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Canadian Imperial Bank of Commerce

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MANAGEMENT DISCUSSION SECTION

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

I would now like to turn the meeting over to Amy South, Senior Vice President, CFO, Functional Groups, and Head of Investor Relations. Please go ahead, Amy.

Amy South

Senior Vice-President, Investor Relations, Canadian Imperial Bank of Commerce

Thank you, operator. Good morning, and welcome to CIBC's 2018 first quarter results conference call. My name is Amy South, and I'm the Senior Vice President of Investor Relations.

This morning's agenda will include opening remarks from Victor Dodig, CIBC's President and Chief Executive Officer; Kevin Glass, our Chief Financial Officer, will follow with a financial review; and Laura Dottori-Attanasio, our Chief Risk Officer, will provide a risk management update. With us, for the question-and-answer period following the formal remarks, are CIBC's business leaders, including Harry Culham; Jon Hountalas; Christina Kramer; and Larry Richman, as well as other senior officers.

Before we begin, let me remind you of the caution regarding forward-looking statements in slide 1 of our Investor Presentation. Our comments may contain forward-looking statements, which involve applying assumptions which have inherent risks and uncertainties. Actual results may differ materially.

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

Victor G. Dodig

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

Thanks, Amy. Good morning, everyone, and thank you for joining us. The financial results released this morning represent continued execution of our client-focused strategy and progress on the commitments we made to you at our investment day in – Investor Day in December.

Our adjusted earnings for the quarter were CAD 1.4 billion. On a per-share basis, this quarter's adjusted earnings of CAD 3.18 represents our 14th consecutive quarter of year-over-year EPS growth. We also delivered strong results across all of our strategic business units.

In our Canadian personal, small business, commercial and wealth management businesses, we delivered strong earnings growth consistent with our medium-term targets. With a second full quarter's contribution from CIBC Bank USA, we continue to perform well and deliver against our commitment to build client relationships north and south of the border. And global capital markets also reported solid earnings, reflecting its ability to deliver solutions and services to clients across our entire bank.

Our results also reflect their strength and focus of our management team in improving operational efficiency by managing costs and reinvesting in strategic initiatives that drive growth. This quarter, we achieved an adjusted efficiency ratio of 55%, driven through a combination of strong revenue growth and a focus on our expenses.

We're pleased with our progress as it sets us up well to maintain our focus on cost discipline and deliver on our medium-term efficiency target of 52%.

Our capital position improved with a CET1 ratio of 10.8% compared to 10.6% last quarter. And excluding the Basel I floor adjustment, our first quarter pro forma CET1 ratio would be 11%. The strength of our core earnings and our confidence in our ability to continue to deliver solid earnings growth going forward led to two changes in CIBC's dividends. The first is that we're increasing our common share dividends by CAD 0.03 per share or 2% by bringing the quarterly dividend to CAD 1.33. And this puts us on track for an annual dividend payout ratio near the midpoint of our stated range of 40% to 50%. And the second is that we're discontinuing the 2% discount on Treasury-issued CIBC shares under the dividend reinvestment program.

This quarter, we also launched CIBC's Innovation Banking unit. I thought I'd take a moment to highlight this as it's a clear example of how the CIBC team is working across our business to come together to serve our clients. As part of this launch, we acquired Wellington Financial, a leading privately-held provider of growth capital to early and mid stage technology companies.

Our goal is to be an important player in the innovation economy. And for us, this means banking companies directly involved in this ecosystem, but it also means learning how innovative technologies will impact all of our clients across many industries and how we can help our clients capitalize and adapt to these challenges and opportunities. The specialized expertise from the Wellington team nicely complements CIBC's well-established commercial banking and capital markets teams in both Canada and the U.S. that are already focused on innovation. I look forward to sharing more examples of how we are executing our strategy as we go forward.

And with that, I'd like to turn the call over to my colleague, Kevin Glass, to review our results in greater detail. Kevin?

Kevin A. Glass

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

Thanks, Victor. So my presentation will refer to the slides that are posted on our website starting with slide 5. CIBC reported net income of CAD 1.3 billion and earnings per share of CAD 2.95 for the first quarter of 2018. Adjusting for items of note detailed in the appendix to this presentation, which included a tax adjustment resulting from U.S. tax reforms of CAD 88 million, our net income was CAD 1.4 billion and EPS was CAD 3.18.

We had record revenue of CAD 4.4 billion for the quarter, which is up 13% year-over-year. We delivered positive operating leverage of 2.4% and an efficiency ratio of 55.1%. Our capital position was strong with a CET1 ratio of 10.8%, including a forward adjustment of 16 basis points, and we increased our quarterly dividend by CAD 0.03 to CAD 1.33 per share. As Victor mentioned in his remarks, we are eliminating the discount on our dividend reinvestment plan effective Q2 2018. Overall, we are tracking well against the medium targets we communicated to you at our Investor Day and are confident we will achieve them.

So the balance of my presentation will be focused on adjusted results, which exclude items of note. Let me start with the performance of our business segments, beginning with the results for Canadian Personal and Small Business Banking.

Net income for the quarter was CAD 658 million, up 17% from last year. Revenue for the quarter was CAD 2.1 billion, up 7% from last year, primarily driven by strong and balanced volume growth. Net interest margin was down 1 basis point from last quarter, as the impact of promotions on our – simply on e-savings deposit accounts was partially offset by favorable rates.

Non-interest expenses were CAD 1.1 billion, up 5% from the prior year, primarily due to higher spending on strategic initiatives that have accelerated our transformation into a modern, convenient and relationship-oriented bank. Expense discipline along with our solid revenue growth combined to generate strong pre-provision earnings growth of 8%, operating leverage of 1.3%, and a 60 basis point year-over-year improvement in our NIX ratio.

As you are aware, with the adoption of IFRS 9 this quarter, we now recognize provision for credit losses related to both impaired and non-impaired loans in the respective strategic business units. The provision for credit losses of CAD 148 million is down CAD 54 million from the same period last year, primarily due to a reduction in the allowance for non-impaired loans. While we had a decrease in the allowance for non-impaired loans in the current quarter, we anticipate that this would be volatile and sensitive to forward-looking information. And Laura will speak to credit quality in more detail in her remarks.

Slide 7 shows the results of our Canadian Commercial Banking and Wealth Management segment. Net income for the quarter was CAD 314 million, up 14% from last year, reflecting revenue growth from higher deposit and loan volumes and growth in AUA and AUM. Higher revenue in Commercial Banking was driven largely by a 10% increase in deposit balances and an 8% increase in lending balances. Revenue is also helped by widening spreads and higher fees.

In Wealth Management, AUA grew 8%, reflecting market appreciation and positive net sales. Non-interest expenses were up 5% primarily due to higher performance-based and employee-related compensation. Very strong top-line growth and controlled expenses contributed to positive operating leverage of 3.5%.

Slide 8 shows the results of our U.S. Commercial Banking and Wealth Management segment, which includes results of CIBC Bank USA, Atlantic Trust and the Real Estate Finance business. Earnings for the quarter for the segment was CAD 140 million. Revenue was CAD 413 million compared with CAD 113 million a year ago, reflecting the U.S. banking and private wealth capabilities we added last year. Commercial Banking revenue represented approximately two-thirds of revenue for the segment.

Provision for credit losses was CAD 14 million, driven mainly by an increase in allowance on non-impaired loans. Overall, credit quality remains strong. AUA was CAD 76 billion as at the end of the quarter, increasing CAD 31 billion from a year ago, reflecting the U.S. private wealth capabilities that we added in 2017. Results this quarter reflect a lower effective tax rate due to the U.S. tax reforms enacted in the current quarter.

On slide 9, we show the contribution of CIBC Bank USA in U.S. dollars. In order to provide a sense of the progress made on a business-as-usual basis, we have compared results of this quarter with private banks results a year ago using their published financials for the three months ended December 2016. We have continued to treat purchase price adjustments for portfolio of fair value discount accretion as an item of note this quarter to more accurately reflect core earnings.

Adjusted net income was $83 million compared with $60 million for private bank in the fourth quarter of 2016. Revenue was $236 million, increasing $40 million or 20% from Q4 2016, reflecting the benefits of a higher rate environment and portfolio growth. Adjusted NIM was 3.45%, up 22 basis points compared with Q4 2016 and up 5 basis points sequentially.

Average loans grew $1.9 billion or 13% from calendar Q4 2016, reflecting the continued momentum in driving client development, which included $1.4 billion of commercial and industrial loans and approximately $300 million in commercial real estate and construction. Average deposits increased $1 billion or 6% from calendar Q4 2016.

Deposits sourced from CIBC referrals drove $700 million or 4% increase in average deposits from Q4 2017. Non-interest expenses were $117 million, an increase of $21 million or 22%. Just (inaudible) (11:26) increase related to retention awards that are designed to retain key personnel.

Turning to capital markets on slide 10, net income of CAD 322 million was down CAD 25 million from a year ago, reflecting lower revenue in global markets, partially offset by higher revenue in corporate and investment banking and a reversal of loan losses in the current quarter. Revenue this quarter was CAD 801 million, down CAD 29 million or 3% from a year ago, reflecting lower interest rate and commodity trading revenue and lower underwriting revenue, partially offset by higher revenue from corporate banking and equity derivatives trading.

We continue to grow our business as we focus on building innovative and steady revenue streams and also on providing Capital Markets products and services to wealth and commercial clients in Canada and the U.S. Non-interest expenses were up CAD 10 million or 3% from a year ago.

Slide 11 reflects the results of the Corporate and Other segment where we had net loss for the quarter of CAD 1 million compared with a net loss of CAD 49 million in the prior year, reflecting improved Treasury results.

Turning to capital on slide 12, our CET1 ratio was 10.8% as of Jan. 31, up 20 basis points from the prior quarter. Solid organic capital generation and share issuance through our dividend reinvestment and employee share-based plans were partially offset by the impact of RWA growth, IFRS 9 day-one impact, and the Basel I floor adjustment. The floor adjustment will be removed next quarter under OSFI's revised capital framework. On a pro forma basis, excluding the floor adjustment, our CET1 ratio was 11% this quarter. And our leverage ratio was 4% as of Jan. 31.

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

Laura L. Dottori-Attanasio

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

Thanks, Kevin, and good morning, everyone. This quarter, as Kevin mentioned, we adopted the new IFRS 9 accounting standard, which has a more forward-looking approach to booking loan loss provisions. We expect loan losses to be more volatile under this approach, particularly as we move in and out of the economic cycles.

As you will see on slide 14, we've highlighted stage 3 provisions, as we feel this stage is more indicative of portfolio performance and less sensitive to economic factors. It is also more comparable with previous reporting. The total loan losses were CAD 153 million in the first quarter. This includes a CAD 49 million net reversal in stage 1 and stage 2, reflecting an improvement in the forward-looking macroeconomic factors that determine expected losses in these stages. Stage 3 loan losses were CAD 202 million. That's down CAD 8 million from last quarter. And this was largely driven by lower losses in our Canadian Commercial Banking and CIBC Bank USA portfolios, which was partially offset by higher losses in CIBC FirstCaribbean.

Slide 15 provides an overview of our gross impaired loans. Our total gross impaired loan ratio was 40 basis points. That's up from 36 basis points last quarter. The increase is driven by our mortgage portfolio, which was impacted by the adoption of IFRS 9. So under the new accounting standard, all mortgages are now classified as impaired at 90 days past due, whereas previously, insured mortgages were classified as impaired at a later date. So that was 180 days for privately insured and 365 days for CMHC insured. So adjusting for the accounting change, the gross impaired ratio for our mortgage portfolio would have been flat. The impairment ratios of all other portfolios remains low and stable.

Slide 16 provides a more granular view of our net credit write-off rates by portfolio. The overall net write-off rate was 20 basis points in the first quarter. This improvement was broadly spread across both our consumer and the business and government portfolios.

On slide 17, we've highlighted our Canadian credit card and unsecured personal lending portfolios. The late-stage delinquency rate of our Canadian unsecured personal lending portfolio continues to remain stable.

Looking at our Canadian cards portfolio, there were two main factors driving the quarterly increase. The first is a change to the way we account for interest accruals under IFRS 9, which only impacts our cards portfolio. So under IFRS 9, the full amount of interest is accrued until the account is written off. This results in roughly 6 basis points increase to our cards ratio. Previously only a portion of interest was accrued, which was dependent on client behavior.

And secondly, seasonality in the cards portfolio represents 6 basis points of impact, as delinquencies trended higher after the holiday season. So, excluding the impact of adopting IFRS 9, the late-stage delinquency rate would have been flat on a year-over-year basis. So overall, we continue to be very pleased with our credit performance and the quality of our credit portfolios.

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

Amy South

Senior Vice-President, Investor Relations, Canadian Imperial Bank of Commerce

Thank you, Laura. That concludes our prepared remarks. We'll now move to questions.

QUESTION AND ANSWER SECTION

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

Ebrahim H. Poonawala

Analyst, Bank of America Merrill Lynch

Q

Good morning. If you can first touch upon just in terms of what you are seeing on the mortgage side in the new year, I think there was a sense that we saw some pull-forward at the end of last year ahead of B20. Would love to – I realize it's early days but would love to get some color in terms of when you've seen some customer behavior over the last 60 days, has it been in line, better or worse than what you expected.

Christina Kramer

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

A

So, Ebrahim, it's Christina speaking. It is really too early for us to comment on B20. Just went into effect in January. We have less than 30 days in the market. And as you said, we saw some pull-forward in November and December. So January itself is not a good indication alone. So early days. We're not seeing any big change to customer behavior. Too early to call.

Ebrahim H. Poonawala

Analyst, Bank of America Merrill Lynch

Q

And do we still feel good about hitting sort of a mid-to-high single-digit growth this year when we think about the mortgage growth, or any sort of framework there?

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

A

Yes. The mortgage growth, as we had communicated on Investor Day, has been slowing since peak in middle of 2017. And we also communicated that we – our growth rate would be nearing industry average and that at the same time we would be offsetting that mortgage growth change with momentum in areas – other parts of our business. And that's exactly what we're seeing. So our overall outlook for the year in terms of revenue growth will continue to offset lower mortgage growth. Our outlook is positive. And we're comfortable that our revenue growth up 7% year-over-year is a strong indication that our strategy is one that we're very confident in. Our relationship focuses will drive good outcomes this year.

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch

Q

And what's your assumption on the industry mortgage growth for the year? Not to pin you down. I know there's a ton of uncertainty, but like when you think about it, [ph] I'd like to maybe (19:52) converge with the group, but what's the expectation for that to be like 4% to 6%, higher or lower?

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

A

Well, I'll pass it over to Laura to talk a bit about the guidance that we gave previously on the impact of B20 over the year. But overall, I know you're not trying to pin me down, but it will be – it is a – we have been seeing a slowing mortgage growth rate. And it's too early right now to tell what it will look like over the next several months. Over the next while we'll see customer behavior and the market adjust to the new regulations and the rate changes over the past six months.

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch

Q

Understood. And switching maybe for Victor or Kevin. Nice capital build during the quarter like adjusted for Basel I at 11% CET1. Could you remind us in just in terms of how you're thinking about capital deployment outside of organic growth or are you thinking about sort of accelerating sort of organic investments in the U.S. franchise? Like, how – if you can sort of outline that?

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

A

So, Ebrahim, it's Victor here. Good morning to you and...

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch

Q

Hey, Victor.

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

A

...well done on getting four questions in. So I'm going to – and this is going to be your last question on this call. I'm going to put you back to the rotation. Just to remind you, in terms of our Investor Day, we outlined our capital deployment priorities. And that's really to focus on organic growth across all of our businesses over index in our U.S. and Canadian Commercial and Wealth Management businesses, but it's all about organic growth.

The second involved our dividend policy, and today, we've talked about the fact that the discount on our drip is going to zero. We had communicated that once our capital got above a certain level and we felt comfortable with the regulatory environment clarity that we would do that, which is exactly what we delivered on. The dividend increase is simply another way of signaling to our investors that we intend to stay at the midpoint of our range. And when it comes to buybacks, we have announced a buyback, renewal of our buyback program or NCIB. And we will execute on that over the course of the year as we see our capital level stay comfortably above the 10.7% level. That's it in a nutshell.

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch

Q

Thank you very much.

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

A

Thank you.

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

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

Q

Good morning. I was wondering if you might be able to give us a little more detail on net interest margins on domestic retail. What the actual cost to promotions were and what the offset was from the margins that's sort from the increase in the interest rates that Kevin talked about in his opening remarks?

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

A

So it's Christina speaking, John. We saw a NIM decline of one.. Some of that was related to rate, sort of our promotional offers, as you mentioned, and some lift at the same time. So down two related to our promotions and up one due to rate.

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

Q

Thanks, Christina. And how long do you anticipate that the promotions to weigh on your margins?

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

A

We had guided that in the first half of the year that we would have some compression on the margins, but what you'll see over the balance of the year is the promotions run-off that their benefit for the rate increases will appear.

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

Q

Great. Thank you. And if I can sneak in a quick one with Laura. Laura, in terms of the IFRS impact on cards, the accrued interest, the 6 basis points, do you expect that to be basically like your permanent impairment or do you actually expect to see some volatility in that number?

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

Hi, John. I would expect to see volatility in the number.

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

Any order of magnitude?

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

I wouldn't even dare to try to call that. But probably a bit lower than what we've seen.

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

Okay. Thanks, Laura. I appreciate that.

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

Meny Grauman
Analyst, Cormark Securities, Inc.
Q

Hi, good morning. Also a volatility question on PCLs, the move in the non-impaired line, just wondering how volatile do you expect that specific line to be? The economic outlook changes that impacted that line for Q1, is that something that can get drastically reevaluated on a quarter-to-quarter basis? So any sort of guidance there would definitely be helpful.

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

Yes. Hi, Meny. Thanks for the question. So I would say stage 3 saw losses on impaired loans. So very similar to what were our specific losses. So I do think this is what we should be focusing on, if you will, more so than the stage 1 and stage 2 losses. Stage 3 really relate to current macroeconomic and business conditions relative to stage 1 and stage 2 that are more correlated to economic expectations. And so I think from a stage 3 perspective, really as long as the current macroeconomic environment remains stable and strong that we could expect to continue to see, if you will, good performance. We have had strong credit performance this quarter.

That said, in here, we do have, of course, commercial and corporate losses, which do tend to manifest themselves on occasion, just given the nature of those businesses. So it can move. And I would say when you look at stage 3 losses, I would expect them to increase somewhat, just given – as you've seen in our results, they've been quite low in the corporate and commercial spaces where we have benefited from some reversals. Does that help?

Meny Grauman
Analyst, Cormark Securities, Inc.
Q

Okay. Yes. Just a follow-up. In terms of that – the non-impaired line, is there anything that we could look to, to kind of give us a guide? Is it really – are labor market indicators maybe the best thing to look at for that line specifically or is there anything else that you'd suggest to give us a guide for how big a swing we could expect in that line?

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

A

Well, that's one. As you know, employment does play a big impact on retail in particular. And that's true in terms of our forward-looking things for stage 1 and stage 2 and then sort of what's really happening from a stage 3 perspective. So, yes, that will have an impact. I guess things you can look at are delinquencies and whatnot from a retail perspective. Those continue to be a good indicator of potential future performance.

Meny Grauman
Analyst, Cormark Securities, Inc.

Q

Okay. Thank you.

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

Steve Theriault
Analyst, Eight Capital

Q

Thanks very much. Good morning, everyone. Maybe turning to Harry for a moment. A surprise to see you deliver two to three or higher in terms of equity trading. I know that can be lumpy for a variety of reasons. It used to be total return swaps. But it'd be great to get some detail on some of the drivers there. I noticed two last Q1s. So Q1 2017, you also had elevated equity training. Is there anything maybe seasonal, maybe calendar year-end related we should consider when we're thinking about run rate trading going forward?

Harry Kenneth Culham
Senior Executive Vice President & Group Head-Capital Markets, Canadian Imperial Bank of Commerce

A

Hi. Good morning, Steve. Thanks for the question. First thing I highlight is that this is a strong client-focused diversified franchise and specifically with respect to the equity franchise as well. We saw strong client-driven activity in general with quarter-over-quarter growth and essentially all of our trading businesses, but particularly strong results in our equity derivative space, as you noticed.

There are a number of client strategies in that space. And really what it comes down to is the results are held by higher than usual client activity across the equity space in the equity derivative space. So, going forward, the results will be based on the level of client activity, which will vary from time to time. But you're right. Quarter-one does tend to be stronger than the other quarters in this area.

Steve Theriault
Analyst, Eight Capital

Q

And was it a variety of the strategies that we're hitting this quarter or was it one or two very specific that drives that seasonality?

Harry Kenneth Culham
Senior Executive Vice President & Group Head-Capital Markets, Canadian Imperial Bank of Commerce

A

There are a couple of strategies that give rise to revenue growth that we saw in quarter-one. It really comes down to client activity, which tends to be stronger in quarter-one. But I would say that based on what's happening in the market in terms of client activity in terms of the type of business we're seeing, we're up to quite a strong start in quarter-two as well.

Steve Theriault
Analyst, Eight Capital

Q

Okay. That's helpful. And then just for you as well in the slides. It notes some growth in the U.S. platform. How much of the – is that material relative to the earnings strength we're seeing this quarter or is it more on the trading side? Maybe you can refresh us on some of the initiatives in the U.S. that are helping to drive the revenue line as well.

Harry Kenneth Culham
Senior Executive Vice President & Group Head-Capital Markets, Canadian Imperial Bank of Commerce

A

Sure. Yes. Just as a follow-up to the Investor Day, we did highlight that we're attempting to get to 40% to 50% of our growth over the next three years to come from the United States businesses. Integration is happening with our partners at CIBC USA under Larry's team. And we've seen some continued earnings growth in the U.S. The results are in line with our expectations. I would say that the outperformance in quarter-one was largely in Canada, however, across the trading businesses, well-diversified with basically every product area up quarter-on-quarter.

Steve Theriault
Analyst, Eight Capital

Q

Thanks very much.

Operator: Thank you. Our next question is from Nick Stogdill with Credit Suisse. Please go ahead.

Nick Stogdill
Analyst, Credit Suisse Securities (Canada), Inc

Q

Hi, good morning. For Christina or Laura, I know it's too early to tell on the impact of B20. So maybe you could just talk a little bit about the originations in the mortgage book in the quarter, CAD 9 billion, down 25% from last year and from last quarter. So maybe – is this all intentional or how much is maybe market-driven, any added color on the originations specifically?

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

A

I'll speak to that. It's Christina. The market has been seeing slowing since mid last year, as I mentioned. So some of that is definitely market, and we also had communicated that we would be – our growth rate would be nearing industry average. And so that's in fact what we've been seeing.

Nick Stogdill
Analyst, Credit Suisse Securities (Canada), Inc

Q

And so you would characterize the decline as the normal change in your growth rate? I mean, that's kind of what you're expecting, is that kind of level of origination decline going forward?

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

The decline – yes. Yes.

Nick Stogdill
Analyst, Credit Suisse Securities (Canada), Inc
Q

Okay. Great. Just a second one on PCLs. Just to clarify, for Laura, is this a situation where you have the stage 2 expected credit losses – lifetime expected credit losses, and because of the better economic outlook, you're reducing those lifetime losses to 12-month losses? Is that what's occurred?

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

Oh! Nick, it's complicated. Just from a lot of stuff moving from stage 1 to stage 2, really it's a combination of both. What we're really seeing, if you will, here is that we've had an improvement in our macroeconomic outlook this quarter relative to last quarter. And just to give you perhaps a bit more specifics, from a retail perspective, it really had to do with our forward view, which is over the next three years as it relates to the unemployment rate, and then for our commercial and corporate side really had to do with more of a positive forward view on commodity prices, oil in particular.

Nick Stogdill
Analyst, Credit Suisse Securities (Canada), Inc
Q

How much of the improvement was retail versus commercial in the stage 1 and stage 2? Can you give us a sense on that?

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

I'd say they were both pretty much a good share of that, but retail probably being the largest driver. And if I can, I guess I would – again, we're going to see a lot of volatility in the stage 1 and stage 2 as we go. There's just so many inputs into this forward-looking model that we have, but I would really guide to stage 3 or impaired loans. I just think that gives you a much better view of how the portfolio is performing.

Nick Stogdill
Analyst, Credit Suisse Securities (Canada), Inc
Q

Okay. Thank you.

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

Gabriel Dechaine
Analyst, National Bank Financial, Inc.
Q

Thank you, and good morning. Just a quick follow-up on the last one. You did have some, I guess, stage 2 releases in the Capital Markets segment. That was mainly oil and gas, or was it the European LBO loans – loan book?

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

A

Yes. So it was mainly oil and gas. And so we did have – in addition to a better forward-looking factors, if you will, as it relates to oil, we also would have had some upgrades in that number.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.

Q

And I think most of your impairments during the 2015-2016 period were in the U.S. Is this where these were?

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

A

Yes.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.

Q

Okay. Thank you. And then on the tax, I just – the tax discussion, you talk about the base erosion and how you are not subject to that anti-abuse rule until 2019. I appreciate the commentary in there. Is that there because your lawyers made you do it or because there is maybe some risk to your tax rate in the U.S., either via how you've set up your corporate structure after you acquired a few companies, including private, or some intra-company expenses that you normally take?

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

A

Gabriel, it's Kevin. No, that's simply a statement of fact. We're just giving information. And it's just the implementation of the tax reform. We have the benefit of the lower tax rates during the course of this fiscal year. But because of the timing of our fiscal year, any additional regulations will only kick in for us for fiscal 2019.

And what we've said is we still need to see exactly how those regulations get implemented. It's one thing to have the legislation, but the actual implementation will – the devil will be in the details. And we'll assess what the impact is at that point. So it's simply, again, a statement of fact that we need to assess what those are. But on balance, what we would say is clearly tax reform will be beneficial for us.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.

Q

Okay. But you don't sound like that's going to offset much of the benefit you've seen from the...

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

A

As I said, for 2018, we get the benefit of lower rates. We'll assess exactly how the regulations get implemented. But net-net, as we look forward into the longer term future, it'll be beneficial. The only question is exactly how we're going to deal with the detailed regulations.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.

Q

Okay. Thank you. That's it for me.

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

Scott Chan
Analyst, Canaccord Genuity Corp.

Q

Hi, good morning, everyone. Just switching over to the U.S. side, very strong results for the second straight quarter, specifically a private bank. Perhaps you could just give us a broad outlook on what you're seeing on your markets in the U.S. and perhaps related to the commercial loan sector and the commercial real estate sector in terms of the growth outlook there.

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

A

Sure. Good morning. It's Larry. Just a couple – couple broad thoughts. First, I feel really good about the business. I feel very good about our ability to build long-term profitable client relationships. The ability for the U.S. to work with the combined CIBC team is showing great benefit as well. Very good client reception where you've got lots of good looks. We're continuing to be very selective and disciplined in what is a competitive U.S. market. But the value of the brand, the value of the opportunities, and what we've seen to-date and it's evidenced by the $700 million of good deposits that have been generated as well as capital market activities in its early days is we're able to execute.

And so we're not only able to continue to execute middle market relationship business in the U.S., but we're also able to execute for Canadian clients that have business in the U.S. and for U.S. clients that have business in Canada. So, good environments, very competitive. I think the general attitudes of the CEOs is upbeat and positive. And we're well placed to continue to support this good momentum. And we're pleased with the results today.

Scott Chan
Analyst, Canaccord Genuity Corp.

Q

Great. And just for Kevin. On the U.S. side, you talked about the lower corporate tax rate helping incremental net income. Was that quantified anywhere?

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

A

No, we haven't quantified it. But if you just look, we've got the detailed schedule. So you can see what our pre-tax number is. We went down from this 30%, 40%, but you've got to do that over a full year, so maybe in the 11% impact. So what I would say, from the overall bank's perspective, it's not material, but it is a help this quarter.

Scott Chan
Analyst, Canaccord Genuity Corp.

Q

Okay. Thanks very much.

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

Sumit Malhotra
Analyst, Scotiabank

Q

Thanks. Good morning. I want to start with either Laura or Kevin. So – I agree with you that in thinking about the underlying trend in credit quality, the provision on impaireds is going to be the more important focus. But just want to get a maybe better my understanding on what drives the non-impaired on a quarter-to-quarter basis. You mentioned – or we can see that it's – that CAD 49 million reversal or recovery is split pretty evenly between consumer and commercial. But is that number elevated this quarter as a result of the adoption, or if the very same economic outlook was in place in Q2 as it was in Q1, would you expect to have a recovery in that line of a similar magnitude?

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

A

Hi, Sumit. It's Laura. I'll start, and Kevin can step in if I miss or go astray. So it is complicated just in terms of what drives our stage 1 and stage 2 losses. And so just maybe to start with some perspective, so we've got about 35 different economic metrics that we look at at the regional level and over 1,000 data points that get fed into this model that is then scenario-weighted and whatnot.

And so, with all of that, I will point out that the more, if I may say, influential economic metrics from a retail perspective – again, it's always our forward view over the next three years. So that would be, as I mentioned earlier, the unemployment rate also picks up the house price index and interest rates, whereas on the, call it, the commercial corporate side, the more influential metrics relate around the S&P index movement, volatility index, industry product and commodity prices.

And so the reversals that you saw or that we experienced in our stage 1 and stage 2 were really due to improvement in the outlook in this quarter relative to last quarter. And so if that answers your question, there was a change, if you will, in our economic outlook over the next three years that took place this quarter relative to last quarter, which is why you saw a release.

Sumit Malhotra
Analyst, Scotiabank

Q

So then if I hear you to the way I phrased it, if your economic outlook in Q2 is unchanged over the next – for the three-year period as it was in Q1, this line theoretically would be flat.

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

A

Theoretically, yes.

Sumit Malhotra
Analyst, Scotiabank

Q

Okay. I'm sure there'll be a lot of theory that play in this line as we go forward. Okay. That's helpful.

If I move into something a little bit more here-and-now, and this one I might tag in Kevin. We look at this mostly on the trading activities on page 15. The TEB benefit that goes into inter-trading, it had – it certainly moderated over the second half of 2017. And I thought that was the impact of the TRS unwinds. And it's kind of back up to where it was in the first half of last year. Maybe this is what – some of what Harry was talking about. Is this almost a reflection of whatever happens in the equity derivative business and not necessarily related to that specific activity, or what's the way we think about this? Because you and I had a conversation before, in which I thought this line was going to trend towards zero, which seemed to be the case in the second half of last year?

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

Yes. So I think this is exactly what Harry was talking about, Sumit. And I think that it certainly elevated this quarter. So with respect to strategies that give rise to TEB, we have a number of strategies with our clients that do give rise to TEB. And in terms of synthetic equities and trading with tax-exempt counterparties, that was really the focus of the legislation that was put through.

So the strategies over the transactions this quarter, the client transactions this quarter that are giving rise to the TEB, were not impacted by that legislation. But at the same time, it's similar kind of equity trading activity, where as a result of it we do generate dividend income that in turn gives rise to a higher TEB revenue, and that certainly benefits our tax rate. And as Harry said, the volatility in this line, this quarter was particularly high and we'll just to have to monitor that moving forward.

Sumit Malhotra
Analyst, Scotiabank
Q

And last one related to this. There's a comment on page 8 of your presentation for the U.S. segment that indicates that some of the fee income benefit that that segment had was partly due to derivative activity. Frankly, I didn't know there was a lot of derivative revenue benefit in your U.S. Commercial and Wealth. Can – am I mixing two things here and looking at this line or what exactly is a derivative benefit that comes through the U.S. banking segment?

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

Good morning. It's Larry. Let me speak to derivatives. And we have historically and now as part of CIBC have an even greater capability to provide what I think you can simply put as interest rate protection capabilities for our clients that burrow on a variable basis but choose to buy some kind of interest rate protection or derivative. It's been a really robust business for us. It had an exceptionally good quarter and impact both derivatives as well as syndication. We are very, very strong in Q4. But the derivative business is something that we do. It's all client-led. It's being – we're now working together with Harry and our Capital Markets group to provide even greater capabilities to meet client needs. But it's been a historical business that the middle-market clients has wanted. It's a sophisticated product that we can provide. And I think it's part of the value proposition that we provide to our clients.

Sumit Malhotra
Analyst, Scotiabank
Q

And is this essentially, for lack of a better term, plain vanilla interest rates or foreign exchange forwards? Is that basically what we're talking about here?

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

Exactly.

Sumit Malhotra
Analyst, Scotiabank
Q

Thank you for your time.

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

A

Thank you.

Operator: Thank you. Our next question is from Doug Young with Desjardins Capital Markets. Please go ahead.

Doug Young
Analyst, Desjardins Securities, Inc.

Q

Good morning. This should be relatively quick. I think, Kevin, page 6 of the SIP, there was a CAD 138 million gain shown in non-interest income. And I know this is a combination of I think a few lines in previous SIPs. Just wanted to get more detail as to what drove that. And is there a relationship with this line and the trading activity in capital markets or did this come through Treasury in the corporate sector? Just a little more detail?

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

A

Right now my mic on. Could you give me the reference again. You're talking about SFI?

Doug Young
Analyst, Desjardins Securities, Inc.

Q

Yes. Just on the non-interest income segment, page 6 of the SIP< there is a CAD 138 million gain. And so just wanted a little more – because I think that was a combination of a few previous lines before. And so I'm just wanting some details. Was that related to the trading activity in Capital Markets? Is that related to Treasury activity through corporate? If it's a little bit bigger than what it's been historically?

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

A

Yes. So what this would be – I mean, there would be some volatility in this number. And I think a lot of it would be some of the trading activity between – in our Treasury group, where we have offsetting items between fair value through other comprehensive income. And so this nets off. And the other side of this would be in interest income. So even though it reflects some volatility on this particular line from a net earnings perspective, it's a wash.

Doug Young
Analyst, Desjardins Securities, Inc.

Q

So there is not – this isn't the delta year-over-year, isn't really what we should be thinking going through earnings, there's other offsetting items elsewhere?

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

A

Absolutely.

Doug Young
Analyst, Desjardins Securities, Inc.

Q

Okay. Laura, I think this relates to what you were talking about in your prepared remarks. But I saw that new GIL formations increased in the consumer segment quite significantly. And I just wanted to clarify that's related to the IFRS 9, that's related to the mortgage and the credit card adjustments that you talked about.

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

Yes. Primarily it's the mortgages.

Doug Young
Analyst, Desjardins Securities, Inc.
Q

Primarily mortgages.

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

Yes.

Doug Young
Analyst, Desjardins Securities, Inc.
Q

Okay. Great. Thank you very much.

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

Sohrab Movahedi
Analyst, BMO Capital Markets (Canada)
Q

Yes. Thank you. I have two, but I promise I'll make them quick. If I can just go to – excuse me – Harry for a second. If I look at this slide, Harry, that provides what your VaR trends have looked like relative to the trading revenue, I mean, it looks like you had a number of very strong days closer to the end of the quarter relative to that VaR limit. Can you maybe just talk a little bit about why that would be relative to the VaR limit? Why would you have had such high activity trading revenue late in the quarter?

Harry Kenneth Culham
Senior Executive Vice President & Group Head-Capital Markets, Canadian Imperial Bank of Commerce
A

Good morning, Sohrab. As you know from watching the markets closely, we saw a pickup in volatility as we got to the very end of January and then obviously into the quarter-two into February, which was not unexpected actually. We saw a significant pickup in client activity. As you know, having watched us for many years, this is a truly a client-driven business. So when you see a pickup in client activity, which is well-diversified, as I mentioned earlier, across the platform, you're going to see a pickup in trading revenues.

We had some fairly significant client trades towards the end of January, which obviously helped from a revenue perspective, as you can see from the chart, which didn't require a significant amount of VaR. VaR trended largely flat during the quarter. I would say it's picked up slightly given the pickup in volatility and continued client activity, as quarter-two has begun.

Sohrab Movahedi
Analyst, BMO Capital Markets (Canada)
Q

Okay. So this – you would – I guess, just to come back, I mean, broadly speaking, you think that your business – at your Investor Day, you said I think my business is probably going to be either side of CAD 1 billion. You would say this is an abnormally high quarter for your business?

Harry Kenneth Culham
Senior Executive Vice President & Group Head-Capital Markets, Canadian Imperial Bank of Commerce

A

Yes, this is a very strong quarter. I would say that some of the businesses were punching above their weight, given the activity of the most clients [indiscernible] (50:14). But volatility is doing what is doing, and our clients are as active. We're going to have run rates higher than I indicated on the Investor Day. However, I'm comfortable with what was indicated on Investor Day.

Sohrab Movahedi
Analyst, BMO Capital Markets (Canada)

Q

Okay. Thanks. And Laura, very quickly on – I find it a little bit odd that this late in the cycle with a three-year outlook, there actually would have been a reduction in the stage 1 and stage 2 type, let's call it, provisions. I mean, with Canadian consumer leverage being where it's at, with likelihood of higher interest rates coming through with expectations of house prices in Canada that kind of moderating, maybe coming down. So, is it – is your model incredibly sensitive to unemployment rate in Canada?

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

A

So, Sohrab, this really relates – again, it's a three-year outlook, and then there are scenarios weighted into that where we have, call it a – and they're all probability weighted from worst case, base case, best case. And so when we look at what our three-year expectation was on – let's use unemployment because that was the biggest driver from a retail perspective. That outlook, if you will, was changed in this second quarter, again, as it relates to the three-year outlook where the unemployment outlook would have gone down a bit.

Sohrab Movahedi
Analyst, BMO Capital Markets (Canada)

Q

I guess to come at it slightly differently for us guys who don't have the access to obviously the details that you do when you come up with this, is the bank's view on risk over the next three years that it's actually going to be lower from a loan loss perspective? I mean, is that the message that stage 1 and stage 2 adjustment is telling us that, hey, based on everything we can see over the next three years, the credit risk is actually going to be lower?

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

A

Well, I guess it does indicate that, but you'd – I mean, again, there's so much volatility here that we're going to see on a quarter-over-quarter basis that we need to be quite careful. And that's why I'm going to continue to guide to sort of stage 3, which is call it a known number and one that we really know.

What you also have to keep in mind as it relates to stage 1 and stage 2 is sort of where we started. And so we had more of, I could call it, a conservative start. And so you will see – and it – everyone is different. Depending upon where you've started with your economic outlook and you change like we did this quarter, that's some of the impact that you're seeing. So if we had had a much more, call it, aggressive start when we looked at our forecast, and we modified it this quarter, you might have seen the stage 1 and stage 2 losses increase. So just a lot of volatility. Just – and again, it's incredibly complex. I hope that does to the extent I can answer your question.

Sohrab Movahedi
Analyst, BMO Capital Markets (Canada)

Q

No, that's helpful. So I guess, Kevin, how does that factor into your capital planning?

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

A

I'd say – I mean, from a capital plan, it clearly makes it more challenging. But what I would say is that as far as the capital planning is concerned, again, we would guide to the impaired losses because that has a biggest capital impact. As far as stage 1 and stage 2 impact is concerned, there's a natural offset in our expected credit loss shortfall number. And so that's a fairly big number that's built into our capital ratios. So it's not equal and opposite, but it certainly represents a number that moves in the opposite direction. So from a capital perspective, the movement in stage 1 and stage 2 won't have a particularly significant impact. But again, I'd just echo what Laura said. Even with that, I'd still be looking through to impaired losses.

Sohrab Movahedi
Analyst, BMO Capital Markets (Canada)

Q

Thank you very much.

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

Nigel D'Souza
Analyst, Veritas Investment Research Corp.

Q

Thank you. Good morning. So I had two follow-up questions on your mortgage book. And the first is just to confirm that your prior guidance for mid single-digit growth or industry growth in 2018 that's relative to your average balance in F-2018 or your spot balance at the end of – sorry, F-2017. And also wanted to clarify whether you're tying that outlook. Is that tied to or weighted towards Canadian GDP growth expectations or are you weighing that more towards real estate activity expectations such as dollar volumes in 2018?

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

A

Nigel, could you repeat the second part of that question?

Nigel D'Souza
Analyst, Veritas Investment Research Corp.

Q

So for your outlook in mortgage growth, are you – is that weighted towards your expectations for Canadian GDP growth or more weighted towards your expectations for real estate activity such as dollar volume growth in 2018?

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

A

Our mortgage growth, as I had mentioned, we have been seeing slowing in the market place. That slowing has started mid of last year. Our – it is too early to tell what the impact of B20 will have on that. So at this point, no change to any guidance that we've provided previously.

In terms of your question of weighted towards GDP, we might have to get back to you on that. I think it's just an overall reflection of what we've been seeing. Now I think I know that our estimates is an overall reflection of what we have been seeing in the market and our performance relative to the market.

Nigel D'Souza
Analyst, Veritas Investment Research Corp.

Q

And the last question in terms of the market share, are there any concerns that competitors that underwrite mortgages at a higher total debt service ratio that there is a possibility that under the B20 regulations that CIBC might lose some market share?

A

We're going to remain a strong competitor in this space. Mortgages are important to our clients and are part of our overall relationship strategy. So in terms of the overall market, in terms of our competitiveness, we will make sure that we continue to have our competitive offering. And there are other players out in the market, but the guidance would be consistent with what we've communicated previously. We're going to narrow towards industry average as you're actually seeing.

Nigel D'Souza
Analyst, Veritas Investment Research Corp.

Q

Great. Thank you.

Operator: Thank you. Our next question is from Darko Mihelic with RBC Capital Markets. Please go ahead.

Darko Mihelic
Analyst, RBC Dominion Securities, Inc.

Q

Hi, thank you. Good morning. Quick question for Laura. When I look at the stage 1 and stage 2 allowance for credit losses, I'd like to compare them against your actual balances and use that as a sort of a barometer for your starting point and compare it to the other banks for "your level of conservatism" within your model.

So when I look at page 26 of your supp pack, it would be useful to sort of have some of the granularity of the loan books so that I can actually calculate those numbers. And what I've been able to calculate so far is just a rough number of 29 basis points of stage 1 and stage 2 against your business and government loans and 33 basis points against consumer. But I'd like to see that more on a geographic basis. Do you have that number available? Will you make it available for us? And what do you think about using that as a sort of a barometer to measure you against the other banks for conservatism levels?

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

A

Well, Darko, I guess I'll just start with the page 26, because like yourself, I went through trying to reconcile all of this as well. And so just due to the fact there's different allocations between IFRS 9 and the previous accounting rules, I think it does make a comparison almost impossible. I tend to look at the gross impaired loans to net impaired loans, which gives you a pretty good idea for sort of how much we're provisioning for, if you will. And you're right. In our disclosure, we don't make that as clear as we could. I will have to circle back with our finance colleagues and whatnot to see to what degree we can enhance our disclosure. But I agree with you that that would be more helpful for you to get a feel for, if you will, credit quality. So we'll take that one away and see what we – what we can do with it.

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

A

Okay. But just as a course of – a matter of the calculation. If I take the CAD 307 million of stage 1 and stage 2 for business and government loans and divide that by your balances, which is CAD 106 million – or a billion, it's give or take. Is that would be the proper methodology, would it not?

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

A

Yeah.

Darko Mihelic
Analyst, RBC Dominion Securities, Inc.

Q

Okay. All right. Great. Thank you.

Operator: Thank you. This concludes our question-and-answer session. I would now like to turn the meeting back to over to Mr. Dodig.

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

All right. Well, thank you for joining the IFRS 9 call. I think the questions were all very, very good. The challenge of being first in explaining this new accounting methodology is something that we strive to provide the greatest granularity on. It sort of reminds me of the Rubik's Cube when it first came out. Lots of questions, but all solvable. And that's what I think you'll find as you refine your models and you get a better understanding of how we use IFRS 9 in our business and accounting for our business.

So I think what I would like to do is just anchor you in the results again and the strong results for the first quarter for our bank. And they're really a reflection of our focus on the strategic priorities that we laid out for you at Investor Day in December, and to remind you of what are the key areas of focus for us as a leadership team. The first is to continue to focus on the right balance between technology and relationships for our clients. It's not all about technology, it's not all about relationships, but getting that mix of high touch and high tech banking right is what's going to help us give us a competitive advantage in the marketplace and continue to drive revenue across all our businesses for CIBC.

The second is that capital allocation is going to be largely focused on organic growth across all of our platforms. We're going to over-index on the Commercial Bank and Wealth Management, both Canada and the United States where we see significant opportunities for continued growth. And we're going to continue to focus. This is the third important point on getting our efficiency ratio down to the competitive level that we foresee getting to a steady state of 55% over the course of the next year and working toward a 52% mix ratio by 2022.

So, to wrap up, we've got a strong leadership in place – team in place. We're really, really focused on our relationship-based strategy to build a scalable North American bank with high-quality diversified earnings growth. I want to thank the entire team at CIBC, who are incredibly focused on our clients and delivering value to our shareholders and delivering value to the communities that we operate each and every day.

And I also want to thank you for all your very good questions. The questions are really, really good. If you feel like there's any blanks to fill, you know that we're always available for you after this call to make sure that you have the full granularity you need to understand our business. Thank you again. And have a good day.

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