THE VERITAS SNAPSHOT | **Sell**

December 7, 2012

Current Price $80.14

Intrinsic Value Estimate U.R.

Canadian Imperial Bank of Commerce (TSX: CM; NYSE: CM) Q4-F12 Summary

CIBC's fourth quarter earnings were modestly above our expectations due to a strong showing in the dealer. Earnings in domestic retail banking retreated $28M year-on-year, while Wholesale Banking increased $71M, echoing the strong capital markets performance of its peers.

CIBC, with the highest capital ratio in the group and a relatively limited set of natural reinvestment opportunities, has talked more than its peers about a banking climate in which the returns from the available set of investment opportunities are lower; a variant on the broader 'new normal' argument. In the fourth quarter, the bank bought back two million shares at an average price of $77.33, returning $157M to shareholders in the process.

The buyback, however, represented 36% of Q4 earnings net of dividends, and thus the closing Basel III-basis Common Equity Tier 1 (CET1) ratio was 9.0%, unchanged, up 10bps sequentially.

As for the results, the key story is that the retail bank was lackluster while the dealer was strong. Unfortunately, it's the retail bank that comprises 70% of group earnings. In Retail and Business Banking (RBB), revenues were off by 1.9%, expenses up 0.7%, thereby producing negative operating leverage and -4.5% pre-provision net revenue growth. The bank claims the business is growing just fine, and attributed the soft revenue to lower treasury allocations, which itself was a function of AFS securities gains that were higher than usual in the quarter a year ago and lower than usual in the current quarter. The FirstLine (FL) conversion is reportedly exceeding management's expectation. The CIBC brand / non-CIBC brand split has moved from 59/41 a year ago to 65/35 at Q4-F12, with the overall mortgage balance unchanged, resulting in a 10% increase in CIBC-brand mortgages.

Average commercial loans outstanding grew 7.6%, personal loan growth was 2.1% and card balances were down 2.6%. Even with slight margin expansion, marginally lower loan losses, and expenses that only edged higher despite management talk earlier in the year of significant investment into systems, the unit could not overcome the lower allocations from Treasury.

On credit, it is CIBC's international exposures that are causing it the most difficulty at present. This quarter, the bank took $57M of provisions on a single account in its U.S. leveraged finance portfolio – which impacted EPS by $0.08 – and labeled the loss an item of note, adding it back to adjusted earnings. Unfortunately, this is another example of a book of business built up by the Commerce that is great until it is no longer great, at which point it goes into run-off and the losses are moved out of core earnings.

Overall gross impaired loans are down 2.6% year-on-year and 4.4% sequentially. Non-North American loans comprise 4.8% of total loans but 49% of total gross impaired loans. The impairment rate of non-North America loans is 7.5% (Q3-F12: 8%).

We maintain our Sell rating and put our intrinsic value estimate under review (prior: $75.70). However, it is noteworthy that CM shares had a fine couple of months; since the bank reported Q3 earnings in late August, the F13 consensus has moved 2.5% higher and the multiple has expanded slightly as well.

In a slower growing economy, we do not see significant downside in the name. Nevertheless, we remain concerned about CIBC's vulnerability to a marked slowdown in Canadian housing, given its large credit card portfolio and fewer non-Canadian earnings streams. We will reassess our forecast and valuation models in more detail after the quarter.

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CM exceeded consensus EPS expectations of $1.98. The bank reported GAAP EPS of $2.02; removing the impact of a number of items yields adjusted EPS of $2.04. The quarterly dividend was unchanged at $0.94, and represents a yield of 4.7%.

CM's adjusting items included the usual characters (structured credit net benefit of $0.09 and amortization of intangibles add-back of $0.02), plus a few new ones: a $0.05 gain on the sale of Alpha to TMX, a valuation methodology change related to collateralized derivatives (loss of $0.06), and the aforementioned loan loss.

Ultimately, AFS gains were about $0.04-$0.07 lower than usual, while the dealer reported earnings that were about $0.04 above our expectation. Thus, adding a couple of pennies to the adjusted $2.04 suggests an annualized rate of about $8.24, which is relatively close to consensus. We therefore do not envision a significant re-rating of the stock, especially given the move from $75 to $80 over the last three months.

Capital disclosures included in the annual report contained new information.

To date, CM's capital disclosures have been relatively limited beyond providing the bank's estimate of its pro-forma BIII-basis CET1 ratio. The annual report, also released today, did not provide significant additional information.

Other key factors:

- The credit card loss rate improved and is just over 400bps annualized.
- Management expects RBB NIM to be relatively stable, as ongoing compression is offset by rolling FL mortgages into better-spread in-house product.

CM - residential real estate metrics

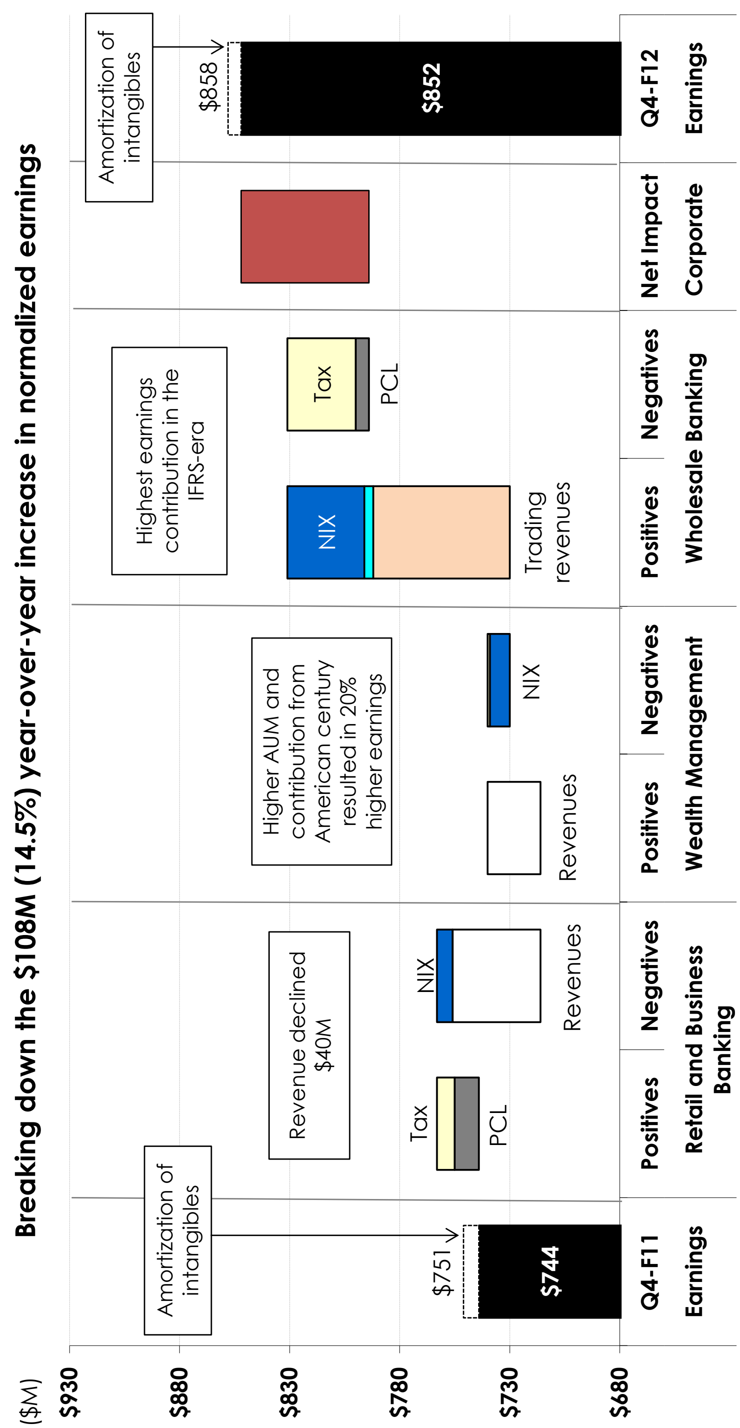
($billion)	Balances	Relative to Cdn P&C equity[1]	Big 5 rank[2]
Residential mortgages			
Insured	$109.4	28.0x	1
Uninsured	$34.6	8.8x	3
HELOC[3]	$17.7	4.5x	3
Total	**$161.7**	**41.4x**	
Condo exposure			
Developer[4]	$0.7	18.0%	1
Mortgages[5]	$16.9	4.3x	1

Trends
- Mortgage portfolio down $1B sequentially while HELOCs flat.
- Losses on mortgage portfolio currently at 5bps.
- LTV ratio on uninsured mortgages increased from 49% at Q3-F12 to 50% at Q4-F12.
- LTV ratio on uninsured condo mortgages is disclosed to be 51%.

Notes

(1) Canadian P&C common equity as disclosed by the company.
(2) Rank from highest to lowest based on Q3-F12 measures relative to Cdn P&C equity.
(3) HELOC balances estimated using Basel II disclosures, unable to estimate undrawn.
(4) Total exposure of $2.7B with 26% drawn and 74% undrawn.
(5) Insured/uninsured mix is 77%/23%.

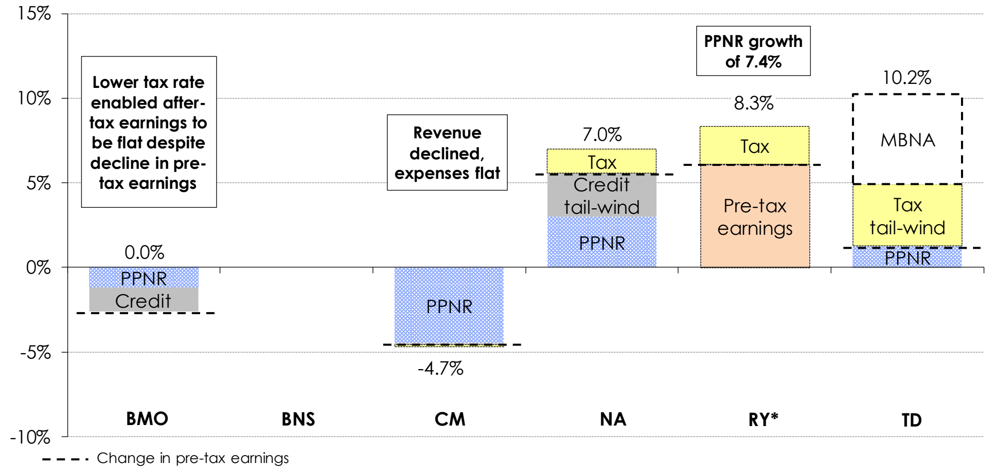
Source: Company reports, Veritas estimates and calculations.



Source: Company reports and Veritas calculations.

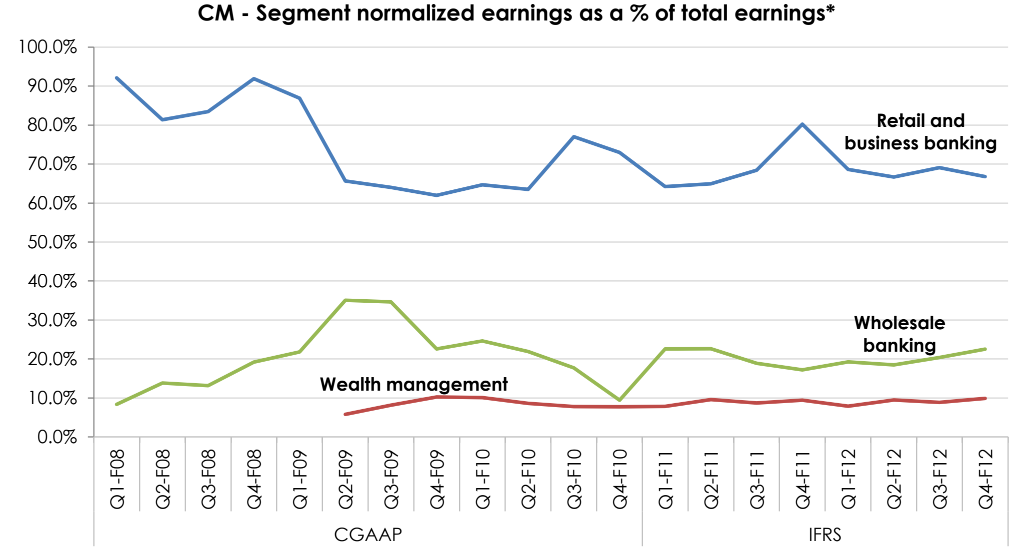
Canadian Imperial Bank of Commerce (TSX: CM; NYSE: CM) Q4-F12 Summary

Normalized earnings growth (yoy) in the Canadian retail segment



* We have not demarcated between PPNR and credit where trends had opposite pre-tax income impacts.

CM - Segment normalized earnings as a % of total earnings*



Source: Company reports, Veritas calculations.
**Wealth management added Q2-F11 with comps provided up to Q2-F09.*

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