OVERVIEW

What is wrong with CIBC relying on the Super Senior and AAA credit ratings of their CDO and CDS reference CDO positions in decision not to disclose exposure and to delay write-downs?

(a) the high 34% to 90% of US subprime mortgages in underlying pools was risky;

(b) the intermediary BBB tranche securities were reckless in terms of the likelihood of 100% loss given default on the underlying US subprime mortgages, and they made the CIBC AAA rated tranche exposures implausible;

One must look one to two levels below the Super Senior or AAA rated securities that CIBC owned or insured through CDSs and that Francesco Shaw is speaking about. Below this, in the ACA deals, we find a layer of credit securities with BBB attachment points referring to core mortgage pools that have high US subprime mortgage %.

CIBC Credit Memo dated Sept. 27, 2007 says in 7 of 13 ACA CDS transactions, "the reference obligations are based upon portfolios of subprime RMBS with BBB attachment points (the BBB tranches)." It further says, "In a large portion of ACA's AAA CDO transactions, ACA's underlying exposure is to pools of BBB tranches and at this time the loss probability and severity to these tranches is uncertain and higher than initially forecast," and, "In most of ACA's RMBS CDO transactions (including all seven of CIBC's subprime related transactions with ACA), ACA's underlying exposure is to a portfolio of BBB tranches of subprime RMBS CDOs and at this time the loss probability and severity to theses tranches is uncertain. Plus, Appendix 2 of the Credit Memo has the BBB tranche details.

BBB tranche attachment points are typically 5% to 7%, so subprime mortgage default losses that occurred wiped out the full value of the BBB tranches. Even though CIBC-ACA attachment points were high at 30% to 55% for actual credit defaults and the MTM margin call for losses were also high at 20% to 45%, the complete loss on the underlying BBB tranches caused a full loss on the pool that CIBC-ACA had the highest tranches in. Super Senior securities with typical attachment points in the range of 20% to 30% and AAA securities with typical attachment points in the range of 15% to 25% get wiped out contrary to the safety that an AAA credit rating implies.

AAA Tranche of CDO		Loss Above	Loss %		
		15%	-100		
BBB Tranche of RMBS CDO					
	% Portfolio	Loss Up to	Loss %		
	100%	5%	-100%		
Underlying Mortgage Pool					
	% Portfolio	Default Rate	Loss %	Loss % Sub-Class	Loss % Portfolio
CDO Tranche	10%	35%	-100%	-35%	-4%
US Subprime	60%	25%	-75%	-19%	-11%
Prime	30%	5%	-25%	-1%	0%
Total Portfolio		20%	-63%	-15%	-15%

(c) the leverage in CDSs magnified the default problem and created a house of cards;

(d) the CDSs right to make MTM margin calls presented a liquidity problem on top of the credit default problem, because CIBC did not have the cash or the capital base to meet multi-billion margin calls based on MTM losses, and so it would be forced to sell positions into a distressed market (lack of transparency in the CDOs accentuated the MTM loss during the financial crisis); and, finally,

(e) CIBC had to know that its CDS and bond insurance counter-parties were unreliable as they were exposed to the same underlying intermediary BBB tranche securities linked to US subprime mortgages , and they had massive leverage in their credit default insurance and MTM or credit rating downgrade margin call obligations relative to their capital.

> **CIBC Credit Memo dated Sept. 27, 2007 says:**
> Feb. 28, 2007 CIBC breached internal credit limit on ACA of $30 M at $110 M
> April 17, 2007 CIBC meeting with ACA CFO, Head of Structured Credit
> May 1, 2007 CIBC breached internal credit limit on ACA at $272 M
> May 9, 2007 ACA releases March 31, 2007 subprime exposure $13.8B, CIBC is at $3.5 B or 25% of this amount.
> June 29, 2007 ACA withdrawn equity offering
> June 30, 2007 ACA total insured structured finance portfolio $61B
> Sept. 27, 2007 CIBC breached internal credit limit on ACA at $1,900 M
> Dec. 31, 2006 statutory capital $387 M & 118X leverage; claims paying resources $883 M & leverage 52X
> At [fiscal year end] 2006, ACA had insured or sold protection on $39 billion in RMBS and $10.3 billion was considered sub prime representing 22% of ACA's portfolio. This would be considered relatively high for a financial guarantor the size of ACA.22 (emphasis added)

Indeed, recoveries of CIBC write-downs have not occurred.

CIBC was forced to close positions in a distressed market and close to 50% of the CIBC CDO's owned directly or underlying CIBC's CDSs defaulted due to their house of cards design

This was not an unpredictable outcome, since a bank of CIBC's expertise would have known that the AAA credit ratings on its positions were not consistent with the underlying BBB tranche exposure to loss on subprime mortgages and the risk of margin calls.

The bank should have therefore disclosed their full gross exposure when it was taken on, disclosed their concentrated ACA hedge and taken their write-downs much sooner.