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Canadian Imperial Bank of Commerce

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Q1 2017 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen. Welcome to the CIBC Quarterly Financial Results Conference Call. Please be advised, this call is being recorded.

I would now like to turn the meeting over to John Ferren, Senior Vice President, Corporate CFO, and Investor Relations, CIBC. Please go ahead, John.

John Ferren

Senior Vice-President, Corporate Chief Financial Officer, and Investor Relations, Canadian Imperial Bank of Commerce

Thank you very much. Good morning, and thank you, everyone, for joining us. This morning, CIBC's senior executives will review CIBC's first quarter results for 2017 that were released earlier this morning. The documents referenced on this call, including CIBC's news release, investor presentation, and financial supplements can all be found on our website at cibc.com. An archive of the audio webcast will also be available on our website later today.

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 are CIBC's business leaders including Harry Culham, Steve Geist, and David Williamson, as well as other senior officers.

Before we begin, let me remind you that any individual speaking on behalf of CIBC on today's call may make forward-looking statements that are subject to a variety of risks and uncertainties. These statements may include material factors or assumptions that could cause CIBC's actual results in future periods to differ materially. For more information, please refer to the note about forward-looking statements in today's press release.

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, John. Good morning, everyone, and thank you for joining us. This morning, CIBC reported very strong first quarter results with adjusted earnings of CAD 1.2 billion and earnings per share of CAD 2.89, up 13% from a year ago. Each of our business units managed through challenges in our operating environment to deliver robust growth and continued progress against CIBC's strategy, which is, one, to deepen client relationships; two, to embrace innovation to improve the banking experience for our clients; and three, to simplify our bank.

We're pleased with the broad-based strength and quality of our earnings in the first quarter, and the consistency of the quarterly results we continue to deliver for CIBC's shareholders. Revenue growth for the quarter was 9%, driven by exceptional results in Capital Markets, and strong top line performance in both Wealth Management and Retail and Business Banking. Our results are also a reflection of the benefits of the investments we have made across our business in support of our client-focused strategy. Strong revenue growth, combined with a continued focus on expenses, improved our NIX ratio to just over 56% this quarter. Credit performance was also strong and on the capital front, we managed to grow our Basel III CET1 ratio to 11.9% from 11.3% last quarter, while delivering an adjusted ROE of over 20%.

By consistently growing our earnings over the past couple of years, through both a very low interest rate and low growth environment, we are very confident that our client-focused strategy is working. Reflecting these strong fundamentals, we announced a CAD 0.03 dividend increase today, taking our quarterly dividend to common equity shareholders to CAD 1.27 per share. This is the ninth time in the past 10 quarters we have raised our common dividend and it moves us further towards our target payout ratio of 50%. So now, I'd like to talk about our business unit performance and let me start off with Retail and Business Banking, which reported year-over-year adjusted earnings growth of 3% to CAD 709 million. Solid top line growth of 5% from both Personal and Business Banking, combined with controlled expense for growth of 3% resulted in positive operating leverage of 2% for the quarter.

Our net interest margin saw some erosion this quarter, but that was due partly to product mix and also to deposit promotions that contributed to 4% sequential growth and a 9% increase in deposit balances on a year-over-year basis. Loan losses of CAD 205 million were higher than a year ago but comparable to the prior quarter. During the first quarter, we launched Digital Cart, an innovative mobile app that allows our clients to apply for mobile banking products easily and securely using their mobile device or online. Our continued focus on leveraging technology to enhance the client experience was also once again recognized by Forrester Research. For the third consecutive year, CIBC earned the highest score for online banking functionality among the five major retail banks in Canada.

We are very proud of our accomplishment and our commitment to adopting technology to enhance our client's banking experience will remain a constant for the CIBC team. My colleague, David Williamson, is here this morning to answer any questions you may have about retail and business banking as well as on innovation. Turning to Wealth Management. We delivered record adjusted earnings this quarter of CAD 135 million, supported by strong performance across all of our businesses. Earnings growth was driven by higher trading activity and fee income from Wood Gundy, and year-over-year AUM growth of 10%. During the quarter, our Wealth Management team continued to enhance the client experience, drive asset growth, and simplify our business platform.

We began co-locating our private banking and CIBC Wood Gundy teams in select locations across Canada, and that is meant to deliver a more targeted offer and a deeper relationship with our higher net worth clients. We also launched new multi-currency brokerage accounts in response to demand from our clients to hold the U.S. dollars and other major currencies in our registered accounts. My colleague, Steve Geist is here this morning to answer questions on our Wealth Management business. Our Capital Markets business also reported a record quarter, with adjusted earnings of CAD 371 million, which is up 50% from a year ago. These earnings are supported by a combination of a well-diversified and client-driven trading revenue business, cost discipline and strong credit quality. During the quarter, we expanded our CIBC Global Money Transfer service to China through a partnership with China UnionPay International.

CIBC clients can now send money to 46 countries around the world with no upfront fees from the convenience of their smartphone or computer. In our Commodities business, we added precious metals and collector coin purchase capabilities to the suite of products we conveniently offer our clients through mobile devices and online banking. Some of these initiatives between our Capital Markets business and Retail and Business Banking are simply our bank working better together to serve our clients on a broad basis. And my colleague, Harry Culham, is here this morning to answer questions on the Capital Markets business. So to conclude, we're off to a very good start in 2017. Our record results this quarter are strong evidence that our strategy of building a strong innovative and relationship-oriented bank is working. And they position us well with supportive market conditions to deliver EPS growth for 2017 in excess of our 5% minimum target.

So with that, I'm going to turn the call over to our CFO, Kevin Glass. Kevin?

Kevin A. Glass

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

Thanks, Victor. In my presentation, we'll refer to the slides that are posted on our website starting with slide 5. And as Victor noted in his remarks, we had a very strong quarter to start the year. We reported net income of CAD 1.4 billion and earnings per share of CAD 3.50. Items of note during the quarter contributed a positive CAD 0.61 per share to our results, including a gain on the sale and lease-back of certain retail properties. And the gain is reported in the Other business line within Retail and Business banking. After adjusting for the items of note, our net income was CAD 1.2 billion. EPS of CAD 2.89 was up more than 13% from a year ago. Our return on equity was over 20% and our Basel III CET1 ratio grew to 11.9%. We also announced another CAD 0.03 increase to our quarterly dividend, which is now CAD 1.27 per share.

The strength and consistency of our earnings growth over the past two-and-a-half years has supported a 27% increase in our dividends. The balance of my presentation will be focused on adjusted results, which excludes the items of note. We have included slides with the reported results in the appendix to this presentation.

Let me now review the performance of our business segments, and I'll start with the results for Retail and Business Banking on slide 6. We recorded another quarter of solid earnings in our Retail business with good top line growth and a modest increase in expenses. Revenue for the quarter was CAD 2.3 billion, up 5% from last year, driven by growth in both Personal and Business Banking. Personal Banking revenue of CAD 1.8 billion was up 5% from the same period last year.

Performance benefited from strong volume growth across all products partially offset by narrower spreads. Total asset growth was 10%, led by residential mortgage growth of 12%. Our personal lending portfolios, including cards, grew 4% as we continued to see improving results in this area. Personal deposits and GIC growth of 8% benefited from the continued success of our Smart Account and promotions during the quarter.

Business Banking revenue was CAD 453 million, up 7% from last year, driven by strong lending and deposit volume growth and higher credit-related fees, partially offset by narrower deposit spreads. Business lending balances were up 11% and business deposits and GICs were up 10% from the same period last year. The Other segment had revenue of CAD 8 million and is down CAD 8 million from the same period last year due to the continued run off of the exited FirstLine mortgage broker business.

Provision for credit losses of CAD 205 million, comparable with the prior quarter. Loan losses were up CAD 42 million or 26% from the same period last year, largely due to higher loss rates and to a lesser extent, portfolio growth in cards and personal lending.

Non-interest expenses were CAD 1.1 billion, up 3% from the prior year. We continue to invest in strategic growth initiatives to support our transformation into a modern, convenient, and innovative bank while remaining committed to improving productivity. Good top line growth contributed to positive operating leverage of 1.9% and a mix ratio of 49.1%, an improvement of 89 basis points from the prior year. Net interest margin was down 6 basis points sequentially, reflecting lower deposit spreads due to promotions during the quarter, the continued impact of the low interest rate environment, and also business mix. Retail and business banking net income was CAD 709 million, up 3% from the same period last year.

Slide 7 reflects the results of our Wealth Management segment. Revenue for the quarter was CAD 653 million, up CAD 51 million or 8% from the prior year, driven by strong and broad-based business performance. Retail brokerage revenue of CAD 352 million was up CAD 44 million or 14%, largely due to growth in assets under administration and higher transactional activity, including debt and equity issuance in our full-service brokerage business. Asset management revenue of CAD 194 million was up CAD 13 million or 7%. This was largely due to higher average AUM resulting from market appreciation and strong net sales of long-term mutual funds.

In Q1, long-term mutual fund net sales were CAD 1.2 billion, up from CAD 371 million a year ago. Private wealth management revenue of CAD 107 million was up CAD 9 million or 9%, mainly due to higher annual performance fees earned by Atlantic Trust and growth in Canadian-based loans and deposits. Non-interest expenses of CAD 466 million were up CAD 30 million or 7%, primarily due to higher performance-based compensation. Net income in Wealth Management was CAD 135 million, up CAD 13 million or 11% from the same quarter last year.

Turning to Capital Markets on slide 8. We delivered exceptionally strong client-driven results this quarter. Revenue for the quarter was CAD 877 million, up CAD 191 million or 28% from the same quarter last year. Global markets revenue of CAD 531 million was up CAD 140 million, driven by higher revenue from equity derivatives, interest rates and commodities trading. Corporate and investment banking revenue of CAD 335 million was up CAD 49 million from the prior year, driven by higher equity and debt underwriting and higher corporate lending revenue partially offset by lower advisory revenue. Provision for credit losses was CAD 2 million in the quarter, down from CAD 25 million for the prior year when we had elevated losses in the oil and gas sector. Non-interest expenses of CAD 382 million were up CAD 40 million from the prior year primarily due to performance-driven compensation. Net income of CAD 371 million was up CAD 123 million from the prior year.

Slide 9 reflects the results of our Corporate and Other segment where we had a net loss for the quarter of CAD 49 million, compared with a net loss of CAD 27 million in the prior year. This was largely due to lower revenue in CIBC FirstCaribbean and the net impact of our treasury activities.

Turning to slide 10. We further strengthened our capital position over the past quarter. Our CET1 ratio was 11.9% as of January 31, up 60 basis points from the prior quarter, driven by solid organic capital generation and the impact of share issuance through our dividend reinvestment and employee share based plans.

The gain on the sale and lease back of certain retail properties this quarter contributed 15 basis points. Today, we announced our intention to seek TSX approval for a normal course issuer bid that would permit us to purchase for cancellation up to a maximum of 8 million or approximately 2% of our outstanding common shares over the next 12 months. Our very strong capital position provides us flexibility to invest for future growth and to pay a strong dividend while maintaining a prudent buffer for future regulatory changes.

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

Laura L. Dottori-Attanasio

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

Thanks, Kevin, and good morning, everyone. Slide 12 begins with our loan loss performance. Loan losses were CAD 212 million, down CAD 10 million mainly due to lower losses in Business Banking and a lower collective provision for non-impaired loans. This was partially offset by higher losses in credit cards as we saw write-offs increase from the last quarter. Our loan loss ratio was 26 basis points compared with 27 basis points in the prior quarter. Turning to slide 13. New formations were CAD 399 million, relatively unchanged from the last quarter. Gross impaired loans were CAD 1.4 billion or 44 basis points as a percentage of gross loans and acceptances. This is down CAD 240 million or 8 basis points from the fourth quarter mainly due to a reduction in our European portfolio.

Slide 14, which we introduced last quarter, provides an overview of our Canadian residential mortgage and HELOC portfolios in Canada, the Greater Vancouver area and the Greater Toronto area. And here you will see that our late-stage delinquency rates across these portfolios continue to remain low and stable with the Vancouver and Toronto areas performing significantly better than our Canadian average. Slide 15 is a new slide and it shows Beacon and at-origination loan-to-value distribution for the CAD 12 billion of unsecured mortgages that we originated in the first quarter. Of that amount, approximately 42% were to clients in the GTA and 15% to clients in the GVA. Average Beacon scores of new clients continued to be in line with our existing clients and average loan-to-values of new originations also continue to be lower than the national average of 64%, with 56% in the GVA and 62% in the GTA.

Slide 16 shows our Beacon and loan-to-value distribution for our overall Canadian uninsured residential mortgage portfolio. In Canada, 8% of our uninsured mortgages have a current Beacon score of 650 or less and 12% have loan-to-values over 75%. Less than 1% of our uninsured mortgage portfolio falls into both of these categories. The Vancouver and Toronto markets continue to have better credit profiles than the Canadian average. Beacon score distributions are towards the higher end and average loan-to-values were 48% in the GVA and 52% in the GTA, both lower than the national average of 56% and with distribution towards the lower end.

Slide 17 shows our Canadian credit card and unsecured personal lending portfolios. On a quarter-over-quarter and year-over-year basis, the increase in the late-stage delinquency rate in our Canadian cards portfolio is driven by a combination of higher unemployment in the oil provinces and some credit migration in the rest of the portfolio. The late-stage delinquency rate for our unsecured personal lending portfolio remains stable with a marginal improvement on a quarter-over-quarter basis, but slightly up year-over-year in the oil provinces. Slide 18 shows the distribution of revenue in our trading portfolios as compared with VaR. We had all positive trading days this quarter compared with one negative trading day last quarter. Our average trading VaR was CAD 6.1 million, up from CAD 5.2 million, mainly driven by increased client flows in currencies and in rates.

And now, I'll turn things back to John.

John Ferren

Senior Vice-President, Corporate Chief Financial Officer, and Investor Relations, Canadian Imperial Bank of Commerce

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now take questions from the telephone lines. [Operator Instructions] The first question is from Meny Grauman from Cormark Securities. Please go ahead.

Meny Grauman
Analyst, Cormark Securities, Inc.

Q

Hi, good morning. Just wanted to ask a question about the PrivateBancorp deal, and just first – just in terms of details, wondering significant dates from here, specifically the June 29 date. Is that correct that that's the date after which you can walk away from this deal? Or I guess PrivateBancorp can walk away from this deal without any sort of penalties?

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

A

Good morning, Meny. I suspected that question might come up. So, let me just say a couple of things. One is our U.S. strategy continues to remain intact, and that is to grow our footprint in the U.S. to be able to better serve our clients as well as to have exposure into a market that we see growth in over the long-term. We therefore continue our integration work. We continue with our regulatory approvals, and the June 29 date that you mentioned is the expiry date, where everyone can walk away. And in the interim, we await for the PrivateBanc board of directors to announce the next meeting date.

I'll say a couple things. One is that the PrivateBanc is a good standalone bank. The PrivateBanc is a better bank under CIBC's ownership because we will be providing the resources necessary to allow them to grow with the growth plans that, I think, will deliver the value necessary to our own shareholders over the long-term. But I also say this, that we're going to always act in the best interest of our shareholders. We will be disciplined. We will be patient. We have plenty of organic growth to deliver from our existing footprint as well, so that discipline and patience is something I want to emphasize to all of our shareholders.

Meny Grauman
Analyst, Cormark Securities, Inc.

Q

And just help us understand the delay in rescheduling a vote. I understand it's the prerogative of the PrivateBancorp board. But how do we understand this delay, and what is it predicated on? Or what's happening behind the scenes that is causing that delay? Are we waiting for something – or are you waiting on something specific to happen before that date gets announced?

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

A

No, I think the PrivateBancorp board is acting in the interest of their shareholders, and we're acting in the interest of ours.

Meny Grauman
Analyst, Cormark Securities, Inc.

Q

Okay. And then I just had a follow-up. I think you kind of mentioned, but I just wanted to clarify just in terms of strategy, if for whatever reason you were to walk away from this deal, how does that change your U.S. strategy and specifically your capital priority? Does that ratchet up a big return – the odds of a big return of capital to shareholders in that event?

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

A

We're focused on the long-term, Meny. We have lots of different avenues to provide returns to our shareholders in the short- to medium-term, but in the long-term, we believe that we need to have that U.S. exposure. So when it comes to capital, our capital levels at 11.9% today are strong. But that's always been consistent with our strategy. And our strategy's always been, be a strong bank, have a strong capital position to do three things. One is to continue to invest in our businesses, and you see the results that we're delivering in our footprint that we have today. The results are strong. They're strong on the top line, and they're strong because we're investing in our businesses. We're investing in our businesses to build a stronger client franchise across CIBC. So organic investment is a priority.

The second thing is to continue to grow our dividends. We have a shareholder base that's income and growth oriented, so we want to make sure that we continue to grow those dividends and do so with a good, consistent business strategy. We're now continuing to approach the 50% payout ratio, but we're pleased with the fact that we're able to grow our dividends for our clients. And we've always said that the third avenue for capital deployment is inorganic and/or buybacks. So inorganic is clearly in the wheelhouse of getting the Private transaction – the PrivateBanc transaction done. But today, we also announced an NCIB because we want to make sure that we have every avenue open to us for our shareholders. And we may have to in fact simply be more active in terms of buying back stock over time if we're not able to consummate that deal in this period of time. So we want to make sure those avenues are open to us.

Meny Grauman
Analyst, Cormark Securities, Inc.

Q

Thank you very much.

Operator: Thank you. As a reminder, we'd like to remind questioners to please limit their selves to one question. If you have follow-ups, please re-queue. The following question is from Ebrahim Poonawala from Bank of America Merrill Lynch. Please go ahead.

Ebrahim Huseini Poonawala
Analyst, Bank of America Merrill Lynch

Q

Good morning. I had a question on – if you can just talk about in terms of residential mortgage growth. One, I guess if you can sort of comment on what has been the impact and how you approach this lending so far based on the government actions that have been enacted over the last six months? And how have you seen competitive behavior change on that front across all of the regions? If you can comment on that first.

J. David Williamson
Senior Executive Vice-President and Group Head, Retail and Business Banking, Canadian Imperial Bank of Commerce

A

Certainly. So our objective is to meet client needs and to do it in a way that's good for our clients and for our shareholders, and within whatever the context would be. So some of the government actions such as the tax change in the West Coast have impacted volumes in that region. Volumes in other parts of the country have adjusted as well over the same period of time. So there's some degree of change in the regional element of the market but irrespective of that, markets continue to be strong in aggregate. I guess our objective, Ebrahim, is to build the business in a sensible kind of way. So if your question really is within the context of the current market, how do we feel about our mortgage growth, then let me address that specifically. We feel quite good about the nature and the size of the growth we're achieving for probably three reasons. One is we're not using price as a lever to compete in the current market.

Our NIMs in the mortgage business quarter-over-quarter or year-over-year is stable. The NIM compression that Kevin referred to and Victor referred to are as a result of promotions and the deposit space promotions that affected in the short-term in those particular quarter, the current interest rate environment and business mix. So we're not competing on price. Second, we're not competing on risk. So if I look at some of the data that Laura's provided but cut it in a different way to look at – on a comparative basis, the loan-to-value of our uninsured new originations in Q4 was 64%. Only one of the big five were lower than us and theirs was 63%. In Q1 of 2017, our loan-to-value of new originations is still at 64%.

If we look at British Columbia, which have been an area of focus over the last while, our loan-to-value of uninsured new originations was the lowest of all the banks at 60%, and in this quarter we dropped further to 59%. And if we get more specific and look at the GVA at specifically the Vancouver area, our loan-to-value of new origination is even lower at 56%. The point for raising all that is just to make the point we're not competing on risk. We are competing on client experience. So in that area, whether it's our banking centers where we've introduced products that we're [ph] gapping (27:47) from our portfolio, which is the Home Power Plan, the mortgage HELOC product. We've introduced that. We've sped our adjudication times. We've improved our processes and that's allowed our banking centers to perform well in the current context.

And then in the mobile advisors, where we have grown that force, it's performed very well and it's very consistent with our client experience aspirations of allowing our clients to bank when, where, and how they would like. The mortgage advisors will come to you. That channel, 30% of their clients are new to the bank and from that new client base, we're building deeper relationships, something we couldn't do in a broker channel. So we've exited the broker channel and been actively building our mobile advisor channel. So we've focused on client experience irrespective of the context from a regulatory perspective, if you're not competing on price, if you're not competing on risk, but we do compete on a better client experience, then we'll get the business we're getting which is a healthy growth in new clients and building deeper relationships off that mortgage business. Hopefully, that addresses your question and goes the extra step to look at our comfort and confidence in the rebuilding.

Ebrahim Huseini Poonawala
Analyst, Bank of America Merrill Lynch

Q

No, that's helpful. So I guess it's fair to assume that when we look at the LTVs that you provided for originations, we shouldn't expect that 64% to move higher?

J. David Williamson
Senior Executive Vice-President and Group Head, Retail and Business Banking, Canadian Imperial Bank of Commerce

A

Yeah. In fact, in the last quarter, it's stable. And in the British Columbia area, it's actually lowered a bit. So it'll change a bit, but if you look over time, it's actually been pretty stable and more conservative than our peer group.

Ebrahim Huseini Poonawala
Analyst, Bank of America Merrill Lynch

Q

Got it. And just to tag on to that, when you think about the outlook, I guess it sounds like you feel comfortable around growing that portfolio around the rate you did in 1Q, around 10% to 12% on an annual basis. But from a credit quality perspective, both credit cards and real estate lending, based on where things stand today, like, how do you think about credit quality for 2017, understanding that a lot can change but just do you expect any meaningful deterioration in any of the consumer portfolios as this year progresses?

J. David Williamson
Senior Executive Vice-President and Group Head, Retail and Business Banking, Canadian Imperial Bank of Commerce

A

I'll hand over to Laura in just a moment. But as far as the growth rate, it's again, it's – we operate within the context that exists, right? So Vancouver's slowing, Toronto's speeding, so the actual rate of growth we'll have will depend on the context we're getting. Key thing is we're just not competing on price or risk, and we continue just to build our client base and develop strong relationships in that context. Maybe with respect to our view on credit environment, I can maybe hand over to Laura.

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

A

Sure. I guess what I'd add to that is you saw we did have a really good Q1 performance and that was consistent across all of our credit portfolios. It really depends on the overall economic performance and unemployment trends. What we're seeing is that in the oil provinces, unemployment seems to have peaked. It's come down a bit in Canada. Now, we have seen our delinquencies, as you saw in our disclosure, increase in the oil provinces over the past year, particularly in the card space, but that does feel like it's stabilized. And although delinquencies remain somewhat elevated in the card space in particular, related to oil, we do think that our losses, if you will, on a go-forward basis should only be slightly higher and that's taking into account seasonality, if you will, of the portfolio. So if economic performance sort of continues to remain and unemployment trends as well, then we should continue to have a good year for 2017.

Ebrahim Huseini Poonawala
Analyst, Bank of America Merrill Lynch

Q

Understood. Thanks for taking my question.

Operator: Thank you. The following question is from John Aiken from Barclays. Please go ahead.

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

Q

Good morning, David. I wanted to follow on in terms of the deposit pricing that you took, actions you took this quarter. Was this to just shore up some of your funding? Or was this actually prefunding for growth that you're expecting through the remainder of the year?

J. David Williamson
Senior Executive Vice-President and Group Head, Retail and Business Banking, Canadian Imperial Bank of Commerce

A

Hi, John. No, it's not really directly related to short-term needs in funding. It's really just our continued objective to build the relationship with clients on both sides of the balance sheet, right, to grow our lending business and to grow our deposit business. And within a context, it is competitive on the deposit side. So the growth in lending, we are picking up market share. To the point I made earlier, it's not on price. Our business banking NIMs are flat quarter-over-quarter, year-over-year, mortgage NIMs flat, and we're picking up market share on deposits. And that's just because we want that kind of a relationship with our clients. So half of the NIM compression is those promotional rates. The trick then is to maintain the balances that come in during that promotional period. That's something that worked well last year and we hope works well again this year.

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

And then, David, I guess we wouldn't necessarily expect to see the full recovery of the 6 basis points over the next couple of quarters then if that's what the case is, particularly if you continue to grow your mortgage book faster than where you are with the other loan balances?

J. David Williamson
Senior Executive Vice-President and Group Head, Retail and Business Banking, Canadian Imperial Bank of Commerce
A

Let's just break apart the 6 basis points. So the 6 basis points is half promotional, right? It's during this period of time when we're in the market trying to build those balances. The other half, that's really 1 basis point is mix and 2 basis points is rates. So, the promotional part will become less of a factor during the rest of the year. We're still in promo now and we're now in Q2, so it's going to impact Q2 a bit. But that'll not be a factor in the latter part of the year. But rates and that basis point of mix likely will be.

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

Great. Thanks, David. Appreciate it.

J. David Williamson
Senior Executive Vice-President and Group Head, Retail and Business Banking, Canadian Imperial Bank of Commerce
A

No problem, John. Thanks.

Operator: Thank you. The following question is from Steve Theriault from Eight Capital. Please go ahead.

Steve Theriault
Analyst, Eight Capital
Q

Thanks very much. Maybe just a quick one to start for David just to follow on. David, last quarter, I might have been left with the impression that the positive impact from the mobile sales force had come and gone now that the number of mobile advisors has peaked, but is that how we should think about? Or are there more productivity gains still to come as that sales force gets more seasoned over time? And if that's the case, how long should we expect to see a benefit from those hirings that have happened over the last couple of years?

J. David Williamson
Senior Executive Vice-President and Group Head, Retail and Business Banking, Canadian Imperial Bank of Commerce
A

Hi. Good morning. Yeah, a couple of comments there, and maybe I miscued folks when I said that we'll come to industry growth rates quicker. We've backed off on the growth in that mortgage channel but just recently, right? So that, that means on a year-over-year basis, we still have growth in the size of that channel.

Steve Theriault
Analyst, Eight Capital
Q

Okay.

J. David Williamson
Senior Executive Vice-President and Group Head, Retail and Business Banking, Canadian Imperial Bank of Commerce
A

Quarter-over-quarter, it's flat, but so we're going to have for a few quarters yet, year-over-year growth. And then to your point, I hope for some extended period of time, we have productivity growth because there's new members of the team. We're better at supporting them and what we've learned over time is there's a pretty good growth in productivity is that – so that could carry for a while. And obviously, we're trying to help them do better on the deposit growth along with mortgages. So we're trying to give them better tools to on-board clients in the deposit side as easily as they can do the mortgages. So what Victor talked about with Digital Cart, the ability to open up accounts even if you're not a client through your phone and so forth. We'll facilitate the kind of tools that that channel will have as well to on-board deposits. So, I guess two points. One is what I talked about before is we flat lined that channel. That's recent, so we're going to have a while of continued year-over-year growth, and the productivity gains, I am hopeful, will be sustainable for – beyond that.

Steve Theriault Q
Analyst, Eight Capital

Okay. That's helpful. Thanks for that. And then for Harry, on Capital Markets. Obviously, a very solid start to the year. I know we're relatively early on in 2017, but when I think about your business for this year, I think a lot about the drag from the total return swaps in the back half of the year specifically. So maybe you can just give us an update on how much pressure we should expect in the back half of the year from TRS's? How your efforts are going in replacing some of those revenues? And given the strong Q1, a very strong Q1, do you feel like you're in a position to grow earnings this year if conditions don't remain great, but remain reasonably constructive the rest of the year?

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

Okay. So why I don't I just – good morning. I want to just make a quick comment on the quarter. Obviously, it was a strong quarter. Pleased with the trading revenues as you point out, across – actually across all product areas. If you look at equities, commodities, fixed income and rates. So the environment obviously is – the conditions were and continue to be very good for our clients generally and our business and our team is providing our growing franchise industry-leading insight, advice, and execution. We're pleased with our progress and our plan. At the end of the day, we are focused on repeatability of consistent and sustainable growth of this business.

You point out the environment, Q1 was exceptional. Very good market conditions, strong client activity and Q2 is off to a good start. The pipeline is strong. With respect to the TRS, I think I've mentioned it before, it starts to hit us towards the end of, and all banks, towards the end of quarter two. And the most – the large impact is the last half of 2017 and the impact is in and around 5% of our net income after tax after mitigation efforts. Now, having said that, the market conditions are very strong. Client activity is great. Working with our clients very closely to navigate these interesting markets. So market conditions do play a factor.

Steve Theriault Q
Analyst, Eight Capital

So when I think of that 5% of NIAT after mitigation that's – can I distill that just arithmetically to 10% in the back half of the year effectively relative to what your run rate would be otherwise?

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

Yeah. That's probably a good approximation.

Steve Theriault
Analyst, Eight Capital

Q

Okay. That's helpful. Thanks for the time.

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

A

You're welcome.

Operator: Thank you. The following question is from Gabriel Dechaine from National Bank Financial. Please go ahead.

Gabriel Dechaine
Analyst, National Bank Financial

Q

Good morning. Question for Victor back on to this capital management stuff on the NCIB specifically. So just if I'm understanding your comments correctly, or interpreting, you've got the NCIB placed in there if PrivateBancorp doesn't happen. So you're there, you've got a capital deployment outlet. And it's also there in case it does happen. When you think about the flow back issue, if you're going to be issuing a lot of shares to PrivateBancorp shareholders, so I suppose it could be used in either case.

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

A

Yes. It has a dual purpose function. How do you like the new shop, Gabriel? Everything going well?

Gabriel Dechaine
Analyst, National Bank Financial

Q

So far so good.

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

A

Excellent. I'm glad to hear that.

Gabriel Dechaine
Analyst, National Bank Financial

Q

I get to speak French a lot more which is nice.

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

A

Fantastic.

Gabriel Dechaine
Analyst, National Bank Financial

Q

Then what do you mean on integration efforts? I just want to clarify that like you don't own the business yet so it's not like you're cost cutting or anything like that. Is it just planning or what do you mean by integration efforts?

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

A

That's a good – it's about planning. It's about planning for the future and how to build a formidable business bank across borders to serve our clients. A big part of this is serving our own Canadian clients who are doing increasing business south of the border. We're able to bank them today from a lending perspective but a more robust offer I think is what they would be looking for over the long-term from CIBC.

Gabriel Dechaine
Analyst, National Bank Financial

Q

Okay. And my last question and it's also on this issue, this situation. You said that you're working in the best interest of CIBC shareholders and that's great to hear. And then you're kind of leaving the door open that the PrivateBancorp may happen, may not happen. But long-term you believe being in the U.S. is an important part of CIBC's future. So let's assume this deal doesn't happen. How quickly are you looking to deploy capital into the U.S.? There's a big valuation ramp-up we've seen over the past year and past few months. Is this a situation where you're going to get hard at work looking at the next deal? Or would you be a lot more patient given the valuation landscape?

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

A

I just want to reiterate a couple of things.

Gabriel Dechaine
Analyst, National Bank Financial

Q

Sure.

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

A

One is, we are building for the long-term, not for the 6-month term, not for the 12-month term, but for the long-term, right?

Gabriel Dechaine
Analyst, National Bank Financial

Q

Yeah.

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

A

The second thing I want to reiterate is, the PrivateBanc is a very good bank. It's a very good standalone bank; it's better under CIBC ownership. Much stronger, much broader ability to grow across its platform. So we think we bring a lot to the party and we think that the long-term strategic interest of their shareholders and our shareholders are best served by coming together. Having said all of that, the market's clearly run. Our goal is to be rational, our goal is to be disciplined, and our goal is to be patient. We are acting in the interests of our shareholders. That means building a North American franchise, but that means also doing it in an economically prudent fashion. And that's all I'll say today. They're a good bank. We've been working with them for a long, long time. We've got good integration plans underway. But we will be disciplined and we will be patient when it comes to price.

Gabriel Dechaine
Analyst, National Bank Financial

Q

Okay. And then just last one, clarification from Harry that the 5% of NIAT after mitigation, that's for your segment not the total bank, correct?

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

A

Apologies. Yes, absolutely. Capital Markets' net income after tax.

Gabriel Dechaine
Analyst, National Bank Financial

Q

Okay. Great. Thanks.

Operator: Thank you. The following question is from Sumit Malhotra from Scotia Capital. Please go ahead.

Sumit Malhotra
Analyst, Scotia Capital, Inc.

Q

Thanks. Good morning. And just to be clear on your filing of the NCIB, usually when you file for these things it doesn't take very long for it to be approved. If you were approved, do you anticipate being active on that file prior to having some kind of conclusion with Private? Or would it have to wait until you know what the capital impact is going to be?

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

A

Sumit, that's our management prerogative. So OSFI's approved it. We'll wait for TSX approval. Everything that we're doing is consistent with everything we've always said. The buyback is simply another avenue to deploy capital to our shareholders, and we will do that at the time that we think it's in the best interests of our shareholders.

Sumit Malhotra
Analyst, Scotia Capital, Inc.

Q

And similar relatedly, you gave us the confirmation in the first question on the so called walk away day, there's probably a better term than that. But you postponed the shareholder vote in early December. Is there a timeframe in which you're required to go back to shareholders with the offer, whichever one it is? Or does the June 29 date serve as all-encompassing on that front?

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

A

The June 29 date is the all-encompassing date and it will be up to the PrivateBancorp's board of directors to establish the next meeting date.

Sumit Malhotra
Analyst, Scotia Capital, Inc.

Q

All right.

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

A

Within that timeframe.

Sumit Malhotra
Analyst, Scotia Capital, Inc.

Q

Okay. Thank you for that. And then I just want to go back to David Williamson and this conversation around net interest margin. I think you told us the factors that are in place that had a larger impact this quarter. But bigger picture, I think just around the banking sector, there's been a lot of excitement on what higher interest rates and bond yields in Canada and the U.S. could do to net interest margin. But at least the way I'm hearing it, you're not really communicating to us that the fact that Canadian five-year yields are up 50-ish basis points in the last three months, is going to have a major positive effect for your net interest margin. Am I hearing you correctly or are there some other factors that need to play out in order for NIM to benefit in Canada for CIBC?

J. David Williamson
Senior Executive Vice-President and Group Head, Retail and Business Banking, Canadian Imperial Bank of Commerce

A

Hi, Sumit. No. You're right that higher rates, RO indices is just the – I think Victor referred to in his comments – restructured on a tractor or a ladder. So it just takes a while for it to come into earnings. So to the extent that rates are high and stay high for a while, it'll start to come in. I think you'll hear from us and the rest of the community, rates have just been coming down for such an extended period of time that with a multiyear tractor there's just a continued grind on that front. But there might be signs that that's about to reverse.

Sumit Malhotra
Analyst, Scotia Capital, Inc.

Q

Thanks for your time.

J. David Williamson
Senior Executive Vice-President and Group Head, Retail and Business Banking, Canadian Imperial Bank of Commerce

A

Thanks Sumit.

Operator: Thank you. The following question is from Sohrab Movahedi from BMO Capital Markets. Please go ahead.

Sohrab Movahedi
Analyst, BMO Capital Markets (Canada)

Q

Thank you. Victor, you mentioned that the year is off to a good start and you expect you will be able to exceed the 5% EPS target for the year. Can I ask what your starting point for that number is?

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

A

The 5%?

Sohrab Movahedi
Analyst, BMO Capital Markets (Canada)

Q

No, I mean what's the base – off of what 2016 base are you working off of?

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

A

Off of our earnings per share that we delivered in 2016. Right?

Sohrab Movahedi
Analyst, BMO Capital Markets (Canada)

Q

What you would call adjusted?

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

A

Yeah. Adjusted, correct.

Sohrab Movahedi
Analyst, BMO Capital Markets (Canada)

Q

Okay. And is there an assumption in that that the Private deal gets done?

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

A

The 5% target is a target that we think we can deliver on an organic basis in terms of growth.

Sohrab Movahedi
Analyst, BMO Capital Markets (Canada)

Q

Okay. Thank you. And then very quickly for Laura. Laura, you had noted on one of the slides that high LTV, low Beacon score was less than 1% of the uninsured portfolio. When you think about loss composition, what would you say the expected loss in your – I don't know, in your stress testing would be on that 1% of the portfolio?

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

A

Hey, Sohrab. Well, when we run our stress, we look at the whole portfolio, and so I think I've gone through this. We run through the mild and severe scenarios. Clearly, that would be the segment of the population that would be hit, if you will, more severely. So are you looking for sort of revised stress numbers for that segment of the portfolio? Because what I can tell you from an overall expectation on loan losses – we're not expecting to see loan losses increase in that particular segment.

Sohrab Movahedi
Analyst, BMO Capital Markets (Canada)

Q

But I guess, what I'm trying to get at is whatever the stress loss is. Let's say, I'm just making up a number. CAD 200 million.

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

A

Well, strictly...

Sohrab Movahedi
Analyst, BMO Capital Markets (Canada)

Q

Would it be concentrated in this part of the portfolio?

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

A

No. So when we run our stress across the book, as you can appreciate, the largest segment of losses, if you will, or additional losses we would take in a severely stressed environment, as I speak to retail, would be in the unsecured space. So first of course, would be cards followed by the rest of the unsecured products that we have. It continues to be when we run our most severe stress that the smaller amount of the losses, if you will, would continue to be in the Mortgage portfolio. And so that number, and I did speak to on a few quarters ago – of course, as our mortgage book grows and economic conditions change, that number will change as well, but it continues to be, if you will, the smaller of the numbers.

Sohrab Movahedi
Analyst, BMO Capital Markets (Canada)

Q

Okay. So I mean, just the 1% then is an interesting data point, but it doesn't factor into your risk appetite or risk management framework in any meaningful way?

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

A

Well, it does in that, when we run our stress we look at the whole product on a product-by-product basis in the overall organization. And then we also go in and do deep dive. So we do look at the margins, if you will, so that segment, and we look at that as well to see under stress does it that make sense, and does it all sort of add up. So we do look at that closely, and it does fall into our risk appetite.

Sohrab Movahedi
Analyst, BMO Capital Markets (Canada)

Q

Okay. Thank you. Maybe I'll follow-up afterwards.

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

A

Okay.

Operator: Thank you. The following question is from Doug Young from Desjardins Capital Markets. Please go ahead.

Doug Young
Analyst, Desjardins Capital Markets

Q

Good morning. Just questions on regulatory capital, and I apologize, I've done some numbers quickly. But I believe that the loans were up sequentially about 2% but your credit risk weighted assets were down 1%. So, I'm just trying to get a sense of, are you making some changes to your portfolio in anticipation of the new Basel rule changes? Or can you talk a bit about some of the moving parts there? And then I just noticed on page 8 of the regulatory capital supplement that the other category of credit risk weighted assets was down CAD 1.4 billion sequentially. Just trying to get a little bit of sense of what that relates to?

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

A

So, I think on the credit risk RWAs, what we did is we had a fair amount of movement on the capital markets counter-party credit risk changes this quarter. So as a result of declines over there, that would have mitigated the increase in RWA growth. As far as the other is concerned, the biggest driver over there was just time decay. And we actually had that last quarter as well, so as we get – and that can move on a quarter-by-quarter basis, and this particular quarter that worked for us, which drove that reduction.

Doug Young
Analyst, Desjardins Capital Markets
Q

Sorry, you said time decay?

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

Yeah.

Doug Young
Analyst, Desjardins Capital Markets
Q

Okay. And just was in the Capital Markets segment, was this more in anticipation of some changes? Is this kind of more proactive work that you've been doing? Or is this just general part of everyday business?

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

It's a combination of that. So [ph] if it's anything (51:25), it's proactive, but it's also largely market conditions and just the way that our client positions have moved.

Doug Young
Analyst, Desjardins Capital Markets
Q

Okay. And then just on the market risk component of it. I think the full impact from the changes is effective January 1, so that would be in these numbers. Is that correct? Because I think there was some calculation changes that came through.

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

There'd be a small impact this quarter.

Doug Young
Analyst, Desjardins Capital Markets
Q

It wasn't a big – okay. And then there's still operational risk impacts that are coming in June. Do you have any sense of what the implication or what size that could be?

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

Well, obviously, we have our internal models. We don't give that level of granularity. But certainly when we look at our forecast moving forward, it would have an impact, but not a very material impact as far as our CET1 overall ratio is concerned.

Doug Young
Analyst, Desjardins Capital Markets
Q

Okay. Great. That's all for me. Thank you very much.

Operator: Thank you. The following question is from Nick Stogdill from Credit Suisse. Please go ahead.

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

Hi. Good morning. Just a question on business banking, or business lending. We've now got a few months with the new U.S. administration behind us. And I'm just wondering if you could give an update on feedback from your commercial and business clients in Canada? Do they feel more optimistic or do you get a sense they're putting growth plans on hold, maybe looking to defer investment spend? And then just maybe tie that to the context of the 11% growth that you delivered in Canadian banking, business banking this quarter.

J. David Williamson
Senior Executive Vice-President and Group Head, Retail and Business Banking, Canadian Imperial Bank of Commerce
A

Hi, Nick. Yeah. The growth that we produced in business banking, it's actually pretty consistent with the run we've had for some period of time. A lot of that is due to – is a build on the relationship managers, the build on the, as we call it, feet on the street. At this point, I think everyone is still evaluating kind of what the changes south of the border mean as far as trade and as far as opportunity, early days yet. So, I think from my perspective, I haven't seen any kind of systemic shift. I think there's a lot of thought, a lot of questions, a lot of uncertainty potentially but we haven't really seen any systemic change in business activity at this point.

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

Okay. So the pipeline still looks good and this level of growth feels sustainable?

J. David Williamson
Senior Executive Vice-President and Group Head, Retail and Business Banking, Canadian Imperial Bank of Commerce
A

Yes.

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

Thank you.

Operator: Thank you. The following question is from Mario Mendonca from TD Securities. Please go ahead.

Mario Mendonca
Analyst, TD Securities, Inc.
Q

Good morning. Could you talk a little bit about the nature of the client activity in the Capital Markets business that would have driven the very strong equity derivative trading results? It does sound like it's client activity but if you can offer anything a little more specific?

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

Sure. I think – well, good morning, Mario. Firstly, what I would say is the trading equity derivative business is a well-diversified business here at CIBC. No doubt there were strong market conditions. You've seen an uptick year-over-year but what's interesting is the breakdown of the equity derivative business. And as I mentioned, well-diversified, we saw a very good amount of client activity in the equity linked note business. That business was up significantly year-over-year and quarter-over-quarter on the back of redemptions and other offerings. We saw very good client flow in a business we're building in the U.S., in the U.S. equity derivative business, and we also saw an uptick in the North American optioned activity with core clients this side of the border and south of the border. So it's very well diversified activity with our core clients. Anyhow and the market conditions are favorable for that activity.

Mario Mendonca
Analyst, TD Securities, Inc.
Q

So, you wouldn't highlight the total return swaps in any way as the key driver of that big number then?

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

No. In fact, the TRS related activities were about flat with previous quarters.

Mario Mendonca
Analyst, TD Securities, Inc.
Q

Okay. A quick follow-up then and this is more for Victor. I find the capital decisions that have been put in place, they're difficult for me to follow. Now, I'm clearly, I'm looking at this externally, so I'm not going to have the level of insight that you do of course. But having the drip in place made it feel like the bank was maybe going into a capital conservation mode. But now I hear of the buyback and the ninth dividend increase in 10 quarters. So I am having a little trouble understanding the capital decisions. Could you help me think this through?

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

Mario, good morning. I can appreciate the minor complexities that arise when you look at all of that and say, how do I make sense of it all. Maybe I could just take you back to our view on the world, because our view on the world informs our view on capital decisions. And I'd probably characterize it as cautiously optimistic. Let me start with the optimism. David talked about business sentiment, Nick asked the question about how our clients are feeling. I think that business sentiment is improving. I think we've seen some concrete improvement in troughing in Alberta where our clients have re-engineered their businesses and some confidence is building as the natural resource sector finds a better footing at a better price. I think sentiment's improving because of the pronouncements that are being made south of the border that are generally pro-growth, but I would say general in nature so far.

And that kind of leads me to the, why do we have cautious optimism? We're cautious because the pronouncements are general and they're going to take time to implement. And you've got pronouncements that are approaching a problem from two different ends of the spectrum in some instances, like in tax policy. And it's also difficult to reconcile the pro-growth policies with the protectionist rhetoric on some of the trade files, as well as how other countries will react to these policies. So you kind of go into this saying look, our goal is always to have a strong capital position for our shareholders, given the political environment, given the transaction that we're looking at, and given the flexibility that we want to have to return capital to our shareholders if need be in the form of a buyback.

At the same time, our fundamental belief is to have a strong capital position, which is why that drip was put in place a while back to deal with any potential downsides that the macro environment might deliver. People don't see it today, the animal spirits are out there, but they could come. And when they come, they can be ugly. And we just want to make sure that CIBC continues to be the safe harbor bank in the next financial crisis.

Mario Mendonca
Analyst, TD Securities, Inc.
Q

So the buyback then has a real optionality element to it. Is that fair to say?

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

I think that's fair to say.

Mario Mendonca
Analyst, TD Securities, Inc.
Q

Thank you for your time.

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

Thank you.

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

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

All right. Thank you, operator. So it's been a pleasure this morning to report on another strong quarter of financial performance for our bank and to provide you with an update on our progress against our strategic priorities. So on behalf of the CIBC executive committee, on behalf of our board, I'd like to thank the entire CIBC team for the passion they bring to work every day, and their ongoing dedication to provide the very best service to our 11 million clients, from our retail clients to our corporate clients. And I also want to thank our shareholders for their continued support. Thank you for joining us. Have a great day.

Operator: Thank you. That concludes today's conference call. Please disconnect your lines at this time and we thank you for your participation.