Major Canadian banks

Canadian banking in transition

Fiscal year 2022 results analysis

Jan 2023

Contents

End of year results 2022 snapshot

The following snapshot depicts aggregate financial information for Canada's six largest banks*

Revenue

Net interest income increased by **11.28%** to

$102.0 billion

Non-interest income increased by **5.14%** to

$92.6 billion

Earnings

Adjusted net income increased by **2.77%** to

$60.7 billion

Average net interest margin increased by **0.03%** to

1.73 %

Shareholder returns

Average adjusted return on equity decreased by **0.01%** to

16.13%

Average dividend per share increased by **$0.63** to

$4.15

Asset quality

Average net impaired loans as a % of loans and acceptances decreased by **0.02%** to

0.26%

Allowance for credit losses decreased by **0.29%** to

$24.5 billion

Balance sheet

Average Tier 1 Capital ratio increased by **0.43%** to

15.40%

Gross loans increased by **15.66%** to

$3,713.5 billion

*Comparisons are to the 2022 financial year. All data has been compiled, without audit or review, from information published by the big 6 Canadian banks (BMO, BNS, CIBC, NB, RBC, TD).

At a glance

	TD		RBC		CIBC	
	FY22	FY21	FY22	FY21	FY22	FY21
Ranking						
By profit before tax	1	2	2	1	5	5
By total assets	1	1	2	2	5	5
By gross loans	1	1	2	2	5	5
By market capitalisation	2	2	1	1	5	5
Financial performance (continuing operations)						
Profit before tax ($ millions)	20,424	17,134	20,109	20,631	7,973	8,322
Adjusted net income ($ millions)	15,425	14,649	15,547	15,781	6,578	6,687
Net interest income ($ millions)	27,353	24,131	22,717	20,002	12,641	11,459
Non-interest income ($ millions)	21,679	18,562	26,268	29,691	9,192	8,556
Performance measures (continuing operations)						
Adjusted diluted EPS	8.36	7.91	11.19	11.19	7.05	7.23
Net interest margin (%)	1.69%	1.56%	1.48%	1.48%	1.40%	1.42%
Adjusted return on equity (%)	15.9%	15.9%	16.6%	18.8%	14.7%	16.7%
Dividends per share	3.56	3.16	4.96	4.32	3.27	2.92
Adjusted efficiency ratio (%)	52.8%	53.7%	52.2%	52.8%	56.4%	55.4%
Asset quality						
Allowance for credit losses ($ millions)	7,366	7,255	4,214	4,471	3,276	2.970
Net impaired loans as a % of loans and acceptances	0.20%	0.24%	0.18%	0.22%	0.20%	0.23%
Financial position						
Total assets ($ millions)	1,917,500	1,728,700	1,917,219	1,706,323	94,3597	837,683
Total equity ($ millions)	111,400	99,800	108,175	98,762	50,382	45,830
Gross loans ($ millions)	859,561	749,062	823,718	721,664	520,156	454,770
Capital measures – B/S						
Capital adequacy ratios (%)						
- Total	20.7%	19.1%	15.4%	16.7%	15.3%	16.2%
- CET1	16.2%	15.2%	12.6%	13.7%	11.7%	12.4%
- Tier 1	18.3%	16.5%	13.8%	14.9%	13.3%	14.1%
Market capitalization						
Share price ($)	87.19	89.84	126.05	128.82	61.87	75.09
Common shares outstanding (millions)	1,820.70	1,822.00	1,382.91	1,424.53	906.04	901.66
Market capitalisation ($ millions)	158,700	163,700	174,316	183,507	56,057	67,701

Comparisons are to the 2022 financial year. All data has been compiled, without audit or review, from information published by the big 6 Canadian banks.

At a glance

	BMO		BNS		NB	
	FY22	FY21	FY22	FY21	FY22	FY21
Ranking						
By profit before tax	3	4	4	3	6	6
By total assets	4	4	3	3	6	6
By gross loans	4	4	3	3	6	6
By market capitalisation	3	4	4	3	6	6
Financial performance (continuing operations)						
Profit before tax ($ millions)	17,886	10,258	12,932	12,826	4,277	4,022
Adjusted net income ($ millions)	9,039	8,651	10,749	10,169	3,383	3,147
Net interest income ($ millions)	15,885	14,310	18,115	16,961	5,271	4,783
Non-interest income ($ millions)	17,825	12,876	13,301	14,291	4,381	4,144
Performance measures (continuing operations)						
Adjusted diluted EPS	13.23	12.96	8.50	7.87	9.61	8.87
Net interest margin (%)	1.62%	1.59%	2.20%	2.23%	1.96%	1.90%
Adjusted return on equity (%)	15.2%	16.7%	15.6%	15.0%	18.8%	20.7%
Dividends per share	5.44	4.24	4.06	3.6	3.58	2.84
Adjusted efficiency ratio (%)	56.8%	55.8%	52.8%	52.2%	52.6%	53.7%
Asset quality						
Allowance for credit losses ($ millions)	2,998	2,958	5,499	5,731	1,131	1,169
Net impaired loans as a % of loans and acceptances	0.10%	0.11%	0.41%	0.42%	0.50%	0.46%
Financial position						
Total assets ($ millions)	1,139,199	988,175	1,349,418	1,184,844	403,740	355,621
Total equity ($ millions)	71,038	57,523	74,749	72,892	21,744	18,679
Gross loans ($ millions)	553,956	460,826	750,335	642,612	205,789	181,691
Capital measures – B/S						
Capital adequacy ratios (%)						
- Total	20.7%	17.6%	15.3%	15.9%	16.9%	15.9%
- CET1	16.7%	13.7%	11.5%	12.3%	12.7%	12.4%
- Tier 1	18.4%	15.4%	13.2%	13.9%	15.4%	15.0%
Market capitalization						
Share price ($)	125.49	134.37	65.85	81.14	92.76	102.46
Common shares outstanding (millions)	677.11	648.14	1,191.00	1,215.00	336.58	337.91
Market capitalisation ($ millions)	84,970	87,090	78,452	98,612	31,221	34,622

Comparisons are to the 2022 financial year. All data has been compiled, without audit or review, from information published by the big 6 Canadian banks.

Executive summary

"As KPMG's analysis of the 2022 full year results shows, all the big 6 banks have CET 1 ratios well above the required regulatory minimums with the average being 13.6%, a 0.28% increase year over year."

- Geoffrey Rush
Financial Services National Industry Leader

Key highlights

Fiscal Year 2022 will be remembered as a year of great change. To address soaring inflation the Bank of Canada raised interest rates seven times since October 27th, 2021, cumulatively a 400 basis points increase to its policy rate that is currently 4.25%.[1] On December 8th, 2022 the Office of the Superintendent of Financial Services (OSFI) raised the capital buffer that Financial Institutions must hold to three percent, citing high-levels of household indebtedness and the rapid rise in interest rates as the key macro-economic factors driving its decision.[2]

As of Q2, 2022 the household debt-to disposable income ratio was near an all-time high of 183.99 according to Statistics Canada.[3] OSFI also increased the range of the required capital buffer to between zero and four percent starting in February 2023 (the previous range was from zero to 2.5 percent). Since its introduction in 2018, the capital buffer has been OSFI's tool to provide a capital reserve range applicable to Canada's largest banks and is baked into the common equity tier 1 ratio (CET 1 ratio) that compares a bank's capital against its risk-weighted assets. This change in regulation raises the minimum CET 1 ratio for Canada's major banks from 10.5% to 11%. As KPMG's analysis of the 2022 full year results shows, all the big 6 banks have CET 1 ratios well above the required regulatory minimums with the average being 13.6%, a 0.28% increase year over year.

So how have the major banks performed in this environment of tightening monetary and regulatory policies? In terms of top line growth, aggregate total revenue for the big 6 banks in fiscal year 2022 was $194.6 billion, a 9.2% increase from fiscal year 2021. This growth is comprised of $102.0 billion in net interest income (an increase of 11.3% year over year) and $92.6 billion in non-interest income (a 5.1% increase year over year) and outpaces average cost growth of 5.5% for the major banks. Given these differences between revenue and cost growth rates, adjusted net income on average grew by 2.8% to an aggregate of $60.7 billion. Growth in aggregate adjusted net income in fiscal 2022 is driven by a combination of factors including continued strength in consumer credit participation and a modest increase in net interest margins.

According to TransUnion's Q3 2022 Credit Industry Insights Report, credit participation reached a new record high with 27.9 million Canadians having active credit products with a total outstanding balance of $2.29 trillion.[4] Average net interest margins increased modestly year over year to 1.73% as the impact of rising interest rates begins to take hold and fixed term loans gradually re-adjust to today's higher lending rates.

“However, as the 2022 financial results indicate, Canada’s 6 major banks are well positioned to deal with such economic uncertainties [further increases to the Bank of Canada’s policy interest rate] should they happen.”

- Geoffrey Rush
Financial Services National Industry Leader

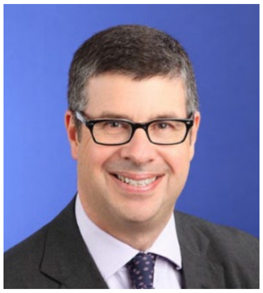
Outlook

In terms of other key performance measures adjusted return on equity across the big 6 banks ranged from 14.7% to 18.8% with an average of 16.1% across the peer group. Total aggregate allowances for credit losses was $24.5 billion in FY22, a slight decrease of 0.3% compared to the previous year and net impaired loans as a percent of total loans and acceptances remained flat year over year at an average of 0.26%.

At the time of writing this report inflation in Canada remains high at 6.8% and so long as it persists above the target range, the possibility of further increases to the Bank of Canada’s policy interest rate remains which could in turn place further downward pressure on residential property prices and the demand for credit by consumers and businesses.

However, as the 2022 financial results indicate, Canada’s 6 major banks are well positioned to deal with such economic uncertainties should they happen. We hope you find the analysis in this report on the major Canadian banks’ 2022 financial year results insightful.

Sincerely,



Geoffrey Rush

Financial Services National Industry Leader

Source: (1) Bank of Canada
(2) Financial Post, December 8th, 2022
(3) Statistics Canada
(4) TransUnion, “Canadian Consumer Credit Market Driven by Strong Credit Activity” November 29, 2022

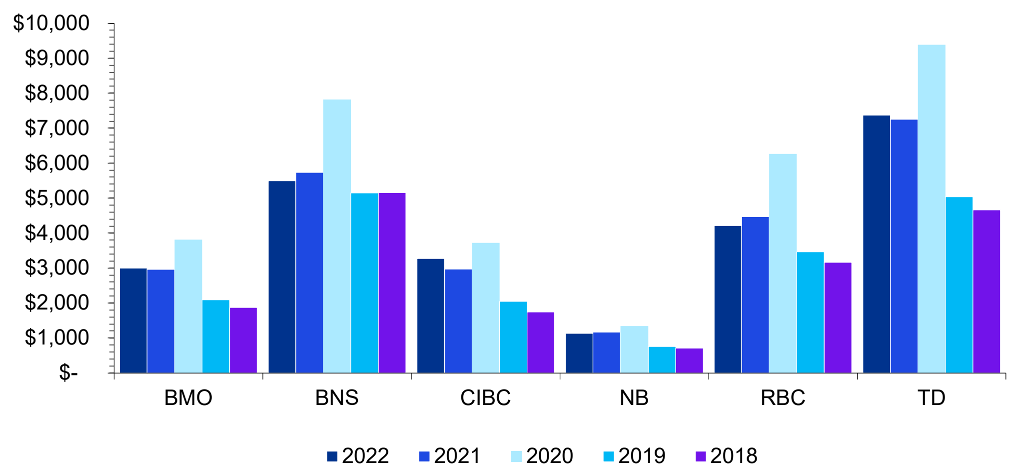
Asset quality

Recession risk, inflation and higher interest rates expected to weigh on loan portfolio growth and quality, while subsiding economic stimulus tailwinds from 2020 and 2021 may start revealing vulnerable higher credit risk segments.

The COVID-19 pandemic has been a global generational event that has significantly impacted many lives. The Canadian economy has slowed down notably since 2020 and were it not for the unprecedented economic stimulus that the Canadian Government offered, arguably the impact to date could have been even worse.

However as the economic stimulus programs wind down, and the pandemic becomes something we adapt to and learn to live with, the high and persistent inflation has become an increasingly new threat to the economy. The Monetary Policy response to combat this inflation, including in particular raising interest rates at the rapid pace we have been observing, adds further challenges to an already difficult environment. With the backdrop of tight lending regulations, this trifactor of conditions suggests conditions for Canadians may get worse before they get better and this poses a unique set of risks for Canadian Bank loan portfolios.

Allowance for credit losses ($ millions)



Effective and prudent credit risk management will continue be critical to managing the impact of these unique conditions on borrower credit risk, both within existing portfolio and from a portfolio growth perspective. Given the Canadian Regulatory environment and Canadian Bank policies to lending, we move into 2023 with trepidation and caution.

All data has been compiled, without audit or review, from information published by the big 6 Canadian banks.

Asset quality

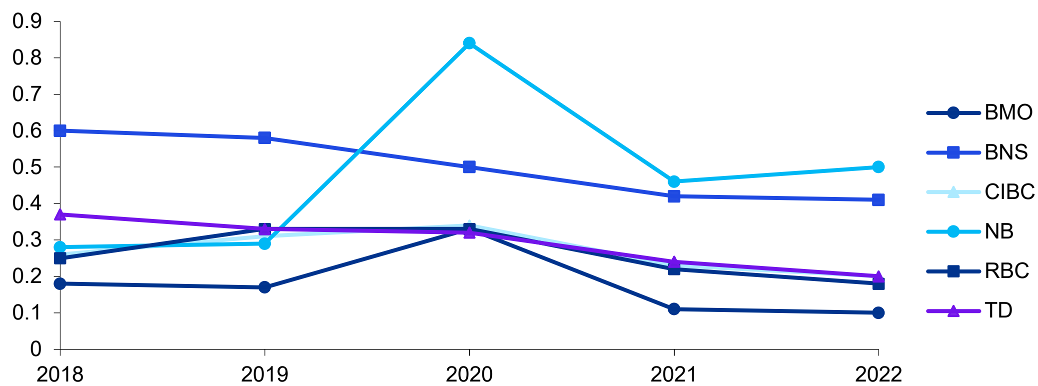
Loan impairment

Allowances for loan losses have begun to level off after the initial surge in 2020 and in the immediate response to the pandemic and subsequent pullback, however the allowances as a proportion of the average loan balances (Coverage Ratio) continues to remain on average higher than pre-pandemic levels, most notably for personal/consumer credit cards and loan products. Charge offs have also begun to exhibit an marginal increase in 2022 though remain below pre-pandemic levels.

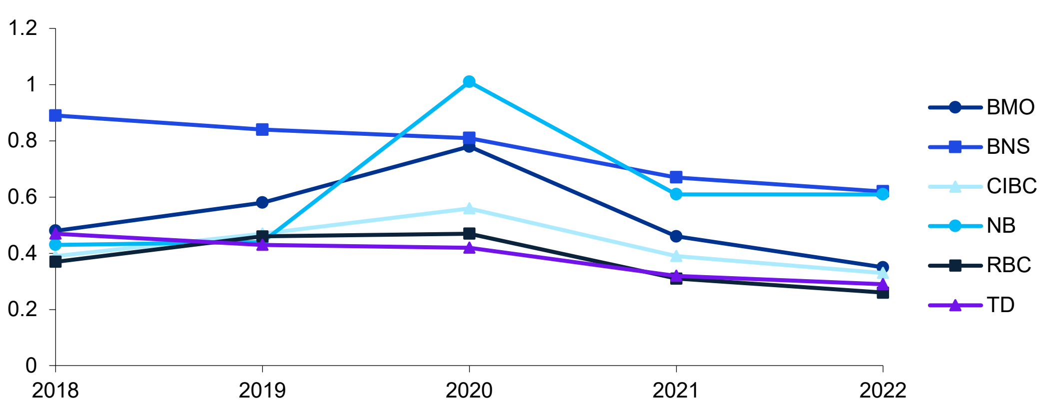
"We move into 2023 with trepidation and caution"

- Dilshad Hassen
Partner, Advisory
Accounting Advisory

Net impaired loans as a percentage of loans and acceptances (%)



Gross impaired loans as a percentage of loans and acceptances (%)



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Capital and liquidity

Capital levels at the Big Six reflect the benefits of pandemic-era performance as banks prepare for challenging economic conditions and higher capital requirements.

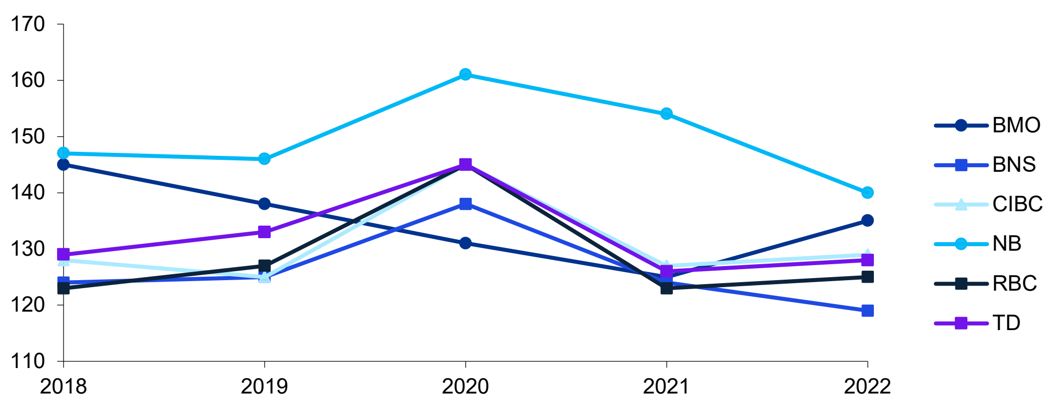
Canada's major banks ended the year with healthy overall capital levels that exceeded the higher threshold set by OSFI for Domestic Systemically Important Banks (D-SIBs).

The average Common Equity Tier 1 (CET1) ratio was 13.6% at the end of Q4 2022 across the D-SIBs; up 30 bps from the Q3 2022 average of 13.3%. Average CET1 ratios have increased by 190 bps since the pre-pandemic levels of Q4 2019 as the banks benefited from stronger-than-expected credit performance and growth in loan volumes, capital markets activity and fee-based wealth management businesses over the course of the pandemic.

	BMO		BNS		CIBC		NB		RBC		TD	
	FY22	FY21	FY22	FY21	FY22	FY21	FY22	FY21	FY22	FY21	FY22	FY21
Tier 1 capital (%)	18.4	15.4	13.2	13.9	13.3	14.1	15.4	15.0	13.8	14.9	18.3	16.5
Common equity tier 1 (%)	16.7	13.7	11.5	12.3	11.7	12.4	12.7	12.4	12.6	13.7	16.2	15.2
Total capital ratio (%)	20.7	17.6	15.3	15.9	15.3	16.2	16.9	15.9	15.4	16.7	20.7	19.1

Liquidity ratios remained comfortably above regulatory minimums at the end of 2022. The average Liquidity Coverage Ratio (LCR) for the Big Six ended the year little changed from 2021 at 129 percent, down less than one percentage point.

Liquidity coverage ratio (%)



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Net interest income

Big Five NII were raised by strong lending volume growth through 2022. Margins also increased. While still down compared to 2020, net interest margins across most of the Majors have rebounded from their low point in 2021 as Canadian interest rates rose through 2022.

	FY22	FY21	Movement
Net interest income ($ millions)			
TD	27,353	24,131	13.4%
RBC	22,717	20,002	13.6%
CIBC	12,641	11,459	10.3%
BMO	15,885	14,310	11.0%
BNS	18,115	16,961	6.8%
NB	5,271	4,783	10.2%
Aggregate	**101,982**	**91,646**	**11.3%**

	FY22	FY21	Movement
Net interest margin (basis points)			
TD	169	156	13
RBC	148	148	0
CIBC	140	142	(2)
BMO	162	159	3
BNS	220	223	(3)
NB	196	190	6
Average	**173**	**170**	**3**

Net interest margin

Net interest margins rose 3 basis points during 2022 to 1.73%, from a low of 1.70% in 2021, however this remains 5 basis points lower than that of 2020 and 15 basis points lower than 2019. While the increase in the second half is a benefit to the Majors because of increasing interest rates, margin pressure remains due to key drivers impacting the Majors:

- Loan growth rates are expected to decline in 2023 in response to increased interest rates. This is expected to drive price competition amongst the Majors, challenger banks and non-bank lenders impacting home lending margins.
- Refinancing activity within mortgage lending competition as customers seek value.
- Increased costs of lending due to reliance on wholesale funding and associated interest rate pressures.

All data has been compiled, without audit or review, from information published by the big 6 Canadian banks.

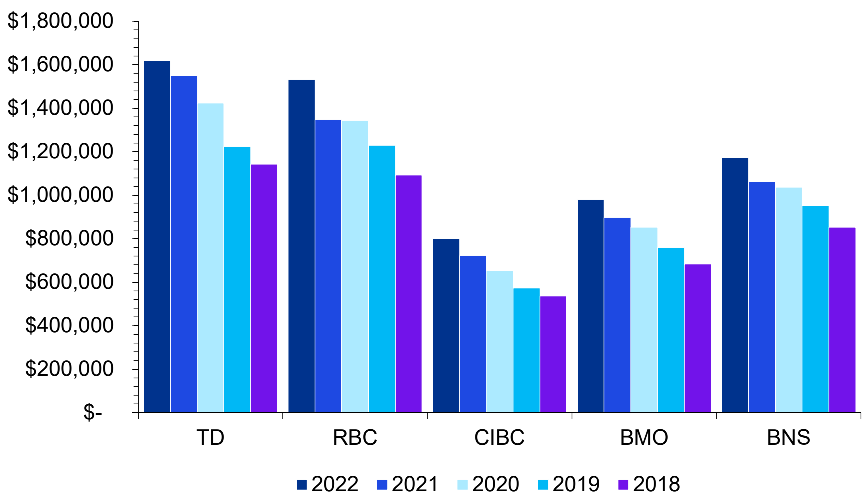
Net interest income

Interest earning assets

Average interest earning assets increased by 9.7 per cent from 2021 to $1,220.6 billion with all Majors reporting increases.

This was primarily driven by growth in housing (mortgage) lending and business credit on the back of continued strong system growth within the Canadian market into 2022. Momentum in the economy, however, being impacted by rising interest rates and high inflation, which is expected to suppress the housing market and therefore impact mortgage lending asset sales through the new year.

Interest earning assets ($ millions)*



**Note: NB does not report interest earning assets on an aggregate scale and has been excluded from the visual*

Funding mix

Customer deposits remain the primary source of funding for the Majors. Deposits grew on average by 11.5%, a rate around 50% higher than 2021.

The banks are gradually increasing their reliance on whole-sale and other non-deposit funding, with the average proportion of customer deposits to total liabilities across the Majors decreasing by an average of 1 per cent in 2022.

"Recent rapid rises in interest rates are starting to provide margin relief for the Banks but bring their own challenges in slowing overall lending growth and putting pressure upon funding rates."

- James Ferguson
Partner, Management Consulting
Financial Services, Banking Lead

All data has been compiled, without audit or review, from information published by the big 6 Canadian banks.

KPMG Thought leadership on the Canadian market

Finding success through payments modernization

With open banking on the horizon, payments modernization is the key to staying competitive and meeting customer expectations

The payments industry is experiencing significant disruption. Customer expectations are changing, and financial institutions (FIs) are facing pressure, not just from fintechs, but also from non-traditional entrants into the payments ecosystem, including tech giants, retailers, utilities, and communications providers, who are all looking for ways to make payments easier, faster, and more convenient.

At the same time, Canada is moving towards open banking, which will see third-party financial service providers use application programming interfaces (APIs) to access consumer data, including banking and transaction data.

- A key factor driving change in the space is the revenue associated with processing payments.
- The payment ecosystem of the future will be integrated much more deeply in the traditional business processes of organizations than it is today.
- As FIs focus on payments modernization and look to adopt new international data standards and open banking, they will need to build the groundwork, perform extensive testing, ensure compliance, and meet customer needs.

By connecting strategy to innovative technologies and customer needs, KPMG helps clients modernize their payments and find success in an open-data world.

Please follow the link for the full article:
Finding success through payments modernization

The future of retail banking

Tomorrow's retail banks will be connected, frictionless and laser-focused on customers

The Canadian banking landscape has reached a pivotal junction. COVID-19 catalyzed changes already in motion, and banks are now looking to the future. Banking is changing to reflect the new ways that Canadians live and work, and as fewer people opt to do their banking in person, banks are becoming more ingrained in other platforms, such as social media and e-commerce.

As these alternative distribution channels grow, banks have an opportunity to become connected enterprises, connecting internally and with the market while putting the customer experience at the heart of everything they do.

- Customers are looking for seamless, digital, and valuable experiences, and there's a growing expectation that solutions will be both environmentally and socially responsible.
- To achieve great customer outcomes and increase loyalty in this rapidly changing environment, agility is essential.
- Enabling customers to instruct their incumbent financial service providers to share their account and transactional level data with other accredited third parties in an open banking ecosystem is the next frontier for Canadian banking.

KPMG is helping clients respond to these emerging opportunities by developing what we call a Connected Enterprise. We harness technology to help our clients build a connected enterprise where your front, middle and back offices are aligned.

Please follow the link for the full article:
The future of retail banking

KPMG Thought leadership on the Canadian market

The evolving credit union

As the financial services sector evolves, credit unions can leverage their strength in serving customers to create a winning growth strategy

One third of Canadians are members of local credit unions. The secret of their success is in the personal service model they offer, which larger financial organizations have often struggled to develop.

Digital innovations are expanding banking service models with new conveniences, efficiencies and modes of customer contact built on technology, not personal connection. Competition is heating up too, as fintech players are entering the marketplace and using customer data to offer new kinds of wealth, savings, and credit services.

- Avoiding technological change is not an option. Credit unions need to keep up with national and international regulatory standards to stay compliant.
- The younger generation have shown they want more autonomy over their finances, direct control over investments, and the transparency and flexibility that's driving fintech popularity. Forward-thinking credit unions would do well to start viewing emerging fintechs not as competitors, but as partners.
- A synergy with the right fintech firm could bring proven data-driven tools, personalized video, investment data, dashboards and more to the table.

With a future-forward mindset, credit unions can leverage the moment – and their special strengths – to grow their membership and their businesses with innovative offerings for years to come.

Please follow the link for the full article:
The evolving credit union

Transforming the finance function in banking

Building a successful change management program with sustainable, people-focused techniques

Banks are embracing cloud ledger technology to standardize ways of working and AI-powered forecasting and data analytics to help the business navigate the future. Banks that can temper their risk-averse appetites and create capacity to innovate are more likely to achieve true transformation in ways of working.

Technology upgrades are an important part of any transformation, but fundamentally, its success is all about human and cultural change. Change management is therefore a critical part of the roadmap to success.

- Change management is recognized as a must-have capability in all organizations, because of the speed and scale of change in today's markets.
- A clear, well-presented, and well-defined purpose for change is essential to gaining alignment. In finance functions, improvement goals are often expressed in terms of service quality, control and efficiency.
- Organizations need to develop strategies that motivate people to learn the new ways of working, to adopt change and advocate for that change with their peers.

Resources such as KPMG's Banking Finance Function Benchmarking (BFFB) report, which gathers finance function data from across the banking industry, can provide useful guideposts in devising workable change management strategies.

Please follow the link for the full article:
Transforming the finance function in banking

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