Canadian Banks

4Q23 Preview: Rates vs. recession

Estimate Change

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Equity
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Rates, recession and rents point to stagflation risk

Risk from repricing mortgages (~40% of loans) key overhang on the Canadian economy and bank stocks. Despite the recent pullback, 5yr govt yields ~300bp above 2019-2021 average, implying significant hit to consumer pocketbooks from resetting mortgage payments. Thirty percent of mortgage loans or $460bn are scheduled to re-price in 2024/25 (Exhibit 29). This phenomenon combined with a rising unemployment rate (at pre-COVID levels) and persistent inflation pressures (rents +7% YoY) increase stagflation risk (Exhibit 33-Exhibit 34). Relevant research: Canadian banks 2024 Year Ahead: Dicey proposition

Focus on 2024 outlooks: 4Q23 EPS growth -6% YoY

Expect noisy 4Q23 prints impacted by restructuring charges (RY/BMO/BNS have announced strategic actions; TD/CM may follow). Investor focus would be on potential for expanding net interest margins to offset slowing loan growth and rising credit costs (PCLs). Expenses the only self-help lever for most, with deal synergies likely to help BMO and potentially RY (HSBC Canada pending). Turn to page 2 for detailed discussion on EPS revisions; Exhibit 3-Exhibit 7 for recent management commentary on op. trends.

Capital build to continue as OSFI decision looms

Capital in focus ahead of OSFI decision (12/8) on whether it will raise the DSB buffer by 50bp to the max 400bp (= 12% minimum CET1). Deteriorating macro backdrop supports no increase (given DSB's countercyclical purpose). Most investors expect OSFI to raise the DSB given the desire to shore-up capital levels, ahead of a potential downturn. We believe banks are well-positioned to absorb the DSB increase and impacts from changes to market risk (FRTB) and Basel floor factor increase (1Q24). Exhibit 25. Relevant research: Should the OSFI raise or lower the DSB?

Credit wildcard: +10bp in PCLs = -6% to EPS

Bank stocks are trading at 9x 2024e P/E vs. 10.8x pre-pandemic avg. and 1.2x YE24e P/B (vs. 2024 ROE forecast of 13.6%) vs. 1.7x P/B (14.6%). Consensus 2024e EPS -11% YTD. While risk to lower PTPP seems adequately discounted, worse than expected credit losses have the potential to drive meaningful negative EPS revisions. We see no obvious valuation support given cyclical concerns and as the Street recalibrates through cycle ROEs for a 12%+ CET1 capital regime. Our 2024 PCL forecast of 46bp of loans compares to 33bp in 2019. Every 10bp increase in PCLs -6% to EPS.

TD needs clarity on reg. risk to maintain stock momentum

TD: buybacks have supported the stock, investor focus on impact from US BSA/AML issue; capital markets investments to continue. **CIBC**: lack of catalysts and worsening macro keeps us cautious, but we note that management has done a good job tracking to FY23 guidance. **Royal**: HSBC acquisition closely watched given pushback from policymakers; restructuring actions to re-set expenses, diminish drag from City National (CNB). **BMO**: Bank of the West deal synergies, expense actions post 3Q23 restructuring watched. **Scotia**: increasing expectations for rate-cuts to support stock given liability sensitivity.

Exhibit 1: 4Q23 earnings calendar
Earnings start on 11/28 with BNS reporting

Ticker	Date	Earnings call
BNS	11/28	8:00am ET
CM	11/30	7:30am ET
RY	11/30	8:30am ET
TD	11/30	1:30pm ET
BMO	12/1	8:00am ET

Source: BofA Global Research, company reports
BofA GLOBAL RESEARCH

Exhibit 2: 4Q23E EPS Estimates
We are 2% below consensus

Ticker	Rating	PO (C$)	BofA 4Q23e EPS	Consensus 4Q23e EPS	Dividend Yield
BMO	Neutral	C$120	$2.85	$2.97	5.2%
BNS	Neutral	C$68	$1.64	$1.72	7.0%
CM	Underperform	C$63	$1.55	$1.58	6.5%
RY	Neutral	C$130	$2.66	$2.64	4.5%
TD	Buy	C$90	$1.94	$1.95	4.6%

Source: BofA Global Research, Bloomberg
BofA GLOBAL RESEARCH

Acronyms:

OSFI - Office of the Superintendent of Financial Institutions

DSB - Domestic Stability Buffer

PTPP - pre-tax pre-provision

PCL - provision for credit losses

Royal (RY): Restructuring, HSBC, CNB in focus

We revise 4Q23e EPS estimate to $2.66 or -4% YoY; FY24e EPS estimate to $11.44 or +2%. Our 4Q23 forecast assumes $150mn in severance costs tied to headcount reduction (1-2% announced) reflected in our $7.7bn expense forecast. Ex. the severance costs expense growth of +5% YoY compares to management guidance for mid-single digits growth. Expense outlook would be a significant focus, especially given the elevated expense growth this year (+18% YoY YTD through 3Q23), impacted by the acquisition of Brewin Dolphin that closed September 2022. The HSBC acquisition which is expected to "close-and-convert" during early 2024 should drive significant cost savings given embedded costs tied to preparation ahead of deal close. Recall, at deal announcement management outlined expectations for realizing 20% of the $740mn in annualized savings in year 1 and 95% in year 2 (our estimates assume 50%/100%).

We also adjust our forecast for net interest income boost to the Wealth segment (includes US bank) from the restructuring of the bond book (available for sale securities $8bn as of 09/30 vs. $16bn 06/30) at US subsidiary City National (CNB) and paydown of higher cost FHLB funding ($4.25bn 09/30 vs. $8bn 06/30). We assume this to serve as a drag to net interest income (NII) in the corporate segment given no update from management on whether it has sold and reinvested the bonds transferred from CNB to the parent.

We forecast credit costs (PCLs) of 34bp for 4Q23 and 40bp for FY24E. We expect management to nudge its impaired PCL guide to closer to the 30bp range for FY24 vs. the 20-25bp FY23 guidance. Investors would be trying to assess downside risk to EPS from worse than expected PCLs (for all banks) with increasing signs of softness across the Canadian economy.

Stock outlook

Clarity on expenses (including timing of fully realizing HSBC savings), pro-forma CET1 capital ratio could set the stage to drive stock outperformance. This in a backdrop where macro concerns and worsening operating outlook are likely to weigh on investor appetite to add exposure to the group. Getting the regulatory approvals for the HSBC Canada acquisition, which has been met with political pushback in recent weeks, could serve as a positive catalyst as investor attention shifts towards deal synergies. We like the lever on deal synergies next year (for Royal and for BMO that closed on its acquisition of Bank of the West earlier this year), potentially differentiating the bank relative to peers. Stock trading at 10.6x 2024e P/E vs. 12x 5yr pre-pandemic median and 1.5x YE24e P/Book vs. our 13.7% 2024e ROE forecast (vs. 1.9x P/BV and 17% ROE 5yr pre-pandemic medians). Maintain Neutral rating. Relevant research: Taking control: City National in fix-it mode

Exhibit 3: RY Tear Sheet
Management commentary / outlook

Royal Bank of Canada	Notes
Revenue	CNB: Will see revenue stabilize in the 4th quarter.
Net interest margin	Retail bank: Believe that overall margin expansion will continue
Provisions/Credit quality	Still expect impaired PCL to be between 20-25bp for FY23, consistent with guidance provided at the beginning of the year.
Expenses	Guide for further 1-2% reduction in FTE in 4Q. Expect that expense growth will come down to the mid-single digits. City National Bank: Expect cost pressures to continue. Continue to invest in operational infrastructure.
Tax Rate	Guide for the tax rate to be between 19-20% for 4Q23.
Operating leverage	Mgmt. set a goal of achieving positive operating leverage. US: Opportunity to drive the efficiency ratio lower in the US business.
Loans	Guide for a continued moderation in loan growth.
Mortgages	Expect industry mortgage origination growth to continue along this trend, and for pricing competition to continue.
Deposits	Assume that intense competition on deposit pricing will continue. Barclays: Focused on growing the deposit base.
Capital	Mgmt. does not expect a material impact from FRTB in 1Q24, and expects that the CET1 ratio will remain above 12% following the close of HSBC Canada in 1Q24.
Dividends	Manage to a 40-50% dividend payout ratio.
M&A	Scotia conference: Goal is to have HSBC conversion completed early next year. M&A strategy in capital markets doesn't make sense.

Source: BofA Global Research, company reports

Exhibit 3: RY Tear Sheet
Management commentary / outlook

Royal Bank of Canada	Notes

BofA GLOBAL RESEARCH

TD Bank (TD): NIM, expense, BSA/AML in focus

We revise 4Q23e/FY24e EPS estimates to $1.94 (-11% YoY)/$7.50 (-7%) on higher PCLs, higher expense growth in the US segment and revised estimates for Schwab contribution. We conservatively forecast modest net interest margin (NIM) compression for the Canadian segment (guide: expect NIM to bounce around depending on mortgage loan growth) to 2.72%/2.70% for 4Q23/FY24 vs. 2.74% reported for 3Q23. Assumes mortgage growth of 5%/7% YoY 4Q23/FY24. We believe slower mortgage growth has the potential to translate into a higher NIM, potentially neutralizing NII impact. However, give the low capital consumption tied to mortgage lending combined with mgmt's strategic growth targets suggests to us that management could be willing to sacrifice NIM in the short term for NII growth and importantly, client acquisition opportunities (however, debatable the extent to which the mortgage product offers cross-sell opportunities any longer).

US segment NIM expected to stabilize following 25bp QoQ compression reported for 3Q23. We forecast FY24e NIM of 2.93% (vs. 3.00% 3Q23) given the outlook for continued grind higher in deposit costs (although we have observed a moderation in deposit pricing competition vs. earlier in the year) and slowing loan growth. Investors would also be focused on expense growth outlook for the US segment as they try to handicap the risk to EPS from investment spend required to address BSA/AML issues identified by the regulators. Additionally, the Street would be watching for any signs for impact on US growth strategy (where management has previously talked about adding significant branches/stores across the Southeast) due to regulatory issues, as was the case for certain US banks that had to deal with similar issues.

Stock outlook

We continue to view the risk/reward as attractive given TD's excess capital positioning, an above average deposit franchise and significant growth runway in the capital markets business (longer-term opportunity) on the back of the Cowen acquisition. However, based on our conversations, investors would need clarity on US regulatory issues to gain comfort. Risk of additional restrictions could serve as a drag to stock performance. The ability to buyback stock is undoubtedly an advantage. However, we don't believe that this is enough of a catalyst for new investors to step-in and add exposure. Visibility into 2024 EPS outlook (management's medium term EPS growth target: 7-10% annually vs. 11% on avg. last three years), regulatory risk could serve as a positive catalyst for the stock. Stock trading at 11.3x 2024e P/E vs. 12x 5yr pre-pandemic median and 1.5x YE24e P/Book vs. our 11.8% 2024e ROE forecast, impacted by the elevated capital levels (vs. 1.7x P/BV and 15% ROE 5yr pre-pandemic medians). Maintain Buy rating.

Exhibit 4: TD Tear Sheet
Management commentary / outlook

Toronto-Dominion Bank	Notes
Revenue	Scotia conference: No doubt that they can deliver 16% ROTCE over the medium term.
Net interest margin	Canadian P&C: Expect NIM to bounce around and remain influenced by similar drivers as it was in 3Q23. US Retail Bank: Expect NIM to stabilize in 4Q23.
Provisions/Credit quality	Guide for FY23 PCLs to be approximately 35bp, at the low end of guidance from the beginning of the year. Continue to expect normalization.
Expenses	Mgmt. expects expense growth will moderate.
Operating leverage	Scotia conference: Target positive operating leverage in the medium term.
Loans	US Retail Bank: Seeing some deceleration at the industry level. Position allows them to be more selective. Barclays: Targeting cards as an area for growth. US Retail Bank: Do not expect mortgage volumes to expand dramatically.
Mortgages	Mgmt. sees significant growth in 4Q that could lead to NIM compression.
Deposits	US Retail Bank: Willing to accept some deposit runoff where a client is predisposed to higher yield and it might exceed what they are willing to offer. Expect that deposit migration will continue.

Exhibit 4: TD Tear Sheet
Management commentary / outlook

Toronto-Dominion Bank	Notes
Capital	TD Securities: Could look to deploy more capital as US banks retrench in aftermath of Basel endgame.
Buybacks	Announced intention to seek approval for an additional 90mn share buyback. Expect to complete initial 30mn share buyback some time in September.

Source: BofA Global Research, company reports

BofA GLOBAL RESEARCH

BMO (BMO): restructuring, commercial, BoW in focus

We revise 4Q23e EPS estimate to $2.85 or -6% YoY; FY24e EPS estimate to $12.19 or +3%. Our forecast includes increased provisioning in U.S./Canada, consolidated impaired PCLs at 32bp (management guidance for FY23 impaired PCLs to be between 20-25bp). Investor focus would be centered around cost-saving initiatives given the restructuring charge taken in 3Q (management notes this will be a one-time event) and expected $45mn charge related to real estate reduction in 4Q23. We also look forward to hearing commentary on the outlook for commercial loan growth, given our conversation with commercial banking head Nadim Hirji in September (during BofA's Canada Banks Day) pointing to a softening in customer demand. BMO has been active in exiting non-core lending portfolios (auto finance, news of potential sale of the RV portfolio), given management focus on continued balance sheet optimization. In addition, Street would be looking for any updates on deal synergies emerging from the Bank of the West acquisition.

Stock outlook

We view the expense synergies from Bank of the West ($670mn annualized with management noting that they are ahead of schedule) as well as potential revenue opportunities from cross-selling as an advantage in an otherwise tough operating backdrop. Smooth integration of the Bank of the West acquisition, as well as no major hiccups on the credit quality front (investors remain cautious on US commercial credit exposure) should help drive a valuation re-rating in the stock.. Stock trading at 9.2x 2024e P/E vs. 11.5x 5yr pre-pandemic median and 1.1x YE24e P/Book vs. our 12.3% 2024e ROE forecast (vs. 1.4x P/BV and 13.5% ROE 5yr pre-pandemic medians). Maintain Neutral rating.

Exhibit 5: BMO Tear Sheet
Management commentary / outlook

Bank of Montreal	Notes
Net interest margin	Consolidated margin stability. In quarters where they expect deposit growth to exceed loan growth, should be beneficial to the NIM. Canada: Expect that margin will tighten. US: More stable outlook.
Provisions/Credit quality	Expect impaired loss rates to remain within the low-to-mid 20s consistent with 3Q reported results.
Expenses	Expect to drive expense savings of $200mn FY24, and $250mn by 1H25 as a result of severance incurred during 3Q23. Will record a $45mn impairment charge on real estate in the fourth quarter. Cumulative impact of expense actions expected to be $400mn in savings. Do not anticipate legal expenses will continue to be this high.
Operating leverage	Mgmt. expects to return to positive operating leverage for FY24. Have been tracking ahead of expectations on cost synergies, mgmt. believes that there is potentially more upside than previously anticipated. Barclays: Confident in ability to generate positive operating leverage next year.
Loans	US: Expect loan demand will remain muted through the end of the year. Canada: Anticipate that modest growth will continue. Comparatively less pricing discipline in Canada. Scotia conference: Trying not to grow loans as fast as they had been. Will continue to grow Canadian retail.
Deposits	Barclays: Guidance for deposits is growth in both commercial and personal going forward.
Capital	Confident that FRTB will have a modest impact on capital. Believe a reasonable CET1 range is between 12% and 12.5%. Scotia conference: If the DSB increases, then 12.5% is likely the right number.

Source: BofA Global Research, company reports

BofA GLOBAL RESEARCH

Scotia (BNS): noisy lead-up to December investor day

We revise 4Q23e EPS estimate to $1.64 or -21% YoY; FY24e EPS estimate to $6.83 or -1% which reflects continued pressure from higher rates, reduced benefit from securities gains (added +$50mn to corporate segment net income in 3Q23). Forecast margin expansion (+3bp QoQ) for the Canadian segment combined with stability in the international segment (NIM flat QoQ). However, these would unlikely be enough to overcome larger corporate segment loss, driving consolidated NIM -2bp QoQ. While our forecast implies modest balance sheet growth (AEA +1%/4% 4Q23e/FY24e YoY), we forecast decelerating mortgage loan growth (1% FY24e quarterly avg. vs 2% FY22) as management works to lower loan-to-deposit (L/D) ratio; forecast L/D ratio: 79% 4Q24e vs 82% 1Q23, reduced reliance on higher cost funding (NIB deposits 5% of total 3Q23 vs 14% peer median). We acknowledge that the cost funding shift and decelerating mortgage growth could be tailwinds to net interest margin, however we also note execution risk remains as Scotia's transformation of the Canadian franchise likely a multi-year event requiring significant investment to drive organic growth.

Scotia expected to record a $247mn (-20c to EPS) post-tax restructuring charge (tied to 3% headcount reduction). Our forecast assumes that this would lead to ~$250mn of cost savings, with $125mn recognized in 2024 and the remainder in FY25. Scotia further announced the sale of its stake in Canadian Tire Financial Services (CTFS) for $319mn (+26c to EPS). Based on 2022 net income of ~$400mn, we expect the sale would lead to a $20mn quarterly decrease in non-interest income for the bank. We forecast the combined impact of these discrete items, in addition to the write-down of the investment in the Bank of Xi'an ($280mn / -23c) and consolidation of real estate costs ($63mn / -5c) would decrease GAAP EPS by -23c.

Stock outlook

Scotia's transformation kicked into high gear on November 2nd after management announced that Aris Bogdaneris, formerly the Head of Digital Transformation, would assume leadership of the Canadian franchise. Since CEO Scott Thomson has taken over, Scotia has announced new leadership for its Canadian, International and Wealth management segments. All three individuals were external hires which we see as encouraging (fresh pair of eyes) given the structural transformation needed at the bank to turn things around. However, Street would be looking for management's strategic goals during the upcoming investor day (12/13) and assessing execution risk with regard to achieving management targets. Management's actions (emphasis on deposits, primacy of client relationships, reassess LatAm exposure, profitability over growth) are likely to take some time to move the needle on growth/ROE, in our view. We believe the stock would need some macro help, specifically rate-cuts, to get investors excited while they wait for strategic actions to take hold. Stock trading at 9x 2024e P/E vs. 10.5x 5yr pre-pandemic median and 1x YE24e P/Book vs. our 11.8% 2024e ROE forecast (vs. 1.4x P/BV and 14.4% ROE 5yr pre-pandemic medians). Maintain Neutral rating.

Exhibit 6: BNS Tear Sheet
Management commentary / outlook

Bank of Nova Scotia	Notes
Net interest margin	Expect all-bank NIM to remain around current levels. Canada: Margin improvement will continue.
Provisions/Credit quality	Anticipate a sequential increase from 42bp of provisions on impaired loans in the third quarter.
Operating leverage	Aim for positive operating leverage in 2024.
Loans	Scotia conference: Currently number 5 in Canada for commercial lending, will continue to grow that business.
Deposits	Deposit drive will continue as they bring down the L/D ratio.
LatAm	Scotia conference: $20bn of $60bn of capital is in the international business, but returns are not commensurate with the invested capital. Divestitures are not off the table.
Mexico	Mexico performing well. Will continue to benefit from near shoring
Capital	Expect capital ratios will continue to grow in the fourth quarter. Will see movement in the floor add-on each quarter. Scotia expects to end the year near 13% CET1, but will be impacted by FRTB and a 2.5% increase in the floor factor. After these items, they want to remain above 12% CET1. DRIP will add another 10bp to capital next quarter.

Source: BofA Global Research, company reports

BofA GLOBAL RESEARCH

CIBC (CM): operating outlook, CRE, capital build in focus

We revise 4Q23e EPS estimate to $1.55 or +18% YoY; FY24e EPS estimate to $6.42, -4%. Changes to 4Q23 estimates are coming from lower revenue growth in the Canadian P&C and capital markets segments, FY24 revision stemming from increased PCLs (similar to peers). We expect the net interest margin to remain a tailwind for the bank, with 4Q23e/FY24e NIM seeing 2bp of expansion QoQ/YoY (guide: segment NIMs to be stable). After the company reported a solid 3Q23 overshadowed by outsized PCLs (reserve build tied to macro), we now look for stability in PCLs, PPNR. US office CRE exposure (US $3.8bn or <1% of total loans) has been a driver of higher credit costs this year and Street would be looking for comfort that management actions have mitigated the potential for this portfolio to inject EPS volatility in 2024. We note that CM has generally executed well on delivering on guidance, which should give the Street some degree of confidence on management's 2024 outlook. Based on our conversations investors watching capital levels given potential for OSFI to raise minimum capital requirements (DSB). CIBC is at the bottom of the peer group with CET1 capital ratio at 12.2% vs. 13.3% avg. as of 3Q23. We note that management has outlined expectations for CET1 to drift into the mid-12% range in 2024 and a net benefit from upcoming regulatory changes in 1Q24.

Stock outlook

We see limited risk of downside on an absolute basis with shares trading near book value. Our cautious view on the outlook for the Canadian economy combined with the lack of levers to defend against a potentially worsening revenue growth backdrop keeps us cautious on the stock. On the other side, improving sentiment towards the Canadian economy could see the stock outperform peers as CIBC remains most indexed to the Canadian economy/housing market with 87% of Canadian P&C loan book residential mortgages (vs. 54% peer median as of 3Q23). While we are less concerned about the loss content in the mortgage book, the secondary effects due to a squeezed consumer on credit losses tied to unsecured consumer, commercial loans and the potential for it to weigh on growth/ROE is what drives our cautious view on the stock. Stock trading at 8.4x 2024e P/E vs. 9.6x 5yr pre-pandemic median and 1x YE24e P/Book vs. our 12.3% 2024e ROE forecast (vs. 1.8x P/BV and 17.8% ROE 5yr pre-pandemic medians). Maintain Underperform rating.

Exhibit 7: CM Tear Sheet
Management commentary / outlook

CIBC	Notes
Revenue	Capital Markets: Anticipate fourth quarter revenues will be lower sequentially. Expect growth will revert to mid-to-high single digits over the prior year. Corporate segment: Maintain previous guidance for $75-125mn quarterly loss.
Net interest margin	Anticipate that both Canadian P&C and US NIM will remain relatively stable in the near-term. Maintain guidance for 165-170bp for overall bank margin. US: Expect stability with upward bias.
Provisions/Credit quality	Expect that FY23 losses on impaired loans will be on the higher end of the 25-30bp guidance range. US: Expect provisions to remain elevated in the office sector.
Expenses	Commerce is managing to mid single-digits expense growth for FY23. Target positive operating leverage over the medium-term. US: Expect more moderate expense growth going forward.
Operating leverage	Continue to target positive operating leverage over the medium term.
Loans	Canada: Believe loan growth will continue to be slow, have particularly slowed down C&I. US: Outlook is still for mid-single-digit loan growth, driven primarily by C&I.
Deposits	Commerce believes that NIB balances will stabilize around their current levels.
Capital	Anticipate that capital ratios will continue to drift higher, now target mid-12% for next year. Expect cumulative impact of regulatory changes will be, net, a slight positive to capital.

Source: BofA Global Research, company reports

BofA GLOBAL RESEARCH

4Q23 Preview: Operating outlook

BofA 4Q23e EPS forecast: Our EPS forecast implies -6% in median YoY decrease for the big five banks for 4Q23 (vs. -10% reported for 3Q23) and -1%/-4% decline for FY24/FY23 (vs. +2% for FY22).

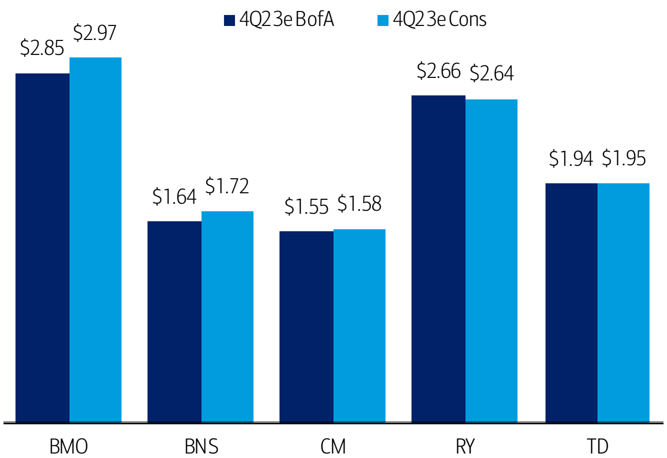
Exhibit 8: Our 4Q23 estimates decreased 3% on avg.
BofA EPS estimate revisions

	4Q23e			2023E			2024e			2025e		
	New	Old	% Chg.	New	Old	% Chg.	New	Old	% Chg.	New	Old	% Chg.
BMO	$2.85	$2.93	-2.8%	$11.78	$11.86	-0.7%	$12.19	$12.58	-3.1%	$12.88	$13.41	-3.9%
BNS	$1.64	$1.74	-5.7%	$6.92	$7.02	-1.4%	$6.83	$7.10	-3.9%	$7.50	$7.80	-3.8%
CM	$1.55	$1.59	-2.4%	$6.71	$6.75	-0.6%	$6.42	$6.70	-4.3%	$6.65	$7.20	-7.7%
RY	$2.66	$2.74	-2.9%	$11.25	$11.33	-0.7%	$11.44	$11.65	-1.8%	$12.41	$12.85	-3.4%
TD	$1.94	$2.01	-3.2%	$8.10	$8.17	-0.8%	$7.50	$8.15	-8.0%	$8.30	$9.10	-8.8%
Median			-2.9%			-0.7%			-3.9%			-3.9%

Source: BofA Global Research

BofA GLOBAL RESEARCH

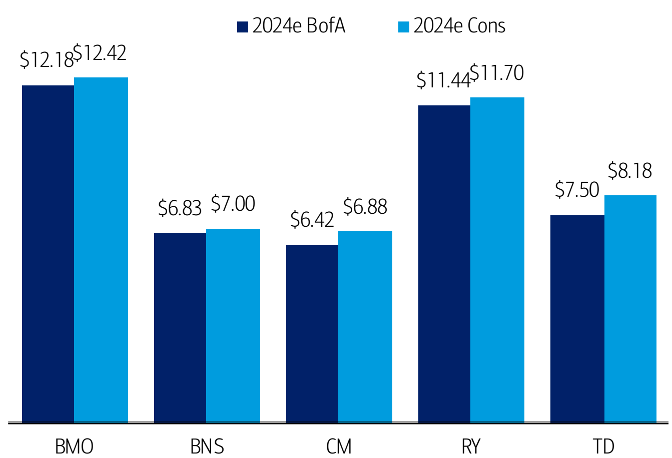
Exhibit 9: We are 2% below consensus in 4Q23
BofA vs. Cons 4Q23 EPS Estimates



Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 10: We are 4% below consensus for FY24
BofA vs. Cons 2024 EPS Estimates



Source: BofA Global Research, Bloomberg

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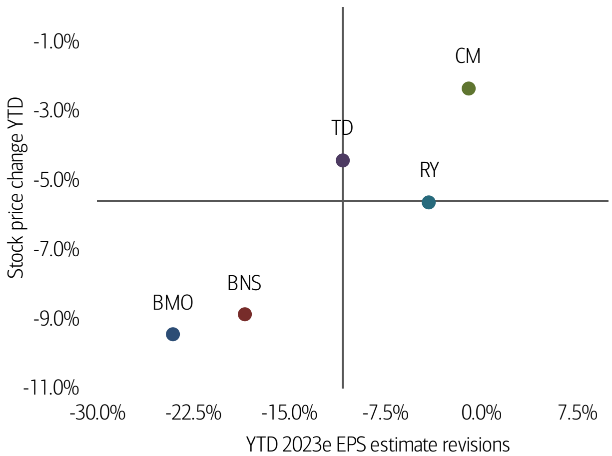
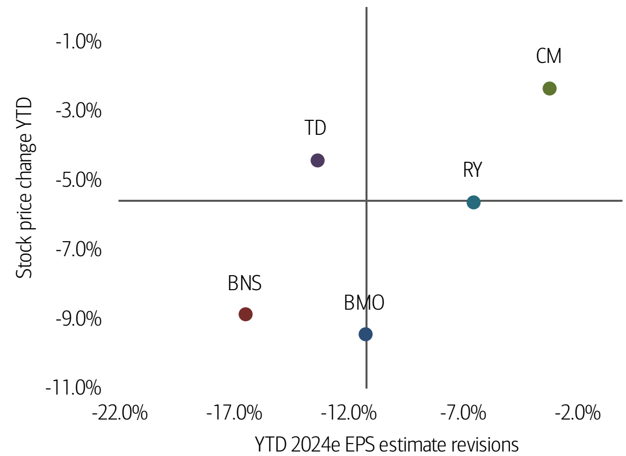
Exhibit 11: CM has outperformed YTD given tamer EPS revisions
YTD price performance vs YTD 23e EPS revisions



Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

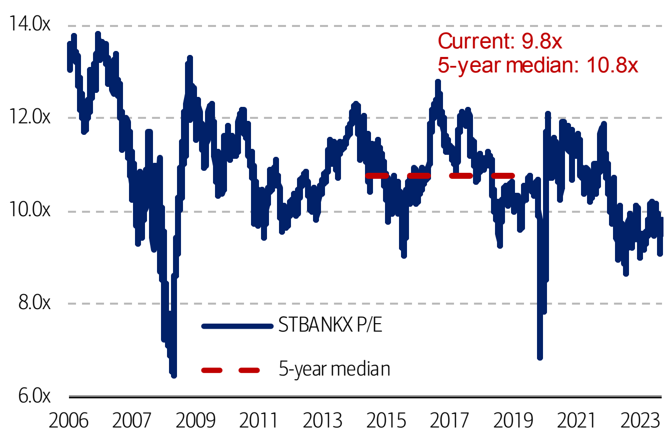
Exhibit 12: ...while BNS has lagged given more extreme EPS revisions
YTD price performance vs YTD 24e EPS revisions



Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 13: Banks are trading at 9.8x forward P/E vs. 10.8x 5yr median
Historical and current forward P/E



Source: BofA Global Research, Bloomberg

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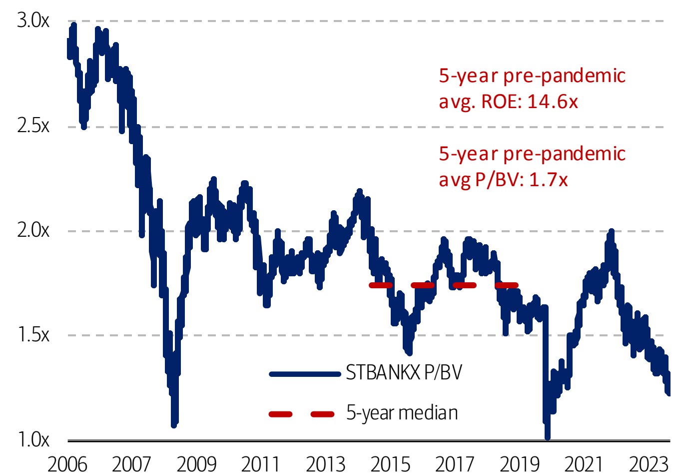
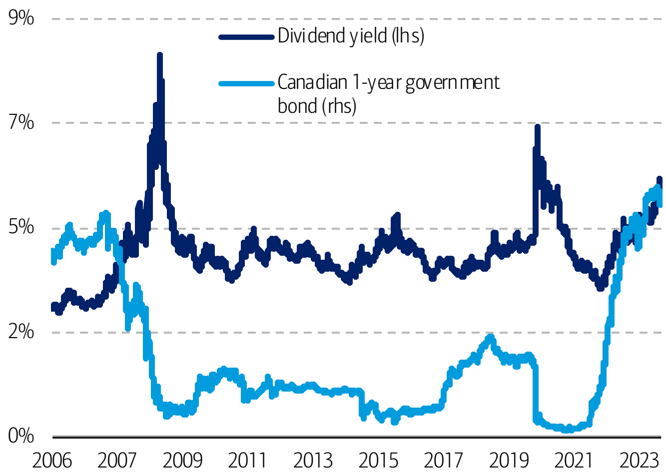
Exhibit 14: Banks are trading at 1.3x P/B, vs. 1.7x 5yr median
Historical and current P/B



Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 15: Risk-free Canadian bond rates have caught up to div. yields
Canadian Banks dividend yield vs. CAD 1yr government bond



Source: BofA Global Research, Bloomberg

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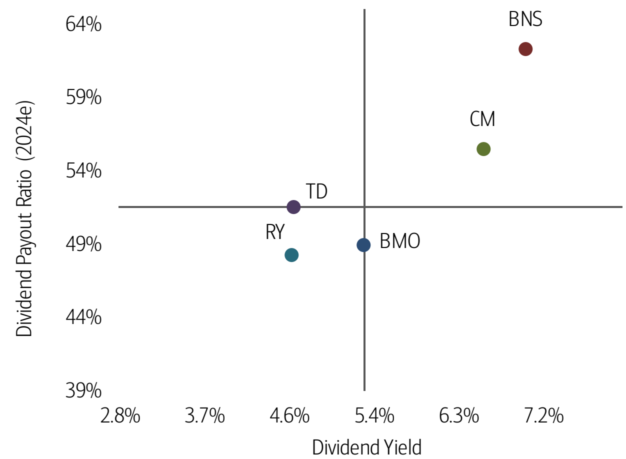
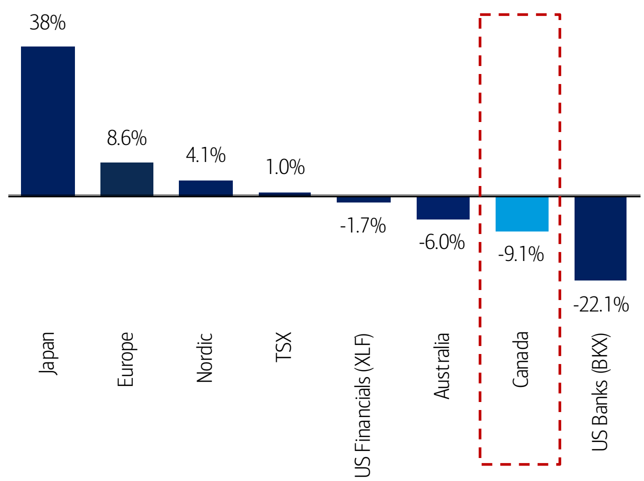
Exhibit 16: Dividend yields high as banks exceed 40-50% payout range
Dividend payout ratio vs. dividend yield



Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

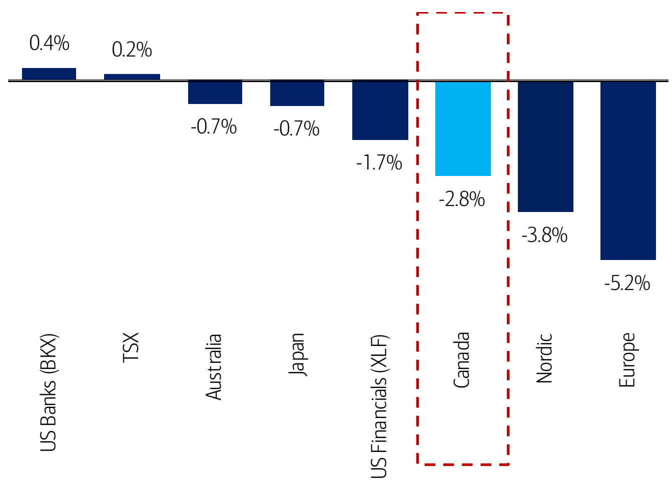
Exhibit 17: Canadian banks underperformed most peers YTD...
Price performance of global banks YTD



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, DBK, USSG, HSBA; Nordic includes DANSKE, DNB, SEBA, SHBA, SWEDA, NDA.

BofA GLOBAL RESEARCH

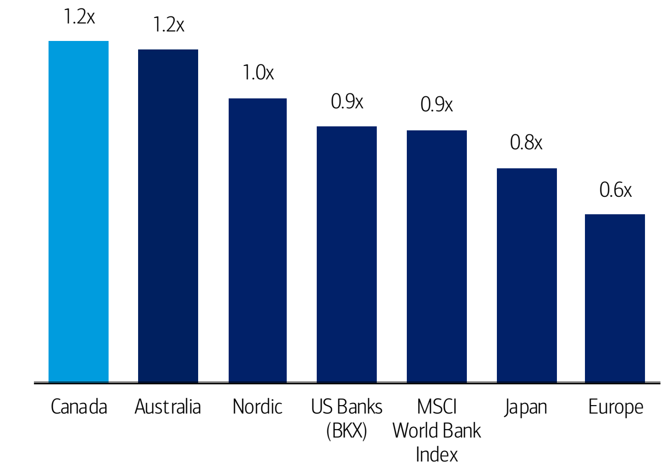
Exhibit 18: ...as well as quarter to date
Price performance of global banks QTD



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, RY, TD, CM; Europe includes BARC, DBK, USSG, HSBA; Nordic includes DANSKE, DNB, SEBA, SHBA, SWEDA, NDA.

BofA GLOBAL RESEARCH

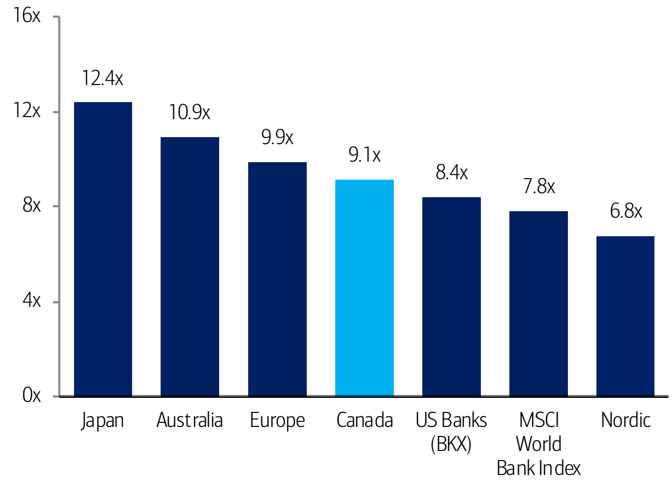
Exhibit 19: Canadian banks are trading at a P/B premium to peers...
Global banks P/B ratio



Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 20: ...but trade in-line with peers on a P/E basis
Global banks' P/E ratios

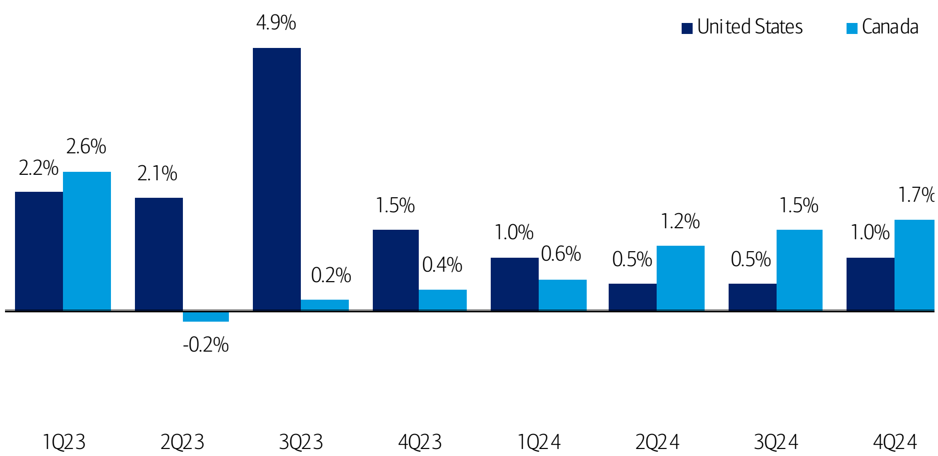


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Canada GDP growth to lag the U.S. until 2025 given quicker transmission of monetary policy, implied by BofA Economics forecast. 2023 GDP growth forecast: +2.4% U.S./+1.1% CAD, 2024: +1.5%/+0.8%, 2025: +1.3%/+1.5%.

Exhibit 21: Canada to see a reacceleration in QoQ GDP growth in 2H24
Annualized QoQ GDP growth

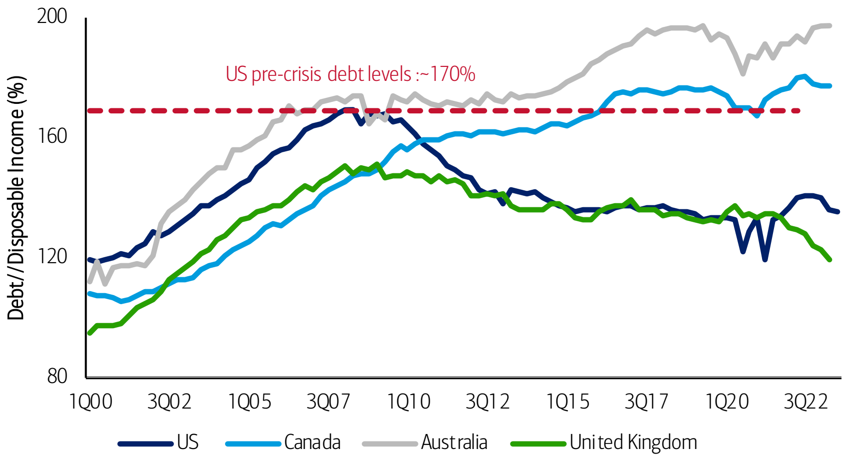


Source: BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 22: Canadian consumer debt at elevated levels as servicing costs rise

Household debt to disposable income

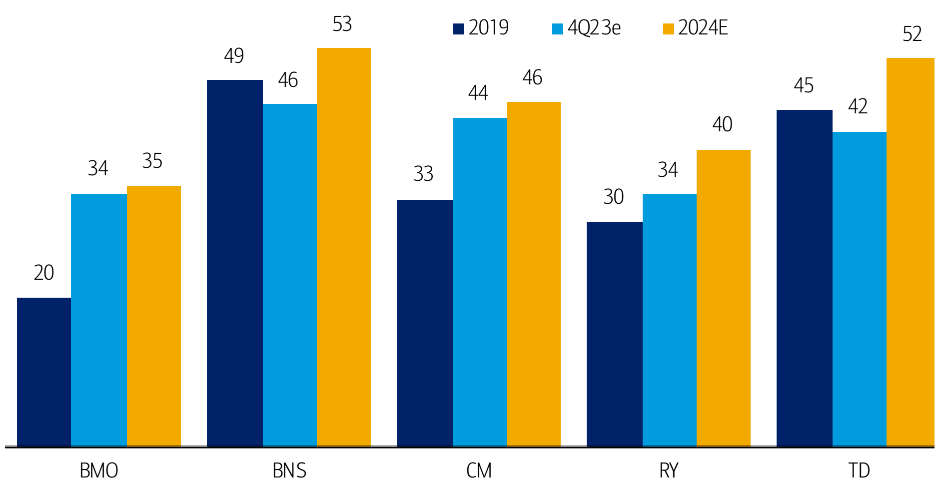


Source: BofA Global Research, Haver

BofA GLOBAL RESEARCH

Exhibit 23: We see PCLs increasing as normalization continues

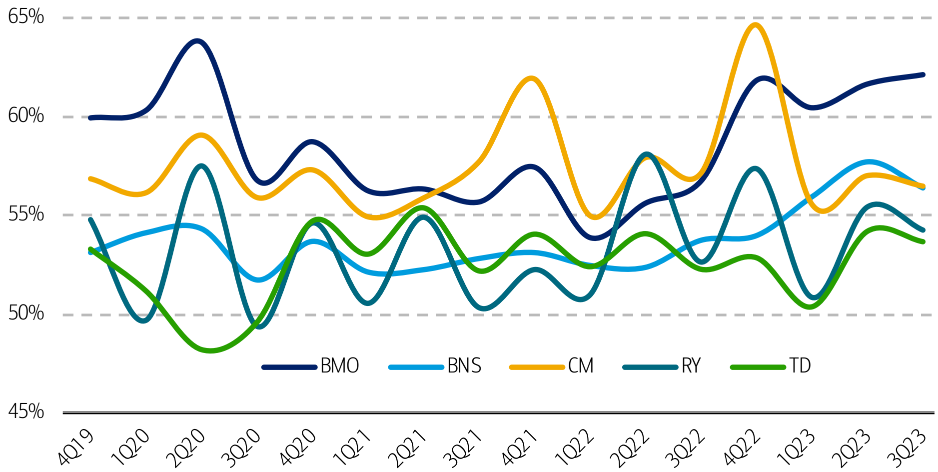
PCL ratio forecast (in bps)



Source: BofA Global Research, company reports

BofA GLOBAL RESEARCH

Exhibit 24: TD, RY, BNS consistently have the lowest efficiency ratio among the group
Consolidated efficiency ratio, 4Q19 – 3Q23

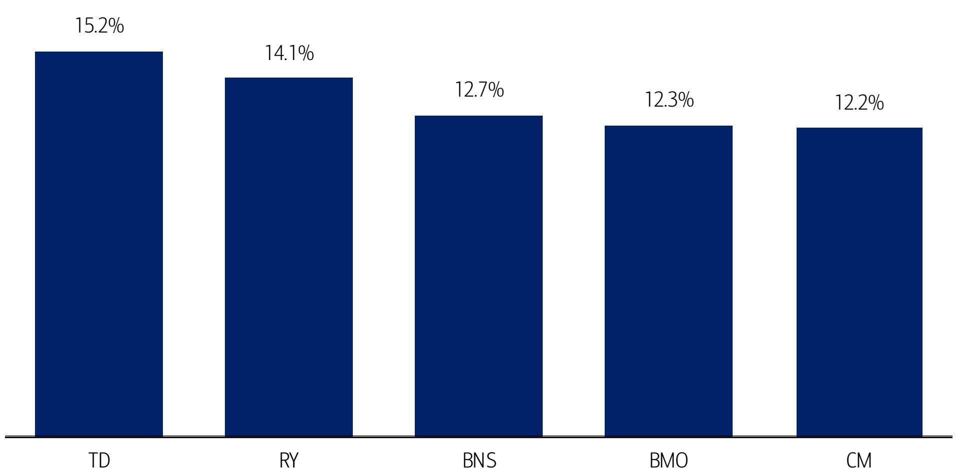


Source: BofA Global Research, company filings

BofA GLOBAL RESEARCH

Canadian bank management teams have guided towards reaching ~12.5% CET1 by YE23 vs. 13.3% 3Q23 avg. for the big 5 banks. Most management teams expecting a modest/immaterial impact to CET1 from FRTB/Trading Floor factor increases in 1Q24, while one peer expects to see a 35-40bp hit to CET1.

Exhibit 25: Capital build continues in anticipation of greater requirements, 1Q24 hits
3Q23 CET1

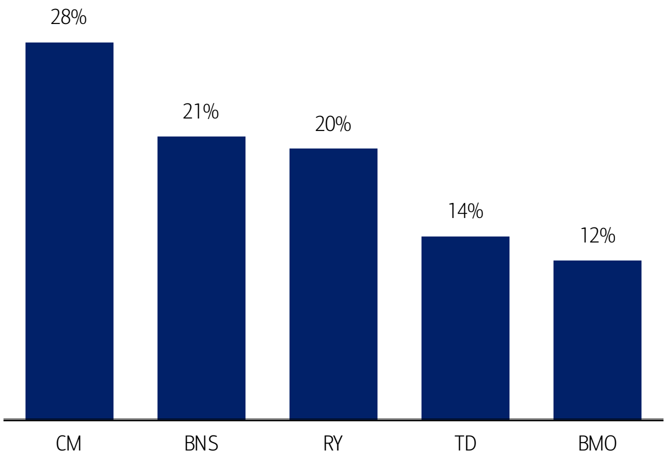


Source: BofA Global Research, company reports

BofA GLOBAL RESEARCH

Mortgage Stress Front and Center

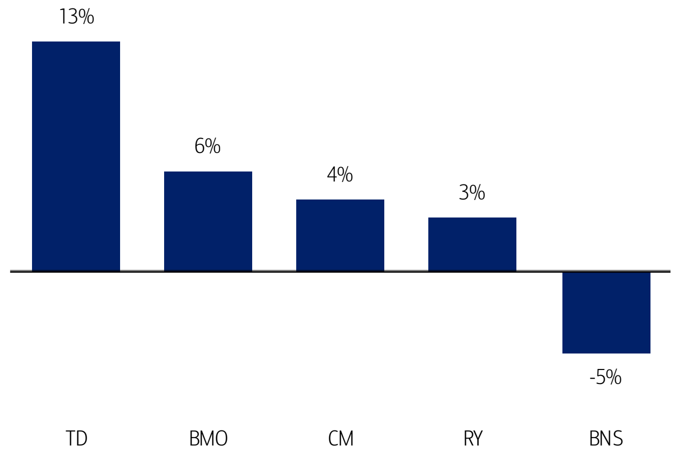
Exhibit 26: Banks with big U.S. presence less exposed to CAD mortgage
Canadian resi mortgage loans as a % of total assets



Source: BofA Global Research, company filings

BofA GLOBAL RESEARCH

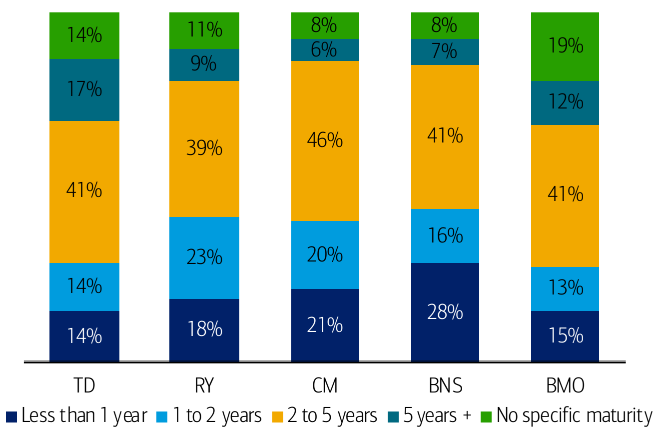
Exhibit 27: Mortgages with amortization >25 years up 4% YoY
Δ in % of Canadian resi mortgages, amortization>25 years 3Q22/3Q23



Source: BofA Global Research, company filings

BofA GLOBAL RESEARCH

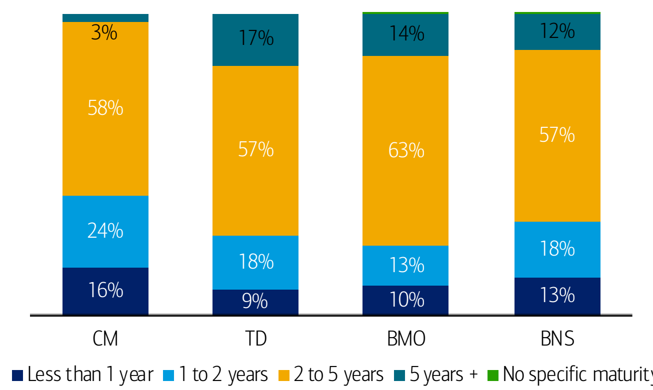
Exhibit 28: 41% of loans will mature between 2025-2027
Loan maturity by bank



Source: BofA Global Research, company filings

BofA GLOBAL RESEARCH

Exhibit 29: ~60% of mortgages will mature between 2025-2028
Mortgage maturity by bank



Source: BofA Global Research, company filings

BofA GLOBAL RESEARCH

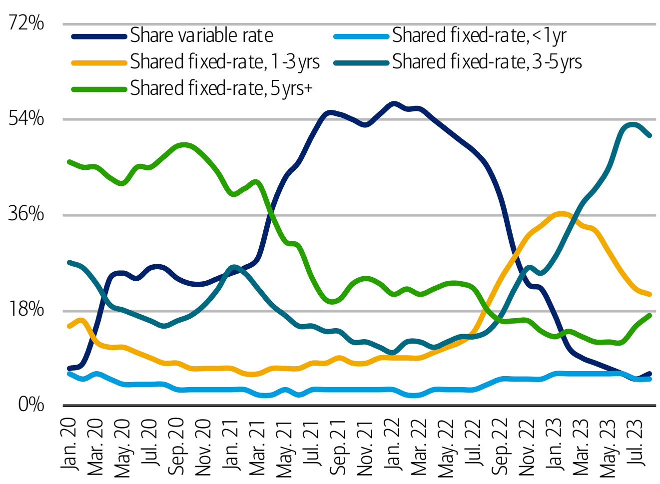
Exhibit 30: 5yr govt. bond pulled back 65bp from post GFC high
Canadian 5 year government bond yield

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Excess savings/strong employment keeping delinquencies subdued.

Exhibit 31: Preference for mortgages has shifted to fixed-rate, 3-5yrs
Mortgage mix by month



Source: StatCan, Bank of Canada, CMHC

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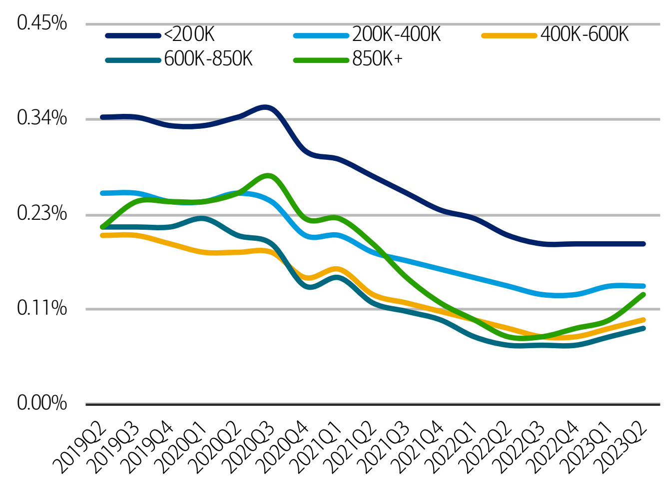
Exhibit 32: Delinquencies in all value ranges below pre-COVID
Mortgage delinquency rates by mortgage value at origination

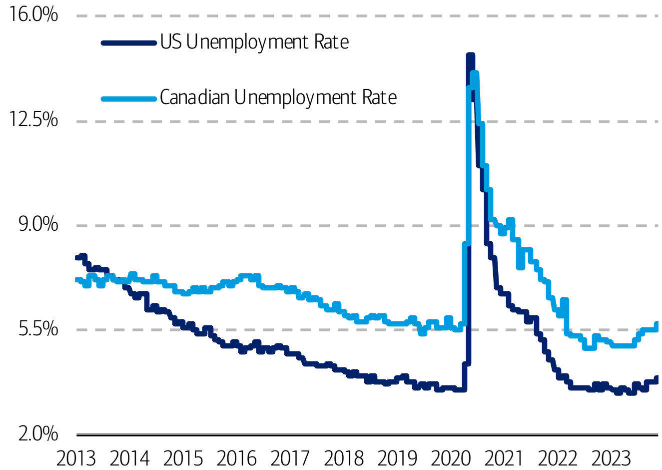


Source: Equifax, CMHC

BofA GLOBAL RESEARCH

With continued creep upwards in unemployment rate (5.7%, same as December 2019 levels), banks are expecting deterioration to manifest primarily in unsecured lines of credit and credit cards.

Exhibit 33: Unemployment in Canada has returned to 2019 levels
US vs Canadian unemployment rate



Source: BofA Global Research, Bloomberg

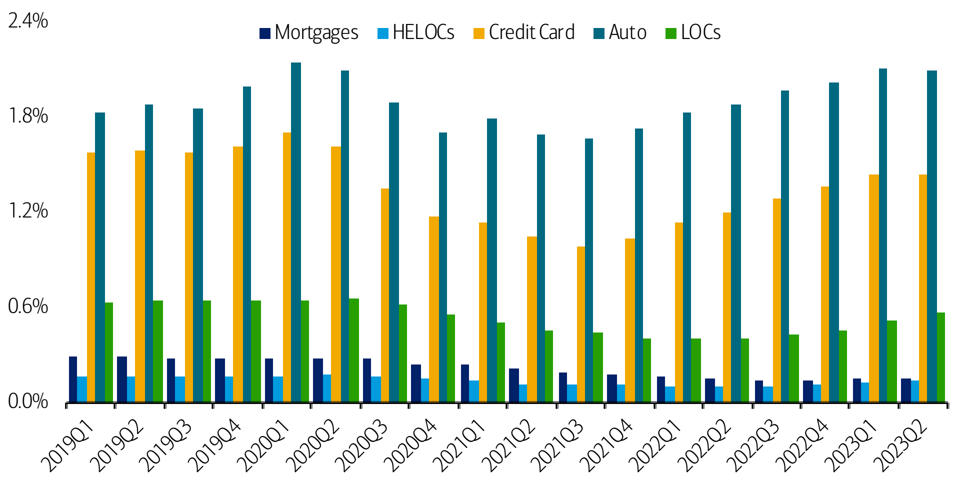
BofA GLOBAL RESEARCH

Exhibit 34: Rent inflation higher than at any point in the last decade
YoY change in rental prices

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 35: Stress on consumer visible through increase in past due balances of consumer loans
Share of the number of accounts 90+ days past due over the previous 3 months



Source: Equifax, CMHC

BofA GLOBAL RESEARCH

Capital markets trends

Exhibit 36: Dealogic data implies a +22% YoY growth in M&A revenues
Canadian Bank M&A revenues

($mn)	4Q22	1Q23	2Q23	3Q23	4Q23	YoY	QoQ
RBC Capital Markets	137	150	83	98	137	0%	40%
BMO Capital Markets	26	43	63	26	77	193%	199%
TD Securities Inc	27	11	61	20	34	28%	74%
CIBC World Markets	16	12	38	25	7	-56%	-72%
Scotiabank	19	3	28	24	20	4%	-15%
Total	226	220	275	192	275	22%	43%

Source: BofA Global Research, Dealogic

BofA GLOBAL RESEARCH

Exhibit 37: Dealogic data implies a +19% YoY increase in ECM revenues
Canadian Bank ECM revenues

($mn)	4Q22	1Q23	2Q23	3Q23	4Q23	YoY	QoQ
RBC Capital Markets	49	49	29	39	39	-20%	-1%
BMO Capital Markets	18	62	10	20	29	55%	44%
TD Securities Inc	13	12	5	58	45	243%	-22%
CIBC World Markets	20	16	4	11	15	-24%	35%
Scotiabank	22	11	9	17	16	-23%	-4%
Total	122	149	57	145	144	19%	-1%

Source: BofA Global Research, Dealogic

BofA GLOBAL RESEARCH

Exhibit 38: Dealogic data implies a +9% YoY increase in DCM revenues
Canadian Bank DCM revenues

($mn)	4Q22	1Q23	2Q23	3Q23	4Q23	YoY	QoQ
RBC Capital Markets	97	99	137	129	101	4%	-22%
BMO Capital Markets	57	61	50	69	54	-6%	-22%
TD Securities Inc	73	92	87	93	84	15%	-10%
CIBC World Markets	28	37	37	36	34	21%	-6%
Scotiabank	45	54	59	70	53	18%	-25%
Total	300	343	370	397	326	9%	-18%

Source: BofA Global Research, Dealogic

BofA GLOBAL RESEARCH

Exhibit 39: Stocks mentioned
Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
BMO	BMO US	Bank of Montreal	US$ 81.67	B-2-7
YBMO	BMO CN	Bank of Montreal	C$ 112.03	A-2-7
BNS	BNS US	Bank of Nova Scotia	US$ 44.54	B-2-7
YBNS	BNS CN	Bank of Nova Scotia	C$ 61.09	A-2-7
CM	CM US	Canadian Imp Bank	US$ 39.53	B-3-7
YCM	CM CN	Canadian Imp Bank	C$ 54.22	B-3-7
RY	RY US	Royal Bank	US$ 88	A-2-7
YRY	RY CN	Royal Bank	C$ 120.49	A-2-7
TD	TD US	TD Bank	US$ 61.82	B-1-7
YTD	TD CN	TD Bank	C$ 84.78	A-1-7

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

Bank of Montreal (YBMO / BMO)

Our $120 PO (US$89) is based on applying a P/BV multiple of 1.2x (50% weight) to our YE24e BV and a 9.9x P/E (50% weight) multiple to our 2024e P/E. These multiples are in line with the median of the group (9.9x P/E, 1.2x P/B). While we view BMO as a superior operator relative to peers, macro risks combined with the uncertainty tied to the ongoing deal integration warrants a peer-like multiple.

Upside risks to our PO: 1) a stronger economy/growth, 2) better than expected synergies from the Bank of the West acquisition, and 3) an economic soft landing that leads to reduce funding cost pressures while asset quality holds up

Downside risks: 1) a Canadian and/or U.S. recession that would drive higher than expected credit costs, 2) deterioration in capital markets activity, 3) a dramatic shift in the interest rate outlook, and 4) unforeseen risks tied to the integration of Bank of the West

Bank of Nova Scotia (YBNS / BNS)

Our $68 PO (US$52) is calculated based off of applying a P/BV multiple of 1.2x (50% weight) to our YE24e BV and a 9.2x P/E (50% weight) to our 2024eP/E. These multiples are below peer multiples at 9.9x P/E and 1.2 P/B for the group.

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) successful push to grow core deposits and thereby improve profitability through a shift in funding mix toward lower-cost source of funds.

Downside risks: 1) a sharp downturn in the Canadian housing market and rise in unemployment rate could lead to higher credit losses, 2) a worse than expected slowdown in Latin American economies could lead to anemic loan growth and accelerating credit losses, 3) inability to grow core deposits and continued reliance on higher cost of funds, thereby weakening profitability.

Canadian Imperial Bank of Commerce (YCM / CM)

Our $63 PO (US$48) is calculated based off of applying a P/BV multiple of 1.2x (50% weight) to our YE24e BV and a 9.3x P/E (50% weight) to our 2024eP/E. These multiples are below peer multiples at 9.9x P/E and 1.2x P/B for the group.

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) stronger than expected margin expansion, which would drive profitability higher.

Downside risks: 1) a sharp downturn in the Canadian housing market and rise in unemployment rate that could lead to higher credit losses. 2) inability to defend against a worsening revenue backdrop via expense actions. 3) weaker than expected margin expansion, which would be a headwind for profitability.

Royal Bank of Canada (YRY / RY)

Our $130 PO (USD $96) is based on applying a P/BV multiple of 1.6x (50% weight) to our YE24e BV and an 11.2x P/E (50% weight) multiple to our 2024e P/E. These multiples are a premium to the 9.9x P/E and 1.2x P/B for the group. We see a premium valuation as warranted given RY's superior EPS/ROE defensibility and franchise diversity.

Downside risks to our price objective are: 1) a Canadian and/or U.S. recession that would drive higher than expected credit costs, 2) deterioration in capital markets activity 3) a dramatic shift in the interest rate outlook, 4) unforeseen risks tied to the integration of HSBC Canada.

Upside risk to our PO is: (1) a stronger economy/growth, (2) better than expected synergies from the HSBC Canada acquisition, and (3) economic soft landing that leads to reduced funding cost pressures while asset quality holds-up.

Toronto-Dominion Bank (YTD / TD)

Our $90 PO (USD $66) is based on applying a P/BV multiple of 1.5x (50% weight) to our YE24 BV and an 12.2x P/E (50% weight) multiple to our 2024e P/E. These multiples are a premium to the 9.9x P/E and 1.2x P/B for the group. We see a premium valuation as warranted given TD's superior EPS/ROE defensibility and franchise diversity.

Downside risks to our price objective are: 1) a Canadian and/or U.S. recession that would drive higher than expected credit costs, 2) deterioration in capital markets activity 3) a dramatic shift in the interest rate outlook, 4) the DOJ's investigation into TD's compliance with anti-money laundering rules that leads to a worse than expected outcome 5) greater than expected margin compression due to the interest rate backdrop and competitive environment.

Upside risks to our price objective are: (1) stronger economic growth, (2) better growth driven by market share gains (3) faster pace of capital deployment.

Analyst Certification

I, Ebrahim H. Poonawala, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Ares Capital Corporation	ARCC	ARCC US	Derek Hewett
	Ares Commercial Real Estate Corporation	ACRE	ACRE US	Derek Hewett
	Barings BDC Inc	BBDC	BBDC US	Derek Hewett
	Blackstone Mortgage Trust Inc	BXMT	BXMT US	Derek Hewett
	Blue Owl Capital Corporation	OBDC	OBDC US	Derek Hewett
	Carlyle Secured Lending Inc	CGBD	CGBD US	Derek Hewett
	Citigroup Inc.	C	C US	Ebrahim H. Poonawala
	Compass Diversified Holdings	CODI	CODI US	Derek Hewett
	Crescent Capital BDC	CCAP	CCAP US	Derek Hewett
	Cullen/Frost Bankers Inc	CFR	CFR US	Ebrahim H. Poonawala
	East West Bancorp, Incorporated	EWBC	EWBC US	Ebrahim H. Poonawala
	Fifth Third Bank	FITB	FITB US	Ebrahim H. Poonawala
	First Bancorp Puerto Rico	FBP	FBP US	Brandon Berman
	First Horizon Corporation	FHN	FHN US	Ebrahim H. Poonawala
	Goldman Sachs	GS	GS US	Ebrahim H. Poonawala
	JPMorgan Chase & Co.	JPM	JPM US	Ebrahim H. Poonawala
	KeyCorp	KEY	KEY US	Ebrahim H. Poonawala
	M&T Bank	MTB	MTB US	Ebrahim H. Poonawala
	Morgan Stanley	MS	MS US	Ebrahim H. Poonawala
	New Mountain Finance Corporation	NMFC	NMFC US	Derek Hewett
	New York Community Bancorp	NYCB	NYCB US	Ebrahim H. Poonawala
	Northern Trust Corporation	NTRS	NTRS US	Ebrahim H. Poonawala
	Safehold, Inc	SAFE	SAFE US	Derek Hewett
	Sixth Street Specialty Lending, Inc	TSLX	TSLX US	Derek Hewett
	Starwood Property Trust	STWD	STWD US	Derek Hewett
	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
	U.S. Bancorp	USB	USB US	Ebrahim H. Poonawala
	Wells Fargo & Company	WFC	WFC US	Ebrahim H. Poonawala
	Western Alliance Bancorp	WAL	WAL US	Ebrahim H. Poonawala
NEUTRAL				
	AGNC Investment Corp	AGNC	AGNC US	Derek Hewett
	Ally Financial	ALLY	ALLY US	Brandon Berman
	Annaly Capital Management	NLY	NLY US	Derek Hewett
	Apollo Commercial Real Estate Finance	ARI	ARI US	Derek Hewett
	Associated Banc-Corp	ASB	ASB US	Brandon Berman
	Bain Capital Specialty Finance, Inc.	BCSF	BCSF US	Derek Hewett
	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
	Blackstone Secured Lending Fund	BXSL	BXSL US	Derek Hewett
	BrightSpire Capital Inc.	BRSP	BRSP US	Derek Hewett
	Citizens Financial Group	CFG	CFG US	Ebrahim H. Poonawala
	Comerica Incorporated	CMA	CMA US	Ebrahim H. Poonawala
	Goldman Sachs BDC, Inc.	GSBD	GSBD US	Derek Hewett
	Golub Capital BDC, Inc.	GBDC	GBDC US	Derek Hewett
	Huntington Bancshares Inc.	HBAN	HBAN US	Ebrahim H. Poonawala
	Ladder Capital Corp	LADR	LADR US	Derek Hewett
	PennyMac Mortgage Investment Trust	PMT	PMT US	Derek Hewett
	Popular Inc	BPOP	BPOP US	Brandon Berman
	Regions Financial	RF	RF US	Ebrahim H. Poonawala
	Royal Bank of Canada	RY	RY US	Ebrahim H. Poonawala
	Royal Bank of Canada	YRY	RY CN	Ebrahim H. Poonawala
	State Street Corporation	STT	STT US	Ebrahim H. Poonawala
	The PNC Financial Services Group, Inc.	PNC	PNC US	Ebrahim H. Poonawala
	TPG RE Finance Trust, Inc.	TRTX	TRTX US	Derek Hewett
	Truist Financial	TFC	TFC US	Ebrahim H. Poonawala
UNDERPERFORM				
	Bank of Hawaii Corp.	BOH	BOH US	Brandon Berman
	Canadian Imperial Bank of Commerce	CM	CM US	Ebrahim H. Poonawala

North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Canadian Imperial Bank of Commerce	YCM	CM CN	Ebrahim H. Poonawala
	First Hawaiian Inc.	FHB	FHB US	Brandon Berman
	Guild Holdings Company	GHLD	GHLD US	Derek Hewett
	Invesco Mortgage Capital, Inc.	IVR	IVR US	Derek Hewett
	loanDepot Inc	LDI	LDI US	Derek Hewett
	MidCap Financial Investment Co	MFIC	MFIC US	Derek Hewett
	Prosperity Bancshares Inc	PB	PB US	Ebrahim H. Poonawala
	Texas Capital Bancshares Inc.	TCBI	TCBI US	Brandon Berman
	Zions Bancorp	ZION	ZION US	Ebrahim H. Poonawala

Disclosures

Important Disclosures

Equity Investment Rating Distribution: Banks Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships R1	Count	Percent
Buy	98	50.78%	Buy	81	82.65%
Hold	47	24.35%	Hold	35	74.47%
Sell	48	24.87%	Sell	36	75.00%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships R1	Count	Percent
Buy	1869	53.48%	Buy	1046	55.97%
Hold	828	23.69%	Hold	461	55.68%
Sell	798	22.83%	Sell	370	46.37%

R1 Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. VOLATILITY RISK RATINGS, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. INVESTMENT RATINGS reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster R2
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

R2 Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. *Coverage Cluster* is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

Price Charts for the securities referenced in this research report are available on the Price Charts website, or call 1-800-MERRILL to have them mailed.
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