

Bank of Nova Scotia

Now comes the hard part

Reiterate Rating: NEUTRAL | PO: 67.00 CAD | Price: 61.99 CAD

Medium-term (FY28) growth targets imply ~\$9 in EPS

Strategic blueprint laid out during last week's Investor Day consistent with our expectations and investors will likely appreciate the specificity of the KPIs outlined for each of the business segments. Near-term, mgmt. sees EPS rising to ~\$7 by FY25; 14%+ ROE target maintained. Most notable near-term contribution to come from interest rate cuts, adding ~\$1bn to net income or \$0.80 to EPS. We raise our PO from \$60 to \$67 (from US\$45 to US\$51), now based on 9.4x 24e P/E (was 9.2x) and 1.2x 24e P/Book (was 1.0x) due to improved EPS/ROE visibility. Relevant research: [Making Canada great again.](#)

CEO Scott Thomson on the right track

We are encouraged by the swift action taken by CEO Scott Thomson to refresh the leadership ranks and in laying out a plan against which the Street can now hold mgmt. accountable. Recall that Mr. Thomson assumed leadership of an underperforming franchise, hurt by poor capital allocation and talent drain under prior leadership. One of Mr. Thomson's key tasks will be to groom the next generation of leadership at the bank.

Stock should become more investable

While there is no change to our Neutral rating, we expect the stock to garner increased investor interest, partly given that Scotia is widely viewed as a beneficiary of lower interest rates. Moreover, the clarity provided by the strategic plan & growing familiarity with the new leadership team could increase investor comfort to assume execution risk. Stock trading near book value, offering a 6.8% dividend yield. Reiterate Neutral rating.

Canadian banking: Hardest part of the turnaround

Likely to be the hardest part of the turnaround, given an intensely competitive operating environment. Investors will need to see tangible evidence that mgmt. can drive growth without sacrificing profitability. Online banking platform Tangerine highlighted as a differentiated client acquisition tool. While we are skeptical of online-only banking platforms (stickiness of customer relationships), longer-term, Tangerine should benefit from increasing customer comfort with digital channels.

International banking: Balancing act

We came away impressed by group head Francisco Aristeguieta and view him as a very capable executive. *Continued inside...*

Estimates (Oct) (C\$)	2022A	2023A	2024E	2025E	2026E
EPS	8.49	6.54	6.52	7.32	7.77
GAAP EPS	8.01	5.78	6.48	7.29	7.74
EPS Change (YoY)	7.7%	-23.0%	-0.3%	12.3%	6.1%
Consensus EPS (Bloomberg)			6.49	6.95	NA
DPS	4.06	4.18	4.24	4.24	4.24
EPS (BNS - US\$)	6.59	4.85	4.88	5.47	5.81
DPS (BNS - US\$)	3.15	3.10	3.17	3.17	3.17
Valuation (Oct)					
P/E	7.3x	9.5x	9.5x	8.5x	8.0x

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Timestamp: 18 December 2023 05:03AM EST

18 December 2023

Equity

Key Changes

(C\$)	Previous	Current
Price Obj.	60.00	67.00
2024E Rev (m)	33,491.8	33,606.5
2025E Rev (m)	35,957.9	35,409.7
2026E Rev (m)	37,755.8	37,060.3
2024E EPS	6.50	6.52
2026E EPS	7.70	7.77

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Stock Data

Price (TOR / NYS)	61.99 CAD / 46.36 USD
Price Objective	67.00 CAD / 51.00 USD
Date Established	18-Dec-2023 / 18-Dec-2023
Investment Opinion	A-2-7 / B-2-7
52-Week Range	55.20 CAD - 74.41 CAD
Market Value (mn)	75,259 CAD
Free Float	95.4%
Average Daily Value (mn)	297.97 USD
Shares Outstanding (mn)	1,214.0 / 1,214.0
BofA Ticker / Exchange	YBNS / TOR
BofA Ticker / Exchange	BNS / NYS
Bloomberg / Reuters	BNS CN / BNS.TO
ROE (2024E)	11.3%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

GAAP P/E	7.7x	10.7x	9.6x	8.5x	8.0x
Dividend Yield	6.5%	6.7%	6.8%	6.8%	6.8%



iQprofileSM Bank of Nova Scotia

Income Statement Data (Oct)

(C\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Interest Income	18,115	18,287	19,627	21,032	21,964
% change	6.8%	0.9%	7.3%	7.2%	4.4%
Net Fee Income	NA	NA	NA	NA	NA
Securities Gains / (Losses)	NA	NA	NA	NA	NA
Total Operating Income	31,777	31,940	33,606	35,410	37,060
Operating Expenses	(16,884)	(18,344)	(18,772)	(19,363)	(20,331)
% change	2.8%	8.6%	2.3%	3.1%	5.0%
Provisions Expense	(1,382)	(3,422)	(4,196)	(3,885)	(3,885)
% change	-23.6%	147.6%	22.6%	-7.4%	0%
Operating Pre-Tax Income	13,585	10,303	10,638	12,162	12,844
Operating Net Income to Comm S/Hold.	10,265	7,895	8,057	9,053	9,604
GAAP Net Income	9,680	6,993	8,013	9,012	9,564

Balance Sheet Data (Oct)

(C\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Assets	1,349,418	1,410,789	1,432,181	1,486,447	1,553,316
Average Interest Earning Assets	NA	NA	NA	NA	NA
Total Gross Customer Loans	750,335	757,283	763,816	792,117	831,723
% change	16.8%	0.9%	0.9%	3.7%	5.0%
Total Customer Deposits	916,181	952,333	986,345	1,024,990	1,076,239
% change	14.9%	3.9%	3.6%	3.9%	5.0%
Tangible Equity	48,317	51,660	56,837	60,650	65,013
Common Shareholders' Equity	74,749	78,667	83,800	87,572	91,895

Key Metrics (Oct)

(C\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Interest Margin	NA	NA	NA	NA	NA
Effective Tax Rate	20.9%	17.4%	19.5%	21.4%	21.2%
Loan / Deposit Ratio	81.9%	79.5%	77.4%	77.3%	77.3%
Tangible Common Equity / Assets	3.6%	3.7%	4.0%	4.1%	4.2%
ROA	0.80%	0.57%	0.57%	0.61%	0.62%
ROE	15.7%	11.7%	11.3%	11.9%	12.0%
RoTE	21.3%	15.8%	14.9%	15.4%	15.3%
Dividend Payout Ratio	47.8%	64.0%	65.0%	57.9%	54.6%
Efficiency Ratio (Cost / Income Ratio)	53.1%	57.4%	55.9%	54.7%	54.9%

Quality of Earnings (Oct)

(C\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Non-Interest Inc / Operating Inc	43.0%	42.7%	41.6%	40.6%	40.7%
NPLs plus Foreclosed Real Estate / Loans	0%	0%	0%	0%	0%
Loan Loss Reserves / NPLs	NA	NA	NA	NA	NA
Loan Loss Reserves / Total Loans	0%	0%	0%	0%	0%

Company Sector

Banks-Multinational/Universal

Company Description

Scotiabank is the third-largest Canadian bank by market capitalization, and is the most international of the Canadian banks. In recent years, the bank has begun to consolidate operations, focusing more on Latin American countries, primarily Peru, Mexico, Chile, and Colombia, and less on Asia and the Caribbean.

Investment Rationale

While the stock screens attractively, trading at a discounted valuation and offering an above peer average dividend yield, limited idiosyncratic catalysts combined with an increasingly uncertain macro backdrop keep us at a Neutral recommendation.

Stock Data

Average Daily Volume	6426,920
Shares / Common - Dual Listed	1.00

Quarterly Earnings Estimates

	2023	2024
Q1	1.85A	1.55E
Q2	1.70A	1.58E
Q3	1.73A	1.68E
Q4	1.26A	1.70E

Key Changes

(US\$)	Previous	Current
Price Obj.	45.00	51.00
2024E EPS	4.86	4.88
2026E EPS	5.76	5.81



International banking: Balancing act

We came away impressed by group head Francisco Aristeguieta and view him as a very capable executive. In LatAm, Scotia will need to thread the needle as it looks to double down on Mexico, maintain positioning in Chile/Peru, while exiting certain markets. On paper, we appreciate the appeal of a unique Canada/US/Mexico banking franchise but recognize the execution risk posed by operating in different jurisdictions, subject to their own politics/economic/competitive dynamics. Mgmt. repeatedly noted ~\$7bn in capital allocated towards LatAm M&A in recent years that has failed to deliver mgmt's return expectations.

Global Wealth: Raw materials in place

Business led by Jacqui Allard, a seasoned (and well-respected) Canadian banking executive who joined Scotia from Royal Bank of Canada earlier this year. Unlike LatAm, we believe recent acquisitions in this business (MD Financial, Jarislowsky Fraser), combined with a differentiated banking footprint positions Scotia well to capture market share and drive growth.

Global Banking & Markets: Steady

Only business to not see a change in leadership under Mr. Thomson. We see the platform as decently positioned to achieve mgmt's strategic objectives to improve risk-adjusted returns with a sharpened focus on growing advisory fees, recalibrating risk appetite to optimize for changing regulatory requirements and focus on gaining market share of cross-border activity across North America. Another business that is fiercely competitive (US/European banks) and will need particularly strong execution (investments, personnel hiring) to achieve mgmt's goals.

See inside for recaps on Enterprise Strategy, Canadian Banking, Global Wealth Management, International Banking, and Global Banking & Markets...

Enterprise Strategy: Scott Thomson, CEO and Raj Viswanathan, CFO

Consistent with our expectations, medium-term targets were unchanged (vs 2020 Investor Day). Mgmt. emphasized a “new way forward” focused on allocating capital to priority businesses in the North American corridor (90% of incremental capital allocation vs 70% FY23) to drive deeper, primary customer relationships. Mgmt. guidance implies that it will exceed its own strategic targets, a recognition that the bank needs to demonstrate tangible progress to rebuild credibility with the Street.

Mgmt. did not provide additional clarity on the impact on the CET1 capital ratio from the Basel floor factor increases (through 1Q26). However, mgmt’s focus on risk adjusted returns suggests to us that it would be dialing-up its risk tolerance in order to optimize capital for the new regulatory regime.

Exhibit 1: Canadian P&C target ROE would still be lowest among peers

FY21 -23 avg ROE vs medium-term target ROE



Source: BofA Global Research, company filings

BofA GLOBAL RESEARCH

Scotia plans to allocate capital towards more productive regions (Canada/US/Mexico) and away from markets/businesses seen as lower profitability/slower growth/non-core (Colombia, Central/South America) and prioritize primary customer relationships (target +2mn primary clients) over volume. As part of its new way forward, Scotia has classified Chile, Peru as markets where it will remain a key player but would manage growth/investments and Colombia/Central America as potential exit markets.

We view Scotia as uniquely positioned among the Canadian banks to take advantage of connectivity within North America. Scotia’s Mexican franchise, for example, is already among the largest banks in the country (6-7% market share, 16% market share in mortgages), and clients representing 30% of Scotia’s Canadian business banking revenue already have operations in US/Mexico.

Medium-term targets:

- EPS growth: 7%+ vs -9% FY21-23, 3% 5yr pre-pandemic
- ROE: 14%+ vs 14% FY21-23 avg, 14.5% 5yr pre-pandemic
- Operating leverage: positive (positive in 1 of the last 4 years)
- Productivity ratio: ~50% vs 58% FY23
- CET1: 12%+ vs 13% FY23
- Risk-adjusted margin: 2%+ vs ~2% FY21-23



- Fee income: 35%+ growth vs 28% growth FY14-19
- Capital allocation: 90%+ to North America
- Deposits: +\$200bn P&C deposits 2023-2028 vs +\$100bn 2019-2023

Canadian Banking: Aris Bogdaneris

Mgmt. emphasized client primacy, SME banking, and online-only bank Tangerine as key areas to drive growth. Mgmt. recognizes that fixing the Canadian franchise (contributes ~50% to EPS) will be critical for regaining credibility and achieving medium-term targets. We believe management laid out reasonable goals for this segment, balancing growth (9%+ earnings CAGR) with increased efficiency (productivity ratio ~44%) while still investing in the business (\$500mn+ in the next 12-18 months). These targets support a medium-term ROE hurdle of ~24% for the Canadian segment. Early signs are encouraging, as Scotia has already seen success in growing deposits (+10% FY23). While these deposits are viewed by investors as rate sensitive, for Scotia, increased funding coming from customer deposits vs. wholesale funding is a significant positive in terms of relative funding costs as mgmt. looks to manage liquidity requirements (such as the Net Stable Funding Ratio [NSFR]).

Earning primary clients

Scotia plans to add 1mn new primary clients by 2028 (would represent 35% of total clients). Increasing efficiency by optimizing the physical footprint through a 10-15% reduction in real estate. Rather than branch expansion, drivers of continued growth will be the highly sought after “new to Canada” segment (has outpaced immigration by 30% since FY21), Scene+ rewards program (38% of members have a Scotia product), and a focus on delivering a better mobile experience.

Grow share of SME banking

Scotia sees an opportunity to grow commercial banking revenue by focusing on small and medium sized enterprises (SME). To grow this segment at an 8%+ revenue CAGR, Scotia plans to lead with digital first onboarding, grow the virtual sales force, and digitize client processing. Digital enhancements will allow client advisors to deepen specialization (Technology, Healthcare, Logistics & Transport) and increase time spent building and maintaining customer relationships.

Tangerine

Head of Canadian Banking Aris Bogdaneris was originally hired to lead Scotia’s Tangerine business after a successful career running European bank ING’s global retail banking business. Recall that Tangerine is current version of ING’s Canadian banking “ING Direct Canada” which Scotia acquired in 2012. Scotia views Tangerine as uniquely positioned to help the bank capture a secular shift as younger, digitally savvy customers become a larger share of the customer base. Underlying Scotia’s 11%+ revenue CAGR target for this segment is an ambition to increase the number of multi-product relationships to 50%+ (from 35% today). While digital banking has seen success elsewhere in the world (Europe, Asia), we note that challenger banks have failed to gain traction in North America.

Medium-term targets:

- Earnings: 9%+ 5yr CAGR (vs 7% 5yr pre-pandemic CAGR)
- Revenue: 8%+ 5yr CAGR (vs 6% 5yr pre-pandemic CAGR)
- Loans: 5%+ 5yr CAGR (vs 4% 5yr pre-pandemic CAGR)
- Deposits: 8%+ 5yr CAGR (vs 5% 5yr pre-pandemic CAGR)
- ROE: ~24% (vs 24% avg 2021-2023)
- Risk-adjusted margin: ~2.4% (vs ~2% FY23)
- Productivity ratio: ~44% (vs 47% 5yr pre-pandemic avg)
- 10% fee growth CAGR from cards, funds, insurance



- 10%+ commercial banking non-interest revenue growth
- Tangerine: 11%+ 5yr revenue CAGR
- Tangerine: ~20% non-interest revenue growth CAGR

Global Wealth Management: Jacqui Allard

Global Wealth Management (contributes ~20% to EPS) will be a key part of Scotia's plans to grow fee revenue (33% contribution FY23) over the medium-term. Mgmt. aims to grow this segment with a 10%+ 5yr earnings CAGR (vs 7% FY18-23), 8%+ AUM (vs \$317bn FY23 base, assumes 5% market returns), generate ~20% ROE (15% FY23), and achieve a productivity ratio of ~60%. While a relatively modest assumption for market returns should provide upside risk to Scotia's AUM growth target, we forecast just 3% AUM CAGR FY23-25 as Scotia's AUM growth has historically underperformed market growth (13% AUM growth FY2018-2023 vs 17% growth in SPTSX).

Canadian wealth

We view Scotia's Canadian wealth business as a differentiator vs peers, with unique capabilities that enable Scotia to take advantage of secular changes (aging population). Since acquiring MD Financial in 2018, Scotia has doubled the business' earnings, grown the number of physicians banking with Scotia by 40%, and achieved 50% market share among doctors in Canada. As Canada's population ages (one in four Canadians 65+ by 2040 per Scotia mgmt. presentation), Scotia plans to evolve the total wealth model to combine wellbeing with financial planning. Scotia expects this holistic approach will help drive client primacy.

Asset management

Key to the success of Scotia's plan to improve return on RWAs will be growing capital light, high return businesses (asset management). Growth opportunity readily apparent (just 10% client penetration), as Scotia is underutilizing its differentiated distribution network (retail, digital, high-net worth, and institutional channels). We expect that product offerings will not be a headwind, as Scotia has already achieved number three market share for mutual funds in Canada. During her presentation, Group Head Jacqui Allard noted that only a "modest" increase in market share would lead to a \$200mn increase incremental all-bank earnings over the next five years.

International wealth

To grow the International Wealth segment, Scotia plans to replicate its Canadian total wealth model in Latin America. Across LatAm, 90% of High Net Worth (HNW) investors prefer a bank with an international footprint as their wealth advisor. These same customers hold more than 40% of their wealth offshore. Wealth management is a \$380bn market in Scotia's LatAm footprint, projected to grow at a 10-15% CAGR over the medium-term (source: Scotia presentation). Even modest success in deploying the total wealth model and increasing penetration of the LatAm customer base would be a tailwind to earnings, as Scotia's mutual fund market currently underperforms its banking footprint (5% mutual fund market share Mexico vs 7% total market share).

Medium-term targets:

- 10%+ earnings growth 5yr CAGR (vs 7% CAGR 2018-2023)
- 8%+ AUM growth 5yr CAGR (vs 2% CAGR 2018-2023)
- ~60% productivity ratio (vs 62% avg 2019-2023)
- ~20% ROE (vs 15% avg 2019-2023)
- 8-10% Canadian retail mutual funds AUM CAGR

International: Francisco Aristeguieta

Recently appointed Head of International Banking Francisco Aristeguieta brings with him a philosophical change to the franchise developed over decades of experience with Citigroup and State Street in both Asia and Latin America. Under Mr. Aristeguieta's leadership, Scotia will transition to a client-focused model with regionalized operations and a "last mile" approach to tailoring products and services to client needs. Scotia expects this new philosophy will drive ~16% ROE (vs 13% rptd. FY23) while achieving a 45% productivity ratio (vs 53% reported FY23).

Mexico first

Mexico is the linchpin of Scotia's new way forward in LatAm, with ~50% of incremental commercial earnings growth expected to come from the Mexican commercial segment. To achieve a double-digit earnings CAGR in Mexico, Scotia plans to focus on multi-national clients with cross border (Canada/US/Mexico) businesses. Multinational clients offer 2.5x more revenue than domestic-only clients, and Scotia estimates that the revenue pool from LatAm multi-nationals to be larger than \$20bn. To capture a larger share of the multi-national market, Scotia will focus on investing in global cash management and treasury capabilities to drive greater fee revenue (~10% CAGR FY25-28) and deposit growth (~10% CAGR FY25-28).

Regional operations

To keep expenses in check while growing the business, Scotia plans to regionalize its LatAm operations and eliminate redundancies. Scotia previously operated a country strategy as opposed to a segment strategy, with functions and control duplicated across geographies. Mr. Aristeguieta noted that the country-specific model was a pain point for the multi-nationals (required approval for business with multi-national subsidiaries as opposed to group-level). Scotia expects that regionalizing its LatAm support structure will result in ~\$800mn in run rate expense savings by FY28. Standardization of Scotia's LatAm operating model (with products tailored at the last mile) are expected to drive a further ~\$60mn in savings.

Exit underperforming markets

We were encouraged by mgmt's recognition that the bank may need to exit underperforming markets. Prior to the Investor Day, we calculated that exiting markets with sub-par returns (Central America, Colombia) could add ~70bp to all-bank ROE. While Scotia did not announce plans to immediately exit any business, we note that shifting capital north (allocating to Canada/US/Mexico) would make it challenging to achieve materially better results in these businesses. Regionalizing operations per Mr. Aristeguieta's plan would further soften the process of selling business segments, as it would reduce or eliminate stranded costs associated with support operations in the exit markets.

Medium-term targets:

- ~16% ROE (vs 11% avg. 2019-2023)
- 3.4%+ risk-adjusted margin (vs 3.2% FY23)
- ~45% productivity ratio (vs 54% 5yr pre-pandemic avg)
- Revenue: ~5% 5yr CAGR (vs 12% CAGR 2014-2019)
- Expenses: Flat (vs +58% 2014-2019)
- Earnings: 6%+ 5yr CAGR (vs +1% 2018-2023)
- ~\$800mn run-rate savings from regionalization.
- ~\$60mn run-rate savings from standardizing operating model.

- Retail banking: 5%+ 5yr revenue CAGR
- Retail banking: ~1% expense CAGR
- Retail banking: deposit growth 2x+ loan growth
- Commercial banking: Non-interest revenues 2x growth vs NII
- Commercial banking: 3%+ 5yr revenue CAGR
- Commercial banking: -1% 5yr expense CAGR
- Double-digit earnings CAGR in Mexico
- Commercial banking fee revenue: ~10% CAGR FY25-28
- Commercial banking deposits: ~10% CAGR FY25-28

Global Banking & Markets: Jake Lawrence

Scotia aims to increase returns from the Global Banking & Markets (GBM) business, with 14% ROE (vs 12% FY23), 5yr earnings CAGR of 7%+ (flat FY18-23), while achieving a productivity ratio of ~53%. Within GBM, focus will be on growing book of business in the United States (target 9% 5yr earnings CAGR) and Mexico (6% 5yr CAGR) while deemphasizing business in other LatAm markets.

North America first

Scotia plans to grow the North American businesses (US 9% CAGR, Mexico 6%, Canada 5%) while deemphasizing other markets (earnings flat, generates 1.5x less risk adj. fees). As part of this shift, Scotia expects ~80% of earnings to come from North America. In the US, Scotia will focus on building out services in core sectors (Healthcare, Technology, Consumer, Industrial and Retail) while developing new cash management products. Within Mexico, GBM's strategy will support the philosophical shift outlined by Mr. Aristeguieta and strengthen its ability to serve multinationals operating north and south of the border.

Fee income a priority

Scotia is also focused on closing the gap versus peers on fee income by increasing its non-investment grade lending business. As of FY23, 80% of Scotia's loans are rated investment grade, well above peer averages. BNS' share of fee income has lagged peers (60bp of corporate loans vs 150bp peer average), partly due to an underdeveloped presence in non-investment grade products. While this higher quality portfolio yields better credit performance, Scotia believes it can keep credit quality stable by reallocating capital away from LatAm (less table markets) toward non-investment grade lending in North America.

Medium-term targets:

- 7%+ (ex. LatAm) 5yr earnings CAGR (vs 0% CAGR 2018-2023)
- ~53% productivity ratio (vs 49% avg. 2015-2019)
- ~14% ROE (vs 14% 5yr pre-pandemic avg)
- ~4% 5yr loan growth CAGR (vs ~8% 5yr pre-pandemic CAGR)
- ~5% 5yr deposit growth CAGR (vs ~11% 5yr pre-pandemic CAGR)
- Canada: 5% 5yr earnings CAGR
- US: 9% 5yr earnings CAGR
- Mexico: 6% 5yr earnings CAGR
- ~80% of earnings mix from North America

Price objective basis & risk

Bank of Nova Scotia (YBNS / BNS)

Our \$67 PO (US\$51) is calculated based off of applying a P/BV multiple of 1.2x (50% weight) to our YE24e BV and a 9.4x P/E (50% weight) to our 2024eP/E. These multiples are below peer multiples at 12.0x P/E and 1.4x 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.

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



North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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
	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

IQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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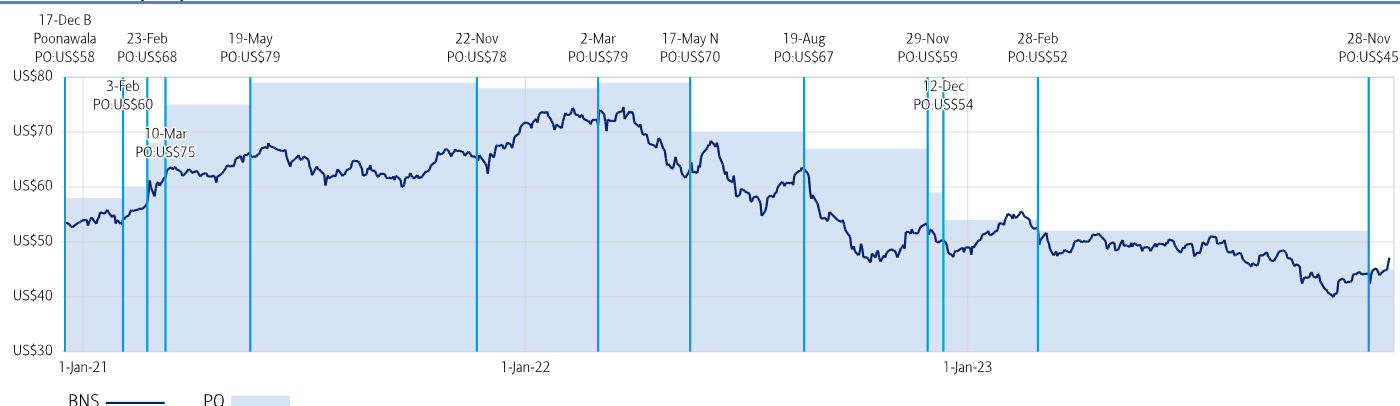
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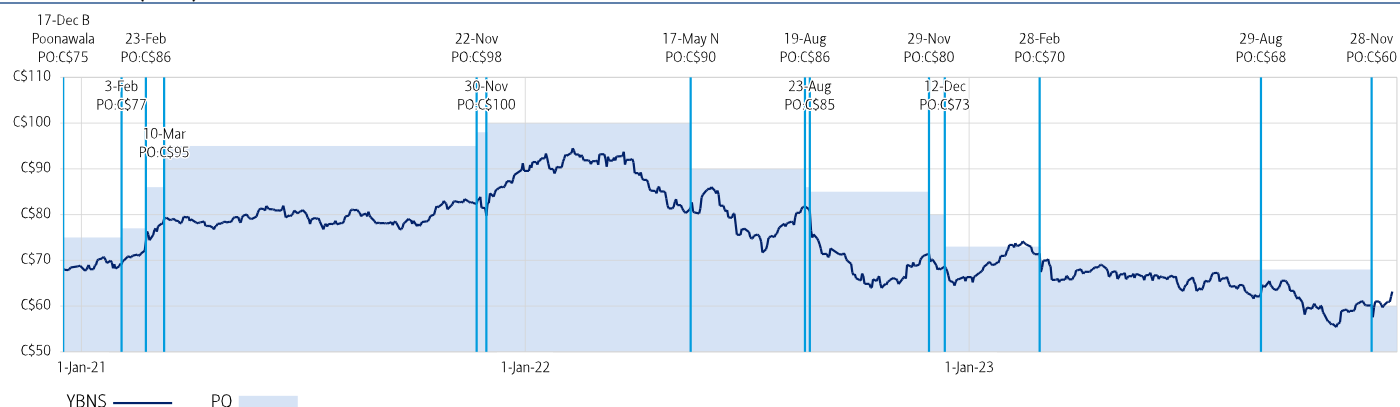
Bank of Nova Scotia (BNS) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Bank of Nova Scotia (YBNS) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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.

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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.

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