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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. Welcome to the CIBC Quarterly Financial Results Call. Please be advised that this call is being recorded. I would now like to turn the meeting over to Amy South, Senior Vice President, CFO, Functional Groups and Head of Investor Relations. Please go ahead, Amy.

Amy South

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

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

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

Before we begin, let me remind you of the caution regarding forward-looking statements in slide 2 of our investor presentation. Our comments may contain forward looking statements which involve applying assumptions which have inherent 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. This morning, CIBC reported our fourth quarter and year-end results. The quarter kept a strong year for our bank while we made significant progress in executing our client focused strategy and to deliver value for our shareholders.

In the fourth quarter, we have reported adjusted earnings of CAD 1.4 billion and adjusted earnings per share of CAD 3, which is up 7% from last year. For the full fiscal year of 2018, we reported record adjusted earnings of CAD 5.5 billion or CAD 12.21 per share. We met all of our financial targets that we set out for you in our Investor Day last December, with adjusted earnings per share of 10%, which is at the upper end of our 5% to 10% target range, and an ROE of 17%, meeting our target of delivering more than a 15% ROE. We successfully diversified our earnings by investing for organic growth in all four of our business unit. Specifically in Personal and Small Business Banking, we achieved volume growth on both sides of the balance sheet.

In Capital Markets, our expanded and innovative capabilities have helped us deepen relationships and deliver solutions to our clients across CIBC. These expanded capabilities also help drive our Capital Markets revenue in the U.S., which grew by 20% over the year in 2018. This contributed to growth for our entire U.S. region, which also includes our U.S. Commercial Banking and Wealth Management franchise. Our U.S. region has grown from 9% of total CIBC earnings in 2017 to 16% this year, showing we are well on our way to our target of 17% in 2020.

In 2018, we increased dividends to our common shareholders twice, bringing annual dividends to CAD 5.32, which is up 5% from last year. Our dividend payout ratio of 43% was also well within our target range of being between 40% and 50%. We also finished the year with a strong capital position and a CET1 ratio of 11.4%.

Our disciplined approach to capital management gave us the flexibility to buy back 3.5 million shares for cancellation under our normal course issuer bid program in addition to reinvesting in our business. We've also made good progress towards a 2019 efficiency target ratio of 55%, ending the year at 55.6%. Our relentless focus on carefully managing our cost base while delivering our growth will continue as we work toward our target of a 52% mix ratio by 2022.

Throughout 2018, we continued to focus on building a strong, client-focused franchise, balancing the need for high-touch services around financial planning, advice and ideas, and high tech for clients so they can bank when, where, and how they want.

Over the past three years, our Personal and Small Business Banking business has transformed more than 150 banking centers into advice centers, where we are meeting the more complex needs of our clients and building deeper relationships with them. For more routine transactions, we've continued to integrate the latest technologies into our mobile and online banking capabilities with advisors available at our banking centers to assist our clients when they need that assistance.

Our commitment to delivering valuable digital solutions provides our clients with greater convenience and has earned us industry recognition from the Forrester Research group. For the fifth consecutive year, CIBC received the top overall ranking in mobile banking functionality and user experience. And we're seeing this through client endorsement of our digital offerings and an active user adoption rate that's close to 70% in 2018.

In addition to banking center transformations, we're also investing in our credit card platform. Earlier this week, we announced the signing of agreements securing our participation in Air Canada's new loyalty program once Air Canada's acquisition of the Aeroplan loyalty business is complete. This provides continuity for our clients and adds another option within our strong travel rewards portfolio, which includes our proprietary Aventura program that continues to deliver exceptional results.

In the fourth quarter of 2018, Aventura delivered our strongest quarter ever, with robust double-digit growth in both purchase volumes and outstanding balances. Significant enhancements to our rewards program have also contributed to Aventura being our primary travel card at CIBC.

We're also expanding the tangible benefits our clients receive when using their CIBC debit, credit and prepaid cards. In our recently launched exclusive partnership with the PayMe platform, our clients can now earn cash-back rewards on top of the existing awards earned with their CIBC eligible cards. This is another example of our continuous focus on innovating to serve our clients.

Furthering our focus on targeted client service, our Commercial Banking and Wealth Management businesses, both north and south of the border, have added Relationship Managers in markets where we have identified for growth. This includes the U.S., where we extended our footprint with three new Commercial Banking centers in Tampa, Boston and Dallas. These additions contributed to double-digit growth in North American commercial loans and in deposits in 2018.

So, in summary, we've delivered very well on our plan to build a strong client-focused franchise, diversify our earnings growth, optimize our operational efficiency, and maintain our capital discipline. Our efforts are not only delivering financial results, they're also transforming our bank from a technology and innovation perspective, as well as from a client relationship perspective.

At CIBC, we've always been here to serve our clients. That was true 151 years ago, and it's true today. In good times and in challenging economic times, our focus remains on helping our clients achieve their goals. We're focused on wiring every facet of our bank to ensure that we continue to transform our culture, develop our team, and bring the best of our bank to our clients and communities every day.

And with that, I'd like to turn over the call to my colleague, Kevin Glass, to review our financial results, and I'll return at the end with some closing comments. Thank you.

Kevin A. Glass

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

Thanks, Victor. For my presentation, we'll refer to the slides that are posted on our website starting with slide 5. CIBC reported earnings of CAD 1.3 billion and EPS of CAD 2.80 for the fourth quarter of 2018. Adjusting for items of note, which are detailed in the appendix of this presentation, our net income was CAD 1.4 billion and EPS was CAD 3 a share, up 7% from a year ago. All of our businesses performed well, and we benefited from strong volume growth, as well as higher interest rates. We generated revenue of CAD 4.5 billion for the quarter, which is up 6% year-over-year, and we managed our expenses well, delivering positive operating leverage and an efficiency ratio of 56.2% for the quarter.

Turning to capital on slide 6, we ended the quarter with a strong CET1 ratio of 11.4 %, up 10 basis points from the prior quarter and comfortably above our target range. Solid organic capital generation was partially offset by growth in risk weighted assets and the impact of share repurchases. During the quarter, we repurchased 1.75 million common shares as part of our normal course issuer bid. Our leverage ratio was 4.3%, and our liquidity coverage ratio was 128%.

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

Slide 7 reflects the results of Canadian Personal and Small Business Banking where net income for the quarter was CAD 669 million, up 7% from last year. Revenue for the quarter was CAD 2.2 billion, up 5% from last year, primarily driven by favorable rates, volume growth and higher fee income. Revenue continues to be well-diversified, reflecting our focus on growth through client relationships. Cards, mortgages and other personal lending combined to make up just over half of this quarter's revenue and deposits contributed about 30%, with other businesses just under 20%.

Net interest margin was up 2 basis points sequentially mainly due to favorable rates, as well as business mix. Non-interest expenses were CAD 1.1 billion, up 3% from the prior year as we invest in our business to support our transformation into a modern, convenient and relationship-focused bank while remaining committed to improving productivity. Good top line growth and our continued focus on cost management contributed to positive operating leverage of 2% and a 97-basis point year-over-year improvement in our mix ratio. Credit quality remains stable with the provision for loan losses up CAD 8 million from last year primarily due to losses on performing loans driven by growth in the personal lending portfolio.

In summary, our Canadian Personal and Small Business Banking business continues to perform very well. As we accelerate our focus around financial planning and advice-based conversations, we're seeing diversified growth across our business, which positions us well for strong relative performance going forward.

Of note this quarter, our proprietary Aventura travel cards rewards program supports our Aero portfolio on key measures, including purchase volume and total outstandings. This is the result of robust growth, continued enhancement to the value proposition for our clients, and more conversations across our team focused on client needs.

Slide 8 shows the results of Canadian Commercial Banking and Wealth Management. Net income for the quarter was CAD 334 million, up 16% from last year. Commercial Banking revenue was up 11%, driven by double-digit lending and deposit volume growth, wider spreads and higher credit-related fees. We are seeing strong lending growth across all industry sectors. Similarly, deposit growth was broad-based with growth in the Québec market outpacing the national average. Wealth Management revenue was up 5%, primarily driven by growth in fee-based revenue in our full-service brokerage business. Solid top line growth and expense discipline contributed to positive operating leverage of 6.9%, and resulted in a 360-basis-point year-over-year improvement in our efficiency ratio.

Slide 9 shows the results of U.S. Commercial Banking and Wealth Management, where net income grew CAD 20 million or 17% from the prior year. Revenue grew 15% from the prior year, reflecting solid business performance driven by strong volume growth and a benefit from higher rates, as well as a stronger U.S. dollar. Expenses were up CAD 25 million or 11% from the prior year. Expenses this quarter reflect higher spending on growth initiatives, as well as some costs associated with a seasonal launch of a marketing campaign.

Over the last year, we have made a number of investments in our business to support growth, including adding frontline Commercial Banking personnel, opening three additional Commercial Banking offices, and adding some private bankers into CIBC Private Wealth Management offices. In addition, we have invested in our support capabilities to enhance the growing U.S. business prospects.

CIBC Bank USA contributed CAD 93 million to the segment net income compared with the CAD 126 million in the prior quarter. The decrease was the result of higher loan provisions driven by an increase in provisions for performing loans largely due to stage migrations. Parity on loans grew $2.3 billion or 14% year-over-year mainly in commercial and industrial. Deposits grew $2.1 billion or 12% year-over-year, reflecting both organic growth from new clients and deposit initiatives, including cross-border referrals.

Net interest margin for the quarter was 365 basis points, up 25 basis points from a year ago. Sequentially, NIM was down slightly as continued competitive pressures on deposits offset the benefit from higher loan yields.

Going forward, we expect NIMs to remain relatively stable, and net interest income growth will be driven by higher earning assets. Overall, we are very pleased with the segment's results and CIBC Bank U.S.A. continues to perform above our investment expectations.

Turning to Capital Markets on slide 10, net income of CAD 233 million was up CAD 11 million from a year ago, reflecting a higher revenue and lower effective tax rate, partially offset by higher noninterest expenses.

Revenue this quarter was CAD 649 million, up CAD 27 million or 4% from a year ago, reflecting higher equity derivatives, foreign exchange, and interest rate trading revenue, partially offset by lower investment portfolio gains and lower debt underwriting activity. Noninterest expenses were up CAD 36 million or 11% from a year ago, driven by our investments in talent and technology.

We continue to focus on growth from the U.S., as well as generating recurring revenue streams by leveraging relationships across CIBC, and we've seen good results from both of these initiatives.

Slide 11 reflects the results of Corporate and Other. Net loss for the quarter was CAD 11 million compared with a net income of CAD 11 million in the prior year, reflecting higher expenses this year. Reported results in the segment reflect the restructuring of the Barbados government loans and securities, which impacted revenue and loan losses, and was treated as an item of note.

While the restructuring is complete for local dollar securities and loans, which is the majority of our exposure, we continue to closely monitor the situation, work with the Barbados government on U.S. dollar denominated restructuring and the balance of the economic reforms. Going forward, while it is difficult to predict a run rate for this segment, as noted in prior quarters, we expect to report breakeven results plus/minus CAD 20 million per quarter.

To wrap up, let me turn to slide 12, which summarizes our full your results. After adjusting for items of note, which are detailed in the appendix of this presentation, our net income was a record CAD 5.5 billion. Earnings per share was CAD 12.21, up 10% from 2017, and it's at the top end of our target range of 5% to 10% of average annual growth. We delivered strong return on equity above 17%, and we finished the year with a Basel III CET1 ratio of 11.4%.

At our last Investor Day, we had talked about growing our U.S. region, which includes the U.S. portion of our Capital Markets business, and had set out a fiscal 2020 target of 17% of NIAT. We are tracking very well with fiscal 2018 contribution of approximately 16%, and expect to exceed the target with continued momentum in our existing businesses.

Heading into 2019, we're well positioned to continue growing our businesses. We feel confident we'll continue delivering on the targets we outlined at our Investor Day.

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

Laura L. Dottori-Attanasio

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

Thank you, Kevin, and good morning, everyone. So, overall, 2018 was another year of strong...

[Technical Difficulty] (00:17:37-00:17:43)

So, let me start over here.

So overall, 2018 was another year of strong credit performance, reflecting the resiliency of the macro environment. While there continue to be potential headwinds, as it feels like we're entering the later part of the economic cycle, we remain confident in our strong underwriting practices and the quality of our credit portfolios.

If you turn to slide 14, you'll see the strong credit performance in our core portfolios this year. And this is reflected in our impaired loss rate that has remained stable on a year-over-year basis at 23 basis points, excluding CIBC FirstCaribbean. You can see we had similar year-over-year performance in our Canadian businesses as the portfolios continue to perform strongly. Our U.S. commercial lending portfolio also continues to perform well with a slight increase year-over-year due to a few normal course provisions on impaired loans. As it relates to CIBC First Caribbean, our credit losses were up year-over-year mainly due to the government of Barbados' debt restructuring that Kevin referenced earlier.

And while the provision for performing is down overall on a year-over-year basis, there was some movement within that line, in particular as it relates to our U.S. commercial lending portfolio where we had a year-over-year increase. And that is due to a combination of growth, a migration of accounts within the portfolio, and maturing of our CIBC USA portfolio since the acquisition, whereby all loans were reset to either stage 1 or stage 3.

Turning to the next slide, excluding CIBC FirstCaribbean, our gross impaired loan ratio was up slightly year-over-year driven by CIBC Bank USA as a result of normal course movement of accounts to impaired, along with some of the changes from IFRS 9.

Slide 16 provides additional details of our net write-off rates. Overall, those rates remained flat year-over-year with a slight decrease in credit cards as a result of low Canadian unemployment and a slight increase in personal loans driven by a shift in our business mix. Overall, our total bank net write-off ratio continues to remain low and stable.

On slide 17, we've provided disclosure, highlighting the relative stability in our delinquency rates. This was illustrated across our Canadian portfolios year-over-year in Personal Banking with mild increases mainly due to the adoption of IFRS 9, as we've discussed in previous quarters.

So, to conclude, while we may see some broader potential headwinds arise in 2019, we are very pleased with our credit performance this year, and we're confident in our adjudication criteria and the credit quality of our portfolios as we enter the year ahead.

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

Amy South

Senior Vice-President, Chief Financial Officer, Functional Groups & Head of Investor Relations, Finance, 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 John Aiken with Barclays. Please go ahead.

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

Q

Good morning. Victor, in terms of the strength of the capital ratio and the fact that your U.S. platform has been on the on the books for over a year now, when do you start thinking about actually adding on in terms of M&A? I'm not asking because a deal will be announced tomorrow, but when do you start the thought process of adding on scale and trying to further enhance the efficiencies that you're pulling out of the operations?

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

A

Good morning, John. Thanks for your question. It's a good question. We're pleased with the growth in our capital ratio over the past year. Last year, we ended up at 10.6%, and this year, we're at 11.4%, and it's really a function of our strong operating results. As we head into the first quarter, there'll be some regulatory adjustments and some adjustments related to the Aeroplan portfolio, which will account for about 30 basis points in aggregate. So, that's something that I'd like our investors to know. The second thing is that our capital deployment strategy remains the same.

We've been very clear about multiple capital deployment levers. Our primary focus is on organic growth, and with over-indexing in Canadian and U.S. Commercial and Wealth Management, we've always said we're open to invest inorganically to the extent we believe it provides the best value for our shareholders. So, that is a lever. Our dividends are important, and being within our range is important, and buybacks are important. And you've indicated that to us. Our management team felt strongly about that. We repurchased shares in the first half of this year, so all four levers are important, and we will always look at it in terms of how best to deploy that capital at the right time for the long-term interests of our shareholders.

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

Q

Thanks, Victor, but in terms of how time has progressed and as well in terms of the impact the market has had on U.S. valuations, has the thinking moved at all or are we still just being – basically we're still trying to continue the integration process of the U.S. platform?

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

A

Well, the integration process is moving along quite nicely. The organic growth that we're seeing in our U.S. business exceeds our expectations. We laid something out, too. We only closed last June, right? So not – 16 months ago, so it hasn't been all that long, but we've seen double-digit growth in loans. We've seen double-digit growth in deposits. We've opened three new Commercial Banking offices. We've hired a significant number of relationship managers in our Commercial Bank and our Wealth Management franchise. And yeah, we see the valuations of compressed in terms of some of the regional banks. People have looked at our transaction and said you've managed it well. We like your culture. We like what you're doing. But for us, it's organic growth and we're always open to that opportunity as time progresses.

Larry, maybe I can hand it off to you for a second just to provide some color context on the U.S. business and how it is performing.

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. Victor summarized it very well. I'm pleased. And it's hard for me to be pleased, but I find great opportunities for future growth that we have really good momentum in the U.S. The team is executing well. Client activity is growing. We've got a really good pipeline. We're seeing client relationships and consistent with the kinds of business that we have done, which is loans, deposits, other banking services and providing deep advice. So, I think there's great opportunities for us to continue on the path that we're going on, and our goal is to drive top-line revenue, clients, long-term client relationships, operating leverage, and doing it in a very high-quality way. And it's going well.

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

Q

Great. Thanks for the color, guys. I'll re-queue.

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 on the U.S., just wondering, I think we talked about it maybe two quarters ago, but the appropriate loan loss ratio level for this business, we saw that loan loss ratio tick up this quarter and you gave some of the reasons, but I'm wondering as you look forward, what you expect. Is this a new run rate here? Do we continue to trend higher? Any color would be appreciated.

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

A

So, I think – it's Kevin. Loan losses were somewhat elevated this quarter as a result of stage 1, stage 2 migrations. And I think we stressed this in the [ph] past (00:26:26). So, you'll continue to see that volatility. If we look at the impaired loans, we did have some impaired losses this quarter, but very much in line with what we would expect in the portfolios of this nature. So, there's nothing that is on the horizon or nothing that has come to our attention that would indicate any concerns at all.

Meny Grauman
Analyst, Cormark Securities, Inc.

Q

Just in terms of the trend though, would you expect the loan loss ratio to continue to move up, that migration presumably continues naturally over time and continues to lift that loan loss ratio higher into 2019?

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

A

Yeah. So, I think, I mean just from an accounting point of view, when we did the acquisition, everything was either stage 1 or stage 3. So, you would see some migration. You'd expect to see some migration from stage 1 to stage 2 over time, but that'll play out over the course of this year and then stabilize. But as far as impaired loans, we wouldn't expect any particular increase.

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

It's Larry. Let me just add an overall comment to it, which is that the credit portfolio, we believe, is in a good place, and credit quality is a very top priority for the team. And as we continue to grow the U.S. business, doing it with sound, high-quality client relationships, I'm seeing very good mix, I'm seeing very good diversification, and we're also seeing very good selectivity and discipline in the underwriting process.

Meny Grauman
Analyst, Cormark Securities, Inc.
Q

Thank you.

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

Steve Theriault
Analyst, Eight Capital
Q

Thanks very much. Good morning. The – starting with Christina. Christina, looks from the market share data, not unexpectedly, you've lost about 50 basis points of share in the Canadian [ph] RESL (00:28:27) business in over the last year. Growth was down to 1% in Q4 2018. Again, not unexpected, but looking forward, are we now sort of at the trough levels here? And when could we reasonably expect to start building back or getting back to market levels of growth?

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

Thank you, Steve. It's Christina responding. Our [ph] RESL (00:28:48) growth rate has slowed as expected as we had communicated and as you're pointing out. While there are always going to be some fluctuations in product by product results based on market factors, we are comfortable with what we're actually seeing in terms of the progress we're making in client relationships. Our retention rates remain strong and our CIBC brand commitment pipeline continues to be stronger than it was earlier this year. So, in terms of outlook, our current expectation is for our mortgage portfolio to grow in line with where we see the overall market growth trending.

Steve Theriault
Analyst, Eight Capital
Q

Okay. That's helpful. Could you give a little color on retention rates, what you're seeing relative to what was normal pre-B20?

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

Yeah. At the last call, we talked about retention rates being around the 90% rate, and we continue to see consistency with that level. And we're also seeing our midterm pay downs also improve, so we're seeing more mortgages go to full term. So, overall, we're really pleased with what we're seeing in terms of retention.

Steve Theriault
Analyst, Eight Capital
Q

And the 90% is relative to sort of mid-80s or high-80s previously?

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

A

We've been very strong on retention for some time, so it's been very consistent. And the bigger difference we've been seeing is in that midterm part of the mortgage cycle.

Steve Theriault
Analyst, Eight Capital

Q

Okay. If I could ask a question on EMEA, obviously, you can't talk about the terms of the new Air Canada loyalty program. But now the negotiations have concluded, do you think that once it's up and running, the new Air Canada related card will still be a pull product in terms of customers requesting the card or will it have a more prominent positioning on your shelf where you'll be more actively selling it, marketing it? How are you thinking about that?

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

A

Well, we're pleased with the agreement that we announced earlier this week. And for our overall travel rewards program, we believe that this further reinforces it and strengthens it. So, for our Aeroplan clients, they can continue to earn and redeem miles as usual, and then they'll be able to participate in the new Air Canada program when it launches in 2020. We have great travel card options for our clients and it reinforces those travel options, and it also reinforces the momentum we're actually seeing in our overall cards business. And as Victor mentioned in his remarks, we've seen great progress in our Aventura product itself, so we're feeling good that this overall is a positive view for the cards business going forward.

Steve Theriault
Analyst, Eight Capital

Q

And the other partner bank outlined CAD 100 million of set-up costs. Could you take a stab at what you think it will cost you guys to set up the new program?

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

A

We don't think that will be a material cost for us at all, Steve.

Steve Theriault
Analyst, Eight Capital

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

Good morning. My first question is for Laura on the stage 1 and stage 2 provisioning. At the start of the year, and this is based on, I guess, end of year 2017 GDP data that was pretty good, you guys released some allowances in the Canadian business notably. I'm just wondering, is there any potential we see the opposite take place early next year? And maybe, why haven't we seen any of that type of additional buffering of the provisions this year? Because the economy is – the economic outlook has not gotten better necessarily.

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

A

Yeah. Hi, Gabriel. Well, I guess – I mean, if we look at 2018, as I mentioned, we actually had a good economic performance. We also had strong credit portfolios. So, I think that explains sort of some of that movement that we saw or didn't see. When we look at our forward-looking indicators for the year out, they're really based off of consensus view. And I would tell you that consensus view actually moderates a little bit, but it's not that negative such that we're not seeing a large representation, if you will, in our provisions for performing relating to forward-looking indicators.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.

Q

And okay, that's interesting. That's your – like the judgment overlay in this process, you're using consensus as opposed to taking maybe like a – your pessimistic scenario, you're not taking additional or, I guess, excess possibly conservatism there just to play it safe?

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

A

Well, as you know, we do have management overlays. And, look, we would have likely had more of a release if we had gone just with the consensus views and our forward-looking indicators. And so, we did include a management overlay in order to not have further releases.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.

Q

Okay.

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

A

So, that helps. We do look at that very closely, of course, and it does come into looking at sort of the base case, downside-upside, where we look at that as well.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.

Q

Okay. That perspective helps. And my next question is for, I guess, Harry, probably Harry. On the U.S. slide, you have this CAD 6 billion balance in REF, is that real estate finance?

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

A

Yeah. I'll pass it over to Larry. It's Harry here. That is real estate finance.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.

Q

That is, Larry?

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

Yes. That's the real estate business that – yes, that's the real estate business headquartered in New York.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.
Q

Okay. I'm just – look, if I look at U.S. loans in total, and that would include the legacy PrivateBank corp and wholesale Capital Markets, whatever you want to call it, I get to 30% plus of the loan book in CRE. It's a much smaller number, I think, in the legacy PVTB business. I'm just wondering, what have been the growth drivers in that business? And I see the balance has been flat over the past year. Does that suggest that you're kind of cautious about your approach to CRE lending now in the...

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

Yeah. Sure. The approach we're taking to CRE is to look at CRE overall within the U.S. So it includes what was the legacy business in both parts of the U.S. organizations. The approach we're taking is really, as I talked about before, selectivity and discipline across it. And you will see that as we've put both books together, we've said not only do we expect and require good asset quality, but we also expect and require good, deep, quality relationships.

And as we've looked at each of the books, and particularly, the real estate finance book, which we're very, very satisfied with, we found that there were certain relationships that weren't really active relationships, and really were more loans and not deeper relationships. And some of those cases, when they matured, they repaid. And we were fine with that because we felt that as we continue to manage the U.S. business, it's all about high-quality loans, deep relationships, driving, as we talked about, operating leverage.

And that book will grow, but it probably won't grow at the rate that the C&I book, because we're seeing much better C&I opportunities and really like the balance of C&I being a higher proportion of the total U.S. book to commercial real estate. But we've got great teams, great leadership, a common culture within the U.S. since CRE, and we're pleased with the opportunities we're seeing in both parts.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.
Q

Is there much in the way of construction loans in 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

Very little in the [ph] RES business (00:37:17).

Gabriel Dechaine
Analyst, National Bank Financial, Inc.
Q

Thank you.

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

You're welcome.

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

Mario Mendonca
Analyst, TD Securities Inc.

Q

Good morning. If I could just follow up on commercial real estate, but just more on in Canada and the total business. The growth in commercial real estate construction has been up a fair bit. We're not seeing anything in the form of GILs or formations there, so the business is obviously still pretty good. But what is your thinking in terms of commercial real estate? This is perhaps for Laura. Maybe a split between commercial mortgages and construction development, that would be helpful, because obviously, dynamics are different. If you'd also talk about your exposure to Alberta in that context.

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

A

Okay. So, I'll take it. Hi, Mario. It's Jon Hountalas. So, I'll take the first – I'll answer and then Laura can follow up if there's anything I've missed. So our real estate number in Canada is about CAD 22.7 million. And our SFI, we break it up, about CAD 6.5 million of that is what we call nonresidential mortgages. Think of those as fixed-rate, fixed-term, commoditized type product.

The rest of it, we lump together under real estate and construction. There's about CAD 16 billion of that, and that includes many different assets, asset classes, mortgages that are on a short term basis, et cetera, et cetera.

The construction book again, we've seen the performance has been stellar. It was stellar through 2008, 2009. We deal with few developers, top quality, lots of pre-sales when we do construction. So we're very comfortable with the book. Our clients have gotten quite wealthy over the last few years. We have recourse to non-real estate type assets. So, generally, we feel very, very strong about our real estate. What we have done in Canada over the last several years, but certainly, the last three years, we've grown our non-real estate book faster than our real estate book.

Q4 of this year was the exception in the – in Q4, we had a few large and important clients asked us to do some transactions, which we did. So our real estate book grew a little faster than our non-real estate book, but that was really an anomaly. Our high-single-digit, low-double-digit growth rate has largely been driven by our diversified book.

Mario Mendonca
Analyst, TD Securities Inc.

Q

And can you speak to how large construction is in that CAD 16 billion?

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

A

So, I don't break it down. I don't think about it as construction specifically. There's operating lines in there. So, I don't have a construction number. And we all define construction a bit differently. So, I can't really quote a number.

Mario Mendonca
Analyst, TD Securities Inc.

Q

And Alberta?

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

A

Sorry. I'm having microphone difficulties here. If I could just step in, just on construction, what we tend to do, Mario, was we focus on usually in construction, the area that one would deem as higher risk. And so that is why in past [indiscernible] (00:40:20) we talk a lot about our condo construction. And so, I can't speak to that. We have seen historically – I always mention that, that's around CAD 1 billion of exposures. That part has come up to about CAD 1.5 billion of exposures today. And I think the in past, we've talked about being around 70 to 80 projects. Now, it's probably [indiscernible] (00:40:47).

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

A

I think the microphone was off.

Mario Mendonca
Analyst, TD Securities Inc.

Q

Laura, we're having trouble hearing you.

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

A

Yeah. Sorry about that. I'm going to try another microphone here. So, in the condo exposure, what I was saying is that we monitor that one very closely. So, our drawns have gone from CAD 1 billion to about CAD 1.5 billion in the last two years. We do not take much market risk as we look at pre-sales, we monitor those closely. And we're quite comfortable with the risk that we're taking there. We've got really tight adjudication criteria, as well, and we haven't changed any of that. So, I don't have concerns, if you will, as it relates to the growth that you're seeing in those construction loans.

Mario Mendonca
Analyst, TD Securities Inc.

Q

And have you built up any performing PCLs in this segment yet?

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

A

Well, I don't know that we use the term building them up. And so...

Mario Mendonca
Analyst, TD Securities Inc.

Q

Okay. Have you taken PCLs, performing loan PCLs?

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

A

Performing loan PCLs, we do take in to portfolio, overall, I wouldn't have that break down in terms of which particular segments it relates to. But it would impact that because we look at the overall portfolio. So, it would get picked up in the number.

Mario Mendonca
Analyst, TD Securities Inc.

Q

Okay. And, Victor, could I just follow up on one quick thing? You had no trouble hitting the top end of your guidance this year as you offered last year when we talked about this. Now, Laura's offered some commentary on headwinds, and that's entirely consistent with the conversations that are happening outside the banks. What is your outlook? Does 2019 feel like a year when you can be inside your guidance levels?

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

A

Yeah, I think 2019 is another year where we see ourself inside our guidance levels. The four parameters that we've outlined for our investors are our earnings per share growth being between 5% and 10%. That's a primary parameter that everybody looks at. This year, we're obviously at the top end of that. As we head into this year, there are some economic headwinds, there's some economic tailwinds, there are significant political economic headwinds that if those things get resolved, we'll be more within the midpoint of that range.

If the political headwinds continue, we'll still be within our range but probably to the lower end. So, we will work diligently on our costs. We will work diligently on building up our capital and diligently on delivering those earnings irrespective of the market environment, although 2019 is likely to be a little more challenging macro economically speaking than 2018 was.

Mario Mendonca
Analyst, TD Securities Inc.

Q

That's very helpful. Thank you.

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

Doug Young
Analyst, Desjardins Capital Markets

Q

Hi. Good morning. First question on the U.S., maybe a two-part question. I mean, Laura, what drove the migration from 1 to 2? If you can maybe split out a little detail there. And then, Larry, maybe on the NIMs or Kevin, I'm surprised a little bit that you're guiding more towards flat. And I understand the deposit betas, but are you building any expectation for rate increases in your expectations for NIM being flat over the next year? Or are you building that in and this is just a function of the deposit cost in the high interest savings account and whatnot? Thank you.

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

A

Okay. Well, I'll kick it off, Doug. So, your question on what drove migration, it was a combination of items. So, in addition to volume growth, we did have a few downgrades in the portfolio, but nothing of concern worth highlighting. And then as I had mentioned in my prepared remarks and Kevin had referenced, the balance of it was really that – I'm going to call it normal migration of accounts that move from stage 1 to stage 2 after the acquisition. So, that just relates, as I mentioned, to the requirement we had at purchase date to reset loans. And so, that's just that normal migration that we've seen throughout the year and that I would expect to see over the next few quarters.

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

A

It's Larry and let me take the NIM question. And let me – I guess, I can give you the variables. And you can then do your own level of math. The loan book continues to be variable price, and it's principally a variable mostly over LIBOR. And we're holding relative loan spreads and mix to what we've seen and what we forecast. We have about a little over CAD 5 billion of non-interest-bearing DDAs in our book, and we expect that, that level of DDAs are also tied to treasury management relationships should remain. And the deposit costs will, of course, rise as this is a Commercial and Wealth Management deposit book. So, I think we're being appropriately conservative, but I think it's fair to say stable NIM. But we're holding discipline in all cases.

Doug Young
Analyst, Desjardins Capital Markets

Q

So, it's not a function of loan yields. This is all coming on the deposit side.

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

A

Yes. It's driven by an expectation that we've reached the threshold, and we're seeing it across the U.S. banks, in particular in the mid-cap-based banks that have a commercial and wealth book. As rates are rising, clients that have excess cash are wanting to get paid for it.

Doug Young
Analyst, Desjardins Capital Markets

Q

And, Laura, just back to you, what's the normal migration between 1 to 2? Like, what – can you quantify? And I apologize if it's in the press release, but can you quantify what that normal migration meant in terms of PCL?

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

A

From a number perspective, I don't know that we actually disclose that actual detail, but it was probably – I'm going to – maybe a third of the amount would have been in there for that particular segment.

Doug Young
Analyst, Desjardins Capital Markets

Q

Okay. That's helpful. Thank you very much.

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

Sumit Malhotra
Analyst, Scotia Capital, Inc.

Q

Thanks. Good morning. First, a couple of clarification questions for Kevin Glass. First off, Kevin, on capital, Victor mentioned a couple of upcoming items off the top. Is it fair to say it's roughly 20 basis points impact from the counter-party and securitization update for RWA, and 10 basis points for Aeroplan? And are those both in Q1?

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

A

That's correct. I mean, more like, yeah, 9 basis points, 10 basis points for [indiscernible] (00:47:47), 20-odd basis points for the standardized approach.

Sumit Malhotra
Analyst, Scotia Capital, Inc.
Q

And I'm sorry, that's both in the next quarter?

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

Yes, Q1.

Sumit Malhotra
Analyst, Scotia Capital, Inc.
Q

Okay. And then secondly, just on the Barbados. So, you call out the CAD 65 million after tax this quarter for the incremental losses, and I think it was about CAD 30 million in Q3. So, we're looking at ballpark CAD 100 million after tax thus far. Is this – do you feel you've accounted for the balance of it? You mentioned there might be some other part of the portfolio that could be impacted going forward. Just want to make sure I understand what the run rate is here.

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

No. I mean, Sumit, last quarter, I think it was just around between CAD 20 million and CAD 25 million in total pre-tax actually that we took, and so that was the prior quarter amount. I would say that by and large, we have accounted for it. There are still some work on the U.S. dollar portfolio, but we don't see a material charge coming out of that. The one point that I would note is there's been some change to their tax – there'd be some tax reform in Barbados with rates coming down for – the tax rate has come down so there will be an adjustment relating to deferred tax balances next quarter as well.

Sumit Malhotra
Analyst, Scotia Capital, Inc.
Q

So, we'll see probably a write-down of that item?

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

Yes. So, there's some noise around some of the write-offs and some of the tax adjustments, but the underlying business is actually performing extremely well.

Sumit Malhotra
Analyst, Scotia Capital, Inc.
Q

And then last question, the actual business question is for Jon. Obviously, a very strong year for your Commercial business. We've talked a lot about the lending side, but I've noticed your deposit growth in this business has really picked up quite significantly as well. I don't know if looking at the net interest margin here is strictly looking at Commercial or whether it marries into Wealth, but wanted to get your view here. As the market's emphasis or the sector's emphasis has shifted more to the Commercial book, what are you seeing in terms of the outlook for your loan spreads in 2019, especially if the Bank of Canada opts to have a more measured approach? And how exactly are you driving the level of deposit growth we're seeing? I think it's something like 15% year-over-year this quarter.

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

A

Right. So, let's take the loan question first. I think loan spreads will stay – there's a little pressure on loan spreads, but nothing material. So, I would forecast loan spreads to stay roughly flat. In terms of deposits, I think we've talked a lot about investing heavily in cash management over the last eight years. We've put a lot of money in that. We've added cash management support staff. We've tried to change the culture across the whole relationship management sales force to get us much more in tune to both sides of the balance sheet. And we've talked about trying to grow in the 9% to 11% range. This was a particularly strong month. About 50% of deposits came from new clients. So we're working hard, we'll keep going, and we want to grow in double digits on both sides of the balance sheet if we can.

Sumit Malhotra
Analyst, Scotia Capital, Inc.

Q

And you think that's possible in 2019?

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

A

Yeah, I think so. We've led to that guidance before. We talked about that at Investor Day. And based on what we've done first year of the three, nothing has changed.

Sumit Malhotra
Analyst, Scotia Capital, Inc.

Q

Thanks for your time.

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

A

Thank you.

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

Sohrab Movahedi
Analyst, BMO Capital Markets (Canada)

Q

Thank you. Just wanted to get a couple of clarifications. Definition of GTA, does that include as far out as Oshawa?

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

A

Hey, Sohrab. It's Laura. I am happy to take that one. Yes, it does.

Sohrab Movahedi
Analyst, BMO Capital Markets (Canada)

Q

Okay. And, Christina, personal lending growth, particularly strong this quarter. What is that?

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

A

That is largely driven by the momentum we're seeing in credit cards, but largely driven by the auto lending portfolio where we have seen good growth, good levels of growth as we expanded our offer across the country.

Sohrab Movahedi
Analyst, BMO Capital Markets (Canada)

Q

And would that have been across the country or would that have been a bit more concentrated in any particular geography?

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

A

It's across the country, and in 2018, we also launched it into Quebec. So, it is now across the country.

Sohrab Movahedi
Analyst, BMO Capital Markets (Canada)

Q

Okay. And just to be clear, I mean your cards, I think you reported – the credit card, you reported separately. So this line item by itself was up 9%. Does that sound reasonable, yeah?

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

A

Yes. You are correct.

Sohrab Movahedi
Analyst, BMO Capital Markets (Canada)

Q

Okay. And then, Victor, I guess, just to come back to the capital very quickly, obviously, has been pretty good capital levels. You're talking about a little bit of headwinds. Others are actually – from a peer pressure perspective, they are growing their capital levels arguably quicker than you, so you're going to be kind of more in the mix now. I'm just curious to get maybe a bit of a philosophical question as to whether or not you're inclined to retain capital to actually get back up to kind of closer to peer leading or you're okay to kind of lag in the bottom half?

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

A

I think everyone has their own specific capital management strategy. We have our own as well. We're comfortable where the level is. No one's striving for some leading-edge high level of CET1. We're comfortable where the level is. We're comfortable with the adjustments in Q1, and we're confident in our ability to deliver earnings to replenish that capital over the course of 2019, right?

Our goal, Sohrab, is always to make sure that we can use any one of the four levers that we've outlined for our investors. Again, one is organic growth, where we've been investing in our businesses. And the growth that you're seeing across our business lines is a function of that investment. The second is to make sure that we're growing our dividends consistently with earnings, and we see that we're well within our payout range. The third is to make sure that we have the ability to buy back in that we did execute on in the first two quarters; and the fourth is inorganic growth, which is also a lever that we can use. So, for us, we're comfortable with the level that we're at. We don't really look at being the highest relative to a peer group. We look at our business strategy, can we execute against it and can we deliver to you the highest total shareholder return over the medium to long term. That's how we think about capital.

Sohrab Movahedi
Analyst, BMO Capital Markets (Canada)
Q

That is incredibly helpful. But just to be crystal clear, where you're at right now or where are you going to be pro forma the adjustments that Kevin talked about?

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

Anything over 10.5% I'm comfortable with; being over 11% is even better in this market environment. There's a bit of headwinds, as we had discussed, it's always good to have some buffer there. But for us, it's all about growth over the medium to long term.

Sohrab Movahedi
Analyst, BMO Capital Markets (Canada)
Q

Thank you very much.

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. My question is a little off the wall, and I'm hoping you could help me with it. It's probably for Kevin. Every other bank that's reported so far has told us what their stage 1 and stage 2 allowance for credit losses would be if it were 100% under the base case scenario. I can't make heads or tails of yours. It doesn't seem to – in the annual report, it doesn't seem to tell us. Do you have that information handy or is that – would that be something that you'd be willing to provide to us?

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

I think with respect to disclosure, we're quite concerned about actually giving that level of disclosure, Darko, because it's not pure and it's not 100% clean. I think what would be better is if we took it offline, what we do, do is we do report the downside. I think that's sitting in our disclosure. But you're right, this is a complex area, and I think that it's more a detailed reconciliation. That question that we should probably take offline.

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

Yeah. And I just want to add, like I think that if you do look at it, as Kevin pointed out, we have the downside which I would have thought you would find quite helpful in terms of seeing what potential impact could be.

Darko Mihelic
Analyst, RBC Dominion Securities, Inc.
Q

No. I guess what I'm using it for is a measurement of how much you're weighting downside base case and upside. So, for example, your ACL on stage 1 and 2 is CAD 1.259 billion. With all the other banks, I can tell what their ACL looks relative to the base, and so then I can make a sort of a call on how much they're weighting downside versus upside.

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

A

Yeah. I guess what I'd say is our base is very close. And as Kevin mentioned, we'll take it away. We would, I mean, quite frankly, would love to give you all the information that we have and then we could talk about sort of where we think things are headed. So, we'll take that away to see if we can change disclosures somewhat to make it easier for you.

Darko Mihelic
Analyst, RBC Dominion Securities, Inc.

Q

Yeah. That would be very helpful. Thank you very much. And just a question for Victor. There has been talk in Canada – I mean, there's been a lot – let me rephrase that, not talk. There's actually been a lot of wealth management M&A happening in Canada. And just thought, given that you had looked at wealth management and still would look at wealth management in the U.S., what about Canada?

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

A

We're comfortable with where our Wealth Management franchise is in Canada. If you look at sort of our fund flows right now, we are number two in the country of all the banks. Our investment performance continues to be robust. Our advisor base across the Imperial Service, CIBC Wood Gundy, and Private Wealth Management remains robust. So, we're really pleased with the performance of our Wealth Management business. And really, if you if you look at CIBC's wealth management strategy in Canada specifically, it's about transformation. What you'll see over the next quarter is you'll see more portfolios that are more sharply priced, more sharply structured for our clients, so that we can continue to compete, and we will continue to transform our advisory businesses to meet up with that high-touch, high-tech approach that our clients are looking for.

In terms of capital deployment in the Canadian wealth management space, it's not something that we're focused on. As opportunities arise, we always look at them, Darko, we have to be flexible in our business, we have to have a long-term perspective on it. And all our Canadian Wealth Management business is all about the transformation to stay more modern and more relevant to our clients as we go into the future.

Darko Mihelic
Analyst, RBC Dominion Securities, Inc.

Q

Okay. Thanks for that.

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

A

And if I could just make one point for our U.S. Wealth Management business because, again, I'd like to remind our investors that just over four years ago, we had zero in terms of AUA in the United States. Today, we have a Wealth Management business that has over CAD 50 billion in assets under administration. It has positive fund flows. We've started adding private bankers across all our offices. So, not only are we investing for clients, we are lending to them, and we're taking their deposits as well. So, we're very pleased with that and you should see continued investment on the inorganic front in the U.S. as well.

Operator: Thank you. This is all the time that we have for questions for today. I would now like to turn the meeting over to Victor for closing remarks.

Victor G. Dodig

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

Sorry again. Me again just for two more minutes. So, just thanks, operator. We had a very strong year in 2018, a very strong top line growth across all four of our business units, all driven by a very client-focused strategy. As we look into 2019, the macroeconomic environment both in Canada and the United States may moderate as we enter what we see as the mature end of the credit cycle. In addition, as we've talked about during this call, there are geopolitical tensions that we hope get resolved, but if we don't, we'll manage – if they don't, we'll manage through them.

As we go forward, we expect rising rate environment, which will be also compounded by GDP growth that will likely be moderated. North and south of the border, we expect the United States to outperform Canada until some of our structural issues are resolved in this part of the world. Against this backdrop, we're just going to continue to focus on our strategy and focus on our clients. We're going to focus on profitable growth, deepening client relationships.

We're going to focus on transforming our cost base, both to deliver earnings per share growth and to reinvest in our businesses. We've laid out for you targets at two investor days already, all of which have been met and/or exceeded on the cost side, and our medium-term goal for our mix ratio is 22% – 52%. 22% is impossible. I don't want to mislead any of you. We're going to hit the 55% next year and we'll get to 52% in 2022.

When it comes to deploying our capital, we're going to make sure we're smart and diligent about our capital ratios. We want to make sure we have a strong CET1 to give us flexibility in challenging environments. We want to make sure we can deliver on dividend increases that are well within our payout range. And while we're cautious about the macroeconomic environment, we're confident that we'll achieve our earnings growth in our target range of 5% to 10%. So, we're well positioned for the future.

In closing, I'm very pleased with the progress we've made, very pleased with the progress we've made to building CIBC into a North American client-focused bank that understands where technology is going, but always maintains the interests of our clients at the forefront of everything that we do.

So, on behalf of our executive committee, our board, and our leadership team, I want to thank all of you, our investors and our shareholders, for all your continued support, and I'd like to thank our 44,000 team members who are working for our clients each and every day. And at this point in the year, I'd also like to wish all of you a happy holiday season, best in the New Year. I look forward to talking to you again in February. Cheers.

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