24-Aug-2017

Canadian Imperial Bank of Commerce

(CM)

Q3 2017 Earnings Call

CORPORATE PARTICIPANTS

Victor G. Dodig
President, Chief Executive Officer & Director

Kevin A. Glass
Senior Executive Vice-President & Chief Financial Officer

Laura L. Dottori-Attanasio
Senior Executive Vice-President & Chief Risk Officer

Larry D. Richman
Senior Executive Vice-President, US Region; President and CEO, The PrivateBank

Christina Kramer
Senior Executive Vice-President and Group Head, Personal and Small Business Banking, Canada

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

OTHER PARTICIPANTS

Ebrahim H. Poonawala
Bank of America Merrill Lynch

John Charles Robert Aiken
Barclays Capital Canada, Inc.

Nick Stogdill
Credit Suisse Securities (Canada), Inc

Steve Theriault
Eight Capital

Meny Grauman
Cormark Securities, Inc.

Scott Chan
Canaccord Genuity Corp.

Sumit Malhotra
Scotia Capital, Inc.

Doug Young
Desjardins Securities, Inc.

Gabriel Dechaine
National Bank Financial, Inc.

Mario Mendonca
TD Securities, Inc.

Sohrab Movahedi
BMO Capital Markets (Canada)

Darko Mihelic
RBC Dominion Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Victor G. Dodig
President, Chief Executive Officer & Director

BUSINESS HIGHLIGHTS

Adjusted Earnings

- CIBC reported solid third quarter results this morning, with adjusted earnings of CAD 1.2B, which is up 9% from last year
- Our strong performance was driven by continued volume growth across our businesses, good credit performance, positive operating leverage, and the contribution of PrivateBank earnings since June 23
  - On a per share basis, this quarter's adjusted earnings of CAD 2.77 were up 4% from last year, marking our 12th consecutive quarter of y-over-y EPS growth

Capital Position

- And we ended the quarter in a strong capital position, with a CET1 ratio of 10.4% that was well above our stated target of remaining above 10%
- With consideration to our strong capital position and reflecting our positive outlook, we announced a CAD 0.03 dividend increase today, taking our quarterly dividend to our common equity shareholders to CAD 1.30 per share

Client Experience Enhancement Efforts

- While delivering strong financial results, we continued to make progress against our goal of becoming the leader in client experience
- In our most recent Ipsos Net Promoter Score, our gap to number one narrowed to its smallest ever and we are trending towards our highest FY-end score
- Our entire CIBC team has been empowered to help us accomplish our client experience goals; and because of this, we're building very good momentum
- We're focused on building enduring relationships with our clients and helping them through good and through difficult times
- I want to point out the example of what our CIBC team has done to come together to support our clients during the British Columbia forest fires:
  - We put special measures in place to help our clients manage their finances through this difficult time
  - We helped them make special payment arrangements on mortgages, loans and credit cards
  - We've reversed service fees and non-CIBC ATM withdrawal fees on personal accounts
  - And we've provided access to funds in their Guaranteed Investment Certificates
- From setting up mobile banking trailers at evacuation centers, to storing humanitarian supplies for evacuees, our focus has been on listening to our clients and offering to help them

Team Recognition

- And on that point, I want to thank our team members for dedicating their energy and commitment to make CIBC a great bank for our clients
- In addition to our client focus, we continue to advance our priorities of simplifying our business and innovating for our clients

New Leadership Team

- I'm going to highlight some of our achievements in these areas, as I review the performance of our business segments
  - But before I do that, I want to introduce you to some new members of our senior leadership team
- This past June, we announced the promotions of Christina Kramer and Jon Hountalas
- Christina is leading our Personal and Small Business Banking team; and Jon is the Head of Canadian Commercial Banking and Wealth Management
- We also announced the appointments of:
  - Larry Richman to head up our U.S. Operations
  - Deepak Khandelwal, who's going to lead a new functional group dedicated to Client Connectivity and Innovation
  - And Sandy Sharman as our Chief Human Resources and Communications Officer
- These changes are part of a natural evolution that is further embedding a client-first culture at CIBC, enabling the execution of our strategy and developing the next generation of our leaders
- It's notable that as part of these changes, we've moved more than 40 leaders across our bank, with the notion of cross-pollinating ideas and further strengthening our talent pool
- I'm also pleased with our progress in advancing women at our bank
- With the broader leadership changes we recently announced, nearly half of the individuals we promoted were talented female executives

BUSINESS UNIT RESULTS

Retail and Business Banking

EARNINGS AND MARGINS

- So now, let me return to our business unit results
- Canadian Retail and Business Banking delivered adjusted earnings of CAD 720mm, and that's up 8% from a year ago
- Volume growth across all our products and higher fee revenue contributed to strong revenue growth of 5%
- Margins improved 1 basis point, and we delivered positive operating leverage this quarter in our retail business

DIGITAL AND MOBILE TECHNOLOGY INVESTMENTS

- We're proud of the investments we continue to make to advance our digital and mobile technology to meet the evolving needs of our clients
  - And on this front, we announced last week, the launch of CIBC's new direct banking brand, Simplii Financial

- Simplii is about growth and it's about client focus
- It will meet the needs of Canadians who value no-fee daily banking and great rates through online, mobile and telephone channels
- By bringing our direct banking offer in-house, we're giving ourselves greater control and flexibility, and we'll be better positioned for incremental growth opportunities going forward

MAJOR ACCOMPLISHMENT

- Also of note this quarter was the number one ranking our bank received for the third consecutive year in an industry survey of financial advisors conducted by Investment Executive
- Being the number one choice for our clients starts with having a committed and confident team, and these results underscore what we see every day
  - Our advisors are proud of our bank
  - Our advisors are focused on our clients
  - And they feel very well supported in helping our clients meet their long-term goals
- My colleague, Christina Kramer, is here this morning to answer any questions you may have about Retail and Business Banking

Wealth Management Business

- Let me turn to our Canadian Wealth Management business, where adjusted earnings were CAD 136mm, up 10% from last year, driven by higher fee-based revenue and asset growth
- These results reflect the benefits of ongoing investments, including the addition of client-facing roles that'll help us drive growth in the Canadian high net worth market
- We're also focused on offering our Wealth Management clients choice across our investment products and are doing that through a very competitive range of offers that meet their needs

BUSINESS DEVELOPMENT ACTIVITIES

- This quarter, to improve value and accessibility for Canadian investors, we introduced a suite of lower-cost CIBC passive portfolios
- We also enhanced our investment lineup, with:
  - Management fee reductions
  - Lower investment minimums
  - And a simplified product offering
- And for our institutional investors, we launched the CIBC Active Global Currency Pool, leveraging our 20-year track record of managing active currency strategies
- My colleague, Jon Hountalas, is here this morning to answer questions on our Canadian Wealth Management business

Capital Markets

ADJUSTED EARNINGS

- Turning to Capital Markets
- We reported adjusted earnings of CAD 252mm, compared to CAD 290mm last year and CAD 267mm in Q2
- This was another strong quarter for Capital Markets, with balanced performance across our business

- In global markets, results were supported by higher foreign exchange trading and higher global finance revenues
- In Corporate and Investment Banking, revenue was up CAD 34mm or 12% from Q2, on the strength of higher equity and debt underwriting and higher corporate banking revenue

AWARD RECOGNITION

- For the quarter, CIBC ranked number one in both equity and new issues with a market share of 14%, as well as advisory services with CAD 8.4B in deal value
- Our broad-based and client-driven results across the core of our Capital Markets business helped to offset the impact, we would've otherwise seen from the run-off of TRS revenue
- During the quarter, CIBC was named Best Derivatives House in Canada for the fourth year in a row by GlobalCapital
- The award recognizes firms for their innovation, their market impact, performance, client feedback, and uniqueness of approach based on interviews of key market participants

STRATEGIC INVESTMENTS

- And in Capital Markets, we continue to make important strategic investments in both talent and technology
    - These investments are all geared to meeting our clients' needs across our business and are focused on continuing to deliver innovative solutions for our clients
- And my colleague, Harry Culham, is here this morning to answer any questions you may have on our Capital Markets business

U.S. Commercial and Wealth Management Business

- Our U.S. Commercial and Wealth Management business includes results from The PrivateBank, CIBC Atlantic Trust, and your U.S. Real Estate Finance business
- It's in keeping what we told you in our last call when we want to provide transparency on our U.S. performance

ADJUSTED EARNINGS

- Our adjusted earnings from this segment of CAD 44mm were CAD 19mm higher than last year, primarily due to the inclusion of 39 days of PrivateBank results
    - Excluding The PrivateBank contributions, combined revenue from our U.S. Real Estate Finance and CIBC Atlantic Trust units was up 15% y-over-y

INTEGRATION EFFORTS OF PRIVATEBANK

- Although, we've just closed the acquisition of PrivateBank, we're already benefiting from the combination of our two banks
- Integration efforts are proceeding very well, and there's lots of excitement on both our clients and our team members on the opportunities that lie ahead
- We've already begun to expand our commercial and corporate banking offer to our North American clients as we look to leverage our more comprehensive U.S. cash management and deposit-taking capability

- In the Wealth Management space, the combination of The PrivateBank and CIBC Atlantic Trust creates a platform of CAD 40B of assets under administration
- We've seen lots of early referral activity, across our expanded team of private bankers, as they look to leverage this platform to serve the full lending and deposit-taking needs of our U.S. Wealth Management clients

ACQUISITION ANNOUNCEMENT OF GENEVA ADVISORS

- And to further our U.S. growth strategy, we also announced during the quarter the acquisition of Chicago-based Geneva Advisors
- The addition of Geneva Advisors will bring new client relationships and another CAD 8B of assets under management, adding further scale to our U.S. Wealth Management platform
    - I might add that three and a half years ago, we had zero in U.S. Wealth Management assets, and today, we have close to CAD 50B
- We look forward to closing our acquisition with Geneva and welcoming the team to the CIBC team

INTEGRATION MILESTONE

- As we bring all of our U.S. teams together, one of our integration milestones will be the rebranding of our U.S. region to a unified CIBC brand
- We'll be formally announcing the details on that next month
- Having our entire team operating under the CIBC brand is exciting, and it's an important way of building our presence in the U.S. market as we go forward
- My colleague, Larry Richman, sitting right here beside me, is here this morning to answer any questions you have on U.S. Commercial Banking and Wealth Management

Summary

- In summary, we're very pleased with our results, and we're very pleased with the consistency of our performance this quarter and on a YTD basis
- It's been a period of significant transformation for CIBC, as we continue to focus on our clients and position our bank to deliver growth for our shareholders

OPERATING ENVIRONMENT PERSPECTIVE

- Before I pass it on to Kevin, I just want to finish my remarks with some perspective on the current operating environment and what it means for CIBC
    - While interest rates in Canada increased in July, they remain low by historic standards, and we're not expecting a stepwise decline in consumer lending activity
- With GDP growth of 3% in the first six months of 2017, the consensus outlook at the current time is for another 25 basis point increase before year-end and potentially, another 50BPS in 2018, assuming U.S. trade policy does not prove to be a major barrier to Canadian economic growth

Impact of Interest Rate Environment and Regulatory Measures

- The expected impact for CIBC's Canadian business is a moderation in consumer and mortgage lending activity to reflect the higher interest rate environment and regulatory measures that have been implemented to slow the housing market
- However, business credit demand should remain healthy in an improving economy

- In the U.S., the interest rate outlook is similar to that in Canada, with a 25 basis point interest rate increase expected in H2 2017 and a further 50BPS in 2018 as the economy is expected to improve
- If the U.S. carries out its proposed tax reform, our Wealth Management business south of the border should also benefit from greater high net worth savings pool

Kevin A. Glass

Senior Executive Vice-President & Chief Financial Officer

FINANCIAL RESULTS

Net Income

- We had very solid results this quarter
- We reported net income of CAD 1.1B and EPS of CAD 2.60
- Items of note during the quarter reduced our reported earnings by CAD 0.17 per share, and these included an increase in legal provisions of CAD 0.08 per share and transaction integration-related costs associated with the acquisition of The PrivateBank of CAD 0.7 per share
  - So, adjusting for these items of note, our net income was CAD 1.2B and EPS of CAD 2.77

ROE and Dividend

- Our Basel III CET1 ratio was 10.4%; our return on equity was over 17%
  - And we increased our quarterly dividend by CAD 0.03 to CAD 1.30 per share
- The balance of my presentation will be focused on adjusted results, which exclude items of note
- We've include slides with reported results in the appendix of the presentation

BUSINESS SEGMENT PERFORMANCE

Canadian Retail and Business Banking

- Let me start with a performance of our business segments beginning with the results for Canadian Retail and Business Banking on slide 6
- Canadian Retail and Business Banking recorded another quarter of:
  - Solid revenue and earnings growth
  - Positive operating leverage
  - And good credit performance

REVENUE DRIVERS

- Revenue for the quarter was CAD 2.3B, up 5% from last year, driven by growth in both personal and business banking
- Personal banking revenue of CAD 1.9B was up 5% from the same period last year
  - Driven by strong and broad-based volume growth
- Total assets were up 11%, led by residential mortgage growth of 13%
- Our personal lending portfolios, including cards, grew 6% as we continued to see improving results in this area
- Personal deposits and GIC growth of 7% was driven by higher checking and savings account balances

- Business banking revenue was CAD 467mm, up 7% from last year, driven by strong deposits and lending volume growth and higher credit-related fees
  - Partially offset by narrower deposit spreads
- Business deposits and GICs were up 13%, and business lending balances were up 9% from the same period last year
- Other revenue of CAD 8mm was down CAD 3mm as a result of the continued run-off of our exited FirstLine mortgage broker business

PROVISION FOR CREDIT LOSSES

- Provision for credit losses of CAD 187mm was down CAD 9mm from the prior quarter and CAD 10mm from the same period last year, as lower loss rates more than offset the impact of portfolio growth in cards and personal lending

NON-INTEREST EXPENSES AND NET INTEREST MARGIN

- Non-interest expenses were CAD 1.2B, up 5% from the prior year, driven by investments we continued to make in strategic growth initiatives to support our transformation into a modern, convenient, and innovative bank
- Net interest margin was up 1 basis point sequentially due primarily to higher deposit spreads and a higher prime-BA spread, partially offset by business mix

NET INCOME

- Canadian Retail and Business Banking net income of CAD 720mm was up 8% from the same period last year, driven by solid revenue growth, good credit performance, and strong cost containments

SIMPLII FINANCIAL

- As announced last week, we are launching CIBC's new direct banking brand Simplii Financial, which will replace the President's Choice Financial brand banking products and services issued by CIBC, effective November 1
  - Related to this transaction, we expect to incur fees and charges of approximately CAD 100mm pre-tax, which includes contractual payments, severance, and project costs relating to the launch of Simplii Financial, which will be reported as an item of note when we release our fourth quarter results

Canadian Wealth Management

REVENUE DRIVERS

- Slide 7 shows the results of our Canadian Wealth Management segment
- Revenue for the quarter was CAD 603mm, up CAD 49mm or 9% from the prior year, driven by strong performance across all businesses
- Retail brokerage revenue of CAD 354mm was up CAD 37mm or 12% from a year ago due to higher fee-based and commission revenue
  - Driven by asset growth and equity and debt issuance activity
- Asset management revenue of CAD 204mm was up CAD 8mm or 4% largely due to higher assets under management, resulting from market appreciation and strong net sales of long-term mutual funds

- Partially offset by a decline in mark-to-market fee gains on investments in our mutual funds and institutional growth
- Private Wealth Management revenue of CAD 45mm was up CAD 4mm or 10% mainly due to balanced growth in both lending and deposits within Canadian private banking

NON-INTEREST EXPENSES AND NET INCOME

- Non-interest expenses of CAD 417mm were up CAD 33mm or 9% primarily due to higher performance-based compensation
- And net income for the quarter was CAD 136mm, up CAD 12mm or 10% from the same quarter last year

U.S. Commercial Banking and Wealth Management

- Slide 8 shows the results of our new U.S. Commercial Banking and Wealth Management segment, which includes results of:
  - The PrivateBank, our U.S. Real Estate Finance business
  - And CIBC Atlantic Trust

PRIVATEBANK

- PrivateBank has made a strong start as part of CIBC, adding CAD 26mm to our earnings this quarter
- Performance reflects solid operating results, with loan and deposit balances up 15% and 7%, respectively, from last year
- We have included a slide in the appendix to this presentation that details PrivateBank's performance

REVENUE CONTRIBUTORS

- Revenue for the quarter for the U.S. segment was CAD 239mm, up CAD 146mm or 157% from the prior year, driven by the inclusion of 39 days of PrivateBank results
- Commercial Banking revenue of CAD 150mm was up CAD 111mm from a year ago
- Wealth Management revenue of CAD 80mm was up CAD 27mm or 51%
- In addition to Atlantic Trust, the segment now includes retail and wealth management revenue generated by PrivateBank
- Of the $230mm in revenue in the Commercial Banking and Wealth Management business, our U.S. Real Estate Finance business and CIBC Atlantic Trust contributed CAD 106mm, which is up 15% from the prior year
- Other revenue of CAD 9mm reflects net revenue related to PrivateBank's investment portfolios

PROVISION FOR CREDIT LOSSES

- Provision for credit losses was CAD 34mm in the quarter, with over half as much attributable to the company's specific loss in our pre-existing real estate finance portfolio
- In addition, we established a collective allowance and recorded provisions of CAD 13mm relating to PrivateBank on new loan originations and renewals of acquired loans

NON-INTEREST EXPENSES AND NET INCOME

- Non-interest expenses of CAD 147mm were up CAD 82mm from the prior quarter due to the acquisition
- Net income for the quarter was CAD 44mm, up CAD 25mm in the same quarter last year

Capital Markets

REVENUE CONTRIBUTORS

- Turning to Capital Markets on slide 9
- Revenue this quarter was CAD 679mm down CAD 59mm or 8% from the same quarter last year
- Global markets revenue of CAD 360mm was down CAD 55mm from the prior year, driven by lower revenue from equity and interest rate trading, largely due to the expected decline in equity derivatives revenue as a result of changes to the Canadian Income Tax Act related to synthetic equity arrangements
  - This was partially offset by higher foreign exchange trading and higher revenue from global markets financing activities
- The resources previously employed by the TRS business are being redeployed into existing and new client-driven businesses
- Corporate and Investment Banking revenue of CAD 321mm was down CAD 4mm from a very strong prior-year quarter, driven by lower equity underwriting revenue, partially offset by higher corporate lending revenue

PROVISION FOR CREDIT LOSSES

- Provision for credit losses was CAD 1mm in the quarter compared to a provision of CAD 7mm in the prior year
  - And a recovery of CAD 5mm last quarter

NON-INTEREST EXPENSES AND NET INCOME

- Non-interest expenses of CAD 340mm were down CAD 12mm from the prior year, primarily due to lower performance-driven compensation, partially offset by higher spending on strategic initiatives
- Net income of CAD 252mm was down CAD 38mm from the prior year

EARNINGS DRIVERS

- The solid earnings this quarter successfully demonstrates the strength of:
  - Our client-focused and diversified product, industry sector, and geographic business mix
  - And the sustainable earnings power of our core businesses

Corporate and Other Segment

- Slide 10 reflects the results of the Corporate and Other segment, where net income for the quarter was CAD 14mm compared with a net loss of CAD 34mm in the prior year
- Improvement was largely due to:
  - Higher revenue in FirstCaribbean
  - Improved treasury results
  - And investment gains

OTHER BUSINESS HIGHLIGHTS

Capital Position

- Turning to capital on slide 11

- Our CET1 ratio was 10.4% as at July 31, down 180BPS from the prior quarter
- The impact of closing The PrivateBank acquisition was partially offset by solid organic capital generation, the impact of share issuance through our dividend reinvestment in employee share-based plans, and the reversal of the Basel I floor adjustment
    - The all in impact of the acquisition, including related foreign exchange hedges on our CET1 ratio, was approximately 230BPS
- Our leverage ratio was 3.9% at July 31, down 20BPS from Q2

Financial Objectives

- To wrap up, we are very pleased with our strong results this quarter, reflecting consistent execution of our clients' focus, culture, and strategy
- With our strong ROE and EPS growth this quarter, we remain on track to achieve our medium-term performance objectives of:
    - At least 5% EPS growth
    - 15% ROE
    - And strong capital ratios for FY2017
    - As well as keeping us on track to achieve our mixed target of 55% run rate by the end of 2019

MANAGEMENT TRANSITION

- I would like to mention that this is John Ferren's last call before he transitions to his new role as CFO of our Canadian Retail business
    - I'd like to thank John for his leadership and contribution over the past two years and wish him well with this new challenge
- At the same time, I'd like to welcome Amy South, who will transition from her previous role as CFO of Capital Markets and Treasury and assume the Corporate CFO and Head of Investor Relations responsibilities

---

Laura L. Dottori-Attanasio
Senior Executive Vice-President & Chief Risk Officer

RISK MANAGEMENT UPDATE

Loan Loss Performance

- So, slide 13 begins with our loan loss performance, which now includes the PrivateBank portfolio and reflects the realignment of our existing U.S. Real Estate Finance book out of Capital Markets to our new U.S. Commercial Banking and Wealth Management segment
- I'm pleased with the overall performance of the credit portfolio so far this year, and in particular, as our Retail Banking segment continues its strong performance
- Loan losses were up CAD 30mm q-over-q
- This increase was driven by two items in our U.S. Commercial Banking and Wealth Management segment:
    - First, we had a CAD 21mm loss in our pre-existing U.S. Real Estate Finance book, which is now part of this new segment
    - Secondly, to account for our acquisition of The PrivateBank, in our consolidated results, we booked a CAD 13mm collective provision for non-impaired loans

- This was established for the renewals of acquired loans and new loan originations and appears in the U.S. Commercial Banking and Wealth Management line
- We would expect the collective provision for non-impaired related to new originations and renewals of acquired loans to continue into Q4 under current accounting rules

Credit Quality of The PrivateBank Portfolio

- I would like to highlight that the credit quality of The PrivateBank portfolio continues its strong performance, which is in line with our due diligence expectations

New Formations

- Now, turning to slide 14, new formations were CAD 473mm
- That's up CAD 84mm q-over-q and it's mainly due to the one U.S. Real Estate Finance loan that I referred to earlier, which we impaired this quarter
- While the overall gross impaired loans were essentially flat at CAD 1.3B, there were a few moving parts that I'd like to highlight for you
- The number increased given the inclusion of PrivateBank's results, including one new impairment and the impairment to the U.S. Real Estate Finance loan
- These increases were largely offset by the decline of the U.S. dollar and a decrease in the oil and gas sector
    - So, as a percentage of gross loans and acceptances, gross impaired loans were 37BPS, which is down 3BPS from last quarter

Residential Mortgage and HELOC Portfolio Overview

- Slide 15 provides an overview of our residential mortgage and HELOC portfolios in Canada, along with a breakout of the Greater Vancouver and Toronto areas
- I'd like to highlight a few items from this slide
- While our HELOC balances grew by 7% over the prior year, the utilization rates have remained relatively constant over the past two years
    - As our mortgage balances grew by 13% from CAD 175B to CAD 197B on a y-over-y basis, it is mainly attributable to an increase in volume, while we have seen the number of applications decrease marginally over the same period
- Our late-stage delinquency rates across all of these portfolios continue to remain low and stable, with Vancouver and Toronto performing significantly better than our Canadian average

Canadian Uninsured Residential Mortgage Originations

- Slide 16, speaks to our Canadian uninsured residential mortgage originations
- And, here, you will see that we originated CAD 16B of uninsured mortgages, which represents an 8% y-over-y increase
    - Of that amount, 14% were to clients in the GVA, whereas 41% were to clients in the GTA
- Average Beacon scores of our new clients continues to be strong, with mortgage portfolio quality stable and in line with our risk appetite

Beacon and Loan-To-Value Distribution

- Slide 17 shows our Beacon and loan-to-value distribution for our overall Canadian uninsured residential mortgage portfolio
- The Greater Vancouver and Toronto market continue to have better credit profile than the Canadian average
- Beacon score distributions are towards the higher end and average loan to values continue to remain at healthy levels

Credit Card and Unsecured Personal Lending Portfolios

- On slide 18, we've highlighted our Canadian credit card and unsecured personal lending portfolios
- On a y-over-y basis, the late stage delinquency rates of both Canadian cards and unsecured personal lending portfolios were down slightly
- One other item to highlight as it relates to our cards performance is the mix shift between premium and non-premium cards that has occurred
- Over the last few years, we've had good momentum in building our proprietary Aventura cards business
- Clients choosing-these cards tend to have stronger credit profiles than those in our non-premium card segment
    - And as such, we're seeing the effect of this alongside improving employment conditions, which we believe is translating into continued strong performance within this segment

Revenue Distribution

- Lastly, slide 19 shows the distribution of revenue in our trading portfolios as compared with VaR
- We had positive trading days throughout this quarter, which is the same as last quarter
- Our average trading VaR was CAD 8.1mm, up from CAD 6.3mm in Q2
    - Largely driven by increased underwriting activity in support of our client

---

Victor G. Dodig

President, Chief Executive Officer & Director

CLOSING COMMENTS

Upcoming Investor Day

- Before we wrap, I wanted to just do a couple of things
- I wanted to announce that we're going to hold our next Investor Day on the 13th of December in Toronto
- We look forward to this opportunity to introduce you to our new leadership team
    - And what we'd like to do is provide you with a perspective on what we told you almost two and a half years ago in terms of what we're going to deliver and give you a perspective going forward on what we intend to deliver for you as our shareholders
    - And for those of you who are able to join us, we're gearing up for another successful CIBC Run for the Cure on the 1st of October
- It's a cause our team across our country and our clients very much are passionate about, and we hope to see you there

Recognition

- And in closing, I'd like to thank CIBC's team members for everything you do for our clients, our shareholders and our communities
- And I also like to thank you our investors for your continued support and confidence and good questions about our bank

QUESTION AND ANSWER SECTION

Ebrahim H. Poonawala
Bank of America Merrill Lynch

Q

The first question, I just wanted to start with capital. With Private now behind you, I think, for the longest time you had built excess capital to get the deal done. With the CET1 above your 10% plus ratio, can you talk about in terms of how high you're willing to let this ratio go on, just in terms of – update us on your capital deployment strategy, be it capital return, or maybe additional U.S. M&A?

Victor G. Dodig
President, Chief Executive Officer & Director

A

We've always been consistent in terms of our view of having a very strong capital ratio. As we indicated in Q2, once we closed The PrivateBank, we wanted to be above 10%. And we are at 10.4%. We're very pleased with that goal. Our goal is to be in the 10.5% range. And our focus over the medium-term is really around maintaining that range, investing in organic growth, which is really going to be the primary driver which would include integration with The PrivateBank, making the franchise stronger and stronger, as we put resources into the business and putting resources into our Canadian business, really focusing on where we can get the highest returns for our shareholders.

Inorganic activity is largely going to be on hold for the interim period, as we galvanize around the assets that we've invested in. And when it comes to returning capital to our shareholders, our goal is to be in the upper end of our dividend payout range, and we are currently at that level. So we want to see consistent dividend increases over time as we grow our business. And as you know, we have a buyback in place, but we don't foresee using that unless there's extreme value that's surfaced in our franchise.

And, finally, it's important for us to maintain that buffer for any regulatory changes that are on the horizon. So basic message is 10.5%, a good range to be in; focus on organic growth; focus on consistent dividend growth, making sure we have buffers for any regulatory changes, and that would be it.

Ebrahim H. Poonawala
Bank of America Merrill Lynch

Q

Got it. And if I can just follow-up on that, Victor, very quickly. You mentioned regulatory changes. Just wondering if – we wonder what happened with Basel IV in October when the committee meets again. But if you were to go ahead with the Basel IV structure, can you sort of give us a sense of what impact that would have on your CET1 ratio? Thank you.

Victor G. Dodig
President, Chief Executive Officer & Director

A

Kevin, I'll pass that onto you. But you tell me where they're going to land on Basel IV, and I'll tell you where this is going to land. So, Kevin, do you want to shed some light on that?

Kevin A. Glass
Senior Executive Vice-President & Chief Financial Officer

A

I think what I can do is stress that, I mean, based on what we've seen so far, all of the changes have been pushed out well into 2020 and beyond. So: A, we'll have a lot of time to deal with it; B, we anticipate there will be phase-ins; and, C, as Victor said, I mean it's unclear right now exactly what's going to be delivered. But certainly, the change that we know about are factored into our forecast, and we're comfortable with them.

John Charles Robert Aiken
Barclays Capital Canada, Inc.

Q

Kevin, I was hoping to dive into the Corporate and Other segment just for a little bit. I mean we saw a large step-up in the revenue. Delta was about CAD 160mm, as CAD 100mm that came from the TEB adjustment. We had CAD 5mm from international. But in n your commentary, you talked about higher revenues from FirstCaribbean and treasury, and then I think you mentioned investment gains. So out of that CAD 60mm, can you give us a little more color on where that came from? Because, I mean, obviously we're trying to plug this into our models and figure out about sustainability?

Kevin A. Glass
Senior Executive Vice-President & Chief Financial Officer

A

Sure, John. So if you recall, at the last quarterly call I think I guided towards breakeven as we move forward. And I think that that's really been driven by stronger treasury results as we're moving forward. Now, there's volatility, and you'll see continued volatility. So, I'll continue to say breakeven. Maybe a small loss is the way that we would see going forward.

In this particular quarter, FCIB helps a little bit. We did have some small gains on disposition of investments, but the big change is being in treasury. So, with rates moving the way they are, generally, our investment in capital, some of our LTVs we're charging through to the business which flows through treasury are improving. But in this particular quarter, we also had some gains as we rebalanced some of our portfolios, so that helped. And also there's volatility on our hedges, and not all perfectly hedged. There's some hedging effectiveness. This quarter we had a number of items growing for us. So, everything worked for us. And I would say, moving forward, I would just plug in, breakeven to a small loss.

John Charles Robert Aiken
Barclays Capital Canada, Inc.

Q

Okay. Thanks, Kevin. Appreciate that. And one follow on, if I may. A little bit surprised not to see any disclosure on margins within U.S. commercial, particularly given the asset sensitivity, the operations down there. Are we going to get that on a go-forward basis, or is this a decision that you've taken not to provide information for competitive or other reasons?

Kevin A. Glass
Senior Executive Vice-President & Chief Financial Officer

A

No. We'll certainly give that information moving forward. And what I would say, and happy to turn it over to Larry to talk a bit more about the business. But certainly, if we take the NIMs back in March when they last – June, when they last announced vs. now, we continue to see an improvement.

Larry D. Richman
Senior Executive Vice-President, US Region; President and CEO, The PrivateBank

A

It's Larry Richman, nice to be on the call, and very, very pleased to be part of CIBC. Just a little perspective on the business, which I think can shed some light. One, margins are up, and in the U.S. business, particularly as it relates to PrivateBank. The business is actually very solid, and there is good momentum. And our outlook for the business, is positive. Clients are really focusing in our view, my view, on their business and how they're going to grow it. And the clients' management teams feel good about the business.

And so, we're seeing lot of good activity. There's good activity that we're seeing both from existing clients, as well as new clients. And so, we're maintaining strong, as we have over the years, selectivity and discipline. But at the same time, we're seeing good opportunities. And at the same time with rates rising, we're seeing some improvement in margins. So, we're expanding volume, and at the same time, doing well on a margin standpoint.

Nick Stogdill
Credit Suisse Securities (Canada), Inc

Q

Larry, just a follow-up on your comments there. Does that mean we should expect the U.S. bank to sustain higher than industry average loan growth in the U.S., higher than we're seeing currently in C&I?

Larry D. Richman
Senior Executive Vice-President, US Region; President and CEO, The PrivateBank

A

Yeah, I can't speak to the industry in the future, but I guess I can tell you that we see very strong organic opportunities to be able to drive continued, consistent, quality profitable growth. We're seeing more opportunities now, given the combination of deals and opportunities that we're looking at than we even did before when we were private separate organization. So, we're seeing some early signs of where the opportunities based upon the integration of being one, our coming about. So, I can't speak to the future, but I can certainly tell you that we're seeing good opportunities, good solid pipelines. And our bankers are feeling good. And our clients are coming to us, or we're seeking, and seeing, identifying opportunities going forward.

Nick Stogdill
Credit Suisse Securities (Canada), Inc

Q

Thank you. And then my second question for Laura, just on the LTVs and the Canadian uninsured mortgage book, 55% last quarter, 52% this quarter. And a little surprising I guess, given the recent market trends. Maybe if you could just give us an update on why they're declining. And then if LTVs were to reverse, of course, an increase – are there any implications that could have anything on growth and maybe how much would it take if an increase in LTV is to see an impact on capital on the uninsured book, or any color you have there. Thank you.

Laura L. Dottori-Attanasio
Senior Executive Vice-President & Chief Risk Officer

A

Yeah. Nick, not sure I understand the second part of the question. But as it relates to loan to values, if you will, what we're seeing in terms of increase is, really, it's on the volume side that as house prices have increased, what we're seeing is that the average size of a mortgage has increased. So that is where that segment of growth is coming from. When you do look at our loan to values, I guess, what I would say is we do have adequate buffer to sustain a drop in housing prices.

And quite frankly and more importantly, when we look at our portfolio as I mentioned in my prepared remarks, we've really strong mortgage performance from a delinquency perspective. Victor spoke of earlier, how well the economy is doing. Unemployment in this country is actually looking very good, and that's the main driver of losses, the main thing that we look at. And that if house prices do come off, we need our borrowers to continue to have their jobs to service their loans. But in the event we find ourselves taking on assets we do have and continue to have a good buffer as it relates to that loan to value.

Nick Stogdill
Credit Suisse Securities (Canada), Inc

Q

Thank you. My second question was really – just if LTVs went from the 52% back to something higher, would that matter? If it was just driven by housing price declines and there was no impact on unemployment, would we see any implications on growth or capital, if we went from 52% back to something north of that?

Laura L. Dottori-Attanasio
Senior Executive Vice-President & Chief Risk Officer

A

So, again, so long as unemployment stays as is, we would not expect to see, if you will, any real change to delinquencies or to loan losses. And so, no real impact as well to capital. We do have the LGD change from a regulatory perspective that is put into place. So, that has a bit of an impact in terms of how we would see risk-weighted assets move, and consequently CET1, but not expected to be material in any way.

Steve Theriault
Eight Capital

Q

Couple of questions, if I could, this morning, maybe starting with U.S. So, when we piece together the new disclosure, I was a bit surprised to see Atlantic Trust looks like it's not far off of breakeven. So, can you talk about any issues going on there? Will the addition of Geneva move that operation to being more meaningfully profitable? And how much upside is there for Atlantic Trust, given PrivateBancorp closing and increased offerings and so on?

Kevin A. Glass
Senior Executive Vice-President & Chief Financial Officer

A

Let me talk briefly about Atlantic Trust's contribution. I think that part of the noise that we have in their numbers is just through the accounting. And there's some allocation of support costs and then amortization of acquisition-related costs. So, the good news is recently they've been consistently delivering revenue in the CAD 55mm, CAD 60 million-odd range, and that's up from about CAD 40mm three years ago. So, as we have the run-off of acquisition-related costs, and I think, try to focus on expenses, we would expect those earnings to improve. Let me handover to Larry to take the rest of the question.

Larry D. Richman
Senior Executive Vice-President, US Region; President and CEO, The PrivateBank

A

Yes. Thank you. Let me speak strategically to the Atlantic Trust, Geneva/PrivateBank combination, the importance of Private Wealth to the combined organization and also to the U.S. market. I'm actually very, very excited. And we have seen interestingly some early, really nice opportunities because of the use of great clients, interesting opportunities to cross-sell and provide more banking opportunities.

Specifically, where we have a strong, Private Wealth relationship in Atlantic Trust, Geneva, and in our Private Wealth business at PrivateBank, we're really able to drive private banking opportunities now that we couldn't do before. So, we look at it as an opportunity to not only drive more business and relationship expansion with our clients, but it should yield greater deposit capabilities and also opportunities to seek other fuller banking relationships.

The addition of addition of Geneva, which is most recent is a very exciting one. One, it's a great team, well-recognized, very, very nice high-quality client base that fits very well with the commercial client base that we have with PrivateBank today. And at the same time, we see really nice opportunities to be able to create more scale. And at the same time they're local to the Chicago market, so it gives us the capability to have more scale and more importance and more opportunities in the Chicago market. So, I think there will be greater client expansion, as well as deeper relationships as a result of both of these. These will provide benefits over the long-term.

Steve Theriault
Eight Capital

Q

Okay. Thanks for that color, and thanks for those numbers, Kevin. And entering to Canada for a second. For Christina, a lot of mortgage momentum, obviously it's continued quite strongly this quarter. I picture those as being completions from earlier this year before the GTA slowdown. So, I'd be interested, do you think given the Toronto slowdown, we'll see a more noticeable slowdown in momentum beginning in Q4? I guess I'm asking what does the mortgage pipeline look like, looking at the next couple of quarters?

Christina Kramer
Senior Executive Vice-President and Group Head, Personal and Small Business Banking, Canada

A

So, let me put it in the context of our overall business. We've seen good momentum and consistent earnings growth across our businesses over the past two years. And that growth, we've seen that in funds managed growth both on money in, money out, across product areas and across both personal and business, so let me then turn to the mortgage growth.

The key driver of our relative growth over the past couple of years has been the steady build up and the improving productivity of our mobile mortgage advisor team. And it's been a deliberate client-focused strategy. Want to be there for key moments in our clients' lives. We want to make banking with CIBC easy to do. So, we've built-up the strong mortgage advisor team across Canada earlier this year. We reached our target level of mortgage advisors. And given that our relative mortgage growth has been largely fueled by our MA expansion, now that we're at target state, we expect this relative mortgage growth rate will begin to converge to industry levels over a few quarters.

Last, about the GTA market. So, we have started to see some evidence of softening, as Laura mentioned. The new originations in July were down month over month, and that was largely driven by the GTA market. And given the prospect of further regulatory changes, the most notable of which are the amendments of the B-20 guidelines, we do anticipate some softening in the market over the upcoming year.

Steve Theriault
Eight Capital

Q

And then, if I could just, a quick numbers question before I ring off. For Kevin, on the tax rate, it was higher this quarter. I suspect you'd tell us its mix from higher U.S. and maybe the TRS. Is there a new normal or some sort of normal tax rate range you could share with us going forward, I guess, realizing that there's probably some additional impact from PrivateBancorp being in for a full quarter next fiscal.

Kevin A. Glass
Senior Executive Vice-President & Chief Financial Officer

A

Steve, I mean, you're absolutely right. So, the higher tax rate is because of the roll out of the synthetic equity business. And there's some volatility depending on how earnings go. But I'd look for a tax rate in the 22% to 24% range, if you're going to model that moving forward.

Meny Grauman
Cormark Securities, Inc.

Q

Just a follow-up on the talk of the B-20 proposal. Victor, I'm wondering what your view on this proposal was, given we're seeing a slowdown already in the GTA. Is it maybe prudent to hold off on another regulatory change?

Victor G. Dodig
President, Chief Executive Officer & Director

A

I'm not going to there, Meny. I think the regulators are going to decide what's best from a macro-prudential perspective for the Canadian economy. Our job as the leadership team is to manage within that framework. I think Laura and Christina, both being clear in terms of our current risk posture in our mortgage portfolio, as well as our growth prospects in our mortgage portfolio. And we will manage within those parameters. And our goal is to manage prudently for both our shareholders and also to deliver for our clients what they need.

I think one thing I would say in terms of our overall growth in our consumer franchise, it is growing across the board. We are seeing growth in investment funds, we are seeing growth in deposits. This was at a high quality level of growth that we're seeing. And we'll continue to endeavor to build those deeper client relationships in our franchise. And that's the only way for us to deliver value. As regards regulatory change, I will leave that to our regulators.

Meny Grauman
Cormark Securities, Inc.

Q

Thanks. And then if I could just ask a follow-up, just a numbers question in terms of your residential mortgages. What percentage are adjudicated at 200BPS above the contracted rate right now?

Laura L. Dottori-Attanasio
Senior Executive Vice-President & Chief Risk Officer

A

I can take that question. And I guess I'd answer it twofold. The percentage that are currently adjudicated that way would be a little over three quarters, but if we were to look at which percentage of our new originations would qualify, that number would actually be in the 90% range.

Meny Grauman
Cormark Securities, Inc.

Q

Okay. Do you mind just explaining that difference a little bit more?

Laura L. Dottori-Attanasio
Senior Executive Vice-President & Chief Risk Officer

A

Yeah, absolutely. Your question specifically was around what percentage do we currently adjudicate when we look at the requirement at 2% onto the Bank of Canada posted rate. So, I am referring to, if we were to run our new originations through that rule, how many would qualify. So, they don't all come in the way things work today. Having to qualify is the difference here. Because I think, what you're trying to get to with the B-20 document that's out for consultation is what might be the impact to our future business if these rules were to come into play.

Because as you can appreciate, the change as it relates to the stress test requirement to qualify at 200BPS over the contractual rate that, that actually would apply to our uninsured mortgages.

Scott Chan
Canaccord Genuity Corp.

Q

Larry, I'm just trying to extrapolate The PrivateBank acquisition, 39 days. And I know it's not exact, but Laura touched on the collective provision in the quarter, but the NIX or the efficiency ratio seemed a little bit high vs. prior to the transaction. What is the targeted efficiency ratio, or how should we look at that ratio going forward? The only thing I saw was like higher compensation expense related to retaining employees, and I was wondering if that was one-time as well?

Kevin A. Glass
Senior Executive Vice-President & Chief Financial Officer

A

Let me just take that question. So, I'd say, it's early days that the compensation adjustments certainly have a big impact. They aren't one-time, but they have a relatively short shelf life. So that'll run-off over the next couple of years. But we would anticipate that from a NIX perspective, PrivateBank would actually contribute positively to CIBC as a whole and help drive us to that 55% NIX ratio that we're going to get to in 2019.

Scott Chan
Canaccord Genuity Corp.

Q

So, I guess, put it another way, if I look at YTD with the tailwind on the volume growth and the NIM, the adjusted normalized earnings would be tracking higher than last year?

Larry D. Richman
Senior Executive Vice-President, US Region; President and CEO, The PrivateBank

A

Let me add a couple of things to it. One, there remains, and has consistently been, a very focused strategy of not only driving profitable client growth, but also managing expenses and creating increased operating leverage. And that's a very important part of driving long-term shareholder value, we believe. And that remains.

We believe that the organic growth strategy and the opportunities between leveraging the capabilities and financial strength of CIBC will provide more revenue capabilities. And at the same time that we are integrating, we're also paying a very close attention to how we manage expenses. And so, there's a very fine eye and management focus on expenses overall, and feel very good that we not only had an improvement – and again it's hard to be able to see – but an improvement this quarter in the NIX, or as we in the U.S. said, efficiency ratio, this quarter. But that'll remain an ongoing focus for us.

Sumit Malhotra
Scotia Capital, Inc.

Q

I want to start on slide 23 of your presentation and the PrivateBancorp detail you provided us for Kevin and probably Laura. Kevin, first off, on the NIM bullet you gave us here, NIM at 3.97%. That's decently higher than the last numbers we saw from Private when they reported, which I have here was back around 3.3%. Are you calculating this measure differently, or is there something changed in the disclosure? Because I'm sure NIM's gone up. That seems significant.

And just for Laura to get the other part in. The CAD 11mm in provisions that's shown here, that 'would've been roughly a full quarter run rate for Private. I'm guessing that, that allowance that you mentioned is shown here and not in the corporate segment, where I think you usually have done your allowance adjustments. So hoping you can comment on that, please.

Kevin A. Glass
Senior Executive Vice-President & Chief Financial Officer

A

Sure. Let me take the first. But, I mean, NIMs have actually gone up significantly as a result of the base business, so that's the bulk of it. But also what helps NIMs a bit in this quarter is just because of purchase price accounting, we have a loan discount accretion that you'd have seen in the MD&A that flows through as well. So, on a reported basis, that also helps the NIM. And that was about CAD 11mm, CAD 12mm this quarter, so that also contributed to the NIM improvement. But just base – base NIMs are going up, because business is improving, rates have improved, rated have increased – yes, rates have increased?

Larry D. Richman
Senior Executive Vice-President, US Region; President and CEO, The PrivateBank

A

It's Larry, just a couple of further thoughts to reinforce Kevin's message, which is rates in the U.S. – and we're very asset sensitive with a big proportion of our loans variable priced and tied to LIBOR and, in many cases, 30-day LIBOR. With the rates rising, that has had an impact, positive impact. But we're seeing, at the same time that rates are rising is we're able to hold pricing at reasonable rates. And again, it is a mix of portfolio with some loans priced at different pricing than obviously the others in different industry segments in mix. But overall, I feel good that we're holding pricing in a continued competitive market, and the up of rates has had a nice contribution.

Sumit Malhotra
Scotia Capital, Inc.

Q

And Laura on the PCL?

Laura L. Dottori-Attanasio
Senior Executive Vice-President & Chief Risk Officer

A

So to your question, the allowance you would find that I mentioned earlier, the CAD 13mm, so that's in Corporate and Other.

Sumit Malhotra
Scotia Capital, Inc.

Q

So the CAD 11mm that's shown on that slide 23 for Private and provisions, that's the provision that the core business booked in the one month or so that it was in the numbers?

Laura L. Dottori-Attanasio
Senior Executive Vice-President & Chief Risk Officer

A

That's right.

Sumit Malhotra
Scotia Capital, Inc.

Q

That seems decently higher than the provision that Private had been running at. So maybe that's the case, but I just wanted to make sure that there wasn't anything one-time-ish in the establishment of that?

Laura L. Dottori-Attanasio
Senior Executive Vice-President & Chief Risk Officer

A

There's purchase accounting in there, which I think is adding noise to the numbers. Nothing as it relates to the performance. We've seen solid standard performance from The PrivateBank from a loan loss perspective. So what you're seeing really is noise in the numbers, as I said, related to purchase accounting. And so I can hand that back Kevin, who hopefully can take you through that detail.

Sumit Malhotra Q
Scotia Capital, Inc.

Yeah. And just I'll say this from what I've seen, I understand the impact on NIM that was Kevin was mentioning. I'm a little surprised to hear about purchase accounting boosting the provision. But Kevin maybe you've got something there?

Kevin A. Glass A
Senior Executive Vice-President & Chief Financial Officer

Sure. So on acquisition when you do the acquisition accounting, there are two adjustments to go through. So the first is writing off all the existing allowances; and then secondly doing a portfolio fair value discount and then building up the allowance over time. So in this quarter, you'll see two things going through that largely offset. So the first is, building up the allowance, which is about CAD 10 million-odd, and that's included in that number that you are referring to on the slide. The other side of that is accreting the discount back into income. And that was a comparable number going the other way that would be included in the top line.

And what I would point out moving forward is the added complexity is IFRS 9. So at the end of the year, when we convert to IFRS 9, there will be a one-time adjustment where we actually catch up the entire amount of the allowance for doubtful accounts, so that will be caught up. And we won't have that drag moving forward, but we will continue to have the accretion, but we'll disclose that as we move forward.

Sumit Malhotra Q
Scotia Capital, Inc.

And just to wrap this up, so I think you and I had this discussion last quarter about potential impacts of closing this transaction on capital. And, I'll say, the 230 basis point impact on capital was larger than I expected. Was there a larger impact as a result of these adjustments that you're referring to on capital than may have initially been contemplated?

Kevin A. Glass A
Senior Executive Vice-President & Chief Financial Officer

No. The answer is no. That's entirely within the range. Actually, it was bang on from what we expected to see. But I mean, there are a couple of things, because we saw that some of the estimates were a bit higher. So, a couple of things that may have not been taken into account. And the first is we had some dissenting shareholders. So, that was about 10BPS, so that's still out there.

And then the other thing is the calculation of that CET1 is somewhat opaque. So, if you look at expected loan loss shortfalls that would have been about another 15BPS. So, I think that may really have accounted for the difference. But in terms of the adjustments I referred to relating to the allowance and the loan loss accretion, and the loan discount, no, that that didn't have a negative impact. That was really awash.

Doug Young Q
Desjardins Securities, Inc.

Just back to PrivateBancorp and the NIM discussion. And I get the discussion that you just had, but can you talk about what the NIM would have been excluding the accounting noise, just so we can compare it to that 3.3%?

Kevin A. Glass
Senior Executive Vice-President & Chief Financial Officer A

Why don't we get back to you with the exact calculation, try and do reconciliations on the course, probably not a smart move. And would certainly have an impact, but not a big impact. The biggest driver would have been increasing interest rates on the core business. But we'll get back to you with a detailed reconciliation.

Doug Young
Desjardins Securities, Inc. Q

Okay. Fair enough. And then just on the regulatory capital, I saw the risk-weighted assets was reduced by, I think, about CAD 2.5B due to model enhancements. Laura, can you flush out what that related to?

Laura L. Dottori-Attanasio
Senior Executive Vice-President & Chief Risk Officer A

Really, just standard course model enhancements that follow the regular pace of model updates. So, nothing major to point out.

Doug Young
Desjardins Securities, Inc. Q

What business line was it?

Laura L. Dottori-Attanasio
Senior Executive Vice-President & Chief Risk Officer A

It's across our business lines. There would have been some, I believe, in our Capital Markets and then in the retail portfolio, but again, small things, nothing major.

Doug Young
Desjardins Securities, Inc. Q

Okay. And then just in Canadian P&C banking, sequential NIM increase, was there – just apprise, given the mix of business shift, was there anything unusual in that positively impacted the Canadian NIM sequentially? And can you talk a bit about what the outlook would be for Canadian NIMs, given obviously one rate increase, and as we stare into 2018 and given your outlook for rates?

Christina Kramer
Senior Executive Vice-President and Group Head, Personal and Small Business Banking, Canada A

It's Christina. I'll answer that question. In Q3, we saw 1 basis point improvement in NIM, and that was the net effect of better deposit spreads, a slightly more favorable prime-BA spread and a drag from business mix. So, looking a few quarters ahead and building in some current expectations for the market for future rate increases, we expect our NIM to be steady to slightly improving.

Gabriel Dechaine
National Bank Financial, Inc. Q

Just to clarify, the collective build, it looked like it did go through the new segment. That's what the write-up says in your MD&A here, as partial explanation of the increase in PCL was that...

Kevin A. Glass
Senior Executive Vice-President & Chief Financial Officer

A

Yes. That's correct, Gabriel.

Gabriel Dechaine
National Bank Financial, Inc.

Q

Okay. And then IFRS 9, you touched upon that, and there will be a transitional adjustment, and therefore, we won't see this general allowance or collective allowance built beyond Q4. Do you think that the overall adjustment from IFRS 9, the transitional adjustment, will have a material impact on your quarter one, maybe a few basis points or something more than that?

Kevin A. Glass
Senior Executive Vice-President & Chief Financial Officer

A

So, in our disclosure next quarter, we'll be giving way more detail and actually come out with a number. We're continuing to model, but based on what we have seen so far, it's quite manageable.

Gabriel Dechaine
National Bank Financial, Inc.

Q

Right. Let me put it this way, as we put out some guidance on Monday, I believe, saying if banks expect these material impacts, ask us for a phase-in – or put in a request for a phase-in timeframe, do you think the timeframe of phase-in is going to be long or short?

Kevin A. Glass
Senior Executive Vice-President & Chief Financial Officer

A

No, I mean I think the whole – there's a lot of complexity to that, and it really depends bank to bank. I think from our perspective, even if phase-in to phase-in we can manage the transition.

Mario Mendonca
TD Securities, Inc.

Q

I'll try to be fairly quick here. The VaR did spike a fair bit in May. I suspect something happened there that I should know, but I can't remember. Is there anything you can highlight?

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

A

Yeah, we had some pretty large transactions in the equity capital markets space with some remnants that were absorbed by the market over time, and that's the real reason for it.

Mario Mendonca
TD Securities, Inc.

Q

So, there was nothing that's – actually, you would view that as a positive then?

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

A

Yeah, I mean, we really work with our clients, and in fact, we get a follow-on transaction in the coming months.

Mario Mendonca
TD Securities, Inc.

Q

So, the reason I ask is, because I didn't see any improvement in the revenue emerging from that spike in VaR. Are you suggesting that, that spike in revenue seen later in June is reflective of the increase in VaR in May?

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

A

Yeah. What I'm saying is there are times we need to stand with our clients to get transactions done in the market. And it was a very large transaction at that point in time with remnants, which the Street faced. And there wasn't significant amount of revenue, if any, attached to that one transaction. And as you know, we view these client transactions or client relationships on a long-term basis, and therefore, we believe that over the long run, it's the right thing to do, to attach risk to our client transactions of that nature.

Mario Mendonca
TD Securities, Inc.

Q

All right, that's good enough. The all-bank margin, Kevin, this is maybe tough for me to ask you, but I look at your all-bank margin, and I clean it up for trading. And I do it on a TE basis. The all bank margin sequentially was up 9BPS the way I look at it now. You may not calculate of that way, so may be unfair to ask the question. But let me just ask you generally. The significant increase in the margin, the way I've described it, was that essentially just the Treasury activity you're referring to?

Kevin A. Glass
Senior Executive Vice-President & Chief Financial Officer

A

I say, yes. I mean, part of the challenge of all-bank margin is actually on the margin, just a slight move in asset can make quite a big difference on that. So, a lot of that did have to do with rebalancing of treasury on pretty low-margin business, which can move the all-bank margin quite a lot. That's correct.

Mario Mendonca
TD Securities, Inc.

Q

So, is it conceivable that number could just sort of come right back down next quarter, that all-bank margin color?

Kevin A. Glass
Senior Executive Vice-President & Chief Financial Officer

A

Yeah, I mean, I think you can expect some volatility on that. I mean. Yeah, for us, the more important margin business or NIM to have a look at is retail, which drives a lot of higher margin revenue, so I think it's fair to say, yeah.

Mario Mendonca
TD Securities, Inc.

Q

Okay. And then finally on cards, any activity changes and purchase activity you're seeing on Aeroplan specifically, because the card revenue did look light, but the balances look great, so anything you can highlight there?

Christina Kramer
Senior Executive Vice-President and Group Head, Personal and Small Business Banking, Canada

A

Thanks. I'll take that question. It's Christina. As Aimia had actually stated earlier this month, and as we've seen in our own experience, both in spin and active, there's been very little change since the Air Canada announcement, so it's been business as usual from that perspective. Overall, our travel space, we are seeing some good growth in the portfolio. Aero's stable contributing well; and Aventura's seeing robust growth.

Mario Mendonca
TD Securities, Inc.

Q

Just I couldn't heard you after that when you got started. So you were just saying you didn't really see anything emerge on Aeroplan behavior this quarter?

Christina Kramer
Senior Executive Vice-President and Group Head, Personal and Small Business Banking, Canada

A

Oh, yeah. Yeah, what I was saying was both Aimia – Aimia stated this, as well as in our own experience. There's been very little change since the Air Canada announcement.

Sohrab Movahedi
BMO Capital Markets (Canada)

Q

Two quickies, hopefully. If I can just go back to Christina. Are there any metrics you could share with us Christina that over the last couple of years with the good mortgage growth, where you're seeing other products growing as well? In other words, give us some comfort that these are not single product relationships?

Christina Kramer
Senior Executive Vice-President and Group Head, Personal and Small Business Banking, Canada

A

Yeah. Yes, as to specific metrics, I don't have off-hand, but what I could say for sure is that we have seen growth across the businesses acquired by our mortgage advisors as well as in our banking centers, which is primarily where we're seeing the mortgage growth. And that growth is coming with deposits and with other business to CIBC. So, it is broad-based and it is across all the product categories as I mentioned earlier.

Sohrab Movahedi
BMO Capital Markets (Canada)

Q

Okay. I mean, on page 21 of the presentation material, I mean, residential mortgages, for example, this quarter up 13%; cards up 2%; business up 9%; personal loans only up 7%. If I look at just the metrics you have over here and in a very blunt fashion, look at your loan-to-deposit ratio, it's actually going up, would have been about 144% last year, up to 147%. So, this is consistent with what you would expect the mortgage growth to be resulting in?

Christina Kramer
Senior Executive Vice-President and Group Head, Personal and Small Business Banking, Canada

A

Mortgage growth is part of the story. As I mentioned earlier, we are seeing growth across all of our segments both on personal and business. We are seeing it across all the product categories, and we're seeing strong funds managed growth in money-in and money-out. So, in terms of the mortgage contribution, it has brought in new business for us; it's brought in new clients, which also have brought in deposits in core banking and so on.

Sohrab Movahedi
BMO Capital Markets (Canada)

Q

Okay. And then very quickly, maybe either for Kevin or Victor. I mean, you're still continuing to issue shares through the DRIP discount. I think, I assume you're going to turn that off before you contemplated any buyback type activity that you were talking about a little bit earlier. And I was a little bit surprised, Victor, I think you said something along the lines of we will only do buybacks if we thought it was a good value proposition. But given where the stock is trading, you don't think you're there right now?

Victor G. Dodig
President, Chief Executive Officer & Director

A

Sohrab, the trade-offs when we look at capital management as a leadership team, we look what's going to be the highest and best use to our shareholders over the medium to long term. When it comes to some of these short term capital trade-offs, we'll do the right thing. You can just assume, that we'll do the right thing to maximize share value. I'm not going to comment on the value of the shares today. That's for you to judge and for our investors to judge. I will tell you that I think we're running a very good robust business, with good expense control across all of our footprint. And I think the acquisition that we've made in The PrivateBank, over time, will prove to be a very, very good investment for our shareholders.

Darko Mihelic
RBC Dominion Securities, Inc.

Q

Actually have three, I think, simple questions. So, hopefully, we can tear through this quickly. Laura, when I look at the presentation on slide 15, when we look at the delinquency rates, really nothing to look at there, but the only thing that comes to mind is just to set my mind at ease, when I look at the increase in delinquency rates and in the GVA, just want to make sure that there isn't a single vintage that's causing the increases. Is this a broad-based mild increase to delinquencies we shouldn't care about, or are there in fact some vintages that are posing more problems?

Laura L. Dottori-Attanasio
Senior Executive Vice-President & Chief Risk Officer

A

No, we actually do go in and do quite the exercise to normalize, if you will, for growth in the portfolio. So, we do look at all of our vintage performance. And the delinquency rates remain pretty much the same. And so, there's no degradation happening there. What you're seeing there, quite frankly, is just a little bit of noise relating interestingly to a handful of accounts that we have.

Darko Mihelic
RBC Dominion Securities, Inc.

Q

Okay. Thank you. And then, just quickly on slide 16, I think, Christina you're talking about your productivity of your mortgage advisors. Can you give us a sense of where – I mean, if I took the CAD 16B divided by our advisors, I suppose that have a certain productivity number. But can you give us the delta, and where you think you are relative to the industry in terms of how productive your advisors are relative to any other mobile rep from any other Canadian bank?

Laura L. Dottori-Attanasio
Senior Executive Vice-President & Chief Risk Officer

A

I know that our mortgage advisors have been seeing growing improvements in productivity. This has been year-after-year over the last several years. As it relates to our peer group, we don't have any comparisons to share.

Darko Mihelic
RBC Dominion Securities, Inc.

Q

Okay. And then I guess the last question, I just wanted to go back to the discussion you just have with Sohrab on the issuance of shares. I just wanted to understand a bit better, just for modeling purposes. I mean, it's about 2mm shares a quarter when you have the DRIP and the employee plan put together. Maybe very succinctly, at what level of capital do you shut that off?

Victor G. Dodig
President, Chief Executive Officer & Director

A

Very succinctly, Darko. Look, our goal is to be in the 10.5% range, if we were to go slightly higher than that, I'd be okay with that. Wouldn't want to go lower than the 10.4%, 10.3% kind of range, so we're going to work within the band of 10.4% to 10.7%. And once we have clear visibility on the regulatory environment, on the macroeconomic environment, we will make decisions vis-à-vis the DRIP.