30-Nov-2017

Canadian Imperial Bank of Commerce

(CM)

Q4 2017 Earnings Call

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OTHER PARTICIPANTS

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Canaccord Genuity Corp.

Doug Young
Desjardins Capital Markets

MANAGEMENT DISCUSSION SECTION

Victor G. Dodig

President, Chief Executive Officer & Director

BUSINESS HIGHLIGHTS

Adjusted Earnings

- This morning, we released our record fourth quarter results with adjusted earnings of CAD 1.2B
- On a per share basis, this quarter's adjusted earnings of CAD 2.81 marks our 13th consecutive quarter of y-over-y EPS growth
- Our results reflect continued progress on our client-focused strategy and our commitment to grow shareholder value

PrivateBank

- Our Canadian SBUs reported double-digit earnings growth, reflecting our relationship-focused approach to banking and sensible management of our expenses
- With a full quarter's contribution from the former PrivateBank, U.S. Commercial Banking and Wealth Management continued to exceed our expectations
- On a business as usual basis, the former PrivateBank showed one of their best quarters ever in terms of y-over-y revenue, NIM and loan growth, while credit quality remained strong
- Capital Markets also delivered consistent and diversified earnings in a relatively quiet trading environment, showing the strength of our client-focused franchises

Adjusted EPS Growth

- For the full year, adjusted earnings were CAD 4.7B compared to CAD 4.1B in the prior year
- Importantly, we met our stated financial objectives in three key areas
- Our adjusted EPS growth of 9% exceeded our stated target of being excess of 5%
- Our return on common shareholders' equity of 18% was above our target of being over 15%
- And we have a strong capital position with the CET 1 ratio of 10.6%, which is well within our target range of being between 10.4% and 10.7%

Dividend

- During the year, we increased our quarterly dividend three times, providing dividend growth of 7% over 2016, and remained well within our payout range
- We also continued to make good progress on our goal to achieve an efficiency ratio of 55% by 2019
    - We ended the year at 56.5% and that's a 170 basis point improvement over the same quarter last year
- Efficiency continues to be an important focus for the CIBC team
- In the year, we made steady progress in making it easier to bank with us and easier for a team to advance our strategic client agenda

  - These efforts have resulted in 2017 run rate cost savings of approximately CAD 300mm, on target with expectations

Run Rate Savings

- The majority of the savings to-date have been reinvested to accelerate our transformation and position CIBC for future growth
- As we go forward, we anticipate that the run rate savings will continue to shift toward the bottom line

Acquisition of The PrivateBank and Geneva Advisors

- 2017 was an active year for our bank
- We celebrated CIBC's 150th year of serving clients and strengthening our communities
- We also advanced our U.S. growth strategy with the acquisition of The PrivateBank and Geneva Advisors, which are now operating under the CIBC name
- With these acquisitions, we now truly have a North American franchise, a platform from which to grow and leverage the strengthening U.S. economy

Strategy

- Our results reflect strong and stable performance
- We're confident in our ability to continue to execute on our strategy and increase shareholder value
- And before I conclude this portion of our remarks, I'd like to mention our courageous colleagues and clients impacted by the hurricanes in the Caribbean
  - They've gone through a lot and I want them to know that we're supporting them through this difficult time

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Kevin A. Glass

Senior Executive Vice-President & Chief Financial Officer

FINANCIAL HIGHLIGHTS

Net Income and EPS

- So my presentation will refer to the slides that are posted on our website, starting with slide 4 and give you a brief overview of the quarter
- CIBC reported net income CAD 1.2B and EPS of CAD 2.59 for Q4
- Adjusting for items of note which are detailed in the appendix to this presentation, our net income was CAD 1.3B and EPS was CAD 2.81
- We had record revenue of CAD 4.3B for the quarter, which is up 13% y-over-y, and we delivered strong operating leverage of 3.4% and an efficiency ratio of 56.5%

Canadian Personal and Small Business Banking

- The balance of my presentation will be focused on adjusted results, which exclude items of note
- We've included slides with reported results in the appendix to this presentation
- Let me start with the performance of our business segments beginning with the results for Canadian Personal and Small Business Banking

- Net income for the quarter was CAD 623mm, up 11% from last year
- Revenue for the quarter was CAD 2.1B, up 4.5% from last year, primarily driven by strong volume growth
- Net interest margin for the segment was flat sequentially as higher deposit spreads offset the impact of business mix
- Our NIM may be flat or slightly lower in Q1 as a result of promotions on our Simplii and eSavings deposit accounts, which should improve over time as the impact of business mix becomes more muted

NON-INTEREST EXPENSES

- Non-interest expenses were CAD 1.1B, up 1% from the prior year
- Expense discipline along with our solid revenue growth combined to generate 8% pre-provision earnings growth and 3.6% operating leverage this quarter

Volume Growth

- As you can see on slide 6, the volume growth generated in our Canadian Personal and Small Business segment this past year was strong and balanced across our core businesses
- On the money-in side of our balance sheet, we have delivered growth above our peers in both personal deposits and mutual funds
  - While we have trailed the industry in small business deposit growth, we are making investments in our platform that we believe will drive improved performance in 2018
- In money-out, we led the market with 11.7% real estate secured personal lending growth and have delivered strong and consistent lending growth in small business where balances are up 11.3% y-over-y
- We have also gained market share in the unsecured personal lending and card space
- You would also see that we have added slide 21 in the appendix showing how we are building deeper relationships with our mortgage clients
  - Christina Kramer can take questions on that

Canadian Commercial and Wealth Segment

- Slide 7 shows the results of our Canadian Commercial and Wealth segment
- Net income for the quarter was CAD 288mm, up 13% from last year, reflecting revenue growth from higher deposit and loan volumes and growth in AUA and AUM.
- Higher revenue in Commercial Banking was driven largely by a 12% increase in commercial deposit balances and an 8% increase in lending balances
- In Wealth Management, AUA grew 9% as a result of market appreciation and strong net sales of long-term mutual funds

NON-INTEREST EXPENSES

- Non-interest expenses were up 8%, primarily due to higher performance-based and employee-related compensation
- Strong top line growth and control expenses contributed to positive operating leverage of 1.1%

U.S. Commercial and Wealth Segment

- Slide 8 shows the results of our U.S. Commercial and Wealth segment, which includes results of the former PrivateBank, which is now operating under the CIBC name as well as Atlantic Trust and the Real Estate Finance business

EARNINGS

- Earnings for the quarter for the segment was CAD 119mm compared with CAD 24mm last year with results benefiting from a full quarter's contribution from the former PrivateBank
- Revenue was CAD 391mm compared to the CAD 106mm a year ago, reflecting the high-quality U.S. banking and private wealth capabilities we added during the year
- Commercial Banking revenue represented approximately two-thirds of revenue for the segment
  - Atlantic Trust and Real Estate Finance had stable performance this quarter

CREDIT LOSSES

- Provision for credit losses was CAD 13mm and overall credit quality remained strong in the segment
- AUA was CAD 74B as at the end of the quarter, increasing CAD 30B from a year ago, reflecting our added U.S. private wealth capabilities, including Geneva Advisors, which closed during the quarter adding CAD 12B to AUA

PrivateBank

- So, on slide 9, we show the contribution of the former PrivateBank in U.S. dollars
- In order to provide a sense of the progress we are making on a business as usual basis, we have compared results of this quarter with PrivateBank's results a year ago using their published financials for the three months ended September 2016
- We have treated purchase price adjustments for portfolio fair value discount accretion and the establishment of collective allowance for new loan originations and renewals as items of note this quarter to more accurately reflect core earnings

ADJUSTED NET INCOME AND REVENUE

- Adjusted net income was $65mm compared with $49mm for The PrivateBank in Q3 2016
- Revenue was $226mm, increasing $42mm or 23% from Q3 2016, reflecting the benefit of both portfolio growth and higher NIMs. Adjusted NIM was 3.4%, up 22BPS compared with Q3 2016
- Total loans grew $2B or 14% from calendar Q3 2016, reflecting the experienced banking team's continued momentum in driving client development
- Growth consisted of $1.7B of commercial and industrial loans and a net $300mm in commercial real estate and construction

DEPOSIT BALANCE

- Total deposits increased $1B or 7% from calendar Q3 2016
- During the quarter, we generated over $700mm in deposits related to CIBC referrals
- Deposit balances also reflect strategic decisions taken to exit certain deposits that provided limited value with respect to our consolidated liquidity requirements
- Non-interest expenses were $119mm, an increase of $27mm or 29%
- Most of this increase related to retention awards that are designed to retain key personnel through the integration process
- Retention awards decline over the next 18 months

Capital Markets

- Turning to Capital Markets on slide 10, net income of CAD 222mm was down CAD 40mm from a year ago, reflecting lower revenue in global markets and higher expenses, partially offset by higher revenue in corporate and investment banking
- Revenue this quarter was CAD 622mm, down CAD 7mm or 1% from a year ago, reflecting lower trading revenue, largely offset by higher revenue from debt underwriting, investment portfolio gains and higher corporate banking revenue
- Trading revenue was down as a result of lower client activity due to limited market volatility as well as the impact of legislation affecting our equity derivatives trading business

CANADA AND U.S

- We continued to grow our business as we focus on building innovative and steady revenue streams and also on providing Capital Markets products and services to Wealth and Commercial clients in Canada and the U.S
- As a result of the investments we are making to grow and expand our core franchise, non-interest expenses were up 6% from a year ago

Corporate and Other Segment

- Slide 11 reflects the results of the Corporate and Other segment where net income for the quarter was CAD 11mm compared with a net loss of CAD 59mm in the prior year
- The increase was largely due to improved Treasury results as well as higher revenue and lower specific loan losses in CIBC FirstCaribbean

Capital

- Turning to capital on slide 12, our CET ratio was 10.6% as of October 31, up 20BPS from the prior quarter
- Solid organic capital generation and share issuance through our dividend reinvestment and employee share-based plans were partially offset by the impact of the Basel I floor adjustment and closing the Geneva Advisors' acquisition
- Our leverage ratio was 4% as of October 31, up 10BPS from Q3

SUMMARY

- To wrap up, let me turn to slide 13 which summarizes our full year results
- After adjusting for the items of note, which are detailed in the appendix to this presentation, our net income was a record CAD 4.7B, EPS was CAD 11.11, up 9% from 2016 and well above our goal of 5% average annual growth
    - We delivered a strong return on equity of over 18% and we finished the year with a Basel III CET1 ratio of 10.6%
- Heading into 2018, we are well-positioned to continue growing our business and meeting the needs of the evolving regulatory and capital environment

Laura L. Dottori-Attanasio
Senior Executive Vice-President & Chief Risk Officer

Q4 HIGHLIGHTS

Loan Loss Performance

- Slide 15 begins with our loan loss performance
- On an adjusted basis, loan losses were CAD 212mm, relatively in line with last quarter as we experienced better performance in our Canadian Retail and U.S.
- Real Estate Finance portfolios, which was partly offset by higher losses in our Canadian Commercial Banking business
- Adjusted loan losses for the full year were CAD 812mm or 24BPS.
    - This is down almost 10% from CAD 902mm last year and was largely driven by lower losses within the oil and gas sector

Gross Impaired Loan

- On slide 16, we are providing an overview of our gross impaired loans
- You can see that our impairment ratios remain low and stable
- Gross impaired loans were CAD 1.3B or 36BPS as a percentage of gross loans and acceptances, which is down CAD 34mm or 1 basis point

Consumer Portfolio

- Slide 17 provides a more granular view of our net write-off rates by segment
- Our consumer portfolios continue to show stable to decreasing loss rates on a y-over-y basis as the economy remained strong
- Our business and government portfolio also showed decreased rates primarily as a result of improvements within the oil and gas sector
- As for FCIB, the higher write-off rate was largely driven by the consumer portfolio
    - This was for loans that were previously impaired and fully provided such that the PCL was not affected
- For CIBC overall, our ratio was 24BPS, unchanged from last quarter and down on a y-over-y basis

Residential Mortgage and HELOC Balance

- Slide 18 speaks to our residential mortgage and HELOC balances in Canada along with a breakout of the Greater Vancouver and Toronto areas
- Our late-stage delinquency rates across all of these portfolios continue to remain low and stable with the Vancouver and Toronto areas continuing to perform significantly better than our Canadian average

Volume

- I'd also like to provide an update on our portfolio as it relates to the now final B-20 guidelines that take effect January 1, 2018
- As you know, the most consequential change is the requirement that the qualifying rate for uninsured mortgages be the greater of the contractual rate plus 200BPS and the Bank of Canada five-year benchmark rate
    - This change may result in a reduction of 10% to 12% of our annual new origination volumes, which is relatively in line with the 10% guidance that we provided last quarter

Canadian Credit Card and Unsecured Personal Lending Portfolio

- On slide 19, we've highlighted our Canadian credit card and unsecured personal lending portfolios
- On a y-over-y basis, the late-stage delinquency rates of both Canadian cards and unsecured personal lending portfolios were down slightly
- Overall, we're very pleased with our credit performance and the quality of our credit portfolios

QUESTION AND ANSWER SECTION

Gabriel Dechaine Q
National Bank Financial, Inc.

It's my birthday, so I might ask two. PrivateBancorp, better showing this quarter. Just wanted to dig into that trend on the mix ratio last quarter or for the month anyway was 60%, this quarter 53%, and you're talking about lower, I guess, retention award expenses over the next 18 months. Can you provide a bit more granularity there and how you end up and the efficiency ratio to shape up for the next year?

Kevin A. Glass A
Senior Executive Vice-President & Chief Financial Officer

So, Gabriel, it's Kevin, let me take that question. So the efficiency ratio this quarter was 52.7%. If you take the retention awards, it do decline over the next 18 months. And back those out, I'd say it would probably be more in the mid-40s. So if we look at our performance moving forward, we'd see it being in perhaps mid to high 40s on a run rate basis, which obviously helps us in terms of our target of getting to 55% by 2019.

Gabriel Dechaine Q
National Bank Financial, Inc.

Okay. Great. That's helpful. And on the origination side, Laura, I appreciate the color you provided there. Your peers have talked about more of a 5% decline in originations because of B-20. Wondering why yours would be much bigger than that. And then, you do provide in the originations number every quarter, you're the only bank that does that, $12B. Can you tell you me what's in there? Because that I assume includes new originations plus refis. I don't think it's new stock in the market necessarily.

Laura L. Dottori-Attanasio A
Senior Executive Vice-President & Chief Risk Officer

Happy birthday, Gabriel.

Gabriel Dechaine Q
National Bank Financial, Inc.

Thank you.

Laura L. Dottori-Attanasio A
Senior Executive Vice-President & Chief Risk Officer

I'm not having as great a day as you.

Gabriel Dechaine
National Bank Financial, Inc.

Q

Sorry I had to ask you a question.

Laura L. Dottori-Attanasio
Senior Executive Vice-President & Chief Risk Officer

A

So, that would be right on your origination. As it relates to why we give guidance that's a bit higher than others, I can't really speak to others. It may well be lower – it was a mathematical calculation. It doesn't take into account changed consumer behavior as well and that could make a big difference in that. If housing prices came off, for example, someone could apply for less amount of a mortgage or they could find money elsewhere or they could get someone to put money in with them. And so, it doesn't take any of that into account. So the number could end up being lower. We just ran it off with how our accounts, our new originations would have, if you will, worked had we applied the rule. And with that, maybe I'll hand it over to Christina to add.

Christina Kramer
Senior Executive Vice-President and Group Head, Personal and Small Business Banking, Canada

A

Thank you, Laura. With respect to B-20 and the comments that Laura made, as with any regulatory change, we feel that and we've seen clients adjust and we saw it in the Vancouver market, there was originally a bit of a dip and then we saw activity increase. So, even with B-20 changes slowing growth, we expect demand for real estate secured credit to remain quite healthy in 2018 and we expect some kind of adjustment amongst the consumer base. For example, they may adapt to new rules by finding new sources of equity, extending amortization periods or adjusting their purchase criteria. So we expect it to be healthy over the year, but moderating.

Gabriel Dechaine
National Bank Financial, Inc.

Q

Do you assume any extension of amortization behavior, is that also something you don't account for, I guess?

Christina Kramer
Senior Executive Vice-President and Group Head, Personal and Small Business Banking, Canada

A

There is some of that potential, though, it'll be all in conversations with our clients, we'll support them in adjusting to the new regulations.

Laura L. Dottori-Attanasio
Senior Executive Vice-President & Chief Risk Officer

A

But just to be clear, Gabriel, in our number, though, we didn't take any of that into account.

Gabriel Dechaine
National Bank Financial, Inc.

Q

Okay.

Laura L. Dottori-Attanasio
Senior Executive Vice-President & Chief Risk Officer

A

That's why you might see a bigger number coming from us than others.

Gabriel Dechaine
National Bank Financial, Inc.

Q

And maybe we can follow up offline there on that CAD 12B what it includes. Thank you. That's it.

Mario Mendonca
TD Securities, Inc.

Q

A couple things that stood out for me. First, in the U.S. business, the PCLs ratio running at about 2BPS right now. Clearly that's a reflection of the purchase accounting. Can you talk about what that would look like on a more sustainable run rate basis?

Kevin A. Glass
Senior Executive Vice-President & Chief Financial Officer

A

Mario, it's Kevin. That number right now actually has eliminated all of the purchase adjustment. So the PCL number that you see this quarter is the actual run rate number on a standalone basis.

Mario Mendonca
TD Securities, Inc.

Q

So you'd expect to only lose 2BPS in your U.S. business? Like, the average U.S. bank right now is losing about PCLs ratio something in the neighborhood of 55BPS. So what makes the mix of business so different for [ph] PBTB (23:07)?

Kevin A. Glass
Senior Executive Vice-President & Chief Financial Officer

A

I mean, I'll hand it over to Larry to talk about it. But just given the nature of the business, I think you're going to see some fluctuations and some volatility from a q-over-q basis. Their loan performance has been strong for a while now, had a couple of accounts this quarter and I think it could fluctuate. But generally speaking, I'd say the credit has been good. So let me hand it over to Larry.

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

A

Good morning.

Mario Mendonca
TD Securities, Inc.

Q

Good morning.

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

A

It's Larry. The credit portfolio is strong and we feel very good about the quality. We're very selective and disciplined about what we're bringing in that's new. And it's probably one of the most benign credit environments that we've seen in a long period of time, but the view is which is I think consistent with most U.S. banks is pretty good right now.

Mario Mendonca
TD Securities, Inc.

Q

So just so we're clear before I move on that you guys would characterize 2BPS of loss in the U.S. bank – U.S. Commercial Bank as normal. Just so we're clear on what you're telling here. This is normal for you guys?

Laura L. Dottori-Attanasio
Senior Executive Vice-President & Chief Risk Officer
A

It's Laura. Maybe this is a good place for me to step in. No. And I think as you know, when you get into both commercial and corporate lending, your loss rates can be quite lumpy depending upon how losses come through the system. And we have been in a particularly good period, not just in the U.S. but in Canada. And so I would say that these are really good numbers and I would expect them to go back up somewhat as we go into the next year, maybe not as high as the numbers you've given. That would be, if you will, I would say traditionally when you have loan losses in a commercial bank, you would expect losses around that rate. But in the last few years, we have seen much lower loss rates. So you're right with what you mentioned. They won't be as low as 2BPS on a go forward basis. You can expect them to go up. I hope that helps to clarify.

Mario Mendonca
TD Securities, Inc.
Q

Yeah. What I was asking for originally is what's normal for this business. I guess, that's the part I'm still not sure on, but I'm happy to move on to something else.

Laura L. Dottori-Attanasio
Senior Executive Vice-President & Chief Risk Officer
A

Well, I think what you stated is what would be normal for most businesses. We have done better, if you will, than average. We would expect to do a little bit better than that on a go forward basis, so not as high.

Mario Mendonca
TD Securities, Inc.
Q

Okay. Victor, in your opening comments, you referred to 13 consecutive quarters of y-over-y EPS growth. Your guidance is for something like 5% plus going forward. Is there any reason why 2018 couldn't be sort of within that number, that 5% or so that you're referring to or is 2018 just a special year because of the higher share count and the dilution associated with [ph] PBTB (26:03)?

Victor G. Dodig
President, Chief Executive Officer & Director
A

Mario, there's nothing special about 2018 other than us always taking a more conservative approach as we go into a year. We try and stay close to our clients, we try and manage our expenses sensibly and we hope that there's economic tailwinds to benefit us. And if the rate environment normalizes, as predicted by central banks and analysts and if we see that continued business performance that we're seeing, we could kind of get to that range.

Meny Grauman
Cormark Securities, Inc.
Q

A question on the U.S. margin, when you break it out for PrivateBank, looking on a y-over-y basis, 3.40% from 3.18% in Q3 2016. I'm wondering – I mean, rates have been going up, but is there anything else that's driving the margin there? It seems like it's more than just rates having an impact.

Victor G. Dodig
President, Chief Executive Officer & Director

A

So, no, the – what you got to remember is, that's a y-over-y comparison, Meny, and there have been three Fed rate hikes in that period. So, what that really reflects is the rate hikes.

Meny Grauman
Cormark Securities, Inc.

Q

Okay. And...

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

A

It's Larry. Let me just add to that. And I think 97% of the loans within the old PrivateBank portfolio are variable price and 71% indexed to one month LIBOR. So clearly as rates rise, it has a impact. Deposit costs have also increased, but I'll call it have lagged and have not been rising at that same rate. And so, expectation is NIM will benefit as rates rise – if rates rise.

Meny Grauman
Cormark Securities, Inc.

Q

So would you say that you'd expect to see kind of a linear trend here? Like, if we get a December rate hike and then probably two more plus in 2018, we'd see a similar kind of step-up in...

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

A

I guess, I've been at this long enough to know that nothing is linear. And I think that the approach is we benefit more disproportionately because of the variable nature of our rates to a rising rate environment. The question of deposit costs and other competitive features clearly impact it. So I don't think I could say linear, but I could say we benefit.

John Charles Robert Aiken
Barclays Capital Canada, Inc.

Q

Kevin, in your commentary, when you were talking about PrivateBank and the deposit growth, you'd mentioned that the growth rate had been negatively impacted by some of the strategic decisions that you made. Can you let us know what that number would have been ex that decision?

Kevin A. Glass
Senior Executive Vice-President & Chief Financial Officer

A

I'd say, John, that we exited about CAD 0.5B of deposits. So you can adjust for it on that basis.

John Charles Robert Aiken
Barclays Capital Canada, Inc.

Q

Thanks. And, I guess, my follow-on from that and it's for Larry. We did see strong growth granted from – with a bit of an assist from CIBC. Do you think that most of this trajectory can be continued and particularly in line having lending growth and deposit growth keep pace with each other?

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

A

Yeah. It's probably a good time for me to take a moment in. The answer is I feel really good about the opportunities. As Victor said, it is one of the best quarters we've ever had and the pipeline is strong and we have really good client momentum. So, I feel good about the consistency. The teams are experienced, we're seeing good business opportunities, and I'm very impressed and with the cross-border and the business booked that we receive from deposits from our private wealth business. So, I guess, if I have to characterize it, it is probably even higher than my high expectations coming in. So it's a great start, I'm optimistic about the future and I feel good about the continuance of this business momentum.

Sumit Malhotra
Scotia Capital, Inc.

Q

First off for Kevin and thinking about the tax rate in your U.S. segment. For the combined operations in the U.S., the tax rate this quarter at about 25%. I had been of the view that bringing PrivateBancorp aboard and given that it was a full mid-30s tax rate payer in the U.S. would have resulted in taxes in this segment and maybe for the all bank level as well moving higher. That wasn't really the case. I mean, your U.S. level is around 25%, so it didn't seem to change too much from where you were running previous to that. Why is that? Was there some tax optimization that the bank was able to do? Or maybe I should let you explain because I would have thought that Private would have pushed the tax rate higher.

Kevin A. Glass
Senior Executive Vice-President & Chief Financial Officer

A

So, Sumit, I think that's right. A lot of this depends on our corporate structure and we do have – obviously, we do focus on tax optimization. You do a big acquisition like this, it does offer you some opportunities. And what I would say is that rate is sort of consistent with our overall bank tax rate and it's also in line with those of our peer group. So you just structure accordingly. So there will be that optimization that's helped us.

Sumit Malhotra
Scotia Capital, Inc.

Q

So, yeah, the fact that, as a standalone entity, its tax rate was materially higher. You've been able to make some adjustments on your end even prior to whatever happens with tax reform in the U.S. So that would be an additional benefit to the rate that you have now?

Kevin A. Glass
Senior Executive Vice-President & Chief Financial Officer

A

Yeah. I mean, I think in terms of tax reform, frankly, it's too early to speculate. There are so many moving pieces. For sure, rates dropping would help us, but there are a lot of issues in terms of limits on interest deductibility, a lot of moving pieces. So I think in the fullness of time, it should be beneficial, but it's too early to speculate on what that's going to give us.

Sumit Malhotra
Scotia Capital, Inc.

Q

But further – let's wrap that part up here. Leaving further changes aside, the tax rate that you had in the U.S. segment this quarter you feel is a representative run rate level, nothing overly good this quarter?

Kevin A. Glass
Senior Executive Vice-President & Chief Financial Officer

A

No. I think it's a representative number.

Sumit Malhotra
Scotia Capital, Inc.

Q

Okay. And then secondly, I'll wrap up, stay with you. I thought your operating leverage on an all-bank basis was really strong this quarter, at least the way I look at it, more than 3%. And one of the areas that stood out to me was just in and around compensation, that the total human resources line I think you [ph] folks call it (33:31) employee comp and benefits line. I know there are going to be year-end true-ups or true-downs depending on the situation, but that's another one where you had a big uptick in revenue with Private coming aboard. Your all-bank compensation costs were actually lower. Is this, again, a reflection of business mix or was there some specific changes that maybe resulted in the overall efficiency looking particularly good as far as comp is concerned this quarter?

Kevin A. Glass
Senior Executive Vice-President & Chief Financial Officer

A

No, I think it's just more of a function of business mix. At the end of the year, as we finalize results, compensation would be adjusted appropriately. We have particularly strong results in our Personal and Small Business area, which on a percentage basis is somewhat lower compensation. But there's nothing special there to take note of, Sumit, it's more just end of the year everything gets aligned appropriately.

Sumit Malhotra
Scotia Capital, Inc.

Q

Okay. I mean, I'm sure we'll talk more about this at Investor Day. Your 55% next target in 2019, I mean, it certainly seemed like you made good progress on that front this quarter. I know there's puts and takes in any given quarter, but that's certainly one that there seemed to be good progress on this time around. So you're saying that some of those year-end adjustments played a role?

Kevin A. Glass
Senior Executive Vice-President & Chief Financial Officer

A

Yeah. I mean, I think in terms of getting to 55%, you do need to take an annual – there is volatility in any given quarter.

Sumit Malhotra
Scotia Capital, Inc.

Q

Sure.

Kevin A. Glass
Senior Executive Vice-President & Chief Financial Officer

A

And so I think if you look at our performance this year, we are confident in terms of getting to that 55% run rate in 2019. And you're right, we will talk more about it at Investor Day. But on balance, I think we're going in the right direction.

Steve Theriault
Eight Capital

Q

I have a question for Harry, but just, Kevin, if I could follow up on Gabriel's question earlier. Just to be clear on the U.S. efficiency ratio, are you saying then should we understand that the mid-40s level, it's going to take 18 months or so to get there as retention runs down or does that happen quicker? And, I guess, are retention costs frontloaded or do they unwind kind of smoothly?

Kevin A. Glass
Senior Executive Vice-President & Chief Financial Officer

A

No, they unwind relatively smoothly. So if we're at 52-ish right now, you'll see a steady decline to the mid-40s over the next 18 months, would be a way to look at it.

Steve Theriault
Eight Capital

Q

Okay. That's very helpful, thanks. And so for Harry, so I'm finding Q4 trading a bit hard to gauge since it was a weak activity level for everyone, but I think there's still some impact that we're seeing in Q4 from the total return swap run-off. So, is the TRS run-off now done? And when we think of next year, I guess, what's more indicative of what you'd think of normalized? Is it the CAD 217mm from this quarter or is it the closer to CAD 300mm from last quarter? Just with all the moving parts, it's hard to have too good of a gauge.

Harry Kenneth Culham
Senior Executive Vice-President and Group Head, Capital Markets

A

Yeah. Good morning, Steve. It's Harry here. So you saw the results for the year up nicely from 2016, so we're very pleased with that and we're pleased with the mitigating effects of the TRS run-off. There are some lingering effects into 2018, but we still continue to see opportunities to redeploy the assets and focus on growth. The run rate this quarter was a good base to grow earnings from, from my perspective. And so you kind of hit the range there what we've seen for the last while.

Darko Mihelic
RBC Capital Markets

Q

My question is with respect to the Canadian business and in particular I wanted to maybe look at slide 21, which you've provided here, which helps us understand the head count in the mortgage advisor productivity and the changes there with respect to – looking at the FirstLine mortgage portfolio vs. where it sits today and the less than 15% single product relationship, those are interesting statistics. And, I guess, where I'm going with this is, as you increased your advisors and you increased your mortgage originations, it seems as though you also increased or deepened "the relationship with clients."

What happens from here going forward for your business? Is there much more you can mine? In other words, there may be only 15% single product relationships, but maybe there's a whole whack of just two and it goes to five. Can you give us some concept or some sort of measurement of what we can think of here? Because when I look at this slide, I see that mortgage productivity should more or less be flat going forward. You have slightly fewer advisors, so we should see a deceleration in mortgage growth, but is it possible for you to backfill revenues with more cross-sell?

And lastly, every time I read stuff about your business in Canada and even now when I read through the annual report real quickly, or at least a part of it, I noticed that you also continue to mention that there's actually less revenue from FirstLine. There's a lot in that question. I guess, ultimately, where I'm going with it is, if we see mortgage deceleration, how much can fee income replace some of that slower revenue?

Christina Kramer
Senior Executive Vice-President and Group Head, Personal and Small Business Banking, Canada

A

So, thank you Darko. It's Christina speaking. So, why don't I give a backdrop on our overall results and then I'll speak to your specific questions around mortgages. We delivered very strong results this quarter and it wraps up to a strong year for our business. So financially we achieved all of our key targets – revenue growth, operating leverage, quality of loan growth and strong earnings growth. And behind these financial results, we also delivered strong and diversified business growth, as Kevin mentioned, and in the slide we showed up.

We picked up market share broadly across almost all products, both in deposits and investing as well as in lending. So while the growth of our mortgage portfolio was a key contributor, it isn't the only factor to our strong results. And specifically in mortgage growth, in recent months, our mortgage growth has moderated as industry growth has slowed. Our growth is also converging towards peer levels, as we stated it would, with us having reached, and as you can see on the slide, our steady state on MA team, our mortgage advisor team both in terms of size and productivity.

But as we've seen the mortgage market start to moderate, we've also seen a pick-up in deposits and investments and other areas of our business. So, overall, it gives us good y-over-y market share growth across the business, across client segments and across the overall client base. So then if what your question is really around guidance, around revenue growth in the upcoming year, given all that, the strong and diversified financial results and assuming supporting market conditions continuing to hold and also assuming some slowing in the housing market, we are well-positioned to sustain our performance in 2018. So, in terms of revenue, we expect to deliver revenue growth in line with what we achieved for FY2017.

Darko Mihelic
RBC Capital Markets

Q

Thank you. And is that assuming some sort of NIM expansion or flat NIMs?

Christina Kramer
Senior Executive Vice-President and Group Head, Personal and Small Business Banking, Canada

A

In terms of NIMs, as Kevin mentioned, NIMs will remain relatively steady, and in beginning of the year in Q1, we'll see a slight decline as a result of deposit promotions, but will steady over the balance of the year.

Darko Mihelic
RBC Capital Markets

Q

Okay. So we should be seeing then some sort of improvement in fee income. Would that be a fair statement?

Christina Kramer
Senior Executive Vice-President and Group Head, Personal and Small Business Banking, Canada

A

You'll see an improvement in fee income, yes.

Nick Stogdill
Credit Suisse

Q

For Christina, sticking with Canadian Personal, very strong cost control this quarter, it was growth of just 1% vs. 4% throughout the first nine months of the year. I know Kevin called it that it can be kind of lumpy. But if you could just give us some color on the drivers and the sustainability of lower growth in 2018? And the mortgage advisor head count was down this year, does that have a factor at all to lower expense growth in Q4 as your mortgage is moderate?

Christina Kramer
Senior Executive Vice-President and Group Head, Personal and Small Business Banking, Canada

A

Yeah. So specifically on the mortgage advisor, no, it isn't a big contributor to expense growth moderation. But let me talk about the quarter. We had 1% growth over the quarter. Some of that had to do with timing of some spends and pacing, but also with focused discipline on expense management. We're coming off a period of several years of strong investment spend and we expect expense levels to moderate over the medium term as we leverage the investments we have already made. So we expect our expense growth next year to be less than what it was in FY2017 in around the 2% to 3% range. And then if that possibly leads you to operating leverage with individual quarters, as Kevin mentioned, exhibiting some volatility, we do expect to deliver positive operating leverage in 2018 in line with what we achieved in FY2017.

Nick Stogdill
Credit Suisse

Q

Okay. Thank you. And just a second question on the mortgage book either for maybe you or Laura. If we look at the amortizations on the book, you talked about them maybe extending a bit and we have seen that trend up in terms of the 30 to 35-year amortization bucket. It's moved from 1% at the start of the year to 5% where we are today. So we have seen, I guess, more customers moving to a longer amortization. Does that simply reflect more customers looking to take longer amortizations at origination and, I guess, make monthly payments more affordable or is it higher rates what's been driving that so far this year?

Christina Kramer
Senior Executive Vice-President and Group Head, Personal and Small Business Banking, Canada

A

We work with our clients to ensure that they're in the right product and amortize over the right term period for them. There's no major shift in that other than we think we're seeing a little bit of decline over time.

Nick Stogdill
Credit Suisse

Q

So with B-20 coming, you think it'll go up a little bit more, [ph] sorry (44:15), or in proportion in that bucket?

Christina Kramer
Senior Executive Vice-President and Group Head, Personal and Small Business Banking, Canada

A

Well, I think Laura is going to take that one.

Laura L. Dottori-Attanasio
Senior Executive Vice-President & Chief Risk Officer

A

Yeah. I suspect that you'd likely see that. Again, if you can extend, as you know, the amortization, it's equivalent to dropping on interest rate. And so if you're having a hard time qualifying with a higher interest rate, if you extend the amortization, it could help you qualify. So I would expect we would see some of that migration in the industry.

Sohrab Movahedi
BMO Capital Markets (Canada)

Q

Laura, just quickly, you had provided some commentary about a year or so ago around stress losses specifically in Canadian banking. Can you give us some updated metrics?

Laura L. Dottori-Attanasio
Senior Executive Vice-President & Chief Risk Officer

A

Sure, Sohrab. They remain pretty much the same, if you will. When we talk about the stress losses, there hasn't been a material difference from what I would have said last year to today. There'd be some change, of course, just given the – our asset mix would have changed over the year with the growth and so numbers would have moved somewhat, but nothing material. I don't know if that answers the question for you.

Sohrab Movahedi
BMO Capital Markets (Canada)

Q

So more or less, I mean, the favorable credit environment kind of continuing and the notional growth, if you will, balances broadly speaking in Canada has not had any significant bearing on your assessment of tail risk, if you will, for the bank?

Laura L. Dottori-Attanasio
Senior Executive Vice-President & Chief Risk Officer

A

No, it has – I mean, if you will, the same tail risk that we had last year, I think we continue to have this year, as we all live, the economy has done quite well in the last year, it's still doing well, and so nothing has really changed from a stress analysis perspective.

Sohrab Movahedi
BMO Capital Markets (Canada)

Q

Okay. And just a quick clarification, maybe Kevin. I mean, I know it looks like you released about a little bit from the collectives maybe to the tune of about $0.03 per share, which you adjusted for. But in the past when you've done these things, you haven't adjusted for. Is there a change in philosophy here?

Kevin A. Glass
Senior Executive Vice-President & Chief Financial Officer

A

Actually in the past, we – it depends on the magnitude. So if you remember when we had a big charge during the oil and gas period, we did actually adjust for it. The smaller amounts we have not adjusted for, but this was up around $20mm, which is really what our cut-off is, Sohrab. So we thought it was appropriate to adjust for it.

Scott Chan
Canaccord Genuity Corp.

Q

Questions on PrivateBank, Larry. I just wanted to get into the loan growth number. Obviously, very strong on the first full quarter at 14%. Is double-digit growth on that platform achievable in 2018?

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

A

We felt really good about the quarter and have felt really good about the opportunities or continue to feel really good about the opportunities. We have built the bank over the last 10 years and have a very consistent team active calling, strong pipeline and feel good that we can continue on a strong pace. And that pace has been 12% – 10%, 12%, 14% over the last three, four, five years at least and so we feel really good. And where we feel good is not only the opportunities that we're seeing in the U.S. and the continuation of the strong team effort, but now that we're part of a strong bank, the opportunities we're seeing now are even greater than they were before.

Scott Chan
Canaccord Genuity Corp.

Q

And if I look at your U.S. peers, commercial growth, U.S. Commercial regional growth has slowed down. Is it safe to say that the commercial real estate platform is driving the growth similarly to what happened in 2016 for PrivateBank?

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

A

Yeah. I think in Kevin's comments, he referenced it. The answer is no, what we've really seen has been a strong growth in C&I actually as a disproportionate to the growth in CRE. And so we like the diversification, we certainly like the mix. CRE is growing, but the majority of the growth is coming from our C&I book. And it's coming from not – partially growth in the market, but it's really coming from our growth in market share, and that's a continuation of active calling by our experienced team that's been doing it not just since the deal but since over the last 10 years.

Doug Young
Desjardins Capital Markets

Q

Just want to continue along that line on PrivateBancorp. Kevin, you mentioned, I think the private deposits that came over, and I'm sorry, I missed the number, if you can just let me know what that is. But more importantly, Larry, just about the opportunities from being part of CIBC, can you talk a bit about what you've done so far to integrate maybe with the Capital Markets or the cross-border and some of the opportunities that you've seen so far? And if you can talk a little bit about what you see down the road over the next two years in terms of opportunities to grow in deposits and loans?

Kevin A. Glass
Senior Executive Vice-President & Chief Financial Officer

A

So, Doug, let me, [ph] there's (50:30) about CAD 700mm that came over and that was evenly split really between commercial clients here in Canada, our referring business, corporate clients in the States referring business and Atlantic Trust clients referring business. So a really good balanced result in terms of driving that CAD 700mm.

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

A

It's Larry. Let me continue and I can give you a good sense of it. And I am very optimistic about not only what we've achieved to-date, but what the opportunities are. The teams of cross-border are working very well together and it's being done in a very organized way with cross-border teams on both sides, but it's also a very strategic identification of where we can fulfill client needs. And what the growth this quarter reflects is a number of different things. Both Canadian clients depositing significant dollars in the U.S. at the bank, some of which have deep [ph] Wealth – have (51:39) established not only deposits, but deep Treasury management capabilities. It also includes U.S. corporate clients that now have a deposit capability within the U.S. because of the bank that we're generating deposits. It also includes Wealth Management clients that now have a private banking capability that allows us to do it.

And, interestingly, one of the things that I'm also very proud of is a number of our U.S. clients are starting to use the Canadian bank opportunities to both finance and bank on their Canadian subsidiaries and acquisitions that they're doing there. So we're really seeing it in all fronts. Execution has been good. Teamwork has been terrific. And, again, as you know, I've had experience with this in the past, the active work relationship is creating some really nice momentum. So I feel really good about that. And then the other part of it that's very exciting is we now have a credit rating. And by having a credit rating in the U.S., that similarly is creating a very nice opportunity for us to seek business that we couldn't have sought before we were part of the team.

Doug Young
Desjardins Capital Markets

Q

Larry, is there any way to quantify this? I mean, in terms of so far how many clients have actually done business cross-border or quantify it in terms of deposit growth or loan growth? Just trying to sink my teeth further into – all this sounds great, but from a quantification perspective, is there anything we can kind of think about?

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

A

It develops over time and I'm not in a position to want to quantify it now. We'll talk more about this at Investor Day. But, I guess, I can tell you that where the opportunities lie is a number of the significant Canadian clients now have a means to bank effectively and well within – for their U.S. operation. U.S. companies now have an opportunity to bank in Canada for their opportunities and we have a significant opportunity as well in that we have a number of very significant wealth clients that couldn't bank with the bank because we didn't have a commercial bank – we didn't have a banking platform which we now do.

And so, again, it's all based upon client needs and it's identifying and calling, but the teams are working really well together. So I see really good momentum. And for the first period of time that we've been together, to see this kind of activity both in terms of large accounts but also in terms of numbers of accounts and prospects, it's really good.

Mario Mendonca
TD Securities, Inc.

Q

Just a quick follow-up. Is there a way you might suggest we track the success in moving, essentially like Darko's question, the success in moving this mortgage growth into other products? Is there some way perhaps Kevin that you'll help us think through this going forward?

Kevin A. Glass
Senior Executive Vice-President & Chief Financial Officer

A

So I think – and we have spoken about this and then perhaps we'll spend a bit more time at Investor Day. What we could do is just use product use count. One of the challenges there, as we've discussed, is there's no standardized way to do that. And we have given some thought as to exactly how we can do that, also just potentially working on percentage growth in terms of the depth of client relationships. So, Mario, we are thinking of what the best way is to do that and perhaps we'll cover that in a bit more depth at Investor Day.

Mario Mendonca
TD Securities, Inc.

Q

Okay. And then just one final question on Corporate and Other, this is page 11 of your presentation, the line there, Other, the swing from minus CAD 78mm to positive CAD 33mm. Would it be fair to call that essentially entirely related to the higher Treasury revenue?

Kevin A. Glass
Senior Executive Vice-President & Chief Financial Officer

A

Sorry. That is slide...?

Mario Mendonca
TD Securities, Inc.

Q

11.

Kevin A. Glass
Senior Executive Vice-President & Chief Financial Officer

A

11. No, actually -

Mario Mendonca
TD Securities, Inc.

Q

[ph] It's pretty big (55:56).

Kevin A. Glass
Senior Executive Vice-President & Chief Financial Officer

A

The biggest driver there frankly is the TEB adjustment. So if you remember, in the past, what we used to do is you'd have the TEB gross up in Capital Markets and then the TEB offset would go through cash. So it's a combination of the TEB offset and improved Treasury results.

Mario Mendonca
TD Securities, Inc.

Q

So maybe [indiscernible] (56:18) how important was the Treasury activity in the quarter in terms of driving [ph] results (56:23)?

Kevin A. Glass
Senior Executive Vice-President & Chief Financial Officer

A

Yeah. I mean, it was a big deal in the quarter on a y-over-y basis. So it would have been 40-odd, CAD 40mm, CAD 50mm on a y-over-y basis. And that just represents better liquidity costs. We did have a couple of benefits this quarter in terms of some of our hedge rebalancing. That line is also a bit volatile. So that would have been the impact of Treasury.

Victor G. Dodig
President, Chief Executive Officer & Director

Q4 HIGHLIGHTS

Capital

- It seemed like everybody was celebrating their birthday today since you all asked at least two questions
- So, thank you for that
- Almost ran out of cake

- Anyway, CIBC is entering FY2016 (sic) [2018] (57:09) with a very strong capital position, a set of strategic initiatives that we believe will deliver organic growth and a platform in the U.S. to better serve our clients, both our Canadian clients banking in the U.S. and importantly the clients that were banking today and would like to bank in the United States

Long-Term Client Relationship

- We're transforming CIBC into a relationship-focused bank that's built for an increasingly digital world
- We understand the impact of technology, but we place great emphasis on the benefit of long-term client relationships, and that's what you're seeing in terms of the growth of our business – high-quality and deeper relationships
- And our goal is to deliver diversified growth on both sides of the balance sheet by becoming that primary financial institution for more of our clients and attracting more new clients to CIBC

Strategy

- As you know, we'll be providing a detailed update on core elements of our strategy at our Investor Day on December 13
- We're looking forward to sharing our plans with you and taking all your questions
- For those who can't attend in person, the event is going to be available via webcast and the details are outlined in a news release that went out today and posted on cibc.com

Shareholders

- So, to wrap up, I'd like to thank our shareholders and our investors and our analysts for their continued support, trust and interest in our bank
- On behalf of CIBC's Executive Committee and our board, I'd especially like to thank CIBC's 45,000 team members for their ongoing dedication to serving our 11mm clients
- I'm very proud of the work our team is doing to put our clients at the center of all that we do – to deliver value to our shareholders and to give back to our communities.