CIBC Q3 2020 Earnings Conference Call

August 27, 2020

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Hratch Panossian

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Management Discussion Section

Operator

Good morning, and welcome to the CIBC Quarterly Financial Results Call. Please be advised that this call is being recorded.

I would now like to turn the meeting over to Geoff Weiss, Senior Vice-President, Investor Relations. Please go ahead, Geoff.

Geoff Weiss, Senior Vice-President, Investor Relations & Performance Measurement

Thank you, and good morning, everyone. We will begin this morning's presentation with opening remarks from Victor Dodig, our President and Chief Executive Officer. Following Victor, Hratch Panossian, our Chief Financial Officer, will review our operating results. Shawn Beber, our Chief Risk Officer, will close our prepared remarks with the risk management update.

We're also joined in the room by CIBC's business leaders, including Harry Culham, Laura Dottori-Attanasio, and Jon Hountalas, as well as Mike Capatides who has joined us remotely from the USA. They will be available to take questions following the prepared remarks.

As noted on slide 2 of our investor presentation, our comments may contain forward-looking statements, which involve assumptions that have inherent risks and uncertainties. Actual results may differ materially.

With that, I will now turn the meeting over to Victor.

Victor G. Dodig, President and Chief Executive Officer

Thank you, Geoff, and good morning. Thanks for joining us and we hope you and your families are well. Over the last six months, we've seen significant change in the market as a result of the COVID-19 pandemic. Initially, our focus was on the urgent response required to deliver relief to individuals and to businesses, as we navigated through a period of great uncertainty. More recently, our focus has shifted towards recovery, maintaining our commitment to our clients as we reignite our long-term strategic growth plans and to do our part to support the recovery of our economies.

With that context, I'd like to share three key messages with you. The first is our CIBC team has responded to this pandemic with professionalism, with dedication and with purpose, and they're the foundation for our growth efforts moving forward. There's no substitute for a purpose-driven culture and our entire team remains focused on making our clients' ambitions a reality. The second is that we're investing for the long term to position CIBC for success, as we emerge from the pandemic stronger and prepared to capture growth. And the third is that the investments that we've made over the past several years to simplify and to modernize our bank and deepen client relationships have positioned us well. The results this quarter reflect the resilience of our bank.

Since our second quarter call in May, Canada's economy has seen some signs of recovery with the cautious reopening of many sectors. However, many businesses are still operating far from pre-pandemic levels. The Bank of Canada's message last month underscored the path to a full recovery could be both lengthy and uncertain. In the US, while many states reopened during the quarter, the continued spread of the virus could translate into a prolonged recovery.

Against this backdrop, we remain cautiously optimistic and believe that our strong core franchise, client-centric focus and diversified business will enable us to get back to pre-COVID levels of profitability.

To that end, I'm pleased to report that CIBC achieved adjusted earnings of CAD 1.2 billion and earnings per share of CAD 2.71 in the third quarter. The resilience of our core business and continued expense discipline resulted in stable pre-provision earnings, despite a more challenging and lower interest rate environment.

Including these results is a provision for credit losses of CAD 525 million, which is significantly lower than the CAD 1.4 billion provision last quarter. Hratch and Shawn will provide more detail on this shortly.

On the balance sheet and capital – our balance sheet and capital position remained strong with the CET1 ratio of 11.8%. Our excess capital provides significant flexibility to continue to support our clients, to invest in our business and maintain dividend to our shareholders.

We rose to the challenge of supporting our clients with much needed financial relief during the first phase of the pandemic. After peaking in early April, requests for payment relief have been on a steady decline. In the last six weeks, the number of new requests have been de minimis and averaged around only 1% of peak levels.

Now, I'd like to return – now, I'd like to turn to our business units. On the Retail side, overall consumer spending has recovered somewhat, though it remains below pre-pandemic levels. In line with this, Personal and Business Banking credit card purchase volumes have trended upward since the trough in April. July volumes were down 6% year-over-year, compared to a decline of 33% in April over the previous year.

We drove year-over-year growth in mortgage balances of 3% on a spot basis, as the real estate market started to recover in June and July. And while our performance is not yet where we wanted to be, our recent growth has returned closer to market levels supported by additions to our mobile advisor team and a streamlined application process. We continue to see very high levels of digital engagement with digital banking sessions and transactions up approximately 25% from pre-pandemic levels.

Our North American Commercial Banking businesses continued to see strong deposit growth in the third quarter, as our clients emphasized liquidity amidst the economic uncertainty. Within the North American Wealth businesses, we are seeing good momentum with more than CAD 8 billion of net year-to-date client inflows across our Canadian and US Wealth platforms.

Our Capital Markets business had a very good quarter, driven by strong trading activity across most asset classes, continued strength in debt underwriting and improved equity underwriting. Our emphasis on building deep client relationships and connectivity with other areas of our bank is delivering strong client-focused results. This includes our focus on growing our US market share, which is progressing well with revenue up 43% in this region on a year-to-date basis.

As we navigate through the pandemic, we remain well-positioned to balance short-term actions necessary to fully support our clients and the economic recovery, while advancing our long-term strategy. We have a number of key strategic initiatives underway to further streamline operations, improve our efficiency, and enable us to reinvest strategically to further strengthen our market position.

As you recall, we announced a workforce restructuring earlier this year. We expect to complete this restructuring in the fourth quarter and deliver the previously disclosed run rate savings of CAD 260 million by the beginning of fiscal 2021. We are repurposing a portion of the expected savings towards targeted strategic investments.

To that end, we continue to invest in technology and innovation to simplify our bank and create an engaging and modern banking experience for our clients. These investments build on the foundational work we've done over the last five-plus years to build an industry-leading digital banking platform. As clients increasingly shift to these alternate platforms, we're pleased to be ranked number one among the Big Five banks for customer satisfaction in mobile banking as ranked by J.D. Power this quarter. We will continue to make investments in this area to further cement our leadership position.

During this pandemic, we continued to prioritize the well-being of our clients and our CIBC team. And as more communities reopen, we are taking a measured approach to how we manage our business. We continue to employ many precautions in our physical space, including ensuring physical distancing, adding signage and

installing physical barriers as needed. In addition, approximately 60% of our team continues to work remotely and we anticipate that the majority of these colleagues will continue to work offsite into 2021.

We are aligning our decisions and timing around our long-term real estate plans including CIBC SQUARE. The work that was already under way to prepare for our new headquarters proved very valuable when the pandemic set in, as our tech-enabled team was able to stay connected and productive throughout. Going forward, CIBC SQUARE will afford us greater flexibility and the opportunity to be nimble, as we adapt to the environment we operate in. We'll keep you apprised of our evolving workplace transformation in the coming quarters.

Now, before I turn the call over to Hratch, I'd like to highlight our commitment to diversity and inclusion. Since our last earnings call, the issue of systemic racism has come to the fore. It's incumbent on all of us as individuals and organizations to look inward and understand what we can do to address social injustice, which disproportionately affects the black and indigenous communities.

For CIBC, our success hinges on our people. We're part of a singularly connected team and inclusion is foundational to the way we do business. While we've made good progress on building a more inclusive bank, it's important to acknowledge that we have more work to do. We are committed to addressing systemic racism in all its forms within our bank and to being a force for good in our communities.

And with that, I'd like to turn the call over to Hratch for a more detailed review of our financial results.

Hratch Panossian, Senior Executive Vice-President and Chief Financial Officer

Thanks, Victor, and good morning, everyone. Starting on slide 7, this morning, we reported earnings of CAD 1.2 billion and diluted earnings per share of CAD 2.55 for the third quarter of 2020. Excluding the items of note detailed in the appendix of our presentation, adjusted earnings per share was CAD 2.71.

This quarter, we absorbed an incremental CAD 525 million in provision for credit losses, up 80% from the prior year, but down 63% from last quarter, as we experienced a comparatively smaller change in the economic outlook than we did in Q2. Shawn will speak to provisions in more detail in his remarks.

Pre-provision earnings of CAD 2.1 billion increased 1% from the prior year, reflecting the strength of our diversified franchise and management actions in response to the current economic environment. While our Personal and Commercial Banking businesses continued to face revenue headwinds due to the ongoing pandemic, these were more than offset by growth in funds managed across our bank, a record quarter in Capital Markets and strong expense discipline.

Revenue of CAD 4.7 billion was stable year-over-year, as a 2% increase in net interest income helped by trading and deposit growth offset a 3% decline in non-interest income, largely due to reduced transactional activity by our Personal and Commercial clients.

Adjusted expenses of CAD 2.6 billion were down 1% from the prior year, despite headwinds from COVID-related expenses and foreign exchange translation, resulting in positive operating leverage. We will continue to be focused on expense discipline and expect expense growth to be contained going forward.

As illustrated on slide 8, we continue to demonstrate the resilience of our balance sheet, building on the strength of our capital and liquidity positions over the quarter. We experienced significant growth in client deposits across our business, resulting in an increase in our liquidity reserve. Average LCR was 150% through the quarter, representing a buffer of over CAD 60 billion relative to the 100% regulatory minimum. Our capital position also strengthened over this period, ending the quarter with a CET1 ratio of 11.8% and 12.2% pro forma including the pending FCIB transaction.

Internal capital generation, a net decrease in RWAs, and an improvement in the value of securities in our HQLA portfolios all contributed to the near 50-basis-point increase over the prior quarter. While RWAs this quarter reflect negative migration resulting from the completion of credit reviews across a large part of our wholesale portfolios, this was more than offset by lower utilization across our credit portfolios, delinquency trends in retail, and a reduction in market risk.

Our ending capital position represents a buffer of over CAD 7 billion in capital, or almost CAD 80 billion in RWA relative to the 9% regulatory minimum, and our current medium-term outlook is relatively stable. As such, we continue to be confident in our ability to support our clients and our dividend payments, as we navigate through the impact of the COVID-19 pandemic. The balance of my presentation will refer to adjusted results, which exclude items of note.

Slide 9 reflects our Personal and Business Banking results. Despite revenue headwinds from the ongoing COVID-19 pandemic, we continued to make progress against our longer-term goals. Net income for the quarter was CAD 510 million, down 23% from last year. Revenues of CAD 2.1 billion, decreased 8% year-over-year, largely as a consequence of the ongoing pandemic. Net interest income was down 6% due to lower rates and the interest rate relief provided to some credit card clients, partially offset by strong deposit growth. Non-interest income was down 13%, as average transactional activity by consumers remained below the prior year, despite improvements from the last quarter.

Net interest margin of 238 basis points for the quarter was down 16 basis points from last year and 6 basis points sequentially. While the expiry of interest rate relief will provide some sequential benefit to margins in the short term, we anticipate facing gradual pressure longer term as we continue to absorb the impact of the decline in the yield curve earlier this year. Expenses of CAD 1.1 billion were comparable to both the prior year and the prior quarter. We continue to manage our expenses as market conditions evolve, balancing efficiency improvements with targeted reinvestment.

Slide 10 shows the results of our Canadian Commercial Banking and Wealth Management business. While we maintained our strong market position, the segment was impacted by the market slowdown due to the ongoing COVID-19 pandemic. Net income for the quarter was CAD 320 million, down 7% from a year ago, while pre-provision earnings were in line with the prior year driven by stable revenues and a 2% decline in non-interest expenses.

Commercial Banking Revenue was up 2% from a year ago, benefiting from the growth in both loans and deposits, offset in part by the negative impact of rates and lower transactional fees. Deposit and lending balances were up 17% and 5%, respectively, over the year. While deposit growth continued to be strong in the quarter, loan balances stabilized, as both new originations and utilization moderated.

Wealth Management revenue was down 2% from the prior year, primarily driven by lower fee revenues in our full service brokerage business as a result of reduced market activity. The 2% decrease in expenses reflects lower revenue-based variable compensation and strong expense discipline over the quarter.

Turning to slide 11, US Commercial Banking and Wealth Management results reflect continued growth in our US franchise. Net income for the quarter was CAD 77 million, down 58% from the prior year. Pre-provision earnings growth continued to be strong at 10% year-over-year in Canadian dollars, or 7% in local currency. Revenues were up 3% in Canadian dollars and in line with the prior year in US dollars, as double-digit growth in client balances offset headwinds from a significant decline in interest rates and lower syndication.

Average loans grew 19% from a year ago, reflecting continued momentum in client development and loans advanced as part of the Paycheck Protection Program. Excluding Paycheck Protection Program loans, lending growth was 12% over the same period. Deposits outpaced loans, growing 36% from a year ago. And AUM grew 8%, driven by client flows and market appreciation.

Net interest margin was 276 basis points, down 29 basis points sequentially and 48 basis points from a year ago, driven by the continued decline in effective LIBOR rates and the impact of lower yielding PPP loans. We anticipate further margin pressure from these factors to moderate going forward. Non-interest expenses were down significantly, reflecting the impact of our efficiency initiatives and a reduction in travel and business development expenses.

Slide 12 covers Capital Markets, where we delivered record results. Net income of CAD 392 million was up 67% from a year ago, while pre-provision earnings increased 62%, both largely as a result of higher revenues. Revenues of CAD 1 billion were up 33% from a year ago, driven by strength across our diversified business and a recovery in valuation adjustments recorded in Q2. Higher client activity and interest rates and commodity trading, growth in corporate banking, as well as higher debt and equity underwriting, all contributed to growth, partially offset by lower foreign exchange activity due to cross-border travel. Non-interest expenses were up 6% from a year ago, primarily driven by higher spend on ongoing strategic growth initiatives, particularly in the US and higher revenue-linked variable expenses.

Finally, slide 13 reflects the results of the Corporate and Other business unit. Net loss of CAD 56 million in the quarter, compared to a net loss of CAD 7 million for the same quarter last year, driven by lower revenues and higher PCLs, partially offset by strong expense management. Revenues for the segment were impacted by lower rates and reduced transactional activity in our international business as well as the increased level and cost of our liquidity reserves and treasury.

And with that, I will turn the call over to Shawn.

Shawn Beber, Senior Executive Vice-President and Chief Risk Officer

Thanks, Hratch, and good morning. While we've seen a moderation over the last few months relative to the extreme volatility at the outset of the pandemic, there's still a good deal of uncertainty in terms of the course of COVID-19 and its effects on the economy and our clients. We've built on our analysis from last quarter, as we continue to exercise judgment in determining our provision for credit losses for performing loans. For added context, we have provided the incremental disclosure we added last quarter on select industry exposures.

Last quarter, we noted that if our economic estimates at the time were to materialize close to forecast, we would not expect to see material increases in performing allowances in subsequent quarters. Our results this quarter are consistent with that. We had a comparatively small additional build in performing provisions this quarter, principally driven by some deterioration in the economic environment and reflected in our forward-looking indicators and economic scenarios. As I'll discuss shortly, our credit portfolios have generally performed in line with our expectations this quarter and in some cases, better than expected.

Turning to slide 15, provision for credit losses was CAD 525 million this quarter, down from CAD 1.4 billion in the prior quarter, with lower provisions in both impaired and performing loans. Provision on impaired loans of CAD 300 million was down CAD 43 million from last quarter, primarily due to lower insolvencies and write-offs experienced in our Canadian retail portfolios.

The decrease in insolvencies was in line with the industry trend as a result of lower consumer filings and the lower level of write-offs resulted from a combination of factors, including government support, as well as assistance offered to clients through our bank relief programs. Partially offsetting this decrease, we have higher provisions on impaired loans in the oil and gas sector of our Capital Markets business, as well as a small number of loans in our US Commercial Banking business.

Provision on performing loans was CAD 225 million, largely due to an update of our forward-looking indicators and scenario weight changes based on impact – input from our economics division. This particularly affected our US segment provision where recent virus activity and associated impacts on economic reopening resulted in a deterioration in our economic scenarios for the US economy.

At this time, we're not seeing broad-based credit weakness in the portfolio. Where we have seen issues, they've been episodic with some concentration in the oil and gas portfolio and the retail and hospitality sectors. That said, we anticipate additional negative credit risk migration across the portfolio the longer the pandemic and associated economic conditions persist. We believe we've been prudent in recognizing performing allowances to reflect our current outlook.

Turing to slide 16, allowance for credit losses grew by 9% to CAD 3.6 billion this quarter with our coverage ratio to gross loans increasing from 78 basis points to 86 basis points. Similar to last quarter, we've provided additional detail on our performing provisions in the bottom left corner of the slide. We recognized CAD 113 million of model-driven provisions, representing half of the total performing provisions this quarter, as a result of revisions to our forward-looking indicators and changes to scenario weightings before any benefit from government support.

The other half of the performing provision this quarter is a function of CAD 236 million in additional provisions, net of CAD 124 million of other adjustments shown in the third column of the chart. Consistent with last quarter, the additional provisions are a function of applying judgment to reflect the impact of government relief programs and specific analysis on select segments of our portfolio. In particular, we recognized additional performing provisions in our retail portfolio to offset some of the positive portfolio movement reflected in the other adjustments column, which we believe are affected by temporary relief measures.

Similarly, we increased the provisions in our business and government portfolio to offset model-driven releases to address qualitative factors that we believe are not fully captured in our models. Overall, the loan losses this quarter were generally in line with our expectations for business and government portfolios and somewhat better than expected in our retail portfolio.

Turning to slide 17, we've provided details of our allowance coverages by line of business. As a result of the updates to our forward-looking indicators as well as qualitative adjustments, the allowance coverage ratio increased marginally from last quarter and significantly compared to the same quarter last year. We feel comfortable with the current level of coverage and we'll continue to closely monitor the credit quality of our portfolios for potential future adjustments.

On slide 18, we show our credit portfolio mix, which remains well-diversified and consistent with last quarter. Our total loan balances were CAD 414 billion and the overall credit quality of our portfolio continues to remain high. Nearly two-thirds of our outstanding loans are to consumers, the majority of which are mortgages, with our uninsured mortgages having an average loan-to-value of 52%. The balance of our portfolio is in business and government lending with an average risk rating for the portfolio equivalent to a BBB+.

Since the pandemic, we've reviewed over three-quarters of our business and government portfolios, taking risk rating actions and specific impairments as appropriate. Overall, this lending portfolio continues to perform in line with our expectations.

Slide 19 provides the status of our client accommodations and credit quality details by segment. New accommodation requests have decreased substantially this quarter, as Victor noted. Residential mortgages account for the majority of the loan balances that are subject to deferrals. Within this segment, more than 75% of clients have a FICO score of greater than 650, uninsured mortgages represent approximately 60% of the outstanding balances with an average loan-to-value of 58% and average FICO score of 723.

Our cards deferrals are now complete, other than for a very small number of new requests that are being dealt with on a case-by-case basis. The payment behaviors of clients who have come off deferral are within our expectations and we're comfortable with our provisioning as it relates to this group of clients.

A majority of the Canadian Business Banking clients who had taken deferrals have now come off the relief program. We have higher deferral balance request in the US this quarter based on timing and processing of

initial client requests. Overall, the commercial clients coming off payment deferrals are not exhibiting higher delinquencies in the overall book, which remains very low, and we've had almost no requests for deferral renewals.

Turning to slide 20, we've included details of our exposure to the leisure and entertainment and the retailer sectors, which are sectors that have been particularly vulnerable during the pandemic. Our exposure to these sectors represents approximately 2% of our overall portfolio, with 29% of leisure and entertainment exposure and 47% of retail exposure being investment grade at the end of this quarter.

On slide 21, we provide detail of our commercial real estate exposures in both Canada and the US. Our exposures in these two regions remain well-diversified and continuing to perform well. 68% of our Canadian portfolio and 35% of our US portfolio were investment grade at quarter end.

Slide 22 details our oil and gas exposure. Our wholesale exposure was CAD 9.6 billion in the third quarter, down approximately CAD 900 million from the prior quarter, with 43% of the portfolio being investment grade. The portfolio continues to be affected by low oil prices. We've reviewed the risk ratings of over three-quarters of the portfolio, which has led to some ratings downgrades. In the oil and gas book, this was primarily felt in the exploration and production and the services subsectors, where we downgraded approximately one-third of the names.

Slide 23 provides an overview of our gross impaired loans. Gross impaired dollars were up in both consumer loans and business and government loans, mainly due to COVID-19 and continued pressure on oil prices. In our Canadian mortgage portfolio, we experienced a small increase in gross impaired balances. However, given the moderate average loan-to-value ratio of this portfolio, we do not expect this increase to translate into material losses.

New formations this quarter were up from last quarter, driven by loans in our Canadian Commercial Banking segment along with higher impairments in the oil and gas sector, partially offset by lower consumer formations. We do expect new formations to remain volatile in the near term.

Slide 24 shows the net write-offs and 90-plus-day delinquency rates of our Canadian consumer portfolios. In the current quarter, we had lower insolvencies and flow write-offs as a result of government support programs and bank relief offerings. The overall Canadian consumer late-stage delinquency rate was up this quarter with a higher rate in residential mortgages and a lower rate in credit cards and personal lending.

In closing, while there continues to be uncertainty in terms of the course of the pandemic and impacts on the economy in the weeks and the months ahead, we remain comfortable with the quality of our portfolios and are well-positioned to continue to support our clients, while managing through the crisis. Provisions on impaired loans were lower this quarter than the second quarter. However, we do expect to see impaired provisions trend higher over time, as relief programs come to an end and flow write-offs and insolvencies increase. As that occurs, we would expect to see more of our performing allowance transfer from stage 2 to stage 3 and provide a partial offset to losses in future periods.

We believe our allowances are appropriate in the context of current macroeconomic conditions. And as we indicated last quarter, assuming our economic forecast doesn't deteriorate, we would not expect to see further materially increases in performing allowances in subsequent quarters.

I'll now turn the call back to the operator for questions.

Question and Answer Section

Gabriel Dechaine, Analyst, National Bank Financial, Inc.

Hi. Good morning. First question, I want to talk about the all-bank margin and margins overall. One aspect that's hitting all-banks is that you're carrying a lot of excess liquidity and that's creating some negative carry in the treasury area. Wondering what I should look at in terms of excess liquidity, how do I measure that? And maybe a year from now, if things are okay, that comes back and we can start assuming elimination of that issue?

And then the other one would be, aside from this factor, and Hratch, you mentioned the whole gradual impact of the yield curve getting reflected in your margin, can you walk us through the timeline there and how much that represents NII erosion over the next few years as you reinvest your liquidity book?

Hratch Panossian, Senior Executive Vice-President and Chief Financial Officer

Sure. Thank you, Gabriel. Good morning, and thank you for question. So, let me start with Q3 and what happened and what drove that and then I'll talk about the outlook after that. So, if I look at total bank, total bank margins on a quarter-over-quarter basis down 16 basis points. So, majority of that, I would say, kind of in the 11 basis points, 12 basis points was actually related to that excess liquidity that you described.

And so, the way I would think about that is, more than NII, it's a balance issue. And you can triangulate that even if you just look at our investor presentation and look at deposit growth versus loan growth. Deposits outpaced growth of loans significantly. So, a lot of this liquidity is coming from deposits, non-wholesale funding. And the net of that, again, as you can almost triangulate there, there is, in the mid-30 billions there of excess liquidity that came on, and so that balance affects margins.

Now, I wouldn't assume it's all from negative to NII. That's why I differentiate between the two. As we take on deposits, we're very focused on pricing of deposits and profitability and positive margin. So, going forward, while there could be for a period of time some NIM impact from NII perspective, I wouldn't assume that necessarily that's negative.

The rest of – the couple of basis points from the reduction that we saw in Personal and Business Bank, some of that is related to rate headwinds, which we continue and I'll touch on that. But some of that is transient, right. So we had a reduction in utilization in a number of our revolving portfolios that carry higher yields, as you know. So, that would have impacted us now and that will reverse. We had the interest rate relief provided to credit cards and that on a year-over-year basis is sort of 4-ish basis points to margin on that business and that expires and goes away. So, starting next quarter, we'll see a reversal of that.

And then there was a few basis points from the reduction in the US, which was largely driven by quarter-over-quarter. We had 90 basis points decline in effective LIBOR. And as you know, most of our assets are LIBOR-linked loans in the US. But that's given LIBOR has now stabilized, it's largely behind us.

So, what does that mean going forward? We're very focused on managing our liquidity position. We do think over time that we will manage this. And as I said in the interim, we're very focused on the NII, not necessarily the margins, and we are managing to positive NII for the bank.

In terms of the outlook on the longer-term rates, we had provided some disclosure before we got into this pandemic around our interest rate sensitivity, and Gabe, I'd say that stands. It plays out over a long period of time. But at the time, we had said 100 basis point shock is about CAD 280 million of NII for us. A bunch of things changed. But when you look at CAD 150 million in Canada, CAD 200 million in the US of movements since then, I would see that coming into P&L over time, but it will be gradual. And so, in Canada, I'd guide you

to more gradual in the sort of a few basis points quarter type of range going forward. And then, in the US, because a lot of it is LIBOR-linked, I would say we'd stabilize from here on.

Gabriel Dechaine, Analyst, National Bank Financial, Inc.

Got you. Thanks for all that. And then, just a question on the performing allowance, and Shawn, you mentioned you don't expect material additions to it going forward. I'm wondering, if I look at performing allowances to performing loans, you're at the low end of the peer group. I'm wondering if that's something you're wanting to move closer to the peer group average or upper end, or how are you thinking about building up the performing provision over time? Yeah. Let's go with that.

Shawn Beber, Senior Executive Vice-President and Chief Risk Officer

Thanks, Gabriel. Okay. It's very much the process that we undertook and continue to undertake that I talked about last year, and we've carried that into this quarter. So, we continue to work, do a lot of analysis around the portfolio. We have our model-driven elements and then the expert credit judgment that we apply. We're very comfortable with our allowance coverage at this point based on our current economic outlook. If and to the extent that changes or we see a deterioration in the credit books, which we're not seeing today, that would impact that, but currently, we're comfortable with where we are.

Gabriel Dechaine, Analyst, National Bank Financial, Inc.

Okay. I know that it’s mixed, that comparing banks like that is a bit simplistic, mixed factors matter. But just trying to get a sense if there's any targets you have or – but it doesn't sound like you're – you all sound like you're comfortable where you are. So, anyway, I'll leave you there.

Shawn Beber, Senior Executive Vice-President and Chief Risk Officer

Thanks.

Ebrahim H. Poonawala, Analyst, BofA Securities, Inc.

Good morning. I guess I just wanted to follow up in terms of comments around expense management. I think, Victor, you mentioned you expect the CAD 260 million in annual savings to be fully baked in by the time we end the first quarter of next year. Just talk to us, I mean, I think broadly, as you think about expenses, it seems like you think NII should stabilize from here, if not move higher. How should we think about expenses in the context of what's likely to be a tough revenue environment? Should we still expect expenses to be just lower beyond 1Q 2021, or just how you're thinking about it internally?

Hratch Panossian, Senior Executive Vice-President and Chief Financial Officer

Sure. Ebrahim, it's Hratch. Thanks for the question. I'll take that. I think you're right in that we are being cautious with our expenses, as mentioned in our prepared remarks, in light of the potential top line environment that we're facing. So, we will continue to be prudent with expenses, but we are balancing investment, as Victor mentioned in his remarks, with a good result on expense growth.

So, going forward, you referenced the restructuring. As Victor mentioned, we will look to complete that and so we'll have the benefit of that. And if you go back to when we announced that restructuring, we had mentioned that that gives us the ability to keep expense growth in 2021 in the low-single-digit range and that we would adjust from there depending on the environment. So, we're looking at the current environment. We're looking to make the investments and accelerate in certain areas to position the bank for growth in the top line headwinds that we're going to face.

But at the same time, given that environment, we're finding more efficiency opportunities. And that's why I say in the comments I make, we will look to keep expenses contained. We are looking to generate pre-provision earnings growth. But in terms of giving you specific numbers beyond that for 2021, I think it's a little bit early. So we will update you on that in Q4. But that's the way we're looking at it on the balance.

Ebrahim H. Poonawala, Analyst, BofA Securities, Inc.

Got it. And I guess just separately in terms of looking at the mortgage business, if we could get an update around – it seems like the business went through a little bit of restructuring over the last two years. Where are we in terms of the growth rate of the mortgage business returning to peer-like levels, and how do you think about ratcheting up growth in a backdrop where one could debate that the housing market looks a little bit rough once again and could get worse from that standpoint over the next few quarters?

Laura L. Dottori-Attanasio, Senior Executive Vice-President and Group Head, Personal and Business Banking, Canada

Good morning, Ebrahim. It's Laura.

Ebrahim H. Poonawala, Analyst, BofA Securities, Inc.

Yeah.

Laura L. Dottori-Attanasio, Senior Executive Vice-President and Group Head, Personal and Business Banking, Canada

So, I'll take that one on mortgages. We're comfortable with where we're at. So, if you were to take a look at our disclosures, I think you'll see that our origination activity is actually quite strong. Where I think we need to do better is really where it comes to retention and that relates to previously booked mortgages, particularly if you go back to some of the previous vintages that we have, where we could do a better job, if you will, retaining them. So, if you take origination sort of minus that retention issue I mentioned, you'll see that we're up 2.5% year-over-year. So, we're not where we want to be. I think we have more work to do.

That said, we have reversed the trend. It does feel like we're headed in a more promising direction. And when we look at some of the OSFI information that was released, if you look at the month-over-month growth data, you can see CIBC where we've moved from fourth spot in May into the third spot in June. And so, while we're still not where we want to be, I would tell you that we're headed in the right direction. And when I look at our pipeline, it does feel again promising. And we are, I would say, being very diligent and mindful about the new business that we're putting on our books as well. So, again, not where we want to be, but comfortable with the direction we're headed in, if that answers your question.

Ebrahim H. Poonawala, Analyst, BofA Securities, Inc.

No, it does. Thanks for taking my questions.

Meny Grauman, Analyst, Scotia Capital, Inc.

Hi. Good morning. Just following up on the mortgage business. Just wondering how much of the activity that you're seeing now is pent-up demand and really the point that is just to wonder about the outlook for 2021 and how much of a risk do you peg on or more dramatic slowdown in the mortgage market next year?

Laura L. Dottori-Attanasio, Senior Executive Vice-President and Group Head, Personal and Business Banking, Canada

Well, I'm happy to start that one off, Meny. I'm not sure I'm going to call sort of where 2021 goes. Again, I can tell you for the things we control is the type of business that we want to take on our books, very comfortable, as I said, with the type of origination that we're doing. And I do think, again, as I mentioned earlier, for us, the real question is one-off retention. And so, if we could do a better job on the retention side, I think you will see or that should translate into better numbers from us.

We'd also like to do better in the first-time homebuyer market. If you go through again our disclosures, then you can see sort of regionally we've got some, I'd say, well-balanced – of course, we've lost a bit in the GVA area and that's where we have our bigger retention issue that we're working on. So, hopefully, that answers your question?

Meny Grauman, Analyst, Scotia Capital, Inc.

Yeah, that does. And then, I just wanted to switch gears and just ask about the US margin and the impact of the PPP loans on the US margin. What would the margin be, if you exclude the PPP loans?

Hratch Panossian, Senior Executive Vice-President and Chief Financial Officer

Sure. Thank you, Meny. It's a small impact, a few basis points, I would say, at this point in the margin of the US due to the PPP loans. And those are still positive margin loans, but lower than the rest of the portfolio. And so there will be a little bit of noise while that is in the book and as it rolls off, but that should be positive noise, but small.

Meny Grauman, Analyst, Scotia Capital, Inc.

And should that roll-off happen by, again, in the first half of 2021, what's the timing there for that?

Hratch Panossian, Senior Executive Vice-President and Chief Financial Officer

Yes. And as you know, there's been an extension to the program. But we do expect over the next few quarters here, that will play out.

Meny Grauman, Analyst, Scotia Capital, Inc.

Thank you.

Scott Chan, Analyst, Canaccord Genuity

Good morning. Laura, just going back to mortgages, you kind of talked about the retention issue. What are some of the things that you're focused on to kind of, I guess, improving that aspect?

Laura L. Dottori-Attanasio, Senior Executive Vice-President and Group Head, Personal and Business Banking, Canada

Sure. Good morning, Scott. Well, I'd say, it's really about better client engagement and better franchising of our clients. And so, we, as I mentioned earlier, I think, do a really solid job from an acquisition perspective. We just need to do a better job from a retention perspective. And so, that is all about client engagement, engaging, I would say, with our clients sort of during the – from the time we've onboarded up until the time renewal comes is where we're going to focus on ensuring we do a better job, if you will, franchising our clients, having a deeper relationship, conversations with them, and that that should help us, in my view, on the retention side.

Scott Chan, Analyst, Canaccord Genuity

And then just a big picture question for Victor. Now that your capital is a lot stronger, I was wondering if M&A or bolt-ons are in equation. And I know the focus will be on organic growth. And when we think about CIBC positioning for that growth, what business units or areas during this pandemic can CIBC capitalize on?

Victor G. Dodig, President and Chief Executive Officer

Scott, we're – good question. We're pleased with our capital levels. Obviously, we're at a very good level. I think we've been very, very clear with our investor base that our focus is on organic growth and driving that organic growth and the transformation of our bank, particularly given the pandemic. We recognize that there are some things we don't control. We don't control interest rates. We don't control the path to a vaccine or a treatment. But we do control how we can generate returns for our shareholders.

And our focus – and our very sharp focus is in three specific areas, making sure that we have the resources to support our clients, whether there's downside in the market or there is upside in the market; our focus on the simplification and the transformation of our bank and the core of our bank so that we can operate efficiently and see that mix ratio over time drop as the world normalizes. And the third thing I'd say is maintaining the tailwinds in the businesses where we have tailwinds. We have tailwinds in many of our businesses. And one area that Laura has been touching on it is in the Canadian consumer banking creating the tailwinds there and investing in that business. And a disproportionate amount of our resources are being directed to drive a better result in our Canadian consumer franchise.

Scott Chan, Analyst, Canaccord Genuity

And then just on bolt-ons, is that anything in the cards in the short term or is it just primarily what you talked about on the organic side?

Victor G. Dodig, President and Chief Executive Officer

Listen, there's always opportunities for things that strengthen our organic growth trajectory, but it really is, for the short to medium term, a very much focused organic growth trajectory for our bank.

Scott Chan, Analyst, Canaccord Genuity

Thank you very much.

Doug Young, Analyst, Desjardins Securities, Inc.

Good morning. Just back to the CET1 ratio and just curious to see how you see that credit migration flowing through and impacting the CET1 ratio, let's say, over the next year through fiscal 2021. It sounds like you've gone through two-thirds of your business or wholesale book. I assume the retail book and the review of the risk ratings comes over the next few quarters. Just wondering how we should think about migration and the evolution of that CET1 ratio in the context of migration and the reviews of these portfolios? Thanks.

Hratch Panossian, Senior Executive Vice-President and Chief Financial Officer

Thank you. It's Hratch. I'll start and I'll pass it on to Shawn to talk a little bit about the credit migration in more detail after, but I'll start with the overall outlook on CET1. And as I mentioned in the remarks, we did see a new reference to the credit work that was done. We did see a significant amount of migration. And when you pour through our Pillar 3 sub-pack, you'll see a small change in asset quality in the quarter, but that really was a net, as you mentioned. Wholesale was actually a fairly large number offset by retail, as we went through this. And we do see that playing out over time. But the guidance I would give you is, this will play out over several

quarters. We feel very good about our organic capital generation net of organic growth in the portfolio. And so, we think we have some capacity there to absorb migrations as they come out.

And so, that's why, as I said in my remarks, I would guide you around stable on CET1 going forward as that plays out. And exactly which way it'll bias from that stable up or down, frankly depends on a number of factors that are uncertain at this point, the level of organic growth in markets as the economy recovers or potentially goes down in the second half and the speed at which those migrations will come out. But the overall migration impact is no different than the outlook we gave you last time. It'll play out over the next few quarters. But Shawn, anything to add on?

Shawn Beber, Senior Executive Vice-President and Chief Risk Officer

Hey. Good morning, Doug. So, from a credit migration perspective, we have started to see – as we telegraphed last quarter, we expected to see some credit migration over the course of time and we did see that this quarter. We've – as I mentioned in my remarks, we've been through over 75% of our business and government portfolios and have taken rating action where it was appropriate. So, that's been reflected in the CET1.

There were some offsets to that across a number of different asset classes and including in the retail portfolios, given elements of utilization, the deferral programs, updated Beacon score. So, that had an offsetting impact, but we expect to continue to see some negative credit migration if things play out the way we're forecasting over the next several quarters.

Doug Young, Analyst, Desjardins Securities, Inc.

I guess, given the size of your retail, the business was kind of sizable as you indicated. The retail was a positive, I would imagine. So, you're not anticipating a significant negative migration out of the retail book over the next few quarters and you're basically suggesting your organic capital generation can more than offset that? Is that the way to think of it?

Shawn Beber, Senior Executive Vice-President and Chief Risk Officer

Yeah. I'd say there's some probably under-representation, I would say, in terms of the credit migration in the retail book, because of those temporary measures I mentioned, government support, lower utilization, et cetera, that could revert. My sense is, and based on the modeling that we've done, I suggest sort of CAD 1 billion to CAD 2 billion, maybe CAD 1 billion to CAD 2.5 billion of RWA migration from that perspective to sort of get back to something that would look more normal to offset those temporary measures, but otherwise, as we've forecasted in the normal course.

Hratch Panossian, Senior Executive Vice-President and Chief Financial Officer

And I was going to say, and as I mentioned in my remarks, we do – to answer your question on retained earnings, we do have some strength there and can offset that level of migration over several quarters.

Doug Young, Analyst, Desjardins Securities, Inc.

And your thought, Hratch, is that's net of the ECL transition kind of migrating – the benefit of that migrating down, I would assume?

Hratch Panossian, Senior Executive Vice-President and Chief Financial Officer

Yeah. So, Shawn mentioned the RWA number. There will be a piece on the ECL on that as well. But net-net, we're looking at it as, as the deferral programs go away and some of those delinquencies start flowing through,

maybe it's sort of in the 10 basis point range of CET1 all included, including that ECL thing. And in addition to that, over time, if we see government support go away and some of the behaviors on deleveraging and utilization start going the other way, you could have a bit more there, taking another 10 basis points or so. But as you see those numbers are pretty small, and when they play out over several quarters with the level of organic generation we have, it does tend to make it easier to absorb.

Doug Young, Analyst, Desjardins Securities, Inc.

Great. And then just second, the Canadian Commercial NIMs held in relatively well, just was a bit surprised. Can you talk a bit about what helped temper the negative impact on that in the quarter? Is there anything unusual in there? And maybe just a bit of an outlook, just specifically on Canadian Commercial NIMs?

Hratch Panossian, Senior Executive Vice-President and Chief Financial Officer

Sure. Yeah. And there can be noise in Canadian Commercial NIMs, as we've talked about before, because of BA-funded credit facilities and so forth. But this quarter, we did have 8 basis points quarter-over-quarter. And some of what you saw there was the funding costs going up and the wider prime/BA, which is just noise. And then what really offset that was the strength in deposits. So, the margins on deposits are strong in that business, and we continue to see very strong deposit growth that provided an offset to that prime/BA impact. And going forward, from what we see at this point, there continues to be strength in deposits and some of the fluctuations around prime/BA hard to predict. I'll call that volatility. So, net-net, some stability.

Doug Young, Analyst, Desjardins Securities, Inc.

Great. Thank you.

Sohrab Movahedi, Analyst, BMO Capital Markets Corp. (Canada)

Thanks. Laura, a quick question for you. Your bank is absolutely very good at doing this as are other banks. You've got pretty good statistics here around basically the digital angle of your business. And your digital adoption rate, I think, on page 27 is up to about 75%. I guess, a two-part question. Is there a saturation point on digital adoption? And when you look at some of these statistics that you give us on digital, is there any one in particular that you're focused on that will help drive your business forward? And how will that do that? Is it through top line growth, or is that through improved efficiency through cost management? Just trying to kind of get a feel for how much benefit is still on to come relative to that 75% digital adoption rate?

Laura L. Dottori-Attanasio, Senior Executive Vice-President and Group Head, Personal and Business Banking, Canada

Sure. Good morning, Sohrab. Well, I tell you that they're all important. And that in a perfect world, 100% of our clients are actively using digital. And so, that would be, call it, on the front-end. Where I think we will get the most pickup is as we really work through, not just our digital sales capabilities sort of at the front-end, but the full end-to-end digitization and automation, if you will, to get to remote fulfillment.

When we do that, we should see an increase in our productivity. And so, I would hope we will start to see – when you look at that slide you've mentioned where we just see more from a self-served transaction, you'll see more active mobile users. So, we're going to keep going to try to get to 100%. That's always the target. And everything that we can do digitally, it's – again, it's easier and it adds to our bottom line, if we can get more folks using digital and if we can do more end-to-end digitization.

Sohrab Movahedi, Analyst, BMO Capital Markets Corp. (Canada)

And if you get there, Laura, are we looking at a low-40% expense-to-revenue ratio for your business or is it still going to be in the mid to high-40s? I mean, you're about 50% right now, but I'm just kind of trying to kind of get a feel for what's the potential kind of sizing the price, if you will?

Laura L. Dottori-Attanasio, Senior Executive Vice-President and Group Head, Personal and Business Banking, Canada

Yeah. I think all I can tell you at this point in time is we're going to work hard to do better on that mix ratio. So, we want to deliver, obviously, more growth. We want to work on better client engagement, as I mentioned earlier, with mortgages, and as Hratch mentioned, contain expenses. So, hopefully, all that will contribute, but I'm not prepared to put a number on it today.

Sohrab Movahedi, Analyst, BMO Capital Markets Corp. (Canada)

Okay. And just – maybe just for a point of quick clarification, Shawn. I mean, I think you answered this to Doug's question, but if you – if I can come it at a little bit differently. Can you give us a kind of yardstick of what's the RWA associated with the mortgages that are current but in deferrals versus mortgages that are non-current, just so that we have a sense of that? And I think you mentioned that with the CAD 1 billion to CAD 2 billion – I think CAD 1 billion to CAD 1.5 billion incremental RWA. But I'm just trying to kind of get a sense of how much more capital-intensive those mortgages could become if they're not – I guess I could do the math, but if you have it handy, that would be helpful.

Shawn Beber, Senior Executive Vice-President and Chief Risk Officer

Yeah. So, the number that I was guiding to was in respect of the cards and the personal lending book. On the mortgage book, it would be a small pickup, I think, from that – I don't have the number handy, but it would be a relatively small add with respect specifically to the mortgages.

Sohrab Movahedi, Analyst, BMO Capital Markets Corp. (Canada)

Okay. So, not that much more capital-intensive, if 2% – that 98% on mortgages that are – if the 2% falls away or 1% gets further delayed, it's not – that's not going to cause a huge capital drag from an RWA perspective here.

Hratch Panossian, Senior Executive Vice-President and Chief Financial Officer

No, Sohrab, and maybe I'll jump in. And you'll see this in the Pillar 3 sub-pack and you'll get into the PD bands. You'll see a lot of improvement in the PD bands, was in other categories, not in the mortgage and that's where it's playing out. And you had some in the mortgage side. But as you know, mortgage RWAs are low to begin with so, because of the LGDs and so forth. And so as you get some of these movements in PDs up or down, with the change in environment and delinquency, that doesn't drive that much in RWA. So, to Shawn's point, those are total numbers and they're largely driven by the other categories with mortgages being a small component.

Sohrab Movahedi, Analyst, BMO Capital Markets Corp. (Canada)

Thanks for the clarification.

Darko Mihelic, Analyst, RBC Dominion Securities, Inc.

Hi. Thank you. I guess, if I just have one question, I'll revert to Laura on page 19. As I look at the deferrals, what I'm – what we're all trying to triangulate here is how it's going to play out when people come off deferrals. And I know you don't want to guess at a number. So a couple of statistics might be helpful for us. The first is, in statistics that I'm specifically looking for, around the mortgages. There's 99,000 accounts that are currently still on deferral. Of those accounts that are on deferral, how many are unemployed, how many are receiving CERB payments, and how many of them have a credit card with your company with an outstanding balance? Those statistics might help us. And maybe it's unfair that I'm trying to get it from you and not the other banks, but hopefully, you can give me a hand there.

Laura L. Dottori-Attanasio, Senior Executive Vice-President and Group Head, Personal and Business Banking, Canada

Good morning, Darko. So, feeling kind of used to life being unfair at times. So, I will try to answer that as best I can. So, with our mortgage deferrals, we have most sort of taken, as you know, greater than 90% took the six-month deferral. We do have an awful lot of data. I think some of the more important data just you've asked about served. So, we're at about 15% of our client base that are in mortgage deferrals that have taken the CERB payments. Again, I'm not sure that I've put too much emphasis on who got served and who didn't. Just given all the government assistance programs and others that will come, it's a bit hard to call, based upon this particular stat.

I think some of what is important to look at is some of the information that we provided. When you look at the average FICO scores, you can see there that they're pretty solid, which would indicate good clients. From a franchising perspective, 65% of those are long-tenured clients and that's sort of in that greater than 10-year bucket. The majority fall into that 35- to 50-year-old range. The majority are employed, notwithstanding the smaller percentage that are taking the CERB. And most of them are sitting in Ontario. About 40% of that book is insured. So, hopefully, that gives you, I guess, a little bit of color in terms of our clients that have requested deferral. I hope that helps.

And I think one of the important takeaways here too is, when we look at our mortgages and we go back and Hratch was talking about it, when you look at losses in the event of the default, like we lose 1 basis point, maybe 2 basis points with mortgages. And so, even if we were to lose more, it's still a small amount. So, I, I mean, myself don't get overly concerned when it comes to the mortgages and the deferrals. And I actually feel, I would tell you, more comforted when I look at the profile of those that have requested deferrals. Does that answer your question?

Darko Mihelic, Analyst, RBC Dominion Securities, Inc.

It does almost. I mean, that's – I agree with you on the losses, but that's also why I asked about credit card exposures. So, how many of those on – because the mortgage payment is the big one, right? A lot of people tend to make a very small payment on the credit card. But with the big mortgage payment coming, how many of them have balances? And is there any concern that we should think about? And those balances presumably are starting to grow. So, any sort of indication on cross-product utilization rates might be helpful.

Laura L. Dottori-Attanasio, Senior Executive Vice-President and Group Head, Personal and Business Banking, Canada

Okay. Well, I would – so, we do have that information. I don't have it off the top of my head. So, assuming we can share that at a later date. What I would say, though, if you look at our credit cards and Shawn spoke to it, that payment behavior is what's important, because I would tell you that that's more of the leading indicator. And as Shawn was talking about the payment patterns we're seeing, they're all within expectations. And as

Shawn pointed out, the levels of provisioning that are there adequately reflect the trends. So, I think we're good in that regard too, but we can look to pull that percentage.

Darko Mihelic, Analyst, RBC Dominion Securities, Inc.

Thanks very much, Laura.

Nigel D'Souza, Analyst, Veritas Investment Research Corp.

Thank you. Good morning. I wanted to turn to the delinquency numbers that you outlined on slide 24. And on that slide, you noted what delinquency rates would be excluding payment deferrals, and I was wondering if you could just provide more color on how you determine those numbers?

Shawn Beber, Senior Executive Vice-President and Chief Risk Officer

Yeah. Good morning. It's Shawn. So, the way we looked at that was what would the roll rates have been had we not provided the deferrals for those products. So, we would have had a higher delinquency rate had we not shown those deferrals. As an example, on the credit card side, we've modeled out what we would have expected the roll rates to be and what the associated credit losses would have been that would have flown through as a function of that. So, we would have probably recognized somewhere between CAD 50 million and CAD 60 million worth of incremental net charge-offs as a function of those had we not granted the deferrals. We provided for that insomuch as we've taken that into consideration as we thought about expert credit judgment and doing overlays.

So, it's more of a timing issue, as it relates to those. We haven't assumed that it would – we would lose less on some of those balances as a function of providing the deferrals. So, you could think about it in terms of CAD 50 million to CAD 60 million that we've not recognized in impaired. And you saw the drop in impaired losses on the retail side this quarter. But we have taken that into account and believe we've been – we're well-provisioned for that portfolio.

Nigel D'Souza, Analyst, Veritas Investment Research Corp.

Okay. And just on credit cards, should we interpret it as, just that number there of 102 basis points to interpret as that you expect delinquency rates in the card book to go up meaningfully next quarter, or is it just a noise that you were referring to?

Shawn Beber, Senior Executive Vice-President and Chief Risk Officer

Yeah. No. As deferrals come off, we do expect to see migration in that portfolio and ultimately some of the balances will lead to losses. We expect to see those losses peak in the first half of 2021. If I had to guess, it would be sort of towards the middle or the latter part of the first half of 2021. But so, yes, we will see that migrate over the course of the next few quarters.

Nigel D'Souza, Analyst, Veritas Investment Research Corp.

Okay. Appreciate the color. Thank you.

Mario Mendonca, Analyst, TD Securities, Inc.

Good morning. If we could just go to a more general topic of client activity, looking at the number of your fee category, like deposit and payment fees, credit fees, card fees, the trends are fairly apparent, a big drop-off in Q2, a smaller drop-off in Q3, and even maybe even an inflection point here. What I'm getting at now is, is it conceivable that with the reopening of economies that client activity will cause some of these fee categories to

actually start to grow? On a sequential basis? I appreciate year-over year, perhaps not, but sequentially, is that a reasonable assumption?

Hratch Panossian, Senior Executive Vice-President and Chief Financial Officer

Good morning, Mario. It's Hratch. I'll start and then the businesses can jump in with some color on the client side. But I think you're generally in the right territory. So, as you mentioned, if you look at card fees, for example, that has rebounded from where it was, but not quite there yet. And you'll know that the fee income we recognized is an average across the quarter. And so, we did see things improved in that sense over the quarter. So, we ended the quarter in a much better place on card transaction activity than we started. And so, we don't have the full impact of the current levels that we're seeing yet in Q3. So that will continue – assuming things stay the way they are now, that will continue to provide some benefit there as we go forward.

On the deposit fee side, as you mentioned, there is a bit of a drag there still and that one has continued to be particularly challenged. And a lot of that is related I think to the activity that we're seeing with clients keeping more cash and so forth, so – and some of the activity around handling of cash itself also down. So whether you talk about ATM fees, account fees and so forth, that one could take a bit longer. And as the cash sort of starts leading the system, if it does and some of those activities go back to normal, we would see that coming back as well over more of the long term. And obviously, the number of the fees around investment management and mutual fund, we are confident in our trajectory on net flows and sales of assets with clients, but the markets impact that far more in the short term than net flows do. So, that will depend on where markets go. Was that helpful?

Mario Mendonca, Analyst, TD Securities, Inc.

Yes. Thank you.

Mike Rizvanovic, Analyst, Credit Suisses Securities (Canada), Inc

Hi. Good morning. A quick question maybe for Hratch. Just on further expense saving opportunities, I'm just wondering is it fair to think that the majority would be coming from additional head count reduction gradually. I'm not referring to another restructuring charge, but just through normal attrition. Is it fair to think that you could see your total head count come down maybe by a couple 2 to 3 percentage points over the course of 2021?

Hratch Panossian, Senior Executive Vice-President and Chief Financial Officer

Thanks, Mike, for the question. And we focus on expenses across the entire bank in all categories. Obviously, our head count is a big component of that. But we've announced our restructuring. As we said, we will complete that restructuring. So, on a year-over-year basis, just the impact of that coming through in 2021 will cause a reduction sort of in the neighborhood of what you're talking about.

We are also very focused on the growth in head count going forward from here. And so, with the increase in digitization and virtual interactions that we're seeing, we are – and Victor talked about transformation of our bank, we are very focused on digital and finding ways to automate work internally and the operational side of our bank and interact with our clients more virtually, which gives us potentially some more leverage. So, it is conceivable over time, and that allows us to manage the growth. And, obviously, attrition gives you an opportunity to drive numbers down, if you don't replace that with growth.

Mike Rizvanovic, Analyst, Credit Suisses Securities (Canada), Inc

Sure. That's helpful. And just really curious, what's the reasonable attrition rate? Is 3% a reasonable number at the all-bank level over the course of the year?

Hratch Panossian, Senior Executive Vice-President and Chief Financial Officer

I think it depends in what part of the bank you're talking about. And so, some areas, we do tend to see potentially higher just given the revolver rates. For example, if you look at Laura's side of the business, which tends to have a lot of our employees, it could be a bit higher than that, in the mid-single digits in any given year.

Mike Rizvanovic, Analyst, Credit Suisses Securities (Canada), Inc

Got it. That’s helpful. Thanks.

Operator

Thank you. I would now like to turn the meeting back over to Victor.

Victor G. Dodig, President and Chief Executive Officer

Thank you, operator, and thank you, all, for your very insightful questions. Before we end this call, I wanted again to thank our incredible CIBC team. While there are still many unknowns related to the pandemic, our people have stepped up in remarkable ways this year to reinforce that we have a singularly connected team that is relentlessly focused on our clients. Importantly, we've executed decisively on our long-term vision amid this pandemic and are confident our transformative plans will help us emerge from this a stronger and a much more resilient bank with clear growth momentum. I'd like to thank our shareholders for their continued support and our entire CIBC team for their dedication to making our clients' ambitions a reality. Thank you and take care and off to your next call. Enjoy the day.

Operator

Thank you. The conference has now ended. Please disconnect your lines at this time, and we thank you for your participation.