

CIBC Risk Assessment Report

Executive Summary - Q2 2024

ALERT: The second quarter of 2024 showed significant deterioration in loan portfolio performance with default rates jumping to 14.7%, well above our risk tolerance threshold of 9%. This represents a 79% increase from Q1 levels and requires immediate attention.

Key Highlights:

- Total loan originations: \$1.8B (down 14% from Q1) - tightened standards
- Default rate: 14.7% (CRITICAL - outside acceptable range)
- Average credit score of applicants: 671 (continued decline)
- Delinquency rates increased across all products

Root Cause Analysis

CRITICAL FACTORS CONTRIBUTING TO DEFAULT SPIKE:

1. Interest Rate Shock (PRIMARY DRIVER):

Bank of Canada raised rates by 75 basis points in April and another 50 bps in June, bringing the overnight rate to 5.0%. Variable rate mortgage holders experienced average payment increases of 28%, creating significant financial stress.

2. Employment Market Deterioration:

- Unemployment rose from 5.1% to 6.3% during the quarter
- Tech sector layoffs impacted high-income earners in Toronto and Vancouver
- Retail and hospitality sectors shed 42,000 jobs nationally

3. Cost of Living Crisis:

- Inflation remained elevated at 6.8% despite rate increases
- Food prices up 11.2% YoY, gasoline up 18.3%
- Disposable income squeezed across all demographics

4. Housing Market Correction:

- Average home prices declined 12% in Toronto, 9% in Vancouver
- Some borrowers now underwater on mortgages
- Reduced home equity limiting refinancing options

5. Consumer Debt Levels:

- Average household debt-to-income ratio at 186% (record high)
- Credit card balances increased 14% as consumers struggled with expenses

CIBC Risk Assessment Report

- Line of credit utilization at maximum for many borrowers

Segment Performance - Detailed

Mortgage Products: Default rate SPIKED to 8.9% (from 3.2% in Q1). Variable rate mortgages showing 15.3% default rate. Fixed rate performing better at 4.1%. Geographic concentration: worst performance in Ontario (11.2% default) and BC (9.7%).

Personal Loans: Default rate jumped to 18.4%. Younger demographics (25-35) hit hardest with 22.1% default rate. Income levels correlate strongly - sub-\$50K income showing 31% default rate.

Auto Loans: Rose to 13.2% default rate. Long-term loans (72+ months) showing 19.8% default. Used vehicle loans performing worse than new vehicle loans.

Small Business Loans: CRITICAL at 21.7% default rate. Retail sector at 34.2%, hospitality at 28.9%. Only technology and healthcare sectors showing stable performance.

Credit Cards: Reached 19.3% default rate with utilization at record highs. Sub-prime segment showing 41% default rate.

Geographic Analysis

Provincial Default Rates (Q2 2024):

- Ontario: 16.8% (highest exposure, housing market correction severe)
- British Columbia: 14.2% (tech sector layoffs, housing correction)
- Alberta: 11.3% (energy sector providing some buffer)
- Quebec: 10.9% (lower housing exposure, more stable employment)
- Manitoba: 9.1% (least affected)
- Saskatchewan: 9.8%
- Atlantic provinces: 12.4% (employment challenges)

Urban vs Rural: Major metropolitan areas showing 17.2% default rates vs 11.1% in rural areas.

Immediate Actions Taken

Emergency Response Measures Implemented:

1. Underwriting Standards (IMMEDIATE):

CIBC Risk Assessment Report

- Minimum credit score raised to 680 for all unsecured products
- Debt-to-income ratio cap reduced to 38% (from 42%)
- Additional income verification for all applications
- Suspended lending in highest-risk segments

2. Portfolio Management:

- Increased provisions by 140% (from \$420M to \$1.01B)
- Accelerated collection efforts on 30+ day delinquencies
- Proactive outreach to at-risk borrowers (payment deferrals, restructuring)
- Reduced exposure to retail and hospitality small business sectors

3. Risk Monitoring:

- Daily default rate monitoring (previously weekly)
- Enhanced early warning system implementation
- Stress testing of entire portfolio under multiple scenarios
- Executive risk committee now meeting weekly (previously monthly)

Forward-Looking Assessment

Outlook for Q3 2024: HIGH RISK - CRISIS MANAGEMENT MODE

The situation is expected to remain challenging:

- Bank of Canada may implement additional rate increases (25-50 bps likely)
- Employment market likely to weaken further (forecast: 6.8% unemployment by Q3 end)
- Housing prices may decline additional 5-8%
- Consumer spending pullback will impact retail and hospitality further

CRITICAL RISK: Potential for 18-20% default rates if conditions continue to deteriorate.

Recommendations:

1. Maintain tightened underwriting standards through at least Q4 2024
2. Increase provisions by additional 30% to \$1.3B
3. Implement aggressive collection strategies
4. Consider portfolio sales for highest-risk segments
5. Prepare stress capital analysis for regulatory review
6. CEO to brief Board of Directors on crisis response plan

This is the most challenging credit environment we have faced since 2008-2009 financial crisis.

Immediate and decisive action is required to protect the bank's capital position.