5 Years After the Crash – CIBC is Emerging From the Ruins

Description

With current total assets of $393.4 billion, **CIBC** (TSX:CM, NYSE:CM) is the Canadian bank that was hit the hardest during the financial crisis that is marking a dubious 5 year anniversary this very weekend.

In the years leading into the crisis, CIBC made relatively aggressive and risky business decisions that resulted in big financial losses. These financial losses contributed to a significant loss of confidence by Canadian investors.

First the bank was stung by claims that it helped Enron hide losses. For this, a $3 billion settlement was reached in 2005. Then, in 2008 there was the bank's participation in the US subprime mortgage market, which resulted in a staggering $10 billion in write-downs in 2008 and 2009.

But, the past is the past as they say so let's fast forward to the present day. For CIBC, the years that followed have been all about risk, risk, risk.

More specifically, *lowering* its risk profile in order to generate more sustainable and less volatile returns for shareholders. CIBC has become a well-capitalized bank that is focused on its Canadian operations. The bank has shed its risk taking past, and seems determined to grow in a more prudent manner.

We can see evidence of this new culture at CIBC by looking at its Tier 1 Capital Ratio, which is a measure of financial strength. It leads the pack, at 13.8%. CIBC's capital ratio has been improving and is now ahead of its peer group. Its ROE of 22.3% is also ahead of its group.

Change is afoot

Let's take a closer look at what CIBC has done to turn things around. To do this, we can compre the business mix between now and then. This comparison is tabled below:

Segmented Net Income

	2012		2008	
	$ mlns	% of total	$ mlns	% of total
Retail & Business Banking	3,015	74.6%	3,086	nm
Wealth Management	442	10.9%	–	nm
Wholesale Banking	803	19.9%	(7,287)	nm
Corp & Other	(217)	-5.4%	(59)	nm
	4,043		(4,260)	

Source: Capital IQ

In the Retail & Business Banking segment, CIBC is one of the banks that is more heavily focused on Canada. This segment has remained relatively constant, and management is saying that going forward, growth here in Canada for this business will be slow.

CIBC is focusing on the Wealth Management segment going forward, which is forecast to increase nicely as baby boomers drive demand for services in this space. To grow its wealth management segment, CIBC recently acquired Atlantic Trust Private Wealth Management for US$210 million, a deal that's expected to close in early 2014. This firm has US$20 billion in assets under management.

In the Wholesale Banking segment, as we can see from the segmented net income table, the key for the bank has been to recover from the serious trouble they were in back in 2008/2009. In early 2009, the bank repositioned the wholesale banking business, exiting activities that do not meet CIBC's new target risk profile, and focusing on seven risk-controlled businesses focusing on Capital Markets and Corporate & Investment Banking capabilities. This has led to a huge turnaround by this group.

Bottom Line

CIBC has emerged from the crisis with the goal of getting its risk tolerance level more in line with the goal of sustainable and reliable returns. Through it all, the bank has learned the right lessons and implemented changes relatively quickly. All of this has led to some very significant gains for investors since the lows of February 2009.

None of the Canadian banks made the cut in our special **FREE** report "**5 Companies to Replace Your Canadian Index Fund**". **Click here now** to learn which 5 Canadian superstars did – one of which just got taken out at a huge premium.

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1. NYSE:CM (Canadian Imperial Bank of Commerce)
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