



Frequently Asked Questions – Q2 2009

1. Can you please explain the decline in CIBC's net interest income over the past two quarters? What has caused the volatility in average interest earning assets over the same period?

The decline in net interest income (NII) from the fourth quarter of 2008 (Q408) to the first quarter of 2009 (Q109) was attributable to lower non-trading Treasury NII as a result of less favourable positioning, higher funding costs and higher levels of securitization, as well as a lower interest rate environment which impacted our deposits business. These factors were partially offset by higher trading NII.

The decline in NII from Q109 to the second quarter of 2009 (Q209) was attributable to lower trading NII, hedge ineffectiveness and a lower interest rate environment which impacted our deposits business. These factors were partially offset by higher retail and corporate lending NII and more favourable Treasury positioning.

The volatility in average interest earning assets has been driven primarily by intra-quarter volatility in the "Total Securities" and "Securities Borrowed or Purchased under Resale Agreements" lines of the Balance Sheet, both of which had significantly higher average balances in Q109 relative to Q408, and significantly lower balances in Q209 relative to Q109. The volatility is attributable to several factors, including the timing and amount of securitization, hedging and other balance sheet management activities within Wholesale Banking and Treasury.

2. Given the significant widening of financial guarantor spreads during the second quarter, why did you not write down the value of your financial guarantor hedges any further?

Our credit valuation adjustment (CVA) process is driven off market observable credit spreads for each counterparty, or a proxy for a comparable credit quality where no observed credit spreads exist, or where observed credit spreads are considered not to be representative of an active market. These credit spreads are applied in relation to the weighted average life of the underlying instruments protected by these counterparties, while considering the probabilities of default derived from these spreads. Furthermore our approach takes into account the correlation between the performance of the underlying assets and the counterparties. Where appropriate, on certain financial guarantors, we determined the CVA based on estimated recoverable amounts.

The CVA we had taken against the fair value of our financial guarantor receivables was 68% at April 30, 2009, compared with 66% at January 31, 2009. This increase was less than what may have been implied by market observable credit spreads as a result of the judgments applied as described above.



3. Why was there a reasonably large decline in the fair value of your structured credit positions hedged with financial guarantors during the second quarter when credit spreads as indicated by market indices appeared to be relatively stable?

A large portion of the underlying assets in our structured credit portfolio continues to be valued primarily off of broker quotes. These non-binding quotes from illiquid markets have tended to be conservative and also tend to lag any broader market improvements.

In total, the fair value of our credit protection from financial guarantors (on a gross basis before credit valuation adjustments) on our structured credit portfolio increased from approximately US\$5.7 billion at January 31, 2009 to approximately US\$6.4 billion at April 30, 2009.

Most of the US\$0.7 billion increase during the second quarter was due to decline in the fair value of referenced assets underlying the protection purchased from financial guarantors. Approximately US\$0.2 billion was attributable to Commercial Mortgage-Backed Securities (CMBS) and approximately US\$0.3 billion was attributed to non-U.S. Residential Mortgage-Backed Securities underlyings and securities with underlying other than CMBS, Collateralized Loan Obligations and Corporate Debt.

4. It would appear that a large portion of the CVA in the second quarter was related to deterioration in the fair value of "Other" non-USRMM underlyings. What is the nature of these positions?

Underlyings in the other non-USRMM category include CDOs backed by Trust Preferred Securities (Tier II Innovative Capital Instruments issued by U.S. regional banks and insurers), non-US Residential Mortgage-Backed Securities, and other assets including tranches of Collateralized Debt Obligations, and securitizations of aircraft leases, railcar leases and film receivables.

As noted in the response to Question #3 above, the increase in fair value during the second quarter related to these underlyings was approximately US\$0.3 billion. The CVA recorded in the second quarter against the financial guarantor receivables related to these underlyings was approximately US\$0.2 billion, indicating a charge of approximately 70%.

The higher CVA charge reflects the fact that the majority of the other non-USRMM underlyings are hedged by the weaker financial guarantors, those identified in our disclosure as I, II and IV. Our recorded CVA as a percentage of the fair value of receivables from these counterparties increased from 65%, 49% and 81%, respectively, at January 31, 2009, to 66%, 62% and 86%, respectively, at April 30, 2009.



5. Can you explain the criteria used to split your merchant banking portfolio between “active” and “legacy” positions and elaborate on the nature of the legacy positions?

As part of Wholesale Banking’s repositioning of its strategy in 2008, the merchant banking portfolio was divided into active and legacy investments.

The active portfolio is maintained in our Corporate and Investment Banking business and comprises core and strategic investments. Core investments are aligned with CIBC’s core franchise and are focused principally on Canada. They comprise primarily direct minority investments (equity and junior debt securities) and limited partnership interests in select third-party managed private equity funds. Strategic investments are those made in support of CIBC’s broader strategic initiatives. They comprise various types of investments across multiple regions and are primarily focused on financial services. These investments often provide CIBC with access to or insights into areas considered strategic to CIBC (e.g. geographic region or technology).

The remaining merchant banking portfolio plus some other non-core investments outside of merchant banking were moved into a legacy portfolio. Legacy investments were those made in furtherance of the U.S. investment banking and European leveraged finance businesses that have been exited. They comprise primarily limited partnership interests in third-party managed private equity funds and certain minority equity investments. These investments are not related to CIBC’s core franchise and often were originated, or have a principal focus in, regions outside of Canada.

As at April 30, 2009, the carrying value of the legacy portfolio is approximately US\$740 million. We intend to reduce these legacy positions as market conditions permit.

6. How sustainable is your second quarter trading revenue?

Wholesale Banking’s financial objective is to achieve annual net income after tax in the range of \$300 to \$500 million over a full business cycle, using economic capital of approximately \$1.5 billion. This earnings target was carefully chosen to be achievable within Wholesale Banking’s desired risk profile and utilizing its core businesses for returns. Our good second quarter trading results, which extended across all asset classes including Fixed Income, Equities, Derivatives and Commodities, were consistent with Wholesale Banking’s financial objective and CIBC’s risk posture.



7. Can you explain the rise in specific loan loss provisions and gross impaired loan formations during the second quarter?

Specific loan loss provisions were \$329 million in Q209, or 83 basis points on an annualized basis of total net loans and acceptances at April 30, 2009. The increase of \$82 million from Q109 was due to an increase of \$33 million in provisions for business loans, which benefitted from a recovery last quarter, and an increase of \$49 million in provisions for consumer loans. The consumer increases included \$28 million related to the cards portfolio driven by higher delinquencies related to the deteriorating economic environment. Our card provisioning methodology incorporates both actual net credit losses and a reserve for anticipated future losses; some of our Canadian peers, like U.S. banks, use the General Allowance account to capture all or most of the additions to the reserves for anticipated future losses.

Gross impaired loans increased by \$138 million from last quarter to \$1.26 billion at April 30, 2009. The new formations primarily related to our U.S. and international portfolios, and are generally well secured.

Our industry-leading coverage ratio, defined as specific allowances as a percentage of gross impaired loans, was approximately 62% at April 30, 2009, unchanged from January 31, 2009.

8. How are you positioning your retail franchise for better revenue growth momentum once the economy recovers?

We continue to invest significantly across our retail franchise, including the areas of branch network expansion, capital initiatives and training. While we are prudently cautious in the area of risk in the current environment, we have also taken steps to build our retail distribution network, advisory and product capabilities. These investments are in support of our clients and position our retail businesses to benefit from growth opportunities that we expect will emerge as CIBC's capital flexibility is enhanced and the external market environment improves.

9. As your structured credit write-downs and the economic headwinds abate, where will CIBC deploy its excess capital?

Capital strength has been a priority for CIBC for several years and was emphasized beginning in 2007 as market conditions became more uncertain. The current downturn has been unprecedented in its depth, rapidity and global nature. In light of these conditions, we are maintaining a cautious approach for the remainder of 2009 and will continue to emphasize balance sheet strength, while ensuring our businesses remain well positioned for consistent performance over the long-term.

There are recent signs that the economy and credit markets may be improving. Should this improvement be sustained and as our structured credit portfolio issues ebb, CIBC will have excess capital to invest in core areas of our businesses. For example, we will have the opportunity to expand growth rates in some of our retail businesses such as unsecured personal lending and cards, where we have intentionally slowed growth for current conditions.



A Note About Forward-Looking Statements

From time to time, we make written or oral forward-looking statements within the meaning of certain securities laws, including in this presentation, in other filings with Canadian securities regulators or the U.S. Securities and Exchange Commission and in other communications. These statements include, but are not limited to, statements about our operations, business lines, financial condition, risk management, priorities, targets, ongoing objectives, strategies and outlook for 2009 and subsequent periods. Forward-looking statements are typically identified by the words "believe", "expect", "anticipate", "intend", "estimate" and other similar expressions or future or conditional verbs such as "will", "should", "would" and "could". By their nature, these statements require us to make assumptions and are subject to inherent risks and uncertainties that may be general or specific. A variety of factors, many of which are beyond our control, affect our operations, performance and results and could cause actual results to differ materially from the expectations expressed in any of our forward-looking statements. These factors include credit, market, liquidity, strategic, operational, reputation and legal, regulatory and environmental risk; legislative or regulatory developments in the jurisdictions where we operate; amendments to, and interpretations of, risk-based capital guidelines and reporting instructions; the resolution of legal proceedings and related matters; the effect of changes to accounting standards, rules and interpretations; changes in our estimates of reserves and allowances; changes in tax laws; changes to our credit ratings; that our estimate of sustainable effective tax rate will not be achieved; political conditions and developments; the possible effect on our business of international conflicts and the war on terror; natural disasters, public health emergencies, disruptions to public infrastructure and other catastrophic events; reliance on third parties to provide components of our business infrastructure; the accuracy and completeness of information provided to us by clients and counterparties; the failure of third parties to comply with their obligations to us and our affiliates; intensifying competition from established competitors and new entrants in the financial services industry; technological change; global capital market activity; interest rate and currency value fluctuations; general business and economic conditions worldwide, as well as in Canada, the U.S. and other countries where we have operations; changes in market rates and prices which may adversely affect the value of financial products; our success in developing and introducing new products and services, expanding existing distribution channels, developing new distribution channels and realizing increased revenue from these channels; changes in client spending and saving habits; our ability to attract and retain key employees and executives; and our ability to anticipate and manage the risks associated with these factors. This list is not exhaustive of the factors that may affect any of our forward-looking statements. These and other factors should be considered carefully and readers should not place undue reliance on our forward-looking statements. We do not undertake to update any forward-looking statement that is contained in this presentation or in other communications except as required by law.

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