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Canadian Imperial Bank of Commerce

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. Welcome to the CIBC Quarterly Financial Results Call. Please be advised that this call is being recorded.

I would now like to turn the meeting over to Amy South, Senior Vice President, CFO, Functional Groups, and Head of Investor Relations. Please go ahead, Amy.

Amy South

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

Good morning and welcome to CIBC's 2018 third quarter results conference call. My name is Amy South, and I am the Senior Vice President of Investor Relations. This morning's agenda will include opening remarks from Victor Dodig, CIBC's President and Chief Executive Officer. Kevin Glass, our Chief Financial Officer, will follow with the financial review. And Laura Dottori-Attanasio, our Chief Risk Officer, will provide a risk management update. With us, for the question-and-answer period following the formal remarks, are CIBC's business leaders, including Harry Culham, Jon Hountalas, Christina Kramer, and Larry Richman, as well as other senior officers.

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

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

Victor G. Dodig

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

Thanks, Amy. Good morning, everyone, and thank you for joining us. We released our third quarter results this morning with adjusted earnings of CAD 1.4 billion and earnings per share of CAD 3.08, which is up 11% compared to last year. This represents our 16th consecutive quarter of year-over-year EPS growth.

We continue to deliver consistent, high-quality earnings that are aligned with the commitments we've made to our shareholders. These results also demonstrate the excellent progress our team is making on our well-diversified and client-focused strategy. We will continue to make strategic investments that create leverage and competitive advantage for the future while delivering high-quality, sustainable earnings.

In Personal and Small Business Banking, we continue to diversify and enhance our offerings to meet the needs of our clients. This quarter, we launched our new advanced business operating account to continue our innovation of market-leading solutions for our clients. This new account offers Canadian small businesses best-in-class features including the inclusion of Interac e-Transfers, low monthly fees, and the most competitive fee waiver option in the industry.

On Tuesday, CIBC, Air Canada, TD, Visa and Aimia reached an agreement in principle for the acquisition of the Aeroplan loyalty business. The purchase is subject to several conditions including the satisfactory completion of credit card agreements between Air Canada and its financial partners including CIBC. If completed, the transaction will provide continuity for those who have earned Aeroplan Miles using their CIBC credit card which would be a good outcome for our clients.

We're also investing in our Aventura program to provide our clients with another alternative and exceptional loyalty reward program. The 17% year-over-year increase in outstandings is an indicator of the program's traction and appeal and the momentum that we are building in this business.

For our clients traveling to the United States, we have seen good take-up of our re-launched CIBC U.S. Dollar Aventura Gold Visa Card. The Aventura card portfolio now [audio gap] (00:03:34) reward point accumulation on all purchases on both sides of the border.

During the quarter, we continue to see growing digital engagement among our clients, with mobile users up 15% year over year and a digital adoption rate of 67%, which is up 320 basis points compared to last year. Our relentless focus on providing exceptional service to our clients has also been recognized once again by Forrester. For the fifth consecutive year, CIBC received the top overall ranking in mobile banking, thanks to our dedicated and innovative digital team.

As our clients increasingly transact through digital channels for their day-to-day banking, we're continuing to transform our banking center network to prioritize advice-based conversations with our clients which positions us for disciplined future growth.

In our Canadian Commercial Banking and Wealth Management business, since introducing CIBC Innovation Banking earlier this year, we have expanded our footprint in new key markets. This platform is focused on delivering strategic advice and funding for North American innovation clients. As well, across our bank, we're placing greater emphasis on financial planning for our clients.

CIBC is a relationship-focused bank, and we're investing in financial planning to ensure our clients are able to achieve their personal goals. On a year-over-year basis, financial plans delivered have increased 20%. In the U.S., we have continued to expand our portfolio of products with CIBC Agility, a direct banking offer for our U.S. clients, and the CIBC Bank USA Smart Account, which is a flexible-fee U.S.-based account that allows Canadians to transact in U.S. dollars south of the border. These offerings are both seeing good initial take-up and extend our reach into the U.S. retail market further diversifying our earnings profile.

Turning to Capital Markets, we have invested in leading technology and top talent that provides value for our clients. Working closely with our other strategic business units on both sides of the border, we've had good success building strong client relationships and winning new mandates.

So, now, as we look at CIBC as a whole, we are making investments that help us streamline and simplify our bank, improving operational efficiency while fueling top line growth. This quarter, we delivered an adjusted efficiency ratio of 55%, and that's a 230-basis point improvement over the same period last year.

On the capital front, our capital position remains strong with a CET1 ratio of 11.3% compared to 11.2% last year. Our bank's earnings strength provides us with the optionality to invest in our businesses and to return capital to our shareholders through share buybacks and dividend growth.

During the quarter, we exercised our previously announced normal course issuer bid and purchased 1.8 million shares for cancellation. This morning, we also announced a CAD 0.03 dividend increase to our quarterly dividend which is now CAD 1.36 per share, representing a 5% increase over the prior year.

So, in summary, we're really pleased with our performance, our strong performance. We've established a North American platform that is delivering well-diversified earnings and growth for our shareholders.

And now I'm going to turn the call over to my colleague, Kevin Glass, to review our financial performance in greater detail, and also be back at the end of the call with some closing comments. Thank you. Kevin?

Kevin A. Glass

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

Thanks, Victor. For my presentation, we'll refer to the slides that are posted on our website starting with slide 5. CIBC reported earnings of CAD 1.4 billion and EPS of CAD 3.01 for the third quarter of 2018. Adjusting for items of note detailed in the appendix to this presentation, our net income was CAD 1.4 billion and EPS was CAD 3.08, up 11% from a year ago.

All of our businesses performed well as we benefited from strong volume growth, as well as higher interest rates. We generated revenue of CAD 4.5 billion for the quarter, up 10% year-over-year. We managed our expenses well, delivering positive operating leverage of 4.3% and an efficiency ratio of 55% in the quarter. These ratios have consistently been high quality.

On a trailing 12-month basis, our operating leverage is 4% and the mix ratio was 55.6%. The provision for credit loss ratio on impaired loans are 29 basis points, which was up 5 basis points year-over-year mainly due to the Barbados government restructuring on sovereign loans.

On a year-to-date basis, the loss ratio on impaired loans remained stable at 25 basis points, reflecting continued benign credit conditions overall. Also, we increased our dividend by CAD 0.03 this quarter to CAD 1.36 per share.

Turning to capital on slide 6, as Victor said, we ended the quarter with a strong CET1 ratio of 11.3%, up 10 basis points from the prior quarter and comfortably above our target range. Solid organic capital generation was partially offset by growth in risk-weighted assets and the impact of share repurchases. During the quarter, we repurchased 1.75 million common shares as part of our normal course issuer bid. Our leverage ratio was 4.2% and our liquidity coverage ratio was 126%.

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

Slide 7 reflects the results of Canadian Personal and Small Business Banking. The net income for the quarter was CAD 643 million, up 14% from last year. Revenue for the quarter was CAD 2.2 billion, up 7% from last year, primarily driven by favorable rates and volume growth.

Revenue continues to be well diversified. Cards, mortgages, and other personal lending combined to make up just over half of this quarter's revenue, while deposits contributed about 30% and other businesses just under 20%.

Net interest margin was up 5 basis points sequentially mainly due to higher deposit spreads with a slight help from [indiscernible] (00:09:56). Noninterest expenses were CAD 1.1 billion, up 1.5% from the prior year, reflecting our continued focus on cost management. Expense discipline, along with strong revenue growth generated pre-provision earnings growth of 13%, operating leverage of 5.2%, and a 260-basis point year-over-year improvement in our [ph] mix (00:10:19) ratio.

Provision for credit losses of CAD 199 million was up CAD 9 million from the same period last year. Underlying credit quality remained stable. The provision increased due primarily due to portfolio growth in cards and personal lending.

Slide 8 shows the results of Canadian Commercial Banking and Wealth Management. Net income for the quarter were CAD 350 million, up 20% from last year. Commercial Banking revenue was up 17%, driven by strong deposit and lending volume growth, wider spread, and higher credit-related fees. Deposits and lending balances were up 10% from the same period last year. Wealth Management revenue was up 5% driven by higher AUM, reflecting market appreciation and net sales.

Retail and mutual fund balances experienced solid growth of 9% compared with the same quarter last year. Noninterest expenses were up 1% primarily due to higher performance based and employee related compensation. Solid top line growth and expense discipline contributed to positive operating leverage of over 8% and resulted in a 450-basis point year-over-year improvement in our efficiency ratio.

Slide 9 shows the results of U.S. Commercial Banking and Wealth Management. Net income for the quarter was CAD 171 million, of which CIBC Bank USA contributed CAD 126 million. This compares with CAD 94 million for CIBC Bank USA in the prior quarter.

Revenue grew 5% from the prior quarter, reflecting solid business performance driven by strong volume growth and a benefit from three additional days, as well as a stronger U.S. dollar. Expenses were down CAD 12 million from the prior quarter helped by a recovery in the real estate finance business. And we continue to capitalize on referral opportunities to do more for our combined U.S. client base.

Turning to CIBC Bank USA, period-end loans grew CAD 2.2 billion or 14% year over year, mainly in commercial and industrial. Deposits grew CAD 2.1 billion or 13% year over year, reflecting growth from deposit initiatives. Net interest margin for the quarter was 367 basis points, up 37 basis points from the prior year. Sequentially, NIM increased 4 basis points, reflecting repricing of the largely variable loan book in a higher rate environment, partly offset by higher funding costs which is largely driven by competitive pressure on deposits.

Inconsistent with the experience of the broader U.S. banking sector more recently, increases in our deposit rates have gained some momentum. Going forward, we still expect deposit margins to expand as interest rates rise, albeit at a slower pace than in the past.

Credit quality remained stable. Reversals on non-impaired loans were driven by a positive credit migration within the non-impaired portfolio and the transfer of certain loans to the impaired portfolio. Overall, we are very pleased with the performance of CIBC Bank USA, which is performing well above our investment expectations.

At our last Investor Day in December, we had talked about growing our U.S. region which includes the U.S. portion of our Capital Markets business and had set a 2020 target of 17% [indiscernible] (00:13:32). We're tracking very well with the year-to-date contribution of approximately 16% and expect to exceed this target with continued momentum in our existing businesses.

Turning to Capital Markets on slide 10, net income of CAD 265 million was up CAD 13 million from a year ago, reflecting higher revenue partially offset by higher noninterest expenses. Revenue this quarter was CAD 752 million, up CAD 73 million or 11% from a year ago, reflecting higher equity derivatives and a foreign exchange trading revenue, higher advisory revenue, and higher corporate banking revenue [ph] on (00:14:09) higher commitments. These increases were partially offset by lower investment gains. Noninterest expenses were up

CAD 44 million or 13% from a year ago, primarily driven by increased business volumes and employee-related compensation.

Slide 11 reflects results of Corporate and Other where we had a net loss for the quarter of CAD 30 million compared with net income of CAD 16 million in the prior year. This reflects lower revenue from treasury activities as well as lower FCIB results driven by an increase in expected credit losses stemming from the pending restructuring of the Barbados government loans and securities.

Adjusting for the impact from Barbados, our results are in line with the plus/minus CAD 20 million earnings guidance for this segment. We continue to closely monitor the situation and work with the Barbados government as the restructuring agreements are concluded.

In conclusion, we are very pleased with the quality and consistency of our results reflecting continued execution of our client-focused strategy. After another very good quarter, we remain on track to meet our medium-term targets for the full year.

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

Laura L. Dottori-Attanasio

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

Good morning. As Kevin mentioned, overall credit conditions in our portfolio remain stable. Provisions for impaired loans increased from CAD 217 million to CAD 274 million this quarter. The largest part of the increase relates to CIBC FirstCaribbean of which the majority is attributable to the sovereign loans associated with the restructuring of the Barbadian government debt that is under way, and a smaller portion, CAD 13 million, relates to a preexisting loan within our U.S. real estate finance portfolio that has since been written off.

Provisions for non-impaired loans saw a release of CAD 33 million, and you'll see that we provided details on the lower right chart and highlight a CAD 27-million release relating to loans that are being transferred from non-impaired to impaired, an CAD 11-million release attributed to stage migration portfolio movement and prepayment, all of which was partially offset by a CAD 5-million increase relating to our quarterly forward-looking information update.

So, our overall loss rate was 29 basis points in the third quarter, up from 24 basis points last quarter. Excluding the movements associated with CIBC FirstCaribbean, which we view as very manageable, our core loan portfolio loss rate remained stable at 25 basis points.

Turning to the next slide provides an overview of our gross impaired loans for this quarter. Gross impaired loans were up from 41 basis points to 44 basis points. This increase, again, was mainly due to CIBC FirstCaribbean relating to the Barbadian government debt restructuring under way. More importantly, you'll see that our retail portfolios remain stable quarter-over-quarter and notwithstanding two new impairments within CIBC Bank USA [ph] in unrelated sector (00:17:31), we continue to see improvements in our business in government loan. Overall, excluding CIBC FirstCaribbean, our gross impaired loans remained stable.

Slide 15 provides additional details of our net write-off rates by portfolio. Here, you'll see that residential mortgages, credit cards, and personal lending remain stable over the period shown. Business and government loans were up year-over-year due to the write-off in the preexisting U.S. real estate finance portfolio that I referenced earlier. CIBC Bank USA was down quarter-over-quarter due to various minor recoveries. Overall, our net write-off ratio was 24 basis points, down 2 basis points quarter-over-quarter and stable on a year-over-year basis.

Lastly, on slide 16, we've highlighted our Canadian credit card and unsecured personal lending portfolios. As expected, the late-stage delinquency rate in both of our Canadian credit cards and unsecured personal lending portfolios have normalized after peaking in the previous quarter. So on a year-over-year basis, the delinquency rates of cards was up primarily due to the adoption of IFRS 9 and the delinquency rate of our unsecured personal lending was flat year-over-year.

As Kevin mentioned earlier, we remain very pleased with our credit performance. With that, I'll turn the call back to Amy.

Amy South

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

Thanks, Laura. So that concludes our formal remarks. We're now – we'll now move to Q&A. Operator, can we take the first question?

QUESTION AND ANSWER SECTION

Operator: Thank you, Amy. [Operator Instructions] Our first question is from Ebrahim Poonawala with Bank of America Merrill Lynch. Please go ahead.

Ebrahim H. Poonawala Q

Analyst, Bank of America Merrill Lynch

Good morning. I just wanted to – if you could remind us, Kevin, around your expectations around the efficiency ratios, obviously hit 55% this quarter, that your target was, I think, about 55% in 2019. So, one, do you think given where you are from a business performance standpoint, do you think you may look to update that target, or if you can give some sense of what we should expect in terms of operating leverage over the next few quarters? And maybe some of what we saw this quarter may or may not be sustainable. Thank you.

Kevin A. Glass A

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

Thanks, Ebrahim. I think that operating leverage – and we've noted this before – carry this volatility on a quarter-to-quarter basis. I mean, we're very happy with the performance this quarter because all of our business units did perform well with very good expense management. And we did hit that 55% number. But you need to look at it on a trailing basis, where we would have lower operating leverage than we had this quarter. I don't think, at this time, it's appropriate to update those targets. We certainly are very confident of hitting that 55% run rate. This happened to be a particularly strong quarter both from a revenue and expense perspective.

So, what I would say is sustainable is continued good performance, continued strong expense management, and we do expect our businesses to continue performing well. In terms of actually changing that target, I think, will be premature at this stage, but very happy and very confident in terms of hitting the targets we've outlined earlier.

Ebrahim H. Poonawala Q

Analyst, Bank of America Merrill Lynch

Got it. And just sort of tied to that, anything in terms of expense growth in Canada or U.S. that you would call out that you expect elevated investments, be it tech, personnel, et cetera, that may be worth sort of flagging?

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

Ebrahim, I'm not sure that I would outline anything in particular. What I would say is we continue to invest in our business. We go through a continuous planning process. So, we anticipate continuing to invest in our business so we can generate future growth.

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch
Q

Got it. Thank you.

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

Meny Grauman
Analyst, Cormark Securities, Inc.
Q

Hi. Good morning. Question about the mortgage business and just looking for an update in terms of your thoughts of what you're seeing out there in the market, specifically since the quarter ended. Is the guidance you gave in terms of the growth of real estate secured lending, sort of, does that stand? And does the guidance in terms of origination stands or would you make any changes to the outlook you've articulated previously?

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

Hi. It's Christina speaking. So, our regular growth rate has been converging to the market as we had expected. We are now, in terms of update three months later, we're now seeing some positive signs that suggest a potentially better growth on our portfolio than we had seen over the past six months. For example, recent housing market data has been more positive. Our Q3 originations were up CAD 2 billion quarter-over-quarter, and they were down less from last year than we had anticipated that they may be three months ago. And our commitment pipeline has improved from earlier in the year.

So, what we're seeing now, we think, is clients beginning to adjust to the higher rates and to the regulatory changes. So, we're seeing – we see it's positive in terms of outlook for the market. We'll continue to grow the portfolio through the rest of the fiscal, in line with what we had communicated last quarter.

Meny Grauman
Analyst, Cormark Securities, Inc.
Q

And can you give us an update in terms of renewals? What are you seeing on the renewal front?

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

Yeah. Renewal activity remains strong and has been very stable over the past six months.

Meny Grauman
Analyst, Cormark Securities, Inc.
Q

So, you're not seeing an acceleration in renewals?

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

We've had strong renewal rates around the 90% range and over the past six months have remained that way. So, we're feeling good about that performance.

Meny Grauman
Analyst, Cormark Securities, Inc.
Q

Okay. And then, Victor, you've clearly signaled for some time now that there'd been no M&A in the U.S. as you [ph] digested (00:24:02) PrivateBank. But given the commentary that the U.S. business is performing better than expected and given where the capital ratio is, is it time to revisit that and to open it up for more M&A?

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

Meny, I think we're very consistent in our message, [indiscernible] (00:24:21) a four-pronged piece to our capital deployment. It's all about organic growth. I'm going to pass it on to Larry in a moment because the organic growth opportunities that we see in the U.S. continue to remain strong. We have lots of professionals coming to CIBC saying, I want to be part of your platform.

The second thing is in terms of our Canadian business. We continue to invest in our Canadian business. There are opportunities to transform some of the legacy platform and process that we have to further improve margins and growth. Dividend growth is really, really important being the third pillar. And when it comes to M&A, we've signaled very strongly that it's all about the odd tuck-in opportunity, which is smaller in nature, and we don't plan any large acquisitions over the medium term. Larry.

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

Good morning. A couple of points that I think Victor covered, the key theme, which is – there is a lot of excitement over the organic growth opportunities that exist in the United States. We continue – we have a very strong pipeline as well as I think we had very good growth this quarter. But good pipeline, good client activity, good client reception to CIBC in the United States, and we really believe that there's lots of market share opportunities to continue the pace. It's, I think, more sustainable. It's more predictable. We know how to execute under this basis. I have a tremendous team in the United States that can do it. And at the same time, as Victor mentioned, because of the momentum and position we have, and really, the consistency of our approach, we're also attracting interesting talent. And that talent will also continue to help us drive growth as you saw this quarter.

Meny Grauman
Analyst, Cormark Securities, Inc.
Q

Thank you.

Operator: Thank you. Our next question is from Gabriel Dechaine with National Bank Financial. Please go ahead.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.
Q

Good morning. I have a numbers question and on the – a similar M&A-type question, actually. Kevin, you talked about the U.S. deposit pricing dynamic, and maybe you can help us with a bit of more clarity on betas and how pricing is affecting your margin outlook for the business in more granular terms, I guess.

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

A

I mean, I think, as you can tell, as a result of our asset sensitivity, we've really benefited from rising rates. And in the early stages of those rising rates, deposit rates didn't move that much. But more recently, we've seen an acceleration of deposit rates going up. And we're also fairly sensitive to deposit betas, and what we've seen is those increase over time.

So, if you look around a quarter-over-quarter basis, looking just at CIBC Bank USA, we were up 4%. And clearly, deposit costs have gone up. It's hard to direct to an exact number, Gabriel. But what we would say is we would anticipate continuing to benefit from increasing rates, but at a slower pace, as you can see just from the last quarter.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.

Q

So, if you could put in the context of a 25-basis-point rate hike, what kind of benefit you'd expect to retain as opposed to what it was a year ago?

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

A

I mean, I'd be speculating in terms of that because it would depend on the exact amount. But what we've seen in the past is that it would be between CAD 10 million and CAD 15 million, but obviously, that's going to vary.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.

Q

Okay. And my next question is for Victor. I believe we were talking more about U.S. M&A potential, and I get the tuck-in commentary, appreciate that. What about domestically in the Wealth business? We've seen a bit of activity from some of your peers acquiring institutional asset managers and some in the retail market as well. It's been pretty active this year. There's definitely a consolidation, a phase, as asset managers face pressures from asset investments, among other things. Just wondering what your appetite is to do something on the Wealth front domestically and if there are any opportunities you're evaluating right now.

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

A

Look, every competitor has its own strategic direction. We're very pleased with our Wealth platform. We're well-positioned in terms of our advisory platforms, both through our Wealth Management businesses, which include Wood Gundy and our Private Wealth platforms, our Imperial Service platform, which are significant relationship touch points with our clients. We continue to see good flows in all of those businesses.

Our asset management business from an investment standpoint is performing very well from a flow standpoint. We continue to be number two or number three on a monthly basis in terms of flows. So, we're well positioned. We've got scale in the business in Canada. We're increasing our scale in the business in the United States. And therefore, the deployment of capital will be more directed to organic growth in the U.S., organic growth in Canada, over-indexing on Commercial Banking and Wealth Management, with over-indexing in the U.S. on the Wealth Management side.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.

Q

Okay. All right. And, I guess, I might as well ask, the U.S. again. Medium-term objective of achieving 25%, and that wasn't including Capital Markets, I don't think anyway. Is that...

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

A

No, it does include Capital Markets. Yeah. It does Capital Markets, Gabriel, and that's moving along nicely. And what I'm going to do now is just pass it on to Harry Culham, who runs our Capital Markets business, works closely with Larry in helping us grow one franchise in the U.S., one team, one franchise serving our clients in an integrated way. How is that going, Harry?

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

A

Yeah. It's going well. I would say that we have plans in place to continue to expand our U.S. business. We're very focused on the [ph] delivering (00:30:35) Capital Markets products and services to our traditional, corporate, institutional base. But very importantly, we have now full integration with our systems, technology, and talent with our Chicago markets business, and that's going very well. So, we've been seeing continued earnings growth in the U.S. with the results being above expectations year-to-date.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.

Q

Thanks. I'll requeue.

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

A

Thanks, Gabriel.

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

Sumit Malhotra
Analyst, Scotia Capital

Q

Thanks. Good morning. First is for Victor on the Aeroplan announcement. The numbers that we got, CAD 450 million, to purchase the program and the CAD 1.9 billion in liabilities, I know there's issues that are still being worked out. Can you tell us what you expect the impact on your capital ratio would be approximately from your participation in this transaction?

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

A

Good morning, Sumit. So, let me just step back and say that our credit card portfolio now is well positioned. As I made – as I outlined in my earlier remarks, our Aventura portfolio, which is a fly anywhere portfolio, is growing significantly as clients adopt that value proposition. We went into the transaction on EMEA together with the consortium with solely our clients in mind. We did not want disruption to the portfolio. The portfolio is stable for us. We did not want disruption for our clients. We did not want disruption for our shareholders.

So, when it comes to the math, there's a lot of things to still negotiate in terms of the consortium itself. We're comfortable with the economics going forward, and we believe that the capital impact is small and manageable.

Sumit Malhotra
Analyst, Scotia Capital

Q

So, 10 basis points is...

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

A

I don't know, maybe 10 basis points. Sumit, it's really – truly, it's one of these things where we looked at and said, let's not disrupt our clients. We can have [ph] pass A (00:32:34) where we don't do it and we'll just invest in Aventura, or we can – and then see some portfolio run-off in Aeroplan, or we can have [ph] pass B (00:32:42), keep Aeroplan stable, invest in the consortium. It's good for all stakeholders. And that's truly what's driven us all and the economics are completely manageable.

Sumit Malhotra
Analyst, Scotia Capital

Q

No. Look, I'm asking about the numbers, but I absolutely get the strategy on your plan. I think for incumbent, status quo is always a positive. We can talk more about that later. And maybe you're answering some of it. I guess the next – the obvious question becomes CIBC took a step back in its relationship with Aeroplan in 2013, and you've obviously been focused and made a lot of progress on your own travel program. Do you expect or would your expectation be that CIBC continues as an Aeroplan participant post 2020? Is that your expectation going into this agreement?

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

A

I think so. Absolutely. I mean, in the end, our clients hold a lot of these loyalty points. And I got some emails from some clients yesterday saying thank you. So that's just a signal to me that we're doing the right thing. And one of the things I like to always emphasize on our call, while it's a very qualitative aspect, it's showing through in the quality of our earnings. Our banks are very relationship-driven and client-focused bank. And everything that we do, we put the client at the center of everything that we do. And if we do that right, we'll do well for you, our shareholders and our investors. And I truly believe that philosophy is paying dividends in terms of our share price, in terms of our earnings growth profile and the diversification of our earnings. That includes this deal with EMEA and the consortium.

Sumit Malhotra
Analyst, Scotia Capital

Q

I'm going to wrap up with a question that's likely for Christina to start. Maybe, Victor, you might get involved as well. It's on that relationship with clients and putting customers first. I think the best way to measure that for a bank is with respect to your core deposit franchise. And, Christina, in some of the appendix slides that you show us, we look at personal deposits and GICs, your year-over-year growth at 1%, your year-over-year growth rank at the low end of the sector.

We've heard from CIBC a couple of times in the last few years that there's been periods where you've run bonus campaigns, and that's had an impact on NIM. But maybe more specifically, as you are looking to become the primary banking partner of your client base, why is it that the personal deposit line has been so slow relative to peers in terms of that money and category that you talk about?

Christina Kramer

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

A

Okay. It's Christina speaking. I'll speak to two points, really.

First of all, when you took a look at the numbers, growth ranks are obviously very sensitive to the starting and end points that we're using to measure up. So, during this quarter, we have strong growth in fixed-term deposits, but weaker growth in demand and notice deposits. And that's a function of our promotional activity being lower than our peers over the period.

So, in order to normalize for promotional activity and the timing of it, we take a look at it on a year-to-date basis. And if you look at it from a year-to-date basis, we have outperformed our larger peers on that front. And then more broadly, as we talk about relationships, and that's how you started the question, this is really about making sure we're having the right kinds of conversations with clients and helping them with their finances, both on the deposit and investing side, as well as the lending side.

So, when we look at the total money in, so that's the deposits and investing side, and our year-to-date rank is second in the market. And that's indications. What we're seeing a little bit in there is a bit of movement from money out of checking and into other instruments, deposit or investment instruments given the rise on rates.

So, from an overall perspective, we know where front line are having more conversations with our clients, having more of those financial planning conversations that Victor spoke about, and that's leading to a broader discussion around how best to save and invest. And we're seeing that play out in the numbers.

Victor G. Dodig

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

A

Sumit, deposits remain at the forefront of our strategy as well. We've got a number of deposit growth engines both in Canada and the United States. Episodically, you might see softness in the quarter because the bonus campaigns aren't there. So, it's always a trade-off versus deposit growth and NIM. We're comfortable with the deposit growth we're seeing across all our platforms. We're seeing good growth in Personal and Small Business Banking over the full year, good growth in Commercial and Wealth Management, good growth in our corporate banking deposits, and good growth in our U.S. business.

Sumit Malhotra

Analyst, Scotia Capital

Q

Thanks for your time.

Victor G. Dodig

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

A

Thank you.

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

Doug Young
Analyst, Desjardins Capital Markets

Q

Good morning. Just maybe to start, two questions on the U.S. banking side. And if I look at your slide, it looks like CIBC U.S. Bank earnings were up 34% sequentially. NIMs are up 4 basis points, loan growth up 4%. Just wondering what am I missing? What drove this? Is there anything in there that's unusual?

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

A

So, I'd say the one unusual thing in the numbers if I – sorry. And it's Kevin. If I take a step back, first of all, it was a very solid quarter. So, the fundamentals were strong. Very, very good volume growth. And you combine that with a bit of NIM expansion, that drives very good results. And the rev book was more or less stable, but the commercial book did extremely well.

And actually, the Wealth operation has also produced a solid result. The one thing that did help us, and I referred to it in my comments, was a recovery in the rev book, where we had an item of dispute going back a number of years. It was finally settled in our favor. It was about CAD 10 million. And on the margin, that's going to make a big difference to percentages. So, I'm going to maybe just hand it over to Larry.

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

A

Yeah. Good morning, again, it's Larry. Good core fundamentals. It is good client activity both in terms of loan growth, deposit growth. Spreads were compressed because of the deposit pressures that I think every bank has faced in the U.S. But given the level of loan growth and given where we're holding, and again, over 95% of the U.S. bank book is variable price, which has impacted its rates, have risen and may continue to rise, we're seeing the ability to drive increasing net interest income which I think is good core top line revenue and we're driving it based upon the efficiency to bottom line income.

The other component which I think is – that I'm finding very, very positive, and I've spoken about this in other calls, is the ability to connect different parts of our business to deliver more products and deposits to the to the U.S. Bank by doing more with our clients. And the leveraging of this being part of CIBC has allowed us not only to drive cross-border activity which has been substantial to drive private banking activity for our U.S. wealth clients and the ability to refer and execute under some capital markets capabilities that we had no ability to be able to do before as part of the old private bank has given us an accelerant which I think has similarly given us some great capabilities in the U.S. So core good momentum, it's client-driven, its relationship depth, and I feel good about it.

Doug Young
Analyst, Desjardins Capital Markets

Q

And just if I can follow up, Kevin, I guess, is the CAD 10 million pre-tax or post-tax?

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

A

Apologies. That would be pre-tax.

Doug Young
Analyst, Desjardins Capital Markets

Q

Pre-tax. Okay. And then if I – the other question on just U.S. in general, if I back out CIBC U.S., it looks like earnings were down sequentially. Just wouldn't mind getting a sense of what's going on excluding the CIBC U.S. And then maybe just as a follow-up, Larry, you talked a bit about the cross-sell and being able to cross-sell, and that's been a big driver. Is there any way for you to quantify how that's been going across your Capital Markets and whatnot businesses? Thanks.

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

A

Yeah, let me speak to the – to your second question, the cross-sell. We spoke about the deposits, which is an interesting, which is so central to, as Victor said, our core strategy. We generated over a – almost CAD 1.6 billion to CAD 1.7 billion of deposits from cross-border, north-south clients, from clients of the corporate bank and Capital Markets that are doing their deposits with us, and including the private wealth clients that are doing deposits with us. So I think that's a good metric.

We've had over 550 as we count referrals across all of the business units to-date through quarter end. That's material in that not all of it generate results in executable deal, but there's really good momentum and I'm seeing that across the various business units as well. So I guess those give us a couple. We've been able to introduce our Capital Markets group to a couple of private placement opportunities that we participated in and executed and generated fee income from existing clients that we're doing it, that we didn't have when the U.S. Bank didn't have a cross-border capability. I think those gave you a couple examples.

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

A

[ph] Thank, Larry (00:43:00). I think essentially from an operating point of view, it was more or less flat, is what we'd say with slightly higher provisions in the real estate, loan loss provisions in the real estate business, but from a core business perspective essentially flat.

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

A

Doug, if I can just chime in here on our U.S. investment, it's been just a little over a year. And I would say that from a shareholder standpoint, from a client standpoint, from an employee standpoint, it's all surpassed our expectations and what we've communicated to you at the outset of our investment. It's been driven by a very integrated team-oriented approach to our clients. It's been driven by a favorable tax environment, a favorable economy, increasing interest rates and increasing volume growth.

We're growing our business in a category many competitors are growing in low single-digits. We're growing in double-digits in terms of loans and deposits on a year-over-year spot basis. We're growing our wealth management assets. We've got a wealth manager that's now CAD 50 billion in assets that used to be zero about four years ago for CIBC. And we continue to see strong net flows, not only in terms of investment assets, but in terms of loans as we put private bankers into our offices and deposits.

Doug Young
Analyst, Desjardins Capital Markets

Q

Thank you for the comment.

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

A

And our accretion, Doug, is ahead of schedule.

Doug Young
Analyst, Desjardins Capital Markets

Q

Perfect. Thank you.

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

Mario Mendonca
Analyst, TD Securities, Inc.

Q

Good morning. If we could – if I could just take you to your domestic retail, the P&C banking segment, the stuff that you pulled together in one segment at the end of your supplement. The expense growth over the last couple of years has averaged about 3%. If you look maybe, say, two-and-a-half, almost three years, it's averaged about 3%, 3.5%. Where I'm going with this is, I mean that's obviously [ph] demonstrated (00:44:57) some very good expense growth. But what is a plausible expense growth number you think about when you plan for this business longer-term? Is that a plausible number to think about, reasonable number?

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

A

So it's Christina. I'll speak to the personal small business banking part of that business. And from a expense growth perspective, [ph] it can (00:45:23) be volatile quarter-to-quarter. Year-to-date, we're around 3%, and that's the range that we had guided to and that we guided to as an ongoing basis. So, yes, it's plausible to continue at that rate. And I'll pass it over to Jon to see if he would like to add comments.

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

A

Good morning. The 3% expense growth on the commercial and wealth side feels very reasonable.

Mario Mendonca
Analyst, TD Securities, Inc.

Q

So maybe, Victor, just to you, when you think about this business long-term, can you fuel, as you say, fuel solid revenue growth long-term with expense growth hovering around 3%? Is that something you think you can do?

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

A

I think it is absolutely something we can do. We talk a lot about the repurposing of expenses at CIBC in order to invest in new technology, a more direct technology, and simplified process for our clients. So our goal is to deliver positive operating leverage on a consistent basis, managing our expenses in line with kind of revenue trends. Mario, sometimes, if the economy turns sideways, we'll have to adjust in terms of how we invest our business. Our goal is to deliver consistent operating performance, consistent growth to your shareholder over time, and that level that you've noted is a level that we feel very comfortable with.

Mario Mendonca
Analyst, TD Securities, Inc.

Q

Okay. And then just going to auto lending, can you give us an update on where that stands for CIBC? Has there been growth? Are you targeting – continuing to target that business and just an outlook for CIBC in the industry as a whole?

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

A

Our balance is around CAD 1.5 billion, and it has been on a steady growth rate. It's a small part of our business. It's small relative to our peer group, and we expect it to continue to grow. I'll leave it there.

Mario Mendonca
Analyst, TD Securities, Inc.

Q

And your outlook is – you're still positive on auto lending?

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

A

Yes, we're still positive on auto lending.

Mario Mendonca
Analyst, TD Securities, Inc.

Q

Thank you.

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

Sohrab Movahedi
Analyst, BMO Capital Markets (Canada)

Q

Thanks. Larry, I just thought you could talk a little bit to the U.S. Commercial Banking and Wealth Management segment as presented in your supplementary financials. Interest-bearing deposit seemed to be what you're growing. Non-interest-bearing deposits are actually flattish to maybe down. You talked about some of the benefits from the cross-sell in deposits, but are you paying for that because your margins are actually also down in the U.S.? I know it's your business and the legacy business but it's combined. It is what it is. So I'm just trying to kind of get a feel for how you're going to fund your loan growth. Is it going to be a suppressant on margin notwithstanding the fed rate hikes that are expected? And some color there as far as where you think your loan-to-deposit ratio is going to end up. Thank you.

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

A

Sure. Sure. Absolutely. Couple parts to it. First, as you would – as you know, the U.S. Bank's business deposit base and loan base is predominantly commercial. And as the U.S. banking industry has experienced in their quarterly calls, most, if not all, have talked about rising deposit costs that are a result of the increases in rates overall. So, of course, we're going to experience that and have experienced that as well. Non-interest-bearing DDAs are roughly 31% or 32% flat to that as a percentage of where they had been in past quarters. That's a very respectable number. And at the same time that those are non-interest-bearing DDAs, most – over 70%, roughly, of those DDAs are tied to clients that do their treasury management with us, which again, reflects a stickiness of those deposits in a rising rate environment.

Of course, in order to maintain competitiveness, we've got to increase rates on deposits. But, again, 95% of the loan book is also variable priced and benefits when rates rise. The business is really core-generated, middle market companies in the Midwest, predominantly but also having a U.S. base that is growing in a very diversified mix. So I feel good about it and hopefully that answers your question.

Sohrab Movahedi
Analyst, BMO Capital Markets (Canada)

Q

I mean, your NIM is down, right? So, Q4 2017 CAD 346 million, Q3 2018 CAD 337 million, so the variability on the loans, is it being more than eaten away by the higher deposits you have – deposit costs?

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

A

Yeah, we're holding reasonably well on loan spreads, and we saw that quarter-over-quarter, despite the rising rates. The deposit costs are clearly pressuring NIM. But with the growing loan volume and holding rates, despite that deposit rise, we're increasing net interest income. But there is pressure across the U.S. industry on NIM.

[indiscernible] (00:51:13)

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

A

I'm sorry. Just a second. Because Larry has, I think, outlined it very, very well. The only other point I would add is that if you look at the mix of deposits as the business has grown, the wealth suite deposits have a higher cost, and that CIBC agility direct banking deposits have a higher cost, we're mindful of that. Larry and the team are very mindful of that. And we will grow those as we need those, right. So we're very mindful of the margin aspect of things.

Sohrab Movahedi
Analyst, BMO Capital Markets (Canada)

Q

Yeah, I'm sorry. What I was trying to figure out here is, will that end up being a regulator, smaller regulator on your loan growth? Is the deposit funding going to govern how much you can grow in the U.S. on the loan side?

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

A

Generally speaking, the answer to that is no. Loan growth, we've been purposely driving deposits to fund, organically fund our loan growth. But our ability to drive deposits with the diversified deposit base has been helpful, and our ability to drive loan growth is based upon not only supporting our existing clients but building market share. And both of those items, we feel good about.

Sohrab Movahedi
Analyst, BMO Capital Markets (Canada)

Q

I appreciate the color. Thank you.

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

A

Thank you.

Operator: Thank you. Our next question is from Darko Mihelic with RBC Capital Markets. Please go ahead.

Darko Mihelic
Analyst, RBC Dominion Securities, Inc.

Q

Hi. Thank you. Good morning. Just a quick follow-up on the Aeroplan, and I totally appreciate that you're doing the right thing for clients, and I think clients may not even recognize what you've done here, but I'm just curious about go-forward impact and kind of how – I mean will this be material? Will we see an economic impact? And further to that, I guess, it kind of feels like you're paying all over again for stuff you'd paid for already, so how will that – will it be like a onetime accounting hit, or will we kind to see something sort of impact your fee line on a go-forward basis?

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

A

Good, it's Kevin. So, from an accounting point of view, I think you've outlined it reasonably well. And so it'll likely be a onetime accounting hit without an ongoing drag on fees.

Darko Mihelic
Analyst, RBC Dominion Securities, Inc.

Q

Okay. Great. Thank you. And then just a last quick follow-up on the net interest margin discussion, at the all bank level, what I'm interested in is sort of what's happening there because we're getting a lot of NIM expansion in the U.S. and in Canada. But at the all bank level, really not much going on. And I noticed that you did have lower treasury fees in corporate this quarter. Is that just a short-term thing, and then looking forward at the all bank level we should see a bit of a NIM expansion? Just a quick highlight on that would be helpful.

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

A

I think that's right, Darko. Yeah. I'm always a little leery of looking at those all bank numbers because on the margin, a few billion dollar movement in treasury assets or even in some of the capital, short-term Capital Markets assets can make a big change to that. So I'd say over time we would see that expand the line, consists more short-term movement portfolio adjustments that have driven some of that slightly lower movement this quarter.

Darko Mihelic
Analyst, RBC Dominion Securities, Inc.

Q

Okay. I'll have a follow-up with you if I could, Kevin, afterwards just because I don't want to get too technical on this call with some of the net interest margin calculations. But if you don't mind that would be really helpful.

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

A

Absolutely.

Darko Mihelic
Analyst, RBC Dominion Securities, Inc.

Q

Thanks very much.

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

A

My pleasure. Thanks.

Operator: Thank you. Our next question is from Ebrahim Poonawala with Bank of America Merrill Lynch. Please go ahead.

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch
Q

Hey, guys, just had a couple of quick follow-ups. One, on the Canadian margin. Kevin, we saw decent expansion again this quarter. Can you just remind us in terms of your outlook for Canadian P&C margin for the rest of the year or over the next few quarters in terms of what are the dynamics you're seeing on funding in the asset side?

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

Sure. I mean, I can start and then perhaps hand over to Christina. But if I think of this particular quarter, Christina spoke about the fact that we didn't have deposit promotions on. So, if you look at this relative to some of the other quarters, that would have helped. The rate movements have certainly been a help for us. And then mix is obviously another big issue. If you go back the last few years, that mix was a drag on our NIMs. But if you look at this particular quarter and the way we're growing our other portfolios relative to mortgages, so that's certainly been a help. And then let me hand over to Christina to talk about the outlook.

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

So, from an outlook perspective, we expect it to continue to improve in the upcoming quarters, but definitely not at the pace that we saw this past quarter.

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch
Q

So, sequentially, you expect the NIM to at least drift higher from where we were in the third quarter?

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

Yeah. Probably in the 1 to 2 basis points per quarter.

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch
Q

Perfect. Perfect. And just following up, Larry, something that you mentioned in terms of it does feel to me that for most U.S. banks, deposit growth will be a governor or an asset growth it. When you talk about that not being the case with you, is it because you can rely on the parent for funding and not worry as much in terms of the loan-to-deposit ratio? Is that kind of the thought process there?

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

The ability to be part of CIBC has given us capabilities that we certainly didn't have as a stand-alone operation, and that has been the primary driver. The other part of the drivers the fact that we now have much more diversification in terms of our deposit capabilities which gives us the ability to be able to drive deposits in a number of different client segments that we didn't have before that also gives us momentum and capability.

And again, loan growth as you've seen has been very healthy, but also very steady. And we've seen some predictability to that. That gives us a good feel, that plus the pipeline. But we manage both sides of the balance sheet, both in the U.S., as well as corporately, but I feel like we've got the capability and good execution consistency to continue.

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch

Q

And would it be a guess, Larry, that if we look at like loan and deposit growth year-over-year in 13% to 14%, over the next 12 months, should it be faster, slower, or pretty much where we've been in the last year?

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

A

I'm not giving forward guidance to where the loan and deposit growth will be. But you can see both a proven and capable team that's been able to do this for many years. And we also exist in a U.S. market that has lots of market share opportunities. And so I've got good confidence in our ability to continue.

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch

Q

Perfect. That's helpful.

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

A

Thank you.

Operator: Thank you. Our next question is from Mike Rizvanovic with Macquarie Capital. Please go ahead.

Mike Rizvanovic
Analyst, Macquarie Capital Markets Canada Ltd.

Q

Good morning. Just a follow-up with Christina in your business. We had one of your peers recently discuss some competitive dynamics putting some pressure on margins in the mortgage lending business. Are you not seeing something similar?

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

A

We're definitely seeing it. It's a competitive market out there in the mortgage space. And so, we are seeing that. But what we saw, as Kevin mentioned, is that the NIM, we did see some improvement in NIM and that's a combination of a number of factors, including business mix and rates, but also pricing discipline that we have across our portfolio, both on the deposit side, as well as on the lending side. So that's what we've seen in the past quarter.

Mike Rizvanovic
Analyst, Macquarie Capital Markets Canada Ltd.

Q

And just a quick follow-up. On the 5 bps of expansion sequentially, how much was impacted by some of those promotional deposit pricing coming off?

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

A

Likely in the range of 1 to 2 basis points.

Mike Rizvanovic
Analyst, Macquarie Capital Markets Canada Ltd.

Q

Great. Thank you.

Operator: Thank you. This concludes the question-and-answer period. I would now like to turn the meeting over to Victor.

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

Thanks, operator, and thanks to all of you for all your questions. So I just wanted to highlight a couple of key takeaways from our third quarter results and comment on our bank's outlook. We delivered strong quality results this quarter. I think that's evident across all of our business lines in a diversified fashion. We did that while managing our costs very well, and we delivered positive operating leverage as a result of that of 4%.

So, as we look forward and you look at the macro environment both in Canada and the United States, we see it as supportive with respect to having a stable economy, expecting further interest rate increases both north and south of the border. We're very conscious of the uncertainties and challenges related to trade protectionism that face us and face our clients, and we're going to help them navigate through whatever result comes out of these negotiations.

My own belief is that rational minds will prevail and we'll get the trade agreements put in place because all of us are dependent on the trade flows and the economic flows for the well-being of our clients and our countries, specifically with respect to NAFTA. Our strategy for sustainable growth is built on prudently managing our risk and prudently deploying our capital to create value for our shareholders.

So, as we maintain a focus on profitable growth through deepening client relationships, we're also fundamentally rethinking how we invest our capital to make sure that we're aligned with our most important business objectives. We're on target to meet our efficiency ratio of 55% by the end of 2019. I think Kevin Glass reinforced that in his answer to you, and our goal is to get to 52% by the end of 2022. We think that that is an achievable number.

Credit conditions remain stable, as you heard in Laura's comments, and we expect to deliver EPS growth that we've telegraphed to you in every opportunity of between 5% and 10% in terms of range on EPS growth. We'll continue to refocus – to focus on reinvesting our capital in terms of organic growth and maintaining a CET1 ratio that hovers around 11% range. When it comes to excess capital, it's all about organic investment. It's about share buybacks. It's about dividend increases that are well within the 40% to 50% target payout range.

It's very clear to all of us here at CIBC that we're in a path to transform our bank into a North American client-focused bank that's positioned for a modern world, a modern world where technology is important but high-touch client relationships are equally important. We've demonstrated a track record of delivering this with 16 quarters of consecutive year-over-year EPS growth, and I think our results speak for themselves.

And to wrap up, I'd like to thank our team, my team, the CIBC team for their dedication to providing exceptional service to our clients and to our shareholders. Thank you for your continued support and confidence in our bank. We look forward to providing you with our year end results at the end of November. Have a good day.

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