

## Canadian Banks

## 3Q23 Preview: Stuck

Estimate Change

**5yr yield – proxy for mortgage pricing - at post GFC highs**

Bank stocks limping into 3Q results -6% MTD reflecting concerns tied to higher for longer interest rates. 5yr govt bond yield – proxy for mortgage pricing – at ~4.10% or post-GFC highs. Investors (and we) are rightly cautious given squeeze to consumer pocketbooks from mortgage re-pricing, especially if no let-up in rates. This is likely to weigh on growth, credit quality and thereby challenge ROE profiles.

**3Q23 EPS growth -4% YoY vs -2%/+3% FY23/FY24e**

We expect slowing growth (lending moderates; funding costs) and persistent expense pressures (major restructurings more likely 4Q event). Modestly lower EPS ests. driven by tempered margin outlook (still expanding) and subdued capital markets activity. Credit normalizing, see potential for reserve builds (PCL guides likely hold). See Exhibit 3 for estimate revisions and Exhibits 33-37 for mgmt. commentary on operating trends.

**Capital build in focus as regulations take a bite**

Capital in focus ahead of increased DSB buffer (Nov 1, 2023), changes to market risk (FRTB) and Basel floor factor increase (1Q24), and impact to US operations from Basel end game implementation. Banks targeting ~12.5% as steady-state common equity tier 1 (CET1) ratio, allowing for additional 50bp increase in the domestic stability buffer (DSB) to 400bp max. Investors will also be looking for appetite to acquire Laurentian Bank (LB; not covered) despite the tepid response during bidding process.

**Discounted valuations should offer support**

Stocks trading at 8.7x 2024e P/E and 1.2x YE23e P/B vs. 10.4x P/E and 1.6x P/B pre-pandemic 5yr medians. We see limited potential for multiple expansion given macro concerns and with EPS revision risk skewed to the downside. A decisive break lower in inflation would reduce probability of tail-risk events, potentially boost sentiment.

**TD (TD): investor day has helped boost sentiment**

Stock has reacted positively to investor day (06/08) +6.3% vs. -0.4% bank index. While we remain cautious on the group, see TD as an attractive way to gain exposure given relative positioning on capital/deposits/scale. Relevant research: [TD: Be the Better Bank](#)

**Royal (RY): expense growth, HSBC Canada**

After back-to-back disappointments on expense growth, investors will be looking for progress, especially looking into outlook for operating leverage in 2024. HSBC Canada deal close should also help on the expense front given the conversion at close.

**BMO (BMO): US margin, deal synergies**

While we expect material pressure to the US segment net interest margin, it appears that top of the house balance sheet management could allow BMO to maintain its prior net interest income guide. Focus on synergies tied to Bank of the West (BoW) ahead of systems conversion (US Labor Day weekend) and expected advertising blitz across BoW footprint. Relevant research: [BMO: CFO meeting takeaways](#). BNS/CIBC contd. page 2...

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**Exhibit 1: 3Q23 earnings calendar**

Earnings start on 8/24 with RY reporting

Ticker	Date	Earnings call
RY	8/24	8:00am ET
TD	8/24	1:30pm ET
BMO	8/29	7:15am ET
BNS	8/29	8:15am ET
CM	8/31	8:00am ET

Source: BofA Global Research, company reports  
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**Exhibit 2: 3Q23 EPS Estimates**

We are 1% below consensus

Ticke r	Rating	PO	BofA 3Q23e EPS	Consensus 3Q23e EPS	Dividend Yield
BMO	Neutral	\$125.00	\$3.07	\$3.19	5.2%
BNS	Neutral	\$70.00	\$1.75	\$1.76	6.8%
CM	Underperform	\$65.00	\$1.70	\$1.69	6.5%
RY	Neutral	\$130.00	\$2.69	\$2.71	4.4%
TD	Buy	\$90.00	\$2.00	\$2.05	4.6%

Source: BofA Global Research estimates, Bloomberg  
BofA GLOBAL RESEARCH

Continued from page 1

## Scotia (BNS): seeking signs for an inflection

Investors will continue to look for any incremental strategy updates as CEO Scott Thomson tries to turn things around. Lower interest rates remain the most likely catalyst for the stock given balance sheet positioning (strategic initiatives likely to be multi-year events), but unlikely to help anytime soon.

## CIBC (CM): operating trends, regulatory matters

While we expect trends to follow mgmt's guidance on expense/margin/capital build trajectories, investors will care about any comments on regulatory issues tied to its mortgage lending business that were highlighted in the press recently. While our understanding is that these issues are unlikely a needle mover EPS wise, this appears to have weighed on sentiment and has likely contributed to the recent underperformance in the stock.

### Relevant research

[US Banks: Expert call takeaways: de-coding Fed's proposal on capital changes](#)

[Canada Watch: Renewed inflation pressures complicate BoC's decision](#)

[Global Economic Viewpoint: Is refinancing the kryptonite of monetary policy?](#)

[US Banks: Earnings & beyond: Uneasy calm](#)

[Canadian Banks: Earnings & Beyond: Higher for longer taking a toll](#)

## 3Q23 Preview: Operating outlook

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

### Exhibit 3: Our 3Q23 estimates decreased 0.3% on avg.

BofA EPS estimate revisions

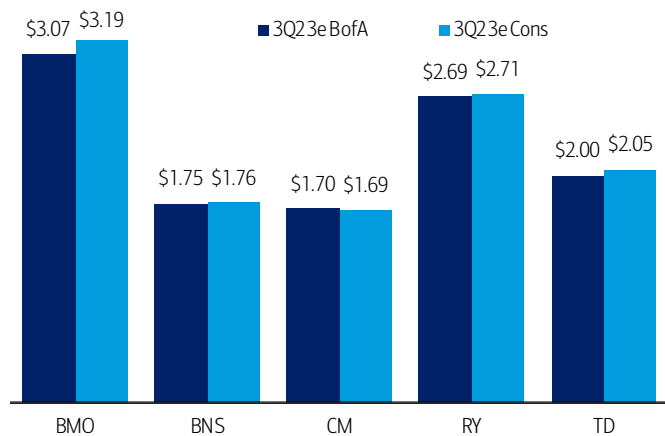
	3Q23e			2023E			2024e			2025e		
	New	Old	% Chg.	New	Old	% Chg.	New	Old	% Chg.	New	Old	% Chg.
BMO	\$3.07	\$2.99	2.5%	\$12.22	\$12.27	-0.4%	\$13.30	\$13.50	-1.5%	\$13.54	\$13.57	-0.2%
BNS	\$1.75	\$1.76	-0.3%	\$7.15	\$7.08	1.0%	\$7.38	\$7.54	-2.2%	\$7.86	\$8.25	-4.7%
CM	\$1.70	\$1.79	-5.0%	\$6.99	\$7.13	-2.0%	\$6.94	\$7.05	-1.5%	\$7.02	\$7.15	-1.8%
RY	\$2.69	\$2.64	1.7%	\$11.18	\$11.08	0.8%	\$11.65	\$11.86	-1.8%	\$12.42	\$12.62	-1.6%
TD	\$2.00	\$2.08	-3.8%	\$8.18	\$8.30	-1.5%	\$8.45	\$8.60	-1.7%	\$9.55	\$9.80	-2.5%
Median			-0.3%			-0.4%			-1.7%			-1.8%

Source: BofA Global Research estimates

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**Exhibit 4: We are 1% below consensus in 3Q23**

BofA vs. Cons 3Q23 EPS Estimates

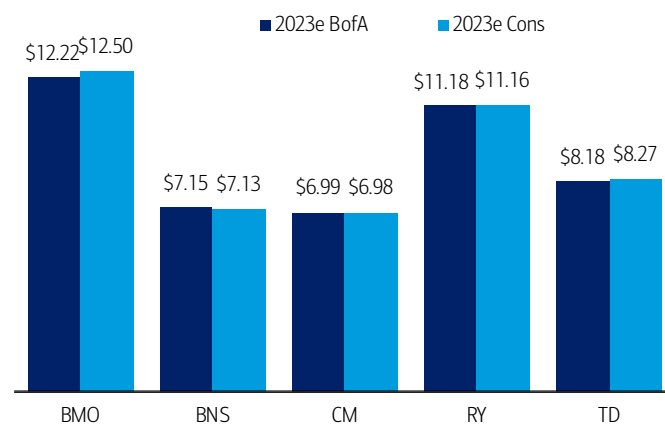


Source: BofA Global Research, Bloomberg

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**Exhibit 5: We are 1% below consensus in 2023**

BofA vs. Cons 2023 EPS Estimates

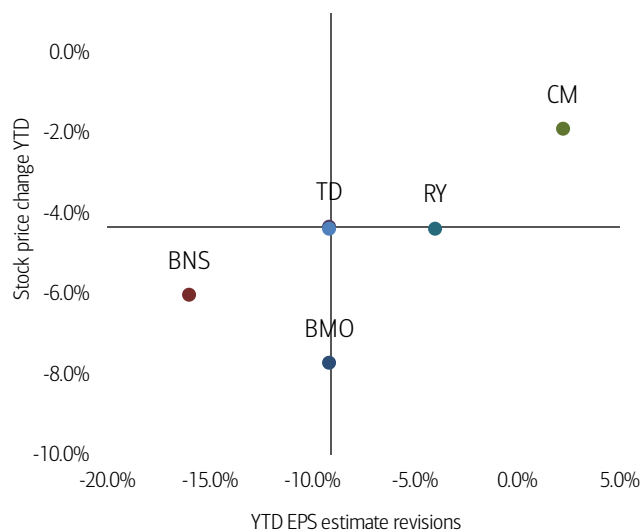


Source: BofA Global Research, Bloomberg

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**Exhibit 6: CM has outperformed YTD driven by +ve EPS revisions...**

YTD price performance vs YTD 23e EPS revisions

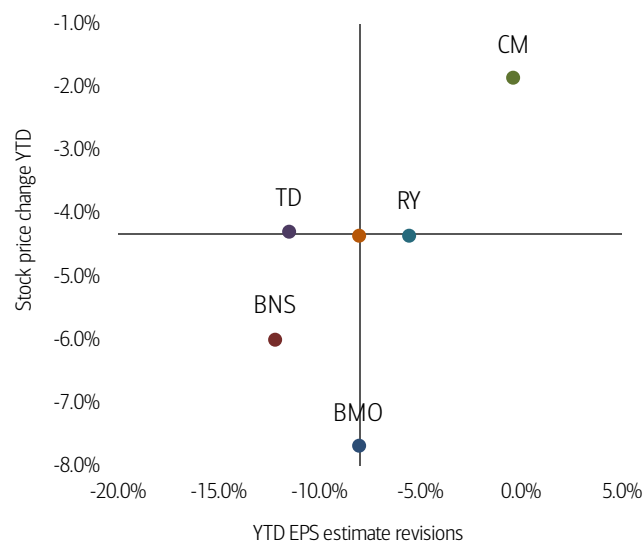


Source: BofA Global Research, Bloomberg

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**Exhibit 7: ...while BNS has lagged on cuts**

YTD price performance vs YTD 24e EPS revisions

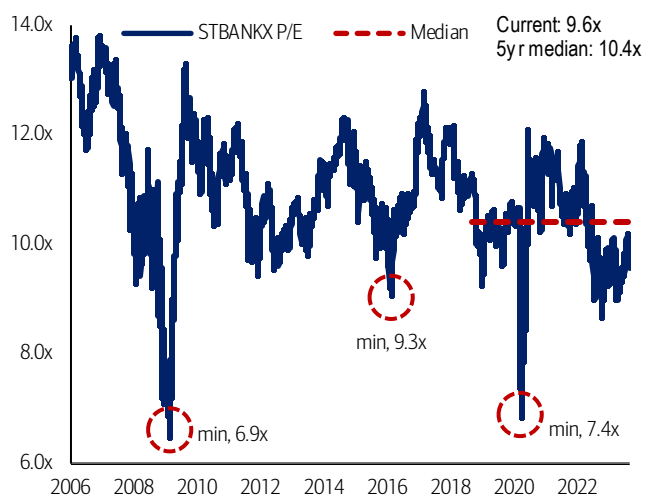


Source: BofA Global Research, Bloomberg

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**Exhibit 8: Banks are trading at 9.6x forward P/E vs. 10.4x 5yr median**

Historical and current forward P/E

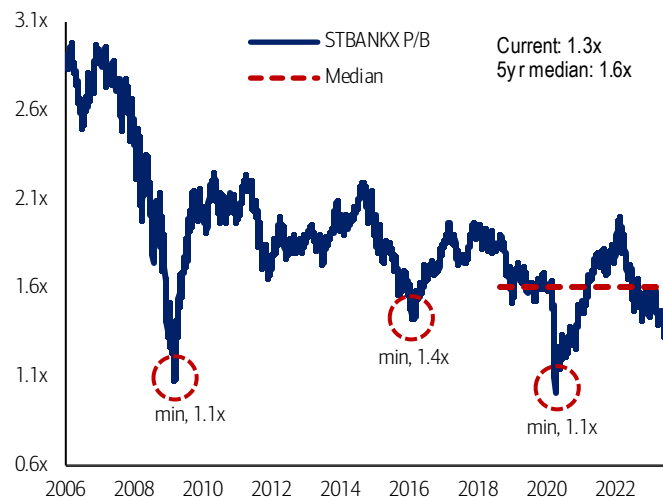


Source: BofA Global Research, Bloomberg

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**Exhibit 9: Banks are trading at 1.3x P/B, vs. 1.6x 5yr median**

Historical and current forward P/B

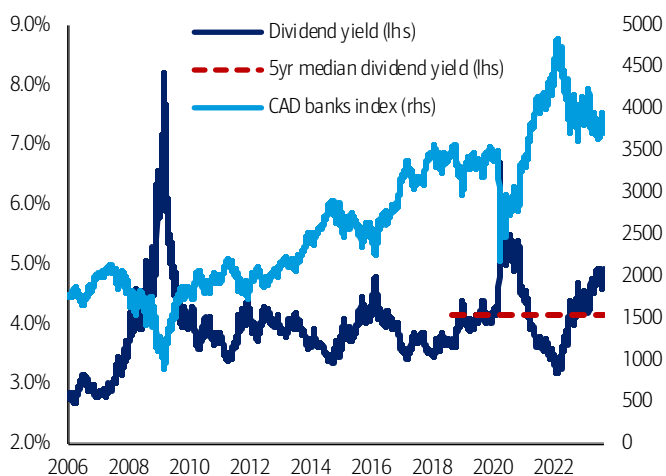


Source: BofA Global Research, Bloomberg

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**Exhibit 10: Canadian Banks index performance vs. dividend yield**

CAD banks dividend yield current: 4.9%, 5 year median: 4.2%

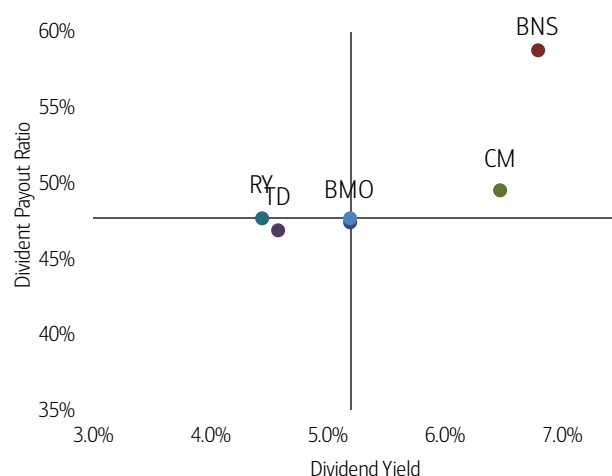


Source: BofA Global Research, Bloomberg

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**Exhibit 11: BNS has the highest payout and yield**

Dividend payout ratios vs. dividend yield

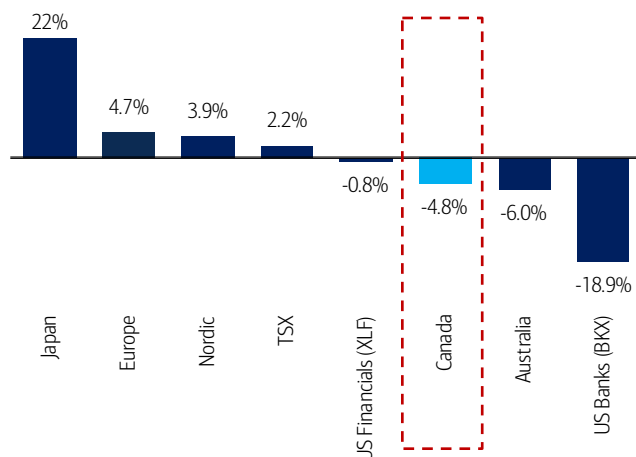


Source: BofA Global Research, company filings

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**Exhibit 12: Canadian banks underperformed most peers YTD**

Price performance of global banks YTD

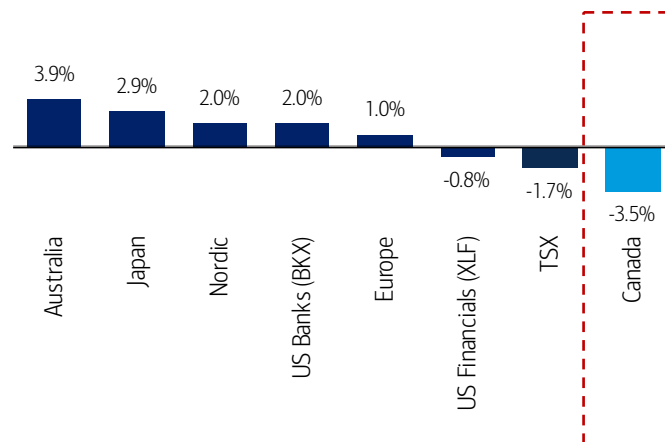


**Source:** BofA Global Research, Bloomberg. Note: Calculated based on the average YTD performance of the largest banks in each respective region. Japan includes MUFG, Mizuho, Sumitomo Mitsui; Australia includes ANZ, BOQ, BEN, CBA, NAB, WBC; Canada includes BMO, BNS, RY, TD, CM; Europe includes BARC,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

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**Exhibit 13: Canadian banks have underperformed all peers QTD**

Price performance of global banks QTD

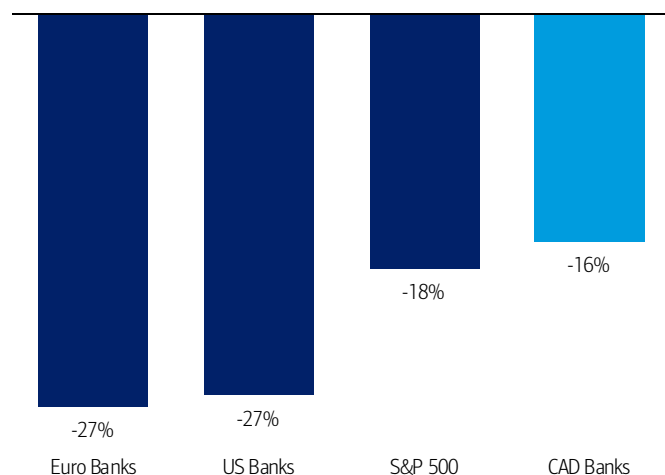


**Source:** BofA Global Research, Bloomberg. Note: Calculated based on the average QTD performance of the largest banks in each respective region. Japan includes MUFG, Mizuho, Sumitomo Mitsui; Australia includes ANZ, BOQ, BEN, CBA, NAB, WBC; Canada includes BMO, BNS, RY, TD, CM; Europe includes BARC,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

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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

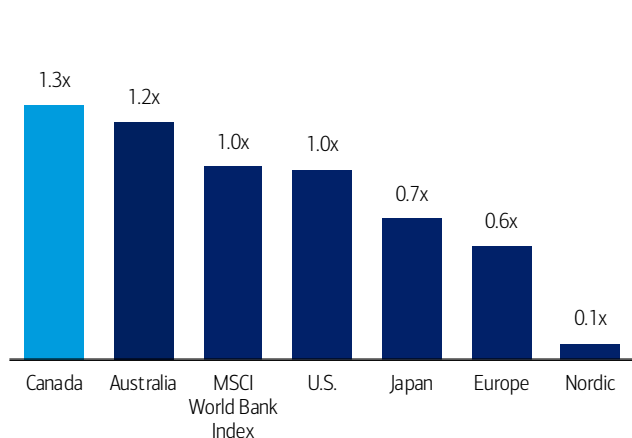


**Source:** BofA Global Research, Bloomberg  
S&P 500 = SPX Index; CAD Banks = STBANKX Index; Euro Banks = SX7E Index; US Banks = SSBANKX index. Prior downturns include 4/29/11-10/3/11, 5/21/15-2/11/16, 9/20/18-12/24/18, 2/19/20-3/23/20, 1/3/22-5/11/22, and 2/2/23-5/04/23

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**Exhibit 15: Canadian banks are trading at a P/B premium to peers**

Global banks P/B ratio

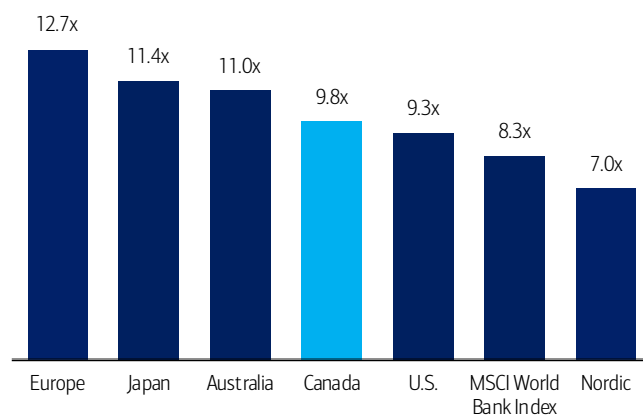


Source: BofA Global Research, Bloomberg

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**Exhibit 16: Canadian banks trade in-line on a P/E basis**

Global banks' P/E ratios



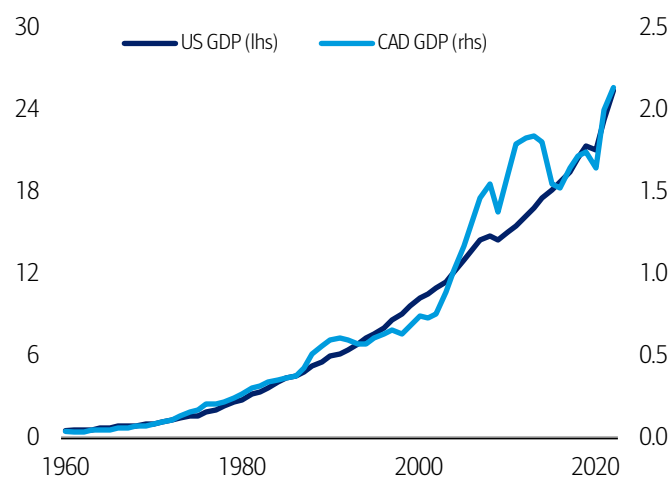
Source: BofA Global Research, Bloomberg

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US FY24 GDP growth now expected to outpace Canada, per BofA's Economics team.

**Exhibit 17: Canada and US have seen similar growth in GDP**

US vs Canadian GDP over time (\$US tn)

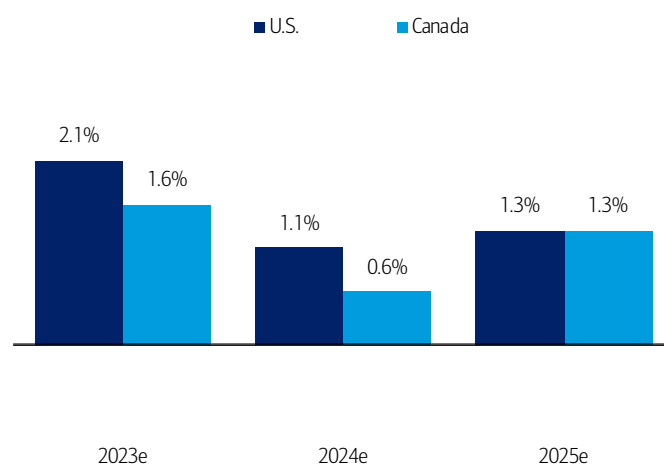


Source: BofA Global Research, Bloomberg

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**Exhibit 18: BofAe shows Canadian GDP lagging the U.S. in 2024**

BofA U.S. and Canadian GDP growth forecasts

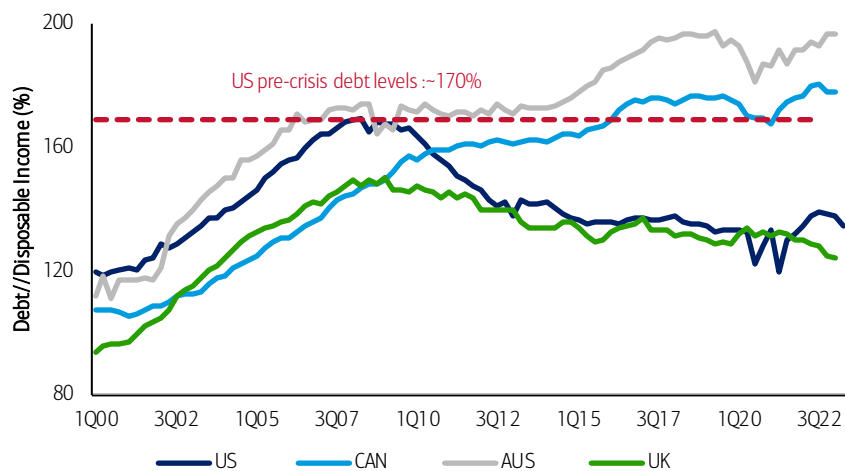


Source: BofA Global Research, Bloomberg

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**Exhibit 19: Canadian consumer debt at elevated levels as servicing costs rise**

Household debt to disposable income

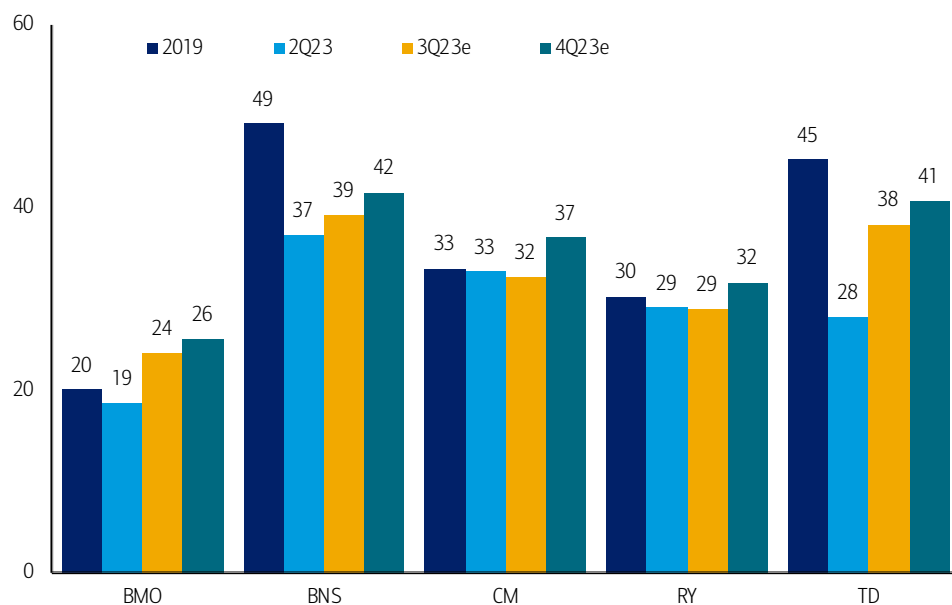


Source: BofA Global Research, Haver

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**Exhibit 20: We see PCLs increasing as normalization continues**

PCL ratio forecast (in bps)

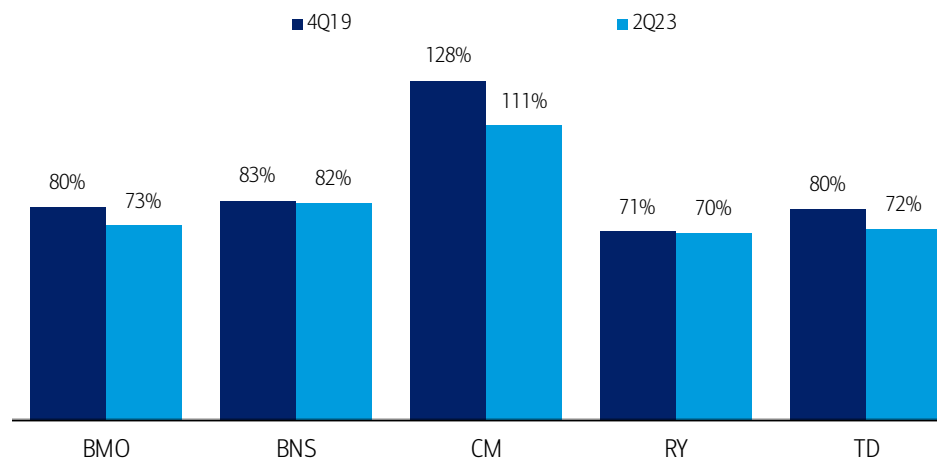


Source: BofA Global Research, company reports

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**Exhibit 21: Consolidated L/D ratios approaching 4Q19 levels**

Consolidated loan to deposit ratios

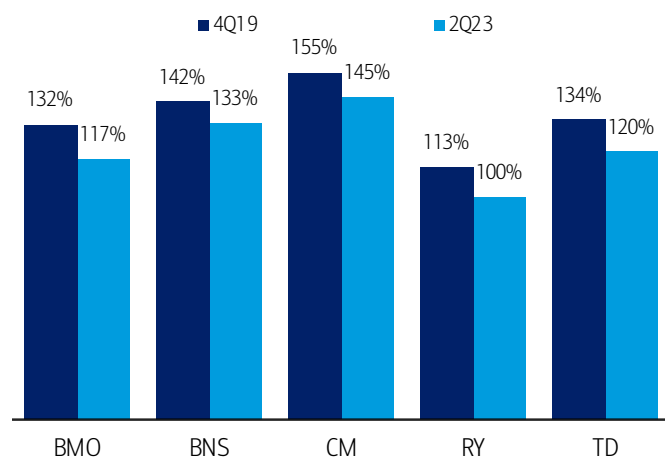


Source: BofA Global Research, company reports

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**Exhibit 22: Canadian segment L/D ratios remain below 4Q19 levels**

Canadian segment loan to deposit ratios

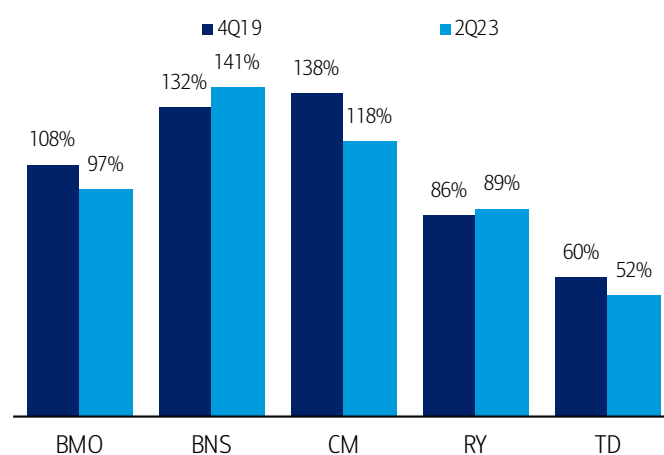


Source: BofA Global Research, company reports

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**Exhibit 23: U.S./LatAm segment avg. L/D ratios generally below Canada**

U.S./LatAm (BNS) segment loan to deposit ratios\*



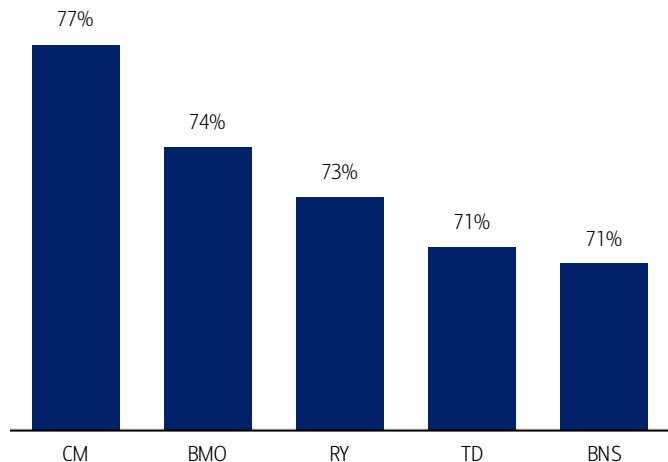
Source: BofA Global Research, company reports, \*RY reflects CNB loan to deposit ratios.

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**Exhibit 24: TD and BNS saw the lowest deposit beta last cycle**

Prior cycle consolidated deposit beta

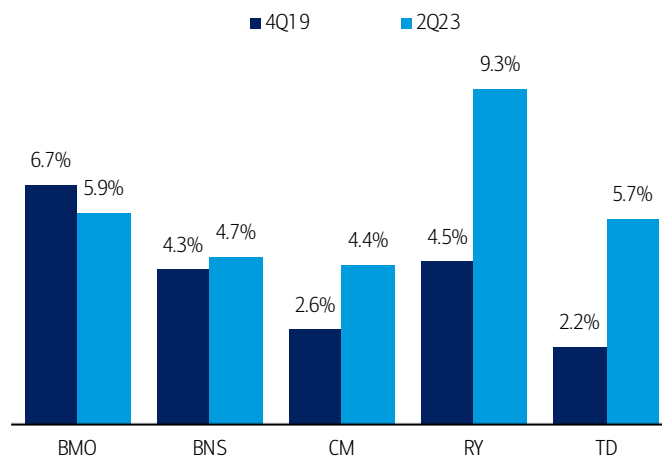


Source: BofA Global Research, Bloomberg

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**Exhibit 25: Cash holdings at elevated levels vs pre-pandemic**

Cash as a % of total assets

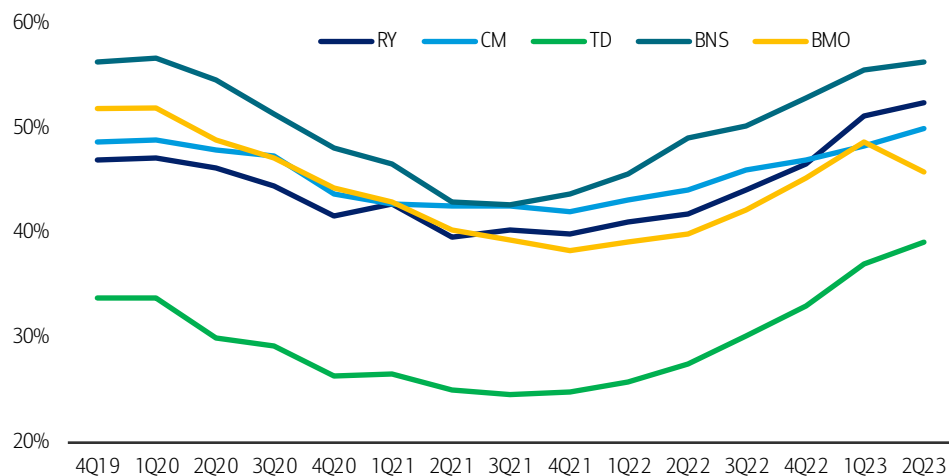


Source: BofA Global Research, company reports

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**Exhibit 26: TD has a smaller proportion of term deposits**

Term deposits as a percent of total deposits

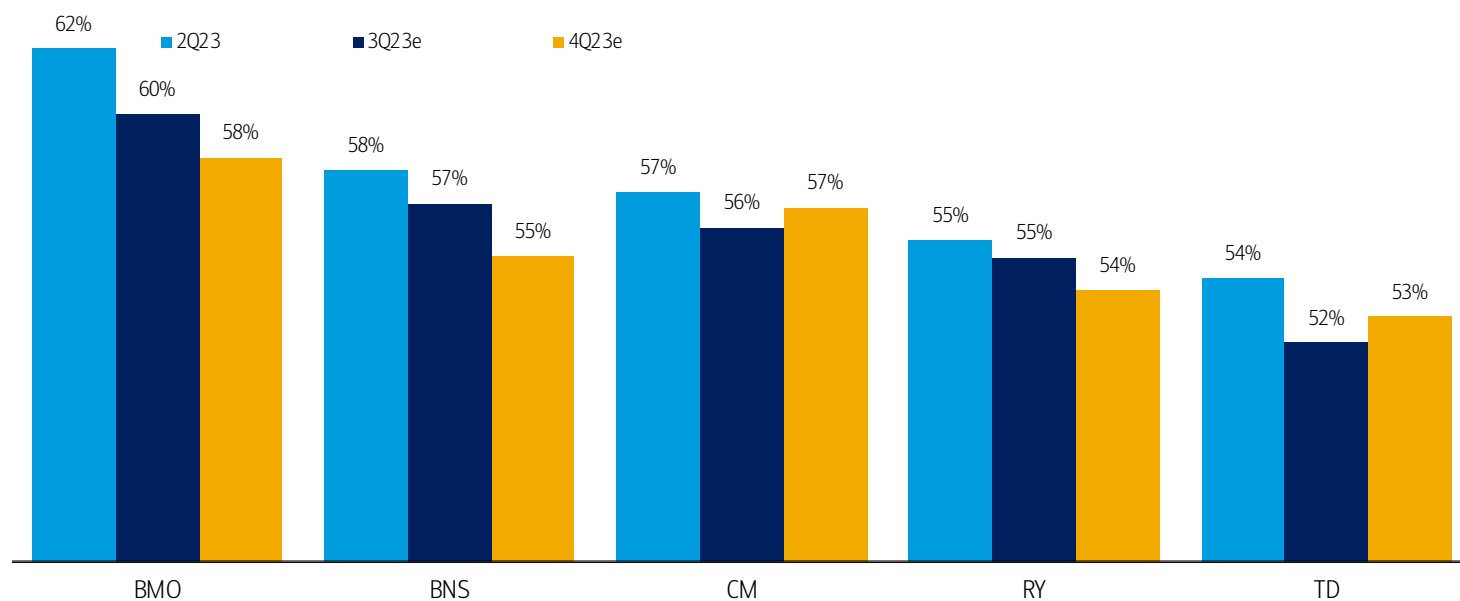


Source: BofA Global Research, company filings

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**Exhibit 27: Easier 2H comps, cost actions to drive efficiency ratios lower**

BofAe efficiency ratio forecasts

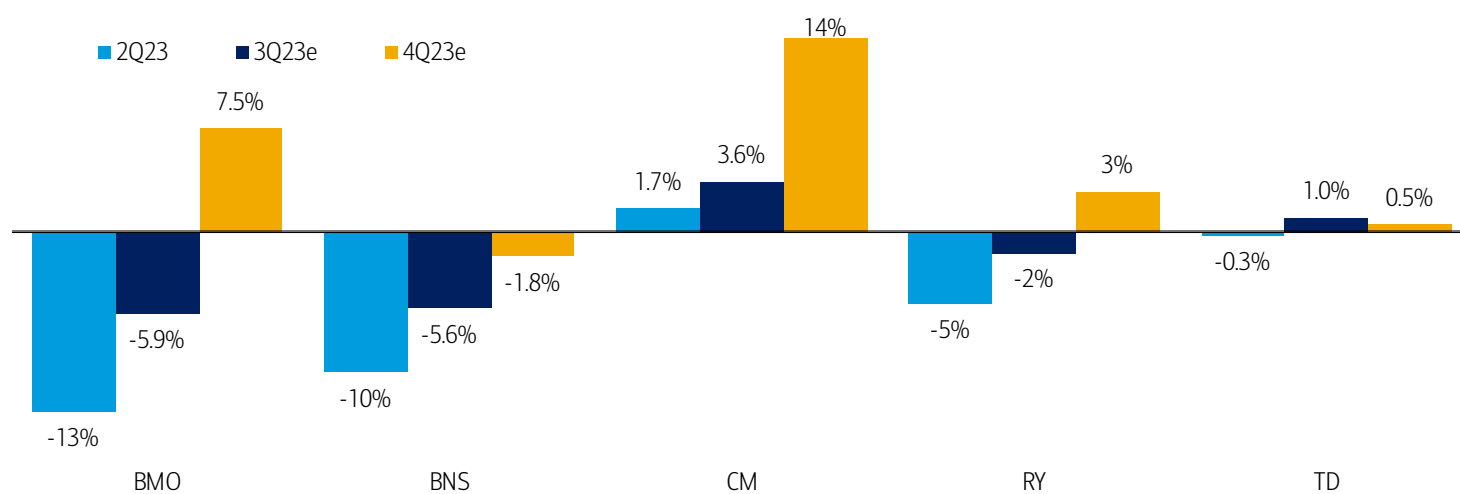


Source: BofA Global Research

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**Exhibit 28: With profitability projected to weaken, we expect significant positive operating leverage will be harder to achieve**

BofAe operating leverage forecasts



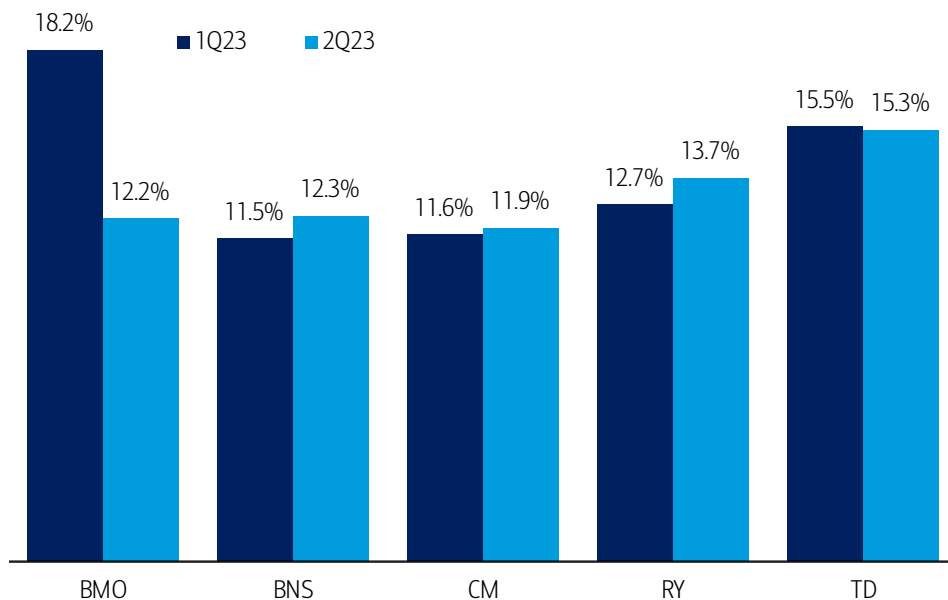
Source: BofA Global Research

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Canadian bank management teams have guided towards reaching ~12.5% CET1 by YE23.

**Exhibit 29: CET1 ratios increased 25bp on a median basis**

2Q23 CET1 ratios vs. 1Q23 CET ratios as reported



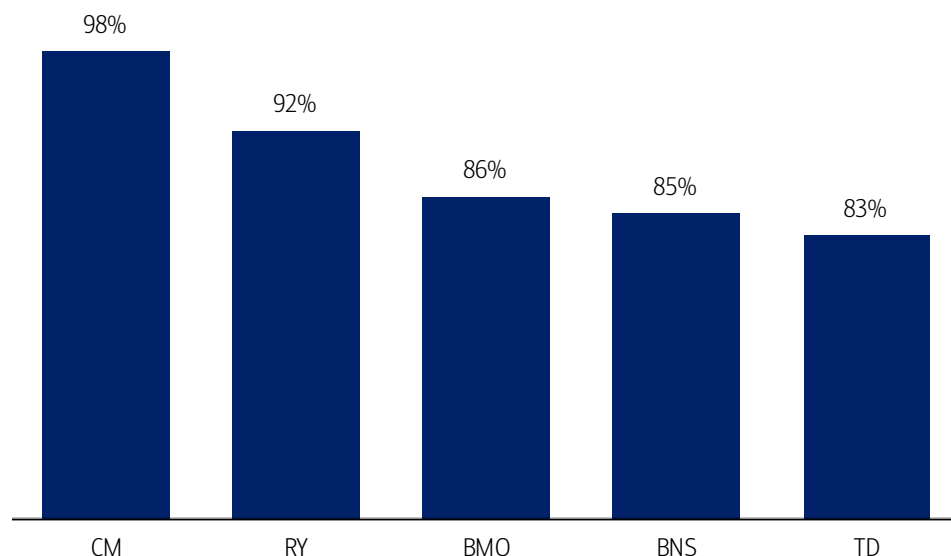
Source: BofA Global Research, company reports

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# Mortgage Stress Front and Center

## Exhibit 30: Geographic diversification at TD/BNS/BMO, but no bank immune to mortgage stress

Canadian residential mortgage loans as a % of total residential mortgage loans

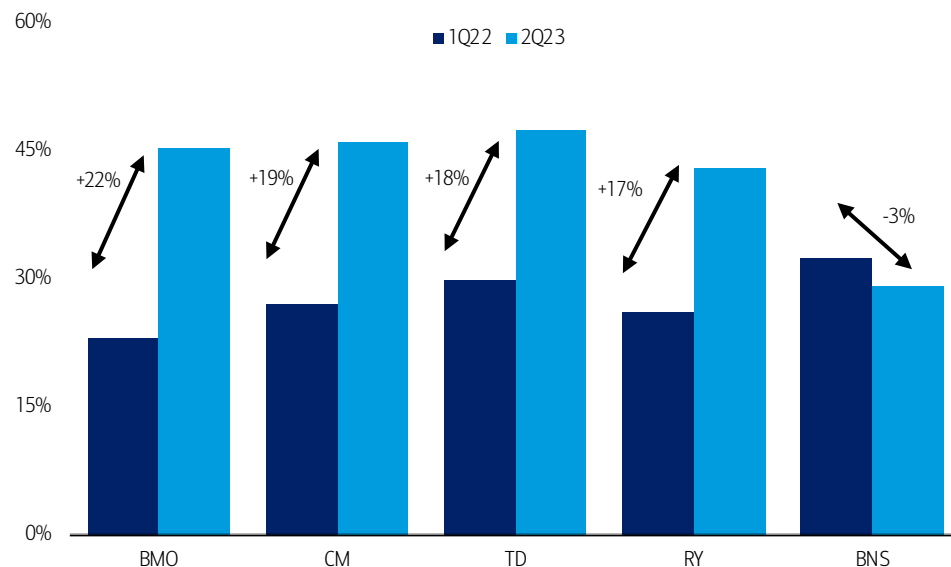


Source: BofA Global Research, company filings

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## Exhibit 31: BMO and CM have seen the greatest growth in mortgages with amortizations >25 years

Change in % of Canadian residential mortgages with amortization periods >25 years between 1Q22/2Q23



Source: BofA Global Research, company filings

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**Exhibit 32: Management generally believes troubled mortgage borrowers are equipped to handle increased payments with support from the banks**

Management commentary on troubled mortgage portfolios and estimated payment increases throughout 2023

## Troubled Mortgages: Management commentary from 2023

<p><b>From NA Canadian Financial Services Conference:</b> And so we've touted our average FICO of 790-plus in this book. 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...our product, the variable rate mortgage product, doesn't force the customer to pay today... 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. It's totally affordable. <b>From 1Q23 Earnings Call:</b> we think that the average increase, by the time of renewal, is absolutely manageable for our customers. And in fact, it gives them the optionality because many of them like us to do believe rates will come down. So when it comes time for renewal, which the big slug for us is 3, 4 years out, we should be in a very healthy position and actually builds customer loyalty. And none of those negative mortgages by the way, have hit any regulatory trigger rate. So we feel that we are in a very good position with our customers. <b>From RBC Canadian Bank CEO Conference:</b> when we say where are the people who are most vulnerable? Well, if you're uninsured, if you have a FICO score of 680 or less, and if you have a loan-to-value of 70% or higher, well, you're obviously most exposed. That is about 1% of the book.</p>	BMO
<p><b>From 2Q23 Earnings Call:</b> As you would recall, our variable rate mortgages reprice with monthly payment increases tied to policy rate changes. This gives us confidence in understanding our customers' ability to stay current with mortgage payments while maintaining the contractual amortization period...our customers had a very large payment buffer coming out of the pandemic. They have been drawing down on that payment buffer. They still have more deposits in their account than they did pre-pandemic. But we're starting to see those deposits run off as payment levels increase...look at tail risk, just to give you a sense, we have about 950,000 mortgage customers in the bank. And I'm looking at maybe around probably a little bit less than 2,000 customers, just to give you some perspective over our entire mortgage book. And with these customers, we're looking at treatments like pre-delinquency activities through our collection center and our branches. <b>From RBC Global Financial Institutions Conference:</b> And without giving out absolute numbers, our tail is actually, let's call it 2.5% of the entire mortgage borrowing book. That's not just variable all book together. And 2.5% of the tail, and in that, we look at saying those are the people who we call the watch list. It's about 17,000 borrowers.</p>	BNS
<p><b>From 2Q23 Earnings Call:</b> Our clients are adjusting to higher interest rates by taking proactive steps to address their variable rate mortgage payment shortfalls. Around 75% of the reduction this quarter is driven by clients voluntarily increasing contractual fixed payments for the remaining terms with the balance of clients renewing or converting to fixed-rate mortgages. We will continue to work closely with our clients as we closely monitor interest rate and market developments. <b>From NA Canadian Financial Services Conference:</b> we look at the ones [mortgages] that have matured, said, okay, how are the people maturing? How are they reacting? And many are increasing their amortization faster than they have to. 80% are living by the rules and coming in right on time, and 20% have asked for stretched amortizations. They're doing refinancings. But again, nothing material...the average payment on a variable rate mortgage is going up CAD 500 a month. But they're sitting on much more cash than they were sitting on three years ago. Again, so far, it feels normal. <b>From RBC Global Financial Institutions Conference:</b> if you do end up getting to a place where interest isn't covered by the monthly payment, the client can choose to increase their payments, but is not obligated to until they get to a certain point later where they have capitalized too much interest. That point will not come for many years. We've looked at the portfolio, we've stressed that even with rates going up a little bit more from here, that's not a concern over the next two years, folks won't hit bottom...if you look at the fixed portfolio today, those folks that are going to renew in the next two years, their average increases just over \$300 a month. <b>From 1Q23 Earnings Call:</b> At this time, we still only see a small portion, less than CAD 20 million, of mortgage balances with clients we see as being at higher risk from a credit perspective and whose LTVs are in excess of 70%...The key takeaway is less than 1% of our uninsured mortgage portfolio has both, a score of 650 or less and an LTV over 75%. <b>From RBC Canadian Bank CEO Conference:</b> On average, those fixed rate mortgage holders will be paying CAD 350 more a month...Today, that variable payment will go up by CAD 700 a month, so more than the fixed rate payment.</p>	CM
<p><b>From 2Q23 Earnings Call:</b> Notably, provisions on impaired residential mortgages were lower this quarter as the rate environment stabilized and clients continued to prioritize payments on their mortgages. <b>From NA Canadian Financial Services Conference:</b> on the variable rate product...we've had about CAD 75 billion of volume where customers have hit their trigger rate...But you're seeing increase in mortgage payments in like depending on, to your point, what rate they're coming off, what they're renewing into between CAD 200 and CAD 600. So this is, for some clients, it's pretty material. <b>From RBC Global Financial Institutions Conference:</b> And when you look at our variable rate book, it's about CAD 75 billion, 20% is roughly at that hit that trigger rate, which means that they're paying interest only, right...And so when you look at it from what that means from a client payment standpoint, you're seeing about maybe CAD 400 on average increase in payments, maybe a 30% increase overall...if we look at it from who has a LTV greater than 80%, FICO is less than 700. When you look at that piece of the book that is like, you know, low single digits of our total mortgage portfolio...so when you look at that, again, you're looking at about a 30% increase in payments to that average, you know, \$350 to \$400 range for [fixed rate] clients [upon maturity].</p>	RY
<p><b>From 2023 Investor Day:</b> And one of things I do is look what's going on TD Helps. And if you look at the number of customers who've gotten, say, through the TD Helps an amortization extension, the number is very low. <b>From 2Q23 Earnings Call:</b> So if I look at our deposit book situation where both obviously the mortgage and the deposits, it's actually interesting on average we're actually seeing more discretionary reduction in spend and customers who don't have a mortgage, than who do have a mortgage and so mortgage customers in general are handling very well. And then when you look at customers who will have renewals coming up, again we're seeing that customers are making very modest shifts in the discretionary behavior, you get to trigger rate customers, there is a bit more of a shift. But overall, across the board, our customers are handling the increased payments on their mortgages have been quite, quite well. <b>From NA Canadian Financial Services Conference:</b> And so when a customer hits for us the trigger rate, which is the point where their amortization has become zero, at that point, look, we do have some reach out efforts. We do talk to customers about what's going on is something we need to do. But customers, in many cases, are likely to just increase their payments. <b>From RBC Global Financial Institutions Conference:</b> less than 1%, of our RESL portfolio is uninsured, have a Bureau score of less than 650 and a loan to value ratio of more than 75%. So, what we consider higher risk is contained. <b>From RBC Canadian Bank CEO Conference:</b> So our estimate is, through this rate cycle and probably a more to come, that approximately there'll be an increase in mortgage payments of CAD 200 to CAD 600 per month</p>	TD

Source: BofA Global Research, company filings

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# Tear Sheets: Management commentary

## Exhibit 33: BMO Tear Sheet

Management commentary / outlook

Bank of Montreal	Notes
Revenue	
Net interest margin	Expect \$103m benefit to NII recorded in corporate services to decrease over time as legacy BOW portfolio will be managed within the overall bank. Expect margin to remain relatively stable during the second half of the year. <b>On USP&amp;C:</b> NIM could come down, but not meaningfully.
Provisions/Credit quality	Comfortable with \$3.3bn performing loan allowance. Expect corporate and commercial losses to normalize in line with historical levels. Believe impaired loss rates will trend toward the low-to-mid 20 bps range.
Expenses	Believe expense growth will moderate into the second half of the year. Have identified additional discrete expense management actions, focusing on entire expense base with a targeted reduction in the efficiency ratio. Expect FDIC assessment to be in the range of \$300m.
Efficiency	Long-term efficiency ratio target is 55%.
Tax Rate	
Operating leverage EPS	Expect negative operating leverage in 2023, but operating leverage to improve in the second half of the year. Meaningful positive operating leverage for 2024.
Loans	Will probably see corporate and commercial loan growth in the mid-single digits. US growth slower than what they are seeing in Canada. Do not change risk appetite as they go through a cycle; not in and out of industries.
Mortgages	
Deposits	Within retail deposits, there is an ongoing migration to term deposits as customers seek higher returns given the significant rise in interest rates. Expect to see a return to sequential growth in 2H23.
ROA	
ROE	
Deferrals	
Capital	Confident that CET1 remains above 12% for the rest of the year. Implementation of Basel 3 trading rules in 1Q24 will have a negative impact on capital.
Dividends	
Buybacks	
M&A	On track to complete BOW systems and branding conversion over the Labor Day weekend. Confident in achieving previously announced \$670m of expense synergies by the start of 2Q24.

Source: BofA Global Research, company reports

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## Exhibit 34: BNS Tear Sheet

Management commentary / outlook

Bank of Nova Scotia	Notes
Revenue	Think 2Q will be profitability low point, modest improvement moving forward. Given outlook for higher for longer, are positioned to be rate neutral and avoid negative NII impact from short-term rate increases. Don't expect revenue drag from corporate to decrease meaningfully in the remainder of the year.
Net interest margin	Margin will expand modestly as assets reprice and core funding costs remain stable. <b>On International Banking:</b> Expect NIM will be flat to slightly up in the Pacific Alliance countries.
Provisions/Credit quality	Given current economic outlook, expect PCLs to remain elevated for the rest of the year. Move higher from 37bps current level, mgmt thinks that they will add 4bps to performing loan reserves per quarter.
Expenses	Expense target is low-single digits growth.
Efficiency	Believe QoQ expense growth will be moderate.
Tax Rate	<b>On International Banking:</b> Mgmt. expects the tax rate in the international segment to continue to increase in line with the reduction in inflation.
Operating leverage EPS	
Loans	Except for Canadian mortgages, expect to see modest QoQ loan growth in 2H23. Canadian mortgage expected to be around the same levels you see now. More moderate loan growth expectation mostly a function of the macro environment; BNS has not meaningfully changed risk appetite.
Mortgages	
Deposits	
ROA	
ROE	
Deferrals	
Capital	Expect capital ratio to grow from 12.3% for the remainder of the year, and then remain above 12% through 2024. Expect LCR to be in the 130 range. Think that RWA growth will be muted, similar to what you saw this quarter for the rest of the year.
Dividends	
Buybacks	Share buyback not in the cards.
M&A	

Source: BofA Global Research, company reports

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**Exhibit 35: CM Tear Sheet**

Management commentary / outlook

CIBC	Notes
Revenue	<b>Other:</b> Maintain medium-term guidance for \$75-125m loss.
Net interest margin	Continue to expect modest upward momentum in NIM ex. trading.
Provisions/Credit quality	Still anticipate overall losses to remain in the 25 to 30bp range, could trend toward the higher end.
Expenses	Expect stable expenses in the short term and FY23 expense growth of mid-single digits.
Efficiency	Mgmt. expects that expense growth will moderate through FY23.
Tax Rate	
Operating leverage	<b>On US Commercial Banking and Wealth Management:</b> Anticipate that operating leverage will improve through FY23.
EPS	
Loans	Recent trends indicate a stabilization in major markets, expect to see loan-to-value ratios improve in the quarters ahead.
Mortgages	
Deposits	Expect deposits to be more stable and mix shifts to be less of a factor moving forward.
ROA	
ROE	
Deferrals	
Capital	Mgmt. anticipates higher liquidity in the short term. Confident that CET1 will end above 12% for 2023.
Dividends	Will adopt an annual review of the dividend moving forward rather than a semi-annual review. Intend to continue increasing dividends in line with earnings growth while maintaining a dividend payout ratio of between 40 and 50% over the long term.
Buybacks	
M&A	

Source: BofA Global Research, company reports

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**Exhibit 36: RY Tear Sheet**

Management commentary / outlook

RY	Notes
Revenue	<b>Canadian Banking:</b> Nil growth expected to be low double-digits.
Net interest margin	
Provisions/Credit quality	Anticipate that PCL on impaired loans will continue to increase through the remainder of this year. Expect to come in at the higher end of the previously guided 20bps range for PCL on impaired loans.
Expenses	All-bank adj. expense growth (excluding acquisition related costs and share-based comp) is expected to decline to the mid-single digits. Will see significant improvement in headcount overhang by the 4th quarter, third quarter will be a transition. <b>On Canadian Banking:</b> Remain committed to achieving a sub-40% efficiency ratio.
Efficiency	
Tax Rate	
Operating leverage	
EPS	
Loans	<b>Canadian Banking:</b> Loan origination activity expected to moderate toward 2019 levels. Expect annual mortgage growth will decline to the mid-single digits. Anticipate that revolver balances will surpass pre-pandemic levels by early 2024. Believe that business lending growth will continue over the next few quarters. <b>City National:</b> Further expect growth to slow.
Mortgages	
Deposits	<b>Canadian Banking:</b> Guidance anticipates a slowing in the continued deposit mix shift toward GICs, favorable asset mix shift toward higher spread commercial and credit card loans.
ROA	
ROE	
Deferrals	
Capital	Expect CET1 will remain above 12% following close of HSBC Canada.
Dividends	
Buybacks	
M&A	HSBC Canada pending regulatory approval; expected to close in the first calendar quarter of 2024.

Source: BofA Global Research, company reports

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**Exhibit 37: TD Tear Sheet**

Management commentary / outlook

TD	Notes
Revenue	<b>TD securities:</b> Expected to hit post-Cowen run rate by FY24. <b>TD Wealth Management:</b> Expected to double net asset growth to over \$225bn over the medium term, driving double-digit NIAT growth.
Net interest margin	<b>US Retail:</b> Mgmt. expects downward pressure on margins again in the third quarter, reflecting intensifying pricing competition in the U.S. market. Expect margins to resume modest growth in Q4 with new tractor on rate.
Provisions/Credit quality	Following two quarters of continued strong credit performance, mgmt. now expects total PCLs for FY23 to come in at the low end of prior guidance of 35-45bps.
Expenses	
Efficiency	
Tax Rate	
Operating leverage	In the medium-term, TD targets positive operating leverage.
EPS	Due to the termination of FHN agreement and deterioration in the macroeconomic environment, TD does not expect to deliver adj. EPS growth of 7-10% for 2023. However, TD continues to target adj. EPS growth of 7-10% over the medium term.
Loans	<b>Canadian Business Bank:</b> Medium-term target of \$500bn in RESL Loans, a 40% increase over existing balances. TD expects to grow business loans by 35% over the medium-term to \$150bn, and auto loans to \$32.5bn.
Mortgages	
Deposits	<b>Canadian Business Bank:</b> Over the medium-term, TD intends to grow core deposits by 25% to over \$170bn.
ROA	
ROE	Mgmt.'s medium-term target is to produce 16% ROE.
Deferrals	
Capital	Mgmt. believes that the right level of capital to target in this environment is 12%.
Dividends	
Buybacks	
M&A	

**Source:** BofA Global Research, company reports

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# Appendix

## Capital markets trends indicate slowdown catching-up

### Exhibit 38: Dealogic data implies a -8% YoY decline in M&A revenues

Canadian Bank M&A revenues

(\$mn)	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	YoY	QoQ
RBC Capital Markets	161	132	137	150	83	98	-26%	17%
BMO Capital Markets	56	20	26	43	63	26	27%	-59%
TD Securities Inc	23	23	27	11	61	20	-15%	-68%
CIBC World Markets	24	19	16	12	38	25	34%	-34%
Scotiabank	33	15	19	3	28	24	56%	-17%
Total	297	209	226	220	275	192	-8%	-30%

Source: BofA Global Research, Dealogic

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### Exhibit 39: Dealogic data implies a +185% YoY increase in ECM revenues

Canadian Bank ECM revenues

(\$mn)	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	YoY	QoQ
RBC Capital Markets	29	23	49	49	29	39	75%	38%
BMO Capital Markets	42	14	18	62	10	20	43%	91%
TD Securities Inc	21	6	13	12	5	58	863%	1173%
CIBC World Markets	17	2	20	16	4	11	368%	181%
Scotiabank	27	6	22	11	9	17	176%	83%
Total	136	51	122	149	57	145	185%	155%

Source: BofA Global Research, Dealogic

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### Exhibit 40: Dealogic data implies a +25% YoY increase in DCM revenues

Canadian Bank DCM revenues

(\$mn)	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	YoY	QoQ
RBC Capital Markets	136	92	97	99	137	129	39%	-6%
BMO Capital Markets	62	63	57	61	50	69	9%	38%
TD Securities Inc	88	77	73	92	87	93	21%	7%
CIBC World Markets	37	40	28	37	37	36	-8%	-1%
Scotiabank	65	45	45	54	59	70	55%	19%
Total	387	317	300	343	370	397	25%	7%

Source: BofA Global Research, Dealogic

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### Exhibit 41: Stocks mentioned

Prices and ratings for stocks mentioned in the report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
BMO	BMO US	Bank of Montreal	US\$ 83.62	B-2-7
YBMO	BMO CN	Bank of Montreal	C\$ 113.26	A-2-7
BNS	BNS US	Bank of Nova Scotia	US\$ 46.06	B-2-7
YBNS	BNS CN	Bank of Nova Scotia	C\$ 62.42	A-2-7
CM	CM US	Canadian Imp Bank	US\$ 39.69	B-3-7
YCM	CM CN	Canadian Imp Bank	C\$ 53.76	B-3-7
RY	RY US	Royal Bank	US\$ 89.71	A-2-7
YRY	RY CN	Royal Bank	C\$ 121.8	A-2-7
TD	TD US	TD Bank	US\$ 61.92	B-1-7
YTD	TD CN	TD Bank	C\$ 83.93	A-1-7

Source: BofA Global Research

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## Price objective basis & risk

### Bank of Montreal (YBMO / BMO)

Our \$125 PO (US\$92) 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 \$130 PO (US\$96) 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 \$90 PO (US\$66) 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.

## **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
<b>BUY</b>				
	Citigroup Inc.	C	C US	Ebrahim H. Poonawala
	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 York Community Bancorp	NYCB	NYCB US	Ebrahim H. Poonawala
	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
<b>NEUTRAL</b>				
	Ally Financial	ALLY	ALLY US	Brandon Berman
	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
	Citizens Financial Group	CFG	CFG US	Ebrahim H. Poonawala
	Comerica Incorporated	CMA	CMA US	Ebrahim H. Poonawala
	Huntington Bancshares Inc.	HBAN	HBAN US	Ebrahim H. Poonawala
	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
	Truist Financial	TFC	TFC US	Ebrahim H. Poonawala
<b>UNDERPERFORM</b>				
	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
	Prosperity Bancshares Inc	PB	PB US	Ebrahim H. Poonawala
	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

# Disclosures

## Important Disclosures

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	98	50.52%	Buy	81	82.65%
Hold	45	23.20%	Hold	33	73.33%
Sell	51	26.29%	Sell	37	72.55%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1877	53.28%	Buy	1040	55.41%
Hold	815	23.13%	Hold	464	56.93%
Sell	831	23.59%	Sell	385	46.33%

<sup>R1</sup> 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> 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.

BofAS or one of its affiliates acts as a market maker for the equity securities recommended in the report: Bank of Montreal, Bank of Nova Scotia, Canadian Imp Bank, Royal Bank, TD Bank. BofAS or an affiliate was a manager of a public offering of securities of this issuer within the last 12 months: Bank of Montreal, Bank of Nova Scotia, Canadian Imp Bank, Royal Bank, TD Bank Financ'l.

The issuer is or was, within the last 12 months, an investment banking client of BofAS and/or one or more of its affiliates: Bank of Montreal, Bank of Nova Scotia, Canadian Imp Bank, Royal Bank, TD Bank Financ'l.

BofAS or an affiliate has received compensation from the issuer for non-investment banking services or products within the past 12 months: Bank of Montreal, Bank of Nova Scotia, Canadian Imp Bank, Royal Bank, TD Bank Financ'l.

The issuer is or was, within the last 12 months, a non-securities business client of BofAS and/or one or more of its affiliates: Bank of Montreal, Bank of Nova Scotia, Canadian Imp Bank, Royal Bank, TD Bank Financ'l.

BofAS or an affiliate has received compensation for investment banking services from this issuer within the past 12 months: Bank of Montreal, Bank of Nova Scotia, Canadian Imp Bank, Royal Bank, TD Bank Financ'l.

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