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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 Kevin Glass, Senior Executive Vice President and Chief Financial Officer. Please go ahead, Kevin.

Kevin A. Glass

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

Thank you, operator, and good morning, everyone. Before we start, I'd like to update you on some internal changes we have made. Last December, Amy South assumed responsibility for Finance, Business Support, Reporting and Planning; and Hratch Panossian assumed responsibility as Global Controller and also Head of Investor Relations. So, I'd just like to take this opportunity to welcome Hratch and thank Amy for all of their contributions to the IR group in the past year. Many of you on this call have already had introductory conversations with Hratch, and going forward, there will be many more opportunities to engage with him.

So, with that, let me turn the call over to Hratch.

Hratch Panossian

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

Thank you, Kevin. Good morning, everyone, and thank you for joining us for CIBC's results call for the first quarter of fiscal 2019. Victor Dodig, CIBC's President and Chief Executive Officer will kick off our agenda in a moment with his opening remarks. 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 before we move on to take questions.

We are joined in the room by CIBC business leaders, including Harry Culham, Jon Hountalas, Christina Kramer, Larry Richman, as well as other senior officers. They will be available to answer questions following our prepared remarks. The documents referenced on this call including CIBC's news release, shareholder report, investor presentation, and financial supplements can be found on our website at cibc.com. An archive of this audio webcast will also be available there later today.

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

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

Victor Dodig

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

Thank you, Hratch, and good morning, everyone. This quarter, we continue to make strategic progress across all our CIBC businesses. Despite headwinds from market volatility in some areas, we are pleased with our strong performance overall and our progress towards building a modern client-focused bank across Canada and the United States.

We also achieved a significant milestone in our U.S. growth strategy, with The PrivateBank acquisition becoming accretive to earnings this quarter, which was well-ahead of expectations. Clients on both sides of the border are benefiting from our expanded cross-border capabilities and it is these relationships that are driving our strong performance in this business and we expect this to continue. This quarter, we also settled the Enron tax case with the CRA and are pleased to have this matter resolved. Kevin will touch on this further in his remarks.

Turning to our first quarter results, adjusted net income of CAD 1.4 billion for the quarter is in line with the same period last year and reflects higher year-over-year provisions, driven by isolated impairments and updates to forward-looking indicators. Overall, economic fundamentals remain constructive to credit across North America, and as Laura will cover later in this call, we remain comfortable with our credit quality and credit outlook. Adjusted pre-provision earnings were CAD 2.1 billion, representing an 8% increase year-over-year. While businesses with market-sensitive revenue streams faced moderate headwinds, this overall result reflects strong core business performance across our client franchise. And this is particularly evident across our Commercial Banking businesses in Canada and the United States.

In Personal and Small Business Banking, we drove balanced growth this quarter by serving our clients' needs. Notably, we continued successfully growing our proprietary Aventura Travel Rewards Program and we've seen market-leading growth in deposits. We continue to focus on attracting new clients through foundational products and differentiated advice, and deepening these relationships over time. We also continued investments to modernize our distribution network.

We are transforming our banking centers across our network to facilitate advice-based conversations, while also building on our leading digital capabilities. Our banking center count decreased 3% over the last year and almost 89% of day-to-day transactions were performed in self-service channels this quarter. In addition, we further invested in Simplii Financial with the launch of our Simplii credit card enabling deeper client relationships through our direct banking platform.

Our Canadian Commercial Banking and Wealth Management business had a very strong quarter. Commercial Banking revenue was up 17% year-over-year driven by strong double-digit growth in loans and in deposits on the back of our investments in front-line staff and product enhancements made over the last several years. Despite a volatile market impacting flows, our Wealth Management businesses performed well, by remaining focused on industry-leading advice and collaboration across our businesses.

Assets under management were up 2% in the quarter and we're pleased to be tracking ahead on both our referral and efficiency goals that we shared with you on Investor Day. We also continue investing to expand our capabilities in our Wealth business as our clients' preferences evolve. This quarter we strengthened our product lineup by launching CIBC Smart Investment Solutions and our CIBC ETFs.

Our U.S. Commercial Banking and Wealth Management business continues to perform very well as we continue to invest in growth south of the border. The business delivered double-digit growth on both sides of the balance sheet this quarter, driven by growth in existing geographies as well as meaningful contributions from our strategic expansion into new markets and cross-border referrals. We have successfully executed on the strategy we laid out at the time of our acquisition and outperformed our investment assumptions, which has resulted in accretion to earnings a year-and-a-half earlier than anticipated. The strength of our entire team at CIBC Bank USA, and the culture alignment with CIBC overall, have been key drivers of our collective success. We feel very confident our ability to continue to sustain this performance as we enter the next chapter of our U.S. growth strategy.

Our Capital Markets business delivered growth in line with the range we outlined at Investor Day, excluding loan losses which were higher this quarter. We saw a slower market for new debt and equity issues in the first quarter, but we delivered robust trading revenues and continued strong performance in corporate banking. Our Capital Markets team is seeing good momentum from client connectivity with all of our business units. We continue to invest in our capabilities to take advantage of this connectivity, particularly in the U.S. market.

In fact, across our bank, we continue to see the benefits of an interconnected franchise. Strong connectivity across our team has been instrumental in generating new business on both sides of the border and across our business units, as we focus on helping our clients achieve their goals. At an enterprise level, we continue to focus on transforming our bank by simplifying our businesses and reinvesting the resources in key capabilities to fuel our organic growth. On a net basis, this continues to contain our cost base and drive improvements in efficiency.

Our first quarter efficiency ratio of 54% exceeded our target of 55% and we are progressing well towards our medium-term target of 52%. This quarter, we also continued to improve the strength of our balance sheet. Our client base growth is balanced across loans and deposits, and diversified across businesses and geographies. And we're particularly pleased with the strong growth in deposits across all of our businesses this quarter. Our capital position remains strong with a CET1 ratio of 11.2%. Strong capital generation was offset by organic growth, as we noted in the last quarter's call, the regulatory adjustments and the impact of the payment to Air Canada to secure our participation in their loyalty program had an offset in this year's CET1 calculation – this quarter's CET1 calculation.

Going forward, we anticipate continued strength in internal capital generation which will give us strategic optionality. Our primary focus for capital deployment will be to support organic growth and we'll grow dividends with earnings to stay within our communicated payout range. To that end, we announced this morning a CAD 0.04 increase per share to our quarterly common dividend to our shareholders. We will also selectively consider inorganic opportunities to deploy capital where they advance our strategic goals and allow us to generate strong, risk-adjusted returns for our shareholders.

In summary, while we've met with some challenges this quarter, including a volatile market and isolated loan impairments, our core business continued to perform very well and in line with our strategy. Our investments in strong client relationships, our ongoing earnings diversification and our improving operational efficiency are paying off and providing resilience to our earnings through occasional headwinds.

And with that, let me now turn over the call to my colleague, Kevin Glass, who's going to cover our financial results in greater detail. 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 1.2 billion and EPS of CAD 2.60 for the first quarter of 2019. Adjusting for items of note, detailed in the appendix of this presentation, which included the payment made to Air Canada to secure our participation in new loyalty program, our net income was CAD 1.4 billion and EPS of CAD 3.01. We generated revenue of CAD 4.6 billion for the quarter, which is up 3% year-over-year, despite market volatility which lowered revenue in our Capital Markets and Wealth businesses. While continuing to invest in our business, we managed expenses well, delivering positive operating leverage and an efficiency ratio of 54.4% for the quarter. And we also increased our quarterly dividend by CAD 0.04 to a CAD 1.40 per share.

So, if we turn to capital on slide 6. We ended the quarter with a CET1 ratio of 11.2%, down 20 basis points from the prior quarter and comfortably above our target range. Our internal capital generation this quarter was offset by the impact of regulatory changes, gross and risk-weighted assets and the Air Canada payment. Our leverage ratio was 4.2% and our liquidity coverage ratio was 131%. The balance of my presentation will be focused on adjusted results, which exclude items of note. So, let me now turn to the performance of our business units.

Slide 7 reflects the results of Canadian Personal and Small Business Banking. Net income for the quarter was CAD 632 million, down 4% from last year. Revenue of CAD 2.2 billion was up 1% from last year, primarily driven by favorable rates and volume growth, partially offset by competitive pricing, prime-BA spread compression and some headwinds related to IFRS 15 implementation. Net interest margin was up 7 basis points year-over-year and down 3 basis points sequentially. Relative to last quarter, the impact of promotions on our [ph] e-savings (00:12:39) and Simplii deposit accounts, the competitive pricing I mentioned earlier and also compressed prime-BA spreads was partially offset by favorable rates.

Moving forward, we continue to expect margin expansion in 2019 as the impact of the deposit promotions runs off and we see the benefits of improved rates. The level of expansion may be moderated by the current competitive environment. Noninterest expenses were CAD 1.1 billion relatively flat from the prior year but lower than normal run rate due to some expense volatility and timing of investment spend. Expense discipline along with revenue growth combined to generate pre-provision earnings growth of 2.5%, operating leverage of 1.2% and a 60 basis point year-over-year improvement in our NIX ratio. Provision for impaired loans was up CAD 12 million from last year due to higher provisions in the personal lending portfolio. Provisions on performing loans are largely in line with our expectations. Laura will speak to credit quality in more detail in her remarks.

Slide 8 shows the results of Canadian Commercial Banking and Wealth Management. Net income for the quarter was CAD 319 million, up 2% from last year. Commercial Banking revenue was up 17% driven by strong lending and deposit volume growth, wider spreads and higher credit-related fees. Deposit balances were up 16% and lending balances were up 13% from the same period last year. Wealth Management revenue was down 4% primarily due to lower commission revenue as a result of market-driven lower issuance activity and transaction volumes in our full-service brokerage business. Despite recent market volatility, AUM increased 2% and AUA increase 1% during the quarter.

The net interest margin was up 27 basis points quarter-over-quarter driven by favorable rates, the compressed prime-BA spread, improved pricing and higher deposits in Commercial Banking and in our full-service brokerage business. NIM for Personal and Commercial Banking was flat sequentially. Provision for credit losses was up CAD 42 million due to higher provisions on impaired loans associated with new impairments. Noninterest expenses were down 2% primarily due to lower performance-based variable compensation in our full-service brokerage business. Solid top line growth and continued expense discipline contributed to positive operating leverage of 5.6% and resulted in a 295 basis point year-over-year improvement in our efficiency ratio.

Slide 9 showed the results of U.S. Commercial Banking and Wealth Management where net income grew by CAD 34 million or 24% from the prior year, supported by significant revenue growth and operating leverage, reflecting solid business performance and a stronger U.S. dollar. Revenue grew 13% from the prior year, driven by double-digit volume growth, NIM expansion and higher asset management fees, driven by client acquisition despite market volatility. Expenses were up CAD 22 million or 10% from the prior year and included a 14% increase in head count to support growth. Compared to the prior quarter, expenses increased by CAD 8 million or 3% and included approximately CAD 7 million in seasonally higher payroll taxes and benefits related to payments for annual bonuses and CIBC Bank USA retention awards, as well as approximately CAD 4 million in front-loaded compensation agreements for retirement eligible employees. NIX ratio for the segment improved to 54% given the aforementioned growth in revenue down a 180 basis points from a year ago.

Let me now turn to CIBC Bank USA which contributed CAD 126 million to the segment's net income compared to CAD 104 million in the prior year. Net interest margin for CIBC Bank USA for the quarter was 366 basis points up 21 basis points from a year ago. Sequentially, NIM was up 1 basis point as higher loan yields were partially offset by increased deposit costs. Going forward we anticipate NIM is staying stable. Parity and loans grew by $2.3 billion or 13% year-over-year reflecting continued momentum in client development, primarily in commercial and industrial loans, about half the growth came from expanded geographies and industry specialties. Deposits grew by $3.3 billion or 19% year-over-year reflecting outsized organic growth from new clients and deposit initiatives, including cross-border referrals.

CIBC Bank USA's deposits typically experienced some seasonality as our commercial clients utilized balances during the second fiscal quarter for tax payments, seasonal distributions and capital investments. Going forward, for the full year, we expect deposit growth to be in line with the Investor Day guidance of 13% to 15%. As Victor mentioned in his remarks, The PrivateBank acquisition became accretive to earnings this quarter, well ahead of our acquisition business case and it is also trending well ahead of our return on capital expectations. Overall, we are very pleased with the performance of our U.S. segment, which continues to execute on a high-touch relationship-oriented strategy.

Turning to Capital Markets on slide 10, net income of CAD 201 million was down CAD 121 million from a year ago, reflecting lower revenue and a higher provision for credit losses, partially offset by lower noninterest expenses. Revenue in this quarter was CAD 705 million down CAD 96 million or 12% from a year ago, primarily reflecting higher equity derivative revenue and portfolio gains in Q1 of 2018. Interest rate trading revenue and revenue from equity and debt underwriting were also lower, partially offset by higher revenue from advisory and corporate banking.

Revenue was up CAD 56 million or 9% from the prior quarter driven mainly by higher trading revenue, advisory fees and higher corporate banking revenue. Noninterest expenses were down CAD 8 million or 2% from a year ago, primarily driven by lower performance-related compensation, partially offset by higher spending in support of growth initiatives. Provision for credit losses was up with the increase in impaired due to a new impairment and the increase in performing as a result of updates to our forward-looking indicators. Capital Markets continues to make progress against key objectives, including a 17% year-over-year revenue growth in the U.S., as well as extending Capital Markets products and services to all of CIBC's clients.

Slide 11 reflects the results of Corporate and Other, where net income for the quarter was CAD 37 million compared to a loss of CAD 1 million in the prior year. Results this quarter were helped by higher revenue in CIBC FirstCaribbean and the lower TEB revenue offset, as well as lower expenses resulting from the timing of investments as well as the timing of cost recoveries from our business segments. Going forward, we expect higher expenses in this segment. And as Victor mentioned, this quarter, we settled the Enron tax case with the CRA and anticipate additional tax deductions in the U.S. relating to this matter as well, as mentioned last quarter, we recorded a deferred tax asset write-down due to tax changes enacted by the Barbados government.

So, in conclusion, we have solid results this quarter in a challenging environment. And with that, let me turn the call over to Laura.

Laura L. Dottori-Attanasio

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

Thank you, Kevin, and good morning. Turning to slide 13, our provision for credit loss rate on impaired was 30 basis points, up from 27 basis points last quarter. Provisions for impaired loans increased from CAD 259 million to CAD 295 million this quarter. This was mainly attributable to provisions on new impairments totaling CAD 83 million in our Canadian Commercial Banking and Canadian Markets (sic) Capital Markets (00:20:46) divisions. I would point out that these impairments are across unrelated sectors and regions, reflective of our diversified portfolios and are representative of how impairments and provisions will arise from time-to-time in these types of lending businesses.

These increases were partially offset by lower provisions in our U.S. Commercial Banking segment and CIBC FirstCaribbean. Provision for performing loans this quarter was CAD 43 million. This was largely driven by changes to our forward-looking indicators that were mainly affected by lower forecasts for oil prices, equity market returns and house prices. The next slide provides an overview of our gross impaired loans which were up from 30 basis points last quarter to 38 basis points this quarter. The increase was mainly driven by the new impairments in Canadian Commercial Banking and Capital Markets that I referenced earlier. Slide 15 provides the net write-off rates of our Canadian consumer portfolios, which overall remained relatively flat on a quarter-over-quarter and year-over-year basis.

Slide 16 provides the 90-plus day delinquency rates of our Canadian consumer portfolios. Whereas on a total basis, we experienced a modest increase to delinquency rates, both quarter-over-quarter and year-over-year, our credit card portfolio performed very well with a notable year-over-year improvement. The slight increase to the overall delinquency rate was primarily driven by our real estate secured lending portfolio as clients adjusted to recent variable interest rate increases. I would point out that we are not seeing any trends of concern as our retail businesses continued to perform within our risk appetite.

Slide 17 shows the distribution of revenue in our trading portfolios as compared with VaR, despite the increased volatility in the markets during the quarter, we had all positive trading days, reflective of our strong market risk management strategies that translated into average trading VaR of CAD 5.3 million, up slightly from CAD 5.1 million last quarter. I'll close by saying that notwithstanding this quarter's provisions on impaired in the Canadian Commercial Banking and Capital Markets businesses, we continue to have strong credit quality across all of our lending portfolios. Our overall risk performance remains consistent with our expectations and within our risk appetite.

And with that, I'd like to turn the call over to the operator to open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] The first question is from John Aiken with Barclays. Please go ahead.

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

Q

Good morning. CIBC had a very impressive performance, was on a relative basis from Capital Markets. And I was wondering – I know how difficult it is to actually try to forecast numbers on a go-forward basis, but how confident are you that this relative advantage would be sustainable against your peer group or was there any anomalies either in trading or advisory that helped boost the revenue this quarter?

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

A

Good morning, John. It's Harry Culham here. We're really pleased with the results in quarter one, notwithstanding some of the higher loan losses on both impaired and performing. There was slower client activity, obviously, given the heightened volatility in – as Victor mentioned, in the equity and debt Capital Markets and also in our bond trading business. But we're very pleased with the diversification of our revenue across products, industry and geography, and we're pretty confident this is going to continue forward. Just look at the quarter-on-quarter, our trading revenue up 10% and the pre-provisions earnings up 15%. So, we gave you guidance a while ago at the Investor Day and we're pretty confident with those numbers.

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

Q

Okay. Thanks, Harry. And just a follow on in terms of the U.S. platform, obviously, as Kevin pointed out, strong growth on year-over-year basis. Was there any particular product or line that was driving that or is it fairly broad-based?

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

A

It's fairly broad-based. We continue to invest for growth. We're seeing revenue opportunities and growth across the platform, including our connectivity, as Victor mentioned, with our CIBC Bank USA. We're seeing good penetration there and we're seeing good results over the last many quarters actually. We have a long-term North American strategy which we're executing on and we're pretty confident it's going according to plan.

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

Q

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

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

A

Thanks.

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

Meny Grauman
Analyst, Cormark Securities, Inc.

Q

Hi. Good morning. Question on the buyback, you didn't buy back any shares during the quarter, even though towards the end of the year bank shares, yours included, were under quite a bit of pressure. So, I'm wondering why you took that decision and what the outlook is going forward on that particular issue.

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

A

I think if we look at the existing quarter, I mean, there was a lot of volatility at the end of the year. You're right, Meny. But we don't trade on a daily basis, particularly not with our stock, so that would be a general strategy. We indicated last quarter actually that we'd be more cautious this quarter given some of the regulatory headwinds, given the Air Canada payment that we were making. So, we didn't actually anticipate doing significant or any real purchases this quarter, but in terms of the forecast, let me hand it over to Victor.

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

A

So, Meny, we've always been very, very clear on our capital deployment strategy: invest organically; over-index in Commercial Banking and Wealth Management; make sure that we're growing our dividends, which we announced again this quarter, well-within our payout range; use buybacks as another lever; and have capital available for inorganic growth. That's been a clear strategy all the way along. It will be clear going forward. Those are the four levers we'll use and we'll use them as we see fit to drive shareholder value.

Meny Grauman
Analyst, Cormark Securities, Inc.

Q

And then, just want to ask in terms of the M&A picture in the U.S. We've seen a lot of deal activity there. I'm wondering whether that changes the way you view your U.S. business. And specifically, how do you get comfort that you've enough scale in the U.S. or do you've enough scale in the U.S. as it is now?

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

A

I think the first order of business for us was to make sure that the acquisition of The PrivateBank was executed well, that our people stayed, our clients stayed, the integration effort proceeded according to plan which are – and we're receiving check marks on all of those. We're really, really pleased that we're growing organically in the markets that we serve and that we're continuing to expand into new markets, which is also the case, that we're growing the Commercial business, the Wealth business, and the Capital Markets business.

So, our focus continues to be on strengthening the initial investment that we've made. There's a heightened level of activity and chatter in the U.S. market driven partly by that SunTrust-BB&T acquisition. Our focus remains on strengthening the investment that we've made through organic investment. And then, we recognize that valuations are becoming more attractive, but we proceed cautiously, because the most important thing for us is to make sure that any inorganic capital that's deployed is going to strengthen the growth profile of our existing business, particularly in Commercial Banking.

Meny Grauman
Analyst, Cormark Securities, Inc.

Q

Thanks for that.

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

Stephen Theriault
Analyst, Eight Capital

Q

Thanks very much. Maybe starting for Christina, last quarter, there was discussion around mortgage or real estate secured lending growth and getting back to market levels of growth this year. We can see in the appendix that you had a slight negative real estate secured lending growth. Can you refresh us on your outlook, how you expect that growth to pace through the year, when the comps get a little bit easier? And is that like – or could we see market growth for the year or is it more that you get to market levels of growth by the end of the year? Thanks.

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

A

Thank you, Steve, for the question. Let me first talk about what we saw in Q1. Our volume growth was below market and that's a function of the market and our strategy. So, we've been transparent about our strategy and our expectations of moderating growth in this space. We're not as concerned about the volume gap in Q1 as margins were unusually tight in the quarter and considerably lower than the margins that we saw during our period of higher growth in mortgages. So we are pleased with our overall market share and we expect improvement in this space. Our outlook is low-single-digit growth. We do see good employment numbers. We do see housing activity pick up. We see some price improvement, albeit, small. So, we do see that the mortgage season is starting to come to life, but likely won't be at the same rate as what we saw in the prior years. So, we do expect in the second half to see some improvement in the space.

Stephen Theriault
Analyst, Eight Capital

Q

Okay. Thanks for that. And for Laura, it looks like a CAD 40 million-ish charge that, I think, we're going to expect from PG&E. Can you tell us if you believe that that fully sorts out the risk or could we see some more noise from the utilities PCL line going forward?

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

A

Steve, when we look at that – I mean, my view is that we're appropriately provisioned at this time. We'll see as this plays out, but I really do feel comfortable with the amount that we've taken as a provision.

Stephen Theriault
Analyst, Eight Capital

Q

And we heard from one of your peers that they had sold down some risk. Have you changed your positioning within the context of that name or not?

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

A

We have. So, we actually did sell a piece of that loan into the market just yesterday. And so, throughout the quarter, we'll continue to – and as long as we have this, we'll continue to monitor it closely and we'll take the actions that we think are best for our organization.

Stephen Theriault
Analyst, Eight Capital

Q

Okay. Thanks for that.

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

Gabriel Dechaine
Analyst, National Bank Financial, Inc.

Q

Good morning. I also want to ask about that mortgage growth. So, you're saying that the decline in originations and the flat mortgage growth is really a function of market conditions. You didn't like the pricing, so you backed off. Is that something you're willing to do more than you were a few years ago, because Victor was talking about how you want the business to look, over-index Commercial, over-index Wealth, Canadian consumer is kind of excluded from that.

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

A

So, thank you for the question, Gabriel. When we take a look at our relative growth rate relative to peers, I talked a bit about our strategy and our expectations of moderating growth, our relative performance also was impacted by our strength in the GTA and GVA markets where we had pursued opportunities to serve client demand and growth over the last few years and it was an opportunity for ourselves to grow our business.

In those markets, we've seen a pullback in the real estate activity and the markets have seen double-digit sales – unit sales declines in the last quarter. And so, given our strength and our focus in these areas has had a more pronounced impact on our growth rate. We definitely want to continue to see growth in our overall mortgage portfolio and we'll continue to do that, grow in line with our strategy for deeper client relationships and will continue to be active in this space.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.

Q

Okay. And just maybe a weird one here, but the card fees were down year-over-year and it's not unique this year, we see – I saw that trend at a few other banks. Was there anything unusual going on in card promotional activities this quarter that would have caused expenses or whatever to go up? I'm an avid card guy, so I didn't notice that much.

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

A

Gabriel, it's Kevin. In my remarks, I mentioned IFRS 15, and so...

Gabriel Dechaine
Analyst, National Bank Financial, Inc.

Q

Oh, yeah.

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

A

...the card fee issue is IFRS 15. So, that reduction in cards is actually an offset on the expense line. So, that's the volatility that you're seeing in the card fee line.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.

Q

Okay. And just a last quick one for Laura, stage 1 and stage 2, you gave good reasons for the additions for those reserves. Can we see that trend maybe continue, because it seems like a few banks are making regular additions as they – I don't know, take a more conservative outlook in their assumptions?

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

A

Well, it could. As you know what drives our provisioning for our performing loans, really has to do with the changes that we make to scenarios into our economic outlook. So, it really depend sort of quarter-to-quarter how our economic outlook changes. This quarter, we kept our base case scenario, but we did change, we had a few of our indicators and the ones that changed the most, as I mentioned on the call, were really in oil equity returns and house prices.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.

Q

Maybe I'll follow-up offline. Thank you.

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

Sumit Malhotra
Analyst, Scotia Capital, Inc.

Q

Thanks. Good morning. Laura, just to pick up on a couple of those provision topics, because I just want to make sure I understand what's going on there. First off, just for the utilities sector, if the numbers are right here, it looks like your impairments were up about CAD 180 million in that space and then you provisioned roughly CAD 40 million of it. So, that 25% coverage, you think that's the bulk of what the bank will need to do for that particular sector if that is just the one account.

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

A

In Capital Markets, that is the one account in utilities, a bit difficult when you go through the disclosure, in that we did have some contingent liability in the form of letter of credit. So, it doesn't quite – look, you have to go to different areas, I guess, to pull that together. So, our provisioning wasn't that high. That said, we do feel that we're well-provisioned based upon the analysis that we've done of the situation and the outlook for this loan, if you will, when we look forward.

Sumit Malhotra
Analyst, Scotia Capital, Inc.

Q

And maybe this is related to what Gabe was getting at. But the addition this quarter to the non-impaired book, the stage 1 and 2, obviously, bigger than you've done so far under IFRS 9 and I know it's still a relatively early days. But when you make these adjustments to your assumptions or your scenario analysis, does that result in provisions in the stage 1 and stage 2 portfolios continuing at an elevated pace? And I think really what I'm getting at here is with the – on a ratio basis, you're up to 35 basis points this quarter. Do you view that as more normalized now or were these two factors pushing that level up to a point that you don't think is the sustainable level in 2019?

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

A

Well, I guess, if I go back – and maybe this is an easier way at least for myself to take that question, and then let me know if I answered it. So, when we go back to the first quarter of 2018 was really when we implemented the IFRS 9, and as you know, we went off – we would have gone off of what our economic outlook was at the time. And so, we adjust our economic outlook or the variables every quarter. And so, we would have seen or experienced a large release you might recall when we first implemented in the first quarter and that really had to do with the fact that the biggest driver there was on unemployment where our expectations changed quarter-over-quarter.

Then, as we go from last quarter to this quarter, there were other variables. I'm not sure if that answers your question, but this is really sort of quarter-over-quarter as we update our economic variables, our model will come up with how the impairments on performings will move. And of course with that, it's not just all FLI, there's a credit migration that comes into those numbers, including growth and transfers that might come in and out of those numbers. But again, a lot of it will have to do with how the economy moves as we go. I don't know if that answers your question, Sumit.

Sumit Malhotra
Analyst, Scotia Capital, Inc.

Q

Yeah. I think I've got you. The fact that you made these adjustments this quarter results in an increase relative to Q4 doesn't necessarily mean you're at a new – we're going to see this type of build in the performing book next quarter. I think that's what you're telling me.

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

A

That's right. And I always try to stay away from the term builds, because this is really model-driven and, again, the forward-looking indicators it's – as they change each quarter and as we change our scenario weights from percentage based to the upside to the downside. What I can say, I mean, if it gives you comfort, I actually – when I look at things and we've talked about this sort of in past calls, when we look at how our total ECLs are doing relative to our sort of trailing 12 months of net credit losses, we continue to have sufficient allowances that cover our actual loan losses. So, I'm actually quite pleased with how well our model is performing.

Sumit Malhotra
Analyst, Scotia Capital, Inc.

Q

Thank you for that color. Two very quick numbers questions probably for Kevin to wrap up. Kevin, just on the tax rate, so you gave us that the good news about the settlement with the CRA, and just want to make sure I understand you, I've got the tax rate this quarter on [indiscernible] (00:40:33) basis around 22.3%. Is there a new run rate that – or a new level that you would suggest is reasonable post this settlement?

And then just sticking with the U.S., how much of wholesale earnings right now, if you're disclosing that, are coming out of the U.S.? Those are my two numbers questions to wrap up.

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

A

So, let me start with the tax rate. Our tax rate was helped a little this quarter because of the net amount between the Enron settlement, which had two components, Canada and the U.S. So, there was a slight pick up there with a slight charge in terms of the deferred tax write-off. So, that would have helped us a bit, but I wouldn't be looking for significantly different run rate. It may have been helped a little this quarter. But by and large, I think the run rate that you've got right now is probably appropriate. And so, as far as the second question is concerned, we don't disclose that level of detail, but obviously there's good growth as Harry indicated.

Sumit Malhotra
Analyst, Scotia Capital, Inc.

Q

Yeah. I think that was one of your objectives at the Investor Day was to have the wholesale component of Capital Markets become a bigger piece of the pie. So, I think that would be one that's interesting to track going forward.

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

A

For sure.

Sumit Malhotra
Analyst, Scotia Capital, Inc.

Q

Look forward to that. Thanks. Thanks for your time.

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

Doug Young
Analyst, Desjardins Capital Markets

Q

Hi. Good morning. I've got a few just quick ones. Laura, just back to the PCL on performing loans, I mean, it was 5 basis points this quarter. And one of your competitors has said, it's going to be around 3 basis points per quarter, but this quarter, it was double that. Just from simple loan growth and growth in your book, what is a normal PCL on performing loans on a quarterly basis? Is it 3 points or 5 points, is there any way you can give a sense of what that would be if your business just continue to grow?

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

A

Well, that's a tough one. We do look at what we think it might be from a – if I could call it a stage 1 perspective, because that one would cover growth. But as you can appreciate, a lot of it has to do with how we change our forward-looking indicators every quarter. So, unless one were prepared to make a large management overlay that one is not one that you can easily predict, which is why we always talk about how there's a lot of volatility to that number, because it will change quarter-over-quarter. So, we don't typically try to predict sort of what's going to happen in that particular case. I apologize, I've may not answered the question that you're looking for.

Doug Young
Analyst, Desjardins Capital Markets

Q

What I'm trying to get – yeah, I guess it's just like, if you didn't change any of your assumptions, like what would the PCL on performing loans be?

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

A

Yeah. What I can – I mean if this helps, so a lot of the impairments that took place this quarter felt like unique events which I'd like to think won't transpire again, we're not seeing any systemic or any trends of concern in our book, continue to have strong credit quality. So, I mean, if the economic environment remains stable, although, it is moderating somewhat, and if we continue to have low unemployment rates for Canada as a whole, and again, I guess we had Hratch who made his statement that sort of we don't give forward-looking guidance. But really barring any unforeseen events or I'd say more pronounced changes to our economic outlook, I'd expect to see our provisions come in at or below the 30 basis points for the full year, and that would be for all of our PCLs.

Doug Young
Analyst, Desjardins Capital Markets
Q

Okay.

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

But again, I just say barring any unforeseen events and changes to – or pronounced changes to the economic outlook because that can sway things, as you know.

Doug Young
Analyst, Desjardins Capital Markets
Q

Sure. No. That's fair. And then just back to the PG&E. The only exposure you have is it 100% to corporate loans or is there any other type of exposure that you've got to that credit?

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

Well, as you know, we don't – we're not supposed to talk about individual names. So, that one account in the utility space was comprised of different credit exposures, if you will, to the name.

Doug Young
Analyst, Desjardins Capital Markets
Q

And what would those different exposures be or [indiscernible] (00:45:25)?

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

So, exposure at the HOCO level, operating company level, different types of lines of credit, I think the important takeaway here is that we took a provision – we moved this to impaired, we took a provision on it. We feel that we're adequately provisioned, and as I mentioned earlier, we did sell a small piece of the loan and the amount for which we sold the loan would indicate to me that we were well provisioned. And so, I'm comfortable with what we've done in this particular case.

Doug Young
Analyst, Desjardins Capital Markets
Q

And so, there's no other guarantees or anything else that's embedded in your exposure, it's just simply loans to different kind of part of the capital stack?

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

Yeah. Well, I mentioned again just earlier, we did have [indiscernible] (00:46:10), so that's why when you go through the disclosure, it's a bit tougher to pull everything together. But again, that's just a different type of exposure to the company.

Doug Young
Analyst, Desjardins Capital Markets

Q

Okay. Thank you very much.

Operator: Thank you. The next question is from Scott Chan with Canaccord Genuity. Please go ahead.

Scott Chan
Analyst, Canaccord Genuity Corp.

Q

Good morning. Thanks. Kevin, I want to go back to your comments on Canadian Commercial Banking and while you talked about the strong revenue growth in Commercial, double-digit volume growth, but I missed the margin commentary, if you can kind of clarify that for me, please?

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

A

Sure. So, when you look at – the way we report our results is we breakout Canadian Personal Banking and then we have a separate segment for the Commercial and Wealth business. A lot of our peers put those together in terms of just Canadian Personal and Commercial. My comment was, I mean, we had a slight drop in terms of – we had a 3 basis point decrease as far as Personnel was concerned. We had an uptick in the Commercial side. But if you look at it on a consolidated basis NIMs were flat on a quarter-over-quarter basis.

Scott Chan
Analyst, Canaccord Genuity Corp.

Q

Okay. That's helpful. And then, maybe to start going to the U.S., obviously, the commercial loan volume growth continues to be very robust. But looking at the commercial real estate loan side, it seems like it's slowing up 4% year-over-year, just curious about an outlook on that segment and platform for fiscal 2019.

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

A

Yeah. Good morning. It's Larry. We actually feel very good about the opportunities we're seeing across the various product lines and businesses. There is certainly more growth opportunities that we're seeing on the C&I side of the business and that's very diversified both by types of clients and geographies. On the real estate side, we're seeing really good deal flow, and as we continue to remix that book and given the levels of exposure, we're very comfortable seeing that, call it, 4%, 5% growth.

Scott Chan
Analyst, Canaccord Genuity Corp.

Q

Okay. Thank you very much.

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

A

You're welcome.

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

Mario Mendonca
Analyst, TD Securities Inc.

Q

Good afternoon. Kevin, could you just clarify something on Enron? So, going forward, there wouldn't be any P&L or capital impact. I guess, the point you're making here is, to the extent that some perceive this as an overhang, it's no longer an overhang, is that a fair way to put it?

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

A

Yes. I think that is a fair way to put it. I mean there's still some loose ends to tie up, it's not completely done, because we may have some adjustments in terms of the final resolution. But it's unlikely to be material and certainly don't see – for sure don't see any material downside to that number. And so, from an overhang perspective, Mario, for sure, it's behind us.

Mario Mendonca
Analyst, TD Securities Inc.

Q

Okay. So, moving on to commercial real estate, and I'm looking at this from a total bank perspective and it's a question I brought up before and it's something that would help – good to understand is the quarter-over-quarter growth 5% and I'm looking at page 23 of your supplement, last quarter, same thing, 6% quarter-over-quarter. Where is this growth coming from sort of geographically and is there any kind of color you can give us on why this would grow at this pace?

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

A

So, Mario, this is Jon Hountalas. Some of the growth – so, let me try with the commercial real estate. Over the last two or – and three years, the diversified book has grown faster than our commercial real estate book. I talked last quarter about some of our clients – our bigger and more active clients were doing deals in Q4 that continued into Q1. So, the larger investment-grade companies unrelated to residential real estate were doing deals, commercial, industrial. So, I'd say in the last two quarters, our commercial real estate growth has been faster than our commercial growth, our diversified growth, but I see that kind of evening out over time.

Mario Mendonca
Analyst, TD Securities Inc.

Q

And so, you're talking Canada then?

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

A

Yes.

Mario Mendonca
Analyst, TD Securities Inc.

Q

Okay. And then, one quick thing on expenses, I've been surprised is probably the right word to use, to see the expense growth at some banks relative to others. Other banks continue to grow their expenses pretty aggressively than CIBC. And then, I can think of maybe one or two others that are not. Maybe Victor, could you just give me your outlook on this, like do you – is there any concern here that the modest expense growth will have some negative implications down the road from a client acquisition perspective in particular?

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

A

At some point in time, we'd love our investors to look at prudent expense growth as being a good thing. So, what we've really been focused on – and it's a good question, Mario, because there are differences out in the marketplace and we recognize that, but all I can speak to is our own strategy. And as we've talked about in our Investor Days, a couple years ago and last year, and then the next one that we'll have, our goal is to continue to improve the next ratio of our bank by repurposing expenses. So, taking expenses out of the old economy and putting them into the new economy. When I look at the new economy and how we're performing, I look at our Personal and Small Business Bank, our digital platform is market leading. We continue to see transaction migration. We continue to refurbish our branch networks.

In our Commercial Bank, we've invested in our cash management platform, which is why you see such significant deposit growth happening in the cash management side of the business, where you didn't see that before. We are continuing to invest. You'll see some innovations on the Wealth Management side over the course of the next year. In Capital Markets, the growth has all been driven by technology investment. So, that connectivity to the rest of our business and the quality of the Capital Markets earnings are driven by relationships, connectivity and technology investment. And then when I look at defense, we continue to invest in the defense of the bank and making sure that we're resilient. So, I think the overall story is we have a repurposing agenda in terms of expenses. We're trying to take out the old, we're trying to put it into the new and we are seeing those benefits manifest themselves in terms of performance going forward.

Mario Mendonca
Analyst, TD Securities Inc.

Q

Is it conceivable we'll see another restructuring charge to push this strategy forward?

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

A

I think what we try and do is we try and run things as steady as possible. We've indicated that in the past. I don't foresee any of that, if those things kind of come to a culmination, they'll be minor in size. I think right now, it's just steady as she goes. We've indicated that we want to get to a 52% NIX ratio, we will get there.

Mario Mendonca
Analyst, TD Securities Inc.

Q

Thank you.

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

A

Thanks, Mario.

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

Sohrab Movahedi
Analyst, BMO Capital Markets (Canada)

Q

Thanks. I just wanted to actually pick up where Mario left off. Christina, your – the head count attributed to your business is down about 1,200 or thereabouts and steadily down, is that – and you've been able to keep your expenses ex some of these one-timers pretty steady and flat actually, not much growth. How sustainable is that?

....

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

A

Thank you, Sohrab. Sorry, we had a mic issue here. So, over the quarter, we would have seen some FTE reductions in Personal and Small Business Banking and they are transferred to our Corporate and Other area. So, it is not a reduction of FTE over the quarter, it is an organizational change. Those expenses are allocated back to Personal and Small Business Banking and they have no impact on our financial results.

In terms of our expenses and our outlook for expense growth, we had previously given guidance that on a normalized basis, we would expect our expense growth to be in the range of 3%, and that's what we expect going forward. Over this quarter, I would say that the small expense growth isn't a good indication of our investment levels in the business. As Victor mentioned, we are repurposing some expenses and we have the benefit of some initiatives that have helped reduce some costs in the quarter.

There are also some timing-related impacts where we see a slightly lower spend in Q1, which will be normalized going forward. And then, there's the impact of IFRS 15, which resulted in some expenses being reclassified as contra-revenue. So again, on a normalized basis, we would have been closer to our guidance of 3% and that's what we expect going forward.

....

Sohrab Movahedi
Analyst, BMO Capital Markets (Canada)

Q

Okay. So, just to be clear, the head count reduction has had really no bearing on the expense line in your segment?

....

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

A

In the quarter, it was really an organizational change and did not have bearing – any bearing on expense reductions.

....

Sohrab Movahedi
Analyst, BMO Capital Markets (Canada)

Q

But what about on a year-over-year basis?

....

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

A

On a year-over-year, there was some improvement in terms of contribution of some reductions to our expense base. But our priority is ensuring that we continue to invest in our people, continue to invest in our business. We added an appendix to the presentation that shows you some of the outcomes of that in terms of digital adoption, which Victor made reference to and we'll continue to repurpose our expenses. And that's what you're actually seeing in our Personal and Small Business Banking through a number of initiatives, including our transformation of our banking centers.

Sohrab Movahedi
Analyst, BMO Capital Markets (Canada)

Q

Okay. And just maybe a couple of quarter – maybe it was a few quarters ago, I can't remember, you had provided some additional kind of transparency as to the cross-sell success that – or targets and what you're on the path of. Any update as to how you're cross-selling some of that mortgages that you had originated a few years ago?

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

A

Yes. Our growth strategy with mortgages over the past few years, I can speak to that. We're pleased with the market share that we had grown and the quality of the portfolio, 87% of our residential mortgage clients have multiple CIBC products with us and that's been consistent over the past couple of years. And when we take a look at our current results and our overall portfolio, we see the business, the core business performing very well. We continue to see strong client acquisition, even though, we are changing the mix of our business, declining attrition, deeper relationships, strong digital adoption as mentioned, and also improvements in client experience or Net Promoter Score. So, we're on track with our overall client relationship strategy.

Sohrab Movahedi
Analyst, BMO Capital Markets (Canada)

Q

I guess maybe you'll kind of give us on that update slide in one of these coming quarters. And then, just one last one for U.S. Larry, when you think about your loan composition, I mean I think CRE, commercial real estate, is probably somewhere around 40% to 45% range of the loan balances there. Do you see that mix changing much?

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

A

A couple thoughts. First, we're seeing really good levels of activity across the organization and we're maintaining a strong sense as well of selectivity and discipline around how we look at the portfolio and how we look at deals and support our clients. I would tell you that the current view, the current quarter, C&I clearly has grown more than CRE. We're seeing in the CRE market is we're a short and intermediate term lender that there's a lot of liquidity in the market that's given our clients the ability to build, create value, and then to refinance, and that's good and fine. So, I think the short answer is we're seeing good mix, good diversification across geographies, clients and also industries, but I would think you'd see greater growth in C&I than CRE.

Sohrab Movahedi
Analyst, BMO Capital Markets (Canada)

Q

So, the mix of CRE coming down, at least as your business is concerned, probably over the next...

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

A

We'll probably grow more C&I and less growth, but still growth in CRE.

Sohrab Movahedi
Analyst, BMO Capital Markets (Canada)

Q

Thank you very much.

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

Victor Dodig

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

Oh, thank you. Excellent. I wanted to just close with a couple remarks before we wrap up the call. Strategically, this is an important quarter for us as we focus on building a relationship-oriented bank for a modern world. We demonstrated the strength of our CIBC franchise through solid core business performance, the merits of our diversified and interconnected franchise and I can't overemphasize that enough, and the success of our U.S. strategy.

Our U.S. business now contributes about 15% to our earnings compared to just 7% prior to The PrivateBank acquisition. We have a best-in-class Commercial Banking business, a Private Wealth business with over CAD 50 billion in assets under management, and a Private Banking business connecting the two. Our CIBC franchise is well-positioned to serve the private economy, centered around midmarket companies and we'll continue investing to build on this position of strength.

Organic efforts will continue to be our core focus, though we will consider inorganic opportunities in a disciplined manner where they make both strategic and financial sense. We are very pleased with the strategic progress across all our businesses, and in particular, with the performance of our Commercial Banking businesses on both sides of the border and the benefits that we're seeing from the connectivity to our Capital Markets business. This approach is working well and providing real value for both our clients and our shareholders.

We're also pleased with the balanced growth and overall performance of our retail bank. We continue to see opportunities to deepen our relationships with clients in this business, delivering sustainable growth on both sides of the balance sheet. Going forward, we will continue to invest for growth as we build a strong client-focused platform across North America. These investments will enable us to transform our bank, and maintain the capital and balance sheet strength to support our clients and our growth going forward. Underpinning all of our efforts is a clear focus on our clients and a long-term view of our business.

In closing, on behalf of CIBC's Executive Committee and our board, I'd like to thank all of our shareholders for their continued support and interest in our bank, and all of CIBC's 44,000 team members for their dedication to serving our clients each and every day. Have a good day and thank you for being here today.

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