Canadian Banks

2Q23 Preview: TD is the talk of the town

Estimate Change

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Equity
Canada
Banks-Multinational/Universal

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Investor expectations subdued

Our investor conversations indicate limited appetite to add exposure to the group given what is largely seen as a challenging operating environment and ahead of a potential credit cycle. We lower our 2Q23e EPS by -0.2% on average, implying -8% YoY decline vs -5% reported for 1Q23. Deposit remix to temper net interest margin (NIM) expansion; desire to build CET1 (to 12%) to limit credit reserve (PCL) build. Commercial lending momentum likely continues, mortgage growth low single digits. BofA Economics team forecasting FY23/24 GDP growth: Canada +1.0%/+0.4% US +1.0%/-0.1%. **See Exhibits 42-46 for mgmt. updates on key operating trends.**

Higher for longer rates key risk

Hot inflation data earlier this week highlighted the risk that the BoC may not be done with its inflation fight. Housing market appears to have picked-up steam which could worsen affordability while pressuring rents (both were drivers of the higher inflation in April). We view higher for longer interest rates as the key risk, given its ability to squeeze the consumer (driven by repricing mortgages), weigh on growth outlook, while increasing the likelihood of a deeper credit cycle. Stocks trading at 9.4x/8.6x FY23/24e EPS vs 11x pre-pandemic 5yr median; 1.3x YE23 book value vs. 1.7x. **Turn to page 3 for Bank of Canada's Financial System Review released yesterday.**

Credit ok (for now), focus on mortgage, CRE, AML

While credit trends should remain subdued (albeit normalizing) investors will be focused on mortgage behavior (stretching amortizations), details on commercial real estate (CRE) exposures and whether the rate shock over the last year is finally beginning to weigh on the customer base. Anti-money laundering (AML) concerns have re-emerged following news reports that issues with AML compliance led to the termination of TD's acquisition of US based First Horizon-FHN. Relevant research: TD: And the not so good emerges...

TD: messaging, buybacks could drive re-rating

TD's discounted valuation hard to ignore, but investor feedback suggests lack of confidence in management execution. Investor bias to go long given excess capital position and a more resilient deposit base (NIM expansion seen as continuing). However, investors will need comfort on whether there are any restrictions on TD's US growth and/or capital management. A share buyback announcement would be well received by and serve as a show of capital flexibility (lacking at peers).

BMO/CIBC potential gainers from US regional bank pain

While not an immediate catalyst, a higher regulatory bar for US regional banks could potentially allow BMO/CIBC to emerge as market share gainers. For BMO, integration of Bank of the West (closed Feb 1, 2023) top priority, NIM expansion likely petering out as deposit repricing accelerates, perceived credit risk keeping investors cautious. For CIBC, much awaited NIM expansion, flatlining expenses looking into 2H23 could be received positively. Royal/National viewed as defensive longs reflected in premium valuation. Investors in wait and watch mode on Scotia.

Exhibit 1: 2Q23 EPS estimates
We are 2% below cons in 2Q23

Ticker	Rating	PO	BofA 2Q23e EPS	Consensus 2Q23e EPS	Dividend Yield
BMO	Neutral	$134.00	$3.13	$3.21	4.8%
BNS	Neutral	$70.00	$1.75	$1.77	6.1%
CM	Underperform	$65.00	$1.61	$1.64	6.0%
RY	Neutral	$141.00	$2.72	$2.81	4.1%
TD	Buy	$99.00	$2.08	$2.09	4.7%

Source: BofA Global Research, Bloomberg
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Exhibit 2: 2Q23 earnings calendar
Earnings start on 5/24 with BNS reporting

Ticker	Date	Earnings call
BNS	5/24	7:15am ET
BMO	5/24	8:15am ET
CM	5/25	7:30am ET
RY	5/25	8:30am ET
TD	5/25	1:30pm ET

Source: BofA Global Research, company reports
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BoC Financial Stability Review: Highlights

Summary

- In light of higher borrowing costs, the Bank of Canada is more concerned than it was last year about the ability of households to service their debt.
- The decline in house prices has also reduced homeowner equity, and some signs of financial stress—particularly among recent homebuyers—are beginning to appear.
- The Bank remains concerned about threats to financial stability from a major cyber incident, particularly in the context of rising geopolitical tensions and Russia's ongoing war in Ukraine. A successful cyber attack that damages activities in one part of the financial system could spread quickly, undermining the public's confidence.
- Climate change also poses significant risks… assets exposed to these risks may be mispriced. An abrupt repricing of these assets could lead to losses for financial system participants.
- Crypto asset markets do not currently represent a significant concern for the stability of the Canadian financial system. They remain small and mostly separate from the financial system.

Banks and Non-bank financial intermediaries

- The Bank will continue to closely monitor the financial system for early signs of strain and has the tools to provide emergency liquidity to the financial system if severe stress were to develop.
- During the recent stress in the global banking sector, the Bank's regular engagement with financial system participants revealed that the volume of wholesale funding at terms greater than one year declined significantly, reflecting higher costs.
- The Canadian banking sector's exposure to commercial real estate is small: non-residential mortgages account for about 2% of the total value of bank assets.
- The cost of trading has steadily increased over this period, reflecting decreased liquidity in these (fixed income) markets. More recently, the global banking stress temporarily caused a further reduction in fixed-income market liquidity.
- If a market-wide liquidity crunch were to occur, the Bank could provide liquidity to the Canadian financial system through its various standing and extraordinary facilities. In cases of extreme market-wide stress, the Bank could activate the Contingent Term Repo Facility, which allows it to provide liquidity directly to asset managers.

Households

- The share of new mortgages with an amortization period longer than 25 years increased from 41% to 46% over 2022. In 2019, this share was 34%.
- Debt service ratios (DSRs) for recent homebuyers have increased significantly. The median DSR on new mortgages rose from 16% to more than 19% over 2022, and the share of new mortgages with a DSR of more than 25% increased from 12% to 29% during the same period.

- The share of indebted households that are behind on payments for at least 60 days in any credit category is below its pre-pandemic average but has been increasing since the middle of 2022.
- Households that took on a mortgage between 2020 and 2022 are carrying over about 17% more credit card debt, on average, than those that purchased between 2017 and 2019, suggesting a greater reliance on credit cards among recent homebuyers to finance debt.
- Arrears on credit cards have also been rising and are close to pre-pandemic levels, in contrast to those on mortgages, which remain near historical lows.
- To date, about one-third of mortgages have seen an increase in payments compared with February 2022—just before the Bank started raising its policy interest rate (Chart 12). By the end of 2026, nearly all mortgage holders will have seen their payments increase. Assuming mortgage rates evolve according to current market expectations, the median payment increase over the 2023–26 period will be about 20%
- Impact of higher interest rates on mortgage payments using a simulation analyzing mortgages that have already registered/will register a higher payment than in Feb 2022:
- For fixed-rate mortgages, the average increase in payments at renewal will be greatest in 2025–26, at between 20% and 25%.
- For variable-rate mortgages, the average increase depends on whether the payments are variable or fixed.
- Variable payments—these borrowers have already experienced an increase in payments of close to 50%, with the bulk of the increase taking place in 2022.
- Fixed payments—these borrowers will need to increase their payments by approximately 40% to maintain their original amortization schedule, assuming a renewal in 2025 or 2026.

Non-financial businesses

- In response to Statistics Canada's Canadian Survey on Business Conditions, about one-half of the firms that received government support during the pandemic reported that repaying the funds before the end of 2023 would be a challenge.
- The number of firms filing for insolvency—which fell considerably in 2020—has returned to pre-pandemic levels.
- Small and medium-sized enterprises account for around 85% of Canadian private employment – reduced lending from banks can reduce employment and strain household budgets.

Cybersecurity

- The financial sector reports a larger share of cyber attacks than any other sector
- State-sponsored cyber attacks on Canada's financial system and critical infrastructure have been a key threat since the start of Russia's war on Ukraine.
- As in previous years, many of the respondents to the Bank's 2023 Financial System Survey identified cyber incidents as one of the top three risks to their organizations.

Climate Change

- Three main concerns on how climate-related financial risks affect the financial system:
- The lack of a consistent, globally agreed-upon method to measure these risks
- inconsistent and generally inadequate disclosure to understand these risks
- uncertainty about the magnitude and timing of the global policy response to transition to a low-carbon economy and the impact on financial assets
- The Bank is working to close these gaps by using its expertise in economic modelling to provide scenarios to the financial sector
- Also conducting two analytical projects, in partnership with the Office of the Superintendent of Financial Institutions (OSFI) and selected financial institutions, examining:
- flood risk and its impact on the banking sector's portfolios of residential mortgages
- climate transition risk and its implications for the Canadian financial system
- The Bank is also working with OSFI and the Canada Deposit Insurance Corporation to draft requirements for regulatory reporting that will address data gaps around physical and transition risks.

Crypto assets

- Crypto asset markets remain small relative to the size of the global financial sector and therefore do not yet pose a systemic threat.
- The Financial Stability Board plans to release high-level recommendations on the global regulation, supervision and oversight of crypto asset activities and markets later this year.
- In December 2022, the Basel Committee on Banking Supervision (BCBS) finalized a robust regulatory standard for banks' exposure to crypto assets, which will come into force by January 2025.

2Q23 Preview: Operating outlook

BofA 2Q23e EPS forecast: Our EPS forecast implies -8% in median YoY decline for the big five banks for 2Q23 (vs. -5% reported for 1Q23) and -1% decline for FY23 (vs. +2% for FY22).

Exhibit 3: Our 2Q23 estimates remained relatively unchanged
BofA EPS estimate revisions

	2Q23e			2023e			2024e			2025e		
	New	Old	% Chg.	New	Old	% Chg.	New	Old	% Chg.	New	Old	% Chg.
BMO	$3.13	$3.05	2.4%	$12.97	$12.81	1.2%	$14.10	$14.35	-1.8%	$14.52	$14.75	-1.6%
BNS	$1.75	$1.79	-2.1%	$7.42	$7.45	-0.4%	$7.98	$8.05	-0.9%	$8.78	$8.93	-1.6%
CM	$1.61	$1.60	0.9%	$6.91	$6.25	10.6%	$6.90	$7.10	-2.7%	$7.16	$7.35	-2.6%
RY	$2.72	$2.76	-1.5%	$11.35	$11.48	-1.1%	$12.30	$12.35	-0.4%	$13.25	$13.30	-0.4%
TD	$2.08	$2.09	-0.2%	$8.78	$8.80	-0.1%	$8.98	$9.91	-9.5%	$9.78	$10.83	-9.7%
Median			-0.2%			-0.1%			-1.8%			-1.6%

Source: BofA Global Research

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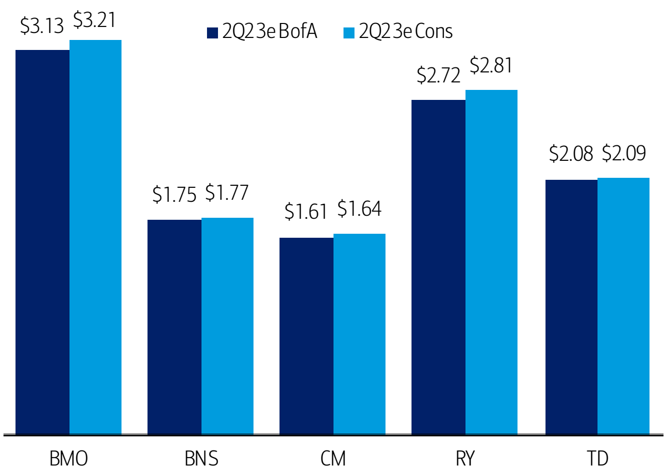
Exhibit 4: We are -1.6% below consensus in 2Q23
BofA vs. Cons 2Q23 EPS Estimates



Source: BofA Global Research, Bloomberg

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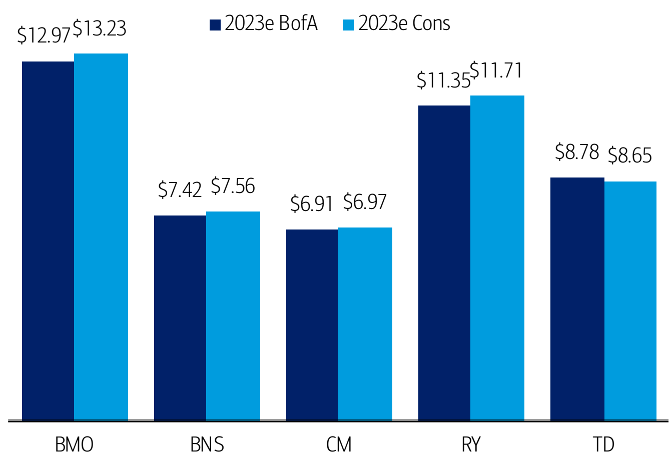
Exhibit 5: We are -1.3% below consensus in 2023
BofA vs. Cons 2023 EPS Estimates



Source: BofA Global Research, Bloomberg

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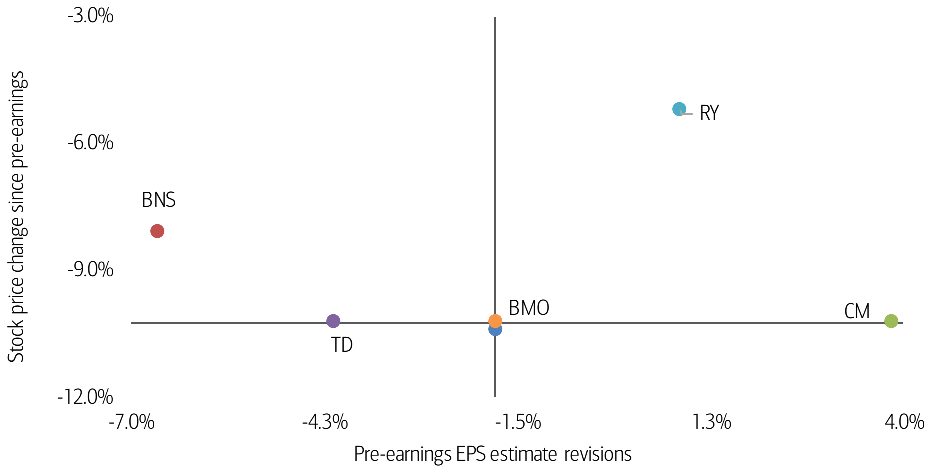
Exhibit 6: CM and RY saw positive 2023 EPS revisions since pre 1Q23 earnings
Pre-1Q23 earnings 2023 EPS revisions vs. stock performance



Source: BofA Global Research, Bloomberg, Visible Alpha

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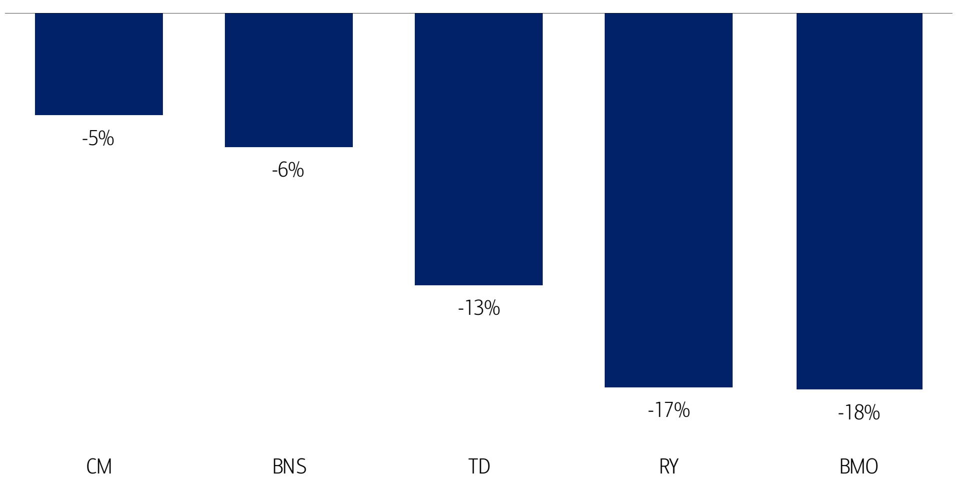
Exhibit 7: Current valuations offer little downside support should the risk of recession rise
Potential downside assuming stocks re-rate to trough P/Book multiples



Source: BofA Global Research, Bloomberg
Note: Trough P/B based on the average trough multiple during 2016 and 2020. Recession price based on 2023e book value

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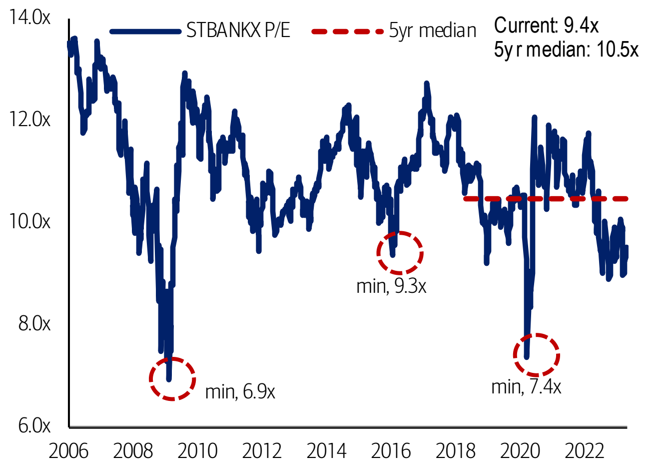
Valuations: Stocks trading at 8.6x our 2024e EPS vs 11.0x median over 5yrs pre-pandemic and a P/YE23e book value of 1.3x vs our forecast for a median ROE of 14.1% for FY23.

Exhibit 8: Banks are trading at 9.4x forward P/E vs. 10.5x 5yr median

Historical and current forward P/E



Source: BofA Global Research, Bloomberg

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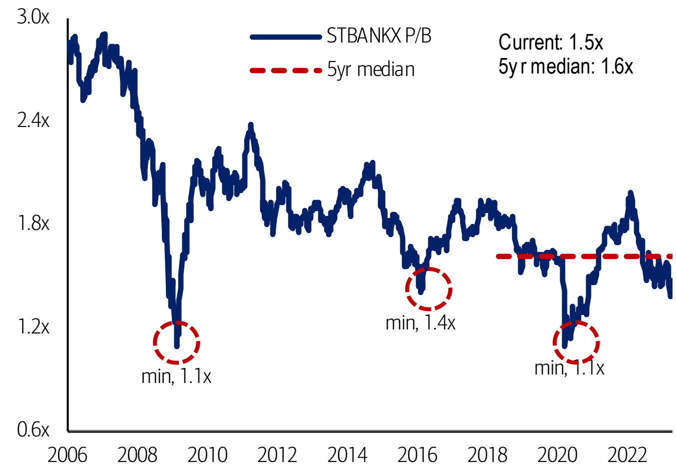
Exhibit 9: Banks are trading at 1.5x P/B, vs. 1.6x 5yr median

Historical and current forward P/B



Source: BofA Global Research, Bloomberg

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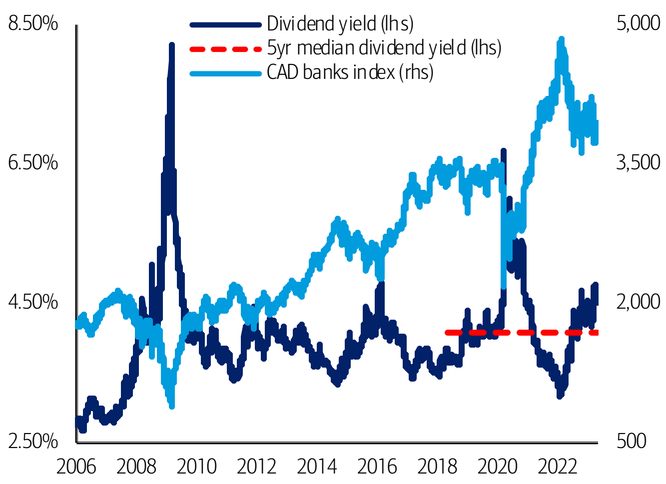
Exhibit 10: Canadian Banks index performance vs. dividend yield

CAD banks dividend yield: current: 4.72%, 5yr median: 4.09%, peak: 8.22%



Source: BofA Global Research, Bloomberg,

*CAD Banks Index represented by STBANKX Index

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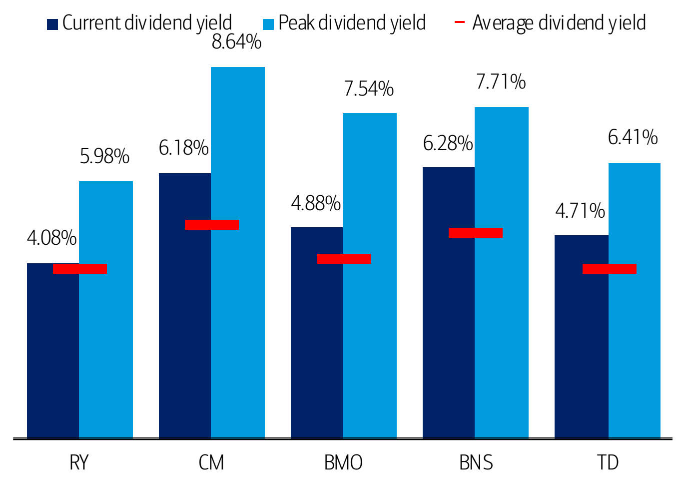
Exhibit 11: Dividend yields have increased but remain below avg.

Canadian banks current dividend yields vs. peak levels



Source: BofA Global Research, Bloomberg

Note: Peak and average dividend yield from 2015-2023

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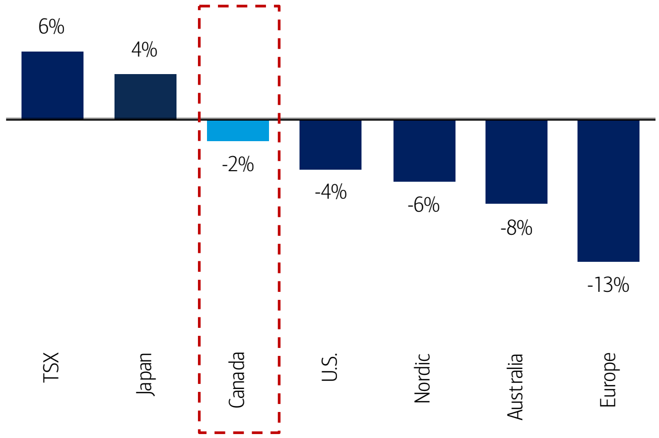
Canadian banks have underperformed global peers QTD but have historically been more resilient during periods of market stress.

Exhibit 12: Canadian banks outperformed most peers YTD
Price performance of global banks YTD



Source: BofA Global Research, Bloomberg. Note: Calculated based on the average YTD performance of the largest banks in each respective region. Japan includes MUFG, Mizuho, Sumitomo Mitsui; Australia includes ANZ, BOQ, BEN, CBA, NAB, WBC; Canada includes BMO, BNS, RT, TD, CM; Europe includes BARC, CSGN, DBK, USSG, HSBA; Nordic includes DANSKE, DNB, SEBA, SHBA, SWEDA, NDA; U.S. includes BAC, C, JPM, WFC.

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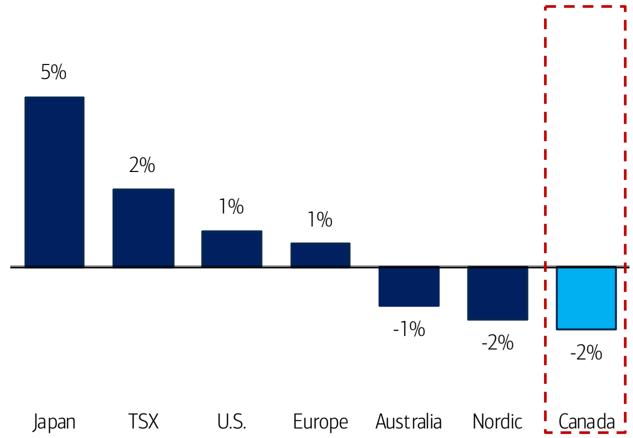
Exhibit 13: Canadian banks have underperformed all peers QTD
Price performance of global banks QTD



Source: BofA Global Research, Bloomberg. Note: Calculated based on the average QTD performance of the largest banks in each respective region. Japan includes MUFG, Mizuho, Sumitomo Mitsui; Australia includes ANZ, BOQ, BEN, CBA, NAB, WBC; Canada includes BMO, BNS, RT, TD, CM; Europe includes BARC, CSGN, DBK, USSG, HSBA; Nordic includes DANSKE, DNB, SEBA, SHBA, SWEDA, NDA; U.S. includes BAC, C, JPM, WFC.

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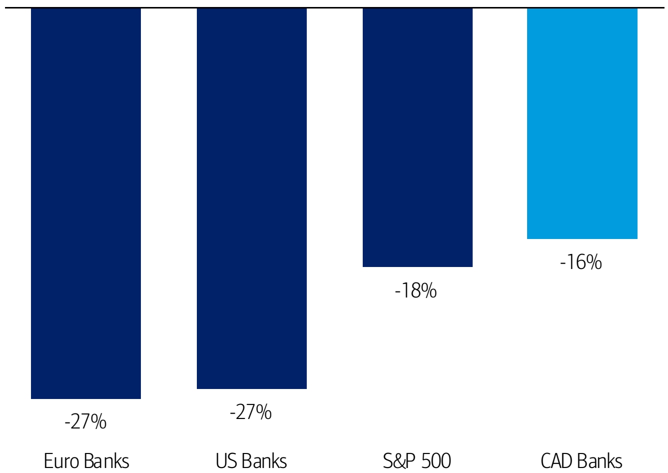
Exhibit 14: CAD banks have held up better than peers in downturns
CAD banks vs. global peers during market sell offs



Source: BofA Global Research, Bloomberg
S&P 500 = SPX Index; CAD Banks = STBANKX Index; Euro Banks = SX7E Index; US Banks = S5BANKX index. Prior downturns include 4/29/11-10/3/11, 5/21/15-2/11/16, 9/20/18-12/24/18, 2/19/20-3/23/20, 1/3/22-5/11/22, and 2/2/23-3/24/23

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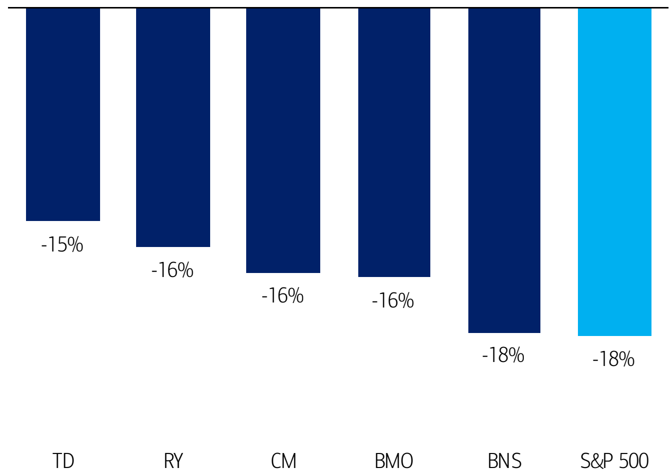
Exhibit 15: CAD banks tend to trade in line during downturns
CAD banks vs. S&P 500 during market sell offs



Source: BofA Global Research, Bloomberg
Note: Prior downturns include 4/29/11-10/3/11, 5/21/15-2/11/16, 9/20/18-12/24/18, 2/19/20-3/23/20, 1/3/22-5/11/22, and 2/2/23-3/24/23

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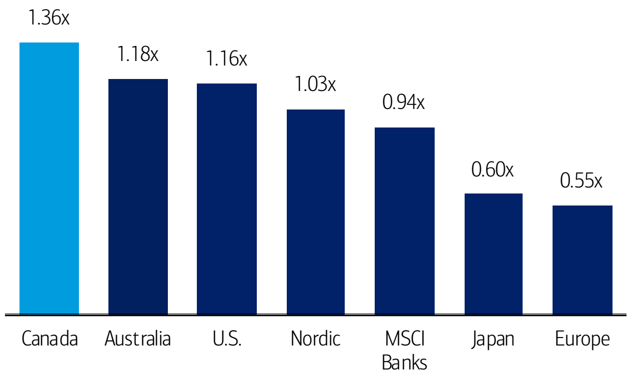
Canadian banks continued to trade at a premium to global peers on P/B, but trade at a discount on P/E.

Exhibit 16: Global banks P/B ratios
Canadian banks are trading at a P/B premium to global peers



Source: BofA Global Research, Bloomberg

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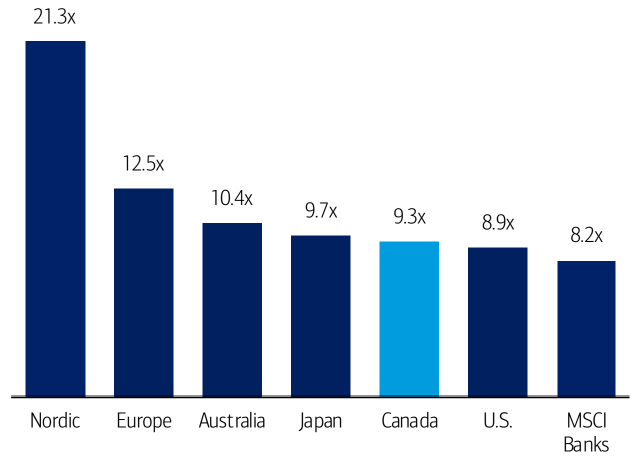
Exhibit 17: Global banks P/E ratio
Canadian banks trade on the lower end on a P/E basis



Source: BofA Global Research, Bloomberg

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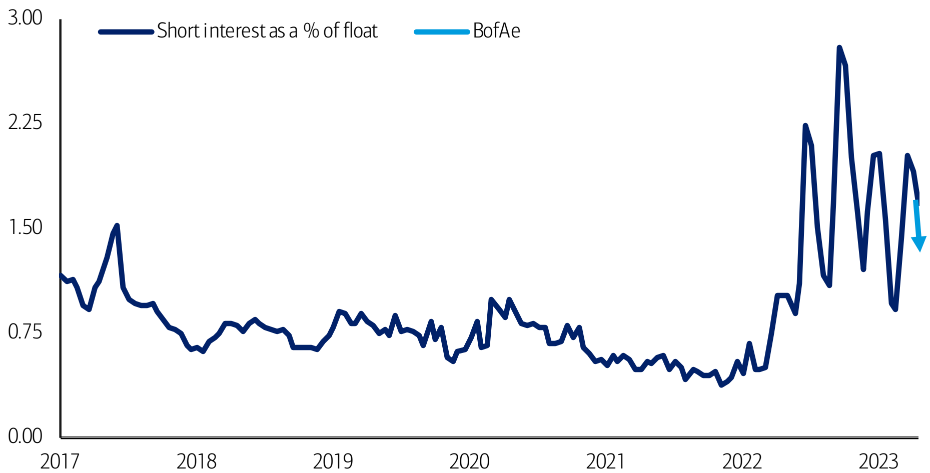
With concerns around the mortgage market continuing to grow, we note that short interest in Canadian banks remains high. BMO and RY have seen the greatest increase in short interest since mid 2022.

Exhibit 18: Short interest remains elevated YTD given concerns around the Canadian consumer
Canadian Banks aggregate short interest as a % of float



Source: BofA Global Research,
Note: BofAe based on prior 2.5 weeks of data using outside vendors and BofA's rehypothecation assumptions

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Exhibit 19: Investors continue to position against Canadian Banks as bearish sentiment rises with the chance of recession
Canadian Banks short interest

	Days to cover					Short interest % float				
	Current	6/15/2022	12/31/2021	Δ since 6/15	Δ since 12/31	Current	6/15/2022	12/31/2021	Δ since 6/15	Δ since 12/31
BMO	9.25	6.17	5.52	50%	68%	5.67%	3.13%	2.85%	254bp	282bp
BNS	8.89	10.31	6.81	-14%	31%	6.01%	5.47%	4.57%	54bp	144bp
CM	7.46	9.97	9.88	-25%	-24%	5.58%	5.59%	6.55%	-1bp	-97bp
RY	5.17	3.92	3.50	32%	48%	2.85%	1.52%	1.51%	133bp	134bp
TD	6.12	8.68	7.70	-29%	-21%	4.97%	3.93%	3.60%	104bp	137bp
Median				-14%	31%				104bp	137bp

Source: BofA Global Research, Bloomberg

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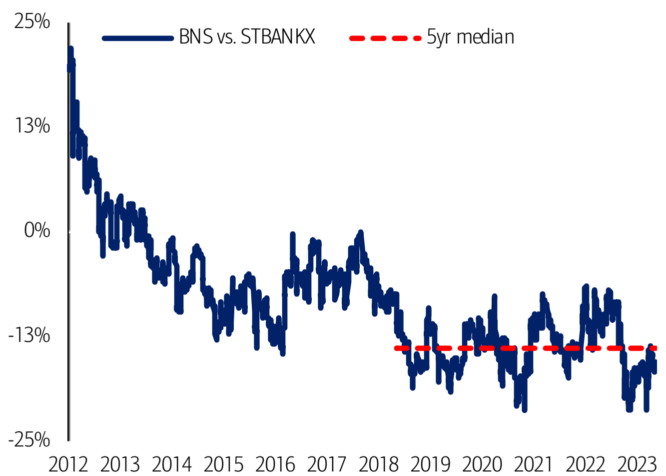
TD (trading at 9.3x P/E vs RY 10.7x and peer median 9.3x) has seen downward pressure in price, driven by concerns around regulatory compliance that have surfaced from the cancellation of the FHN acquisition and potential impacts on U.S. card fee revenue due to proposed CFPB (Consumer Financial Protection Bureau) regulatory changes. BNS (1.2x P/B and 8.4x P/E) will require clarity from their Investor Day especially around International Banking with the recent change of leadership to gain investor confidence.

Exhibit 20: Current: -16%; 5yr median: -14%; max: +3%
BNS vs. STBANKX relative forward P/Book



Source: BofA Global Research, Bloomberg

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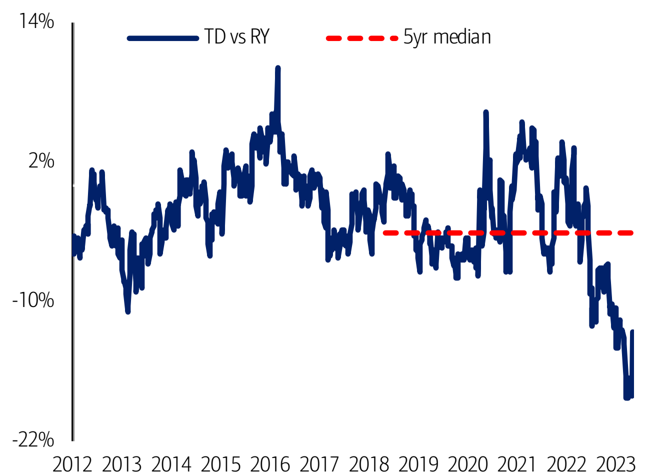
Exhibit 21: Current: -13%; 5yr median: -4%; max: +10%
TD vs. RY relative forward P/E



Source: BofA Global Research, Bloomberg

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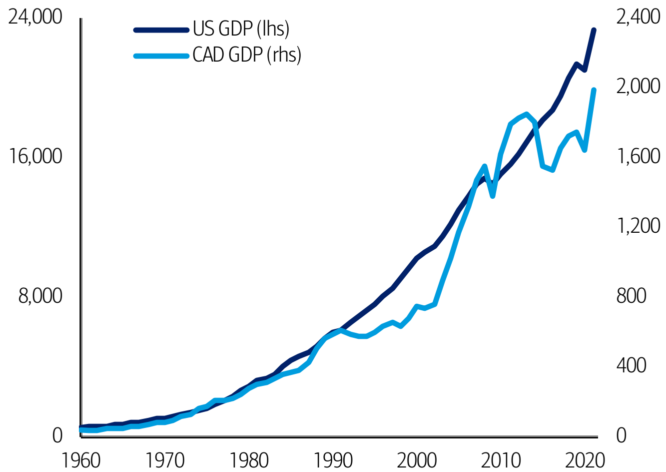
BofA Economics forecast calls for Canada/US 2023 GDP growth of +1.0%/+1.0% YoY, a slight improvement to the +0.8%/+1.0% forecast from three months ago.

Exhibit 22: Canada and U.S. have seen similar growth in GDP
U.S. vs Canadian GDP over time



Source: BofA Global Research, Bloomberg

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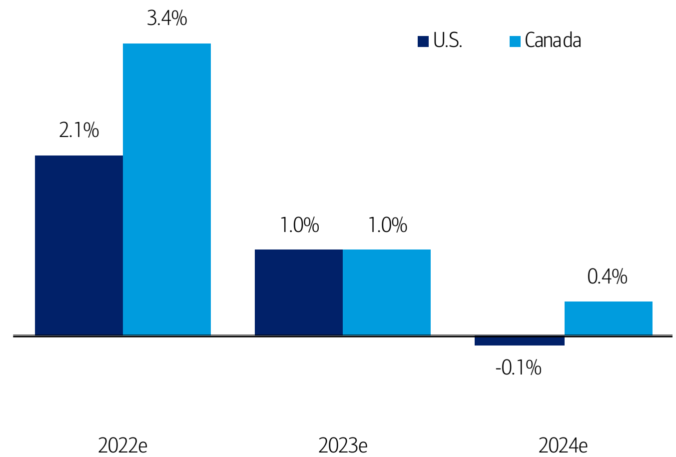
Exhibit 23: BofAe shows Canadian GDP outpacing the U.S. in 2024
BofA U.S. and Canadian GDP growth forecasts



Source: BofA Global Research, Bloomberg

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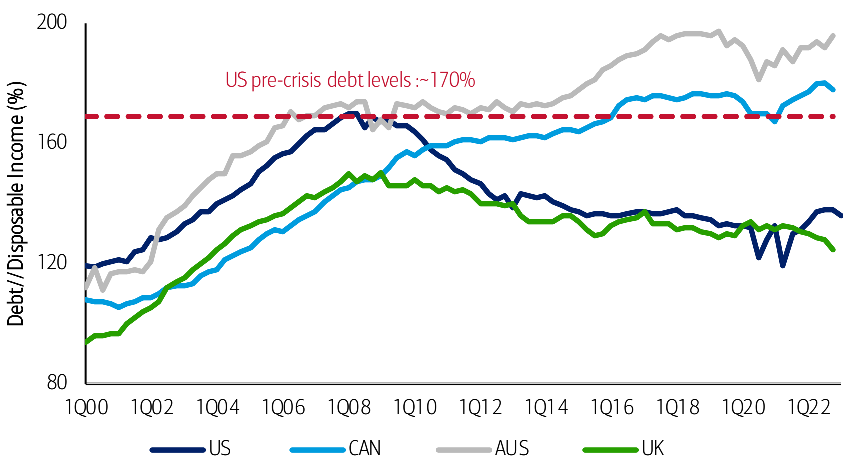
Exhibit 24: Consumer debt continues to rise following pandemic lows
Household debt to disposable income



Source: BofA Global Research, Haver

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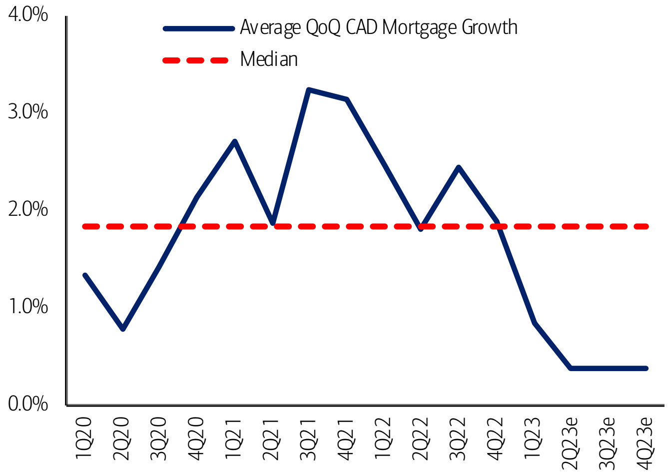
We continue to expect slowing loan growth, especially in mortgage lending, due to higher for longer interest rates. We forecast an average of +0.4% QoQ mortgage loan growth for 2Q23 vs +0.8% in 1Q23.

Exhibit 25: We expect mortgage growth to remain challenged
Average QoQ Canadian mortgage loan growth



Source: BofA Global Research, company reports

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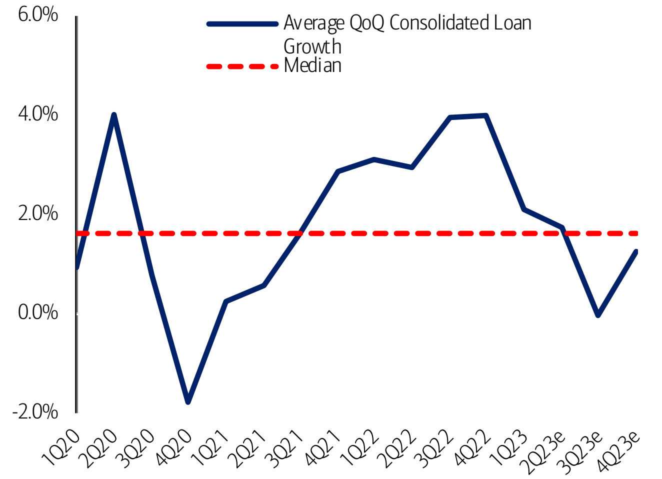
Exhibit 26: We expect loan growth to be muted due to interest rates
Average QoQ consolidated loan growth



Source: BofA Global Research, company reports

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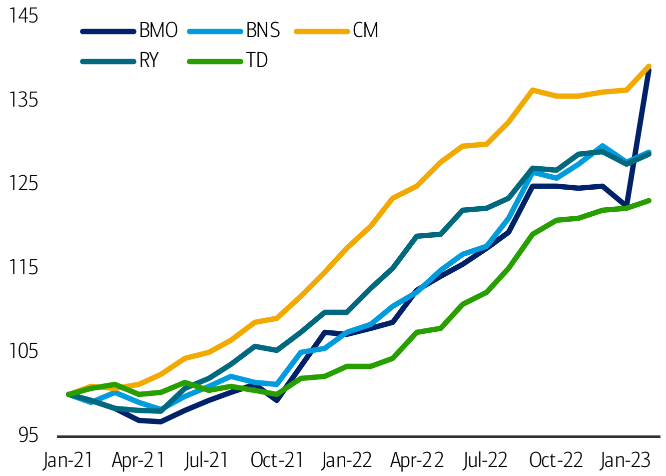
Exhibit 27: Non-mortgage growth remains strong to start 2023
Non-mortgage loan growth indexed to Jan 2021



Source: BofA Global Research, OFSI

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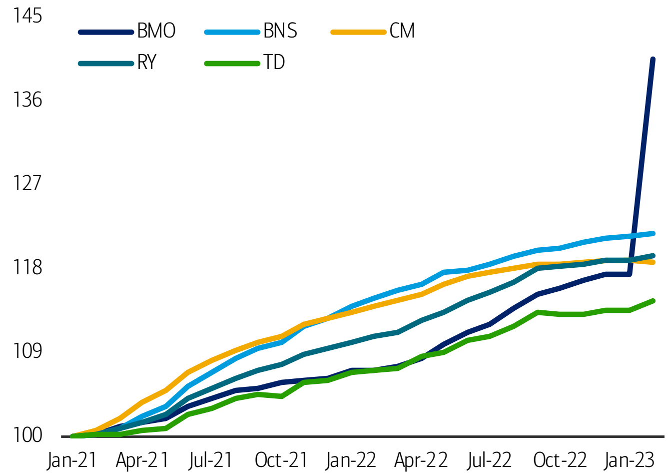
Exhibit 28: Mortgage growth has seen a slow start to the year
Mortgage loan growth indexed to Jan 2021



Source: BofA Global Research, OFSI

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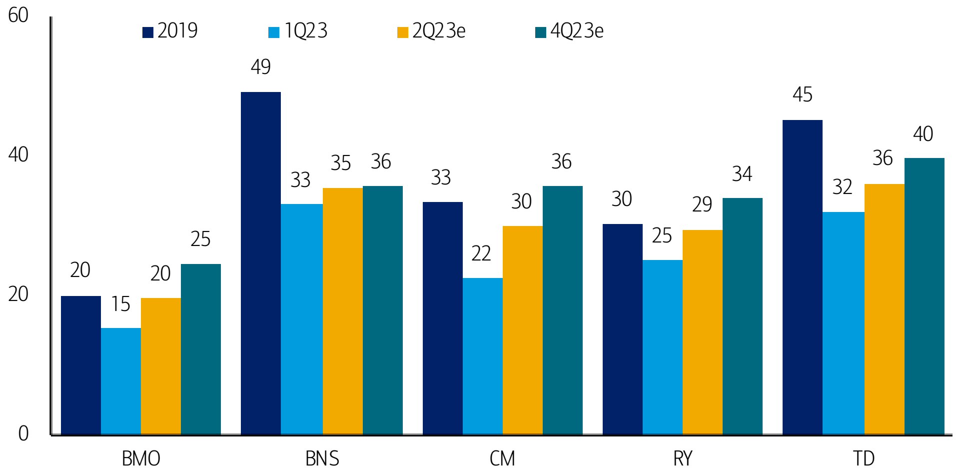
Our estimates also reflect a gradual build-up in performing PCLs (credit costs), reflecting the deterioration in the macro-economic outlook. Although unlikely we see much in terms of credit deterioration just yet.

Exhibit 29: We see PCLs approaching pre-pandemic levels as normalization is expected
PCL ratio forecast (in bp)



Source: BofA Global Research, company reports

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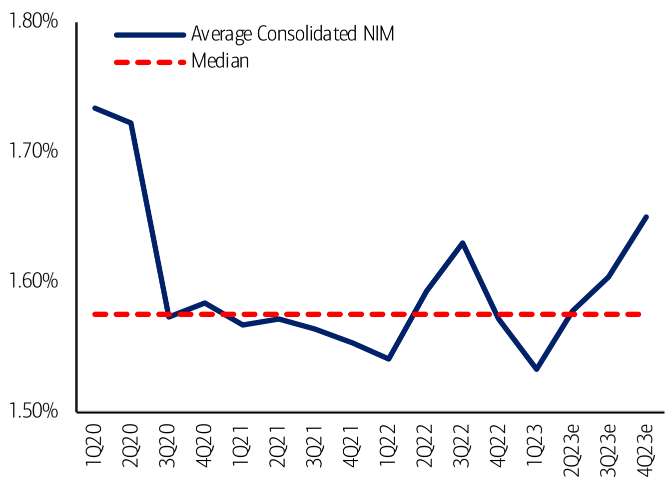
Banks are beginning to see pressure to NIM as rising L/D ratios serve as a headwind while deposit costs continue to rise.

Exhibit 30: We expect NIM expansion to lessen going forward
Average consolidated net interest margin (NIM)



Source: BofA Global Research, company reports

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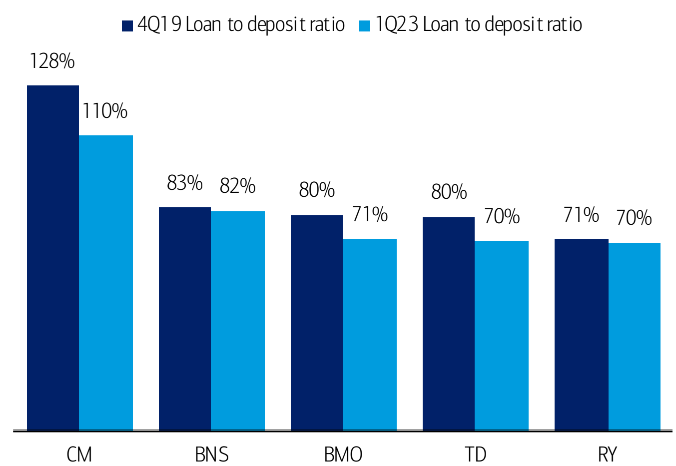
Exhibit 31: Consolidated L/D ratios remain below 4Q19 levels
Consolidated loan to deposit ratios



Source: BofA Global Research, company reports

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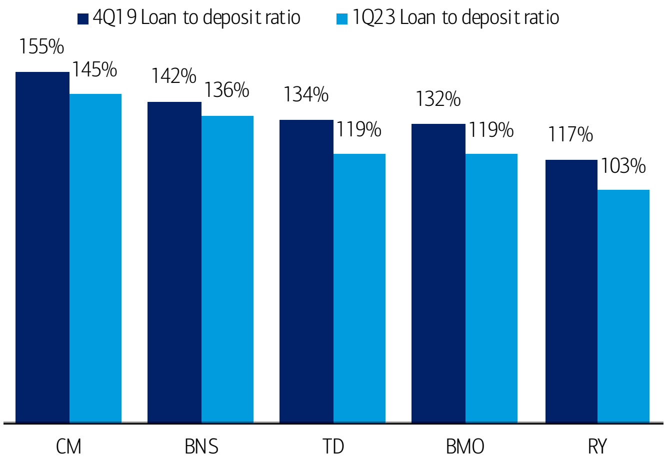
Exhibit 32: Canadian segment L/D ratios remain below 4Q19 levels
Canadian segment loan to deposit ratios



Source: BofA Global Research, company reports

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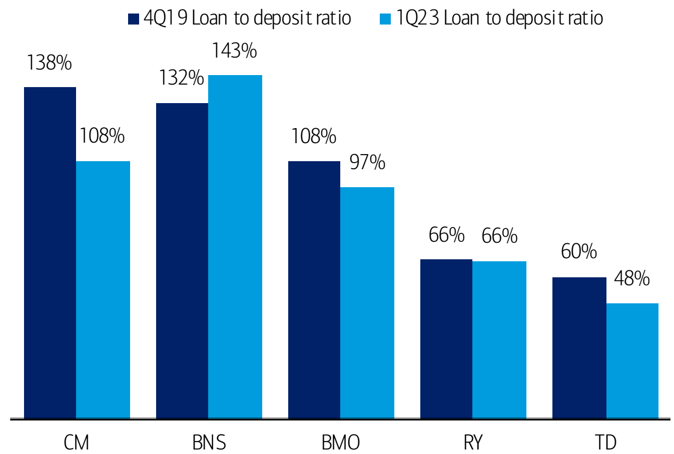
Exhibit 33: U.S./LatAm segment L/D ratios are typically below Canada
U.S./LatAm (BNS) segment loan to deposit ratios



Source: BofA Global Research, company reports

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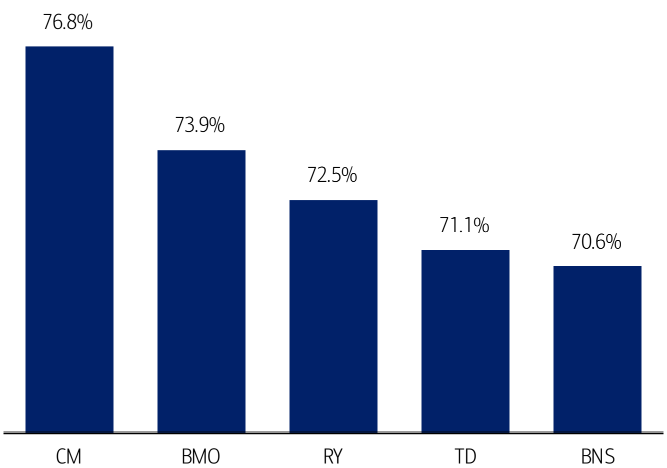
Exhibit 34: TD and BNS saw the lowest deposit beta last cycle
Prior cycle consolidated deposit beta



Source: BofA Global Research, Bloomberg

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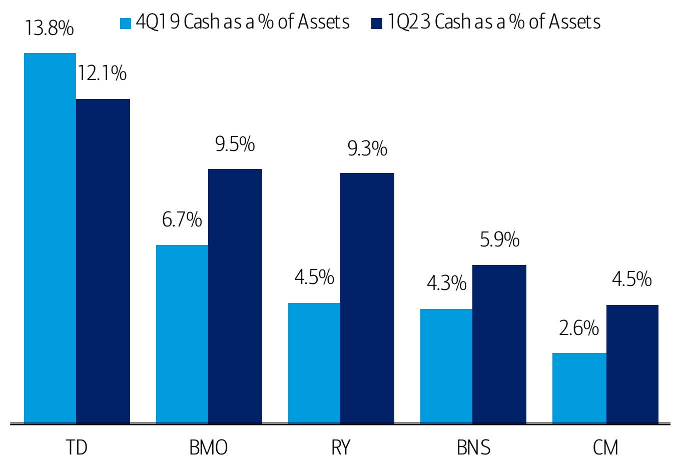
Exhibit 35: Most banks have opted to keep more cash on hand in 2023
Cash as a % of total assets



Source: BofA Global Research, company reports

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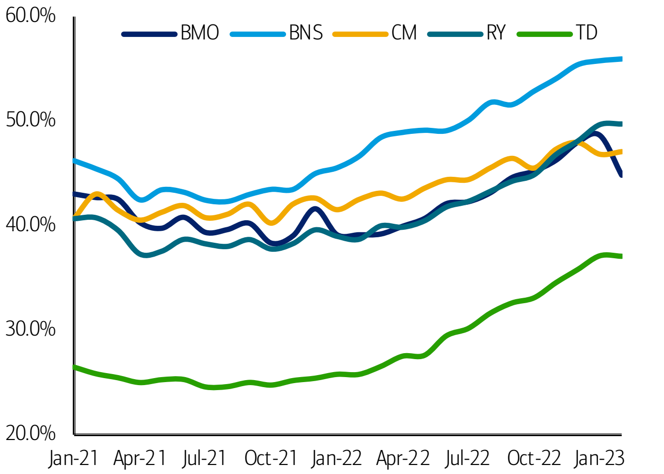
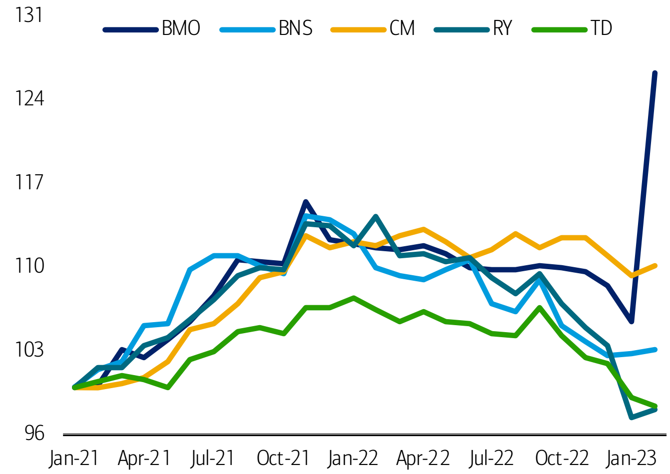
Exhibit 36: Depositors are continuing to shift to fixed-term deposits
Fixed-term deposits as a % of total deposits



Source: BofA Global Research, OFSI

BofA GLOBAL RESEARCH

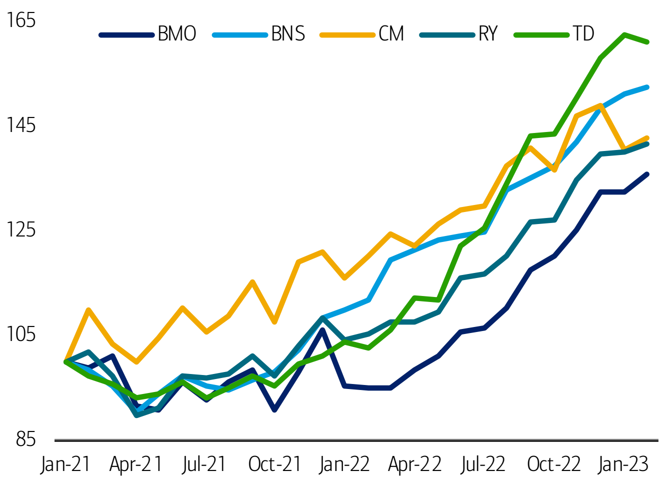
Exhibit 37: Demand deposits are decreasing as customers seek yield
Demand deposits indexed to Jan 2021



Source: BofA Global Research, OFSI

BofA GLOBAL RESEARCH

Exhibit 38:Fixed term deposit growth remains strong
Fixed-term deposits indexed to Jan 2021



Source: BofA Global Research, OFSI

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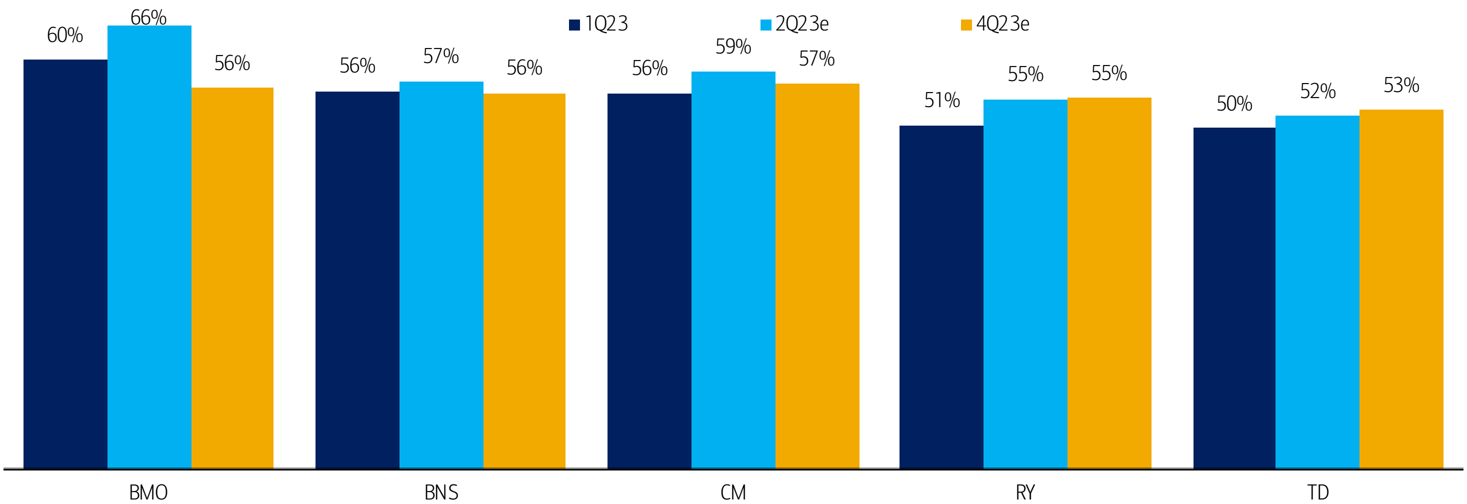
Weakening balance sheet growth, poor macro backdrop for capital markets and asset management fees and shrinking margins will continue to threaten operating leverage.

Exhibit 39: We anticipate efficiency ratios to rise in the short term but lower by the end of the year
BofAe efficiency ratio forecasts



Source: BofA Global Research

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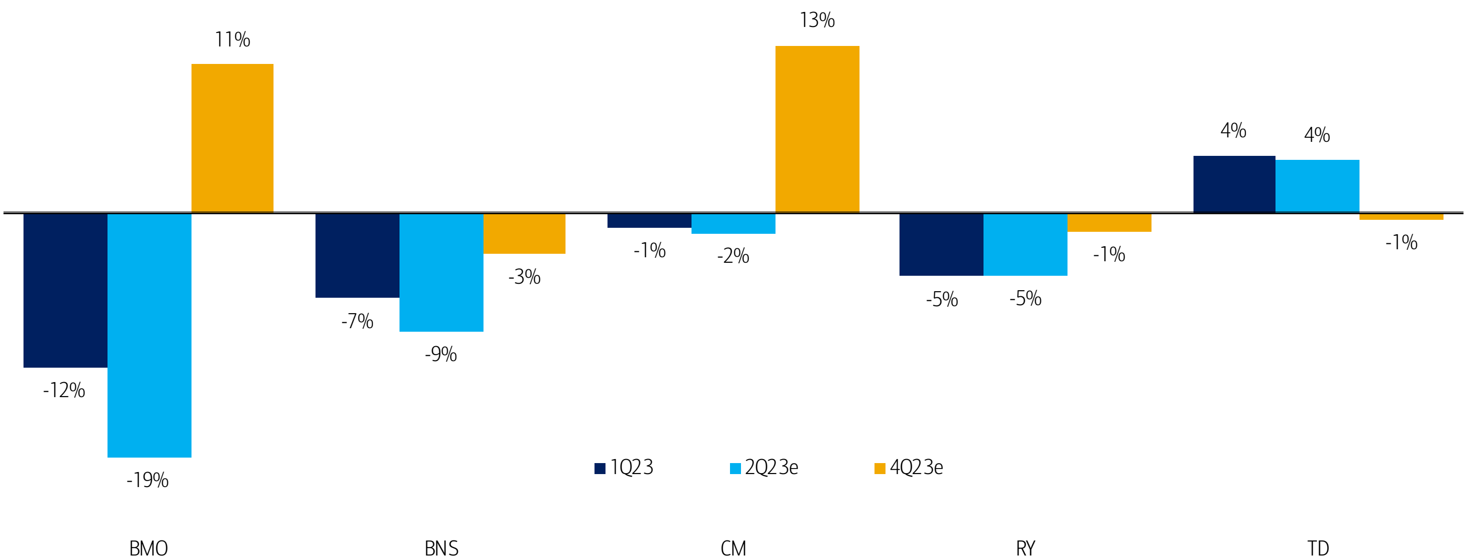
Exhibit 40: With profitability projected to weaken, we expect positive operating leverage to be harder to achieve
BofAe operating leverage forecasts



Source: BofA Global Research

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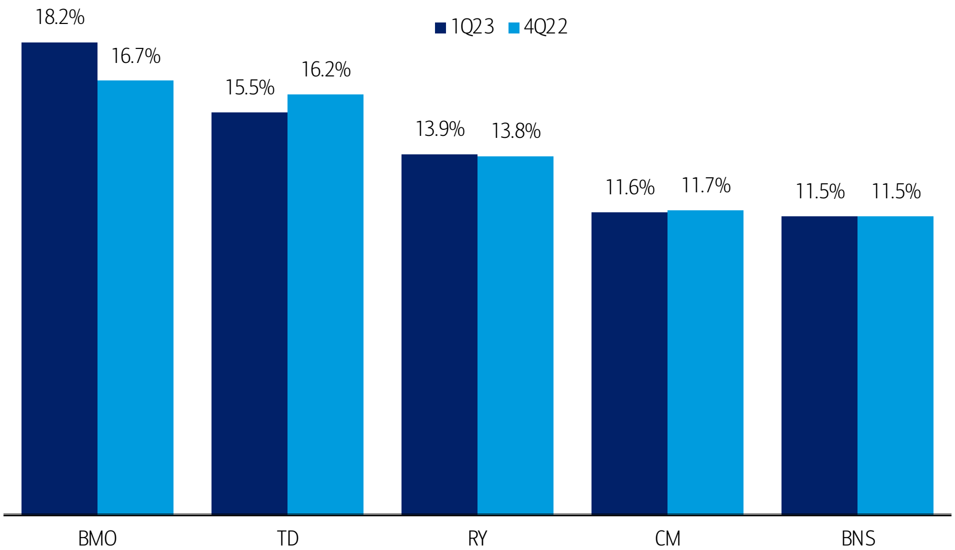
Canadian bank management teams have guided towards reaching 12% CET1 by YE23. TD now has a very comfortable capital buffer to deploy after the cancellation of the FHN acquisition.

Exhibit 41: CET1 ratios increased 10bp on a median basis
1Q23 CET1 ratios vs. 4Q22 CET ratios as reported



Source: BofA Global Research, company reports

BofA GLOBAL RESEARCH

Tear Sheets: Management commentary

Exhibit 42: BMO Tear Sheet

Management commentary / outlook

Bank of Montreal	Notes
Revenue	Once fully cross synergized, we expect the US to contribute approximately 45% to the bank's earnings on a pro forma basis, up from 27% five years ago, which helps fundamentally increase the size and the performance of the bank overall. By the end of 2025, we anticipate that the Bank of the West acquisition will add over $2 billion in run rate pre-provision, pre-tax earnings to BMO.
Net interest margin	And as we move beyond the temporary factors over the next couple of quarters, we expect the BMO standalone NIM to resume expanding during the second half of the year as deposit spreads begin to stabilize. With the addition of Bank of the West balance sheet, we expect the widening NIM to be a core relative strength for BMO. Post-closing, we expect our NIM to widen by approximately 10 basis points for both the second quarter and the full year. On U.S. NIM: And I expect the NIM to continue to be pretty strong given the deposit base. We haven't – just I'll throw in, it's going to only get better in terms of overall NIM for the bank when we add the very solid and consistent type of deposit business we'll get with Bank of the West. We are still expecting some expansion in the second half of the year based on what I said while we keep an eye on the downside.
Provisions/Credit quality	The strong impaired loan performance is due to low formations, which continue to be below pre-pandemic levels. We do expect impaired provisions to return to more normal levels over time. Looking ahead, the coming quarter PCL will have a one-time adjustment for Bank of the West opening allowance. And in terms of overall impaired PCL, including the Bank of the West loan portfolio, we expect impaired loss rates to trend in the high teens to low-20 basis points, which is in line with our combined pre-pandemic experience. NA Conference: "I would say is very confident about the CAD 2.5 billion provision we have and the coverage we have either to the last four quarters which is well over 4x."
Expenses	We expect expense growth to moderate through this year with continued momentum in revenue. As a result, with a follow-through impact of last year's investment subsiding after the second quarter, we expect our year-over-year expense growth to moderate in the second half of the year. And once we cross into the second half of the year, I expect on average, you're going to see 3%, 4% drop in our year-over-year expense growth. So we are one quarter behind in terms of the closing date, which then shifts the capture of all the expense savings, and we get one quarter in 2024 where we actually finalize that capture. That's the only change. It's a calendar change, basically, nothing else.
Efficiency	
Tax Rate	
Operating leverage	We remain committed to delivering positive full year operating leverage on a BMO standalone basis as we have for the last five years.
EPS	
Loans	Looking ahead, we expect full year average loan growth to be in the mid-to-high single-digit range, reflecting strong diversified pipelines and matching similar growth rates in deposits. We continue to be pretty bullish, very bullish long term in terms of where our loan growth has been. It's consistently outpaced the peers as we've added new clients. I expect that to continue. NA Conference: "Client demands coming down a bit but we still are targeting a mid single-digit loan growth and the economic scenario we'll see how things reshape over the next two, three weeks as we get into the end of quarter cycle."
Mortgages	So you can anticipate our going forward mortgage balances or our growth, I should say, to slow down, what you're seeing from the market overall. NA Conference: "We run stress tests up and down all the time and we feel very good about it. Even during the crisis or other times, customers have been very good. I mean the delinquency rate is as low as ever ... Having said that, we think payment shocks are anywhere from CAD 200 to CAD 400 and I think those are for what we internally have at analytics of our customer."
Deposits	And as we look across the next few months, you're going to see us grow further in our deposit taking from our digital channels. RBC Conference: "An advantage we have or anybody that has a good, good, stable deposit base, which we have in the US and we will inherit or have inherited with Bank of the West is, it don't have to be the – you don't have to hit the last dollar necessarily. We've got a really good stable base. I expect those betas will continue to go up. I think looks like rates are going to continue to go up as well. So that will for a while help us. I don't see in the near-term any big declines which could cause things to move the other way. So big declines in terms of what the Fed does." NA Conference: "I think – I would say – so, first, the Canada market I think is much I would say benign. We haven't seen large inflows or outflows. It's just the way you expected it in a normal course. So that's going very well. In the US, our US business has actually received – has been the beneficiary of deposits and we've also seen in terms of the beneficiary of deposits, it is not a large amount, it's some of it, is many more account openings."
ROA	
ROE	RBC Conference: "One of the offsets of with everybody having higher capital standards, we're focused very much on ROE and it turns out we're not – we wouldn't bring in, especially today, anything that wasn't accretive to our ROE. And as long as we're doing that we know we have the capital to do that. Put Bank of the West aside, I'll come back to them in a minute. As long as we are still, and I think we do a good job of this, peeling out anything that turns out not to be a good ROE. And those would be generally clients that maybe we've taken on that we thought we were going to get to something and didn't, 90% of our clients in the US and the same in Canada are we're either the sole bank of the lead."
Deferrals	
Capital	We've continued to bolster our capital position in light of the new regulatory capital requirements while supporting customer growth. And we expect our CET1 ratio to be above 11.5% in the second quarter now that the Bank of the West acquisition has closed. As discussed previously, we remain confident that our CET1 ratio will remain above 11.5% in Q2 and continue to build to 12% by the end of the fiscal year. On Basel III update in Q2: there is going to be a benefit and that benefit potentially could be 35 to 40 basis points for the quarter.
Dividends	
Buybacks	
M&A	We continue to expect the future benefit from annualized expense synergies to be approximately $670 million and initiatives to be fully executed by the end of the first year after closing. At announcement, we expected the transaction to be 10% accretive to fiscal 2024 or 8%, excluding transient items related to purchase accounting. Based on our internal plan, we expect accretion in 2024, excluding transient items, to be approximately 7%. The reduction is in part due to stronger BMO standalone performance and a revised Bank of the West outlook, mainly reflecting the impact of the later-than-anticipated closing and conversion dates.

Source: BofA Global Research, company reports

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Exhibit 43: BNS Tear Sheet

Management commentary / outlook

Bank of Nova Scotia	Notes
Revenue	
Net interest margin	If rates stop rising, our term funding cost, which tends to be exposed to the short end of the curve, will stop rising and our assets continue to reprice. So, yes, if they stabilize, we should start seeing NIM benefiting from it, NII benefiting from it, and obviously we'll benefit much more when rate cuts start happening. I think what we're saying now, we're pretty clear that we're cautious about the next quarter in terms of earnings, but we're also recognizing we're at the bottom here in terms of NIM or close to the bottom in terms of NIM compression, so that is good news. RBC Conf: (on international banking NIM) So, I think the 400 basis points that we reported this quarter is likely the trough. I don't know how quickly it will grow. International NIM is complicated in the best of times, as you know… we'll find the opportunities to either improve the NIM or just find the investment gains with the bond portfolio we have. And this is one of those quarters where all of them contributed very well. And I see that continuing in Q2, three less days and all that apart because of February being a month in between for our Q2. I see that trend continuing, and the NIM continuing to expand… the NIM should be stable and then go from here.
Provisions/Credit quality	As I outlined last quarter, we expect to be in the mid-30s PCL range for fiscal 2023. RBC Conference: We do think for the rest of this year, it will be around this range, maybe 33 will become 34, maybe it will become 35, right? We're not seeing big numbers which are changing.
Expenses	I think achieving an expense growth of 4% excluding FX even for this quarter, I would say, is quite a good achievement for this bank. FX is not something that we can forecast, but if we can settle down around the mid-single digit range, call it, 4%, 5%, we will be quite pleased for the whole year. I think the year-over-year comps get a little better as we go through the rest of the year compared to what it has been in the beginning of last year.
Efficiency	
Tax Rate	
Operating leverage	
EPS	
Loans	going forward, we will be cognizant of the need to pace loan growth, particularly in less profitable product segments.
Mortgages	I just confirm the outlook that you're giving with regards to our intentionally slowing the mortgage portfolio, even in light of the fact that the market has been slow. I think that trend will continue. NA Conference: "Our variable rate mortgage customers are holding three times their payment cushion in their deposit account in cash. That's not even looking at investments or other things that they could liquidate to start to make mortgage payments ... And so, like, I struggle to see – and I look forward every day, I struggle to see where the break points is in the mortgage portfolio."
Deposits	"And so the first thing I did was ramp up our data team to be able to pull live feeds and look at how deposits are trending, corporate, commercial and retail. So, as of now and as through that period, we saw there was nothing untoward. There was nothing – there was no outflows from a retail perspective into the bank or inflows or outflows. And it was the same on our corporate and commercial portfolio. So I think that's a good thing."
LatAm	(On LatAm tax rate): We expect the tax rate to continue to increase in line with the reduction in inflation. RBC Conf: I think a closer rate for the rest of this year will be likely around CAD 250 million but it will be more stable than you think because it's driven off the lending book.
Chile	a modest slowdown in 2023 is expected to be followed by a rebound in 2024. International Banking NIM, the most recent compression was all relating to the impact of inflation in Chile. The way it works in Chile, you have inflation-based pricing. Inflation goes up, NIM will expand, inflation starts contracting. Year-over-year you'll see compression. That's what you saw this quarter. I think that's mostly done because Chile is the biggest contributor to inflation and therefore Internet interest margin impact.
Mexico	"GBM Latin America, which is reported as part of International Banking, reported record earnings of CAD301 million, up 50% year-over-year with another quarter of strong results from Chile, Mexico, and Brazil ... We will ... continue to build our GBM Americas capabilities throughout the US and Latin America to fully capitalize on our sector expertise and the established Scotiabank brand. We are particularly focused on improving the underwriting and advisory revenue to lending revenue ratio as we work to close the gap to our peers."
Colombia	
Peru/LatAm	"And in some -- the way I would summarize the situation we are, we have three geographies with high return on equity, (inaudible) IB and all-Bank ROE, which are the English Caribbean, Mexico, and Peru, and we have seen consistent improvement in these countries, driven by organic growth."
ROA	
ROE	
Deferrals	
Capital	In the interim, a few notable near-term focus areas: from an all-bank perspective, achieving a 12% CET1 ratio by fiscal year end is important, a 11.5% was a good outcome for the quarter and we will continue to see internal capital generation throughout the year, as well as the benefit from Basel III implementation next quarter. RBC Conference: This quarter, you saw we generated about 5 basis points for the quarter, so x4, 20 basis points. We picked up through the implementation between 20 and 30 basis points that we talked about, which will show up in the Q2 ratio. So you put those together, it gets you to 12% from the 11.5%. On Basel III update in Q2: The adoption of Basel III reforms in Q2 2023 is estimated to benefit capital by approximately 20 basis points to 30 basis points.
Dividends	
Buybacks	
M&A	I do feel that the need to create some synergies across this platform, the Americas platform, is important. And I see it working in wholesale. I see a small business in wealth but growing at double-digit rates. And I also recognize that high-net-worth folks are going to want to be able to operate in Canada, US, and International. But I don't see it as an M&A agenda right now.

Source: BofA Global Research, company reports

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Exhibit 44: CM Tear Sheet

Management commentary / outlook

CIBC	Notes
Revenue	In aggregate, we anticipate our plans to generate continued but moderating revenue growth through share gains, mid single-digit expense growth, and improving operating leverage for fiscal 2023

Exhibit 44: CM Tear Sheet

Management commentary / outlook

CIBC	Notes
Net interest margin	But I think the core NIM ex-trading from that 1.64% level is positioned to continue increasing a few basis points a quarter, particularly accelerating, I would say, the back half of the year and maybe more stable here in the shorter term. But between that and continued balance sheet growth as we continue deploying capital with our clients to grow our businesses, we think that will continue driving strong NII growth. RBC Conf: And while we had said 10 to 15 basis points Q4 to Q4 over 2023, now we're saying probably closer to 10.
Provisions/Credit quality	And I would reiterate our outlook of normalization towards pre-COVID levels and expecting our impaired PCL ratios to trending towards that mid to – 20 to 30-basis-point range that we previously communicated. I think, for fiscal 2023, we can expect to be at the lower end of that range. But, overall, that guidance and outlook still remains intact.
Expenses	expect sequential expense growth to stabilize through fiscal 2023. We will stabilize expenses around these levels. And as we indicated last quarter, with many of our key strategic investments completed or in flight, we expect expense growth to continue to moderate through the fiscal year. RBC Conf: full year will be mid-single digits 2023 over fiscal 2022. We will be going right around sideways in terms of quarterly expenses for the rest of 2023. The only caveat I'll make is, if we have very good performance in revenue that drives variable expenses, that's fair game.
Efficiency	
Tax Rate	
Operating leverage	We also continue to be confident in our goal of delivering positive operating leverage over the medium term, as we've communicated at our Investor Day last June. RBC Conference: That means operating leverage will improve over time and interesting how things change, right? We have the operating leverage and expense growth, top of the path this quarter. So we think on a relative to industry basis, we can do well in operating leverage going forward.
EPS	
Loans	I see loan growth in the mid-single-digit range and I think we'll be in the mix on that. That's the commercial side. I think you'll see growth in the – where I think loans in the commercial side will be mid-single digit, in the consumer side it might be low-mid-single digits, but the general sentiment, roughly the same. NA Conference: I think most loan categories in personal banking have grown in the mid-single-digit range over time. I think you'll see something slower than that. I don't think you'll see negative, but we have our eye on it. I think that will be the same theme in commercial banking, not as, I think normally commercial banks are high single-digit loan growth over the last 10 years outside of, again '20 to '22.
Mortgages	And in terms of – again, I think you'll see mortgages in the low-single-digit range throughout the year. RBC Conf: We just assume the forward curve continues to realize and we expect mortgage margins based on what we're seeing to get a little bit better. NA Conference: ""So, so far, not seeing any stress, but of course, it's something we're watching, right, if this lasts a long period of time. You have to be careful and we're on it."
Deposits	RBC Conf: A few percent a quarter going into term products and interest-bearing products from the non-interest bearing side. And so that we expect will continue. We still expect some headwind from deposit mixing. The mortgage margin is playing out about how we expected that deposit mixing seems to be putting a little bit more pressure across the industry, not us. But we still haven't gotten through that hump of deposit, excess deposits that built up during the pandemic."NA Conference: (On deposit outflows) "I would say no. I think it's so far pretty restricted to the US. If anything, a bit of a net positive, but nothing material at the start. A few questions, how are things different? Few explanations, but really a non-issue. We were preparing for things, but nothing came, of course. (on GIC trend in the commercial bank) That's already played out."
ROA	
ROE	
Deferrals	
Capital	We currently forecast our CET1 ratio to continue trending higher from here, ending 2023 around 12%. On Basel III update in Q2: And from that point on, we've got the Basel III coming in. There may be some positive there. Honestly, what we're assuming at this point, there's a few things we're still landing, net neutral from the implementation of the Basel III in Q2.
Dividends	
Buybacks	
M&A	

Source: BofA Global Research, company reports

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Exhibit 45: RY Tear Sheet

Management commentary / outlook

Royal Bank of Canada	Notes
Revenue	

Exhibit 45: RY Tear Sheet

Management commentary / outlook

Royal Bank of Canada	Notes
Net interest margin	We will continue to see the margin expansion benefit for our structural deposit base. I think what you could expect in the next quarter is continue to see a bit of that pressure as it relates to the deposit mix movement. But we do expect to see the margin expansion still continuing through the latter half of 2023. Nonetheless, we expect margin expansion through 2023 for both Canadian Banking and City National. Our focus remains on growing net interest income. We anticipate mid-teen growth in Canadian Banking net interest income for fiscal 2023, and we expect even stronger growth for City National. RBC Conference: "That's why we thought it was probably more important given some of the near-term dynamics that you can see in net interest margin to speak to NII growth trajectory. So for the retail bank, we're looking at that mid-teens trajectory. And for City National, we are going to continue to benefit from the rate increases, in particular, what we heard yesterday. And as a result of that, we do expect that to be even more significant than for the retail bank in Canada, so about 20% on a year-over-year growth basis. I talked about the margin. We are focusing more on NII, but you will expect to see more of that pressure happening into Q2 in part for City National because you would have had a full quarter impact of the FHLB funding, and we'll see how the deposit performance is overall. Then the retail bank stimulus, there's going to be some pressure in the near term as it relates to margins, but just really thinking that NII trajectory going forward."
Provisions/Credit quality	Our PCL ratio on impaired loans remains below pre-pandemic levels but we have seen the normalization of delinquencies and impairments as higher interest rates start to impact credit outcomes. We expect PCL on impaired loans to increase through 2023 as we head into a forecasted recession. Although PCL on impaired loans remain well below historical averages, given strong employment and consumer balance sheets, we expect them to continue increasing from cyclical lows.
Expenses	For the remainder of the year, we expect non-interest expense growth excluding variable and stock-based compensation to decelerate, reflecting the distancing from lower COVID era comparatives. We also expect a slowdown in FTE growth following a period of heightened investment in sales capacity.
Efficiency	Full year efficiency ratio below 40%. RBC Conference: We are still looking at a sub 40% efficiency ratio. I know, Darko, you look at the number of banks, I think that you consider that as global leading. But that doesn't mean that we stop there, and we're still very focused on it.
Tax Rate	
Operating leverage	Focus on cost control underpin our commitment to deliver positive All Bank operating leverage in fiscal 2023. In Canadian Banking, we continue to expect operating leverage for fiscal 2023 to be in the mid-single-digits. RBC Conference: So I'm really focused on operating leverage. At the end of the day that is what's driving earnings going forward, and that's why we have a very targeted approach to target for positive operating leverage for the year. You're going to see, obviously as we saw inter-quarter movements, but that's why we're really focused on.
EPS	
Loans	NA Conference: And so our story is really one about we're accelerating our growth in commercial real estate. We think the funding advantage is part of that. But probably the bigger driver is that we've just really retooled the team and got them and upskilled the team, put them in front of the larger clients. We now have, as say a very updraft diversified commercial lending story going on, mortgage operators, working capital right across the spectrum.
Mortgages	Looking forward, we continue to expect annual mortgage growth to slow to the mid-single digits, given deteriorating affordability. Originations are down materially, probably about in the range of 40% in terms of transactions. Loan growth at City National remain both diversified and robust, up 20%, excluding the impact from PPP loans. Going forward, we expect loan growth to moderate from these heightened levels, particularly in the jumbo mortgage space where refinancing activity has pulled back. NA Conference: Mortgage origination is a market-by-market business. You're seeing -- you're already seeing 12% and 15% HPI reductions in some markets. So we're anticipating a slow start to the season. So what we'd say is I think we're -- we still have again room to go to get back to more traditional type spreads. It got to a place where they're exceptionally tight. And right now, you're starting to see them move up into maybe we're 2/3 of the way back to where we think they'll probably be in the long run, but we think there's still room to go.
Deposits	I think what you could expect in the next quarter is continue to see a bit of that pressure as it relates to the deposit mix movement. RBC Conf: So while we do expect some pressure from City National as it relates to that deposit mix, know we expect that to subside a bit going forward. NA Conference: " I would say we've probably seen peak core deposits in terms of in our business. Probably the biggest trend to call out in our business is we are seeing that movement of deposits from the core checking account. We're actually seeing some of it come out of mutual funds. As you know, the retail investor is still in a risk-off position and put it into a term deposit where they're getting north of 4%. And that has been a exceptionally strong trend for us. And it's put some pressure on margins, but generally it's been – allowed us to gather more deposits, put that funding to work and strengthen the relationship."
ROA	
ROE	We continue to be well positioned to deliver a premium return on equity.
Deferrals	
Capital	We ended the quarter with a CET1 ratio of 12.7% and expect to maintain a CET1 ratio of at least 12% up to and following the close of our proposed acquisition of HSBC Canada. On Basel III update in Q2: Next quarter, we expect Basel III regulatory reforms to drive a 70 to 80 basis point benefit, largely reflecting the removal of the sector wide credit risk RWA scaling factor under the new IRB framework.
Dividends	Our outlook includes a regular cadence of twice a year dividend increases, while also deploying capital to support further organic growth.
Buybacks	
M&A	We still remain confident that this is a good transaction for Canada, a good transaction for HSBC clients and employees, and a good transaction for our shareholders. And therefore, we're going through that process now. It's a normal process. Doesn't feel any different than the last process we went through in the United States, where you provide a lot of information on your business and we're confident the numbers tell the story. So, that's how I can comment so far as we're early days, but everything's proceeding according to what we expected.

Source: BofA Global Research, company reports

Exhibit 46: TD Tear Sheet

Management commentary / outlook

Toronto-Dominion Bank	Notes
Revenue	On Cowen revenue synergies: We're basically at the same place we were at the time when we announced the transaction, Scott, when we talked about having CAD 300 million to CAD 350 million of revenue synergies, and we said that we would add about a CAD 100 million in net income by year-end volume.
Net interest margin	And we expect that the margin expansion continue to be positive for the remainder of 2023, but the trend is going to be similar that it's going to be moderating. We currently expect net interest margin expansion to moderate for the remainder of fiscal 2023. RBC Conference: "So what we do is we invest into them into either a 5-year investment in Canada or swaps equivalent or seven years in the U.S. Then they reprice. So as the investments or swaps mature, the rates that we invested in back 5 or seven years ago are lower than the rate that we would put on today. So as they reprice, even if rates remain the same, it would still be supportive to margin expansion but much more gradual, right? Because they are like much smaller over a 5- or 7-year time horizon, and that would continue to support margin."
Provisions/Credit quality	Looking forward, while results may vary by quarter, I continue to expect total PCLs to be in the range of 35 to 45 basis points in 2023 as credit performance continues to normalize and we progress along the economic paths.
Expenses	On our Q4 call, I noted that we expected adjusted expense growth excluding FX to moderate in fiscal 2023 on a quarter-over-quarter basis.
Efficiency	
Tax Rate	(paraphrase) 4Q22 was lower than normal from a total bank tax rate standpoint, and the last seven or eight quarters would be more consistent with normal expectations.
Operating leverage	Our goal of delivering positive offering leverage over the medium term remains unchanged
EPS	
Loans	RBC Conf: On CAD loan growth: And then in terms of other loan categories, we continue to see good spending on credit cards. Paydown rates are still high, but normalizing. And so we expect that to continue to grow and also add to not just the volume and I and margin as well because they are a higher margin business and then business, banking loans, you know, continue to hit double-digit growth year-over-year.
Mortgages	
Deposits	On U.S. deposit trends: on the commercial side, your more institutional clients, looking for either more attractive, higher priced deposit solutions or in some cases, off balance sheet investment alternatives. And so you're seeing that play out. And I would expect as long as rates continue to be where they are and/or continue to increase, I think you'll see some degree of rate sensitivity. Just to give you one final stab at this quarter, just on a year-on-year basis, core checking account volumes were up 13%. So, we're continuing to see strong momentum there and I would expect us to be able to continue to grow the franchise. RBC Conf: Then when we look forward, deposit ex-sweep is how we look at it, is kind of, I would say flat quarter-over-quarter. But we're seeing more a shift from non-interest-bearing to interest-bearing.NA Conference: (On deposits) "And the flows of funds have been pretty consistent pre-Silicon Valley Bank, post Silicon Valley Bank, which are forecast no matter what kind of variance I look at, there's nothing particularly like interesting about the data. It's just kind of more BAUs the way I would describe it. So the deposit base is performing very, very well. we do see some mix shifts, although the mix shifts that we're seeing here to four have been less than the industry is seeing. And that's why you're seeing a relatively better margin expansion relative to the industry. And that's the trend that we're seeing. Our deposit betas are relatively well performing and like if anything we've probably marginally outperformed where we thought we were going to be and so if I think about margin impacts, I'm more interested myself in mix shifts than I am in betas right now."
ROA	
ROE	
Deferrals	
Capital	With TD's strong internal capital generation capabilities and the various capital levers available to the bank, we continue to expect TD's CET1 ratio to be comfortably above 11% post-closing of the First Horizon transaction. On Basel III update in Q2: So, in Q2, we expect the impact of Basel III to be small, either way.
Dividends	
Buybacks	
M&A	

Source: BofA Global Research, company reports

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Appendix

Capital markets trends indicate slowdown catching-up

Exhibit 47: Dealogic data implies a -8% YoY decline in M&A revenues
Canadian Bank M&A revenues

($mn)	2Q22	3Q22	4Q22	1Q23	2Q23	YoY	QoQ
RBC Capital Markets	161	132	137	150	83	-48%	-45%
BMO Capital Markets	56	20	26	43	63	14%	46%
TD Securities Inc	23	23	27	11	61	162%	450%
CIBC World Markets	24	19	16	12	38	58%	211%
Scotiabank	33	15	19	3	28	-15%	770%
Total	297	209	226	220	275	-8%	25%

Source: BofA Global Research, Dealogic

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Exhibit 48: Dealogic data implies a -58% YoY decline in ECM revenues
Canadian Bank ECM revenues

($mn)	2Q22	3Q22	4Q22	1Q23	2Q23	YoY	QoQ
RBC Capital Markets	29	23	49	49	29	0%	-41%
BMO Capital Markets	42	14	18	62	10	-76%	-83%
TD Securities Inc	21	6	13	12	5	-79%	-63%
CIBC World Markets	17	2	20	16	4	-77%	-76%
Scotiabank	27	6	22	11	9	-64%	-10%
Total	136	51	122	149	57	-58%	-62%

Source: BofA Global Research, Dealogic

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Exhibit 49: Dealogic data implies a -5% YoY decline in DCM revenues
Canadian Bank DCM revenues

($mn)	2Q22	3Q22	4Q22	1Q23	2Q23	YoY	QoQ
RBC Capital Markets	136	92	97	99	137	1%	38%
BMO Capital Markets	62	63	57	61	50	-20%	-19%
TD Securities Inc	88	77	73	92	87	-1%	-6%
CIBC World Markets	37	40	28	37	37	0%	0%
Scotiabank	65	45	45	54	59	-9%	10%
Total	387	317	300	343	370	-5%	8%

Source: BofA Global Research, Dealogic

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Price objective basis & risk

Bank of Montreal (YBMO / BMO)

Our $134 PO (US$99) incorporates recession risk. We apply a trough P/BV multiple of 1.0x to our YE23 BV (50% weighting). The remaining 50% is based on 2023 P/E and P/BV multiples (equally-weighted). We assigned 11.5x/1.7x multiples, respectively, slightly above peer multiples as the company's superior growth outlook is offset by lower profitability.

Upside risks to our PO: 1) continued resilience of the Canadian consumer and thereby its housing market could alleviate the risk from a housing slowdown, 2) better than expected economic growth in the US, specifically within BMO's business footprint, 3) lower for longer global rate backdrop could cause investors to increase exposure to higher dividend yielding stocks, potentially pushing valuations higher, and 4) a continuing rebound in oil could reduce the risks associated with BMO's exposure to the energy sector.

Downside risks: 1) a sharp downturn in the Canadian housing market and rise in unemployment rate that could lead to higher credit losses, 2) a prolonged slowdown in US econ. could lead to anemic loan growth and accelerating credit losses.

Bank of Nova Scotia (YBNS / BNS)

Our $70 PO (US$52) incorporates recession risk. We apply a trough P/BV multiple of 1.1x to our YE23e BV (50% weighting). The remaining 50% is based on 2023e P/E and P/BV multiples (equally-weighted). We assigned 10.5x/1.4x multiples, respectively, in line with peer multiples given in-line profitability.

Upside risks: 1) continued resilience of the Canadian consumer and thereby its housing market could alleviate the risk from a housing slowdown, 2) better than expected economic growth in the LatAm markets, which could accelerate loan growth and keep credit losses at a moderate level, and 3) a rebound in oil could reduce risks associated with BNS' exposure to the energy sector.

Downside risks: 1) a sharp downturn in the Canadian housing market and rise in unemployment rate could lead to higher credit losses, 2) a slowdown in Latin American economies could lead to anemic loan growth and accelerating credit losses, 3) another plunge in oil prices could hurt credit quality/loan growth tied to energy dependent markets.

Canadian Imperial Bank of Commerce (YCM / CM)

Our $65 PO (US$48) incorporates recession risk. We apply a trough P/BV multiple of 1.2x to our YE23 BV (50% weighting). The remaining 50% is based on 2023 P/E and P/BV multiples (equally-weighted). We assign 11.0x/1.5x multiples, respectively, slightly below peer multiples (median 11.5x/1.7x) given the company's above average mortgage exposure and related risks from a slowdown in the mortgage market.

Upside risks: 1) Continued resilience of the Canadian consumer and a faster-than-expected rebound in residential mortgage growth, 2) better-than-expected growth in the capital markets business due to increased markets activity and/or continuing market share gains, 3) a rebound in oil, which could reduce the risks associated with CM's exposure to the energy sector.

Downside risks: 1) a sharp downturn in the Canadian housing market and rise in unemployment rate that could lead to higher credit losses. 2) Another plunge in oil prices that could hurt credit quality and loan growth tied to energy dependent markets.

Royal Bank of Canada (YRY / RY)

Our $141 PO (US$104) incorporates recession risk. We apply a trough P/BV multiple of 1.4x to our YE23 BV (50% weighting). The remaining 50% is based on 2023 P/E and P/BV multiples (equally-weighted). We assigned 12.0x/2.6x multiples, respectively, above peer multiples given higher profitability.

Downside risks to our price objective are: (1) a deeper and more protracted Canadian and/or U.S. recession relative to current expectation, (2) a deterioration in capital market conditions similar to the prevailing environment at the height of the credit crisis, (3) a dramatic swing in interest rates to the downside and the related impact on bank funding costs and asset quality, (4) any imposed political or regulatory measures that result in increased taxation or capital requirements that materially affect profitability.

Upside risk to our PO is: upward swing in interest rates in both the US and Canada and the related impact on bank funding costs/asset quality.

Toronto-Dominion Bank (YTD / TD)

Our $99 PO (US$73) incorporates recession risk. We apply a trough P/BV multiple of 1.2x to our year-end 2023 book value (BK, 50% weighting). The remaining 50% is based on 2023 P/E and P/BV multiples (equally weighted). We assigned 12.0x/2.4x multiples, respectively, above peer multiples given idiosyncratic growth opportunities.

Downside risks to our PO are (1) a deeper and more protracted Canadian and/or US recession than expected, (2) a deterioration in capital market conditions similar to the prevailing environment at the height of the credit crisis, (3) acquisition, integration, and legal risk associated with M&A activity, (4) regulatory risk.

Upside risks to our PO are a dramatic upward swing in long-term interest rates and better-than-expected credit metrics.

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North America - Banks Coverage Cluster

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	Fifth Third Bank	FITB	FITB US	Ebrahim H. Poonawala
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	Synovus Financial Corp.	SNV	SNV US	Ebrahim H. Poonawala
	The Bank of New York Mellon Corporation	BK	BK US	Ebrahim H. Poonawala
	Toronto-Dominion Bank	TD	TD US	Ebrahim H. Poonawala
	Toronto-Dominion Bank	YTD	TD CN	Ebrahim H. Poonawala
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NEUTRAL				
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	Associated Banc-Corp	ASB	ASB US	Brandon Berman
	Bank of Montreal	BMO	BMO US	Ebrahim H. Poonawala
	Bank of Montreal	YBMO	BMO CN	Ebrahim H. Poonawala
	Bank of Nova Scotia	YBNS	BNS CN	Ebrahim H. Poonawala
	Bank of Nova Scotia	BNS	BNS US	Ebrahim H. Poonawala
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	Regions Financial	RF	RF US	Ebrahim H. Poonawala
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	Royal Bank of Canada	YRY	RY CN	Ebrahim H. Poonawala
	State Street Corporation	STT	STT US	Ebrahim H. Poonawala
	Truist Financial	TFC	TFC US	Ebrahim H. Poonawala
	U.S. Bancorp	USB	USB US	Ebrahim H. Poonawala
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	First Hawaiian Inc.	FHB	FHB US	Brandon Berman
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	Texas Capital Bancshares Inc.	TCBI	TCBI US	Brandon Berman
	The PNC Financial Services Group, Inc.	PNC	PNC US	Ebrahim H. Poonawala
	Zions Bancorp	ZION	ZION US	Ebrahim H. Poonawala

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Hold	40	23.12%	Hold	29	72.50%
Sell	45	26.01%	Sell	34	75.56%

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Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
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Hold	827	23.45%	Hold	476	57.56%
Sell	830	23.54%	Sell	389	46.87%

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