Managing Interest Rate Risk

July 6, 2015

Confidential

Bond Forward

- **What is it?**
  - A Bond Forward is an agreement to synthetically create a "short" position on a specific underlying GoC bond, in order to benefit as yields rise/prices fall (sell high/buy low)
- **What happens on the bond issue date?**
  - At the bond issue date, there are only two possible outcomes:
    - *Case 1:* Bond Forward Yield < Then Prevailing Bond Yield

      As the Bond Forward Yield is lower, (thus the price is higher than the benchmark yield at the time), Company will cover the short GoC position at a lower price than they sold the GoC's at, resulting in CIBC making a cash settlement to the Company. The cash settlement is intended to offset the increase in GoC yields for the Company:

      Settlement = (Bond Forward Price – Then Prevailing Bond Price) / 100 * Amount Hedged

    - *Case 2:* Bond Forward Yield > Then Prevailing Bond Yield

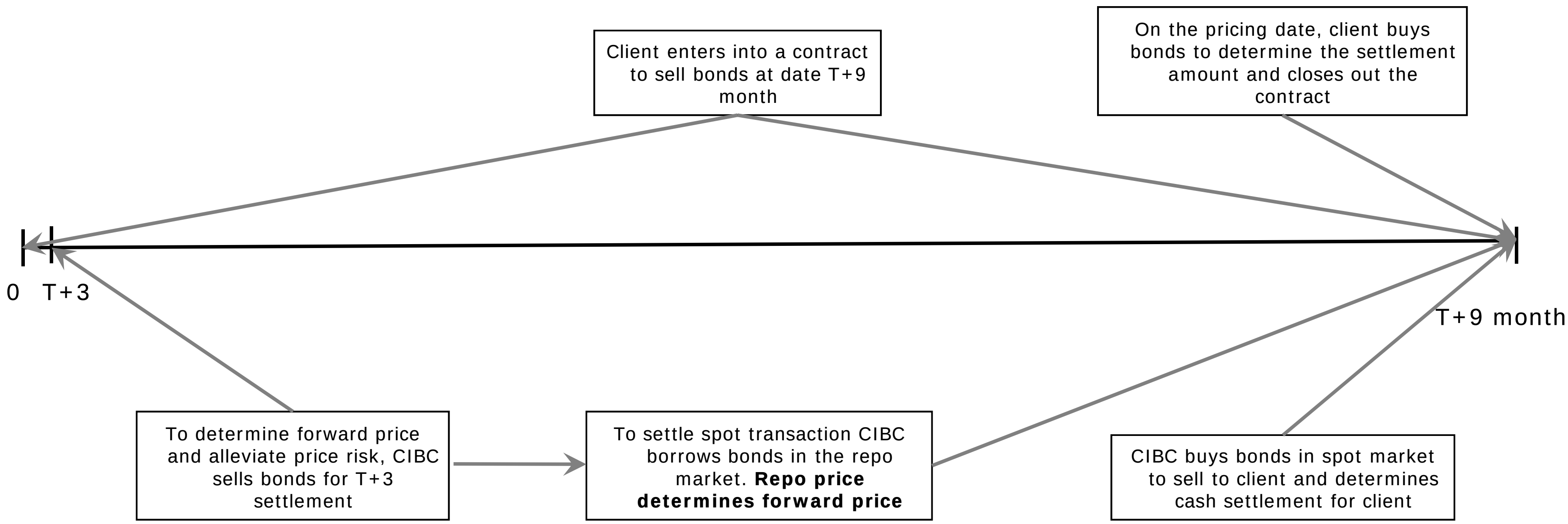
      As the Bond Forward Yield is higher, (thus the price is lower than the benchmark yield at the time), Company will cover the short GoC position at a higher price than they sold the GoC's at, resulting in Company making a cash settlement to CIBC. The cash settlement will effectively fix the underlying benchmark yield for the refinancing at the Bond Forward yield

      Settlement = (Then Prevailing Bond Price – Bond Forward Price) / 100 * Amount Hedged

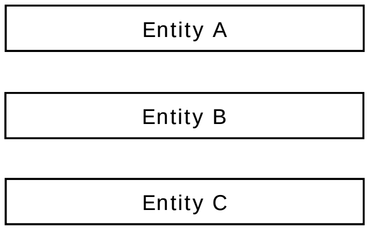
	Advantages	Disadvantages
Bond Forward	• A direct hedge, exactly mirroring the underlying benchmark risk • Unwind assists in balancing the new issue market by offsetting the GoC positions of the investors	• The underlying pricing benchmark may change before issuance • Subject to conditions in repo markets • Must be cash settled • No credit spread protection

9-Month Bond Forward Illustration

- Company synthetically sells the benchmark bond short; covers short at time of pricing new bond issue

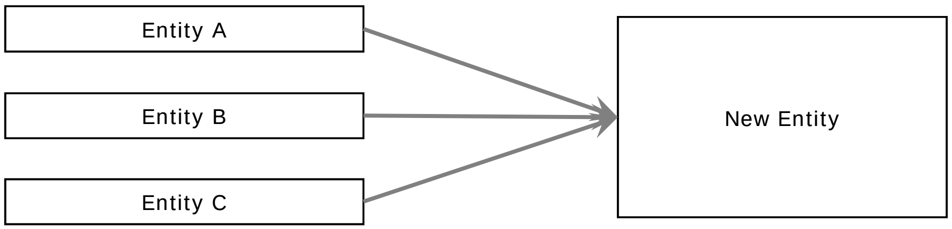


Current arrangements:



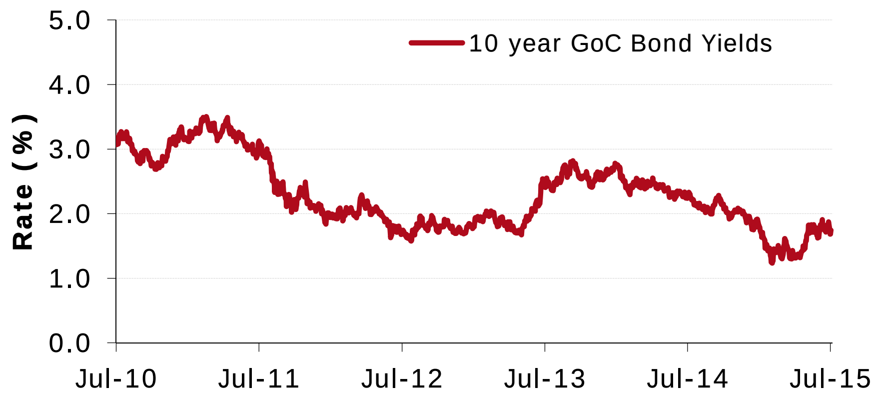
- 3 equal hedges with the same details are executed for each of the entities under the current structure.
  - Example: Each entity enters into an agreement to sell $33.33MM of 3.5% Canada 2045 bond on the forward date (in 9 month) at $124.133.

Forming new entity:

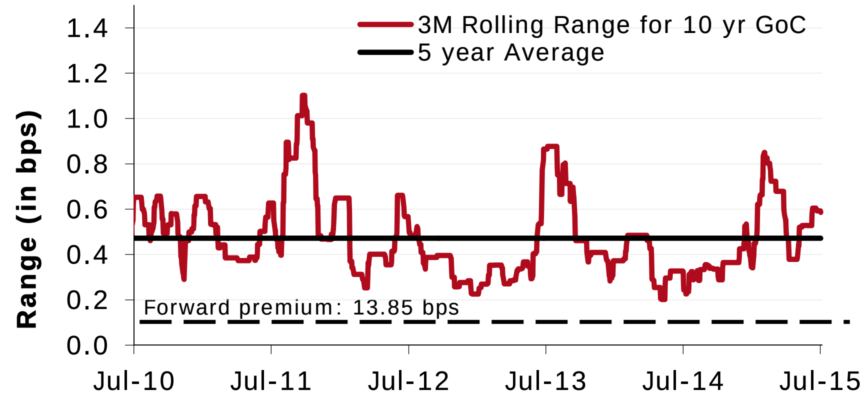


- Hedges will be combined and assigned to a new entity once its formed.
  - After assigning bond forwards, new entity has 1 hedge for the total of $100MM. Assignment will be completed before the settlement date, such that any MTM will be now transferred to a new entity. No cash payments will take place at the time of assignment.
  - Hedge credit facility for the new entity will be required before the assignment.

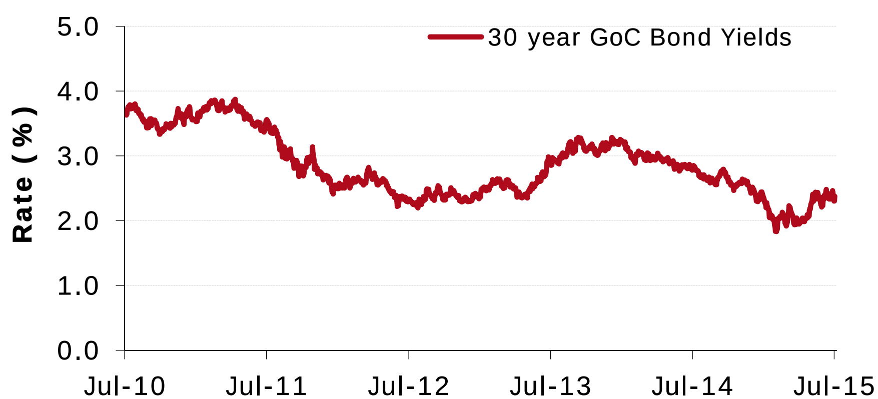
10-year GOC



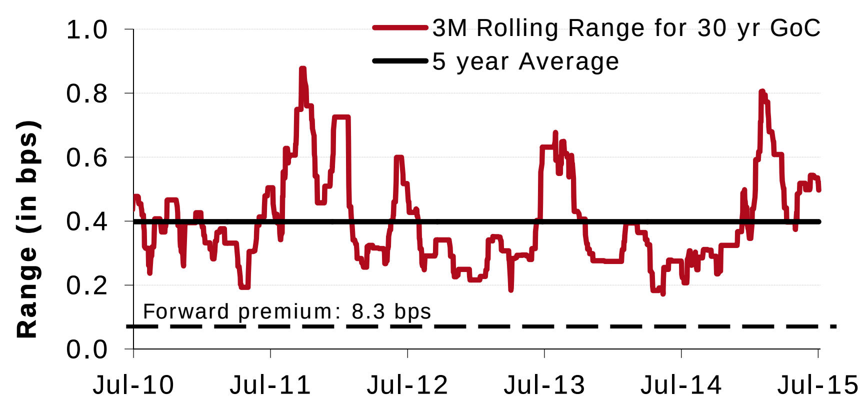
3-month rolling range: 10yr GOC



30-year GOC



3-month rolling range: 30yr GOC



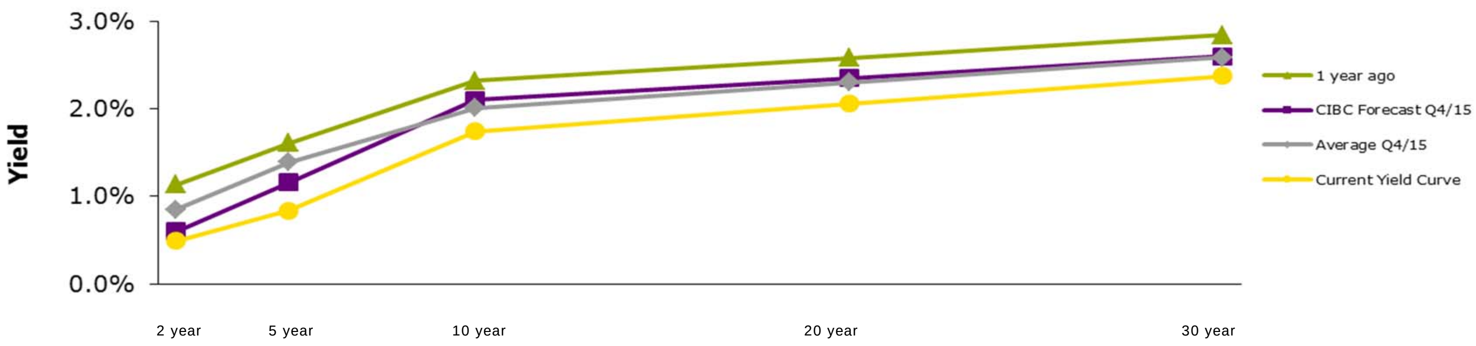
Bond	Spot	9-month Forward Premium	Forward Yield
10yr (Canada 2.25% 06/2025)	1.64%	13.85 bps	1.7785%
30yr (Canada 3.5% 12/2045)	2.28%	8.3 bps	2.363%

- Underlying Government of Canada Benchmark Bond Yields
  - CIBC expects the 10-year GoC bond to rise from its current yield of 1.64% to 2.15% by Q216 and to 2.65% by Q416
  - Current forecasts from Canadian banks all point to rising term rates over the next several quarters

CIBC Government of Canada Bond Forecast

Bond Term	Sept. 2015	Dec. 2015	Mar. 2016	June 2016
10 Year	1.90%	2.10%	2.00%	2.15%
30 Year	2.50%	2.60%	2.50%	2.65%

Canadian Yield Curve



Note: “Average Q4/15” excludes CIBC; forecasts use publicly available information as at June 1, 2015

- Rate sensitivity and MTM calculation:

	Spot Rate	9-month Forward Premium	Rate at Settlement (Apr 10, 2016)	Price ($)	MTM on Apr 10, 2016($MM)
At inception (Can 3.5% 12/45)	2.28%	8.3 bps	2.363%	124.133	
Rate Rise (+25 bps)			2.53%	120.141	3.992
Rates Fall (-25 bps)			2.03%	132.618	-8.485

- A bond forward is a very flexible tool which allows for a perfect alignment of the rate hedge and bond issuance. Bond forwards can be extended or settled prior to the original settlement date. There will be no cash flow at the time of the bond forward amendment.
  - When a bond forward is extended: New settlement rate will include original settlement rate and additional forward premium for the extra time.

	Locked in Rate for Apr 10, 2016	3-mth Estimated Forward Premium	Rate at Settlement (July 10, 2016)	Price ($)	MTM on July 10, 2016 ($MM)
At inception (Can 3.5% 12/45)	2.363%	3.5 bps*	2.398%	123.148	
Rate Rise (+25 bps)			2.53%	120.027	3.121
Rates Fall (-25 bps)			2.03%	132.418	-9.270

  - When a bond forward is settled prior to the original date: New settlement rate will include original settlement rate plus the "rebate for the unused time" on the original hedge.

	Locked in Rate for Apr 10, 2016	3-mth Estimated Forward Premium Rebate	Rate at Settlement (Jan 10, 2016)	Price ($)	MTM on Jan 10, 2016 ($MM)
At inception (Can 3.5% 12/45)	2.363%	3.5 bps*	2.328%	125.137	
Rate Rise (+25 bps)			2.53%	120.254	4.883
Rates Fall (-25 bps)			2.03%	132.818	-7.681

*The estimated forward premium adjustment has been calculated using current short term rates. The actual forward premium adjustment will be determined using short term rates at the time of the bond forward amendment. A funding charge or benefit might be applicable.

CIBC

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