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Canadian Imperial Bank of Commerce

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Q2 2019 Earnings Call

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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 Hratch Panossian, Executive Vice President, Global Controller and Investor Relations. Please, go ahead, Hratch.

Hratch Panossian

Executive Vice President, Global Controller & Investor Relations, Canadian Imperial Bank of Commerce

Thank you, operator. Good morning, everyone, and thank you for joining us for CIBC's investor presentation for the second quarter of 2019.

This morning, we will have Victor Dodig, our Bank's President and CEO, kick off our agenda with his opening remarks; Kevin Glass, our Chief Financial Officer, will follow with a review of our operating results; and Laura Dottori-Attanasio, our Chief Risk Officer, will provide a risk management update. We will then move on to take questions from those on the call.

We are joined in the room by CIBC business leaders, including Mike Capatides, Harry Culham, Jon Hountalas, Christina Kramer, as well as other senior officers. They will be available to take questions following our prepared remarks.

The documents referenced on this call, including CIBC's news release, shareholder report, investor presentation and financial supplements as well as an archive of this audio webcast can be found on our website at cibc.com.

Before we begin, let me remind you of the caution regarding forward-looking statements on slide 2 of our investor presentation. Our presentation and our comments this morning may contain forward-looking statements that involve applying assumptions which have inherent risks and uncertainties. Actual results may differ materially.

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

Victor Dodig

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

Thank you, Hratch. And good morning, everyone.

This quarter, we continued executing our client-focused strategy and delivered solid results across our bank. Through our connected franchise, we grew our client base, improved client experience, and strengthened the depths of our relationships. As a result, we announced adjusted earnings per share of CAD 2.97 for the second quarter. Revenues and pre-provision earnings grew 4% year-over-year on an adjusted basis, supported by continued strength in our North American Commercial Banking and Wealth Management businesses, as well as our Capital Markets franchise.

We also continued making investments to modernize our platforms, improve efficiency, and enhance our clients' experience. On a net basis, our investments drove accelerated expense growth and essentially flat operating leverage. Despite market volatility, which was driven largely by geopolitical uncertainty, the economic

environment continues to be constructive across our businesses while trends in our risk indicators and provisions remain benign.

Our capital position remains strong, with CET1 at 11.2%. Continued capital generation was primarily offset by our reinvestment for organic growth this quarter. Going forward, we anticipate generating excess capital over time, and we will look to deploy it in a manner that maximizes shareholder value over the long-term.

Turning to our business units results. In Personal and Small Business Banking, we remain focused on our long-term strategy of modernizing our bank and deepening client relationships. This quarter, we delivered modest year-over-year revenue growth, while continuing to make investments that will accelerate revenue growth in the medium-term. We continue to acquire new clients, deepen relationships, and improve our clients' experience with us. In the most recent J.D. Power survey, we saw the biggest improvement amongst our bank peers. Our internal relationship depth index has increased substantially over the last two years. And our Mobile Banking app recently earned this highest score from the big five – among the big five from Forrester Research.

Building on our progress in the second quarter, our transformational investments remain focused on further modernization of our distribution channels, deepening client relationships, and diversifying our earnings base. With 89% of day-to-day transactions being performed on mobile and online self-service platforms, we are investing to ensure that we offer the solutions our clients need in these areas.

For example, in April, we extended our innovative Global Money Transfer platform to eliminate transfer fees for our business clients when sending money overseas. And in May, we formally launched a market first with our new SmartBanking for Business platform, an open architecture solution that provides a single-digital interface for payroll and accounting functionality for our business clients.

At the same time, human interaction and relationships remain important in our business. Over the past two years, we have physically transformed a quarter of our banking centers to enable more advice-based conversations with our clients. And we're seeing positive results in these new centers, both in terms of growth and Net Promoter Scores. We're also investing in our CIBC team, particularly with respect to our advisory capabilities. This includes expanding our Mobile Investment Consultant team to attract deposits and investments, as well as our business advisor roles to grow our presence in communities across Canada.

Similarly, in Canadian Commercial and Wealth Management, we continued to make strategic hires in client-facing roles, as well as investments in technology and innovation which are delivering solid returns. Commercial loans and deposits continued to show strong double-digit growth, exceeding the targets communicated at our last Investor Day.

Over the last five years, we've steadily grown our share of deposits in the business and have been the fastest-growing bank in the last year. Our strong deposit growth is directly related to our continued investment in Cash Management system. This year, we maintained our position as Canada's Best Treasury and Cash Management Bank for the third consecutive year.

In Wealth Management, we saw a 5% increase in assets under administration, with contributions from volume growth in our Private Wealth segment, and in success in referrals across our businesses. Today, we've generated over CAD 7 billion in assets from referrals between Wealth Management and Commercial Banking. Here, again, we're on track to exceed our Investor Day targets. We're also investing in our financial planning capabilities to improve the strength and depth of our client relationships. We will continue to drive growth by investing in markets

where we have historically been underrepresented, and by leveraging our technology to provide best-in-class advice and experiences for our clients.

Our U.S. Commercial Banking and Wealth Management business also continued its expansion with investments in client-facing roles this quarter. Since closing the acquisition, we've opened offices in new markets and meaningfully increased our relationship-based teams across both Commercial Banking and Wealth Management. The success of our U.S. growth strategy is reflected in our financial results, with year-over-year adjusted earnings growth of 24%. Assets under management also performed well, with year-over-year growth of 10% driven by both market appreciation and solid net flows.

During the quarter, we announced leadership changes to our U.S. business. Mike Capatides assumed the CEO from Larry Richman, who will continue to focus on building client relationships as Chair of our U.S. region. This leadership transition has gone smoothly. We are seeing stability and enthusiasm for the future from our U.S. team and our U.S. clients. In addition to continued operation of day to day business, Mike and his team are focused on defining the next stage of our U.S. growth strategy to build on our success to-date.

Turning to our Capital Markets business, we are seeing the benefits of a differentiated platform that we've been building over the last few years, a stable, client-focused business with strong connectivity to the rest of our CIBC franchise and industry-leading productivity. We drove 12% adjusted earnings growth this quarter through focus on our clients and our pursuit of cross-border and cross-bank opportunities. Results were also helped by improved conditions in debt and equity markets after a challenging first quarter.

In Capital Markets, we continued to invest in both technology and talent to expand our U.S. trading and advisory capabilities for U.S. client base. As a result, we've seen a 7% increase in U.S. revenues over the last year. We also continue to build on our unique Capital Markets model by increasing connectivity with the rest of our businesses. For example, in the first half of this year, we saw Capital Markets revenue derived from Canadian and U.S. Commercial clients grow 16% and 25%, respectively.

Across our bank, we also continue to invest in key enterprise infrastructure and capabilities that will support our businesses and defend CIBC, including investing in the strategic use of data, artificial intelligence, automation and ongoing investments in cybersecurity and risk management. Our investments are purpose-driven, focused on our clients and the long-term growth of our bank.

Overall, I'm pleased with the progress we've made to-date in our transformative journey as we build a relationship-oriented bank for a modern world. We clearly have areas of opportunity within our business, and we're making sound investments to deliver on these opportunities going forward. Importantly, the connectivity across our bank is helping to differentiate us in the market. Our growth is increasingly driven by a connected team across business lines and across borders.

Going forward, we are still on a path to transformation, and we will continue investing in our business for the long-term despite short-term pressure on revenues. Given market conditions to-date and our decision to continue investing in the business, we expect year-over-year EPS growth to be relatively flat for fiscal 2019. Longer-term, the execution of our strategy will allow us to deliver on all of our financial targets over time, including our medium-term EPS growth target of 5% to 10%.

And with that, I would like to now turn the call over to my colleague, Kevin Glass, for a more detailed review of our financial results. 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 with slide 5. CIBC reported earnings of CAD 1.3 billion and EPS of CAD 2.95 for the second quarter of 2019. Adjusting for items of note detailed in the Appendix to this presentation, our net income was CAD 1.4 billion and EPS was CAD 2.97. We generated revenue of CAD 4.5 billion for the quarter, which was up 4.4% year-over-year. And we continued investing our business while delivering an efficiency ratio of 56.1%.

Turning to capital on slide 6, we ended the quarter with a CET1 Ratio of 11.2%, flat from the prior quarter and comfortably above our target range. Our internal capital generation this quarter was offset by an increase in risk-weighted assets. Risk-weighted assets increased CAD 9.2 billion during the quarter, reflecting significant growth in our Commercial and Corporate Banking businesses, as well as strong Capital Markets performance. Our leverage ratio is 4.3%, and our liquidity coverage ratio was 134%.

The balance of my 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 Personal and Small Business Banking. Net income for the quarter was CAD 571 million, down 3% from last year. Revenue of CAD 2.1 billion was up 2% from last year, primarily driven by favorable rates and volume growth, partly offset by lower fee income. Net interest margin was up 5 basis points sequentially, largely due to the prime-BA spread widening and the benefit of favorable rates.

Moving forward, we continue to expect NIM expansion in 2019 as we see the impact of deposit promotions ending next quarter. The level of expansion may be moderated by the current competitive environment. Noninterest expenses were CAD 1.1 billion, up 3% from the prior year as we focused on growth initiatives in strategic areas, specifically modernizing our distribution channels and investing in key client segments and products.

Operating leverage is negative this quarter at minus 1% as our [ph] expense growth (00:12:38) return to more normal levels. Provision for credit losses was up CAD 26 million from the same period last year, driven by an increase in provision for performing loans. Laura will speak to credit quality in more detail in her remarks.

Slide 8 shows the results of Canadian Commercial Banking and Wealth Management. Net income for the quarter was CAD 328 million, up 6% from last year. Commercial Banking revenue was up 14%, driven by strong lending and deposit volume growth, and higher credit-related and mid-market investment banking fees. Deposit balances were up 15% and lending balances were up 12% from the same period last year. Wealth Management revenue was up 3%, primarily driven by higher AUA of 5% and higher AUM of 7%.

Net interest margin was down 22% sequentially, primarily due to lower BA rates impacting Commercial Banking and full-service brokerage deposit business. On a combined basis NIM for Personal and Commercial Banking was up 3 basis points sequentially as the impact of the wider prime-BA spread in Commercial Banking was more than offset by the impact of favorable rates in our Personal and Small Business Banking business.

Provision for credit losses was up CAD 22 million due to higher provisions on impaired loans. Noninterest expenses were up 4%, primarily driven by investments in strategic initiatives including hiring in client-facing roles. Solid top line growth and continued expense discipline contributed to positive operating leverage of 3.2%, and resulted in a 164 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 by CAD 34 million or 24% from the prior year. Results reflect solid business performance and investments to support growth assisted by a stronger U.S. dollar. Net income grew 19% from the prior period in local currency. Revenue was up 13% from the prior year, driven by double-digit volume growth and higher asset management revenue from growth in AUM as well as a stronger U.S. dollar. Expenses increased 9% from the prior year as a result of an increase in head count to support growth, as well as higher marketing expenses and the impact of the stronger U.S. dollar. The NIX ratio for the segment improved to 54.5%, down from 56.5% a year ago.

So, let me now turn to CIBC Bank USA, which contributed CAD 128 million to the segment's net income, up 36% from the prior year. Net interest margin for CIBC Bank USA was 366 basis points, up 3 basis points from a year ago. Sequentially, NIM was stable as higher loan yields were offset by increased deposit costs. [ph] Paired-in loans (00:15:38) in CIBC Bank USA grew \$3.2 billion or 18% year-over-year, reflecting continued momentum in client development. Approximately 40% of the growth came from expanded geographies and industry specialties. Deposits grew \$2.2 billion or 13% year-over-year, reflecting organic growth from new clients and deposit initiatives.

Compared with the prior quarter, deposits were down slightly. As we mentioned last quarter, CIBC Bank USA's deposits typically experience some seasonality during the second fiscal quarter as our Commercial client utilize balances for tax payments, seasonal distributions and capital investments. So, overall, we're pleased with the performance of our U.S. segment, which continues to execute on our high-touch relationship-oriented strategy.

So, returning to Capital Markets on slide 10. Net income of CAD 279 million was up CAD 30 million from a year ago, reflecting higher revenue and lower noninterest expenses, partially offset by a higher provision for credit losses. Revenue in this quarter was CAD 751 million, up CAD 41 million or 6% from a year ago, primarily due to higher interest rate trading revenue, higher equity and debt underwriting activity, and higher Corporate Banking revenue. Noninterest expenses were down CAD 4 million or 1% from a year ago, primarily driven by lower performance-related compensation. Provision for credit losses was up CAD 9 million due to a higher release on performing loans in the prior quarter. Capital Markets continues to make progress against key objectives, including a 7% year-to-date revenue growth in the U.S. region.

Slide 11 reflects the results of Corporate and Other, where net income for the quarter was CAD 3 million compared to net income of CAD 58 million in the prior year. Higher revenue in CIBC FirstCaribbean and lower provision for credit losses were more than offset by lower treasury revenue and higher expenses as a result of strategic corporate-wide investments. Over the balance of the year, we anticipate higher expenses as we continue to invest in defensive and infrastructure investments, and we expect net losses in the segment to trend higher.

In conclusion, we had a solid quarter overall, with particularly strong results in our U.S. and Canadian Commercial businesses, as well as in Capital Markets.

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, turning to slide 13, provisions on impaired loans decreased from CAD 295 million to CAD 250 million this quarter. This was mainly due to lower provisions in Canadian Commercial Banking and Capital Markets, partially offset by a slight increase in provisions in U.S. Commercial Banking and higher seasonal write-offs in our credit card portfolio. This decrease helped our loss rate, which improved to 26 basis points, down from 30 basis points last quarter. Provisions on performing loans were CAD 5 million this quarter. We've highlighted the moving parts on the slide, which would all be considered normal course as part of the IFRS provisioning process.

The next slide provides an overview of our gross impaired loans, which were up from 46 basis points to 52 basis points this quarter. The increase was driven by the funding of an impaired utility commitment that we spoke about last quarter, which had previously been undrawn. We've subsequently sold our exposure to this loan. And so, excluding this previously impaired loan, our gross impaired ratio would have been 43 basis points this quarter, which is virtually flat quarter-over-quarter and year-over-year.

Slide 15 provides the net write-off rates of our Canadian consumer portfolios. Credit cards drove the majority of the increase due to the seasonal nature of the portfolio, which typically experiences peak losses in the second quarter. Overall we continue to be pleased with the performance of all of our retail portfolios that are performing in line with our expectations.

Slide 16 provides the 90-plus days delinquency rates of our Canadian consumer portfolios. On a quarter-over-quarter basis, delinquencies have remained stable and are performing within our risk appetite.

In closing, we continue to have strong credit quality across all of our lending portfolios, and we remain pleased with our credit performance.

And now, I'll turn the call over to the operator for 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

Thanks. Good morning, guys. I just first wanted to start off with the top of the house. If you can comment around you mentioned that earnings growth probably going to be flat year-over-year, can you talk to the ROE, which was about 15.9% this quarter and the ability to defend that out relative to your strategic target of 15%-plus? And what do you think is the chances that we see the ROE actually dip below 15% at some point this year or next?

Victor Dodig

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

A

Good morning, Ebrahim. All good questions. Thank you for that. If you'll recall our Investor Day targets from last year, we outlined four key targets. One was a NIX of 55% by the end of this year, which we'll be slightly off of due to investments. The second was a dividend payout ratio in the 40% to 50% range, which we're well within. The third was EPS target of 5% to 10%, which we've been able to deliver in the last several years. But as we see the macroeconomic environment and our desire to continue to invest through the cycle, that will result in flatter earnings this year. But we expect, over the medium-term, to get up to 5% to 10%.

Specifically on ROE, we've told our investor base long ago that, as we invest in the U.S. business and we invest in our Canadian business, we'll see the ROE drop from what was up to 20% some time ago to being above 15%. Our goal is to keep that above 15% going forward.

Ebrahim H. Poonawala

Analyst, Bank of America Merrill Lynch

Q

Understood. So, despite the investments, you don't see that dipping below 15%. Am I hearing you correctly?

Victor Dodig

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

A

Yes. Well, look, in the banking world being above 15%, if you're looking at things globally, that would put us in the top decile.

Ebrahim H. Poonawala

Analyst, Bank of America Merrill Lynch

Q

Sure.

Victor Dodig

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

A

So, let's just keep focused on that as best as we can.

Ebrahim H. Poonawala

Analyst, Bank of America Merrill Lynch

Q

Understood. And I guess, just moving to the margin. Kevin, you mentioned you expect the margin, I guess, to move higher in Canada P&C. If you can just give a little bit of framework around the magnitude of expansion that we should see, both in terms of the Canadian consolidated margin as well as in the U.S.? And with both Bank of Canada and the Fed on hold, if you can just talk through the headwinds, tailwinds of the margin and the outlook for the next few quarters, that would be helpful.

Kevin A. Glass

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

A

Ebrahim, let me start. And then, if my colleagues want to elaborate, they can jump in. But if we look at Canadian P&C, we would expect modest increases over the balance of the year, so not material. Part of that would be mix. We'd have the tailwind of previous rate hikes, which would continue to help us. And in the last couple of quarters, we've had the impact of some promotional activity that we've done on deposits. As that runs off, we would expect that NIMs to increase. So, we would see that happening. If we look at P&C on a consolidated basis, again, probably just a slight increase on over the course of the year.

If we turn to the U.S., we are seeing slight increases in loan yields, we've seen increases in deposit costs. We see those sort of moving in tandem, so which is why we've guided to more or less flat NIMs moving forward. And then, if you look at some of the headwinds, more of an impact for us in Canada. If rates stay stable, and our forecasts had them staying stable, you'll see the increases [ph] and move in (00:24:32) flat in the U.S. as I indicated.

A cut would place a bit of pressure on our Canadian businesses. Not much of an impact in the U.S., because again those would move more or less in tandem. But why don't I turn it over to the business units and let them elaborate? Christina?

Christina Kramer

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

A

Sure. So, for the – it's Christina speaking. For the Canadian Personal and Small Business Banking business, the improvement in our NIM during the quarter was largely due to favorable economic rate rates. And last quarter, we had said, you may recall that our NIM was negatively impacted by prime-BA compression and the impact of deposit promotions. So, this quarter, prime-BA moved in our favor. And next quarter, we will see the benefit of the impact of the deposit promotions running off.

So, our outlook has not changed. We've previously guided to about 1 to 2 basis points per quarter on average over time. And if you look at the last two quarters, Q1 and Q2, we would have gone up by 2 basis points. Year-over-year, we're up by 9. So, all of that is in line with our overall guidance, with some volatility quarter-over-quarter.

Jon Hountalas

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

A

So, it's Jon from Canadian Commercial and Wealth. Kevin and Christina have talked to the rate environment. Outside of the rate environment, we're not seeing any compression on the margin side, either on loans or deposits. So, again, from a customer perspective, flat. And we'll see what happens in the rate environment.

Michael G. Capatides

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

A

This is Mike Capatides. From the U.S. side, I'll just elaborate what my colleagues have said. Like Jon on the loans side, although we're seeing competition, we're not competing on price or risk, and are seeing relatively stable

yields. On the deposits side, we are still seeing some pressures on NIM from price increases. But that should subside, we hope, in the coming quarters. And against all that, we still have some tailwind from past rate increases that have been offsetting the pressure from deposit pricing. Assuming the rate environment stays stable from here, we expect our NIMs to continue to be stable. And we will react as the rest of the industry to the extent the rates are dropped.

Ebrahim H. Poonawala

Analyst, Bank of America Merrill Lynch

Q

Got it. Thank you very much for taking my questions.

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, Laura. I wanted to dive in a little bit more on the consumer net write-offs. You said that was in line with your expectations. But we've seen Personal lending write-offs start to tick up. Is your comfort level with that basically predicated on the fact that the delinquencies are a little bit stable? And again, sorry, I'm looking at the Personal lending line in particular.

Laura L. Dottori-Attanasio

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

A

Yeah. John, we've actually have our retail portfolios are all performing really well and as expected. And so, on the – I guess I can speak a bit to the provisions on performing. The bulk of the move there related to some updates we did to our forward-looking indicators. And the two larger ones were, if you will, a bit more of a pessimistic outlook from an unemployment perspective and housing price index perspective. And then, we also had a parameter update that mostly related to our Small Business model, where we updated our loss given default pools. So, that was the main driver, if you will, of the increase in provisions for performing in retail. Does that answer your question?

John Charles Robert Aiken

Analyst, Barclays Capital Canada, Inc.

Q

No, it does. And then, I wanted to dovetail into, I guess for Christina, the strong growth that we're seeing in the personal lending. Are you still comfortable with that in terms of the context of the outlook for credit shifting? I'm not going to say deteriorating, but shifting a little bit in terms of a little more negative.

Christina Kramer

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

A

So, just to add to the comments that Laura has already said, I think we feel comfortable with our overall portfolio. It continues to perform well. And I think our strategy focused on client relationships and deepening of client relationships will also serve us well through the cycle.

John Charles Robert Aiken

Analyst, Barclays Capital Canada, Inc.

Q

Christina, do you plan on remaining as aggressive as you have been in the past or what should we expect in terms of the Personal lending volumes going forward?

Christina Kramer

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

A

Personal lending volumes, as it relates to secured lending? Which [indiscernible] (00:29:23)

John Charles Robert Aiken

Analyst, Barclays Capital Canada, Inc.

Q

No. The non-real estate secured.

Christina Kramer

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

A

The non-real estate secured lending, yes. So, we expect that our unsecured lending growth continue to be higher than our market growth rates given the ramp-up in our auto lending business. We've talked about it previously. So, obviously, we started from a smaller base in the market, on higher growth rates in the early days we're experiencing due to the ramp-up to reflect – and that reflects this.

We remain a small player in Canadian auto lending, which is the higher component of the growth rates here. And not compromising on credit origination standards, we believe this is a good portfolio, like the quality of it. It helps diversify our sources of revenue. And it helps us to be in business as it relates to this client need for our clients. So, we're comfortable with it overall, and the growth rate.

John Charles Robert Aiken

Analyst, Barclays Capital Canada, Inc.

Q

Great thanks for the color. I'll re-queue.

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. If I could start with a question on capital, your slide, Kevin. I understand you're pointing to strong loan growth as drivers of the strong RWA growth. But a couple of things there. The 35 basis points of drag we saw from RWA in Q2, and I think it was similar in Q1, it's about double I think last year's run rate. Is that all or primarily the strong Commercial loan growth that you've been seeing?

Kevin A. Glass

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

A

So, Steve, certainly, Commercial loan growth was a very significant contributor to that. If you look at just RWAs excluding FX, the U.S. segment would have been about 12 basis points of that, and the Canadian Commercial Banking about 9 or 10 basis points. So, for sure, that was – those were big drivers. But as well, Capital Markets RWA this quarter also increased. And there was business growth as well as higher counterparty credit risk. And then, operational risk is also a little bit higher because of the increased volumes. And then, FX also had a 6 to 7 basis point impact on RWAs this quarter.

So, there were a bunch of items that had an impact, particular strong, exceptionally strong loan growth. But then, also Capital Markets grew and FX also had an impact. So, it's certainly higher than our normal run rate.

Steve Theriault

Analyst, Eight Capital

Q

And if we look at – if I'm thinking of the U.S. specifically, we've talked about higher competition, we hear about more [ph] cap-light (00:32:08) structures and transactions in the U.S. I'm wondering if the new business you're putting on today creates more dollar-for-dollar RWA than, say, in the recent past?

Kevin A. Glass

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

A

No, no. We got – from that perspective, when we can go into other aspects of your question, Steve. But certainly, from an RWA perspective, [ph] we own the (00:32:30) standardized products. And so, therefore, it's the same, the business we've added which is, frankly, a consistent business [ph] with the past (00:32:38) is the same RWA impact.

Steve Theriault

Analyst, Eight Capital

Q

Got you. And secondly then, for Christina, a couple of things. Christina, could just talk a bit about how you'll describe or what you're seeing in terms of the spring mortgage season so far? And if you could also update us on when you think you will get back to more market levels of real estate secured lending growth?

Christina Kramer

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

A

Thank you for the question. And I'll take a little bit of time just to speak to where we've been and what we're seeing today in our outlook going forward.

So, as we've discussed before, we have a client-focused relationship strategy. And while mortgages are our core product in that mix for Canadians, our strategy is not focused on any one single product alone. We are pleased with our overall mortgage market share position, we have a strong competitive product suite, and a strong advisory team.

Over the last few years, a large part of our strategy to grow and deepen client relationships has been focused on large urban markets. And in these markets, housing and mortgage markets were growing substantially. There was a demand from clients, and we were successful in meeting that demand. And it resulted in outsized growth relative to the market.

More importantly, we acquired valuable clients and we deepened relationships over time. And as Victor mentioned in his remarks, our overall depth of client relationship has improved substantially in each of the last two years. And that applies similarly to the clients acquired via mortgage or those clients acquired via other products or needs, meaning that the depth of relationship in our strategy is the driver, not a product-driven strategy.

So, given that, last year, we communicated that we would see ourselves decelerating and growing at market, going forward as we saw headwinds in the markets we focused on. We recognize that our growth has been slower than that, and that's due to the market turning out different than we had anticipated, impacting us more than our peers due to our strategic focus.

In the larger urban markets, [ph] pullback in activity (00:34:51) has been more pronounced and more prolonged than we assumed. There's also been more activities through third-party channels. And as you know, our focus is on direct client relationships. We haven't actively participated in the third-party market since exiting FirstLine. And

we're also seeing increased competition. So, we remain competitive, but also disciplined on pricing, which means we're not pursuing mortgages at any cost. So going forward, if markets continue to perform as they have, it will take us longer to converge to industry growth levels for the product. We're committed to our relationship strategy, and will not change course to chase accelerated mortgage growth.

So, in terms of what are we seeing in the market, we've seen some pick-up across Canada, hasn't been significantly material year-over-year improvement, BC is still performing slow relative to its peak, and GTA is performing a bit better.

Steve Theriault

Analyst, Eight Capital

Q

Okay. Thanks for all that color.

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

Hi. Good morning. Just a question on the top line. And I see the – a couple of the segments like the U.S. was up year-over-year on margins and Canada was up sequentially, we see that. But at the top of the house, quite a different story. Margins look like a low point for as long as I can see any way. I just want to dive into that dynamic here because [ph] of the way on your (00:36:31) net interest income growth this quarter. And I thought that's mostly through the Corporate segment. Is that something that you can explain a bit more and what we should expect to see?

Kevin A. Glass

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

A

So, Gabriel, I think and we've indicated this in the past, in terms of total bank NIM, we don't think that's a particularly meaningful number to look at, because there's a fair amount of volatility and fluctuation in terms of our securities balance, some of the notionals on low yielding assets. There's volatility [ph] on net basis (00:37:02) in our Capital Markets segment as well as in our treasury segment. And you've seen some of that volatility this quarter and last quarter, as we rebalance for liquidity management purposes and as we have specific client deals that may drive that up or down.

So, we don't think that will be a drag or anything. It just happens to be related to specific transactions during the quarter. And so, I wouldn't read anything into that other than an increase in some low yielding balances over the last couple of quarters.

Gabriel Dechaine

Analyst, National Bank Financial, Inc.

Q

Right. It doesn't – I mean, you might not see that as meaningful, but we had negative net interest income growth for the first time in a few years, I'm just – was that something in the trading revenue noise perhaps that led to that?

Kevin A. Glass

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

A

No, I wouldn't think so. And again, that NIM would be additional revenue on the margin. So, it's adding revenue to the bottom line, as opposed to being a drag.

Gabriel Dechaine

Analyst, National Bank Financial, Inc.

Q

Okay. My next question, maybe for Victor. [ph] I noted that (00:38:07) last quarter about your appetite for M&A in the U.S., if you want to talk generically about that? And maybe give me a sense of what you're kind of looking for. Is it more on the asset management side, the bulked up Atlantic Trust or is it a banking-type operation you're looking to build and maybe expand the borders outside of the Midwest a little bit, if you can help me out there?

Victor Dodig

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

A

Just a couple of things on the U.S. I think we've made a great deal of progress across our CIBC platform and Commercial Banking, Wealth Management and Capital Markets in the U.S. You go back a number of years when we're generating 4% of our profits from the U.S., and now it's anywhere from 15% to 18%. So, that came through acquisition, it came through organic growth, and it came through very good execution.

In our most recent acquisition, we're very pleased with the way the Private Bank integration, the team-oriented approach, and the results have really delivered great results for our shareholders. We were accretive in the first quarter, well ahead of schedule. Our U.S. business continues to grow organically in-market, and continues to grow as we expand into new markets. And we've always said that, in the U.S.

and in Canada, we want to focus our over-indexing on capital deployment in terms of over-indexing on Commercial Banking and Wealth Management.

So, as we look to the U.S. as next stage of growth, we continue to focus on organic growth, which again is in-market and market expansion. And over time, further acquisitions are on the radar screen. But we're going to be patient to find the right cultural fit, the right size, so that we can make things again accretive to our shareholders in a reasonable period of time.

Gabriel Dechaine

Analyst, National Bank Financial, Inc.

Q

Okay. Thanks for that.

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

Sumit Malhotra

Analyst, Scotiabank Global Banking and Markets

Q

Thank you. Good morning. First, for Kevin to go back to the capital conversation. So, Kevin, we had the update from OSFI last quarter on the counterparty RWA, which had an impact on the CET1. Maybe relating to what Steve was getting at, did that update besides having the upfront impact in Q1 also affect how counterparty RWA trends on a run rate basis? So, as you write more business, is there a higher capital cost associated with this new methodology? And then, to put this all together, what would you suggest to us is the run rate for organic capital build or CET1 ratio build for CIBC with these new parameters?

Kevin A. Glass

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

A

So, as far as that change last quarter is concerned, I mean, the big change would have been more of a one-off in the quarter. So, I mean, on a marginal basis, maybe a very slight increase, but that wouldn't be a big driver moving forward. It was a onetime hit that we took last quarter. So, if we think – if we look at things moving forward, historically, we've probably generated maybe 10 to 20 basis points of CET1 each quarter from earnings, net of dividends. Capital density is slightly higher now, given our acquisition in the U.S. and the way we're growing. So, we'd anticipate that being more in the 10 basis point range moving forward per quarter, Sumit.

Sumit Malhotra

Analyst, Scotiabank Global Banking and Markets

Q

10 basis points, all right. Thank you for that. And then, to relate the capital level with capital deployment, Victor, the changes last quarter or the stronger Corporate and Commercial loan growth this quarter, we've had six months of the year and then capital is down about 20 basis points. Is that the reason that the bank hasn't allocated any capital towards share repurchases? Or is it just that you see better value for a potential deployment elsewhere?

Victor Dodig

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

A

Look, we've been diversifying our business. And as we diversify our business to complement our strong footprint in the Canadian Personal Banking space by growth in the Commercial Banking space both in the U.S. and Canada, you see some of that RWA growth which is not generating the organic capital that you've come to expect. But we will continue to generate excess capital over time.

Your question specifically is around the buybacks, I think, is what you're getting at. We've always been quite clear, Sumit, that we've got four levers. One is organic investment; two is inorganic investment; three is buybacks; and four is dividends. When it comes to buybacks, we did announce our NCIB again this morning to acquire up to 9 million shares. We were active in the back half of 2018, where we acquired 3.5 million shares or 40% of our NCIB. So, we just look at those four levers as a leadership team. And we utilize them as best as possible to maximize shareholder value over the long-term. Sometimes, some levers are dormant; some are more active. But we want to have that active lever on buybacks available to us when and if we want to use it over the coming 12 months.

Sumit Malhotra

Analyst, Scotiabank Global Banking and Markets

Q

I don't know how specific you can be, but how much of a factor is the absolute or the relative valuation of CIBC shares? How does that factor into management's decision-making process around those levers?

Victor Dodig

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

A

Well, we want to grow – we want [ph] our CRP (00:43:39) ratio expand over time to reflect the true growth and strength of our business. So, my own view is that there's room for improvement there, and we're going to decide how to deploy that capital best to improve that over time.

Sumit Malhotra

Analyst, Scotiabank Global Banking and Markets

Q

Can I ask one more or re-queue?

Victor Dodig

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

A

Sure, why not.

Sumit Malhotra

Analyst, Scotiabank Global Banking and Markets

Q

Thank you. This is going to be for Harry to get to the actual business. I thought your – the results in Capital Markets were very good this quarter. The one question I had, as it relates to the overall U.S. objectives of CIBC to which Capital Markets is supposed to – is playing a key role; some of your peers who have been building out their wholesale operations in the U.S. have endured some higher costs that aren't necessarily revenue-generating costs, regulatory compliance, IT. It doesn't seem like that's been as much of a factor. And I think this quarter, your expenses were actually down year-over-year despite good revenue. So, to get to the point, as you build out the U.S. Capital Markets capabilities, is there more of an investment spend or expense level that we should expect from the bank going forward in this segment?

Harry Kenneth Culham

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

A

Hi, and thank you for the question. As we've stated for a while now, the U.S. has been a priority with respect to our bank, and obviously with Capital Markets being an important part of our bank. We continue to be very disciplined around our resources. We are aiming for a NIX at around 50% in the Capital Markets business. And that is – that continues to this day, in fact. And part of that is our build in the U.S.

So, we've been focused on moving resources to the U.S. from other areas. So, we've moved people around, we've invested in the platform, we have the product capabilities, and we're to continue to invest down there. There is no doubt there are headwinds around regulatory spend and technology spend, and so on, project spend. But we think it's manageable. And we're going to continue to target a NIX of around 50% for the business.

Sumit Malhotra

Analyst, Scotiabank Global Banking and Markets

Q

Thank you for your time.

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

Meny Grauman

Analyst, Cormark Securities

Q

Thank you. Good morning. Christina, you mentioned that market activity in the third-party channel was stronger than expected. And I'm just wondering what's driving that? And does that reality change your view of how you approach the third-party channel? Does it cause you to reconsider decisions you've made in that channel?

Christina Kramer

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

A

Sorry, I won't comment to the third-party activity, because we're not in that space. But there are a lot of market dynamics in the market today in terms of rates and offers and available mortgage arrangements. Having said that, I would say we're comfortable with our strategy that we have. We were – it was a deliberate strategy when we

exited FirstLine. It's a deliberate strategy for us to be focused on client relationships, and not planning to change course with that.

Meny Grauman

Analyst, Cormark Securities

Q

Okay. And then, if I could just ask, going back to the commentary on the EPS growth for 2019. I'm wondering, built into that, what is the outlook for domestic Commercial loan growth? In particular, it's been growing, I think, this quarter it was up about 12.5%. It's growing very strongly. Is there – implicitly in that guidance, is there a view that Commercial loan growth will slow and slow materially from here as we go further into the year?

Jon Houtalas

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

A

Hi, it's Jon Houtalas. Thank you for the question. We have been outperforming the guidelines we put out on Investor Day. We said 9% to 11% on both sides of the balance sheet. We've been a little bit higher than in the last couple of quarters. When we talk about EPS growth flat going forward or up a little, that's based on that type of guidance. High-single-digits is what we think we will do. Hopefully outperform, but counting on high-single-digits.

Meny Grauman

Analyst, Cormark Securities

Q

Okay. And if you could just comment on sort of the market dynamics that will see the slowdown here, what do you see? Are you seeing a slowdown already taking place or what do you think is driving that outlook?

Jon Houtalas

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

A

No, the 9% to 11% feels good. I think the industry has been roughly 9% to 11% for the last six or eight quarters. Last quarter, it was a bit of [ph] an outsizer (00:48:10) on our loan growth. I think deposits were high-single-digits. Again, it feels normal [ph] up to (00:48:18) clients, entrepreneurs are feeling confident. The book feels good. The pipeline is strong, so 9% to 11% feels right.

Meny Grauman

Analyst, Cormark Securities

Q

Thank you.

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

Doug Young

Analyst, Desjardins Capital Markets

Q

Hi, good morning. Just I wanted to go back, maybe for Jon, related to the Canadian commercial market, maybe we can touch on the U.S. commercial market. I'm just surprised, because I think in both comments for both of the divisions, it was mentioned that you're not seeing intense competition or increased competition on terms and conditions. And it just feels like it's contrary to what we're hearing. So, I just wanted to get a little bit more flavor, if possible, on that?

Jon Houtalas

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

A

So, this is Jon on the Canadian side. I think, so far, we haven't seen price compression, for sure. We do see competition. We don't tend to compete on kind of rates or price. This is a long-term game we've been calling on clients over several years and it's all working. So is it competitive? Yes. Is there are things we're seeing that are completely kind of outside of normal things, I've seen in the past? The answer is no. So overall, I continue to feel very good about the book, continue to feel good about pipeline, and again, it's been a long-term build. This is not something Commercial Banking is in relationship business over time. This isn't a new phenomenon for us. We've been doing it I'd say for a few years now.

Michael G. Capatides

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

A

So this is Mike on the U.S. side. Partly the same answer and partly a bit different. We're also sticking to our core client focus model and staying disciplined on price and credit and we're not stretching for business and there certainly is competition. But our strong growth is coming from our existing businesses, our existing clients and partly from expanded offices and new initiatives. In fact, 60% of our growth is coming from existing businesses and where we're seeing good growth, it's above market, but in that business it's closer to what you're seeing in the industry in the U.S. which is strong growth. The rest of the 40% is coming from our expansion initiatives, which include both new offices we've opened in the last few years and other new initiatives such as adding personnel to our existing offices to include commercial bankers, private bankers and wealth professionals. And the referral and collaboration efforts are starting to bear fruit. And I'll say this was the plan from day one in the U.S. for this business when we first started looking at this acquisition. We're pleased what the team is doing and we think the strategy is working and we're very optimistic about the coming year.

Doug Young

Analyst, Desjardins Capital Markets

Q

That doesn't feel like there's any warning signs in Canada and the U.S. I guess that's a fair statement?

Michael G. Capatides

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

A

Well, I'll speak to the U.S. first. We are very watchful. I'm looking at my colleagues from [ph] Risk (00:51:41) across the table. We're monitoring, we're watchful, but the – our clients are upbeat and they're growing their businesses.

Jon Hountalas

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

A

This is Jon from Canada. I would concur with those comments.

Doug Young

Analyst, Desjardins Capital Markets

Q

Okay. And I just – second Laura. I guess the growth impaired loan formation is a few moving parts in some of my [ph] understand (00:52:04), the one that I just wanted to get maybe a little more color on, it looks like there was a bump up in real estate and construction growth impaired loan formation. Just hoping to get a little bit more color of I guess where that was, what it was related to? Thank you.

Laura L. Dottori-Attanasio

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

A

Yeah, Doug as you can appreciate we don't go into sort of specifics on name, so there was one loan in that segment that did go to impaired. It wasn't the only one there were a few and I would say it was pretty diversified in terms of formations that we had this quarter, but I'm not seeing just maybe to add on to what Mike and Jon said. Not seeing anything of concern in our commercial books. We haven't changed or loosened if you will our underwriting standards when we look at probably the most telling sign or watch list accounts, I tell you that they're down from a year-over-year perspective and quarterly over – sorry, quarter-over-quarter, it's pretty stable. So nothing of concern in these numbers.

Doug Young

Analyst, Desjardins Capital Markets

Q

And in real estate and construction, was that more U.S. or Canada or was that more development, I don't know if you can get that a little flavor?

Laura L. Dottori-Attanasio

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

A

Well, the real estate loan in particular would have been in the U.S. if that's your question.

Doug Young

Analyst, Desjardins Capital Markets

Q

Yeah. Okay. Thank you.

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. Victor, can we go back to some previous comments you've offered. In the past we've talked about expense growth and how the bank has been able to keep it so modest. I think your response was that the bank had done a good job of reallocating from one priority to another. There seems to be a slight change in your emphasis on this call. Can you talk about why is that? What has changed that sort of makes you question the capacity to just allocate expenses from one to another?

Victor Dodig

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

A

Hey, good question, Mario. Good question. So on investments, we've always said we're looking to repurpose our expense base. So that we can use old economy expenses as we invest into the new economy. It's never easy to kind of manage that quarter-over-quarter. I think we trying to manage it over 3 or 4 quarter cycle. If I look at where we're investing right now, I put into three specific buckets. One is strategic investments, pretty significant investment in the overhaul of our retail distribution network which is pretty expense-intensive, but it is an investment in future. Our Mobile Banking platform and our brand. I think the second big area of investment would be in technology, infrastructure. There is an industry-wide investment in payments modernization that you would be familiar with, but that's not specific to us. I think the acceleration of a movement into cloud, some more investments in automation, agile methodologies, data intensive investments would be in the infrastructure space. And the third would fall into cyber and AML, so we've been very focused on those two areas as well.

So sometimes what you have is you have a bit of a bump up. And our view is that even if things slow down, the economy starts to slow down, it's important for us to continue to transform CIBC into the bank that we believe

we're building. And every once in a while you have a heightened level of expenses maybe for a period of several quarters and this is why we're telling our investors that's what we think we'll be doing to continue to build the strong bank that we're building and then we really have a view that we're building the relationship oriented banks, some of the data that we're seeing on client experience and depth of relationship across our business units, across our markets is very encouraging to us and we don't want to. We want to be disciplined in terms of how we invest in a piece that appropriately. But we really don't want to back off on the journey that we're on.

Mario Mendonca

Analyst, TD Securities, Inc.

Q

So when I look at domestic retail banking on this, I'm looking at the combined personal and commercial now, but disclosure you give us the expenses there're up about 3.4% year-over-year. Do you see it accelerating from there or does that make sense to you?

Victor Dodig

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

A

That's probably the appropriate level of that level of 3% to 4%. Sometimes it'll be 2.7%, sometimes it'll be 3.7%, but that number is kind of the range that we feel comfortable with.

Mario Mendonca

Analyst, TD Securities, Inc.

Q

And then, finally, this is I'm referring to page 19 now of your presentation, I mean, I know it doesn't include commercial, it's Personal and Small Business, but I was sort of struck by the number of 6s and 5s that appear in the far right column. And so, it does appear that the bank has lost some momentum in consumer lending in Canada. When you look at this, how does this – what does this mean to you, is this something you need to address urgently or does it just make sense given where the pricing environment is or competition is, how do you look at this?

Victor Dodig

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

A

Well, I think what we've done as we – as we get more mature into the credit cycle we've really started focusing on deposits. We continue to focus on relationships overall. And if you kind of had the basis point change on that far right hand column, I don't think that we're that far off the middle in some of these areas. And if we were in the middle in some of these areas through the acquisition of some of those products in the first year or two you don't necessarily get the bump up in earnings either. I think what this is reflective of is a transition in terms of the credit cycle, our continued focus on relationships.

Over time, what we'd like to do more of is share with our investor base some of the data that we're seeing on what's more – most meaningful in terms of our financials and that is really the quality and depth of our client relationships. Sometimes, this doesn't show through in terms of a spike in revenue growth but I think the quality of the earnings that you get from CIBC today are quite high and that's what's most important to us.

Mario Mendonca

Analyst, TD Securities, Inc.

Q

Good. 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)



Hey, thank you. A couple of hopefully quickies. Christina, you've mentioned the client relationship strategy, what do you look at to see if that's working or not, because the revenue growth in your segment I think has never been lower. So when does this translate into something that is visible to us?

Christina Kramer

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



So I think Victor spoke a little bit to that Sohrab, so let me continue on. The metrics that we're looking at on client deepening and client relationships are tracking well, they relate to client growth, client depths and client experience and we're seeing across the board positive trends. We've developed a proprietary metric that measures depth to client relationship that's consistent with our strategy. We've seen substantial improvement over the last two years. Our measure of relationship depth is not simply a product use count measure and it looks at a number of factors and I'd bucket them into three. It looks at primacy of relationship, are we the primary bank of the clients? Engagements, is the client actively engaged with banking with CIBC? And then the quality of relationship, so is it a relationship more traditional around product use count, a single product client or is it a high depth of relationship that we have with clients? And we're seeing positive momentum in respect of the client depths of relationship metrics.

Again as Victor mentioned, we do think over time this is the right strategy and we'll show out in our earnings. So, while I'm at it when they talk a little bit about the revenue side because that's really where we'll end up seeing the growth there. We – our margins remain strong and are improving, which is indicative of the underlying profitability and the discipline in the business. Its volume has been lighter than our longer-term targets but has produced NII growth of 3.4% year-over-year on the back of margin strength.

On the fee side, we have seen some headwinds that drag the overall revenue back to 1.8% and part of this is noise due to IFRS 15 as we discussed last quarter and some of it is due to market and internal factors. But underlying those top line numbers as I mentioned are the strong improvement in our depths of client relationship scores, the proprietary metric as well as positive client net acquisition and reduced client attrition and that really speaks to the quality that Victor was referencing, the quality of our earnings as well a referral volume into other SBUs remain strong. So that combined with the investments, we're making an advice in products and in ease of doing banking, we believe we'll generate and improve our revenue growth over the medium term. So we feel confident that we will achieve our Investor Day targets over that period.

Operator: Thank you. I would now like to turn the meeting back over to Victor.

Victor Dodig

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

Thank you, operator, and thank you, everyone, for your very good questions. So in closing this quarter, we delivered solid overall results and continued focus and continue to invest for the future with a disciplined focus to improve our client experience, deepen our client relationships and build a deeply interconnected CIBC banking franchise. As a result, our core businesses performed well as we built deeper trusted client relationships, diversified our earnings and improved our operational efficiency. We remain confident about our future performance as the benefit of our investments take hold.

Going forward, CIBC is well-positioned to serve the private economy, which is centered around mid-market companies and we'll continue investing to build on this strategic position, particularly in the United States. We will fund part of these investments through incremental capital generation over time and through opportunities to reallocate capital from other areas of our business. Well, organic investments will be at the core of our efforts to build a strong client focused platform across North America, we will also selectively consider inorganic opportunities to deploy capital where they make strategic and financial sense.

As we wrap up the call, I'd like to take a moment to address the spring flooding that has affected many communities in Eastern Canada. As a relationship-oriented bank, we are deeply invested in the well-being of our clients, our team and our communities. We have been providing support to those affected as well as to the Red Cross relief efforts. I'd like to thank all the volunteers and emergency workers who've been working around the clock to remediate the situation.

Finally, on behalf of CIBC's executive committee and our board, I'd like to thank our shareholders for their continued support and all of CIBC's 44,000 team members for their dedication to serving our clients. Thank you for being on the call today 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.

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