBC applies the intrinsic-value based method of accounting for stock based compensation, as explained in Note 1. SFAS 123, "Stock Based Compensation", requires pro-forma disclosure of net income and earnings per share as if the fair-value based method had been applied. This pro-forma disclosure is included in Note 12.

### Securities

Under Canadian GAAP, securities classified by CIBC as held for investment are carried at either cost or amortized cost. Under SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities", these securities would be classified as either securities held to maturity and treated consistent with securities held for investment under Canadian GAAP, or as securities available for sale and reported at estimated fair value with unrealized gains and losses excluded from earnings and reported as a separate component of shareholders' equity.

**SECURITIES AVAILABLE FOR SALE**

| $ millions, for the years ended October 31 | 1998 | 1997 | 1996 |
|---|---|---|---|
| Proceeds from sales | $ 12,951 | $ 6,488 | $ 4,398 |
| Gross realized gains | $ 160 | $ 271 | $ 78 |
| Gross realized losses | $ 25 | $ 28 | $ 4 |

### Pensions

SFAS 87, "Employers' Accounting for Pensions", requires that the projected pension benefit obligation be calculated using a current market discount rate. Using the rate of 6.25% as at October 31, 1998 (1997: 7.5%), the expense under U.S. GAAP would have been an additional $61 million (1997: $NIL million). Under Canadian GAAP, a rate of 7.5% (1997: 8.0%) based on long term best estimate actuarial assumptions is used when calculating the obligation.

### Post-retirement benefits other than pensions

SFAS 106, "Employers' Accounting for Post-Retirement Benefits Other Than Pensions", requires that the expected costs of employees' post-retirement benefits be expensed during the years that the employees render services, whereas, under Canadian GAAP, these costs are expensed as paid.

If the costs of post-retirement benefits other than pensions were accounted for in the period when employment services were provided rather than being expensed as paid as described in Note 13, the status of the principal post-retirement benefit plans would have been as follows:

**EXPENSE FOR POST-RETIREMENT BENEFITS OTHER THAN PENSIONS**

| *$ millions, for the years ended October 31* | 1998 | 1997 | 1996 |
|---|---|---|---|
| Service cost-benefits earned | $ 11 | $ 9 | $ 8 |
| Interest cost on projected benefit obligation | 20 | 20 | 18 |
| Net amortization and deferral | 12 | 12 | 12 |
| | $ 43 | $ 41 | $ 38 |
| Actuarial assumptions: | | | |
| Discount rate for benefit obligation | 6.50% | 6.50% | 7.75% |
| Rate of increase for future health care costs | | | |
| - initially | 7.50% | 7.90% | 8.50% |
| - in 2003 | 4.50% | 4.50% | 5.20% |
| Expected average remaining service life of the employee service groups | 19 years | 19 years | 19 years |

The effect of a 1% increase each year in the assumed health care cost trend rate would be to increase the post-retirement benefit expense by $7 million (1997: $6 million; 1996: $5 million) and the accumulated post-retirement benefit obligation by $61 million (1997: $54 million).

**ACCUMULATED OBLIGATION FOR POST-RETIREMENT BENEFITS OTHER THAN PENSIONS**

| *$ millions, as at October 31* | 1998 | 1997 |
|---|---|---|
| Accumulated benefit obligation | | |
| Retirees | $ 164 | $ 148 |
| Fully eligible plan participants | 39 | 36 |
| Other active plan participants | 122 | 119 |
| Total accumulated obligation for post-retirement benefit other than pensions | $ 325 | $ 303 |
| Plan assets at fair value | $ – | $ – |
| Projected benefit obligation | 325 | 303 |
| Funding deficiency | 325 | 303 |
| Unrecognized deficiency | (39) | (40) |
| Unrecognized transition deficiency | (189) | (201) |
| Post-retirement benefit liability | $ 97 | $ 62 |

### Earnings per share (EPS)

Effective October 31, 1998, CIBC adopted SFAS 128, "Earnings per Share", for U.S. reporting purposes. This standard replaces "primary EPS" with "basic EPS" and "fully-diluted EPS" with "diluted EPS". All EPS amounts have been restated to conform to the new requirements.

Under Canadian GAAP, fully diluted EPS is calculated by adjusting net income available to common shareholders for imputed earnings on funds which would have been received on the exercise of options. U.S. GAAP requires the use of the treasury stock method, whereby diluted earnings per share are calculated as if options were exercised at the beginning of the year and funds received were used to purchase the corporation's own stock.

### Comprehensive income

SFAS 130, "Reporting Comprehensive Income", requires that a statement of comprehensive income be displayed with the same prominence as other financial statements. Comprehensive income, which incorporates net income, includes all changes in equity during a period except those resulting from investments by and distributions to owners. There is no requirement to disclose comprehensive income under Canadian GAAP.

There are no material differences between Canadian and U.S. GAAP which would have an impact on the consolidated statements of income and the consolidated balance sheets except as outlined in the tables on the following page.

## CONSOLIDATED STATEMENTS OF INCOME

| *$ millions, except per share data, for the years ended October 31* | **1998** | 1997 | 1996 |
|---|---|---|---|
| Net income as reported | **$ 1,056** | $ 1,551 | $ 1,366 |
| Non-interest expenses – employee benefits | **90** | 35 | 33 |
| Provision for credit losses | **–** | – | 165 |
| Income taxes | **(39)** | (15) | (85) |
| | **51** | 20 | 113 |
| Net income according to U.S. GAAP | **$ 1,005** | $ 1,531 | $ 1,253 |
| Less: Preferred dividends | **(116)** | (98) | (112) |
| Net income available to common shareholders | **$ 889** | $ 1,433 | $ 1,141 |
| Weighted-average basic shares outstanding *(in thousands)* | **415,030** | 413,545 | 415,028 |
| Add: Options (1) | **3,114** | 1,533 | 62 |
| Weighted-average diluted shares outstanding | **418,144** | 415,078 | 415,090 |
| Basic EPS | **$ 2.14** | $ 3.47 | $ 2.75 |
| Diluted EPS | **$ 2.13** | $ 3.45 | $ 2.75 |

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| *$ millions, for the years ended October 31* | **1998** | 1997 | 1996 |
|---|---|---|---|
| Net income according to U.S. GAAP | **$ 1,005** | $ 1,531 | $ 1,253 |
| Other comprehensive income, net of tax | | | |
| Change in foreign currency translation adjustments (2) | **1** | 10 | 5 |
| Change in net unrealized gains on securities available for sale (3)(4) | **813** | 129 | 124 |
| Total other comprehensive income | **814** | 139 | 129 |
| Comprehensive income | **$ 1,819** | $ 1,670 | $ 1,382 |

## CONSOLIDATED BALANCE SHEETS, APPLICABLE ITEMS

| | | **1998** | | 1997 |
|---|---|---|---|---|
| *$ millions, as at October 31* | **Cdn GAAP** | **U.S. GAAP** | Cdn GAAP | U.S. GAAP |
| **ASSETS** | | | | |
| Securities held for investment | **$ 12,799** | **$ –** | $ 14,562 | $ – |
| Securities held to maturity | **–** | **5,769** | – | – |
| Securities available for sale (5) | **–** | **9,012** | – | 15,112 |
| Prepaid pension cost | **271** | **210** | 253 | 253 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| Post-retirement benefit liability | **$ –** | **$ 97** | $ – | $ 62 |
| Net future income tax liability | **223** | **1,012** | 241 | 450 |
| **SHAREHOLDERS' EQUITY** | | | | |
| Preferred shares | **1,961** | **1,961** | 1,518 | 1,518 |
| Common shares | **3,128** | **3,128** | 3,105 | 3,105 |
| Retained earnings | | | | |
| Balance at beginning of year | **5,624** | **5,588** | 4,615 | 4,609 |
| Change during the year | **423** | **371** | 1,009 | 979 |
| Balance at end of year | **6,047** | **5,959** | 5,624 | 5,588 |
| Accumulated other comprehensive income | | | | |
| Foreign currency translation adjustments | | | | |
| Balance at beginning of year | | **(3)** | | (13) |
| Change during the year | | **1** | | 10 |
| Balance at end of year | **–** | **(2)** | | (3) |
| Net unrealized gains on securities available for sale | | | | |
| Balance at beginning of year | | **312** | | 183 |
| Change during the year | | **813** | | 129 |
| Balance at end of year | **–** | **1,125** | | 312 |
| Balance at end of year | **–** | **1,123** | | 309 |
| Total shareholders' equity | **$ 11,136** | **$ 12,171** | $ 10,247 | $ 10,520 |

*(1) It is assumed that 80% of average options outstanding will be exercised.*
*(2) Net of income tax benefit of $238 million (1997: benefit of $84 million; 1996: expense of $7 million).*
*(3) Net of income tax expense of $619 million (1997: $100 million; 1996: $93 million).*
*(4) Net of reclassification adjustments of $88 million (1997: $76 million; 1996: $0.7 million) included in net income.*
*(5) Certain securities designated as available for sale in 1997 have been reclassified as held-to-maturity in 1998. 1997 unrealized gains on these securities were insignificant.*

## 26 RECENTLY ISSUED ACCOUNTING STANDARDS NOT YET IMPLEMENTED

CIBC will be required to adopt the following recently issued accounting standards for Canadian and United States reporting purposes in future years.

CICA 1540, "Cash Flow Statements", will be effective for fiscal 1999. This standard requires the provision of information about the historical changes in cash and cash equivalents by means of a cash flow statement that classifies cash flows during the period arising from operating, investing and financing activities. The adoption of this standard is not expected to have a material impact on CIBC's consolidated statements of changes in financial position.

CICA 1701, "Segment Disclosures", which is virtually identical to SFAS 131, "Disclosures about Segments of an Enterprise and Related information", has amended criteria for reporting segments. These standards will be effective for fiscal 1999.

SFAS 132, "Employers Disclosures about Pensions and Other Post-retirement Benefits", will be effective for fiscal 1999. This standard requires additional information on changes in the projected benefit obligations and fair values of plan assets and standardizes the disclosure requirements for pension and other post-retirement benefits. The adoption of this standard will not impact CIBC's consolidated balance sheets and consolidated statements of income.

SFAS 133, "Accounting for Derivative Instruments and Hedging Activities" will be effective for fiscal 2000. It requires that all derivatives be recognized as either assets or liabilities and measured at fair value. The criteria for determining whether all or a portion of a derivative instrument may be designated as a hedge has changed. Derivatives which are fair value hedges, together with the financial instrument being hedged, will be marked to market with adjustments reflected in income. Derivatives which are cash flow hedges will be marked to market with adjustments reflected in comprehensive income. The impact of implementing this standard on CIBC's consolidated balance sheets and consolidated statements of income and comprehensive income is not yet determinable.

## 27 PROPOSED MERGER

On April 17, 1998, CIBC and The Toronto-Dominion Bank (TD Bank) announced an agreement to merge as equal partners. The merged entity will be named CIBC.

In accordance with the terms of the pre-amalmagation agreement, each outstanding common share will be converted into one share of the new entity and each TD Bank common share will be converted into 1.318 shares of the new entity.

The transaction is expected to be accounted for under the pooling of interests method. The proposal to merge requires approval by the Competition Bureau and The Minister of Finance, Canada, and is also subject to shareholder and regulatory approvals.

## PRINCIPAL SUBSIDIARIES

| *As at October 31, 1998* Subsidiary Name[1] | Address of head or principal office | Book value[2] of shares owned by the bank and other subsidiaries of the bank |
|---|---|---|
| **IN CANADA** | | *($millions)* |
| CIBC Mortgage Corporation | Toronto, Canada | 3 |
| CIBC Mortgages Inc. | Toronto, Canada | 110 |
| CIBC Trust Corporation | Toronto, Canada | 46 |
| The Dominion Realty Company Limited | Toronto, Canada | 59 |
| - CIBC Development Corporation | | |
| CIBC Wood Gundy Capital (SFC) Inc. | Toronto, Canada | 106 |
| CIBC Finance Inc. | Toronto, Canada | 8 |
| INTRIA Corporation | Toronto, Canada | 107 |
| - INTRIA Items Inc. (51%) | | |
| - INTRIA-HP Co. (51%) | | |
| The CIBC Wood Gundy Corporation | Toronto, Canada | 300 |
| - CIBC Wood Gundy Securities Inc. | Toronto, Canada | |
| Services Hypothecaires CIBC Inc. | Quebec, Canada | 130 |
| CIBC Securities Inc. | Toronto, Canada | *(Note 3)* |
| CIBC Investor Services Inc. | Toronto, Canada | 25 |
| CIBC Insurance Management Company Limited | Toronto, Canada | 288 |
| - CIBC Life Insurance Company Limited | | |
| - CIBC General Insurance Company Limited | | |
| - The Personal Insurance Company Limited | | |
| CIBC Investments Limited | Toronto, Canada | 50 |
| CIBC Capital Solutions Inc. | Toronto, Canada | 2 |
| - Penfund Management Limited | | |
| Equity Valuation Protection Corporation | Newfoundland, Canada | 500 |
| Equity Valuation Protection Corporation II | Newfoundland, Canada | 755 |
| **OUTSIDE CANADA** | | |
| CIBC (Suisse) S.A. | Geneva, Switzerland | 46 |
| CIBC Wood Gundy Funding LLC | New York, U.S.A. | 393 |
| CIBC Delaware Holdings Inc. | New York, U.S.A. | 1,557 |
| - CIBC Oppenheimer Corp. | | |
| - Canadian Imperial Holdings Inc. | | |
| - CIBC INC. | | |
| CIBC Australia Holdings Ltd. | Sydney, Australia | 69 |
| CIBC Asia Ltd. | Singapore | 164 |
| CIBC Holdings (Cayman) Limited | Grand Cayman, Cayman Islands | 127 |
| - CIBC Bank and Trust Company (Cayman) Limited | Grand Cayman, Cayman Islands | |
| - CIBC Trust Company (Bahamas) Limited | Nassau, Bahamas | |
| - CIBC Bank and Trust Company (Channel Islands) Limited | St. Peter Port, Guernsey | |
| - CIBC West Indies Holdings Limited (68.02%) | Bridgetown, Barbados | |
| - CIBC Bahamas Limited (90.9%) | Nassau, Bahamas | |
| - CIBC Jamaica Limited (55.2%) | Kingston, Jamaica | |
| CIBC Offshore Banking Services Corporation | Bridgetown, Barbados | 250 |
| CIBC Offshore Services Inc. | Bridgetown, Barbados | 1,108 |
| - CIBC General Insurance (Barbados) Ltd. | | |
| CIBC Wood Gundy (International) Arbitrage Corp. | Bridgetown, Barbados | 463 |
| CIBC U.K. Holdings Limited | London, England | 129 |
| CIBC Wood Gundy plc | London, England | 1,518 |
| CIBC Wood Gundy Finance Ltd. | London, England | 771 |

*(1) CIBC owns 100% of the voting shares of each subsidiary, except as otherwise noted.*
*(2) Book value of shares of subsidiaries are shown at cost.*
*(3) The book value of shares owned by CIBC is less than one million dollars.*

## AVERAGE BALANCE SHEET, NET INTEREST INCOME AND MARGIN

| $ millions (TEB) | Average balance 1998 | 1997 | 1996 | Interest 1998 | 1997 | 1996 | Average rate 1998 | 1997 | 1996 |
|---|---|---|---|---|---|---|---|---|---|
| **DOMESTIC ASSETS** (1) | | | | | | | | | |
| Cash resources | **$ 1,725** | $ 1,623 | $ 1,368 | **$ 45** | $ 30 | $ 30 | **2.61%** | 1.85% | 2.19% |
| Securities | | | | | | | | | |
| Held for investment | **5,822** | 7,258 | 12,828 | **352** | 494 | 894 | **6.05** | 6.81 | 6.97 |
| Held for trading | **21,446** | 19,409 | 14,559 | **1,051** | 859 | 855 | **4.90** | 4.43 | 5.87 |
| Loans | | | | | | | | | |
| Residential mortgages | **40,684** | 37,954 | 35,272 | **2,738** | 2,722 | 2,820 | **6.73** | 7.17 | 8.00 |
| Personal and credit card loans | **22,721** | 19,763 | 18,927 | **1,984** | 1,601 | 1,866 | **8.73** | 8.10 | 9.86 |
| Business and government loans | **20,980** | 21,999 | 23,680 | **1,631** | 1,643 | 2,028 | **7.77** | 7.47 | 8.56 |
| Securities purchased under resale agreements | **15,529** | 12,817 | 8,387 | **1,097** | 900 | 544 | **7.06** | 7.02 | 6.49 |
| Total loans | **99,914** | 92,533 | 86,266 | **7,450** | 6,866 | 7,258 | **7.46** | 7.42 | 8.41 |
| Other interest-bearing assets | **587** | 351 | 323 | **16** | 19 | 8 | **2.73** | 5.41 | 2.48 |
| Other non-interest-bearing assets | **20,586** | 16,932 | 15,767 | | | | | | |
| Total domestic assets | **150,080** | 138,106 | 131,111 | **8,914** | 8,268 | 9,045 | **5.94** | 5.99 | 6.90 |
| **FOREIGN ASSETS** (1) | | | | | | | | | |
| Cash resources | **11,011** | 8,597 | 9,795 | **579** | 404 | 493 | **5.26** | 4.70 | 5.03 |
| Securities | | | | | | | | | |
| Held for investment | **8,204** | 9,685 | 6,087 | **450** | 546 | 358 | **5.49** | 5.64 | 5.88 |
| Held for trading | **20,785** | 11,629 | 6,797 | **893** | 471 | 365 | **4.30** | 4.05 | 5.37 |
| Loans | | | | | | | | | |
| Residential mortgages | **461** | 410 | 377 | **47** | 40 | 36 | **10.20** | 9.76 | 9.55 |
| Personal and credit card loans | **1,895** | 537 | 449 | **187** | 69 | 62 | **9.87** | 12.85 | 13.81 |
| Business and government loans | **27,621** | 23,553 | 20,023 | **1,950** | 1,538 | 1,427 | **7.06** | 6.53 | 7.13 |
| Securities purchased under resale agreements | **32,069** | 28,171 | 12,039 | **2,073** | 1,677 | 705 | **6.46** | 5.95 | 5.86 |
| Total loans | **62,046** | 52,671 | 32,888 | **4,257** | 3,324 | 2,230 | **6.86** | 6.31 | 6.78 |
| Other interest-bearing assets | **573** | 365 | 454 | **8** | 2 | 4 | **1.40** | 0.55 | 0.88 |
| Other non-interest-bearing assets | **26,124** | 14,972 | 8,931 | | | | | | |
| Total foreign assets | **128,743** | 97,919 | 64,952 | **6,187** | 4,747 | 3,450 | **4.81** | 4.85 | 5.31 |
| **Total assets** | **$278,823** | $ 236,025 | $ 196,063 | **$15,101** | $ 13,015 | $ 12,495 | **5.42%** | 5.51% | 6.37% |
| Additional disclosures: | | | | | | | | | |
| Tax exempt securities (included in total securities) | **$ 1,484** | $ 1,068 | $ 1,129 | **$ 73** | $ 122 | $ 121 | **4.92%** | 11.42% | 10.72% |
| **DOMESTIC LIABILITIES** (1) | | | | | | | | | |
| Deposits | | | | | | | | | |
| Individuals | **$ 53,949** | $ 56,364 | $ 58,306 | **$ 1,753** | $ 1,840 | $ 2,579 | **3.25%** | 3.26% | 4.42% |
| Businesses and governments | **32,029** | 27,910 | 25,264 | **1,177** | 720 | 998 | **3.67** | 2.58 | 3.95 |
| Banks | **623** | 585 | 2,524 | **26** | 17 | 127 | **4.17** | 2.91 | 5.03 |
| Total deposits | **86,601** | 84,859 | 86,094 | **2,956** | 2,577 | 3,704 | **3.41** | 3.04 | 4.30 |
| Derivative instruments market valuation | **3,835** | 9,453 | 7,326 | | | | | | |
| Acceptances | **10,462** | 9,276 | 8,563 | | | | | | |
| Obligations related to securities sold short | **7,892** | 7,594 | 6,660 | **315** | 308 | 306 | **3.99** | 4.06 | 4.59 |
| Obligations related to securities sold under repurchase agreements | **10,221** | 10,019 | 6,409 | **806** | 801 | 421 | **7.89** | 7.99 | 6.57 |
| Other liabilities | **6,730** | 3,447 | 3,515 | **5** | 16 | 21 | **0.07** | 0.46 | 0.60 |
| Subordinated indebtedness | **3,054** | 2,684 | 2,135 | **254** | 240 | 207 | **8.32** | 8.94 | 9.70 |
| Total domestic liabilities | **128,795** | 127,332 | 120,702 | **4,336** | 3,942 | 4,659 | **3.37** | 3.10 | 3.86 |
| **FOREIGN LIABILITIES** (1) | | | | | | | | | |
| Deposits | | | | | | | | | |
| Individuals | **5,241** | 3,668 | 3,065 | **262** | 195 | 156 | **5.00** | 5.32 | 5.09 |
| Businesses and governments | **40,739** | 25,102 | 18,618 | **2,437** | 1,389 | 931 | **5.98** | 5.53 | 5.00 |
| Banks | **27,737** | 27,727 | 20,711 | **1,153** | 1,263 | 1,042 | **4.16** | 4.56 | 5.03 |
| Total deposits | **73,717** | 56,497 | 42,394 | **3,852** | 2,847 | 2,129 | **5.23** | 5.04 | 5.02 |
| Derivative instruments market valuation | **23,559** | 6,569 | 2,925 | | | | | | |
| Acceptances | **113** | 91 | 120 | | | | | | |
| Obligations related to securities sold short | **9,162** | 7,589 | 4,767 | **209** | 205 | 227 | **2.28** | 2.70 | 4.76 |
| Obligations related to securities sold under repurchase agreements | **28,625** | 23,422 | 13,044 | **2,126** | 1,264 | 813 | **7.43** | 5.40 | 6.23 |
| Other liabilities | **1,455** | 2,976 | 1,402 | **2** | 10 | – | **0.14** | 0.34 | – |
| Non-controlling interests in subsidiaries | **100** | 78 | 63 | | | | | | |
| Subordinated indebtedness | **2,193** | 1,655 | 1,779 | **138** | 106 | 100 | **6.29** | 6.40 | 5.62 |
| Total foreign liabilities | **138,924** | 98,877 | 66,494 | **6,327** | 4,432 | 3,269 | **4.55** | 4.48 | 4.92 |
| Total liabilities | **267,719** | 226,209 | 187,196 | **10,663** | 8,374 | 7,928 | **3.98** | 3.70 | 4.24 |
| Shareholders' equity | **11,104** | 9,816 | 8,867 | | | | | | |
| **Liabilities and shareholders' equity** | **$278,823** | $ 236,025 | $ 196,063 | **$ 10,663** | $ 8,374 | $ 7,928 | **3.82%** | 3.55% | 4.04% |
| Net interest income and margin | | | | **$ 4,438** | $ 4,641 | $ 4,567 | **1.59%** | 1.97% | 2.33% |
| Additional disclosures: | | | | | | | | | |
| Non-interest-bearing demand deposits | | | | | | | | | |
| Domestic | **$ 5,317** | $ 4,848 | $ 4,216 | | | | | | |
| Foreign | **$ 885** | $ 719 | $ 662 | | | | | | |

*(1) Classification as domestic or foreign is based on domicile of debtor or customer.*

## VOLUME/RATE ANALYSIS OF CHANGES IN NET INTEREST INCOME

| $ millions (TEB) | 1998/1997 Increase (decrease) due to change in: Average balance | Average rate | Total | 1997/1996 Increase (decrease) due to change in: Average balance | Average rate | Total |
|---|---|---|---|---|---|---|
| **DOMESTIC ASSETS** [1] | | | | | | |
| Cash resources | **$ 2** | **$ 13** | **$ 15** | $ 6 | $ (6) | $ – |
| Securities | | | | | | |
| Held for investment | **(98)** | **(44)** | **(142)** | (388) | (12) | (400) |
| Held for trading | **90** | **102** | **192** | 285 | (281) | 4 |
| Loans | | | | | | |
| Residential mortgages | **196** | **(180)** | **16** | 214 | (312) | (98) |
| Personal and credit card loans | **240** | **143** | **383** | 82 | (347) | (265) |
| Business and government loans | **(76)** | **64** | **(12)** | (144) | (241) | (385) |
| Securities purchased under resale agreements | **190** | **7** | **197** | 287 | 69 | 356 |
| Total loans | **550** | **34** | **584** | 439 | (831) | (392) |
| Other interest-bearing assets | **13** | **(16)** | **(3)** | 1 | 10 | 11 |
| Change in domestic interest income | **557** | **89** | **646** | 343 | (1,120) | (777) |
| **FOREIGN ASSETS** [1] | | | | | | |
| Cash resources | **113** | **62** | **175** | (60) | (29) | (89) |
| Securities | | | | | | |
| Held for investment | **(83)** | **(13)** | **(96)** | 212 | (24) | 188 |
| Held for trading | **371** | **51** | **422** | 259 | (153) | 106 |
| Loans | | | | | | |
| Residential mortgages | **5** | **2** | **7** | 3 | 1 | 4 |
| Personal and credit card loans | **174** | **(56)** | **118** | 12 | (5) | 7 |
| Business and government loans | **266** | **146** | **412** | 252 | (141) | 111 |
| Securities purchased under resale agreements | **232** | **164** | **396** | 945 | 27 | 972 |
| Total loans | **677** | **256** | **933** | 1,212 | (118) | 1,094 |
| Other interest-bearing assets | **1** | **5** | **6** | (1) | (1) | (2) |
| Change in foreign interest income | **1,079** | **361** | **1,440** | 1,622 | (325) | 1,297 |
| **Total change in interest income** | **$ 1,636** | **$ 450** | **$ 2,086** | $ 1,965 | $ (1,445) | $ 520 |
| Additional disclosures: | | | | | | |
| Tax-exempt securities (included in total securities) | **$ 48** | **$ (97)** | **$ (49)** | $ (7) | $ 8 | $ 1 |
| **DOMESTIC LIABILITIES** [1] | | | | | | |
| Deposits | | | | | | |
| Individuals | **$ (79)** | **$ (8)** | **$ (87)** | $ (86) | $ (653) | $ (739) |
| Businesses and governments | **106** | **351** | **457** | 105 | (383) | (278) |
| Banks | **1** | **8** | **9** | (98) | (12) | (110) |
| Total deposits | **28** | **351** | **379** | (79) | (1,048) | (1,127) |
| Obligations related to securities sold short | **12** | **(5)** | **7** | 43 | (41) | 2 |
| Obligations related to securities sold under repurchase agreements | **16** | **(11)** | **5** | 237 | 143 | 380 |
| Other liabilities | **15** | **(26)** | **(11)** | – | (5) | (5) |
| Subordinated indebtedness | **33** | **(19)** | **14** | 53 | (20) | 33 |
| Change in domestic interest expense | **104** | **290** | **394** | 254 | (971) | (717) |
| **FOREIGN LIABILITIES** [1] | | | | | | |
| Deposits | | | | | | |
| Individuals | **84** | **(17)** | **67** | 31 | 8 | 39 |
| Businesses and governments | **865** | **183** | **1,048** | 324 | 134 | 458 |
| Banks | **–** | **(110)** | **(110)** | 353 | (132) | 221 |
| Total deposits | **949** | **56** | **1,005** | 708 | 10 | 718 |
| Obligations related to securities sold short | **42** | **(38)** | **4** | 134 | (156) | (22) |
| Obligations related to securities sold under repurchase agreements | **281** | **581** | **862** | 647 | (196) | 451 |
| Other liabilities | **(5)** | **(3)** | **(8)** | 10 | – | 10 |
| Subordinated indebtedness | **34** | **(2)** | **32** | (7) | 13 | 6 |
| Change in foreign interest expense | **1,301** | **594** | **1,895** | 1,492 | (329) | 1,163 |
| **Total change in interest expense** | **$ 1,405** | **$ 884** | **$ 2,289** | $ 1,746 | $ (1,300) | $ 446 |
| **Change in total net interest income** | **$ 231** | **$ (434)** | **$ (203)** | $ 219 | $ (145) | $ 74 |

*(1) Classification as domestic or foreign is based on domicile of debtor or customer.*

## ANALYSIS OF NET LOANS AND ACCEPTANCES

| | | | | | CANADA[1] | | | | | U.S.[1] |
|---|---|---|---|---|---|---|---|---|---|---|
| *$ millions, as at October 31* | **1998** | 1997 | 1996 | 1995 | 1994 | **1998** | 1997 | 1996 | 1995 | 1994 |
| Residential mortgages | **$ 42,646** | $ 39,573 | $ 36,506 | $ 34,313 | $ 31,934 | **$ 49** | $ 44 | $ 46 | $ 46 | $ 41 |
| Personal loans | **18,648** | 16,818 | 14,918 | 13,828 | 12,833 | **1,907** | 6 | 6 | 3 | 3 |
| Credit card loans | **3,043** | 4,766 | 4,660 | 4,324 | 3,614 | **–** | – | – | – | – |
| Total consumer loans | **64,337** | 61,157 | 56,084 | 52,465 | 48,381 | **1,956** | 50 | 52 | 49 | 44 |
| Non-residential mortgages | **2,370** | 2,508 | 2,722 | 2,977 | 3,137 | **–** | – | – | – | – |
| Trades and services | **11,170** | 9,616 | 10,126 | 10,206 | 9,203 | **5,126** | 3,720 | 3,597 | 2,783 | 2,309 |
| Manufacturing | **6,379** | 6,259 | 6,220 | 5,766 | 5,629 | **2,393** | 3,770 | 3,609 | 2,362 | 2,615 |
| Real estate | **2,571** | 2,929 | 3,241 | 3,786 | 4,271 | **1,608** | 1,125 | 1,475 | 1,959 | 2,485 |
| Agriculture | **2,564** | 2,229 | 1,934 | 1,827 | 1,651 | **32** | 165 | 184 | 72 | 32 |
| Natural resources | **4,589** | 3,831 | 2,940 | 3,129 | 3,171 | **488** | 1,191 | 632 | 677 | 827 |
| Transportation and communications | **2,568** | 2,788 | 2,734 | 2,534 | 3,107 | **2,433** | 4,630 | 5,015 | 4,805 | 5,044 |
| Other | **2,294** | 2,194 | 1,941 | 2,094 | 1,862 | **1,091** | 770 | 547 | 430 | 598 |
| Total business and government loans, including acceptances | **34,505** | 32,354 | 31,858 | 32,319 | 32,031 | **13,171** | 15,371 | 15,059 | 13,088 | 13,910 |
| Securities purchased under resale agreements | **12,464** | 12,250 | 10,250 | 7,037 | 4,652 | **21,225** | 22,350 | 20,511 | 7,129 | 1,932 |
| General allowance | | | | | | | | | | |
| Total net loans and acceptances | **$ 111,306** | $ 105,761 | $ 98,192 | $ 91,821 | $ 85,064 | **$ 36,352** | $ 37,771 | $ 35,622 | $ 20,266 | $ 15,886 |

*(1) Classification by country is based on domicile of debtor or customer.*

## SUMMARY OF ALLOWANCE FOR CREDIT LOSSES

| *$ millions, as at or for the years ended October 31* | **1998** | 1997 | 1996 | 1995 | 1994 |
|---|---|---|---|---|---|
| Balance at beginning of year | **$ 1,595** | $ 1,441 | $ 1,538 | $ 1,673 | $ 2,049 |
| Adjustment for accounting change[1] | **–** | – | 165 | – | – |
| Write-offs | | | | | |
| Domestic | | | | | |
| Residential mortgages | **14** | 24 | 24 | 21 | 18 |
| Personal and credit card loans | **324** | 355 | 371 | 189 | 184 |
| Real estate | **50** | 53 | 143 | 216 | 416 |
| Other business and government loans | **82** | 115 | 163 | 77 | 234 |
| Foreign | | | | | |
| Residential mortgages | **–** | – | – | – | 10 |
| Personal and credit card loans | **4** | 2 | 1 | 1 | 1 |
| Real estate | **3** | 36 | 54 | 241 | 410 |
| Other business and government loans | **115** | 36 | 100 | 128 | 122 |
| Total write-offs | **592** | 621 | 856 | 873 | 1,395 |
| Recoveries | | | | | |
| Domestic | | | | | |
| Personal and credit card loans | **79** | 74 | 62 | 28 | 21 |
| Real estate | **17** | 6 | 4 | 5 | 13 |
| Other business and government loans | **11** | 10 | 14 | 16 | 13 |
| Foreign | | | | | |
| Personal and credit card loans | **–** | – | – | – | – |
| Real estate | **14** | 57 | 21 | 1 | 2 |
| Other business and government loans | **11** | 10 | 12 | 16 | 13 |
| Total recoveries | **132** | 157 | 113 | 66 | 62 |
| Net write-offs | **460** | 464 | 743 | 807 | 1,333 |
| Provision for credit losses | **480** | 610 | 480 | 680 | 880 |
| Foreign exchange adjustments | **11** | 8 | 1 | (8) | 77 |
| Balance at end of year | **$ 1,626[2]** | $ 1,595[2] | $ 1,441[2] | $ 1,538 | $ 1,673 |
| Ratio of net write-offs during year to average loans outstanding during year | **0.28%** | 0.32% | 0.62% | 0.79% | 1.35% |

*(1) Represents the effect of implementing CICA Handbook section 3025, "Impaired loans", which introduced the requirement to discount expected cash flows on impaired loans when determining the allowance for credit losses.*
*(2) Includes a $17 million allowance for letters of credit (1997: $4 million; 1996: $19 million).*

## ANALYSIS OF NET LOANS AND ACCEPTANCES (CONTINUED)

| *$ millions, as at October 31* | OTHER[1] | | | | | TOTAL | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **1998** | 1997 | 1996 | 1995 | 1994 | **1998** | 1997 | 1996 | 1995 | 1994 |
| Residential mortgages | **$ 477** | $ 392 | $ 337 | $ 300 | $ 250 | **$ 43,172** | $ 40,009 | $ 36,889 | $ 34,659 | $ 32,225 |
| Personal loans | **733** | 493 | 378 | 372 | 357 | **21,288** | 17,317 | 15,302 | 14,203 | 13,193 |
| Credit card loans | **51** | 35 | 18 | 10 | – | **3,094** | 4,801 | 4,678 | 4,334 | 3,614 |
| Total consumer loans | **1,261** | 920 | 733 | 682 | 607 | **67,554** | 62,127 | 56,869 | 53,196 | 49,032 |
| Non-residential mortgages | **138** | 78 | 61 | 48 | 33 | **2,508** | 2,586 | 2,783 | 3,025 | 3,170 |
| Trades and services | **7,062** | 4,311 | 2,689 | 2,537 | 2,263 | **23,358** | 17,647 | 16,412 | 15,526 | 13,775 |
| Manufacturing | **1,516** | 1,295 | 1,359 | 880 | 773 | **10,288** | 11,324 | 11,188 | 9,008 | 9,017 |
| Real estate | **584** | 573 | 439 | 565 | 1,093 | **4,763** | 4,627 | 5,155 | 6,310 | 7,849 |
| Agriculture | **14** | 15 | 15 | 11 | 12 | **2,610** | 2,409 | 2,133 | 1,910 | 1,695 |
| Natural resources | **554** | 548 | 592 | 653 | 560 | **5,631** | 5,570 | 4,164 | 4,459 | 4,558 |
| Transportation and communications | **2,050** | 1,762 | 1,163 | 892 | 741 | **7,051** | 9,180 | 8,912 | 8,231 | 8,892 |
| Other | **661** | 451 | 313 | 324 | 415 | **4,046** | 3,415 | 2,801 | 2,848 | 2,875 |
| Total business and government loans, including acceptances | **12,579** | 9,033 | 6,631 | 5,910 | 5,890 | **60,255** | 56,758 | 53,548 | 51,317 | 51,831 |
| Securities purchased under resale agreements | **2,604** | 3,029 | 1,773 | 7 | – | **36,293** | 37,629 | 32,534 | 14,173 | 6,584 |
| General allowance | | | | | | **(850)** | (650) | (400) | (250) | (250) |
| Total net loans and acceptances | **$ 16,444** | $ 12,982 | $ 9,137 | $ 6,599 | $ 6,497 | **$ 163,252** | $ 155,864 | $ 142,551 | $ 118,436 | $ 107,197 |

*(1) Classification by country is based on domicile of debtor or customer.*

## ALLOWANCE FOR CREDIT LOSSES AS A PERCENTAGE OF EACH LOAN CATEGORY

| *$ millions, as at October 31* | Allowance for credit losses | | | | | Allowance as a % of each loan category | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **1998** | 1997 | 1996 | 1995 | 1994 | **1998** | 1997 | 1996 | 1995 | 1994 |
| **DOMESTIC** | | | | | | | | | | |
| Residential mortgages | **$ 27** | $ 30 | $ 43 | $ 27 | $ 23 | **0.06%** | 0.08% | 0.12% | 0.08% | 0.07% |
| Personal and credit card loans | **173** | 182 | 148 | 176 | 143 | **0.79** | 0.84 | 0.75 | 0.96 | 0.86 |
| Real estate | **163** | 291 | 332 | 406 | 370 | **7.17** | 10.96 | 11.52 | 11.72 | 9.23 |
| Other business and government loans | **234** | 256 | 295 | 323 | 310 | **1.06** | 1.28 | 1.41 | 1.51 | 1.43 |
| Total domestic | **597** | 759 | 818 | 932 | 846 | **0.67** | 0.90 | 1.02 | 1.20 | 1.14 |
| **FOREIGN** | | | | | | | | | | |
| Residential mortgages | **–** | – | – | – | – | **–** | – | – | – | – |
| Personal and credit card loans | **8** | 5 | 4 | 3 | 3 | **0.30** | 0.93 | 0.99 | 0.77 | 0.83 |
| Real estate | **22** | 27 | 85 | 138 | 344 | **0.99** | 1.57 | 4.25 | 5.18 | 8.77 |
| Other business and government loans | **132** | 150 | 115 | 93 | 108 | **0.57** | 0.66 | 0.58 | 0.56 | 0.67 |
| Total foreign | **162** | 182 | 204 | 234 | 455 | **0.56** | 0.72 | 0.90 | 1.18 | 2.19 |
| General allowance for credit losses | **850** | 650 | 400 | 250 | 250 | **–** | – | – | – | – |
| General country risk allowance | **–** | – | – | 122 | 122 | **–** | – | – | – | – |
| Total allowance | **$ 1,609** | $ 1,591 | $ 1,422 | $ 1,538 | $ 1,673 | **1.37%** | 1.45% | 1.38% | 1.58% | 1.76% |

## IMPAIRED LOANS BEFORE GENERAL ALLOWANCES

| $ millions, as at October 31 | 1998 | 1997 | 1996 | 1995 (2) | TOTAL 1994 (2) |
|---|---|---|---|---|---|
| **GROSS IMPAIRED LOANS** | | | | | |
| Residential mortgages | **$ 135** | $ 134 | $ 207 | $ 211 | $ 227 |
| Personal loans | **301** | 282 | 239 | 179 | 183 |
| Credit card loans | **–** | – | – | 75 | 65 |
| Total gross impaired consumer loans | **436** | 416 | 446 | 465 | 475 |
| Non-residential mortgages | **64** | 78 | 121 | 146 | 155 |
| Trades and services | **230** | 295 | 260 | 310 | 407 |
| Manufacturing | **105** | 139 | 126 | 167 | 218 |
| Real estate | **327** | 514 | 977 | 1,501 | 1,750 |
| Agriculture | **27** | 20 | 16 | 16 | 21 |
| Natural resources | **13** | 10 | 10 | 17 | 17 |
| Transportation and communications | **263** | 128 | 126 | 124 | 32 |
| Other | **21** | 19 | 32 | 37 | 19 |
| Total gross impaired business and government loans | **1,050** | 1,203 | 1,668 | 2,318 | 2,619 |
| Total gross impaired loans | **1,486** | 1,619 | 2,114 | 2,783 | 3,094 |
| Other past due loans (3) | **77** | 62 | 46 | 42 | 51 |
| Total gross impaired and other past due loans | **$ 1,563** | $ 1,681 | $ 2,160 | $ 2,825 | $ 3,145 |
| **ALLOWANCE FOR CREDIT LOSSES** | | | | | |
| Residential mortgages | **$ 27** | $ 30 | $ 43 | $ 27 | $ 23 |
| Personal loans | **181** | 187 | 152 | 104 | 81 |
| Credit card loans | **–** | – | – | 75 | 65 |
| Total allowance - consumer loans | **208** | 217 | 195 | 206 | 169 |
| Non-residential mortgages | **41** | 57 | 80 | 74 | 67 |
| Trades and services | **110** | 172 | 132 | 134 | 193 |
| Manufacturing | **61** | 73 | 84 | 107 | 117 |
| Real estate | **185** | 318 | 417 | 544 | 714 |
| Agriculture | **8** | 5 | 4 | 2 | 3 |
| Natural resources | **8** | 7 | 6 | 7 | 15 |
| Transportation and communications | **125** | 80 | 82 | 73 | 18 |
| Other | **13** | 12 | 22 | 19 | 5 |
| Total allowance - business and government loans | **551** | 724 | 827 | 960 | 1,132 |
| Total allowance | **$ 759** | $ 941 | $ 1,022 | $ 1,166 | $ 1,301 |
| **NET IMPAIRED LOANS** | | | | | |
| Residential mortgages | **$ 108** | $ 104 | $ 164 | $ 184 | $ 204 |
| Personal loans | **120** | 95 | 87 | 75 | 102 |
| Credit card loans | **–** | – | – | – | – |
| Total net impaired consumer loans | **228** | 199 | 251 | 259 | 306 |
| Non-residential mortgages | **23** | 21 | 41 | 72 | 88 |
| Trades and services | **120** | 123 | 128 | 176 | 214 |
| Manufacturing | **44** | 66 | 42 | 60 | 101 |
| Real estate | **142** | 196 | 560 | 957 | 1,036 |
| Agriculture | **19** | 15 | 12 | 14 | 18 |
| Natural resources | **5** | 3 | 4 | 10 | 2 |
| Transportation and communications | **138** | 48 | 44 | 51 | 14 |
| Other | **8** | 7 | 10 | 18 | 14 |
| Total net impaired business and government loans | **499** | 479 | 841 | 1,358 | 1,487 |
| Total net impaired loans | **$ 727** | $ 678 | $ 1,092 | $ 1,617 | $ 1,793 |

*(1) Classification by country is based on domicile of debtor or customer.*
*(2) 1994 and 1995 information excludes LDC loans.*
*(3) Other past due loans, which have not been classified as impaired, are described in Note 4 to the consolidated financial statements on page 70.*

## IMPAIRED LOANS BEFORE GENERAL ALLOWANCES (CONTINUED)

| CANADA[1] | | | | | U.S.[1] | | | | | OTHER[1] | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **1998** | 1997 | 1996 | 1995[2] | 1994[2] | **1998** | 1997 | 1996 | 1995[2] | 1994[2] | **1998** | 1997 | 1996 | 1995[2] | 1994[2] |
| **$ 135** | $ 134 | $ 207 | $ 211 | $ 227 | **$ –** | $ – | $ – | $ – | $ – | **$ –** | $ – | $ – | $ – | $ – |
| **271** | 266 | 224 | 168 | 170 | **2** | 1 | 2 | 1 | 1 | **28** | 15 | 13 | 10 | 12 |
| **–** | – | – | 75 | 65 | **–** | – | – | – | – | **–** | – | – | – | – |
| **406** | 400 | 431 | 454 | 462 | **2** | 1 | 2 | 1 | 1 | **28** | 15 | 13 | 10 | 12 |
| **64** | 78 | 121 | 146 | 155 | **–** | – | – | – | – | **–** | – | – | – | – |
| **141** | 169 | 216 | 270 | 280 | **58** | 89 | – | 4 | 6 | **31** | 37 | 44 | 36 | 121 |
| **78** | 95 | 101 | 152 | 169 | **5** | 39 | 6 | 6 | 31 | **22** | 5 | 19 | 9 | 18 |
| **258** | 426 | 526 | 812 | 796 | **40** | 71 | 419 | 529 | 803 | **29** | 17 | 32 | 160 | 151 |
| **22** | 20 | 16 | 16 | 21 | **–** | – | – | – | – | **5** | – | – | – | – |
| **10** | 9 | 7 | 8 | 14 | **2** | 1 | 3 | 9 | – | **1** | – | – | – | 3 |
| **105** | 28 | 29 | 18 | 9 | **30** | 4 | 1 | 20 | 1 | **128** | 96 | 96 | 86 | 22 |
| **20** | 17 | 15 | 15 | 18 | **–** | – | 2 | 8 | – | **1** | 2 | 15 | 14 | 1 |
| **698** | 842 | 1,031 | 1,437 | 1,462 | **135** | 204 | 431 | 576 | 841 | **217** | 157 | 206 | 305 | 316 |
| **1,104** | 1,242 | 1,462 | 1,891 | 1,924 | **137** | 205 | 433 | 577 | 842 | **245** | 172 | 219 | 315 | 328 |
| **26** | 38 | 25 | 35 | 24 | **23** | – | – | – | 19 | **28** | 24 | 21 | 7 | 8 |
| **$ 1,130** | $ 1,280 | $ 1,487 | $ 1,926 | $ 1,948 | **$ 160** | $ 205 | $ 433 | $ 577 | $ 861 | **$ 273** | $ 196 | $ 240 | $ 322 | $ 336 |
| **$ 27** | $ 30 | $ 43 | $ 27 | $ 23 | **$ –** | $ – | $ – | $ – | $ – | **$ –** | $ – | $ – | $ – | $ – |
| **173** | 182 | 148 | 101 | 78 | **–** | – | – | 1 | 1 | **8** | 5 | 4 | 2 | 2 |
| **–** | – | – | 75 | 65 | **–** | – | – | – | – | **–** | – | – | – | – |
| **200** | 212 | 191 | 203 | 166 | **–** | – | – | 1 | 1 | **8** | 5 | 4 | 2 | 2 |
| **41** | 57 | 80 | 74 | 67 | **–** | – | – | – | – | **–** | – | – | – | – |
| **78** | 95 | 110 | 121 | 107 | **16** | 57 | – | – | – | **16** | 20 | 22 | 13 | 86 |
| **45** | 62 | 66 | 101 | 109 | **–** | 9 | 4 | 2 | – | **16** | 2 | 14 | 4 | 8 |
| **163** | 291 | 332 | 406 | 370 | **9** | 15 | 60 | 58 | 266 | **13** | 12 | 25 | 80 | 78 |
| **5** | 5 | 4 | 2 | 3 | **–** | – | – | – | – | **3** | – | – | – | – |
| **8** | 7 | 6 | 7 | 13 | **–** | – | – | – | – | **–** | – | – | – | 2 |
| **44** | 19 | 18 | 8 | 7 | **2** | 1 | – | – | – | **79** | 60 | 64 | 65 | 11 |
| **13** | 11 | 11 | 10 | 4 | **–** | – | 2 | 3 | – | **–** | 1 | 9 | 6 | 1 |
| **397** | 547 | 627 | 729 | 680 | **27** | 82 | 66 | 63 | 266 | **127** | 95 | 134 | 168 | 186 |
| **$ 597** | $ 759 | $ 818 | $ 932 | $ 846 | **$ 27** | $ 82 | $ 66 | $ 64 | $ 267 | **$ 135** | $ 100 | $ 138 | $ 170 | $ 188 |
| **$ 108** | $ 104 | $ 164 | $ 184 | $ 204 | **$ –** | $ – | $ – | $ – | $ – | **$ –** | $ – | $ – | $ – | $ – |
| **98** | 84 | 76 | 67 | 92 | **2** | 1 | 2 | – | – | **20** | 10 | 9 | 8 | 10 |
| **–** | – | – | – | – | **–** | – | – | – | – | **–** | – | – | – | – |
| **206** | 188 | 240 | 251 | 296 | **2** | 1 | 2 | – | – | **20** | 10 | 9 | 8 | 10 |
| **23** | 21 | 41 | 72 | 88 | **–** | – | – | – | – | **–** | – | – | – | – |
| **63** | 74 | 106 | 149 | 173 | **42** | 32 | – | 4 | 6 | **15** | 17 | 22 | 23 | 35 |
| **33** | 33 | 35 | 51 | 60 | **5** | 30 | 2 | 4 | 31 | **6** | 3 | 5 | 5 | 10 |
| **95** | 135 | 194 | 406 | 426 | **31** | 56 | 359 | 471 | 537 | **16** | 5 | 7 | 80 | 73 |
| **17** | 15 | 12 | 14 | 18 | **–** | – | – | – | – | **2** | – | – | – | – |
| **2** | 2 | 1 | 1 | 1 | **2** | 1 | 3 | 9 | – | **1** | – | – | – | 1 |
| **61** | 9 | 11 | 10 | 2 | **28** | 3 | 1 | 20 | 1 | **49** | 36 | 32 | 21 | 11 |
| **7** | 6 | 4 | 5 | 14 | **–** | – | – | 5 | – | **1** | 1 | 6 | 8 | – |
| **301** | 295 | 404 | 708 | 782 | **108** | 122 | 365 | 513 | 575 | **90** | 62 | 72 | 137 | 130 |
| **$ 507** | $ 483 | $ 644 | $ 959 | $ 1,078 | **$ 110** | $ 123 | $ 367 | $ 513 | $ 575 | **$ 110** | $ 72 | $ 81 | $ 145 | $ 140 |

## DEPOSITS

| $ millions, as at October 31 | Average balance 1998 | Average balance 1997 | Average balance 1996 | Interest 1998 | Interest 1997 | Interest 1996 | Rate 1998 | Rate 1997 | Rate 1996 |
|---|---|---|---|---|---|---|---|---|---|
| **DEPOSITS IN DOMESTIC BANK OFFICES** | | | | | | | | | |
| Payable on demand | | | | | | | | | |
| Individuals | **$ 2,637** | $ 2,136 | $ 1,989 | **$ 59** | $ 38 | $ 50 | **2.22%** | 1.77% | 2.51% |
| Businesses and governments | **9,573** | 8,295 | 7,112 | **190** | 109 | 145 | **1.99** | 1.31 | 2.04 |
| Banks | **412** | 434 | 375 | **6** | 4 | 6 | **1.56** | 1.01 | 1.50 |
| Payable after notice | | | | | | | | | |
| Individuals | **16,865** | 17,083 | 16,795 | **109** | 67 | 179 | **0.64** | 0.39 | 1.07 |
| Businesses and governments | **5,131** | 4,815 | 4,288 | **187** | 109 | 168 | **3.64** | 2.26 | 3.92 |
| Banks | **6** | 7 | 10 | **–** | – | 1 | **4.86** | 2.21 | 4.92 |
| Payable on a fixed date | | | | | | | | | |
| Individuals | **36,191** | 38,491 | 40,782 | **1,669** | 1,797 | 2,408 | **4.61** | 4.67 | 5.90 |
| Businesses and governments | **19,393** | 16,008 | 16,160 | **915** | 538 | 807 | **4.72** | 3.36 | 4.99 |
| Banks | **785** | 825 | 1,252 | **40** | 31 | 69 | **5.10** | 3.76 | 5.49 |
| Total domestic | **90,993** | 88,094 | 88,763 | **3,175** | 2,693 | 3,833 | **3.49** | 3.06 | 4.32 |
| **DEPOSITS IN FOREIGN BANK OFFICES** | | | | | | | | | |
| Payable on demand | | | | | | | | | |
| Individuals | **555** | 44 | 28 | **4** | 1 | – | **0.72** | 1.18 | 0.79 |
| Businesses and governments | **810** | 568 | 364 | **10** | 11 | 3 | **1.21** | 1.92 | 0.90 |
| Banks | **132** | 106 | 144 | **6** | 4 | 2 | **4.48** | 3.77 | 1.09 |
| Payable after notice | | | | | | | | | |
| Individuals | **574** | 491 | 440 | **30** | 25 | 24 | **5.28** | 5.15 | 5.48 |
| Businesses and governments | **151** | 128 | 98 | **10** | 12 | 5 | **6.62** | 9.47 | 5.25 |
| Banks | **352** | 475 | 243 | **13** | 17 | 13 | **3.69** | 3.47 | 5.24 |
| Payable on a fixed date | | | | | | | | | |
| Individuals | **2,368** | 1,787 | 1,337 | **144** | 107 | 74 | **6.08** | 5.99 | 5.53 |
| Businesses and governments | **37,710** | 23,198 | 15,860 | **2,302** | 1,330 | 801 | **6.10** | 5.73 | 5.05 |
| Banks | **26,673** | 26,465 | 21,211 | **1,114** | 1,224 | 1,078 | **4.18** | 4.63 | 5.08 |
| Total foreign deposits | **69,325** | 53,262 | 39,725 | **3,633** | 2,731 | 2,000 | **5.24** | 5.13 | 5.03 |
| Total deposits | **$ 160,318** | $ 141,356 | $ 128,488 | **$ 6,808** | $ 5,424 | $ 5,833 | **4.25%** | 3.84% | 4.54% |

## SHORT-TERM BORROWINGS

| $ millions, as at or for the years ended October 31 | 1998 | 1997 | 1996 |
|---|---|---|---|
| **AMOUNTS OUTSTANDING AT END OF YEAR** | | | |
| Obligations related to securities sold short | **$ 16,049** | $ 15,564 | $ 12,825 |
| Obligations related to securities sold under repurchase agreements | **32,610** | 28,368 | 29,082 |
| Total short-term borrowings | **$ 48,659** | $ 43,932 | $ 41,907 |
| **MAXIMUM AMOUNT OF BORROWINGS OUTSTANDING AT ANY MONTH-END DURING EACH YEAR** | | | |
| Obligations related to securities sold short and securities sold under repurchase agreements | **$ 66,444** | $ 53,276 | $ 41,907 |
| **APPROXIMATE AVERAGE AMOUNTS OUTSTANDING DURING EACH YEAR** | | | |
| Obligations related to securities sold short | **$ 17,054** | $ 15,183 | $ 11,427 |
| Approximate weighted average interest rate | **3.07%** | 3.38% | 4.66% |
| Obligations related to securities sold under repurchase agreements | **$ 38,846** | $ 33,441 | $ 19,453 |
| Approximate weighted average interest rate | **7.55%** | 6.18% | 6.34% |

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

| $ millions, for the quarter | 1998 Q4 | 1998 Q3 | 1998 Q2 | 1998 Q1 | 1997 Q4 | 1997 Q3 | 1997 Q2 | 1997 Q1 |
|---|---|---|---|---|---|---|---|---|
| Interest income *(TEB)* (1) | **$ 4,110** | **$ 3,805** | **$ 3,650** | **$ 3,536** | $ 3,326 | $ 3,342 | $ 3,207 | $ 3,140 |
| Interest expense | **3,010** | **2,730** | **2,534** | **2,389** | 2,179 | 2,143 | 2,059 | 1,993 |
| Net interest income *(TEB)* (1) | **1,100** | **1,075** | **1,116** | **1,147** | 1,147 | 1,199 | 1,148 | 1,147 |
| Deduct taxable equivalent adjustment | **21** | **28** | **27** | **25** | 32 | 40 | 26 | 26 |
| Net interest income (consolidated statement of income basis) | **1,079** | **1,047** | **1,089** | **1,122** | 1,115 | 1,159 | 1,122 | 1,121 |
| Provision for credit losses | **120** | **120** | **120** | **120** | 250 | 120 | 120 | 120 |
| | **959** | **927** | **969** | **1,002** | 865 | 1039 | 1,002 | 1,001 |
| Non-interest income | **633** | **1,360** | **1,608** | **1,203** | 1,176 | 992 | 879 | 933 |
| | **1,592** | **2,287** | **2,577** | **2,205** | 2,041 | 2,031 | 1,881 | 1,934 |
| Non-interest expenses | **1,633** | **1,952** | **1,861** | **1,679** | 1,381 | 1,374 | 1,294 | 1,323 |
| Net income (loss) before income taxes | **(41)** | **335** | **716** | **526** | 660 | 657 | 587 | 611 |
| Income taxes | **(72)** | **82** | **274** | **176** | 241 | 252 | 213 | 231 |
| | **31** | **253** | **442** | **350** | 419 | 405 | 374 | 380 |
| Non-controlling interests in net income of subsidiaries | **(3)** | **8** | **8** | **7** | 14 | 4 | 4 | 5 |
| **Net income** | **$ 34** | **$ 245** | **$ 434** | **$ 343** | $ 405 | $ 401 | $ 370 | $ 375 |
| Dividends on preferred shares | **$ 28** | **$ 30** | **$ 29** | **$ 29** | $ 27 | $ 26 | $ 23 | $ 22 |
| **Net income applicable to common shares** | **6** | **215** | **405** | **314** | 378 | 375 | 347 | 353 |
| | **$ 34** | **$ 245** | **$ 434** | **$ 343** | $ 405 | $ 401 | $ 370 | $ 375 |

*(1) Taxable equivalent basis, as described in footnote (3) of Profitability on page 102.*

## CONDENSED CONSOLIDATED BALANCE SHEETS

| $ millions, at end of quarter | 1998 Oct. 31 | 1998 Jul. 31 | 1998 Apr. 30 | 1998 Jan. 31 | 1997 Oct. 31 | 1997 Jul. 31 | 1997 Apr. 30 | 1997 Jan. 31 |
|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | |
| Cash resources | **$ 10,795** | **$ 10,313** | **$ 11,630** | **$ 12,454** | $ 7,931 | $ 7,868 | $ 8,090 | $ 6,694 |
| Securities | **60,970** | **58,665** | **55,240** | **50,829** | 45,252 | 50,116 | 44,019 | 44,286 |
| Loans | | | | | | | | |
| Residential mortgages | **43,172** | **42,108** | **40,844** | **40,616** | 40,009 | 39,218 | 38,843 | 37,942 |
| Personal and credit card loans | **24,382** | **23,910** | **22,442** | **24,433** | 22,118 | 20,740 | 20,474 | 19,671 |
| Business and government loans | **48,410** | **49,566** | **48,919** | **48,174** | 45,733 | 45,294 | 46,887 | 43,914 |
| Securities purchased under resale agreements | **36,293** | **40,270** | **43,351** | **58,970** | 37,629 | 40,748 | 38,911 | 35,150 |
| Customers' liability under acceptances | **10,995** | **10,988** | **10,225** | **10,682** | 10,375 | 10,216 | 8,993 | 9,026 |
| Derivative instruments market valuation | **37,157** | **28,725** | **23,924** | **28,473** | 21,977 | 19,386 | 14,904 | 15,255 |
| Other assets | **9,256** | **10,154** | **7,803** | **8,069** | 6,965 | 6,827 | 6,372 | 6,725 |
| | **$ 281,430** | **$ 274,699** | **$ 264,378** | **$ 282,700** | $ 237,989 | $ 240,413 | $ 227,493 | $ 218,663 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | | | | | |
| Deposits | | | | | | | | |
| Individuals | **$ 59,993** | **$ 59,457** | **$ 59,120** | **$ 59,487** | $ 59,188 | $ 59,429 | $ 60,244 | $ 60,474 |
| Businesses and governments | **76,642** | **70,645** | **71,381** | **71,471** | 60,272 | 52,881 | 49,045 | 45,019 |
| Banks | **23,240** | **29,458** | **23,610** | **28,316** | 19,438 | 24,927 | 25,275 | 24,808 |
| Acceptances | **10,995** | **10,991** | **10,226** | **10,812** | 10,375 | 10,216 | 8,993 | 9,026 |
| Obligations related to securities sold short or under repurchase agreements | **48,659** | **50,474** | **51,760** | **60,607** | 43,932 | 52,213 | 48,366 | 44,183 |
| Derivative instruments market valuation | **36,245** | **27,615** | **23,654** | **27,459** | 21,376 | 19,184 | 14,281 | 14,265 |
| Other liabilities | **9,806** | **9,461** | **8,065** | **8,674** | 8,267 | 6,941 | 6,934 | 7,498 |
| Subordinated Indebtedness | **4,714** | **5,338** | **5,420** | **5,099** | 4,894 | 4,426 | 4,426 | 4,087 |
| Shareholders' equity | | | | | | | | |
| Preferred shares | **1,961** | **1,949** | **1,917** | **1,831** | 1,518 | 1,726 | 1,731 | 1,369 |
| Common shares | **3,128** | **3,128** | **3,124** | **3,108** | 3,105 | 3,102 | 3,096 | 3,083 |
| Retained earnings | **6,047** | **6,183** | **6,101** | **5,836** | 5,624 | 5,368 | 5,102 | 4,851 |
| | **$ 281,430** | **$ 274,699** | **$ 264,378** | **$ 282,700** | $ 237,989 | $ 240,413 | $ 227,493 | $ 218,663 |

## PROFITABILITY

| For the period | 1998 Q4 | 1998 Q3 | 1998 Q2 | 1998 Q1 | 1997 Q4 | 1997 Q3 | 1997 Q2 | 1997 Q1 |
|---|---|---|---|---|---|---|---|---|
| Return on common equity (1) | 0.3 % | 9.2 % | 18.3 % | 14.1 % | 17.5 % | 17.8 % | 17.7 % | 17.9 % |
| **INCOME STATEMENT MEASURES AS A PERCENTAGE OF AVERAGE ASSETS:** | | | | | | | | |
| Net interest income *(TEB)* (2) | 1.48 % | 1.53 % | 1.66 % | 1.71 % | 1.84 % | 2.00 % | 2.00 % | 2.05 % |
| Provision for credit losses | (0.16)% | (0.17)% | (0.18)% | (0.18)% | (0.40)% | (0.20)% | (0.21)% | (0.21)% |
| Non-interest income | 0.85 % | 1.94 % | 2.39 % | 1.79 % | 1.88 % | 1.65 % | 1.53 % | 1.66 % |
| Non-interest expenses | (2.19)% | (2.79)% | (2.77)% | (2.50)% | (2.21)% | (2.29)% | (2.25)% | (2.36)% |
| Income taxes *(TEB)* (2) and non-controlling interests | 0.07 % | (0.16)% | (0.46)% | (0.31)% | (0.46)% | (0.49)% | (0.43)% | (0.47)% |
| Net income – return on assets | 0.05 % | 0.35 % | 0.64 % | 0.51 % | 0.65 % | 0.67 % | 0.64 % | 0.67 % |

*(1) Net income applicable to common shares divided by average common shareholders' equity for the period, annualized.*
*(2) Taxable equivalent basis, as described in footnote (3) of Profitability on page 102.*

## CREDIT QUALITY

| For the period | 1998 Q4 | 1998 Q3 | 1998 Q2 | 1998 Q1 | 1997 Q4 | 1997 Q3 | 1997 Q2 | 1997 Q1 |
|---|---|---|---|---|---|---|---|---|
| Allowance for credit losses to gross impaired loans | 108.3 % | 112.2 % | 105.6 % | 104.2 % | 98.3 % | 87.2 % | 76.4 % | 71.5 % |
| Net impaired loans to total loans and acceptances | (0.08)% | (0.11)% | (0.05)% | (0.03)% | 0.02 % | 0.14 % | 0.30 % | 0.39 % |

## CAPITAL AND RELATED

| As at | 1998 Q4 | 1998 Q3 | 1998 Q2 | 1998 Q1 | 1997 Q4 | 1997 Q3 | 1997 Q2 | 1997 Q1 |
|---|---|---|---|---|---|---|---|---|
| Average common shareholders' equity *($ millions)* | $ 9,244 | $ 9,283 | $ 9,087 | $ 8,832 | $ 8,586 | $ 8,343 | $ 8,043 | $ 7,811 |
| Average assets *($ millions)* | $ 295,258 | $ 278,048 | $ 275,609 | $ 266,376 | $ 247,543 | $ 238,389 | $ 235,804 | $ 222,364 |
| Average assets to average common equity | 31.9 | 30.0 | 30.3 | 30.2 | 28.8 | 28.6 | 29.3 | 28.5 |
| Regulatory Tier 1 capital ratio | 7.7 % | 7.6 % | 7.8 % | 7.1 % | 7.0 % | 7.0 % | 7.0 % | 6.9 % |
| Regulatory total capital ratio | 10.8 % | 10.8 % | 11.2 % | 10.0 % | 9.8 % | 9.4 % | 9.6 % | 9.3 % |

## PRODUCTIVITY

| For the period | 1998 Q4 | 1998 Q3 | 1998 Q2 | 1998 Q1 | 1997 Q4 | 1997 Q3 | 1997 Q2 | 1997 Q1 |
|---|---|---|---|---|---|---|---|---|
| Non-interest expenses to revenue ratio (1) | 94.2 % | 80.2 % | 68.3 % | 71.4 % | 59.4 % | 62.7 % | 63.8 % | 63.6 % |

*(1) Non-interest expenses divided by the sum of net interest income (taxable equivalent basis) and non-interest income.*

## COMMON SHARES

| As at or for the period | 1998 Q4 | 1998 Q3 | 1998 Q2 | 1998 Q1 | 1997 Q4 | 1997 Q3 | 1997 Q2 | 1997 Q1 |
|---|---|---|---|---|---|---|---|---|
| Average number outstanding *(thousands)* | 415,510 | 415,384 | 414,862 | 414,358 | 414,183 | 413,865 | 413,410 | 412,716 |
| Per common share information: | | | | | | | | |
| Net income – basic | $ 0.01 | $ 0.52 | $ 0.97 | $ 0.76 | $ 0.91 | $ 0.90 | $ 0.84 | $ 0.86 |
| – fully diluted | $ 0.01 (6) | $ 0.51 | $ 0.96 | $ 0.75 | $ 0.90 | $ 0.90 | $ 0.84 | $ 0.86 |
| Price (1) – high | $ 45.30 | $ 51.30 | $ 59.80 | $ 47.45 | $ 41.75 | $ 41.75 | $ 35.65 | $ 31.20 |
| – low | $ 24.40 | $ 45.25 | $ 40.20 | $ 35.30 | $ 35.05 | $ 32.00 | $ 29.65 | $ 26.55 |
| – close | $ 30.65 | $ 45.25 | $ 50.85 | $ 39.60 | $ 41.20 | $ 39.65 | $ 32.10 | $ 30.20 |
| Dividends – per share | $ 0.30 | $ 0.30 | $ 0.30 | $ 0.30 | $ 0.30 | $ 0.25 | $ 0.25 | $ 0.25 |
| – yield (2) | 3.9 % | 2.6 % | 2.4 % | 3.0 % | 2.9 % | 2.5 % | 3.2 % | 3.3 % |
| – payout ratio (3) | >100 % | 57.9 % | 30.8 % | 39.5 % | 32.8 % | 27.5 % | 30.0 % | 29.2 % |
| Price-to-earnings ratio (4) | 13.5 | 14.3 | 14.3 | 11.6 | 11.7 | 11.8 | 10.0 | 9.7 |
| Book value (5) | $ 22.08 | $ 22.41 | $ 22.21 | $ 21.58 | $ 21.07 | $ 20.45 | $ 19.81 | $ 19.21 |
| Price to book value | 1.39 | 2.02 | 2.29 | 1.84 | 1.96 | 1.94 | 1.62 | 1.57 |

*(1) The high and low price during the period, and closing price on the last trading day of the period, on the Toronto Stock Exchange.*
*(2) Effective October 31, 1998, dividend yields are based on closing share prices.*
*(3) Total common share dividends divided by the net income applicable to common shares.*
*(4) Closing common share price expressed as a multiple of net income per common share for the period, annualized.*
*(5) Common shareholders' equity divided by the number of common shares issued and outstanding at end of quarter.*
*(6) Potential stock option conversions were not dilutive in the fourth quarter. As a result, fully diluted earnings per share for the year does not equal the sum of the quarters.*

## CONSOLIDATED STATEMENTS OF INCOME

| *$ millions, for the years ended October 31* | 1998 | 1997 | 1996 | 1995 | 1994 | 1993 | 1992 | 1991 | 1990 | 1989 |
|---|---|---|---|---|---|---|---|---|---|---|
| Interest income *(TEB)* (1) | **$ 15,101** | $ 13,015 | $ 12,495 | $ 11,463 | $ 9,111 | $ 9,068 | $ 9,718 | $ 11,404 | $ 11,717 | $ 10,172 |
| Interest expense | **10,663** | 8,374 | 7,928 | 7,294 | 5,004 | 5,233 | 6,106 | 7,903 | 8,613 | 7,145 |
| Net interest income *(TEB)* (1) | **4,438** | 4,641 | 4,567 | 4,169 | 4,107 | 3,835 | 3,612 | 3,501 | 3,104 | 3,027 |
| Deduct (taxable equivalent basis adjustment) | **101** | 124 | 104 | 95 | 105 | 90 | 80 | 73 | 87 | 90 |
| Net interest income (2) | **4,337** | 4,517 | 4,463 | 4,074 | 4,002 | 3,745 | 3,532 | 3,428 | 3,017 | 2,937 |
| Provision for credit losses | **(480)** | (610) | (480) | (680) | (880) | (920) | (1,835) | (613) | (254) | (975) |
| Non-interest income | **4,804** | 3,980 | 2,892 | 2,258 | 2,252 | 1,903 | 1,769 | 1,581 | 1,375 | 1,202 |
| Non-interest expenses | **(7,125)** | (5,372) | (4,584) | (3,991) | (3,907) | (3,544) | (3,489) | (3,073) | (2,848) | (2,462) |
| Net income (loss) before income taxes | **1,536** | 2,515 | 2,291 | 1,661 | 1,467 | 1,184 | (23) | 1,323 | 1,290 | 702 |
| Income taxes (recovery) | **460** | 937 | 911 | 635 | 550 | 435 | (55) | 488 | 513 | 249 |
| Non-controlling interests in net income of subsidiaries | **20** | 27 | 14 | 11 | 27 | 19 | 20 | 24 | (25) | 3 |
| Net income | **$ 1,056** | $ 1,551 | $ 1,366 | $ 1,015 | $ 890 | $ 730 | $ 12 | $ 811 | $ 802 | $ 450 |
| Dividends on preferred shares | **$ 116** | $ 98 | $ 112 | $ 111 | $ 141 | $ 131 | $ 120 | $ 101 | $ 93 | $ 55 |
| Net income (loss) applicable to common shares | **940** | 1,453 | 1,254 | 904 | 749 | 599 | (108) | 710 | 709 | 395 |
| | **$ 1,056** | $ 1,551 | $ 1,366 | $ 1,015 | $ 890 | $ 730 | $ 12 | $ 811 | $ 802 | $ 450 |

*(1) Taxable equivalent basis, as described in footnote (3) of Profitability on page 102.*
*(2) Net interest income is as shown on the same basis as the consolidated statements of income.*

## CONDENSED CONSOLIDATED BALANCE SHEETS

| *$ millions, as at October 31* | 1998 | 1997 | 1996 | 1995 | 1994 | 1993 | 1992 | 1991 | 1990 | 1989 |
|---|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | | | |
| Cash resources | **$ 10,795** | $ 7,931 | $ 8,120 | $ 15,419 | $ 9,436 | $ 7,880 | $ 6,245 | $ 7,465 | $ 6,751 | $ 6,111 |
| Securities | **60,970** | 45,252 | 39,817 | 38,255 | 28,753 | 24,167 | 20,055 | 14,890 | 10,402 | 9,623 |
| Loans | | | | | | | | | | |
| Residential mortgages | **43,172** | 40,009 | 36,889 | 34,659 | 32,225 | 30,720 | 28,927 | 25,616 | 24,196 | 20,373 |
| Personal and credit card loans | **24,382** | 22,118 | 19,980 | 18,537 | 16,807 | 14,650 | 14,318 | 14,608 | 14,715 | 13,505 |
| Business and government loans | **48,410** | 45,733 | 44,415 | 42,752 | 44,322 | 46,687 | 49,384 | 46,137 | 44,420 | 38,654 |
| Securities purchased under resale agreements (1) | **36,293** | 37,629 | 32,534 | 14,173 | 6,584 | 5,124 | 2,298 | – | – | – |
| Customers' liability under acceptances | **10,995** | 10,375 | 8,733 | 8,315 | 7,259 | 7,069 | 6,045 | 7,706 | 9,180 | 8,064 |
| Derivative instruments market valuation | **37,157** | 21,977 | 13,314 | 9,207 | 7,100 | 7,600 | NA | NA | NA | NA |
| Land, buildings and equipment | **2,201** | 2,071 | 1,983 | 2,013 | 1,995 | 1,951 | 1,754 | 1,605 | 1,380 | 1,041 |
| Other assets | **7,055** | 4,894 | 4,447 | 3,178 | 2,894 | 2,268 | 3,186 | 2,998 | 3,152 | 2,842 |
| | **$281,430** | $237,989 | $210,232 | $186,508 | $157,375 | $148,116 | $132,212 | $121,025 | $114,196 | $100,213 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | | | | | | | |
| Deposits | | | | | | | | | | |
| Individuals | **$ 59,993** | $ 59,188 | $ 61,484 | $ 61,061 | $ 59,040 | $ 57,265 | $ 54,233 | $ 50,412 | $ 47,534 | $ 42,106 |
| Businesses and governments | **76,642** | 60,272 | 43,705 | 45,738 | 36,213 | 34,357 | 36,873 | 34,095 | 31,605 | 27,297 |
| Banks | **23,240** | 19,438 | 22,232 | 22,683 | 20,209 | 19,283 | 15,912 | 10,964 | 10,971 | 9,469 |
| Acceptances | **10,995** | 10,375 | 8,733 | 8,315 | 7,259 | 7,069 | 6,045 | 7,706 | 9,180 | 8,064 |
| Obligations related to securities sold short or under repurchase agreements (1) | **48,659** | 43,932 | 41,907 | 22,211 | 10,569 | 7,523 | 4,361 | – | – | – |
| Derivative instruments market valuation | **36,245** | 21,376 | 12,500 | 8,135 | 6,373 | 6,860 | na | na | na | na |
| Other liabilities | **9,806** | 8,267 | 7,041 | 6,015 | 5,836 | 4,802 | 5,302 | 8,660 | 7,011 | 6,676 |
| Subordinated indebtedness | **4,714** | 4,894 | 3,892 | 3,671 | 3,441 | 3,003 | 2,848 | 2,485 | 2,026 | 1,756 |
| Shareholders' equity | | | | | | | | | | |
| Preferred shares | **1,961** | 1,518 | 1,068 | 1,355 | 1,691 | 1,878 | 1,460 | 1,300 | 1,050 | 600 |
| Common shares | **3,128** | 3,105 | 3,055 | 3,202 | 3,200 | 3,016 | 2,433 | 2,297 | 2,168 | 2,058 |
| Retained earnings | **6,047** | 5,624 | 4,615 | 4,122 | 3,544 | 3,060 | 2,745 | 3,106 | 2,651 | 2,187 |
| | **$281,430** | $237,989 | $210,232 | $186,508 | $157,375 | $148,116 | $132,212 | $121,025 | $114,196 | $100,213 |

*(1) Comparative amounts for years prior to 1992 have not been reclassified as information is not readily available.*
*NA – Not Available.*

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

| *$ millions, for the years ended October 31* | **1998** | 1997 | 1996 | 1995 | 1994 | 1993 | 1992 | 1991 | 1990 | 1989 |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance at beginning of year | **$ 10,247** | $ 8,738 | $ 8,679 | $ 8,435 | $ 7,954 | $ 6,638 | $ 6,703 | $ 5,869 | $ 4,845 | $ 4,608 |
| Adjustment[1] | **–** | – | (94) | – | – | – | – | – | – | – |
| Premium on redemption/repurchase of share capital | | | | | | | | | | |
| Preferred | **(10)** | – | (34) | – | – | – | – | – | – | – |
| Common | **–** | – | (281) | – | – | – | – | – | – | – |
| Changes in share capital | | | | | | | | | | |
| Preferred | **391** | 436 | (290) | (336) | (187) | 418 | 160 | 250 | 450 | – |
| Common | **23** | 50 | (147) | 2 | 184 | 583 | 136 | 129 | 110 | 81 |
| Net Income | **1,056** | 1,551 | 1,366 | 1,015 | 890 | 730 | 12 | 811 | 802 | 450 |
| Dividends | | | | | | | | | | |
| Preferred | **(116)** | (98) | (112) | (111) | (141) | (131) | (120) | (101) | (93) | (55) |
| Common | **(498)** | (434) | (352) | (320) | (281) | (263) | (245) | (239) | (232) | (214) |
| Other | **43** | 4 | 3 | (6) | 16 | (21) | (8) | (16) | (13) | (25) |
| Balance at end of year | **$ 11,136** | $ 10,247 | $ 8,738 | $ 8,679 | $ 8,435 | $ 7,954 | $ 6,638 | $ 6,703 | $ 5,869 | $ 4,845 |

*(1) Represents the effect of implementing CICA Handbook section 3025, "Impaired loans", which introduced the requirement to discount expected cash flows on impaired loans when determining the allowance for credit losses.*

## PROFITABILITY

| *For the years ended October 31* | **1998** | 1997 | 1996 | 1995 | 1994 | 1993 | 1992 | 1991 | 1990 | 1989 |
|---|---|---|---|---|---|---|---|---|---|---|
| Return on common equity[2] | **10.3 %** | 17.7 % | 17.1 % | 12.9 % | 11.7 % | 10.6 % | (2.0)% | 13.9 % | 15.8 % | 9.3 % |
| Tax rate *(TEB)*[3] | **43.2 %** | 43.2 % | 43.0 % | 42.9 % | 42.6 % | 43.2 % | 42.8 % | 42.4 % | 42.4 % | 42.2 % |
| **INCOME STATEMENT MEASURES AS A PERCENTAGE OF AVERAGE ASSETS** | | | | | | | | | | |
| Net interest income *(TEB)*[3] | **1.59 %** | 1.97 % | 2.33 % | 2.51 % | 2.64 % | 2.66 % | 2.86 % | 2.94 % | 2.86 % | 3.11 % |
| Provision for credit losses | **(0.17)%** | (0.26)% | (0.24)% | (0.41)% | (0.57)% | (0.64)% | (1.45)% | (0.52)% | (0.23)% | (1.00)% |
| Non-interest income | **1.72 %** | 1.69 % | 1.48 % | 1.36 % | 1.45 % | 1.33 % | 1.40 % | 1.33 % | 1.27 % | 1.23 % |
| Non-interest expenses[4] | **(2.56)%** | (2.28)% | (2.34)% | (2.40)% | (2.51)% | (2.46)% | (2.76)% | (2.58)% | (2.63)% | (2.53)% |
| Income taxes[3] and non-controlling interests | **(0.21)%** | (0.46)% | (0.53)% | (0.45)% | (0.44)% | (0.38)% | (0.04)% | (0.49)% | (0.53)% | (0.35)% |
| Net income – return on assets | **0.38 %** | 0.66 % | 0.70 % | 0.61 % | 0.57 % | 0.51 % | 0.01 % | 0.68 % | 0.74 % | 0.46 % |

*(1) For the purposes of this review, net interest income and non-interest income for years prior to 1995 have not been restated for accounting changes made in 1997.*
*(2) Net income applicable to common shares divided by average common shareholders' equity for the year.*
*(3) Taxable equivalent basis. Net interest income includes tax-exempt income on certain securities. Since this income is not taxable to CIBC, the rate of interest or dividend received by CIBC is significantly lower than would apply to a loan of the same amount. As the impact of tax-exempt income varies from year to year, such income has been adjusted to a taxable equivalent basis to permit uniform measurement and comparison of net interest income. An equal and offsetting adjustment is made to increase the provision for income taxes.*
*(4) Effective November 1, 1995 the Office of the Superintendent of Financial Institutions required rental income net of related expenses on real estate investment properties to be classified as non-interest income. This net rental income was previously reported as credit to non-interest expense. Comparative amounts for 1992 through 1995 have been reclassified to conform with the presentation used in 1996. Comparative amounts for years prior to 1992 have not been reclassified as information is not readily available.*

## CREDIT QUALITY

| *As at or for the years ended October 31* | **1998** | 1997 | 1996 | 1995 | 1994 | 1993 | 1992 | 1991 | 1990 | 1989 |
|---|---|---|---|---|---|---|---|---|---|---|
| Allowance for credit losses to gross impaired loans | **108.3 %** | 98.3 % | 67.3 % | 50.9 % | 50.1 % | 44.0 % | 31.9 % | 16.4 % | 24.8 % | 34.4 % |
| Net impaired loans *($ millions)* | **$ (123)** | $ 28 | $ 692 | $ 1,367 | $ 1,543 | $ 2,476 | $ 3,041 | $ 1,862 | $ 865 | $ 771 |
| Net impaired loans to total loans and acceptances | **(0.08)%** | 0.02 % | 0.5 % | 1.2 % | 1.4 % | 2.3 % | 3.0 % | 2.0 % | 0.9 % | 1.0 % |

## LIQUIDITY

| *For the years ended October 31* | **1998** | 1997 | 1996 | 1995 | 1994 | 1993 | 1992 | 1991 | 1990 | 1989 |
|---|---|---|---|---|---|---|---|---|---|---|
| Cash resources to total assets | **3.8 %** | 3.3 % | 3.9 % | 8.3 % | 6.0 % | 5.3 % | 4.7 % | 6.2 % | 5.9 % | 6.1 % |
| Securities to total assets | **21.7 %** | 19.0 % | 18.9 % | 20.5 % | 18.3 % | 16.3 % | 15.2 % | 12.3 % | 9.1 % | 9.6 % |

## CAPITAL AND RELATED

| *As at or for the years ended October 31* | **1998** | 1997 | 1996 | 1995 | 1994 | 1993 | 1992 | 1991 | 1990 | 1989 |
|---|---|---|---|---|---|---|---|---|---|---|
| Average common shareholders' equity *($ millions)* | **$ 9,100** | $ 8,195 | $ 7,332 | $ 7,003 | $ 6,393 | $ 5,664 | $ 5,318 | $ 5,094 | $ 4,491 | $ 4,228 |
| Average assets *($ millions)* | **$278,823** | $236,025 | $196,063 | $165,846 | $155,640 | $144,041 | $126,415 | $118,892 | $108,391 | $ 97,386 |
| Average assets to average common equity | **30.6** | 28.8 | 26.7 | 23.7 | 24.3 | 25.4 | 23.8 | 23.3 | 24.1 | 23.0 |
| Internal capital generation rate[1] | **4.9 %** | 12.4 % | 12.3 % | 8.3 % | 7.3 % | 5.9 % | (6.6)% | 9.2 % | 10.6 % | 4.3 % |
| Regulatory Tier 1 capital ratio | **7.7 %** | 7.0 % | 6.6 % | 7.0 % | 7.1 % | 6.9 % | 5.9 % | 6.0 % | 5.3 % | 4.7 % |
| Regulatory total capital ratio | **10.8 %** | 9.8 % | 9.0 % | 9.6 % | 9.9 % | 9.7 % | 8.7 % | 9.0 % | 7.9 % | 7.1 % |

*(1) (Net income - preferred dividends - common dividends)/average common shareholders' equity.*

## PRODUCTIVITY AND RELATED

| *As at or for the years ended October 31* | **1998** | 1997 | 1996 | 1995 | 1994 | 1993 | 1992 | 1991 | 1990 | 1989 |
|---|---|---|---|---|---|---|---|---|---|---|
| Non-interest expenses to revenue ratio (2) | **77.1%** | 62.3% | 61.5% | 62.1% | 61.4% | 61.8% | 64.8% | 60.5% | 63.6% | 58.2% |
| Full-time equivalent employees (3) | **47,171** | 42,446 | 41,606 | 39,329 | 40,618 | 41,322 | 42,584 | na | na | na |
| Number of branches (4) | **1,359** | 1,386 | 1,392 | 1,390 | 1,428 | 1,453 | 1,515 | 1,529 | 1,527 | 1,539 |
| Number of automated banking machines | **3,849** | 3,169 | 3,032 | 2,990 | 2,887 | 2,754 | 2,596 | 2,405 | 1,914 | 1,399 |

*(1) For the purposes of this review, prior years' financial information has been restated, where necessary, to conform with the presentation used in 1998.*
*(2) Non-interest expenses divided by the sum of net interest income (taxable equivalent basis) and non-interest income.*
*(3) Full-time equivalent employees include full-time, part-day, part-time, contract and casual employees and overtime hours.*
*(4) CIBC Development Corporation provides facilities management services for 5.5 million square feet of office space occupied by the CIBC group of companies in Canada.*
*na – not available.*

## COMMON SHARES

| *As at or for the years ended October 31* | | **1998** | 1997 | 1996 | 1995 | 1994 | 1993 | 1992 | 1991 | 1990 | 1989 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Number outstanding *(thousands)* | | **415,515** | 414,294 | 411,914 | 432,690 | 432,546 | 420,422 | 377,376 | 367,408 | 358,296 | 349,134 |
| Average number outstanding *(thousands)* | | | | | | | | | | | |
| | basic | **415,030** | 413,545 | 415,028 | 432,614 | 425,464 | 401,366 | 371,006 | 361,810 | 352,370 | 345,566 |
| | fully diluted | **425,303** | 422,403 | 422,148 | 438,200 | 428,968 | 402,178 | 371,006 | 361,810 | 352,370 | 345,566 |
| **Per common share information:** | | | | | | | | | | | |
| Net income | basic | **$ 2.26** | $ 3.51 | $ 3.02 | $ 2.09 | $ 1.76 | $ 1.50 | $ (0.30) | $ 1.97 | $ 2.02 | $ 1.14 |
| | fully diluted | **$ 2.25** | $ 3.50 | $ 3.02 | $ 2.09 | $ 1.76 | $ 1.50 | $ (0.30) | $ 1.97 | $ 2.02 | $ 1.14 |
| Price (1) | high | **$ 59.80** | $ 41.75 | $ 28.30 | $ 18.57 | $ 18.13 | $ 16.82 | $ 18.50 | $ 16.50 | $ 16.82 | $ 16.25 |
| | low | **$ 24.40** | $ 26.55 | $ 18.00 | $ 15.57 | $ 14.00 | $ 11.82 | $ 12.57 | $ 10.82 | $ 10.82 | $ 11.38 |
| | close | **$ 30.65** | $ 41.20 | $ 27.85 | $ 18.19 | $ 16.00 | $ 15.82 | $ 14.38 | $ 15.44 | $ 11.13 | $ 15.82 |
| Dividends | per share | **$ 1.20** | $ 1.05 | $ 0.85 | $ 0.74 | $ 0.66 | $ 0.66 | $ 0.66 | $ 0.66 | $ 0.66 | $ 0.62 |
| | yield (2) | **3.9%** | 2.5% | 3.1% | 4.1% | 4.1% | 4.2% | 4.6% | 4.3% | 5.9% | 3.9% |
| | payout ratio (3) | **53.0%** | 29.9% | 28.1% | 35.4% | 37.5% | 43.9% | nm | 33.6% | 32.8% | 54.3% |
| Price-to-earnings ratio (4) | | **13.5** | 11.7 | 9.2 | 8.7 | 9.1 | 10.6 | nm | 7.9 | 5.5 | 13.9 |
| Book value (5) | | **$ 22.08** | $ 21.07 | $ 18.62 | $ 16.93 | $ 15.59 | $ 14.45 | $ 13.72 | $ 14.71 | $ 13.45 | $ 12.16 |
| Price to book value | | **1.39** | 1.96 | 1.50 | 1.07 | 1.03 | 1.09 | 1.05 | 1.05 | 0.83 | 1.30 |

*(1) The high and low price during the year, and closing price on the last trading day of the year, on The Toronto Stock Exchange.*
*(2) Effective October 31, 1998, dividend yields are based on closing share prices.*
*(3) Total common share dividends divided by the net income applicable to common shares for the year.*
*(4) Closing common share price expressed as a multiple of net income per common share for the year.*
*(5) Common shareholders' equity (including adjustment for taxes) divided by the number of common shares issued and outstanding at the end of the year.*
*nm - not meaningful*

## DIVIDENDS PER PREFERRED SHARE

| *For the years ended October 31* | | **1998** | 1997 | 1996 | 1995 | 1994 | 1993 | 1992 | 1991 | 1990 | 1989 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Class A | Series 3 | – | – | – | – | – | – | $ 2.6530 | $ 9.5140 | $ 10.0190 | $ 9.3970 |
| | Series 4 | – | $ 3.4106 | $ 4.7360 | $ 6.0900 | $ 4.5840 | $ 4.5840 | $ 5.3780 | $ 7.7460 | $ 10.0340 | $ 9.2340 |
| | Series 5 | – | $ 0.8240 | $ 1.1600 | $ 1.4728 | $ 1.1057 | $ 1.1273 | $ 1.3051 | $ 1.8992 | $ 2.4384 | $ 2.2376 |
| | Series 6 | – | – | – | – | $ 2.4349 | $ 2.2500 | $ 2.2500 | $ 2.2500 | $ 2.0697 | – |
| | Series 7 | – | – | – | $ 4,208 | $ 3,507 | $ 4,034 | $ 4,871 | $ 7,238 | $ 8,328 | – |
| | Series 8 | – | – | – | $ 0.6706 | $ 2.2200 | $ 2.2200 | $ 2.2200 | $ 2.2200 | $ 1.5540 | – |
| | Series 9 | **$ 1.1375** | $ 2.2750 | $ 2.2750 | $ 2.2750 | $ 2.2750 | $ 2.2750 | $ 2.2750 | $ 0.9988 | – | – |
| | Series 10 | – | – | $ 2.8175 | $ 2.5555 | $ 2.5786 | $ 2.4423 | $ 2.2510 | – | – | – |
| | Series 11 | – | – | $ 2.4060 | $ 2.2125 | $ 2.2125 | $ 2.2125 | $ 2.1867 | – | – | – |
| | Series 12 | **$ 2.4097** | $ 2.2462 | $ 2.2188 | $ 2.1856 | $ 2.2054 | $ 1.4983 | – | – | – | – |
| | Series 13 | **$ 1.7500** | $ 1.7500 | $ 1.7500 | $ 1.7500 | $ 1.7500 | $ 1.2490 | – | – | – | – |
| | Series 14 | **$ 1.4875** | $ 1.4870 | $ 1.1197 | – | – | – | – | – | – | – |
| | Series 15 | **$ 1.4125** | $ 1.4110 | – | – | – | – | – | – | – | – |
| | Series 16 | **$ 2.0946** | $ 1.1367 | – | – | – | – | – | – | – | – |
| | Series 17 | **$ 1.3625** | $ 0.7880 | – | – | – | – | – | – | – | – |
| | Series 18 | **$ 1.3628** | – | – | – | – | – | – | – | – | – |
| | Series 19 | **$ 0.7404** | – | – | – | – | – | – | – | – | – |
| | Series 20 | **$ 1.1703** | – | – | – | – | – | – | – | – | – |

**Douglas G. Bassett** *('80)*
O.C., O.Ont., LL.D., D.Litt.
Vice-Chairman
Baton Broadcasting Incorporated
*(Toronto, Ontario, Canada)*

**Jalynn H. Bennett** *('94)*
President
Jalynn H. Bennett and Associates Ltd.
*(Toronto, Ontario, Canada)*

**Hon. Conrad M. Black** *('77)*
P.C., O.C., LL.D., Litt.D., LL.L., M.A.
Chairman and Chief Executive Officer
Argus Corporation Limited
*(London, England)*

**Hon. William G. Davis** *('85)*
P.C., C.C., Q.C.
Counsel
Tory Tory DesLauriers & Binnington
*(Toronto, Ontario, Canada)*

**Pat M. Delbridge** *('93)*
President
PDA Partners Inc.
*(Toronto, Ontario, Canada)*

**E.L. Donegan** *('91)*
Q.C.
Partner
Blake, Cassels & Graydon
*(Toronto, Ontario, Canada)*

**William L. Duke** *('91)*
Farmer
*(Redvers, Saskatchewan, Canada)*

**Ivan E.H. Duvar** *('89)*
B.E., DCL, P.Eng.
Chairman
Maritime Telegraph & Telephone Company, Limited
*(Halifax, Nova Scotia, Canada)*

**William A. Etherington** *('94)*
Senior Vice-President and Group Executive
Sales and Distribution
IBM Corporation
*(White Plains, New York, U.S.A.)*

**A.L. Flood** *('89)*
Chairman and Chief Executive Officer
CIBC
*(Toronto, Ontario, Canada)*

**Margot A. Franssen** *('92)*
President
The Body Shop
*(Toronto, Ontario, Canada)*

**R.D. Fullerton** *('74)*
Chairman, Executive Committee
CIBC
*(Toronto, Ontario, Canada)*

**Hon. James A. Grant** *('91)*
P.C., Q.C.
Partner
Stikeman, Elliott
*(Montreal, Quebec, Canada)*

**Richard F. Haskayne** *('88)*
O.C., B.Comm., F.C.A., LL.D.(Hon.)
Chairman of the Board
TransCanada Pipelines Limited
*(Calgary, Alberta, Canada)*

**Albert E.P. Hickman** *('89)*
Chairman and President
Hickman Motors Limited
*(St. John's, Newfoundland, Canada)*

**John S. Hunkin** *('93)*
President
CIBC World Markets
CIBC
*(Toronto, Ontario, Canada)*

**William James** *('83)*
President and Chief Executive Officer
INMET Mining Corporation
*(Toronto, Ontario, Canada)*

**Holger Kluge** *('92)*
President
Personal and Commercial Bank
CIBC
*(Toronto, Ontario, Canada)*

**Marie-Josée Kravis** *('87)*
O.C., M.Sc.(Econ.), LL.D.
Senior Fellow
Hudson Institute Inc.
*(New York, New York, U.S.A.)*

**Hon. Pearl McGonigal** *('88)*
C.M., LL.D.
Company Director
*(Winnipeg, Manitoba, Canada)*

**W. Darcy McKeough** *('78)*
O.C., B.A., LL.D.
Chairman
McKeough Supply Inc.
*(Chatham, Ontario, Canada)*

**Stanley A. Milner** *('84)*
A.O.E., B.Sc., LL.D.
President and Chief Executive Officer
Chieftain International, Inc.
*(Edmonton, Alberta, Canada)*

**Arnold Naimark** *('87)*
O.C., M.D., LL.D., F.R.C.P.(C), F.R.S.(Can.)
Past President
The University of Manitoba
Director
Centre for the Advancement of Medicine
*(Winnipeg, Manitoba, Canada)*

**Michael E.J. Phelps** *('89)*
B.A., LL.B., LL.M., LL.D.
Chairman and Chief Executive Officer
Westcoast Energy Inc.
*(Vancouver, British Columbia, Canada)*

**Alfred Powis** *('66)*
O.C.
Director
Noranda Inc.
*(Toronto, Ontario, Canada)*

**Barbara J. Rae** *('92)*
C.M., O.B.C., LL.D.
Former Chairman and Chief Executive Officer
ADECCO Canada Ltd.
*(Vancouver, British Columbia, Canada)*

**Sir Neil Shaw** *('86)*
Company Director
*(London, England)*

**Charles Sirois** *('97)*
B.Fin., M.Fin.
Chairman and Chief Executive Officer
Teleglobe Inc.
*(Montreal, Quebec, Canada)*

**John S. Walton** *('86)*
Chairman
Endeavour Financial Corporation
*(Vancouver, British Columbia, Canada)*

**W. Galen Weston** *('78)*
O.C.
Chairman and Director
George Weston Limited
*(Toronto, Ontario, Canada)*

**Peter N.T. Widdrington** *('86)*
M.B.A., LL.D.
Chairman
Laidlaw Inc.
*(London, Ontario, Canada)*

As at October 31, 1998, the directors and senior officers of CIBC as a group, beneficially owned, directly or indirectly, or exercised control or direction of less than 1% of the outstanding common shares of CIBC. To the knowledge of the bank, no director or such officer of CIBC beneficially owned or controlled voting securities of any subsidiaries of CIBC.

## CIBC MANAGEMENT COMMITTEE

**Flood, A.L. (Al)**
Chairman and
Chief Executive Officer
*(Thornhill, Ontario)*

**Hunkin, J.S. (John)**
President,
CIBC World Markets
*(Toronto, Ontario)*

**Kluge, H. (Holger)**
President,
Personal and
Commercial Bank
*(Toronto, Ontario)*

## CORPORATE CENTRE

### Policy Committee

**Flood, A.L. (Al)**
Chairman
and Chief Executive Officer

**Beasley, G.E. (Gerry)**
Senior EVP,
Risk Management
*(Mississauga, Ontario)*

**Doran, J.C. (John)**
EVP, Administration and
Chief Financial Officer
*(Mississauga, Ontario)*

**Hayes, D.C. (Derek)**
EVP, Corporate Governance
*(Toronto, Ontario)*

**McCreesh, D.S. (Don)**
EVP, Human Resources
*(Oakville, Ontario)*

**Meredith, P.D. (Patricia)**
EVP, Corporate Strategy
*(Toronto, Ontario)*

**Watkins, P. (Peter)**
EVP and Chief
Information Officer
*(Toronto, Ontario)*

### Senior Officers

**Ferguson, D.S. (Dan)**
EVP, Large Corporate,
Risk Management
*(Oakville, Ontario)*

**Mark, R.M. (Bob)**
EVP, Market Risk
Management
*(Thornhill, Ontario)*

**Ferguson, J.D. (John)**
SVP, Corporate
Communications
and Public Affairs
*(Toronto, Ontario)*

**Kenyon, A.G. (Andy)**
SVP, Taxation
*(Oakville, Ontario)*

**MacLean, M.J. (Milt)**
SVP and Ombudsman
Office of the Chairman
*(Burlington, Ontario)*

**Miles, J.P. (John)**
SVP and
Chief Purchasing Officer
*(Oakville, Ontario)*

**Novick, C.A. (Catherine)**
SVP and Chief Accountant
*(Toronto, Ontario)*

**Pattison, J.C. (John)**
SVP, Compliance
*(Toronto, Ontario)*

**Quinlan, B.E. (Brian)**
SVP and General Counsel
*(Oakville, Ontario)*

**Ramani, S. (Ram)**
SVP and Chief Inspector
*(Toronto, Ontario)*

**Renihan, B.A. (Bruce)**
SVP and Controller
*(Toronto, Ontario)*

**Fisher, P.T. (Paul)**
VP and Corporate Secretary
*(Toronto, Ontario)*

**Weinberg, D.S. (David)**
President,
CIBC Development Corp.
*(Toronto, Ontario)*

## CIBC WORLD MARKETS

### Executive Board

**Hunkin, J.S. (John)**
President,
CIBC World Markets

**Venn, R.E. (Richard)**
Managing Director
Chairman and CEO,
CIBC Wood Gundy
Securities Inc.
*(Toronto, Ontario)*

**Berger, B. (Bruce)**
Managing Director
*(New Canaan, Connecticut)*

**Bloom, J.R. (Jay)**
Managing Director
*(Scarsdale, New York)*

**Capatides, M.G. (Michael)**
Managing Director
*(New Vernon, New Jersey)*

**Denham, G.H. (Jill)**
Managing Director, Europe
*(London, England)*

**Falconer, R.D. (Dick)**
Managing Director
Vice-Chairman,
CIBC Wood Gundy
Securities Inc.
*(Toronto, Ontario)*

**Fox, W.C. (Wayne)**
Managing Director
President,
CIBC Wood Gundy
Securities Inc.
*(Oakville, Ontario)*

**Gantcher, N. (Nate)**
Managing Director
Vice-Chairman,
CIBC Oppenheimer Corp.
*(New York, New York)*

**Heyer, A.R. (Andy)**
Managing Director
*(Scarsdale, New York)*

**Horrocks, M.G. (Michael)**
Managing Director
*(Toronto, Ontario)*

**Iley, C.J. (Chris)**
Managing Director
*(Singapore)*

**Kassie, D.J. (David)**
Managing Director
Deputy Chairman,
CIBC Wood Gundy
Securities Inc.,
Chairman,
CIBC Capital Partners
*(Toronto, Ontario)*

**Kehler, D.C. (Dean)**
Managing Director
*(New York, New York)*

**Lalonde, R.A. (Ron)**
Managing Director and
Chief Administrative Officer
*(Toronto, Ontario)*

**Lindsay, D.R. (Don)**
Managing Director
*(Toronto, Ontario)*

**McCaughey, G.T. (Gerry)**
Managing Director
President and CEO,
Wood Gundy Private
Client Investments Inc.
*(New York, New York)*

**McGirr, S.R. (Steve)**
Managing Director
Vice Chairman,
CIBC Wood Gundy
Securities Inc.
*(Toronto, Ontario)*

**Mirza, Y.J. (Joe)**
Managing Director
Asia Pacific
*(Singapore)*

**Rogers, P.D. (Paul)**
Managing Director
*(Bronxville, New York)*

**Rulle, M.S. (Mike)**
Managing Director, U.S.A.
Chairman and CEO,
CIBC Oppenheimer Corp.
*(Mendham, New Jersey)*

**Shaw, B.G. (Brian)**
Managing Director
*(Toronto, Ontario)*

### Senior Officer

**Woods, T. (Tom)**
Managing Director and
Chief Financial Officer
*(Toronto, Ontario)*

## PERSONAL AND COMMERCIAL BANK

### Executive Committee

**Kluge, H. (Holger)**
President, Personal and
Commercial Bank

**Bowden, J.W. (John)**
EVP, Commercial Banking
*(Pickering, Ontario)*

**Cassidy, B.M. (Brian)**
EVP, Electronic Banking
*(Oakville, Ontario)*

**Hohol, L.M. (Linda)**
EVP, Asset Management
*(Toronto, Ontario)*

**Napier, B.G. (Burt)**
EVP, Operations and
Technology
*(Oakville, Ontario)*

**Pedersen, M.B. (Mike)**
EVP, Branch Banking
*(Toronto, Ontario)*

**Vessey, P.J. (Paul)**
EVP, Personal Lending
Products
*(Toronto, Ontario)*

**Allen, J.R. (Jim)**
SVP, Relational Sales
and Marketing
*(Toronto, Ontario)*

**Cuber, P.J. (Pam)**
SVP, Human Resources
*(Pickering, Ontario)*

**Horwood, F.A. (Adrian)**
SVP, Customer Satisfaction
*(Toronto, Ontario)*

**Lacey, D.E. (Dwight)**
SVP and
Chief Executive Officer,
CIBC Insurance
*(Oakville, Ontario)*

**Lancaster, E.W. (Rick)**
SVP, Finance
*(Oakville, Ontario)*

**MacLachlan, L.W. (Lachlan)**
VP
*(Toronto, Ontario)*

All of the senior officers have held their present business affiliations for more than five years except B. Berger who was Managing Director, Lehman Brothers; J.R. Bloom who was Managing Director, The Argosy Group; M.G. Capatides who was Managing Partner, Mayer, Brown & Platt; N. Gantcher who was President and C.E.O., Oppenheimer & Co., Inc.; A.R. Heyer who was Managing Director, The Argosy Group; C.J. Iley who was Managing Director, Lehman Brothers; D.C. Kehler who was Managing Director, The Argosy Group; D.S. McCreesh who was Senior Vice-President, Human Resources, Northern Telecom Limited; R.M. Mark who was Partner, Global Risk Management, Coopers & Lybrand, and Managing Director, Asia, Europe and Capital Markets, Chemical Bank Corporation; J.P. Miles who was Vice-President, Corporate Services, MetraHealth, The Travelers Co.; B.G. Napier who was President, Napier and Associates Consulting; M.S. Rulle who was Managing Director, Lehman Brothers; P. Watkins who was National Director, Financial Services, Ernst & Young.

As at Nov. 5, 1998

## VALUES AND CORPORATE GOVERNANCE

The fundamental statutory duty of CIBC's Board of Directors is to supervise the management of CIBC. To carry out this duty and to fulfill its additional critical legal duties, particularly to protect the interests of all CIBC shareholders, the board, working with management, has put in place a governance system which it regularly reviews and improves. In addition, the Board of Directors and management of CIBC believe that good corporate governance requires more than having in place appropriate structures, processes and policies; it also requires the implementation and maintenance of sound ethics, integrity, judgment and values throughout CIBC, all its businesses and subsidiaries. The core values of the CIBC Group of Companies are found in the booklet *Where We Stand* which was unanimously endorsed by the CIBC Board of Directors on November 3, 1994. The first version was published in 1987 and we continue to reinforce these core values with all CIBC employees. We recite these values in our annual reports and in our quarterly reports to shareholders.

CIBC incorporates high standards of corporate governance within the board and management, and ensures that all managers and employees are fully aware of them. The board recognizes that the benchmarks for best practices in good corporate governance are constantly rising and is committed to being vigilant in reviewing and assessing its own practices and the overall governance and management practices of CIBC. The board is led in this effort by the Corporate Governance Committee, but it is a responsibility which the board as a whole exercises with the utmost diligence.

In 1998, the board received and discussed the reports made to it by the Corporate Governance Committee and by other committees on governance matters such as the Nominating Committee and the Management Resources and Compensation Committee.

In addition the board spent significant time, both before and after the annual meeting of shareholders, which was held on Thursday, January 22, 1998, reviewing the nine shareholder proposals submitted by a shareholder. The board responded to them through the management proxy circular and through the Chairman's comments at the annual meeting. Shareholders raised a number of issues at last year's annual meeting which the Board of Directors, and in more detail its Corporate Governance Committee, have reviewed since the annual meeting. As a result, for this year's annual meeting, the board has amended the form of proxy to permit voting for or withholding voting for individual directors as well as providing a code of conduct to govern proceedings at shareholder meetings. In addition, biographical information has been expanded in this year's management proxy circular in response to shareholders' interest in having greater knowledge of their directors.

CIBC was the first financial institution in Canada to create a corporate governance committee and to maintain a corporate governance group to oversee a number of governance-related functions, including compliance, internal audit, corporate secretary and legal. To ensure good corporate governance and accountability, the board has established an avenue of direct access to certain board committees for the executive vice-president corporate governance, the general counsel, the chief inspector, and the chief compliance officer, all of whom are members of the corporate governance group.

## STATEMENT OF CORPORATE GOVERNANCE PRACTICES

CIBC's Board of Directors has reviewed the guidelines for corporate governance established by The Toronto Stock Exchange and the Montreal Exchange and CIBC's corporate governance system, and has concluded that there is no material difference between them.

The board acts independently of management. The board has delegated responsibilities, accountabilities and authorities to management through the chief executive officer. In addition to its overall supervisory role, the board retains specific responsibilities, such as approval for issuing shares and approval of the financial statements. The board establishes when and where it will meet and the agenda items to be reviewed and approved. Material is mailed in advance to the directors for all meetings of the board and its committees to facilitate informed discussion and decision-making. One board meeting is scheduled each year to provide an overview of the many different types of risks facing CIBC and its businesses and to CIBC overall, as well as to provide an overall risk profile of CIBC. Throughout the year, the board and its committees are informed about and discuss the different types of risks as they relate to specific businesses. The board, directly and through its committees, also takes an active responsibility for succession planning, communications and the integrity of CIBC's internal control and management information systems.

Each year, the Board of Directors reviews and discusses management's proposed strategic plans, recommends changes and approves them. Throughout the year, the board reviews the implementation of these plans and discusses amendments needed to respond to a dynamic competitive environment. In 1998, the board spent substantial time discussing the Task Force on the Future of the Canadian Financial Services Sector and reviewing CIBC's positions on the issues and its submission to the Task Force. Management regularly informed the board on the issues and the hearings held on the Task Force report by a number of parliamentary committees.

CIBC entered into an agreement on April 16, 1998 to amalgamate with The Toronto-Dominion Bank. The board actively worked with management, the shareholders' auditors, internal and external legal counsel on and before April 16 and obtained a fairness opinion from Merrill Lynch Canada Limited to analyze and evaluate this proposed agreement to come to the conclusion that it was in the best interest of shareholders and other stakeholders. The board approved a resolution to enter into the proposed Pre-Amalgamation Agreement with The Toronto-Dominion Bank and, as the necessary approvals for the amalgamation are sought, the board will discuss this issue at each of its meetings.

The TSE and Montreal Exchange's guidelines recommend that a corporation have a majority of "unrelated directors." The definition of an unrelated director refers to being "independent of management" and "free from any interest and any business or other relationship which could, or could reasonably be perceived to materially interfere with the director's ability to act with a view to the best interests of the corporation, other than interests and relationships arising from shareholding." As a Canadian chartered bank, CIBC is subject to the Bank Act and its regulations and the Bank Act sets out rules as to when a director will be an "affiliated director." The board has reviewed these Bank Act rules and has determined that the test of what constitutes an affiliated director is an appropriate test for the TSE concept of a "related director." On this basis the board has concluded that as at October 31, 1998, there are six directors of the 31 member CIBC Board of Directors who are "affiliated" and "related" to CIBC and three of these are executive officers.

### CONCLUSION

The board has discussed its own and CIBC's overall governance and has concluded that they are both soundly based and effective at the highest level.

This statement has been approved by the CIBC Corporate Governance Committee and the Board of Directors and is signed on CIBC's behalf by the Chairman of the board and by the Chairman of the Corporate Governance Committee.

**A.L. Flood** **Alfred Powis**

## BOARD COMMITTEES

### PURPOSE AND STRUCTURE

To carry out its extensive responsibilities, the CIBC Board of Directors delegates some of its responsibilities to committees. There are currently six committees of the board and the majority of the trustees of the CIBC pension funds are also directors. Most directors serve on at least one committee. None of the officer directors serves on committees other than Mr. Flood, who serves on the Executive Committee, and Mr. Hunkin, who serves as a pension fund trustee.

### EXECUTIVE COMMITTEE

The Executive Committee's mandate is to act on behalf of the Board of Directors when it is not in session, except where prohibited by statute. It gives specific emphasis to examining CIBC's strategies, policies and operating performance and approves credits and other matters which require attention prior to the next board meeting. The committee met eight times in fiscal 1998.

*Members*

R.D. Fullerton, Chair
Douglas G. Bassett
Jalynn H. Bennett
E.L. Donegan
Ivan E.H. Duvar
A.L. Flood
James A. Grant
Richard F. Haskayne
Pearl McGonigal
W. Darcy McKeough
Stanley A. Milner
Alfred Powis
Barbara J. Rae

### CORPORATE GOVERNANCE COMMITTEE

The mandate of the Corporate Governance Committee is to review corporate governance matters pertaining to the shareholders and the Board of Directors, the performance of the chief executive officer (CEO), and succession planning for the CEO and other executive officers.

The committee also has the responsibility to receive and consider any significant concerns of individual directors; to bring to the attention of the board, or any other board committee, matters which should be considered by the board or such committee; and to review the role of the board, its committees and the methods and processes by which the board fulfills its duties and responsibilities.

The committee is composed of the chair of each of the board committees other than the Executive Committee. The committee discussed matters affecting the corporate governance of CIBC including the specific items required by its terms of reference and how significant areas of risk facing CIBC, its subsidiaries and businesses are managed.

The committee reviewed and amended the schedule of presentations to be made to the board and the Executive Committee. This schedule was subsequently reviewed and approved by the Executive Committee and then by the full board. Changes to the subjects to be reviewed at board and committee meetings may only be made with the approval of the board. The number of board and committee meetings was discussed as was the quality and quantity of the material that is sent out in advance of the board and committee meetings.

The committee discussed the performance of the board, its committees and directors. The committee reviewed the performance of the CEO for fiscal 1997 and subsequently reported its conclusions to the Management Resources and Compensation Committee and to the full board.

A determination was made and reported to the board that, in the committee's opinion, CIBC is in compliance with the governance-related requirements of the Toronto and Montreal stock exchanges. The committee has concluded that the corporate governance practices of the board, its committees and individual directors at CIBC are soundly based and effective. It is satisfied with the quality of the information and presentations that management is providing to the board. It has reported back to the board on its conclusions and the board has endorsed them. The committee met three times in fiscal 1998.

*Members*

Alfred Powis, Chair
James A. Grant
Pearl McGonigal
Stanley A. Milner
Barbara J. Rae

## NOMINATING COMMITTEE

The mandate of the Nominating Committee is to set criteria for the selection of directors, to recommend and recruit candidates for the Board of Directors, to review the size and composition of the board and to examine and recommend appropriate directors' fees.

The committee recognizes the desirability of reducing the size of the board over time. Consequently, the committee met only once in fiscal 1998. At that meeting the committee discussed the compensation of directors and decided to recommend an increase in the fees paid to directors both for attendance at meetings and as a retainer. Included in its discussion of compensation was a recommendation by the committee to the board to establish a guideline for director ownership of CIBC shares. The board subsequently approved a guideline encouraging the ownership of CIBC common shares by its directors and providing that half of a director's annual retainer after tax will be invested in common shares until the director owns shares of a value at least eight times the annual retainer. The annual retainer being $22,000, this would amount to a director owning CIBC common shares with a value of at least $176,000.

The committee also discussed the possible need for additional board representation from the United States, Asia and Quebec.

*Members*

Pearl McGonigal, Chair
William G. Davis
Pat M. Delbridge
E.L. Donegan
William James
W. Darcy McKeough
Sir Neil Shaw

## AUDIT COMMITTEE

The mandate of the Audit Committee is to oversee CIBC's financial reporting procedures to ensure there are adequate internal controls over accounting and financial reporting systems. To fulfill this responsibility the committee reviews CIBC's financial statements and systems and compliance and control policies. In carrying out these reviews, the committee has the authority to access any and all of CIBC's books and records. The committee meets with the Superintendent of Financial Institutions Canada annually and with the chief accountant, chief inspector, compliance officer and the shareholders' auditors on a regular basis. It also meets regularly with CIBC's auditors to discuss such matters as lending practices and loan loss provisioning. It reviews CIBC's Code of Conduct and recommends the firms of auditors to be appointed by the shareholders. The Board of Directors has delegated to the committee responsibility for the detailed review and compliance with two of the eight Canada Deposit Insurance Corporation (CDIC) standards (capital management and internal control). The committee monitors the procedures established by the board to provide disclosure of information to customers and for dealing with complaints and satisfies itself that these policies are being adhered to.

The committee met four times in fiscal 1998. In accordance with the provisions of the Bank Act, none of the members of the Audit Committee are officers or employees of CIBC or a subsidiary of CIBC and a majority of the members are directors who are not affiliated with CIBC.

*Members*

Stanley A. Milner, Chair
Pat M. Delbridge
E.L. Donegan
William L. Duke
Ivan E.H. Duvar
William James
John S. Walton

## RISK MANAGEMENT AND CONDUCT REVIEW COMMITTEE

The mandate of the Risk Management and Conduct Review Committee is to ensure that policy guidelines and systems exist and are being followed to ensure that operational, market, credit, liquidity, legal/compliance, technology and other risks are maintained at an acceptable level.

To fulfill this mandate the committee examines major credit policies and risk management issues. It reviews and establishes policies on loan concentration applicable to single borrowers, industries and geographic areas and also the financing of mergers and acquisitions. The committee also reviews the delegation of lending limits and policies for off-balance sheet financing. It reviews and recommends to the board investment and lending policies, standards and procedures.

The committee establishes procedures for dealing with transactions with related parties; it reviews and approves certain of such transactions. It monitors the procedures established by the board to resolve conflicts of interest, including techniques for the identification of potential conflicts and for restricting the use of confidential information.

The Board of Directors delegated to the committee responsibility for the review of six of the eight CDIC standards (liquidity management, interest rate risk management, foreign exchange risk management, credit risk management, securities portfolio management and real estate appraisals) and CIBC's compliance with these standards on behalf of the board. This year the committee also reviewed CIBC compliance with the Office of the Superintendent of Financial Institutions' new legislative compliance requirements. In accordance with the provisions of the Bank Act, none of the members of the committee are employees or officers of CIBC or a subsidiary of CIBC and a majority of the members are directors who are not affiliated with CIBC. In fiscal 1998 the committee met eight times.

*Members*

| | |
|---|---|
| James A. Grant, Chair | Albert E.P. Hickman |
| Douglas G. Bassett | W. Darcy McKeough |
| Jalynn H. Bennett | Peter N.T. Widdrington |
| William A. Etherington | |

### MANAGEMENT RESOURCES AND COMPENSATION COMMITTEE

The mandate of the Management Resources and Compensation Committee is to ensure the ongoing, long-term development and deployment of high caliber senior management resources. The committee also ensures that compensation policy and practice supports CIBC business strategies and that the relationship between senior management performance and compensation is appropriate. The committee reviews human resource matters with emphasis on overall strategy and programs relating to the recruitment, development and continuity of personnel, as well as the succession of senior management (other than for the Chairman and CEO). The committee met five times in fiscal 1998. An extensive review of executive and director compensation, as well as a specific report by this committee, is to be found in the Management Proxy Circular dated December 3, 1998 which has been mailed to all registered common shareholders. The full Board of Directors reviews and approves the Management Proxy Circular.

*Members*

| | |
|---|---|
| Alfred Powis, Chair | Arnold Naimark |
| Margot A. Franssen | Michael E.J. Phelps |
| Richard F. Haskayne | Barbara J. Rae |
| Marie-Josée Kravis | Charles Sirois |

### TRUSTEES OF THE PENSION FUNDS

The role of the trustees is to oversee the administration of the contributory and non-contributory pension plans and funds. The trustees ensure that the funds are managed prudently by professional investment managers in accordance with established policies and goals. They develop, monitor and/or assess such items as asset mix, portfolio quality and objectives, and investment return expectations. There are two employee trustees. The trustees met seven times in fiscal 1998.

*Members*

| | |
|---|---|
| Barbara J. Rae, Chair | Albert E.P. Hickman |
| Jalynn H. Bennett | John S. Hunkin |
| John C. Doran | John S. Walton |
| Margot A. Franssen | |

## OFFICE OF THE CIBC OMBUDSMAN

CIBC was the first bank in Canada to establish an independent ombudsman to impartially listen directly to small business and personal customers who have unresolved concerns about their dealings with CIBC.

The CIBC ombudsman reports directly to the chairman and chief executive officer and is responsible to ensure that CIBC's service commitments to customers are upheld when complaints are not resolved through normal business channels. There is a focus on thorough listening and prompt resolution of cases with the average time to resolve a case being six business days in 1998.

The CIBC ombudsman office has now been operating for five years. We are proud that this free, direct access method for having customer concerns reviewed continues to have very positive results. In the year ended October 31, 1998, the CIBC ombudsman office handled 1,300 cases of which 85 (6.5%) were from small business customers. Seventy per cent of cases were resolved to full satisfaction or at least significantly improved in the customer's opinion.

In addition to resolving actual cases, the CIBC ombudsman is also able to alert CIBC business executives/leaders to issues and procedures which require change and thereby contribute to overall improvement in customer satisfaction.

CIBC fully supports the Canadian Banking Ombudsman (CBO) where customers can, without charge, ask for a further independent review if they are unable to accept the resolution or conclusion of a bank ombudsman.

## CLASS A PREFERRED SHARES – DIVIDEND PER SHARE

| Record date | Payment date | Series 9 | Series 12 | Series 13 | Series 14 | Series 15 | Series 16 | Series 17 | Series 18 | Series 19 | Series 20 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Dec. 29/97 | Jan. 28/98 | $0.56875 | US$0.40625 | $0.43750 | $0.371875 | $0.353125 | US$0.353125 | $0.340625 | $0.331507 | | |
| Mar. 27/98 | Apr. 28/98 | $0.56875 | US$0.40625 | $0.43750 | $0.371875 | $0.353125 | US$0.353125 | $0.340625 | $0.343750 | | |
| Jun. 29/98 | Jul. 28/98 | | US$0.40625 | $0.43750 | $0.371875 | $0.353125 | US$0.353125 | $0.340625 | $0.343750 | $0.431039 | US$0.448455 |
| Sep. 28/98 | Oct. 28/98 | | US$0.40625 | $0.43750 | $0.371875 | $0.353125 | US$0.353125 | $0.340625 | $0.343750 | $0.309375 | US$0.321875 |

## COMMON SHARES

| Record date | Payment date | Dividend per share | Number of Common Shares on record date |
|---|---|---|---|
| Dec. 29/97 | Jan. 28/98 | $0.30 | 414,365,474 |
| Mar. 27/98 | Apr. 28/98 | $0.30 | 415,131,433 |
| Jun. 29/98 | Jul. 28/98 | $0.30 | 415,441,234 |
| Sep. 28/98 | Oct. 28/98 | $0.30 | 415,514,134 |

### RESTRICTIONS ON OWNERSHIP OF BANK SHARES UNDER THE BANK ACT

No person or group of associated persons may own more than 10% of any class of shares. Canadian or foreign governments are prohibited from owning any bank shares.

### CLOSING COMMON SHARE PRICE

The closing price of CIBC Common Shares as at Oct. 30, 1998 was $30.65.

### VALUATION DAY PRICE

For capital gains purposes, CIBC Common Shares closed at $6.4375 per share on Valuation Day, Dec. 22, 1971, after adjustment for a two-for-one stock split on Jan. 31, 1986 and a 100% stock dividend on Mar. 27, 1997.

### NORMAL COURSE ISSUER BID

On Sept. 17, 1998, CIBC filed a Notice of Intention to make a normal course issuer bid for up to 20 million of its common shares. The Notice provides that CIBC may purchase these shares between Sept. 21, 1998 and Sept. 20, 1999 at prevailing market prices in amounts and at times to be determined by the bank. The purchases may be made on The Toronto Stock Exchange, the Montreal Exchange, The Alberta Stock Exchange and the Vancouver Stock Exchange. A copy of the Notice may be obtained, without charge, from the Corporate Secretary at 416-980-3096 or fax 416-980-7012.

### STOCK EXCHANGE LISTINGS

| | Stock Symbol | Stock Exchange |
|---|---|---|
| Common Shares | CM | Toronto, Montreal, Winnipeg, Alberta, Vancouver, London, England |
| | BCM | New York |
| Preferred Shares, Class A | | |
| Series 12 | CM.PR.V | Toronto, Montreal, Winnipeg, Alberta, Vancouver |
| Series 13 | CM.PR.K | |
| Series 14 | CM.PR.L | |
| Series 15 | CM.PR.M | |
| Series 16 | CM.PR.X | |
| Series 17 | CM.PR.N | |
| Series 18 | CM.PR.P | |
| Series 19 | CM.PR.R | |
| Series 20 | CM.PR.Y | |

## PRICE OF COMMON SHARES PURCHASED UNDER THE SHAREHOLDER INVESTMENT PLAN

| Date Purchased | Share Purchase Option | Dividend reinvestment & stock dividend options |
|---|---|---|
| Nov. 3/97 | $ 42.60 | |
| Dec. 1/97 | $ 44.76 | |
| Jan. 2/98 | $ 44.60 | |
| Jan. 30/98 | | $ 41.84 |
| Feb. 3/98 | $ 41.70 | |
| Mar. 2/98 | $ 44.50 | |
| Apr. 1/98 | $ 49.30 | |
| Apr. 28/98 | | $ 50.12 |
| May 1/98 | $ 51.15 | |
| Jun. 2/98 | $ 49.50 | |
| Jul. 2/98 | $ 48.30 | |
| Jul. 28/98 | | $ 46.87 |
| Aug. 4/98 | $ 43.95 | |
| Sep. 1/98 | $ 30.29 | |
| Oct. 1/98 | $ 26.80 | |
| Oct. 28/98 | | $ 29.60 |

## CIBC HEAD OFFICE

Commerce Court
Toronto, Ontario
Canada
M5L 1A2

Telephone number: (416) 980-2211
Telex number: 065-24116
Cable address: Canbank, Toronto
Web site: http://www.cibc.com

## INCORPORATION

Canadian Imperial Bank of Commerce (CIBC) is a diversified financial institution governed by the Bank Act (Canada). CIBC was formed through the amalgamation of The Canadian Bank of Commerce and Imperial Bank of Canada in 1961. The Canadian Bank of Commerce was originally incorporated as Bank of Canada by special act of the legislature of the Province of Canada in 1858. Subsequently, the charter was amended to change the name to The Canadian Bank of Commerce and it opened for business under that name in 1867. Imperial Bank of Canada was incorporated in 1875 by special act of the Parliament of Canada and commenced operations in that year. CIBC's charter has been amended from time to time to change its authorized capital.

## TRANSFER AGENT AND REGISTRAR

CIBC Mellon Trust Company
320 Bay Street, 6th Floor
Toronto, Ontario M5H 4A6
(416) 643-5500 or fax (416) 643-5501
1-800-387-0825 (toll-free in Canada and the U.S.)
E-mail: inquiries@cibcmellon.ca

For information relating to shareholdings, dividends, dividend reinvestment accounts, lost certificates or to eliminate duplicate mailings of shareholder material, please contact CIBC Mellon Trust Company.

Common and preferred shares are transferable in Canada at the offices of our agent, CIBC Mellon Trust Company, in Toronto, Montreal, Halifax, Winnipeg, Regina, Calgary and Vancouver.

Outside of North America, common shares are transferable at:
CIBC Mellon Trust Company
Balfour House, 390 High Road
Ilford, Essex, England 1G1 1NQ

In the United States, common shares are transferable at:
ChaseMellon Shareholder Services, L.L.C.
450 West 33rd Street, 15th Floor
New York, New York 10001

CIBC has never missed a regular dividend since its first dividend payment in 1868.

## DIRECT DIVIDEND DEPOSIT SERVICE

Canadian-resident holders of common shares may have their dividends deposited by electronic transfer directly into their account at any financial institution which is a member of the Canadian Payments Association. To arrange, please write to CIBC Mellon Trust Company (see Transfer Agent and Registrar).

## SHAREHOLDER INVESTMENT PLAN

Registered holders of CIBC common shares may participate in one or more of the following options, and pay no brokerage commissions or service charges:

**Dividend Reinvestment Option:** Dividends on eligible shares may be reinvested in additional CIBC common shares. Residents of the United States and Japan are not eligible.

**Share Purchase Option:** Up to $50,000 of additional CIBC common shares may be purchased during the fiscal year. Residents of the United States and Japan are not eligible.

**Stock Dividend Option:** U.S. residents may elect to receive stock dividends on eligible shares. For further information and a copy of the offering circular, contact the Corporate Secretary.

## ANNUAL MEETING

Shareholders are invited to attend the CIBC annual meeting on January 21, 1999, at 10:00 a.m. at the Royal York Hotel, Toronto, Ontario.

## FURTHER INFORMATION

**Corporate Secretary:** Shareholders with concerns about the quality of service received from the transfer agent may call (416) 980-3096 or fax (416) 980-7012.

**Investor Relations:** Financial analysts, portfolio managers and other investors requiring financial information may call (416) 980-6657 or fax (416) 980-5028.

**Corporate Communications and Public Affairs:** For information on corporate activity and media inquiries, please call (416) 980-4523 or fax (416) 363-5347.

**CIBC Telephone Banking:** As part of our commitment to our customers, information, products and services are available by calling (416) 980-CIBC or toll-free across Canada at 1-800-465-CIBC.

**Office of the CIBC Ombudsman:** CIBC Ombudsman Milt MacLean can be reached by telephone at 1-800-308-6859 (Toronto (416) 861-3313), or by fax 1-800-308-6861 (Toronto (416) 980-3754).

## CIBC ANNUAL REPORT

If you would prefer CIBC's annual report to shareholders in an alternative format, please call (416) 980-5036. The annual report is also available online at www.cibc.com/discover/annualreport.

**La version française:** Sur simple demande, nous nous ferons un plaisir de vous faire parvenir la version française du présent rapport.

CANADIAN IMPERIAL BANK OF COMMERCE

## Our Goal

To Be The Pre-eminent Canadian Financial Services Company

## Our Vision

Winning Customer Loyalty Through Service Excellence

## Our Values

Commitment To Stewardship

Respect For Every Individual

Encouragement Of Initiative And Creativity

Excellence In Everything We Do

CANADIAN IMPERIAL BANK OF COMMERCE

Head Office: Commerce Court, Toronto, Ontario, Canada M5L 1A2 (416) 980-2211 www.cibc.com