

Canadian Banks

More Capital Return Please – Buy BMO, CIBC; TD Goes to Neutral

- **The Capital Deployment Dilemma** — As BMO's recent acquisition of F&C demonstrated, some of the Canadian banks are willing to sacrifice meaningful capital in order to accrete to earnings by 2-3% (on our estimates; [F&C Acquisition: Proof Is In the Pudding – Buy, TP to \\$80](#), 7 Feb 2014). But we believe the Canadian banks will eventually start returning more capital to shareholders as they realise that buying growth is often very expensive from a price and capital perspective. RY should, over the next three years, be returning the most capital – an average of 6.6% of its market cap per year (2/3 as dividends and 1/3 as buybacks). We believe the Canadian banks should target 10% Basel CET1 ratio (BNS: 10.5%) – 7% minimum, 1% domestic buffer and 2% as an additional 'own' buffer. Returning capital above that level should take precedence over expensive acquisitions (Figs 7-8).
- **TD, CM, RY Most Sensitive to Rate Rises** — We analyse the earnings and book value sensitivity of the Big 5 to a +100 bps shift in the yield curve (Figs 9-10). TD, CM and RY are most earnings sensitive to +100 bps parallel move (Canada and international), in this order. TD, CM and BMO have increased their earnings sensitivity the most over the past year (more positive impact). TD's book value is the least earnings sensitive to +100 bps parallel move up. TD and CM have decreased their book value sensitivity to rising rates the most over the past year (less negative impact). But in the case of TD and RY we believe most of the upside is already in the price. Not so for CM.
- **Upgrading CM to Buy (TP \$102), Downgrading TD to Neutral (TP \$52), Prefer CM & BMO in Canada** — We revise our EPS estimates and ROE assumptions on the back of our view that more capital return is needed. Except for BMO, we now assume higher buybacks for the Canadian banks. We also revise our estimates on the back of recent guidance and reclassifications. As a result, we upgrade CM to Buy. CM and BMO (Buy) are now our preferred bank equities in Canada. We downgrade TD to Neutral (from Buy). RY and BNS remain Neutral rated.
- **1Q14 Results Previews** — We include 1Q14 previews for each bank. For the latest industry trends on volumes, housing, asset quality and margins please refer to the accompanying report, [Canadian Banks Big Picture: Winter 2013](#).

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Company	Ticker	Rating		Target Price		Current Year Earnings Estimates	
		Old	New	Old	New	Old	New
Bank of Montreal	BMO.TO	1	1	C\$80.00	C\$80.00	C\$6.38	C\$6.39
Scotiabank	BNS.TO	2	2	C\$66.00	C\$66.00	C\$5.19	C\$5.18
CIBC	CM.TO	2	1	C\$84.00	C\$102.00	C\$8.39	C\$8.52
Royal Bank of Canada	RY.TO	2	2	C\$68.00	C\$77.00	C\$5.62	C\$5.79
Toronto Dominion	TD.TO	1	2	C\$50.00	C\$52.00	C\$4.01	C\$3.91

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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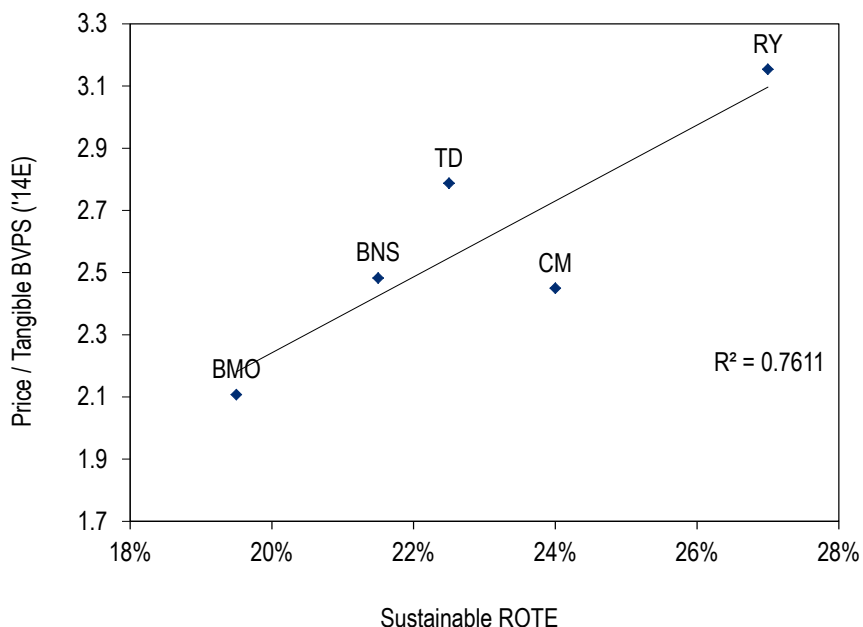
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Summary Estimates and Valuation

BMO (Buy) and CM (Buy) screen as relatively undervalued on a P/Tang BV basis – BNS, RY and TD less so (all three Neutral-rated)

Figure 1. BMO & CIBC Stand Out – Canadian Banks' Valuation on P/Tang BVPS Basis vs Sustainable ROTE



Source: Citi Research, Reuters

Figure 2. Canadian Banks – Valuation Summary *

	P/E				P/BV				P/TBV				Rating	TP	Price	Upside	DY	ETR	MV (C\$ bn)
	2013	2014E	2015E	2016E	2013	2014E	2015E	2016E	2013	2014E	2015E	2016E							
RY	13.3	12.6	11.4	10.7	2.47	2.35	2.21	2.08	3.33	3.15	2.97	2.78	2	77.0	72.8	5.8%	3.6%	9.4%	105
TD	14.5	12.7	11.6	10.7	1.99	1.85	1.71	1.58	3.01	2.79	2.54	2.31	2	52.0	49.8	4.3%	3.3%	7.6%	92
BNS	12.5	12.3	11.2	10.2	1.95	1.84	1.70	1.57	2.66	2.48	2.27	2.07	2	66.0	64.0	3.2%	3.8%	7.0%	77
BMO	11.7	11.3	10.5	9.4	1.68	1.59	1.49	1.39	2.08	2.11	1.95	1.81	1	80.0	72.4	10.4%	4.1%	14.5%	47
CM	11.1	10.6	10.1	9.4	2.24	2.09	1.91	1.75	2.64	2.45	2.21	2.01	1	102.0	90.1	13.2%	4.2%	17.4%	36

Source: Citi Research, Company Reports * Pricing as of 20 February 2014 close

Figure 3. Canadian Banks – Estimates Summary

	Diluted EPS				BVPS				TBVPS				DPS				Dividend Yield %			
	2013	2014E	2015E	2016E	2013	2014E	2015E	2016E	2013	2014E	2015E	2016E	2013	2014E	2015E	2016E	2013	2014E	2015E	2016E
RY	5.49	5.79	6.37	6.81	29.4	31.0	32.9	35.0	21.8	23.1	24.5	26.2	2.60	2.82	3.03	3.24	3.6%	3.9%	4.2%	4.4%
TD	3.44	3.91	4.28	4.65	25.1	27.0	29.2	31.5	16.6	17.9	19.7	21.5	1.62	1.80	2.03	2.20	3.3%	3.6%	4.1%	4.4%
BNS	5.12	5.18	5.72	6.24	32.7	34.8	37.7	40.8	24.0	25.8	28.2	30.9	2.44	2.58	2.75	3.00	3.8%	4.0%	4.3%	4.7%
BMO	6.17	6.39	6.92	7.68	43.1	45.7	48.7	52.1	34.9	34.4	37.1	40.1	2.98	3.04	3.20	3.50	4.1%	4.2%	4.4%	4.8%
CM	8.11	8.52	8.89	9.59	40.3	43.1	47.2	51.5	34.1	36.8	40.8	44.9	3.82	3.96	4.01	4.32	4.2%	4.4%	4.4%	4.8%

	Diluted EPS Growth				BVPS Growth %				TBVPS Growth %				DPS Growth %			
	2013	2014E	2015E	2016E	2013	2014E	2015E	2016E	2013	2014E	2015E	2016E	2013	2014E	2015E	2016E
RY	11%	5%	10%	7%	13%	5%	6%	6%	14%	6%	6%	7%	14%	8%	7%	7%
TD	2%	14%	10%	9%	7%	7%	8%	8%	7%	8%	10%	10%	12%	11%	13%	9%
BNS	-1%	1%	10%	9%	15%	6%	8%	8%	13%	7%	10%	10%	9%	6%	7%	9%
BMO	1%	4%	8%	11%	10%	6%	7%	7%	12%	-1%	8%	8%	6%	2%	5%	9%
CM	3%	5%	4%	8%	13%	7%	10%	9%	14%	8%	11%	10%	5%	4%	1%	8%

	ROE %					ROTE %					COE%	B3 CET1 Ratio %			
	2013	2014E	2015E	2016E	Sust	2013	2014E	2015E	2016E	Sust		2013	2014E	2015E	2016E
RY	19.8	19.2	20.0	20.1	20.0	26.7	26.0	26.8	26.9	27.0	10.0	9.6	9.6	9.8	10.0
TD	14.2	15.1	15.3	15.3	16.0	21.4	22.9	22.8	22.6	22.5	10.0	9.0	8.8	9.4	10.0
BNS	16.6	15.3	15.7	15.9	16.3	22.9	20.9	21.1	21.1	21.5	10.7	9.1	9.3	9.8	10.4
BMO	14.9	14.5	14.7	15.2	15.0	18.7	18.5	19.3	19.9	19.5	10.0	9.9	8.9	9.4	9.9
CM	21.4	20.6	19.7	19.4	21.0	25.6	24.3	22.9	22.4	24.0	11.0	9.3	9.1	9.6	10.0

Source: Citi Research, Company Reports

Summary 1Q14 Previews

Please refer to company sections for individual previews.

Figure 4. Canadian Banks 1Q14 Results Release & Call Details

Bank	Earnings Release		Dial-in Details		
	Date	Time	Date	Time	Dial-in
BMO	25-02-14	7:00AM EST	25-02-14	1400 EST	(888) 789-0089
RY	26-02-14	6:00AM EST	26-02-14	0730 EST	866-696-5910 pwd: 2674741#
CM	27-02-14	6:00AM EST	27-02-14	0800 EST	888-789-9572 pwd: 4000010#
TD	27-02-14	6:30AM EST	27-02-14	1500 EST	800-814-4859
BNS	04-03-14	6:00AM EST	04-03-14	0800 EST	800-814-4859

Source: Companies

Figure 5. Canadian Banks – Summary 1Q14 Estimates

Bank	Net Profit (C\$m) *							Revenues (C\$m)						
	1Q13	4Q13	1Q14E	1Q14E Cons	Citi vs Cons	yoy	qoq	1Q13	4Q13	1Q14E	1Q14E Cons	Citi vs Cons	yoy	qoq
BMO	1,036	1,074	1,014	1,010	0%	-2%	-6%	4,032	4,138	4,152	4,057	2%	3%	0%
BNS	1,605	1,676	1,662	1,632	2%	4%	-1%	5,171	5,400	5,503	5,501	0%	6%	2%
CM	785	825	947	920	3%	21%	15%	3,165	3,180	3,552	3,287	8%	12%	12%
RY	2,047	2,101	2,059	2,103	-2%	1%	-2%	7,858	7,919	7,982	8,143	-2%	2%	1%
TD	1,784	1,616	1,827	1,829	0%	2%	13%	6,567	7,000	7,320	6,683	10%	11%	5%
Big 5	7,257	7,292	7,509	7,494	0%	3%	3%	26,793	27,637	28,508	27,671	3%	6%	3%

Bank	Costs (C\$m)							Provisions (C\$m)						
	1Q13	4Q13	1Q14E	1Q14E Cons	Citi vs Cons	yoy	qoq	1Q13	4Q13	1Q14E	1Q14E Cons	Citi vs Cons	yoy	qoq
BMO	-2,570	-2,580	-2,659	-2,576	3%	3%	3%	-178	-189	-191	-167	15%	8%	1%
BNS	-2,828	-2,977	-3,002	-2,960	1%	6%	1%	-310	-321	-374	-341	10%	21%	16%
CM	-1,988	-1,930	-2,088	-1,897	10%	5%	8%	-265	-271	-289	-238	22%	9%	7%
RY	-4,043	-4,151	-4,207	-4,293	-2%	4%	1%	-349	-334	-341	-309	10%	-2%	2%
TD	-3,502	-4,164	-3,971	-3,845	3%	13%	-5%	-385	-352	-395	-424	-7%	3%	12%
Big 5	-14,931	-15,802	-15,927	-15,571	2%	7%	1%	-1,487	-1,467	-1,590	-1,477	8%	7%	8%

Bank	Reported Diluted EPS (C\$)							BVPS (C\$)						
	1Q13	4Q13	1Q14E	1Q14E Cons	Citi vs Cons	yoy	qoq	1Q13	4Q13	1Q14E	1Q14E Cons	Citi vs Cons	yoy	qoq
BMO	1.51	1.60	1.50	1.54	-3%	-1%	-6%	40.1	43.1	43.0	44.3	-3%	7%	0%
BNS	1.24	1.30	1.25	1.32	-5%	1%	-4%	29.7	32.7	33.0	34.4	-4%	11%	1%
CM	1.88	2.02	2.31	2.33	-1%	23%	14%	36.4	40.3	40.4	42.5	-5%	11%	0%
RY	1.34	1.39	1.36	1.44	-6%	1%	-2%	26.8	29.4	29.6	30.9	-4%	10%	1%
TD	0.93	0.84	0.95	1.00	-5%	2%	13%	23.7	25.1	25.4	26.2	-3%	7%	1%

Bank	ROE							DPS declared (C\$)						
	1Q13	4Q13	1Q14E	1Q14E Cons	Citi vs Cons	yoy	qoq	1Q13	4Q13	1Q14E	1Q14E Cons	Citi vs Cons	yoy	qoq
BMO	15.0%	15.0%	13.9%	14.0%	-1%	-8%	-7%	0.74	0.76	0.76	0.76	0%	3%	0%
BNS	17.0%	15.9%	15.2%	15.6%	-3%	-11%	-4%	0.60	0.62	0.64	0.63	2%	7%	3%
CM	20.6%	20.3%	22.9%	20.4%	12%	11%	12%	0.94	0.96	0.96	0.97	-1%	2%	0%
RY	20.3%	19.1%	18.4%	18.7%	-2%	-9%	-4%	0.63	0.67	0.69	0.67	3%	10%	3%
TD	15.7%	13.4%	15.0%	16.1%	-7%	-4%	12%	0.39	0.43	0.44	0.44	1%	13%	2%

Source: Company reports; consensus by Bloomberg; Citi Research

* Before dilution impact

Figure 6. Canadian Banks – Summary 1Q14 Estimates (cont'd)

Bank	Group NIM *					Canadian NIM *				
	1Q13	4Q13	1Q14E	yoy	qoq	1Q13	4Q13	1Q14E	yoy	qoq
BMO	1.89%	1.71%	1.76%	-0.12%	0.06%	1.68%	1.66%	1.65%	-0.04%	-0.01%
BNS	1.70%	1.70%	1.75%	0.05%	0.05%	1.99%	2.03%	2.11%	0.11%	0.07%
CM	2.14%	2.12%	2.11%	-0.03%	-0.01%	2.60%	2.65%	2.73%	0.13%	0.08%
RY	1.93%	1.88%	1.85%	-0.08%	-0.04%	2.83%	2.78%	2.76%	-0.07%	-0.02%
TD	2.17%	2.24%	2.22%	0.05%	-0.02%	2.89%	2.90%	2.89%	0.00%	-0.01%

Bank	Efficiency Ratio					CET1 Ratio – Basel 3 Reported				
	1Q13	4Q13	1Q14E	yoy	qoq	1Q13	4Q13	1Q14E	yoy	qoq
BMO	63.7%	62.3%	64.1%	0.3%	1.7%	9.4%	9.9%	9.4%	-0.1%	-0.5%
BNS	54.7%	55.1%	54.6%	-0.1%	-0.6%	8.2%	9.1%	8.8%	0.6%	-0.3%
CM	62.8%	60.7%	58.8%	-4.0%	-1.9%	9.6%	9.3%	9.0%	-0.6%	-0.3%
RY	51.5%	52.4%	52.7%	1.3%	0.3%	9.3%	9.6%	9.2%	-0.1%	-0.4%
TD	53.3%	59.5%	54.2%	0.9%	-5.2%	8.8%	9.0%	8.3%	-0.5%	-0.7%

Bank	Payout Ratio						
	1Q13	4Q13	1Q14E	1Q14E Cons	Citi vs Cons	yoy	qoq
BMO	49.0%	47.6%	50.8%	49.4%	1.4%	1.8%	3.2%
BNS	48.3%	47.7%	51.1%	47.3%	3.8%	2.8%	3.4%
CM	50.1%	47.6%	41.6%	41.5%	0.1%	-8.5%	-6.0%
RY	47.0%	48.3%	50.8%	46.5%	4.3%	3.8%	2.5%
TD	42.1%	51.3%	46.5%	43.5%	3.0%	4.4%	-4.9%

Source: Company reports; consensus by Bloomberg; Citi Research

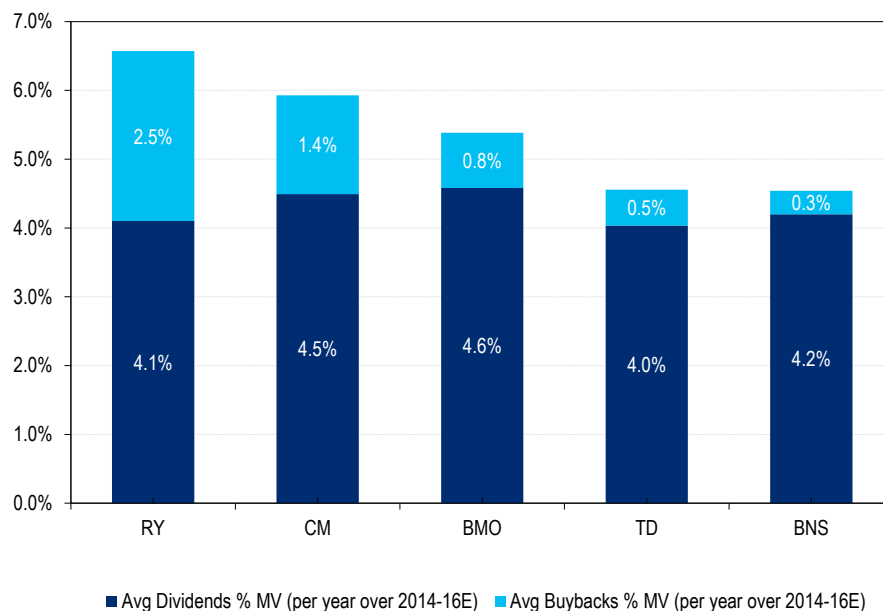
* Basis: company reported for BMO, CM; company core reported for BNS; Citi estimates for RY, TD. RY's Canadian NIM is NIM in P&C Banking; TD's NIM is in Canadian Retail which also includes Canadian wealth management. All calculated on average earning assets.

Capital Return in 2014E-16E

We believe the Canadian banks will eventually start returning more capital to shareholders – as they realise that buying growth is often very expensive and consumes significant amounts of capital

RY should, over the next three years, be returning the most capital, in our view – an average of 6.6% of its market cap per year (2/3 as dividends and 1/3 as buybacks)

Figure 7. Canadian Banks – Average Annual Capital Return in 2014E-16E as % of Market Cap



Source: Citi Research

We believe the Canadian banks should target 10% Basel CET1 ratio (BNS: 10.5%). Returning capital above that level should take precedence over expensive and acquisitions (from a valuation and capital perspective).

Figure 8. Canadian Banks – Basel 3 Core Equity Tier 1 Ratios, 2014E-16E (%) *

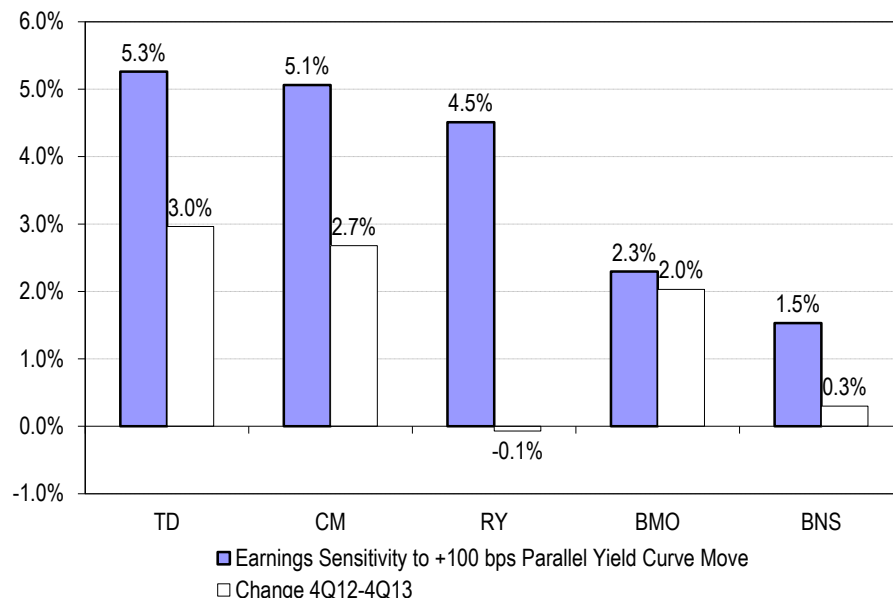
	2014E	2015E	2016E
BNS	9.3%	9.8%	10.4%
RY	9.6%	9.8%	10.0%
CM	9.1%	9.6%	10.0%
TD	8.8%	9.4%	10.0%
BMO	8.9%	9.4%	9.9%

Source: Citi Research * Includes CVA deductions and IAS 19 adjustments as per company guidance.

Interest Rate Sensitivity

TD, CM and RY are most earnings sensitive to +100 bps parallel move up in the yield curve (Canada and international), in this order. TD, CM and BMO have increased their earnings sensitivity the most over the past year (more positive impact)

Figure 9. Canadian Banks – Sensitivity of Net Attributable Profit to Interest Rate Rises *

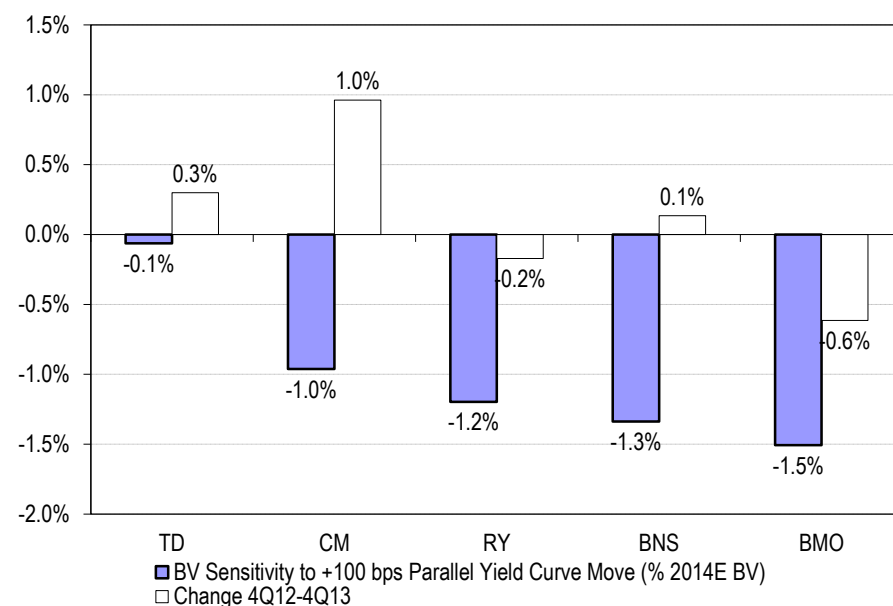


Source: Citi Research, company reports

* RY discloses data on Net Interest Income sensitivity (non-trading). We estimate and assume a 'sensitivity leverage' factor of 1.6 (of earnings to NII) which we use to estimate earnings sensitivity.

TD's book value is the least earnings sensitive to +100 bps parallel move up in the yield curve (Canada and international). TD and CM have decreased their book value sensitivity to rising rates the most over the past year (less negative impact)

Figure 10. Canadian Banks – Sensitivity of Common Equity to Interest Rate Rises *



Source: Citi Research, company reports

* BMO discloses pre-tax sensitivity of Net Assets; we tax-adjust by 25% (i.e., implicitly assuming all changes in assets and liabilities flow through the income statement and are taxable)

Company Earnings Models & 1Q14 Previews

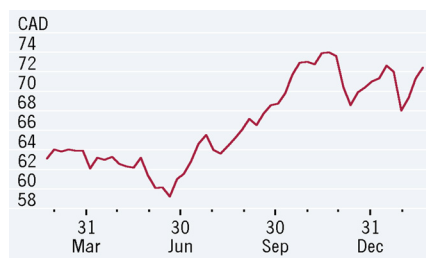
Company Focus

■ Estimate Change

Buy	1
Price (21 Feb 14)	C\$72.65
Target price	C\$80.00
Expected share price return	10.1%
Expected dividend yield	4.2%
Expected total return	14.3%
Market Cap	C\$46,822M
	US\$42,191M

Price Performance

(RIC: BMO.TO, BB: BMO CN)



Bank of Montreal (BMO.TO)

F&C Acquisition Manageable – Reiterating Buy, TP Stays \$80

- **F&C Impacts Capital Meaningfully** — Following the F&C acquisition ([F&C Acquisition: Proof Is In the Pudding – Buy, TP to \\$80](#), 7 February 2014), BMO's capital ratios would be impacted by a negative 75 bps. We estimate that the Basel 3 CET1 ratio should accrete back to c 10% by the end of 2016 driven by solid capital generation of c 180 bps per year. However, this would also mean fewer buybacks, in our view.
- **Company Revised Medium Term Targets** — In 4Q13, BMO adjusted its medium term targets to EPS growth 7-10% and operating leverage of 2%. We find it hard to arrive at these numbers for 2014: we believe adjusted EPS growth will be 3% and operating leverage 1%. However, by 2015 we expect adjusted EPS growth to accelerate to 8%.
- **Reiterating Buy, TP Remains at \$80** — Our reported EPS estimates are largely unchanged (<1%). We reiterate our Buy rating and \$80 TP.
- **1Q14 Preview** — Our expectations for 1Q14 are laid out below. Our 1Q14 EPS estimate is -3% below consensus, likely driven by higher provision assumptions.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2013A	1.50A	1.44A	1.66A	1.62A	6.21A	6.30A
2014E	1.50E	1.58E	1.65E	1.66E	6.39E	6.29E
Previous	1.49E	1.57E	1.64E	1.66E	6.38E	na
2015E	na	na	na	na	6.92E	6.79E
Previous	na	na	na	na	6.90E	na
2016E	na	na	na	na	7.68E	7.41E
Previous	na	na	na	na	7.66E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Bank of Montreal

Figure 11. Bank of Montreal – Quarterly Results Preview (CAD millions)

	1Q13	2Q13	3Q13	4Q13	1Q14E	Chg yoy	Chg qoq	Cons	vs Cons
INCOME STATEMENT									
Net interest income	2,248	2,129	2,183	2,117	2,181	-3%	3%		
Non-interest income	1,784	1,764	1,817	2,021	1,971	10%	-2%		
Revenues	4,032	3,893	4,000	4,138	4,152	3%	0%	4,057	2%
Non-interest expense	-2,570	-2,550	-2,526	-2,580	-2,659	3%	3%	-2,576	3%
GOP	1,462	1,343	1,474	1,558	1,493	2%	-4%	1,481	1%
Provisions	-178	-144	-76	-189	-191	8%	1%	-167	15%
PBT	1,284	1,199	1,398	1,369	1,301	1%	-5%	1,314	-1%
Income taxes	-248	-237	-275	-295	-288	16%	-2%		
Net income	1,036	962	1,123	1,074	1,014	-2%	-6%		
Adjusted net income	1,029	984	1,122	1,088	1,014	-2%	-7%		
Reported EPS - diluted	1.51	1.40	1.66	1.60	1.50	-1%	-6%	1.54	-3%
Adjusted EPS - diluted	1.50	1.44	1.66	1.62	1.50	0%	-8%		
DPS - declared	0.74	0.74	0.74	0.76	0.76	3%	0%	0.76	0%
Payout ratio	49%	51%	45%	47%	51%	3%	8%		
BVPS	40.1	40.8	41.9	43.1	43.0	7%	0%		
TBVPs	32.1	32.7	33.7	34.8	34.6	8%	-1%		
BALANCE SHEET									
Loans (gross)	252,214	256,782	265,186	272,487	275,487	9%	1%		
Assets	541,926	554,506	548,712	537,044	543,821	0%	1%		
Deposits	352,575	359,851	359,523	368,369	372,369	6%	1%		
RWA	210,671	207,974	214,233	215,094	217,528	3%	1%		
CET1 Ratio - Basel 3	9.4%	9.7%	9.6%	9.9%	9.4%	-0.1%	-0.5%		
RATIOS									
ROA	0.71%	0.66%	0.78%	0.74%	0.70%	0.0%	0.0%		
ROE	15.0%	13.9%	15.6%	15.0%	13.9%	-1.1%	-1.1%		
LDR	71.5%	71.4%	73.8%	74.0%	74.0%	2.4%	0.0%		
Assets / Equity	20.7	20.9	20.2	19.3	19.6	-1.1	0.3		
RWA / Assets	38.9%	37.5%	39.0%	40.1%	40.0%	1.1%	-0.1%		
Group NIM on AIEA	1.87%	1.82%	1.78%	1.69%	1.75%	-0.1%	0.1%		
Canadian NIM on AIEA	2.65%	2.59%	2.55%	2.55%	2.48%	-0.2%	-0.1%		
Efficiency ratio	63.7%	65.5%	63.2%	62.3%	64.1%	0.3%	1.7%		
Tax rate	19.3%	19.8%	19.7%	21.5%	22.1%	2.8%	0.6%		
ASSET QUALITY									
GIL / gross loans	1.15%	1.11%	1.00%	0.93%	0.90%	-0.3%	0.0%		
PCL / avg gross loans	0.28%	0.23%	0.12%	0.28%	0.28%	0.0%	0.0%		
Coverage ratio	65.0%	68.1%	70.9%	75.8%	75.9%	10.9%	0.1%		
Segment Results - Adj Net Income									
P&C Banking	642	586	650	575	635	-1%	10%		
Canada	450	422	489	461	469	4%	2%		
US	192	164	161	114	166	-14%	46%		
Wealth Management	168	147	224	318	208	24%	-34%		
Canada	145	121	193	170	176	21%	3%		
US	23	26	31	148	33	43%	-78%		
Capital Markets	298	261	268	217	280	-6%	29%		
Canada	214	213	242	155	230	7%	48%		
US	84	48	26	62	50	-41%	-20%		
Corporate Services	-79	-11	-21	-22	-105	32%	375%		
Canada	-47	16	-52	-25	-81	73%	225%		
US	-32	-27	31	3	-23	-27%	-875%		

Source: Company Reports and Citi Research Estimates; Consensus: Bloomberg

Figure 12. Bank of Montreal – New vs Old Estimates

	OLD	NEW		OLD	NEW		OLD	NEW	
CAD m	2014E	2014E	% chg	2015E	2015E	% chg	2016E	2016E	% chg
INCOME STATEMENT									
Net interest income	8,880	8,890	0%	9,628	9,638	0%	10,485	10,496	0%
Non-interest income	8,252	8,268	0%	9,304	9,322	0%	10,166	10,185	0%
Revenues	17,132	17,158	0%	18,932	18,959	0%	20,651	20,681	0%
Non-interest expense	-10,788	-10,801	0%	-11,958	-11,972	0%	-12,865	-12,880	0%
GOP	6,344	6,357	0%	6,974	6,988	0%	7,786	7,801	0%
Provisions	-859	-859	0%	-1,015	-1,015	0%	-1,186	-1,186	0%
PBT	5,485	5,498	0%	5,958	5,972	0%	6,601	6,615	0%
Income taxes	-1,183	-1,186	0%	-1,308	-1,311	0%	-1,462	-1,465	0%
Net income	4,301	4,311	0%	4,650	4,661	0%	5,139	5,150	0%
Net income to common	4,115	4,125	0%	4,454	4,465	0%	4,933	4,944	0%
Reported EPS - diluted	6.38	6.39	0%	6.90	6.92	0%	7.66	7.68	0%
Adjusted EPS - diluted	6.38	6.39	0%	6.90	6.92	0%	7.66	7.68	0%
DPS - declared	3.04	3.04	0%	3.20	3.20	0%	3.50	3.50	0%

Source: Citi Research Estimates

Figure 13. Bank of Montreal – Citi vs Consensus Estimates

	CONS	CITI		CONS	CITI		CONS	CITI	
CAD m	2014E	2014E	Citi vs Cons	2015E	2015E	Citi vs Cons	2016E	2016E	Citi vs Cons
Revenue	16,703	17,158	3%	17,539	18,959	8%		20,681	na
LLP	-715	-859	20%	-945	-1,015	7%		-1,186	na
PBT	5,357	5,498	3%	5,692	5,972	5%	5,889	6,615	12%
Net Profit	4,064	4,125	1%	4,305	4,465	4%	4,669	4,944	6%
EPS	6.34	6.39	1%	6.77	6.92	2%	7.33	7.68	5%
DPS	3.06	3.04	-1%	3.20	3.20	0%	3.41	3.50	3%
BVPS	46.3	45.7	-1%	49.5	48.7	-2%	52.5	52.1	-1%

Source: Citi Research Estimates, Bloomberg

Figure 14. Bank of Montreal – Valuation

VALUATION (CAD)					
Current Price	72.6				
Target Price	80.0				
Upside	10.2%				
Dividend yield	4.2%				
ETR	14.4%				
Common assumptions					
Cost of Equity	10.0%				
Growth	3.5%				
Time elapsed since start of year (months)	-0.08				
Fair Value Outcomes					
Static ROE	76.8				
DDM	82.6				
Average	79.7				
>> cross-check: Sum of the parts	80.7				
>> cross-check: Static ROTE	82.2				
STATIC ROE					
	2012	2013	2014E	2015E	2016E
ROE (adj)	15.5%	15.0%	14.5%	14.7%	15.2%
ROTE (adj)	19.9%	18.8%	18.5%	19.3%	19.9%
BVPS	39.2	43.1	45.7	48.7	52.1
TBVPS	31.2	34.9	34.4	37.1	40.1
EPS (adj)	5.95	6.21	6.39	6.92	7.68
Normalised ROE	15.0%				
Warranted P/BV	1.8				
2016E BVPS	52.1				
Fair value per share (12m fwd)	76.8				
DIVIDEND DISCOUNT MODEL					
	2013	2014E	2015E	2016E	
DPS	2.98	3.04	3.20	3.50	
PV of DPS			2.89	2.87	
Normalised ROE	15.0%				
Warranted P/BV	1.8				
2016E BVPS	52.1				
Fair value per share (12m fwd)	76.8				
Sum of DPS 2015E-16E	5.8				
Total value per share (12m fwd)	82.6				

Source: Citi Research Estimates

Figure 15. Bank of Montreal – Group P&L Accounts by Year (2011-2016E)

(in CAD m unless specified)	IFRS 2011	IFRS 2012	IFRS 2013	IFRS 2014E	IFRS 2015E	IFRS 2016E	%Chg 2011	%Chg 2012	%Chg 2013	%Chg 2014E	%Chg 2015E	%Chg 2016E
GROUP INCOME STATEMENT												
Net interest income	7,474	8,937	8,677	8,890	9,638	10,496	20%	20%	-3%	2%	8%	9%
Non-interest revenue	6,469	6,992	7,386	8,268	9,322	10,185	8%	8%	6%	12%	13%	9%
Total revenues	13,943	15,929	16,063	17,158	18,959	20,681	14%	14%	1%	7%	11%	9%
Non-interest Expense	-8,741	-10,135	-10,226	-10,801	-11,972	-12,880	15%	16%	1%	6%	11%	8%
GOP	5,202	5,794	5,837	6,357	6,988	7,801	13%	11%	1%	9%	10%	12%
Provisions	-1,212	-764	-587	-859	-1,015	-1,186	16%	-37%	-23%	46%	18%	17%
PBT	3,990	5,030	5,250	5,498	5,972	6,615	12%	26%	4%	5%	9%	11%
Income taxes	-876	-874	-1,055	-1,186	-1,311	-1,465	28%	0%	21%	12%	11%	12%
Net income	3,114	4,156	4,195	4,311	4,661	5,150	8%	33%	1%	3%	8%	10%
Minorities	-73	-74	-65	-68	-71	-74	-1%	1%	-12%	4%	5%	5%
Adjustments after tax	-161	97	-28	0	0	0	0%	0%	0%	0%	0%	0%
Adjusted net income	3,275	4,059	4,223	4,311	4,661	5,150	18%	24%	4%	2%	8%	10%
PER SHARE												
Diluted EPS	4.84	6.10	6.17	6.39	6.92	7.68	2%	26%	1%	4%	8%	11%
BVPS (common ex min)	35.9	39.2	43.1	45.7	48.7	52.1	6%	9%	10%	6%	7%	7%
TBVPS (common ex min)	27.9	31.2	34.9	34.4	37.1	40.1	-6%	12%	12%	-1%	8%	8%
DPS - declared	2.80	2.82	2.98	3.04	3.20	3.50	0%	1%	6%	2%	5%	9%
Dividend payout ratio	57.2%	46.1%	48.2%	47.5%	46.2%	45.5%	-2%	-19%	5%	-1%	-3%	-1%
Common Shares - diluted (avg)	607	649	650	645	645	644	8%	7%	0%	-1%	0%	0%
Common Equity	19,145	24,863	26,956	28,408	30,468	32,474	6%	30%	8%	5%	7%	7%
OPERATING RATIOS												
ROA	0.62%	0.73%	0.72%	0.73%	0.75%	0.80%						
ROE	15.1%	15.9%	14.9%	14.5%	14.7%	15.2%						
LDR	77.2%	76.1%	74.0%	73.4%	74.4%	75.0%						
Leverage (TA/TE)	21.3x	20.5x	19.3x	19.2x	18.8x	18.3x						
RWA / Assets	41.7%	39.1%	40.1%	40.0%	40.0%	40.0%						
NIM on average assets	1.59%	1.64%	1.56%	1.57%	1.61%	1.69%						
Non-interest income % average assets	1.38%	1.29%	1.33%	1.46%	1.56%	1.64%						
PBT % revenues	28.6%	31.6%	32.7%	32.0%	31.5%	32.0%						
Tax rate	22.0%	17.4%	20.1%	21.6%	22.0%	22.2%						
Efficiency ratio	62.7%	63.6%	63.7%	63.0%	63.1%	62.3%						
BALANCE SHEET ITEMS												
Total Assets	500,575	524,684	537,044	566,841	590,370	611,922	22%	5%	2%	6%	4%	4%
Total Liabilities	472,739	495,141	505,865	533,098	554,772	574,456	21%	5%	2%	5%	4%	4%
Total shareholders' equity	27,836	29,543	31,179	32,739	34,664	36,606	27%	6%	6%	5%	6%	6%
Total RWA	208,672	205,230	215,094	226,736	236,148	244,769	29%	-2%	5%	5%	4%	4%
CET1 Ratio - Basel 3	6.9%	8.7%	9.9%	8.9%	9.4%	9.9%						

Source: Company Reports and Citi Research Estimates

Figure 16. Bank of Montreal – Divisional P&L Accounts by Year (2011-2016E)

(in CAD m unless specified)	IFRS 2011	IFRS 2012	IFRS 2013	IFRS 2014E	IFRS 2015E	IFRS 2016E	%Chg 2011	%Chg 2012	%Chg 2013	%Chg 2014E	%Chg 2015E	%Chg 2016E
PERSONAL & COMMERCIAL BANKING												
Net interest income (teb)	6,034	6,872	6,853	7,023	7,606	8,291	15%	14%	0%	2%	8%	9%
Non-interest revenue	2,155	2,106	2,159	2,608	2,816	3,019	7%	-2%	3%	21%	8%	7%
Revenues (teb)	8,189	8,978	9,012	9,631	10,422	11,310	13%	10%	0%	7%	8%	9%
Non-interest expense	-4,365	-4,958	-4,995	-5,180	-5,563	-5,987	11%	14%	1%	4%	7%	8%
Provision for credit losses	-1,023	-887	-795	-940	-1,092	-1,252	63%	-13%	-10%	18%	16%	15%
PBT	2,801	3,133	3,222	3,511	3,767	4,072	3%	12%	3%	9%	7%	8%
Net income - adjusted	2,018	2,394	2,453	2,595	2,781	3,002	6%	19%	2%	6%	7%	8%
Assets	193,948	223,519	241,900	258,547	275,975	292,533	9%	15%	8%	7%	7%	6%
ROA	1.02%	1.04%	0.99%	0.98%	0.98%	1.00%						
NIM on avg assets	3.11%	3.07%	2.83%	2.72%	2.76%	2.83%						
PBT % revenues	34.2%	34.9%	35.8%	36.5%	36.1%	36.0%						
Efficiency ratio	53.3%	55.2%	55.4%	53.8%	53.4%	52.9%						
PCL % average loans	0.56%	0.42%	0.35%	0.39%	0.43%	0.46%						
WEALTH MANAGEMENT												
Net interest income	462	556	558	613	677	750	27%	20%	0%	10%	11%	11%
Non-interest revenue	2,130	2,344	2,890	3,194	3,871	4,350	13%	10%	23%	11%	21%	12%
Revenues	2,592	2,900	3,448	3,807	4,548	5,100	15%	12%	19%	10%	19%	12%
Non-interest expense	-1,956	-2,215	-2,347	-2,736	-3,360	-3,676	16%	13%	6%	17%	23%	9%
GOP	636	685	1,101	1,071	1,188	1,423	0%	0%	0%	0%	0%	0%
Provision for credit losses	-10	-22	-3	-9	-12	-14	43%	120%	-86%	212%	23%	21%
PBT	626	663	1,098	1,062	1,176	1,409	10%	6%	66%	-3%	11%	20%
Net income - adjusted	490	548	857	840	895	1,073	0%	12%	56%	-2%	7%	20%
Assets	17,483	20,354	22,143	24,405	26,652	29,115	22%	16%	9%	10%	9%	9%
ROA	2.75%	2.59%	3.75%	3.34%	3.34%	3.67%						
NIM on average assets	2.64%	2.73%	2.52%	2.51%	2.54%	2.57%						
PBT % revenues	24.2%	22.9%	31.8%	27.9%	25.9%	27.6%						
Efficiency ratio	75.5%	76.4%	68.1%	71.9%	73.9%	72.1%						
PCL % average loans	0.11%	0.20%	0.03%	0.07%	0.08%	0.09%						
CAPITAL MARKETS												
Net interest income	1,229	1,164	1,202	1,286	1,389	1,492	-12%	-5%	3%	7%	8%	7%
Non-interest revenue	2,086	2,085	2,190	2,266	2,425	2,595	11%	0%	5%	3%	7%	7%
Revenues	3,315	3,249	3,392	3,552	3,814	4,087	1%	-2%	4%	5%	7%	7%
Non-interest expense	-1,896	-1,986	-2,084	-2,039	-2,161	-2,285	4%	5%	5%	-2%	6%	6%
GOP	1,419	1,263	1,308	1,513	1,653	1,802	-2%	-11%	4%	16%	9%	9%
Provisions	-32	-6	36	-10	-17	-31	-88%	-81%	-700%	-127%	70%	84%
PBT	1,387	1,257	1,344	1,503	1,636	1,772	17%	-9%	7%	12%	9%	8%
Net income - adjusted	975	986	1,046	1,138	1,237	1,339	0%	1%	6%	9%	9%	8%
Assets	216,306	251,562	247,609	249,711	266,885	285,292	8%	16%	-2%	1%	7%	7%
ROA (adj)	0.45%	0.39%	0.42%	0.46%	0.46%	0.47%						
NIM on average assets	0.45%	0.39%	0.42%	0.46%	0.46%	0.47%						
PBT % revenues	41.8%	38.7%	39.6%	42.3%	42.9%	43.3%						
Efficiency ratio	57.2%	61.1%	61.4%	57.4%	56.7%	55.9%						
PCL % average loans	0.15%	0.03%	-0.14%	0.04%	0.06%	0.10%						
CORPORATE SERVICES												
Net interest income	-251	345	64	-33	-35	-36						
Non-interest revenue	98	457	147	200	210	221						
Total revenues	-153	802	211	167	175	184						
Non-interest expense	-524	-976	-800	-845	-887	-932						
GOP	-677	-174	-589	-678	-712	-747						
Provisions	-147	151	175	100	105	110						
PBT	-824	-23	-414	-578	-607	-637						
Net income - adjusted	-209	131	-133	-241	-253	-265						
Assets	42,197	48,496	43,779	44,445	45,495	46,597						

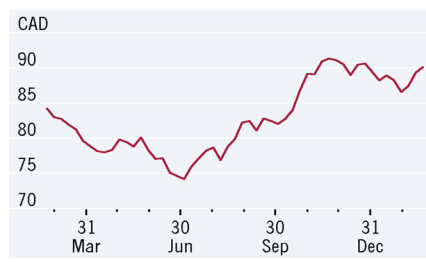
Source: Company Reports and Citi Research Estimates

Company Focus

- Rating Change
- Target Price Change
- Estimate Change

Buy	1
<i>from Neutral</i>	
Price (21 Feb 14)	C\$90.69
Target price	C\$102.00
<i>from C\$84.00</i>	
Expected share price return	12.5%
Expected dividend yield	4.4%
Expected total return	16.8%
Market Cap	C\$36,128M
	US\$32,555M

Price Performance
(RIC: CM.TO, BB: CM CN)



CIBC (CM.TO)

A Capital Return Story – Upgrading to Buy, TP to \$102

- **Moving Away from Aeroplan** — CIBC recently commented that its Aventura Travel Rewards program has had significant initial take-up. CIBC also retained the Aerogold Visa credit card accounts held by clients with broader banking relationships with CIBC under the terms of a tri-party agreement with Aimia and TD. All-in, we expect investment in the program to pay off relatively quickly. We increase our 2014 EPS estimates by +1% largely on the back of this view.
- **Lots of Capital Return** — We believe CIBC will be one of the banks with highest amount of capital return among the Big 5. We expect an average of 5.6% of market cap returned to shareholders per year, of which 4.5% would be dividends and 1.4% of buybacks. Our view is driven by three factors: 1) CIBC has one of the best capital generation capability among the BIG 5 (c 240 bps); 2) it has made progress on increasing risk weights on its mortgage book; and 3) management, we think, will be careful on the acquisition front in terms of overpaying for sub-par earnings growth in the wealth/asset management space.
- **Upgrading to Buy, TP Goes to \$102** — Our 2014 and 2015 reported EPS estimates increase by +1% and +3%, respectively. We also introduce our 2016 EPS estimate at \$9.59 (+6% vs consensus). As a result of our higher estimates and ROE assumption, we increase our target price to \$102 (from \$84) and upgrade the shares to Buy on more attractive valuation.
- **1Q14 Preview** — Our expectations for 1Q14 are laid out below. Our 1Q14 EPS estimate is -1% below consensus while our PBT estimate is +2% vs consensus.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2013A	1.88A	2.08A	2.13A	2.02A	8.11A	8.78A
2014E	2.31E	1.99E	2.09E	2.13E	8.52E	8.54E
Previous	na	na	na	na	8.39E	na
2015E	na	na	na	na	8.89E	9.07E
Previous	na	na	na	na	8.67E	na
2016E	na	na	na	na	9.59E	9.83E
Previous	na	na	na	na	na	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

CIBC

Figure 17. CIBC – Quarterly Results Preview (CAD millions)

	1Q13	2Q13	3Q13	4Q13	1Q14E	Chg yoy	Chg qoq	Cons	vs Cons
INCOME STATEMENT									
Net interest income	1,855	1,822	1,883	1,893	1,894	2%	0%		
Non-interest income	1,310	1,302	1,366	1,287	1,657	27%	29%		
Revenues	3,165	3,124	3,249	3,180	3,552	12%	12%	3,287	8%
Non-interest expense	-1,988	-1,825	-1,878	-1,930	-2,088	5%	8%	-1,897	10%
GOP	1,177	1,299	1,371	1,250	1,464	24%	17%	1,390	5%
Provisions	-265	-265	-320	-271	-289	9%	7%	-238	22%
PBT	912	1,034	1,051	979	1,175	29%	20%	1,153	2%
Income taxes	-127	-172	-173	-154	-227	79%	48%		
Net income	785	862	878	825	947	21%	15%		
Adjusted net income	882	862	931	894	972	10%	9%		
Reported EPS - diluted	1.88	2.08	2.13	2.02	2.31	23%	14%	2.33	-1%
Adjusted EPS - diluted	2.12	2.08	2.26	2.19	2.37	12%	8%		
DPS - declared	0.94	0.96	0.96	0.96	0.96	2%	0%	0.97	-1%
Payout ratio	50.1%	46.1%	45.1%	47.6%	41.6%	-8.5%	-6.0%		
BVPS	36.4	37.0	38.9	40.3	40.4	11%	0%		
TBVPS	30.5	31.1	32.8	34.1	34.2	12%	0%		
BALANCE SHEET									
Loans (gross)	243,216	244,516	245,162	248,358	249,608	3%	1%		
Assets	392,508	397,219	397,153	398,006	400,082	2%	1%		
Deposits	255,051	257,647	263,943	265,362	265,918	4%	0%		
RWA	126,366	125,938	133,994	136,747	134,160	6%	-2%		
CET1 Ratio - Basel 3	9.6%	9.7%	9.3%	9.3%	9.0%	-0.6%	-0.3%		
RATIOS									
ROA	0.75%	0.83%	0.85%	0.80%	0.91%	0.2%	0.1%		
ROE	20.6%	22.4%	22.5%	20.3%	22.9%	2.2%	2.5%		
LDR	95.4%	94.9%	92.9%	93.6%	93.9%	-1.5%	0.3%		
Assets / Equity	26.8	26.8	25.5	24.7	24.8	-2.0	0.1		
RWA / Assets	32.2%	31.7%	33.7%	34.4%	33.5%	1.3%	-0.8%		
NIM on AIEA	2.12%	2.13%	2.12%	2.10%	2.09%	0.0%	0.0%		
Canadian NIM on AIEA	2.57%	2.61%	2.60%	2.63%	2.71%	0.1%	0.1%		
Efficiency ratio	62.8%	58.4%	57.8%	60.7%	58.8%	-4.0%	-1.9%		
Tax rate	13.9%	16.6%	16.5%	15.7%	19.4%	5.4%	3.6%		
ASSET QUALITY									
GIL % loans	0.72%	0.69%	0.66%	0.62%	0.59%	-0.1%	0.0%		
PCL % avg loans	0.43%	0.43%	0.52%	0.44%	0.46%	0.0%	0.0%		
Coverage ratio	107.5%	107.4%	112.3%	113.6%	112.7%	5.1%	-1.0%		
Segment Results - Reported Net Income									
Retail and Business Banking	580	572	612	613	761	31%	24%		
Wealth Management	89	91	102	103	101	14%	-1%		
Wholesale Banking	86	192	212	209	208	142%	-1%		
Corporate and Others	28	5	-49	-93	-123	-538%	32%		

Source: Company Reports and Citi Research Estimates; Consensus: Bloomberg

Figure 18. CIBC – New vs Old Estimates

CAD m	OLD 2014E	NEW 2014E	% chg	OLD 2015E	NEW 2015E	% chg	OLD 2016E	NEW 2016E	% chg
INCOME STATEMENT									
Net interest income	7,522	7,637	2%	7,910	8,080	2%		8,568	na
Non-interest income	5,687	5,672	0%	6,042	5,628	-7%		6,056	na
Revenues	13,208	13,310	1%	13,952	13,709	-2%		14,624	na
Non-interest expense	-7,859	-7,947	1%	-8,259	-8,165	-1%		-8,636	na
GOP	5,349	5,362	0%	5,693	5,544	-3%		5,988	na
Provisions	-1,207	-1,065	-12%	-1,454	-1,093	-25%		-1,239	na
PBT	4,142	4,297	4%	4,240	4,451	5%		4,750	na
Income taxes	-669	-800	20%	-674	-829	23%		-893	na
Net income	3,473	3,497	1%	3,565	3,622	2%		3,857	na
Net income to common	3,345	3,397	2%	3,432	3,517	2%		3,747	na
Adjusted net income	3,473	3,597	4%	3,565	3,727	5%		3,967	na
Adjusted net income to common	3,345	3,497	5%	3,432	3,622	6%		3,857	na
Reported EPS - diluted	8.39	8.52	1%	8.67	8.89	3%		9.59	na
Adjusted EPS - diluted	8.39	8.77	4%	8.67	9.16	6%		9.88	na
DPS - declared	3.99	3.96	-1%	4.16	4.01	-4%		4.32	na

Source: Citi Research Estimates

Figure 19. Citi vs Consensus Estimates

CAD m	Cons 2014E	CITI 2014E	Citi vs Cons	Cons 2015E	CITI 2015E	Citi vs Cons	Cons 2016E	CITI 2016E	Citi vs Cons
Revenue	13,114	13,310	1%	13,551	13,709	1%		14,624	na
LLPs	-1,003	-1,065	6%	-1,099	-1,093	-1%		-1,239	na
PBT	4,402	4,297	-2%	4,596	4,451	-3%	4,819	4,750	-1%
Net profit	3,434	3,397	-1%	3,549	3,517	-1%	3,516	3,747	7%
EPS	8.62	8.52	-1%	9.02	8.89	-1%	9.02	9.59	6%
DPS	3.94	3.96	1%	4.12	4.01	-3%	4.31	4.32	0%
BVPS	44.7	43.1	-3%	50.0	47.2	-6%	53.2	51.5	-3%

Source: Citi Research Estimates, Bloomberg

Figure 20. CIBC Valuation

VALUATION (CAD)					
Current Price	90.1				
Target Price	102.0				
Upside	13.2%				
Dividend yield	4.4%				
ETR	17.6%				
Common assumptions					
Cost of Equity	11.0%				
Growth	3.5%				
Yrs elapsed to next year-end	-0.08				
Fair Value Outcomes					
Static ROE	98.5				
DDM	105.5				
Average	102.0				
Static ROTE	100.5				
Sum of the parts	97.4				
STATIC ROE					
	2012	2013	2014E	2015E	2016E
ROE (adj)	24.3%	23.5%	21.8%	20.9%	20.6%
ROTE (adj)	29.8%	28.1%	25.7%	24.3%	23.7%
BVPS	35.8	40.3	43.1	47.2	51.5
TBVPS	30.0	34.1	36.8	40.8	44.9
EPS	7.85	8.11	8.52	8.89	9.59
Normalised ROE	21.0%				
Warranted P/BV	2.3				
2016E BVPS	51.5				
Fair value per share (12m fwd)	98.5				
DIVIDEND DISCOUNT MODEL					
	2013	2014E	2015E	2016E	
DPS	3.82	3.96	4.01	4.32	
PV of DPS			3.58	3.48	
Normalised ROE	21.0%				
Warranted P/BV	2.3				
2016E BVPS	51.5				
Fair value per share (12m fwd)	98.5				
Sum of DPS 2015E-16E	7.1				
Total value per share (12m fwd)	105.5				

Source: Citi Research Estimates

Figure 21. CIBC – Group P&L by Year (2011-2016E)

(in CAD m unless specified)	IFRS 2011	IFRS 2012	IFRS 2013	IFRS 2014E	IFRS 2015E	IFRS 2016E	%Chg 2011	%Chg 2012	%Chg 2013	%Chg 2014E	%Chg 2015E	%Chg 2016E
GROUP INCOME STATEMENT												
Net interest income	7,062	7,326	7,453	7,637	8,080	8,568	14%	4%	2%	2%	6%	6%
Non-interest income	5,373	5,159	5,265	5,672	5,628	6,056	-9%	-4%	2%	8%	-1%	8%
Total revenue	12,435	12,549	12,718	13,310	13,709	14,624	3%	1%	1%	5%	3%	7%
Non-interest expenses	-7,486	-7,202	-7,621	-7,947	-8,165	-8,636	7%	-4%	6%	4%	3%	6%
GOP	4,949	5,347	5,097	5,362	5,544	5,988	-2%	8%	-5%	5%	3%	8%
Profit before tax	3,805	4,056	3,976	4,297	4,451	4,750	-5%	7%	-2%	8%	4%	7%
Income taxes	-927	-689	-626	-800	-829	-893	-40%	-26%	-9%	28%	4%	8%
Net income	2,878	3,339	3,350	3,497	3,622	3,857	16%	16%	0%	4%	4%	6%
Minorities	-11	-9	2	0	0	0	-59%	-18%	-122%	0%	0%	0%
Preferred shareholders	-177	-158	-99	-100	-105	-110	5%	-11%	-37%	1%	5%	5%
Net income to common	2,690	3,172	3,253	3,397	3,517	3,747	18%	18%	3%	4%	4%	7%
PER SHARE												
Diluted EPS	6.71	7.85	8.11	8.52	8.89	9.59	14%	17%	3%	5%	4%	8%
DPS - declared	3.51	3.64	3.82	3.96	4.01	4.32	1%	4%	5%	4%	1%	8%
Payout ratio	51.7%	46.3%	47.1%	46.4%	45.0%	45.0%						
Common equity	13,171	14,491	16,113	17,154	18,572	19,985	4.3%	10.0%	11.2%	6.5%	8.3%	7.6%
Tangible common equity	10,861	12,134	13,624	14,634	16,029	17,417	7.4%	11.7%	12.3%	7.4%	9.5%	8.7%
BVPS	32.0	35.8	40.3	43.1	47.2	51.5	0%	12%	13%	7%	10%	9%
TBVPs	26.4	30.0	34.1	36.8	40.8	44.9	3%	13%	14%	8%	11%	10%
Shares outstanding ('000s)	401	404	399	397	393	387						
Diluted (avg)	407	404	401	399	396	391	5%	-1%	-1%	-1%	-1%	-1%
Basic (end)	401	404	399	397	393	387	2%	1%	-1%	-1%	-1%	-1%
OPERATING RATIOS												
ROA	0.68%	0.80%	0.81%	0.83%	0.84%	0.87%						
RoAvRWA	2.48%	2.82%	2.54%	2.47%	2.41%	2.43%						
LDR	101.2%	98.5%	93.6%	94.7%	95.5%	96.3%						
Leverage (TA/TE)	29.1	27.1	24.7	23.7	22.4	21.4						
RWA/Assets	28.7%	29.3%	34.4%	35.0%	36.0%	37.0%						
NIM on average earning assets	2.03%	2.15%	2.12%	2.11%	2.18%	2.26%						
Non-interest income % average loans	2.56%	2.13%	2.15%	2.26%	2.20%	2.32%						
PBT % revenues	30.6%	32.3%	31.3%	32.3%	32.5%	32.5%						
Efficiency ratio	60.2%	57.4%	59.9%	59.7%	59.6%	59.1%						
Tax rate	24.4%	17.0%	15.7%	18.6%	18.6%	18.8%						
GROUP BALANCE SHEET												
Total Assets	383,758	393,119	398,006	406,739	416,850	427,115	9%	2%	1%	2%	2%	2%
Total shareholders' equity	16,091	16,367	17,994	19,035	20,453	21,866	1%	2%	10%	6%	7%	7%
Total RWA	109,968	115,229	136,747	142,359	150,066	158,033	3%	5%	19%	4%	5%	5%
RWA / Assets	28.7%	29.3%	34.4%	35.0%	36.0%	37.0%						
CET1 Ratio - Basel 3	8.1%	9.0%	9.3%	9.1%	9.6%	10.0%						

Source: Company Reports and Citi Research Estimates

Figure 22. CIBC – Divisional P&L by Year (2011-2016E)

(in CAD m unless specified)	IFRS 2011	IFRS 2012	IFRS 2013	IFRS 2014E	IFRS 2015E	IFRS 2016E	%Chg 2011	%Chg 2012	%Chg 2013	%Chg 2014E	%Chg 2015E	%Chg 2016E
RETAIL & BUSINESS BANKING												
Net interest income	5,625	5,518	5,656	5,820	6,046	6,304	3%	-1.9%	2.5%	2.9%	3.9%	4.3%
Non-interest income	2,137	2,098	2,155	2,263	1,999	2,131	17%	-1.8%	2.7%	5.0%	-11.7%	6.6%
Intersegment revenue	283	294	338	355	373	391	5%	3.9%	15.0%	5.0%	5.0%	5.0%
Revenue	8,045	7,910	8,149	8,438	8,418	8,826	6%	-1.7%	3.0%	3.6%	-0.2%	4.9%
Non-interest expenses	-4,034	-3,950	-4,051	-4,212	-4,167	-4,325	5%	-2.1%	2.6%	4.0%	-1.1%	3.8%
Provisions	-1,096	-1,080	-930	-790	-806	-939	-8%	-1.5%	-13.9%	-15.1%	2.0%	16.6%
PBT	2,915	2,880	3,168	3,436	3,445	3,562	15%	-1.2%	10.0%	8.5%	0.3%	3.4%
Income taxes	-731	-724	-791	-825	-827	-855	4%	-1.0%	9.3%	4.3%	0.3%	3.4%
Net income	2,184	2,156	2,377	2,611	2,618	2,707	19%	-1.3%	10.3%	9.9%	0.3%	3.4%
NIM on avg earning assets	2.65%	2.52%	2.59%	2.70%	2.75%	2.81%						
PBT % revenues	36.2%	36.4%	38.9%	40.7%	40.9%	40.4%						
Efficiency ratio	50.1%	49.9%	49.7%	49.9%	49.5%	49.0%						
PCL % average loans	0.50%	0.47%	0.41%	0.35%	0.35%	0.40%						
WEALTH MANAGEMENT												
Net interest income	179	187	186	198	210	223	11.9%	4.5%	-0.5%	6.4%	6.2%	6.0%
Non-interest income	1,740	1,783	1,960	2,202	2,288	2,440	9.6%	2.5%	9.9%	12.3%	3.9%	6.7%
Intersegment revenue	-283	-296	-343	-352	-370	-388	5.2%	4.6%	15.9%	2.6%	5.0%	5.0%
Revenue	1,636	1,674	1,803	2,048	2,128	2,275	10.6%	2.3%	7.7%	13.6%	3.9%	6.9%
Non-interest expenses	-1,241	-1,238	-1,301	-1,466	-1,511	-1,592	6.7%	-0.2%	5.1%	12.7%	3.1%	5.4%
Provisions	-4	0	-1	0	0	0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
PBT	391	436	501	582	617	682	24.1%	11.5%	14.9%	16.1%	6.1%	10.6%
Income taxes	-112	-101	-116	-134	-142	-157	24.4%	-9.8%	14.9%	15.3%	6.1%	10.6%
Net income	279	335	385	448	475	525	24.0%	20.1%	14.9%	16.3%	6.1%	10.6%
ROA	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%						
PBT % Revenue	23.9%	26.0%	27.8%	28.4%	29.0%	30.0%						
Efficiency ratio	75.9%	74.0%	72.2%	71.6%	71.0%	70.0%						
WHOLESALE BANKING												
Net interest income	898	1,113	1,403	1,599	1,803	2,019	38%	24%	26%	14%	13%	12%
Non-interest income	1,160	912	832	967	1,090	1,221	9%	-21%	-9%	16%	13%	12%
Intersegment revenue	0	2	5	-3	-3	-3	0%	0%	0%	0%	0%	0%
Revenue	2,058	2,027	2,240	2,563	2,890	3,237	20%	-2%	11%	14%	13%	12%
Non-interest expenses	-1,218	-1,109	-1,317	-1,358	-1,532	-1,715	6%	-9%	19%	3%	13%	12%
Provisions	-47	-142	-44	-95	-98	-101	-47%	202%	-69%	116%	3%	3%
PBT	793	776	879	1,110	1,260	1,420	66%	-2%	13%	26%	14%	13%
Income taxes	-250	-187	-180	-222	-252	-284	100%	-25%	-4%	23%	14%	13%
Net income	543	589	699	888	1,008	1,136	53%	8%	19%	27%	14%	13%
PBT % Revenues	38.5%	38.3%	39.2%	43.3%	43.6%	43.9%						
Efficiency ratio	59.2%	54.7%	58.8%	53.0%	53.0%	53.0%						
CORPORATE & OTHER												
Net interest income	360	508	208	20	21	22	-539%	41%	-59%	-90%	5%	5%
Non-interest income	336	366	318	240	252	265	-76%	9%	-13%	-25%	5%	5%
Revenues	696	874	526	260	273	287	-47%	26%	-40%	-51%	5%	5%
Non-interest expenses	-993	-905	-952	-910	-956	-1,003	13%	-9%	5%	-4%	5%	5%
Provisions	3	-69	-146	-180	-189	-198	-99%	-2400%	112%	23%	5%	5%
PBT	-294	-100	-572	-830	-872	-915	-144%	-66%	472%	45%	5%	5%
Income taxes	166	323	461	380	391	403	-127%	95%	43%	-18%	3%	3%
Net income (loss)	-128	223	-111	-450	-480	-512	-325%	-274%	-150%	305%	7%	7%

Source: Company Reports and Citi Research Estimates

Company Focus

- Target Price Change
- Estimate Change

Neutral	2
Price (21 Feb 14)	C\$72.68
Target price	C\$77.00
from C\$68.00	
Expected share price return	5.9%
Expected dividend yield	3.9%
Expected total return	9.8%
Market Cap	C\$104,785M
	US\$94,422M

Price Performance
(RIC: RY.TO, BB: RY CN)



Royal Bank of Canada (RY.TO)

A Good Trader but All in the Price – TP to \$77, Reiterating Neutral

- **Diversified Capital Markets Franchise** — RY was the only bank among the Big 5 to be able to offset rates trading weakness with equity trading strength in 2013. M&A and advisory were also solid and should remain so as the bank continues to climb up the league tables in the US.
- **But All in the Price** — Trading on 2.3x '14E BVPS for a sustainable ROE of 20%, we see some upside to the shares but not enough to warrant a Buy rating. Earnings growth of 5% in 2014 should be below the low end of management's 7-10% range; we also struggle to see further upside from Canadian banking or Wealth Management/Insurance.
- **Targets** — RY communicated its 2014 targets with 4Q13 results: diluted EPS growth of 7-10%, ROE of 18%+, strong capital and 40-50% payout ratio. We expect earnings growth to be 5%, ROE 19.2% and payout to be 48.2%.
- **Capital Return** — Capital generation should remain strong, with buybacks now forecast through 2016. RY generates 260 bps of capital organically, of which we estimate 75% will be returned to shareholders via dividends and buybacks (30m share authorization in place). The remainder will be mostly used to support new business and a small amount to move to 10% CET1 ratio by the end of 2016.
- **Reiterating Neutral, Target Price Goes to \$77** — Our 2014 and 2015 reported EPS estimates increase by +3% and +7%, respectively. We also introduce our 2016 EPS estimate at \$6.81 (+1% vs consensus). As a result of our higher estimates and ROE assumption, we increase our target price to \$77 (from \$68) and reiterate our Neutral rating on the shares.
- **1Q14 Preview** — Our expectations for 1Q14 are laid out below. Our 1Q14 EPS estimate is -6% below consensus likely driven by lower revenue and higher provisions assumptions. We also expect a \$60m loss on the disposal of the Jamaican operations, as guided by the company.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2013A	1.34A	1.25A	1.51A	1.39A	5.49A	5.43A
2014E	1.36E	1.44E	1.49E	1.52E	5.79E	5.87E
Previous	na	na	na	na	5.62E	na
2015E	na	na	na	na	6.37E	6.35E
Previous	na	na	na	na	5.96E	na
2016E	na	na	na	na	6.81E	6.93E
Previous	na	na	na	na	na	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Royal Bank of Canada

Figure 23. Royal Bank of Canada – Quarterly Results Preview (CAD millions)

	1Q13	2Q13	3Q13	4Q13	1Q14E	Chg yoy	Chg qoq	Cons	vs Cons
INCOME STATEMENT									
Net interest income	3,284	3,222	3,392	3,351	3,378	3%	1%		
Non-interest income	4,574	4,495	3,776	4,568	4,604	1%	1%		
Total revenue	7,858	7,717	7,168	7,919	7,982	2%	1%	8,148	-2%
Insurance benefits/expense	-705	-938	-263	-878	-779	10%	-11%		
Non-interest expense	-4,043	-4,009	-3,991	-4,151	-4,207	4%	1%	-4,293	-2%
GOP	3,110	2,770	2,914	2,890	2,996	-4%	4%		
Provisions	-349	-287	-267	-334	-341	-2%	2%	-309	10%
PBT	2,761	2,483	2,647	2,556	2,655	-4%	4%		
Income taxes	-714	-574	-362	-455	-595	-17%	31%		
Net income	2,047	1,909	2,285	2,101	2,059	1%	-2%		
Adjusted net income	2,074	1,969	2,226	2,125	2,072	0%	-2%		
Reported EPS - diluted	1.34	1.25	1.51	1.39	1.36	1%	-2%	1.44	-6%
Adjusted EPS - diluted	1.36	1.29	1.47	1.40	1.37	1%	-3%		
Adjusted EPS - diluted - co defn	1.36	1.29	1.47	1.40	1.37	1%	-3%		
DPS - declared	0.63	0.63	0.67	0.67	0.69	10%	3%	0.67	3%
Payout ratio	47.0%	50.4%	44.4%	48.3%	50.8%	3.8%	2.5%		
BVPS	26.8	27.3	28.6	29.4	29.6	10%	1%	30.9	-4%
TBVPS	19.9	20.0	21.1	21.8	21.9	10%	0%		
BALANCE SHEET									
Loans (gross)	382,935	398,568	404,326	410,809	415,559	9%	1%		
Assets	836,936	866,440	850,073	859,745	868,156	4%	1%		
Deposits	515,536	532,125	547,078	559,350	564,350	9%	1%		
RWA	303,128	311,437	314,804	318,981	321,700	6%	1%		
CET1 Ratio (Basel 3)	9.3%	9.1%	9.2%	9.6%	9.2%	-0.1%	-0.4%		
RATIOS									
ROA	0.94%	0.85%	1.02%	0.96%	0.91%	0.0%	0.0%		
ROE	20.3%	18.4%	21.6%	19.1%	18.4%	-1.9%	-0.7%		
LDR	74.3%	74.9%	73.9%	73.4%	73.6%	-0.6%	0.2%		
Assets / Equity	21.2	21.6	20.3	20.0	20.1	-1.1	0.2		
RWA / Assets	36.2%	35.9%	37.0%	37.1%	37.1%	0.8%	0.0%		
Group NIM on AIEA -- Citi calc	1.93%	1.82%	1.89%	1.88%	1.85%	-0.1%	0.0%		
Canadian NIM on AIEA	2.70%	2.70%	2.70%	2.70%	2.68%	0.0%	0.0%		
Efficiency ratio	56.5%	59.1%	57.8%	59.0%	58.4%	1.9%	-0.5%		
Tax rate	25.9%	23.1%	13.7%	17.8%	22.4%	-3.4%	4.6%		
ASSET QUALITY									
GIL % loans	0.56%	0.55%	0.51%	0.54%	0.54%	0.0%	0.0%		
PCL % avg loans	0.37%	0.29%	0.27%	0.33%	0.33%	0.0%	0.0%		
Coverage ratio	95.7%	94.1%	97.1%	93.1%	90.0%	-5.7%	-3.1%		
Segment Results - Reported Net Profit									
P&C Banking	1,104	1,039	1,167	1,070	1,140	3%	7%		
Wealth Management	229	222	233	202	245	7%	21%		
Insurance	164	164	160	107	167	2%	56%		
Investor & Tsy Svcs	79	65	104	91	97	23%	7%		
Capital Markets	462	383	386	469	468	1%	0%		
Corporate Support	9	36	235	162	-58	-739%	-135%		

Source: Company Reports and Citi Research Estimates; Consensus: Bloomberg

Figure 24. Royal Bank of Canada – New vs Old Estimates

CAD m	OLD 2014E	NEW 2014E	% chg	OLD 2015E	NEW 2015E	% chg	OLD 2016E	NEW 2016E	% chg
INCOME STATEMENT									
Net interest income	13,781	13,869	1%	14,529	14,942	3%		16,118	na
Non-interest income	19,412	19,025	-2%	20,423	20,143	-1%		21,146	na
Total revenue	33,192	32,894	-1%	34,952	35,085	0%		37,264	na
Insurance payouts and costs	-3,280	-3,154	-4%	-3,411	-3,280	-4%		-3,412	na
Non-interest expense	-17,048	-17,149	1%	-17,837	-17,873	0%		-18,874	na
GOP	12,864	12,591	-2%	13,704	13,932	2%		14,978	na
Provisions	-1,738	-1,459	-16%	-2,036	-1,813	-11%		-2,172	na
PBT	11,126	11,132	0%	11,667	12,120	4%		12,806	na
Income taxes	-2,655	-2,386	-10%	-2,786	-2,607	-6%		-2,788	na
Net income	8,113	8,746	8%	8,523	9,513	12%		10,018	na
Net income to common	8,113	8,388	3%	8,523	9,155	7%		9,660	na
Adjusted net income	8,590	8,798	2%	9,004	9,565	6%		10,070	na
Adjusted net income to common	8,232	8,440	3%	8,646	9,207	6%		9,712	na
Reported EPS - diluted	5.62	5.79	3%	5.96	6.37	7%		6.81	na
Adjusted EPS - diluted	5.70	5.82	2%	6.05	6.41	6%		6.85	na
Adjusted EPS - diluted - co defn	5.70	5.82	2%	6.05	6.41	6%		6.85	na
DPS - declared	2.67	2.82	6%	2.86	3.03	6%		3.24	na

Source: Citi Research Estimates

Figure 25. Royal Bank of Canada – Citi vs Consensus Estimates

CAD m	Cons 2014E	CITI 2014E	Citi vs Cons	Cons 2015E	CITI 2015E	Citi vs Cons	Cons 2016E	CITI 2016E	Citi vs Cons
Revenue	32,485	32,894	1%	34,597	35,085	1%		37,264	na
LLP	-1,316	-1,459	11%	-1,455	-1,813	25%		-2,172	na
PBT	11,525	11,132	-3%	12,472	12,120	-3%	12,887	12,806	-1%
Net Profit	8,553	8,388	-2%	9,226	9,155	-1%	9,674	9,660	0%
EPS	5.78	5.79	0%	6.31	6.37	1%	6.74	6.81	1%
DPS	2.73	2.82	3%	2.94	3.03	3%	3.23	3.24	0%
BVPS	33.1	31.0	-6%	36.0	32.9	-9%	38.7	35.0	-10%

Source: Citi Research Estimates, Bloomberg

Figure 26. Royal Bank of Canada – Valuation

VALUATION (CAD)					
Current Price	72.8				
Target Price	77.0				
Upside	5.8%				
Dividend yield	3.9%				
ETR	9.7%				
Common assumptions					
Cost of Equity	10.0%				
Growth	3.5%				
Yrs elapsed to next year-end	-0.08				
Fair value outcomes					
Static ROE	74.0				
DDM	79.4				
Average	76.7				
>> cross-check: Sum of the parts	72.5				
>> cross-check: Static ROTE	78.8				
STATIC ROE					
	2012	2013	2014E	2015E	2016E
ROE (adj)	20.0%	19.9%	19.4%	20.1%	20.2%
ROTE (adj)	27.4%	26.9%	26.1%	26.9%	27.0%
BVPS	26.1	29.4	31.0	32.9	35.0
TBVPS	19.2	21.8	23.1	24.5	26.2
EPS	4.94	5.49	5.79	6.37	6.81
Normalised ROE	20.0%				
Warranted P/BV	2.5				
2016E BVPS	35.0				
Fair value per share (12m fwd)	74.0				
DIVIDEND DISCOUNT MODEL				1.08	2.08
	2013	2014E	2015E	2016E	
DPS	2.60	2.82	3.03	3.24	
PV of DPS			2.73	2.65	
Normalised ROE	20.0%				
Warranted P/BV	2.5				
2016E BVPS	35.0				
Fair value per share (12m fwd)	74.0				
DPS 2015-16E	5.4				
Total value per share (12m fwd)	79.4				

Source: Citi Research Estimates

Figure 27. Royal Bank of Canada – Group P&L by Year (2011-2016E)

(C\$ millions)	IFRS 2011	IFRS 2012	IFRS 2013	IFRS 2014E	IFRS 2015E	IFRS 2016E	% chg 2011	% chg 2012	% chg 2013	% chg 2014E	% chg 2015E	% chg 2016E
Group Income Statement												
Net interest income	11,357	12,439	13,249	13,869	14,942	16,118	10%	10%	7%	5%	8%	8%
Non-interest income	16,281	16,540	17,413	19,025	20,143	21,146	3%	2%	5%	9%	6%	5%
Trading revenue	655	1,305	867	936	1,011	1,092	-51%	99%	-34%	8%	8%	8%
Insur prems, invtmt and fee income	4,474	4,897	3,911	4,414	4,651	4,837	0%	9%	-20%	13%	5%	4%
Fees & Other	11,152	10,338	12,635	13,675	14,481	15,216	12%	-7%	22%	8%	6%	5%
Total revenue	27,638	28,979	30,662	32,894	35,085	37,264	6%	5%	6%	7%	7%	6%
Insur policyhldr benefits, claims & acqn exp.	-3,358	-3,621	-2,784	-3,154	-3,280	-3,412	-5%	8%	-23%	13%	4%	4%
Non-interest expense	-14,167	-14,473	-16,194	-17,149	-17,873	-18,874	5%	2%	12%	6%	4%	6%
GOP	10,113	10,885	11,684	12,591	13,932	14,978	12%	8%	7%	8%	11%	8%
Provisions	-1,133	-1,299	-1,237	-1,459	-1,813	-2,172	-9%	15%	-5%	18%	24%	20%
PBT	8,980	9,586	10,447	11,132	12,120	12,806	15%	7%	9%	7%	9%	6%
Income taxes	-2,010	-2,028	-2,105	-2,386	-2,607	-2,788	1%	1%	4%	13%	9%	7%
Net income	6,970	7,558	8,342	8,746	9,513	10,018	-100%	0%	0%	0%	0%	0%
Net income to common	6,611	7,203	7,991	8,388	9,155	9,660	31%	8%	10%	5%	9%	5%
PER SHARE												
Reported EPS - diluted	4.55	4.94	5.49	5.79	6.37	6.81	31%	9%	11%	5%	10%	7%
BVPS	23.6	26.1	29.4	31.0	32.9	35.0	-1%	10%	13%	5%	6%	6%
TBVPS	17.0	19.2	21.8	23.1	24.5	26.2	-5%	13%	14%	6%	6%	7%
ROE	20.5%	19.9%	19.8%	19.2%	20.0%	20.1%	-	-	-	-	-	-
ROTE	26.3%	27.2%	26.7%	26.0%	26.8%	26.9%	-	-	-	-	-	-
DPS - declared	2.08	2.28	2.60	2.82	3.03	3.24	4%	10%	14%	8%	7%	7%
Payout ratio	45%	46%	46%	48%	48%	48%	-	-	-	-	-	-
Common equity	34,889	38,346	43,064	45,120	47,233	49,660	2%	10%	12%	5%	5%	5%
Tangible common equity	25,164	28,216	31,955	33,560	35,204	37,142	-2%	12%	13%	5%	5%	6%
Shares - Basic (end)	1,438	1,445	1,441	1,423	1,395	1,369	1%	0%	0%	-1%	-2%	-2%
Shares - Diluted (avg)	1,471	1,468	1,467	1,459	1,445	1,427	3%	0%	0%	0%	-1%	-1%
OPERATING RATIOS												
ROA	0.86%	0.90%	0.94%	0.95%	1.00%	1.01%						
ROE	20.5%	19.9%	19.8%	19.2%	20.0%	20.1%						
LDR	73%	75%	73%	74%	75%	75%						
RWA / Assets	33.7%	34.7%	37.1%	37.1%	37.1%	37.1%						
Leverage (TA/TE)	22.8	21.5	20.0	19.8	19.7	19.6						
NIM on average assets	1.46%	1.55%	1.56%	1.57%	1.62%	1.68%						
Non-interest income % average assets	2.09%	2.06%	2.04%	2.15%	2.19%	2.20%						
PBT % revenues	32.5%	33.1%	34.1%	33.8%	34.5%	34.4%						
Efficiency ratio	58.3%	57.1%	58.1%	57.7%	56.2%	55.8%						
Tax rate	22.4%	21.2%	20.1%	21.4%	21.5%	21.8%						
BALANCE SHEET ITEMS												
Loans (gross)	349,497	380,237	410,809	429,809	449,885	470,967	27%	9%	8%	5%	5%	5%
Total Assets	793,833	823,954	859,745	893,809	932,066	971,841	9%	4%	4%	4%	4%	4%
Total shareholders' equity	41,463	44,921	49,460	51,616	53,829	56,356	6%	8%	10%	4%	4%	5%
Tier 1 common	28,291	29,379	30,541	31,633	33,746	36,173	11%	4%	4%	4%	7%	7%
Total RWA	267,780	285,508	318,981	331,603	345,796	360,553	3%	7%	12%	4%	4%	4%
CET1 Ratio - Basel 3		10.5%	9.6%	9.6%	9.8%	10.0%						
Tier 1 ratio	13.3%	12.9%	11.7%	11.5%	11.7%	11.9%						

Source: Company Reports and Citi Research Estimates

Figure 28. Royal Bank of Canada – Divisional P&L by Year (2011-2016E)

C\$ millions	IFRS 2011	IFRS 2012	IFRS 2013	IFRS 2014E	IFRS 2015E	IFRS 2016E	% chg 2011	% chg 2012	% chg 2013	% chg 2014E	% chg 2015E	% chg 2016E
PERSONAL & COMMERCIAL BANKING												
Net interest income	8,515	9,059	9,434	9,909	10,705	11,561	5%	6%	4%	5%	8%	8%
Non-interest income	3,510	3,379	3,585	4,002	4,242	4,496	6%	-4%	6%	12%	6%	6%
Total revenue	12,025	12,438	13,019	13,910	14,947	16,057	5%	3%	5%	7%	7%	7%
Non-interest expense	-5,682	-5,822	-6,168	-6,468	-6,801	-7,226	1%	2%	6%	5%	5%	6%
Provision for credit losses (PCL)	-1,142	-1,165	-995	-1,244	-1,538	-1,834	-14%	2%	-15%	25%	24%	19%
PBT	5,201	5,451	5,856	6,197	6,608	6,997	16%	5%	7%	6%	7%	6%
Net Income	3,740	4,056	4,380	4,586	4,890	5,178	21%	8%	8%	5%	7%	6%
Total assets	310,700	330,700	355,300	381,096	403,962	428,200	5%	6%	7%	7%	0.06	0.06
ROA	1.20%	1.23%	1.23%	1.20%	1.21%	1.21%	-	-	-	-	-	-
NIM on average assets	2.74%	2.74%	2.66%	2.60%	2.65%	2.70%	-	-	-	-	-	-
PBT/Revenues	43.3%	43.8%	45.0%	44.6%	44.2%	43.6%	-	-	-	-	-	-
Efficiency ratio	47.3%	46.8%	47.4%	46.5%	45.5%	45.0%	-	-	-	-	-	-
PCL / Average loans	0.39%	0.37%	0.30%	0.34%	0.40%	0.45%	-	-	-	-	-	-
WEALTH MANAGEMENT												
Net interest income	365	393	396	436	494	541	20%	8%	1%	10%	13%	10%
Fee-based revenue	2,821	2,964	3,463	3,825	4,062	4,258	19%	5%	17%	10%	6%	5%
Transactional and other revenue	1,522	1,478	1,628	1,752	1,875	1,987	0%	-3%	10%	8%	7%	6%
Total revenue	4,708	4,835	5,487	6,013	6,430	6,786	12%	3%	13%	10%	7%	6%
Non-interest expense	-3,586	-3,809	-4,219	-4,672	-4,910	-5,204	9%	6%	11%	11%	5%	6%
Provision for credit losses (PCL)	0	1	-51	4	5	8	0%	0%	0%	0%	0%	0%
PBT	1,122	1,027	1,217	1,344	1,526	1,590	26%	-8%	19%	10%	14%	4%
Net income	811	753	886	981	1,114	1,161	21%	-7%	18%	11%	14%	4%
Efficiency ratio	76.2%	78.8%	76.9%	77.7%	76.3%	76.7%	-	-	-	-	-	-
PCL / average loans	0.00%	-0.01%	0.42%	0.02%	0.03%	0.04%	-	-	-	-	-	-
PBT/Revenues	23.8%	21.2%	22.2%	22.4%	23.7%	23.4%	-	-	-	-	-	-
INSURANCE												
Net earned premiums (EP)	3,533	3,705	3,674	3,711	3,859	4,014	7%	5%	-1%	1%	4%	4%
Investment income	703	929	-17	423	501	521	-24%	32%	-102%	-2590%	18%	4%
Fee income	239	263	271	280	291	302	-4%	10%	3%	3%	4%	4%
Total revenue	4,475	4,897	3,928	4,414	4,651	4,837	0%	9%	-20%	12%	5%	4%
Benefits & Expenses	-3,358	-3,621	-2,784	-3,154	-3,280	-3,412	-5%	8%	-23%	13%	4%	4%
Non-interest expense	-498	-518	-551	-557	-579	-602	6%	4%	6%	1%	4%	4%
PBT	619	758	593	703	792	824	0%	0%	0%	0%	0%	0%
Net income	600	713	595	696	784	815	22%	19%	-17%	17%	13%	4%
INVESTOR & TREASURY SERVICES												
Net interest income	573	612	671	711	739	769	15%	7%	10%	6%	4%	4%
Non-interest income	569	125	1,133	1,211	1,259	1,310	-9%	-78%	806%	7%	4%	4%
Total Revenue	1,142	737	1,804	1,922	1,999	2,079	2%	-35%	145%	7%	4%	4%
Non-interest expense	-821	-533	-1,348	-1,300	-1,339	-1,379	5%	-35%	153%	-4%	3%	3%
Provision for credit losses (PCL)	0	0	0	0	0	0	0%	0%	0%	0%	0%	0%
PBT	321	204	456	622	660	700	-1%	-36%	124%	36%	6%	6%
Net income (loss)	230	102	339	466	495	525	4%	-56%	232%	38%	6%	6%
Total assets	70,000	66,900	83,100	84,071	84,491	84,913	16%	-4%	24%	1%	0%	0%
NIM on avg assets	0.8%	0.2%	1.4%	1.4%	1.5%	1.5%	-	-	-	-	-	-
Efficiency Ratio	71.9%	72.3%	74.7%	67.6%	67.0%	66.3%	-	-	-	-	-	-
CAPITAL MARKETS												
Net interest income (teb)	2,197	2,559	2,872	2,974	3,163	3,406	-4%	16%	12%	4%	6%	8%
Non-interest income	3,127	3,629	3,708	3,862	4,055	4,258	0%	16%	2%	4%	5%	5%
Total revenue (teb)	5,324	6,188	6,580	6,836	7,218	7,664	-2%	16%	6%	4%	6%	6%
Non-interest expense	-3,487	-3,752	-3,856	-3,965	-4,114	-4,330	8%	8%	3%	3%	4%	5%
Provision for credit losses (PCL)	14	-135	-188	-218	-280	-346	-380%	-1064%	39%	16%	28%	24%
PBT	1,851	2,301	2,536	2,653	2,824	2,988	-15%	24%	10%	5%	6%	6%
Net income	1,292	1,576	1,700	1,804	1,921	2,032	-12%	22%	8%	6%	6%	6%
Total assets	322,000	349,200	368,300	386,206	405,517	425,792	16%	8%	5%	5%	5%	5%
ROA	0.40%	0.45%	0.46%	0.47%	0.47%	0.48%	-	-	-	-	-	-
NIM on average assets	0.68%	0.73%	0.78%	0.77%	0.78%	0.80%	-	-	-	-	-	-
Efficiency ratio	65.5%	60.6%	58.6%	58.0%	57.0%	56.5%	-	-	-	-	-	-
PCL / Average loans	-0.04%	0.29%	0.34%	0.35%	0.40%	0.45%	-	-	-	-	-	-

Source: Company Reports and Citi Research Estimates

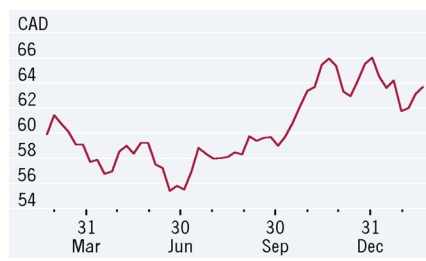
Company Focus

■ Estimate Change

Neutral	2
Price (21 Feb 14)	C\$63.82
Target price	C\$66.00
Expected share price return	3.4%
Expected dividend yield	4.0%
Expected total return	7.5%
Market Cap	C\$77,206M
	US\$69,571M

Price Performance

(RIC: BNS.TO, BB: BNS CN)



Scotiabank (BNS.TO)

EM Growth Requires Capital – Reiterating Neutral, TP Stays \$66

- **Least Capital Return** — On our estimates, Scotia is the bank that returns the least capital to shareholders through 2016. The return would be 4.5% of its market cap per year, on average, and consist mainly of dividends (4.2%) with a small amount of buybacks (0.3%). We also have a higher target Basel 3 CET1 ratio for Scotia at 10.5% compared to its peers (10%) due to the bank's EM exposure.
- **Reiterating Neutral, Target Price Stays at \$77** — Our 2014-2016 reported EPS estimates remain largely unchanged. Our target price stays at \$66 and we reiterate our Neutral rating on the shares.
- **1Q14 Preview** — Our expectations for 1Q14 are laid out below. Our 1Q14 EPS estimate is -5% below consensus and PBT is -3% below consensus. This is likely driven by higher cost, provision and tax assumptions.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2013A	1.24A	1.21A	1.36A	1.30A	5.12A	5.14A
2014E	1.25E	1.27E	1.32E	1.34E	5.18E	5.43E
Previous	1.25E	1.27E	1.32E	1.34E	5.19E	na
2015E	na	na	na	na	5.72E	5.90E
Previous	na	na	na	na	5.73E	na
2016E	na	na	na	na	6.24E	6.35E
Previous	na	na	na	na	6.25E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Scotiabank

Figure 29. Scotiabank – Quarterly Results Preview (CAD millions)

	1Q13	2Q13	3Q13	4Q13	1Q14E	Chg yoy	Chg qoq	Cons	vs Cons
INCOME STATEMENT									
Net Interest Income	2,771	2,782	2,935	2,877	2,978	7%	3%		
Non-interest income	2,474	2,513	2,659	2,600	2,605	5%	0%		
TEA	-74	-82	-79	-77	-80	8%	4%		
Revenues	5,171	5,213	5,515	5,400	5,503	6%	2%	5,501	0%
Non-interest expense	-2,828	-2,856	-3,003	-2,977	-3,002	6%	1%	-2,960	1%
GOP	2,343	2,357	2,512	2,423	2,501	7%	3%	2,541	-2%
Provisions	-310	-343	-314	-321	-374	21%	16%	-341	10%
PBT	2,033	2,014	2,198	2,102	2,127	5%	1%	2,200	-3%
Income taxes	-428	-432	-451	-426	-465	9%	9%		
Net Income	1,605	1,582	1,747	1,676	1,662	4%	-1%		
Adjusted net income	1,624	1,601	1,767	1,693	1,682	4%	-1%		
Reported EPS - diluted	1.24	1.21	1.36	1.30	1.25	1%	-4%	1.32	-5%
Adjusted EPS - diluted	1.26	1.23	1.38	1.31	1.27	1%	-3%		
DPS - declared	0.60	0.60	0.62	0.62	0.64	7%	3%	0.63	2%
Payout ratio	48.3%	49.4%	45.5%	47.7%	51.1%	2.8%	3.4%		
BVPS	29.7	30.4	31.7	32.7	33.0	11%	1%	34.4	-4%
TBVPs	21.1	21.8	23.0	24.0	24.2	14%	1%		
BALANCE SHEET									
Loans (gross)	391,802	397,969	400,527	405,488	411,570	5%	2%		
Assets	736,475	754,296	742,517	743,644	753,984	2%	1%		
Deposits	514,817	520,152	507,461	518,061	524,061	2%	1%		
RWA	280,061	280,747	282,309	288,246	294,054	5%	2%		
CET1 ratio - Basel 3	8.2%	8.6%	8.9%	9.1%	8.8%	0.6%	-0.3%		
RATIOS									
ROA	0.82%	0.78%	0.86%	0.84%	0.81%	0.0%	0.0%		
ROE	16.6%	15.9%	16.9%	15.6%	15.1%	-1.5%	-0.5%		
LDR	76.1%	76.5%	78.9%	78.3%	78.5%	2.4%	0.3%		
Assets / Equity	20.5	20.4	19.2	18.5	18.6	-1.9	0.1		
RWA / Assets	38.0%	37.2%	38.0%	38.8%	39.0%	1.0%	0.2%		
NIM on AIEA (core)	2.29%	2.30%	2.33%	2.31%	2.35%	0.1%	0.0%		
Canadian NIM on AIEA	2.02%	2.02%	2.05%	2.06%	2.13%	0.1%	0.1%		
Efficiency ratio	54.7%	54.8%	54.5%	55.1%	54.6%	-0.1%	-0.6%		
Tax rate	21.1%	21.4%	20.5%	20.3%	21.9%	0.8%	1.6%		
ASSET QUALITY									
GIL % loans	0.94%	0.92%	0.93%	0.91%	0.89%	0.0%	0.0%		
PCL % avg loans	0.33%	0.35%	0.31%	0.32%	0.37%	0.0%	0.0%		
Coverage ratio	84.4%	88.0%	86.5%	88.4%	91.6%	7.2%	3.1%		
Segment Results - Net Profit to Equityholders									
Canadian Banking	539	507	550	555	604	12%	9%		
International Banking	411	415	490	410	427	4%	4%		
Global Wealth Management	285	310	310	302	357	25%	18%		
Global Banking & Markets	388	352	378	337	387	0%	15%		
Other	-77	-62	-39	16	-92	19%	-673%		

Source: Company Reports and Citi Research Estimates; Consensus: Bloomberg

Figure 30. Scotiabank – New vs Old Estimates

CAD m	OLD 2014E	NEW 2014E	% chg	OLD 2015E	NEW 2015E	% chg	OLD 2016E	NEW 2016E	% chg
INCOME STATEMENT									
Net Interest Income	12,382	12,382	0%	13,814	13,814	0%	15,244	15,244	0%
Non-interest income	10,711	10,710	0%	11,606	11,605	0%	12,574	12,573	0%
Revenues	22,773	22,772	0%	25,083	25,082	0%	27,465	27,464	0%
Non-interest expense	-12,428	-12,428	0%	-13,544	-13,543	0%	-14,710	-14,710	0%
GOP	10,344	10,344	0%	11,539	11,539	0%	12,754	12,754	0%
Provisions	-1,549	-1,559	1%	-1,862	-1,874	1%	-2,236	-2,250	1%
PBT	8,795	8,785	0%	9,677	9,665	0%	10,518	10,504	0%
Income taxes	-1,929	-1,927	0%	-2,130	-2,127	0%	-2,319	-2,315	0%
Net income	6,866	6,859	0%	7,547	7,538	0%	8,199	8,188	0%
Net income to common	6,346	6,339	0%	7,001	6,992	0%	7,626	7,615	0%
Adjusted net income	6,946	6,939	0%	7,631	7,622	0%	8,287	8,277	0%
Adjusted net income to common	6,426	6,419	0%	7,085	7,076	0%	7,714	7,703	0%
Reported EPS - diluted	5.19	5.18	0%	5.73	5.72	0%	6.25	6.24	0%
Adjusted EPS - diluted	5.25	5.25	0%	5.80	5.79	0%	6.32	6.32	0%
DPS	2.58	2.58	0%	2.75	2.75	0%	3.00	3.00	0%

Source: Citi Research Estimates

Figure 31. Scotiabank – Citi vs Consensus Estimates

CAD m	CONS 2014E	CITI 2014E	Citi vs Cons	CONS 2015E	CITI 2015E	Citi vs Cons	CONS 2016E	CITI 2016E	Citi vs Cons
Revenue	22,530	22,772	1%	24,112	25,082	4%		27,464	na
Provisions	-1,414	-1,559	10%	-1,557	-1,874	20%		-2,250	na
PBT	9,011	8,785	-3%	9,911	9,665	-2%	10,420	10,504	1%
Net profit	6,639	6,339	-5%	7,358	6,992	-5%	7,543	7,615	1%
EPS	5.41	5.18	-4%	5.84	5.72	-2%	6.08	6.24	3%
DPS	2.56	2.58	1%	2.75	2.75	0%	2.93	3.00	2%
BVPS	35.9	34.8	-3%	40.0	37.7	-6%	41.1	40.8	-1%

Source: Citi Research Estimates, Bloomberg

Figure 32. Scotiabank – Valuation

VALUATION (CAD)					
Current Price	64.0				
Target Price	66.0				
Upside	3.2%				
Dividend yield	4.0%				
ETR	7.2%				
Common assumptions					
Cost of Equity	10.7%				
Growth	4.5%				
Yrs to discount	-0.08				
Fair Value Outcomes					
Static ROE	63.9				
DDM	68.8				
Average	66.3				
>> cross-check: Static ROTE	69.8				
>> cross-check: Sum of the parts	70.4				
STATIC ROE					
	2012	2013	2014E	2015E	2016E
ROE (adj)	17.5%	16.8%	15.5%	15.9%	16.1%
ROTE (adj)	23.9%	23.2%	21.1%	21.4%	21.3%
BVPS	28.6	32.7	34.8	37.7	40.8
TBVPS	21.3	24.0	25.8	28.2	30.9
EPS	5.18	5.12	5.18	5.72	6.24
Normalised ROE	16.3%				
Warranted P/BV	1.9				
2016E BVPS	40.8				
Fair value per share (12m fwd)	63.9				
DIVIDEND DISCOUNT MODEL				1.08	2.08
	2013	2014E	2015E	2016E	
DPS	2.44	2.58	2.75	3.00	
PV of DPS			2.46	2.43	
Normalised ROE	16.3%				
Warranted P/BV	1.9				
2016E BVPS	40.8				
Fair value per share (12m fwd)	63.9				
Sum of DPS 2015E-16E	4.9				
Total value per share (12m fwd)	68.8				

Source: Citi Research Estimates

Figure 33. Scotiabank – Group P&L by Year (2011-2016E)

CAD m (unless specified)	IFRS 2011	IFRS 2012	IFRS 2013	IFRS 2014E	IFRS 2015E	IFRS 2016E	%Chg 2011	%Chg 2012	%Chg 2013	%Chg 2014E	%Chg 2015E	%Chg 2016E
GROUP INCOME STATEMENT												
Net Interest Income	9,035	9,987	11,365	12,382	13,814	15,244	1%	11%	14%	9%	12%	10%
Fees & Commissions	5,727	6,246	6,917	7,668	8,386	9,172	30%	9%	11%	11%	9%	9%
Income from Investments	433	448	681	553	593	634	0%	3%	52%	-19%	7%	7%
Other Operating Income	2,402	3,253	2,648	2,489	2,626	2,767	-3%	35%	-19%	-6%	5%	5%
Non-Interest Income	8,562	9,947	10,246	10,710	11,605	12,573	24%	16%	3%	5%	8%	8%
Total Revenues	17,597	19,934	21,611	23,092	25,418	27,817	11%	13%	8%	7%	10%	9%
Taxable Equivalent Adjustment (TEA)	-287	-288	-312	-320	-336	-353	0%	0%	0%	0%	0%	0%
Total Revenue (after TEA)	17,310	19,646	21,299	22,772	25,082	27,464	12%	13%	8%	7%	10%	9%
Operating Expenses	-9,481	-10,436	-11,664	-12,428	-13,543	-14,710	16%	10%	12%	7%	9%	9%
GOP	7,829	9,210	9,635	10,344	11,539	12,754	7%	18%	5%	7%	12%	11%
Provisions	-1,076	-1,252	-1,288	-1,559	-1,874	-2,250	-13%	16%	3%	21%	20%	20%
PBT	6,753	7,958	8,347	8,785	9,665	10,504	11%	18%	5%	5%	10%	9%
Income Tax Expense	-1,423	-1,568	-1,737	-1,927	-2,127	-2,315	-18%	10%	11%	11%	10%	9%
Net Income	5,330	6,390	6,610	6,859	7,538	8,188	23%	20%	3%	4%	10%	9%
Minorities	-91	-196	-231	-260	-273	-287	-9%	115%	18%	13%	5%	5%
Capital Instrument holders	-58	0	0	-40	-42	-44	0%	0%	0%	0%	0%	0%
Preferred shareholders	-216	-220	-217	-220	-231	-243	0%	0%	0%	0%	0%	0%
Net Income to common	4,965	5,974	6,162	6,339	6,992	7,615	23%	20%	3%	3%	10%	9%
PER SHARE												
Diluted EPS	4.53	5.18	5.12	5.18	5.72	6.24	16%	14%	-1%	1%	10%	9%
BVPS (common ex min)	23.4	28.6	32.7	34.8	37.7	40.8	13%	22%	15%	6%	8%	8%
TBVPS (common ex min)	16.6	21.3	24.0	25.8	28.2	30.9	-4%	28%	13%	7%	10%	10%
ROE	20.7%	19.7%	16.6%	15.3%	15.7%	15.9%						
ROTE	27.0%	26.9%	22.9%	20.9%	21.1%	21.1%						
DPS - declared	2.05	2.24	2.44	2.58	2.75	3.00	5%	9%	9%	6%	7%	9%
Payout ratio	44%	42%	47%	49%	48%	48%						
Common equity	26,356	34,335	40,165	42,772	46,147	49,830	21%	30%	17%	6%	8%	8%
Tangible common equity	18,717	25,643	29,461	31,634	34,563	37,782	4%	37%	15%	7%	9%	9%
Basic (end)	1,089	1,184	1,209	1,210	1,207	1,204	4%	9%	2%	0%	0%	0%
Diluted (avg)	1,108	1,160	1,209	1,228	1,227	1,224	7%	5%	4%	2%	0%	0%
OPERATING RATIOS												
ROA	0.85%	0.91%	0.82%	0.82%	0.87%	0.89%						
ROE	20.7%	19.7%	16.6%	15.3%	15.7%	15.9%						
RoAvRWA	2.21%	2.45%	2.21%	2.13%	2.23%	2.30%						
LDR	76.4%	76.3%	78.3%	79.3%	80.0%	80.8%						
RWA / Assets	39.4%	37.9%	38.8%	39.0%	39.0%	39.0%						
Leverage (TA/TCE)	22.6	19.5	18.5	18.3	17.9	17.5						
NIM on avg assets	1.54%	1.51%	1.52%	1.61%	1.71%	1.79%						
Non Interest Income % avg assets	1.44%	1.49%	1.38%	1.37%	1.41%	1.44%						
PBT % revenues	39.0%	40.5%	39.2%	38.6%	38.5%	38.2%						
Efficiency ratio	54.8%	53.1%	54.8%	54.6%	54.0%	53.6%						
Tax rate	21.1%	19.7%	20.8%	21.9%	22.0%	22.0%						
BALANCE SHEET ITEMS												
Total Assets	594,423	668,225	743,644	781,513	825,138	871,352	9%	12%	11%	5%	6%	6%
Total Liabilities	562,183	628,560	698,257	733,779	774,302	817,120	9%	12%	11%	5%	6%	6%
Total Shareholders' Equity	32,240	39,665	45,387	47,734	50,836	54,232	18%	23%	14%	5%	6%	7%
Tier 1	28,489	34,436	31,914	33,823	37,198	40,880	12%	21%	-7%	6%	10%	10%
Total capital	32,533	42,193	38,841	40,750	44,125	47,807	10%	30%	-8%	5%	8%	8%
Total RWA	234,000	253,309	288,246	304,790	321,804	339,827	9%	8%	14%	6%	6%	6%
CET1 (B3)		8.6%	9.1%	9.3%	9.8%	10.4%						
T1 Ratio	12.2%	13.6%	11.1%	11.1%	11.6%	12.0%						
Total capital ratio	13.9%	16.7%	13.5%	13.4%	13.7%	14.1%						
Tangible CE / Total Tangible Assets	3.2%	3.9%	4.0%	4.1%	4.2%	4.4%						

Source: Company Reports and Citi Research Estimates

Figure 34. Scotiabank – Divisional P&L by Year (2011-2016E)

CAD m (unless specified)	IFRS 2011	IFRS 2012	IFRS 2013	IFRS 2014E	IFRS 2015E	IFRS 2016E	%Chg 2011	%Chg 2012	%Chg 2013	%Chg 2014E	%Chg 2015E	%Chg 2016E
CANADIAN BANKING												
Net Interest Income	4,553	4,610	5,419	6,108	6,735	7,301	-4%	1%	18%	13%	10%	8%
Net Fee and Commission Revenues	1,418	1,477	1,507	1,617	1,745	1,882	3%	4%	2%	7%	8%	8%
Total Revenue	5,991	6,141	6,973	7,745	8,501	9,205	-2%	3%	14%	11%	10%	8%
Operating Expenses	-3,084	-3,192	-3,583	-3,795	-4,123	-4,419	2%	4%	12%	6%	9%	7%
GOP	2,907	2,949	3,390	3,950	4,378	4,787	-6%	1%	15%	17%	11%	9%
Provisions	-592	-506	-478	-576	-764	-971	-9%	-15%	-6%	21%	33%	27%
PBT	2,315	2,443	2,912	3,374	3,614	3,815	-5%	6%	19%	16%	7%	6%
Net Income	1,670	1,801	2,151	2,497	2,675	2,823	-4%	8%	19%	16%	7%	6%
Total Assets	211	225	273	289	306	324	7%	7%	21%	6%	6%	6%
ROA	0.79%	0.80%	0.79%	0.86%	0.87%	0.87%						
NIM on Avg Assets	2.16%	2.05%	1.99%	2.12%	2.20%	2.25%						
PBT % revenues	38.6%	39.8%	41.8%	43.6%	42.5%	41.4%						
Efficiency ratio	51.5%	52.0%	51.4%	49.0%	48.5%	48.0%						
INTERNATIONAL BANKING												
Net Interest Income	3,579	4,456	4,923	5,311	6,007	6,769	1%	25%	10%	8%	13%	13%
Net Fee and Commission Revenues	1,076	1,298	1,403	1,545	1,729	1,934	-14%	21%	8%	10%	12%	12%
Total Revenue	5,389	6,485	7,421	7,806	8,734	9,751	5%	20%	14%	5%	12%	12%
Operating Expenses	-3,038	-3,683	-4,138	-4,293	-4,760	-5,265	7%	21%	12%	4%	11%	11%
GOP	2,351	2,802	3,283	3,513	3,974	4,485	2%	19%	17%	7%	13%	13%
Provisions	-509	-613	-781	-926	-1,051	-1,217	-20%	20%	27%	19%	14%	16%
PBT	1,842	2,189	2,502	2,587	2,923	3,268	10%	19%	14%	3%	13%	12%
Net Income	1,467	1,726	1,918	1,979	2,236	2,500	18%	18%	11%	3%	13%	12%
Total Assets	93	109	121	133	147	161	10%	17%	11%	10%	10%	10%
ROA	1.57%	1.58%	1.58%	1.49%	1.53%	1.55%						
NIM on Avg Assets	3.84%	4.08%	4.07%	3.99%	4.10%	4.20%						
PBT % revenues	34.2%	33.8%	33.7%	33.1%	33.5%	33.5%						
Efficiency ratio	56.4%	56.8%	55.8%	55.0%	54.5%	54.0%						
GLOBAL WEALTH MANAGEMENT												
Net Interest Income	444	442	409	530	598	657	9%	0%	-7%	30%	13%	10%
Net Fee and Commission Revenues	2,205	2,469	2,935	3,353	3,688	4,057	6%	12%	19%	14%	10%	10%
Total Revenue	3,437	3,514	3,996	4,595	5,058	5,546	25%	2%	14%	15%	10%	10%
Operating Expenses	-1,900	-2,076	-2,411	-2,665	-2,909	-3,172	18%	9%	16%	11%	9%	9%
GOP	1,537	1,438	1,585	1,930	2,150	2,374	34%	-6%	10%	22%	11%	10%
Provisions	-2	-3	-3	-5	-5	-6	0%	0%	0%	0%	0%	0%
PBT	1,535	1,435	1,582	1,925	2,145	2,368	34%	-7%	10%	22%	11%	10%
Net Income	1,255	1,120	1,246	1,511	1,684	1,859	36%	-11%	11%	21%	11%	10%
Total Assets	12	14	14	16	17	19	3%	10%	7%	13%	7%	7%
ROA	10.2%	8.3%	8.7%	9.3%	9.7%	10.0%						
NIM on average assets	3.61%	3.27%	2.84%	3.27%	3.45%	3.54%						
PBT % revenues	44.7%	40.8%	39.6%	41.9%	42.4%	42.7%						
Efficiency ratio	55.3%	59.1%	60.3%	58.0%	57.5%	57.2%						
GLOBAL BANKING AND MARKETS												
Net Interest Income	768	760	787	833	893	957	-21%	-1%	4%	6%	7%	7%
Net Fee and Commission Revenues	1,198	1,218	1,268	1,353	1,434	1,520	-32%	2%	4%	7%	6%	6%
Total Revenue	3,140	3,504	3,580	3,786	4,007	4,241	-2%	12%	2%	6%	6%	6%
Operating Expenses	-1,482	-1,507	-1,589	-1,628	-1,703	-1,802	14%	2%	5%	2%	5%	6%
GOP	1,658	1,997	1,991	2,158	2,304	2,438	-12%	20%	0%	8%	7%	6%
Provisions	-33	-30	-26	-52	-54	-56	120%	-9%	-13%	100%	4%	4%
PBT	1,625	1,967	1,965	2,106	2,250	2,382	-13%	21%	0%	7%	7%	6%
Net Income	1,258	1,443	1,455	1,558	1,665	1,763	-5%	15%	1%	7%	7%	6%
Total Assets	192	219	250	260	271	281	17%	14%	14%	4%	4%	4%
ROA	0.66%	0.66%	0.58%	0.60%	0.62%	0.63%						
NIM on average assets	0.40%	0.35%	0.31%	0.32%	0.33%	0.34%						
PBT % revenues	51.8%	56.1%	54.9%	55.6%	56.1%	56.2%						
Efficiency ratio	47.2%	43.0%	44.4%	43.0%	42.5%	42.5%						

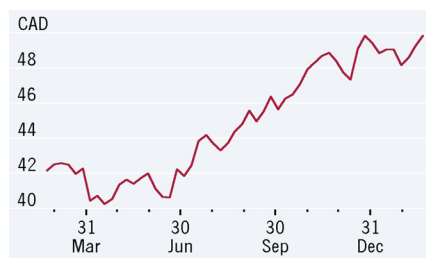
Source: Company Reports and Citi Research Estimates

Company Focus

- Rating Change
- Target Price Change
- Estimate Change

Neutral	2
from Buy	
Price (21 Feb 14)	C\$49.94
Target price	C\$52.00
from C\$50.00	
Expected share price return	4.1%
Expected dividend yield	3.6%
Expected total return	7.7%
Market Cap	C\$91,982M
	US\$82,885M

Price Performance
(RIC: TD.TO, BB: TD CN)



Toronto Dominion (TD.TO) US Upside Priced-In – Downgrading to Neutral, TP Goes to \$52

- **Best Gearing to Rising Interest Rates** — TD appears to have the best of both worlds: most positively geared earnings and least negatively geared book value to rising interest rates. The US business should especially benefit in a rising rate environment even though increasing competition may whittle away some of the margin increase. While fundamentals are good both in the US and Canada, we believe that the upside is largely priced into the shares.
- **Downgrading to Neutral, TP Goes to \$52** — Our 2014 and 2015 reported EPS estimates change by -2% and -1%, respectively. We also introduce our 2016 EPS estimate at \$4.65 (-3% vs consensus). Our ROE assumption increases to 16.0% from 15.5% on the back of more buybacks. As a result, we increase our TP to \$52 (from \$50) and downgrade the shares to Neutral on valuation.
- **1Q14 Preview** — Our expectations for 1Q14 are laid out below. Our 1Q14 EPS estimate is -5% below consensus.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2013A	0.93A	0.89A	0.79A	0.84A	3.44A	3.73A
2014E	0.95E	1.00E	1.01E	0.95E	3.91E	4.19E
Previous	na	na	na	na	4.01E	na
2015E	na	na	na	na	4.28E	4.59E
Previous	na	na	na	na	4.31E	na
2016E	na	na	na	na	4.65E	4.99E
Previous	na	na	na	na	na	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

Toronto Dominion

Figure 35. Toronto Dominion – Quarterly Results Preview (CAD millions)

	1Q13	2Q13	3Q13	4Q13	1Q14E	Chg yoy	Chg qoq	Cons	vs Cons
INCOME STATEMENT									
Net Interest Income	3,845	3,901	4,145	4,183	4,262	11%	2%		
Non-Interest Income	2,722	2,706	2,940	2,817	3,058	12%	9%		
Total Revenue	6,567	6,607	7,085	7,000	7,320	11%	5%	6,683	10%
Insurance claims	-596	-609	-1,140	-711	-810	36%	14%		
Non Interest Expense	-3,502	-3,632	-3,771	-4,164	-3,971	13%	-5%	-3,845	3%
GOP	2,469	2,366	2,174	2,125	2,539	3%	19%		
Provisions	-385	-417	-477	-352	-395	3%	12%	-423	-7%
PBT	2,084	1,949	1,697	1,773	2,143	3%	21%		
Income Taxes	-359	-289	-249	-238	-382	6%	60%		
Associates	59	57	75	81	65	10%	-20%		
Net income	1,784	1,717	1,523	1,616	1,827	2%	13%		
Adjusted net income	1,910	1,827	1,584	1,815	1,992	4%	10%		
Reported EPS - diluted	0.93	0.89	0.79	0.84	0.95	2%	13%	1.00	-5%
Adjusted EPS - diluted	0.99	0.95	0.82	0.95	1.04	4%	9%		
DPS - declared	0.39	0.40	0.40	0.43	0.44	13%	2%	0.45	-3%
Payout ratio	42.1%	45.0%	50.7%	51.3%	46.5%	4.4%	-4.8%		
BVPS	23.7	24.3	24.4	25.1	25.3	7%	1%		
TBVPs	15.9	16.1	16.0	16.6	16.5	4%	0%		
BALANCE SHEET									
Loans (gross)	417,166	431,417	436,631	447,777	454,777	9%	2%		
Assets	818,250	826,164	834,730	862,021	873,436	7%	1%		
Deposits	495,043	502,677	509,968	541,605	552,437	12%	2%		
RWA	274,445	281,790	283,521	286,355	292,285	7%	2%		
CET1 Ratio - Basel 3	8.8%	8.8%	8.9%	9.0%	8.3%	-0.5%	-0.7%		
RATIOS									
ROA	0.83%	0.78%	0.68%	0.72%	0.80%	0.0%	0.1%		
ROE	15.7%	14.7%	12.9%	13.4%	15.0%	-0.7%	1.6%		
LDR	84.3%	85.8%	85.6%	82.7%	82.3%	-1.9%	-0.4%		
Assets / Equity	18.6	18.3	18.4	18.5	18.6	0.0	0.1		
RWA / Assets	33.5%	34.1%	34.0%	33.2%	33.5%	-0.1%	0.2%		
NIM on AIEA	2.15%	2.21%	2.22%	2.22%	2.20%	0.1%	0.0%		
Canadian NIM on AIEA	2.79%	2.80%	2.83%	2.81%	2.80%	0.0%	0.0%		
Efficiency ratio	53.3%	55.0%	53.2%	59.5%	54.2%	0.9%	-5.2%		
Tax rate	17.2%	14.8%	14.7%	13.4%	17.8%	0.6%	4.4%		
ASSET QUALITY									
GIL % loans	0.60%	0.59%	0.60%	0.60%	0.61%	0.0%	0.0%		
PCL % avg loans	0.37%	0.39%	0.44%	0.32%	0.35%	0.0%	0.0%		
Coverage ratio	116.2%	116.6%	116.7%	113.9%	106.4%	-9.9%	-7.6%		
Segment Results - Adj Net Profit									
Canadian Retail	1,276	1,200	934	1,271	1,246	-2%	-2%		
US Retail	425	436	513	478	551	30%	15%		
Wholesale Banking	160	220	148	122	187	17%	54%		
Corporate Items	49	-29	-11	-56	8	-84%	-114%		

Source: Company Reports and Citi Research Estimates; Consensus: Bloomberg

Figure 36. Toronto Dominion – New vs Old Estimates

CAD m	OLD 2014E	NEW 2014E	% chg	OLD 2015E	NEW 2015E	% chg	Old 2016E	NEW 2016E	% chg
INCOME STATEMENT									
Net Interest Income	16,762	17,464	4%	18,007	19,012	6%		20,751	na
Non-Interest Income	9,687	12,562	30%	10,360	13,793	33%		14,801	na
Revenue	26,448	30,026	14%	28,367	32,805	16%		35,552	na
Insurance claims		-3,340			-3,607			-3,895	
Non Interest Expense	-15,406	-16,210	5%	-16,375	-17,527	7%		-18,857	na
GOP	11,042	10,476	-5%	11,992	11,672	-3%		12,799	na
Provisions	-2,096	-1,673	-20%	-2,443	-2,066	-15%		-2,430	na
PBT	8,946	8,803	-2%	9,548	9,605	1%		10,370	na
Income Taxes	-1,520	-1,536	1%	-1,668	-1,683	1%		-1,832	na
Associates	280	260	-7%	300	272	-9%		285	na
Net income to common	7,401	7,222	-2%	7,871	7,889	0%		8,518	na
Reported EPS - diluted	4.01	3.91	-2%	4.31	4.28	-1%		4.65	na
DPS - declared	1.78	1.80	1%	1.95	2.03	4%		2.20	na

Source: Citi Research Estimates

Figure 37. Toronto Dominion – Citi vs Consensus Estimates

CAD m	CONS 2014E	CITI 2014E	Citi vs Cons	CONS 2015E	CITI 2015E	Citi vs Cons	CONS 2016E	CITI 2016E	Citi vs Cons
Net Revenue	27,109	26,686	-2%	29,234	29,198	0%		31,656	na
LLP	-1,756	-1,673	-5%	-1,926	-2,066	7%		-2,430	na
PBT	9,150	8,803	-4%	10,104	9,605	-5%	11,362	10,370	-9%
Net profit	7,430	7,222	-3%	8,262	7,889	-5%	8,883	8,518	-4%
EPS	4.09	3.91	-4%	4.52	4.28	-5%	4.80	4.65	-3%
DPS	1.79	1.80	1%	1.96	2.03	4%	2.16	2.20	2%
BVPS	27.5	27.0	-2%	30.2	29.2	-4%	32.7	31.5	-4%

Source: Citi Research Estimates, Bloomberg

Figure 38. Toronto Dominion – Valuation

VALUATION (CAD)					
Current Price	49.8				
Target Price	52.0				
Upside	4.3%				
Dividend yield	3.6%				
ETR	7.9%				
Common assumptions					
Cost of Equity	10.0%				
Growth	3.5%				
Yrs to discount	-0.08				
Fair Value Outcomes					
Static ROE	50.4				
DDM	54.1				
Average	52.3				
>> cross-check: static ROTE	52.4				
>> cross-check: Sum of the parts	52.4				
STATIC ROE & STATIC ROTE					
	2012	2013	2014E	2015E	2016E
ROE (adj)	16.4%	15.3%	16.3%	16.2%	16.2%
ROTE (adj)	22.9%	21.4%	22.9%	22.8%	22.6%
BVPS	23.4	25.1	27.0	29.2	31.5
TBVPS	15.5	16.6	17.9	19.7	21.5
EPS	3.70	3.71	4.23	4.55	4.92
Normalised ROE	16.0%				
Warranted P/BV	1.9				
2016E BVPS	31.5				
Fair value per share (12m fwd)	50.4				
DIVIDEND DISCOUNT MODEL					
	2013	2014E	2015E	2016E	
DPS	1.62	1.80	2.03	2.20	
PV of DPS			1.83	1.81	
Normalised ROE	16.0%				
Warranted P/BV	1.9				
2016E BVPS	31.5				
Fair value per share (12m fwd)	50.4				
Sum of DPS 2015E-16E	3.6				
Total value per share (12m fwd)	54.1				

Source: Citi Research Estimates

Figure 39. Toronto Dominion – Group P&L by Year (2011-2016E)

CAD m (unless specified)	IFRS 2011	IFRS 2012	IFRS 2013	IFRS 2014E	IFRS 2015E	IFRS 2016E	%Chg 2011	%Chg 2012	%Chg 2013	%Chg 2014E	%Chg 2015E	%Chg 2016E
GROUP INCOME STATEMENT												
Net Interest Income	13,661	15,026	16,074	17,464	19,012	20,751	18.3%	10.0%	7.0%	8.6%	8.9%	9.1%
Non-Interest Income	10,179	10,520	11,185	12,562	13,793	14,801	0.9%	3.4%	6.3%	12.3%	9.8%	7.3%
Total Revenues	23,840	25,546	27,259	30,026	32,805	35,552	10.2%	7.2%	6.7%	10.1%	9.3%	8.4%
Profit before tax	7,125	7,311	7,503	8,803	9,605	10,370	20.2%	2.6%	2.6%	17.3%	9.1%	8.0%
Income Taxes	-1,326	-1,085	-1,135	-1,536	-1,683	-1,832	0.0%	-18.2%	4.6%	0.0%	0.0%	0.0%
Associates	246	234	272	260	272	285	0.0%	-4.9%	16.2%	0.0%	0.0%	0.0%
Net income	6,045	6,460	6,640	7,527	8,194	8,823	23.3%	6.9%	2.8%	13.4%	8.9%	7.7%
Adjustments	-387	-604	-496	-580	-501	-483	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Adjusted net income	6,432	7,064	7,136	8,107	8,695	9,305	17.2%	9.8%	1.0%	13.6%	7.3%	7.0%
Preferred dividends	-180	-196	-185	-200	-200	-200	0.0%	8.9%	-5.6%	0.0%	0.0%	0.0%
Minorities	-104	-104	-105	-105	-105	-105	0.0%	0.0%	1.0%	0.0%	0.0%	0.0%
Net income to common	5,761	6,160	6,350	7,222	7,889	8,518	25.2%	6.9%	3.1%	13.7%	9.2%	8.0%
PER SHARE												
Reported EPS - diluted	6.38	3.37	3.44	3.91	4.28	4.65	20.9%	-47.2%	2.2%	13.6%	9.5%	8.6%
BVPS	42.6	23.4	25.1	27.0	29.2	31.5	-3.2%	-45.1%	7.4%	7.5%	8.1%	8.0%
TBVPs	27.3	15.5	16.6	17.9	19.7	21.5	7.7%	-43.1%	6.8%	7.9%	9.9%	9.5%
DPS - declared	2.61	1.45	1.62	1.80	2.03	2.20	7.0%	-44.4%	11.7%	11.1%	12.8%	8.6%
Payout Ratio	40%	43%	47%	46%	47%	47%						
Common equity	39,126	43,233	46,480	49,795	53,582	57,431						
Tangible common equity	25,025	28,705	30,694	33,014	36,130	39,280						
Common Shares - basic (end)	901	1,832	1,835	1,831	1,823	1,809	3%	103%	0%	0%	0%	-1%
Common Shares - diluted (avg)	903	1,830	1,845	1,846	1,842	1,831	4%	103%	1%	0%	0%	-1%
OPERATING RATIOS												
ROA	0.85%	0.80%	0.75%	0.81%	0.84%	0.87%						
ROE	14.8%	15.0%	14.2%	15.1%	15.3%	15.3%						
RoAvRWA	2.75%	2.65%	2.30%	2.44%	2.54%	2.62%						
LDR	84.4%	84.4%	82.7%	81.2%	81.2%	81.2%						
RWA / Assets	29.7%	30.3%	33.2%	33.5%	33.5%	33.5%						
Leverage (TA/TCE)	18.8	18.8	18.5	18.2	17.7	17.3						
NIM on avg assets	2.02%	1.94%	1.90%	1.95%	2.03%	2.12%						
Non Interest Income % avg assets	1.50%	1.36%	1.32%	1.40%	1.47%	1.51%						
PBT % revenues	29.9%	28.6%	27.5%	29.3%	29.3%	29.2%						
Efficiency ratio	54.7%	54.9%	55.3%	54.0%	53.4%	53.0%						
Tax rate	18.6%	14.8%	15.1%	17.5%	17.5%	17.7%						
BALANCE SHEET ITEMS												
Total Assets	735,493	811,053	862,021	907,504	948,803	991,969	19%	10%	6%	5%	5%	5%
Total Liabilities	691,489	762,948	810,638	852,806	890,269	929,537	20%	10%	6%	5%	4%	4%
Total shareholders' equity	44,004	48,105	51,383	54,698	58,534	62,432	0%	9%	7%	6%	7%	7%
Total RWA	218,779	245,875	286,355	304,014	317,505	331,950	9%	12%	16%	6%	4%	5%
CET1 (B3)	7.1%	8.2%	9.0%	8.8%	9.4%	10.0%						
Tier 1 ratio	13.0%	12.6%	11.0%	10.7%	11.3%	11.7%						
Total capital ratio	16.0%	15.7%	14.2%	13.7%	14.1%	14.5%						

Source: Company Reports and Citi Research Estimates

Figure 40. Toronto Dominion – Divisional P&L by Year (2011-2016E)

CAD m (unless specified)	IFRS 2011	IFRS 2012	IFRS 2013	IFRS 2014E	IFRS 2015E	IFRS 2016E	%Chg 2011	%Chg 2012	%Chg 2013	%Chg 2014E	%Chg 2015E	%Chg 2016E
CANADIAN RETAIL												
Net Interest Income												
Non Interest Income		8,606	8,922	9,334	9,835	10,330			4%	5%	5%	5%
Total Revenue		8,387	8,860	9,792	10,736	11,462			6%	11%	10%	7%
Insurance claims		16,993	17,782	19,126	20,570	21,792			5%	8%	8%	6%
Non Interest Expense		-2,424	-3,056	-3,340	-3,607	-3,895			26%	9%	8%	8%
Provisions		-7,485	-7,754	-8,224	-8,784	-9,262			4%	6%	7%	5%
PBT		-1,151	-929	-972	-1,179	-1,401			-19%	5%	21%	19%
Net Income - Adjusted		5,933	6,043	6,590	7,001	7,234			2%	9%	6%	3%
RWA (Period End, C\$bn)		4,567	4,681	5,075	5,391	5,572			2%	8%	6%	3%
NIM on average loans		87	93	95	98	101			7%	3%	3%	3%
PBT % revenues		2.91%	2.88%	2.88%	2.92%	2.95%						
Efficiency ratio		34.9%	34.0%	34.5%	34.0%	33.2%						
PCL % avg loans		44.0%	43.6%	43.0%	42.7%	42.5%						
US RETAIL												
Net Interest Income												
Non Interest Income		4,663	5,173	6,152	6,995	8,016			11%	19%	14%	15%
Total Revenue		1,570	2,149	2,430	2,642	2,832			37%	13%	9%	7%
Non Interest Expense		6,233	7,322	8,582	9,637	10,848			17%	17%	12%	13%
Total Provisions		-4,246	-4,768	-5,579	-6,167	-6,834			12%	17%	11%	11%
PBT		-779	-779	-771	-933	-1,049			0%	-1%	21%	12%
Net Income - Adjusted		1,208	1,775	2,233	2,537	2,965			47%	26%	14%	17%
RWA (Period End, C\$bn)		1,619	1,852	2,258	2,534	2,917			14%	22%	12%	15%
NIM on average loans		111	138	143	150	158			24%	4%	5%	5%
PBT % revenues		5.30%	4.97%	5.19%	5.25%	5.35%						
Efficiency ratio		19.4%	24.2%	26.0%	26.3%	27.3%						
PCL % avg loans		68.1%	65.1%	65.0%	64.0%	63.0%						
WHOLESALE BANKING												
Net Interest Income												
Non Interest Income	1,659	1,805	1,982	2,018	2,222	2,445	-9%	9%	10%	2%	10%	10%
Total Revenue	837	849	428	539	616	707	-21%	1%	-50%	26%	14%	15%
Non Interest Expense	2,496	2,654	2,410	2,557	2,838	3,151	-13%	6%	-9%	6%	11%	11%
Provisions	-1,468	-1,570	-1,542	-1,585	-1,745	-1,922	5%	7%	-2%	3%	10%	10%
PBT	-22	-47	-26	-30	-30	-30	-12%	114%	-45%	15%	0%	0%
Net Income - Adjusted	1,006	1,037	842	942	1,063	1,199	-31%	3%	-19%	12%	13%	13%
Risk Weighted Assets (Period End)	815	880	650	730	850	959	-17%	8%	-26%	12%	16%	13%
PBT / Revenues %	35	43	47	51	56	62	9%	23%	9%	9%	10%	10%
Efficiency ratio	40.3%	39.1%	34.9%	36.8%	37.4%	38.0%						

Source: Company Reports and Citi Research Estimates

Stock Summaries: Investment Case, Valuation & Risks

Bank of Montreal

Company description

Bank of Montreal (BMO Financial Group) is a diversified financial services provider that provides a range of retail banking, wealth management and investment banking products and services. It conducts business through three operating groups: Personal and Commercial Banking (P&C); Private Client Group (PCG), and BMO Capital Markets. It serves more than seven million customers across Canada through its retail arm, BMO Bank of Montreal. It also serves customers through its wealth management businesses: BMO Nesbitt Burns, BMO InvestorLine, BMO Global Private Banking, BMO Global Asset Management and BMO Insurance. BMO operates internationally in 24 other countries, including the US.

Investment strategy

We have a Buy rating on BMO shares. BMO is the least exposed to the slowing Canadian retail lending sector among the Big 5. Our investment strategy is based on three points:

- 1) Upside from Canadian corporate lending — BMO has a leading market share in Canadian corporate lending. As the cost of bank loans becomes more competitive we expect more corporates to choose bank loans over capital markets debt. On our estimates, each 10% growth in corporate lending increases Group EPS by 2-3%.
- 2) Resilient capital position — Under our stress test scenario for mortgage risk weights and loan losses BMO comes out on top in terms of Basel 3 Core Equity Tier 1 ratio.
- 3) Attractive Valuation – BMO screens as one of the more attractive bank shares in Canada at 1.6x P/'14E BV multiple for 15% ROE.

Valuation

We have a C\$80 target price on BMO. We value the shares using two approaches: 1) Reported P/B warranted equity valuation; and 2) Dividend Discount Model. We set our target price at the average of these outcomes and cross-check against a market referenced sum-of-the-parts valuation and a ROTE warranted book value approach. Our cost of equity assumption is 10% and our perpetual growth assumption is 3.5%.

Risks

We highlight the following risks to our target price:

- 1) Higher Capital Requirements in the US: While the bank recently noted that its US subsidiary is strongly capitalised, implementation of subsidiarisation plans by the regulator may prove to be more onerous than expected. However, if the implementation is less onerous, BMO could potentially use some of the capital in its US business for extra organic growth or dividend it back to the parent.
- 2) Elevated Loan to Deposit Ratio in Canada: BMO's dependence on wholesale funding in its Canadian business could make it vulnerable to unpredictable

fluctuations in funding costs. Should BMO gather deposits more quickly than expected, the volatility in funding costs would be lower than we expect.

3) Margin Compression in Canada: Given TD's recent renewed push into corporate lending, there is a risk that BMO could respond by engaging in a pricing war in order to defend market share. If that happens, Canadian P&C margins could suffer. But if repricing up is possible for BMO and the major players in corporate lending, BMO's margins may be better than expected.

CIBC

Company description

CIBC serves its clients through three strategic business units: Retail and Business Banking, Wealth Management, and Wholesale Banking. Retail and Business Banking provides financial products, advice and services through nearly 1,100 branches, as well as automated banking machines, mobile sales forces, telephone banking, online and mobile banking. Wealth Management comprises asset management, retail brokerage and private wealth management businesses. Wholesale Banking provides credit, capital markets, investment banking, merchant banking and research products and services.

Investment strategy

We have a Buy rating on CIBC (CM). While CM is one of the banks most exposed to Canadian retail lending among the Big 5, it is also a top generator of capital which we believe the shares do not fully reflect.

1) Canada's most 'Canadian' big bank — CM has the highest exposure to Canadian residential real estate lending relative to its overall loan book, at 70% of the total. Our expectation of a 'soft landing' makes us more positive on CIBC vs the market.

2) Addressing low risk weights — CM has started increasing the risk weights on its residential secured credit portfolio by upping default and severity assumptions. We believe the company would continue to increase the weights given increased regulatory scrutiny.

3) Best in class capital generation — However, even with the risk weights tailwind, CIBC remains a top generator of capital among the big 5 banks (at c 250 bps per year before new business and capital return).

Valuation

We have an C\$102 target price on CM. We value the shares using two approaches: 1) Reported P/B warranted equity valuation; and 2) Dividend Discount Model. We set our target price at the average of these outcomes and cross-check against a market referenced sum-of-the-parts valuation and a ROTE warranted book value approach. Our cost of equity assumption is 11.0% and our perpetual growth assumption is 3.5%.

Risks

We highlight the following risks to our target price:

1) Broker Originated Mortgage Book: Future asset quality issues from the legacy broker-originated book may overwhelm the additional margin pickup in a downturn

scenario. In addition, margin improvement may stall if mortgage pricing competition intensifies. However, should CM be more successful and speedier in converting the legacy book into CIBC-branded mortgages, the shares could rally further than expected.

2) Higher Mortgage Risk Weights: CM has the lowest mortgage risk weights among the Big 5 Canadian banks. While it also has the highest percentage of insured mortgages within that group, international comparisons place the bank below most European and US banks as well. The risk of risk weights going up either driven by the regulator or by loss experience, is not immaterial. Alternatively, should CM manage to keep risk weights lower for longer than we expect, it may be able to generate more excess capital than we expect.

3) Aerogold Credit Card Partnership: CIBC may have trouble replacing the lost Aerogold earnings with earnings from its new in-house credit card which could mean that the shares do not reach our target price. Should the bank more than replace lost earnings, the shares could rally beyond our target price.

Royal Bank of Canada

Company description

Royal Bank of Canada (RY) is a diversified financial services company. RY provides personal and commercial banking, wealth management services, insurance, corporate and investment banking and transaction processing services on a global basis. Its international operations include banking businesses in the United States and Caribbean, as well as Capital Markets and Investor & Treasury Services. RY also provides customized trust, banking, credit and investment solutions to clients in 21 countries worldwide.

Investment strategy

We have a Neutral rating on Royal Bank of Canada (RY). RY is the second largest bank in Canada by assets (by a small margin to TD) and in its domestic market RY is the most cost-efficient bank. However RY has some of the lowest risk weights in its Canadian retail secured book and a low level of mortgage insurance. While RY should be able to offset any potential earnings slowdown from Canadian retail with upside from Global Asset Management, Wealth/Insurance or Wholesale Banking, we believe the shares are close to fully valued.

Valuation

We have a C\$77 target price on RY. We value the shares using two approaches: 1) Reported P/B warranted equity valuation; and 2) Dividend Discount Model. We set our target price at the average of these outcomes and cross-check against a market referenced sum-of-the-parts valuation and a ROTE warranted book value approach. Our cost of equity assumption is 10.0% and our perpetual growth assumption is 3.5%.

Risks

1) Higher – or lower – loan impairments: should loan losses approach 2008-9 levels, RY's profitability will suffer and there would be downside risk to our target price. On the other hand, should the cost of risk fall below our forecast over the next few years, there would be upside to our earnings estimates and target price.

2) Higher – or lower – margins: should the Bank of Canada decide to target a lower rate (by 25 bps or more), margins are likely to suffer and introduce downside risk to our target price. Should the Bank decide to hike rates (25 bps or more), there may be upside to our earnings estimates and target price.

3) Dividend payout ratio increases above 50% – or Falls Below 40%: if RY management believes that returning more to shareholders is the appropriate strategy for maintaining profitability in a lower volume growth environment, there may be upside risk to our target price. On the other hand, if management or the bank regulator determines that RY should rebuild capital by paying out less than 40%, there may be downside to our total return target.

Scotiabank

Company description

Bank of Nova Scotia (Scotiabank) is a diversified financial institution offering a range of products and services, including retail, commercial, corporate and investment banking to more than 18.6 million customers in more than 50 countries around the world. The Bank has four business lines: Canadian Banking, International Banking, Scotia Capital and Global Wealth Management. In January 2012, the Company closed its acquisition of 51% of Banco Colpatria.

Investment strategy

We have a Neutral rating on Scotiabank. While Scotiabank is the most 'international' of the domestic Canadian banks, we believe the company faces two important challenges in the medium term:

1) Subscale Means Low International ROE: the bank only ranks among the Top 5-10 banks in each country, the only exception being Peru (#3). Because of the disparate strategies in each country and the subscale nature of its businesses, International Banking ROEs have been in the 10-15% range over the past four years. ROEs are likely stay in that range over the forecast horizon. We do not believe management will engage in an "asset optimisation" strategy in the medium term as current focus is on growth.

2) Acquisition risk: Scotiabank has historically been an active acquirer. If management chooses to prioritise acquisitions at inflated purchase prices over organic growth and/or capital return, shareholder value creation might suffer in the medium term.

Valuation

We have a \$66 target price on Scotiabank. We value the shares using two approaches: 1) Reported P/B warranted equity valuation; and 2) Dividend Discount Model. We set our target price at the average of these outcomes and cross-check against a market referenced sum-of-the-parts valuation and a ROTE warranted book value approach. Our Cost of Equity assumption is 10.7% and our perpetual growth assumption is 4.5%.

Risks

1) Better – or worse – than expected margins from ING Direct Canada: should management find more profitable routes for investing the liquidity, or should policy rates increase, there could be upside to our NIM forecasts. Conversely, should

opportunities for higher reinvestment prove to be limited, or policy rates decline, there would be downside risk to our earnings estimates and target price.

2) Asset quality deterioration – or better than expected improvement – in LatAm: should loan losses reach 2010 levels, Scotiabank's earnings would decline by 3-4%. Conversely, should loan losses come in below 80 bps, there would be upside risk to our earnings estimates and target price.

3) Capital raise: should the regulator decide that Scotiabank would need to meet a core Tier 1 ratio under Basel 3 of more than 10% in the short term (via a dividend "skip" or a dilutive capital raise), there would be downside risk to our target price and expected total return target. On the other hand, should Scotiabank generate capital organically faster than we expect (e.g., by optimising its international holdings), there may be upside to our target price and expected total return target.

Toronto Dominion

Company description

Toronto Dominion serves approximately 20.5 million customers in four businesses operating in a number of locations in financial centres worldwide: Canadian Personal and Commercial Banking, including TD Canada Trust, TD Insurance, and TD Auto Finance Canada; Wealth Management, including TD Waterhouse and an investment in TD Ameritrade; U.S. Personal and Commercial Banking, including TD Bank, and TD Auto Finance U.S.; and Wholesale Banking, including TD Securities. Recent acquisitions include Chrysler Financial, MBNA Canada, Target US credit card (JV) and Epoch.

Investment strategy

We have a Neutral rating on Toronto Dominion. TD is one of the nimblest and fastest-growing players in the Northeast US and one of the two most customer-centric banks both in Canada and the US. While the bank offers fundamental upside from its US operations, capital generation domestically and cost control, we believe that the shares are close to fairly valued at current levels.

1) US Operations: We believe TD is best positioned to take advantage of the US housing and economic market recovery in terms of lower impairments and higher growth, partly offset by weakening margins.

2) Payout Ratio: We believe that TD's underlying payout ratio will trend higher on the back of: 1) higher management guidance of 40-50% (up from 35-45%); and 2) a guided-to earnings growth towards the "lower end of 7-10%" (a higher payout maintains ROE in a slower earnings growth environment).

3) Additional Cost Control: if management delivers on cost control targets in the Canadian business, every additional 100 bps improvement in the efficiency ratio would translate into 1% uplift to our group EPS.

Valuation

We have a C\$52 target price on TD. We value the shares using two approaches: 1) Reported P/B warranted equity valuation; and 2) Dividend Discount Model. We set our target price at the average of these outcomes and cross-check against a market referenced sum-of-the-parts valuation and a warranted ROTE valuation. Our cost of equity assumption is 10% and our perpetual growth assumption is 3.5%.

Risks

1) Dodd-Frank reform: should capital requirements for TD Bank increase under a full Dodd-Frank implementation, there would be downside risk to our DPS and payout ratio forecasts. Conversely, should the implementation impact TD less than expected, there may be upside risk to consensus estimates for earnings and capital.

2) Cost control in Canada: cost cutting, which would help shareholders, may be detrimental to TD's customer proposition and thus resisted by management - potentially resulting in downside risk to our estimates. On the upside, should management over-deliver on costs, there would be upside to our earnings estimates and target price.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, we believe the stock will likely have difficulty achieving our target price / or could outperform it.

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

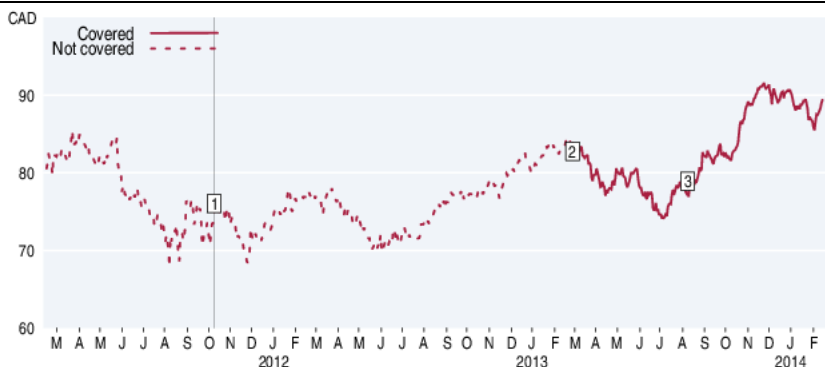
IMPORTANT DISCLOSURES

CIBC (CM.TO)

Ratings and Target Price History Fundamental Research

Analyst: Stefan Nedialkov

Covered since February 27 2013



	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		

* Indicates change

	Date	Rating	Target Price	Closing Price
2	27-Feb-13	*2	*89.00	83.88

	Date	Rating	Target Price	Closing Price
3	8-Aug-13	2	*84.00	77.40

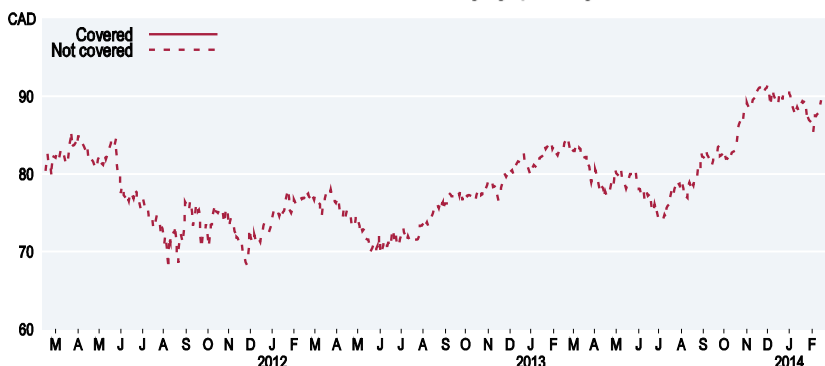
Rating/target price changes above reflect Eastern Standard Time

CIBC (CM.TO)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Stefan Nedialkov

Covered since February 27 2013



* Indicates change

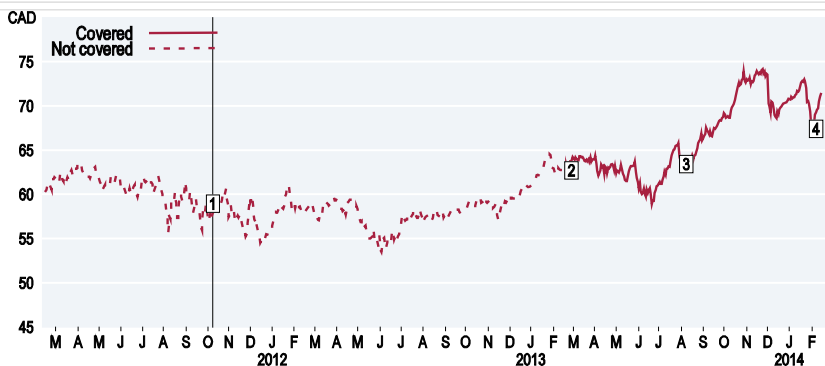
Rating/target price changes above reflect Eastern Standard Time

Bank of Montreal (BMO.TO)

Ratings and Target Price History Fundamental Research

Analyst: Stefan Nedialkov

Covered since February 27 2013



	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		
2	27-Feb-13	*1	*71.00	63.77

* Indicates change

	Date	Rating	Target Price	Closing Price
3	8-Aug-13	1	*74.00	63.72
4	7-Feb-14	1	*80.00	69.30

Rating/target price changes above reflect Eastern Standard Time

Bank of Montreal (BMO.TO)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Stefan Nedialkov

Covered since February 27 2013



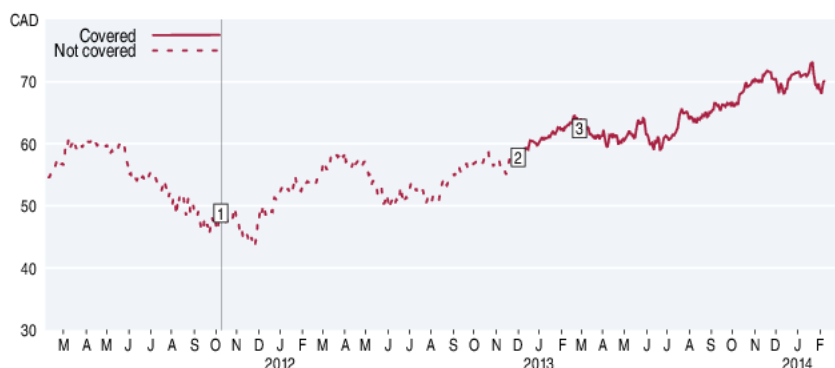
Royal Bank of Canada (RY.TO)

Ratings and Target Price History

Fundamental Research

Analyst: Stefan Nedialkov

Covered since December 4 2012



	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		

* Indicates change

	Date	Rating	Target Price	Closing Price
2	3-Dec-12	*1	*67.00	58.74

	Date	Rating	Target Price	Closing Price
3	27-Feb-13	*2	*68.00	63.48

Rating/target price changes above reflect Eastern Standard Time

Royal Bank of Canada (RY.TO)

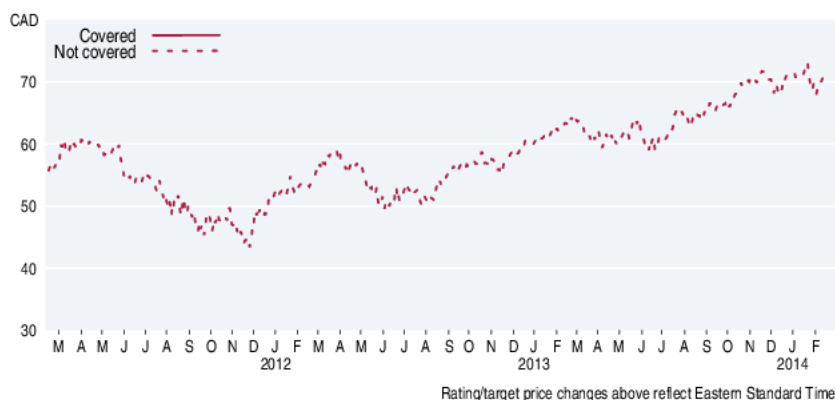
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Stefan Nedialkov

Covered since December 4 2012



Scotiabank (BNS.TO)

Ratings and Target Price History

Fundamental Research

Analyst: Ronit Ghose

Covered since December 4 2012



	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		
2	4-Dec-12	*2	*58.00	55.77

* Indicates change

	Date	Rating	Target Price	Closing Price
3	27-Feb-13	2	*62.00	60.60
4	30-Jan-14	2	*66.00	61.79

Rating/target price changes above reflect Eastern Standard Time

Scotiabank (BNS.TO)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Stefan Nedialkov

Covered since February 11 2014



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Toronto Dominion (TD.TO)

Ratings and Target Price History

Fundamental Research

Analyst: Stefan Nedialkov

Covered since December 4 2012



	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		
2	4-Dec-12	*1	*46.00	41.33

* Indicates change

	Date	Rating	Target Price	Closing Price
3	27-Feb-13	1	*47.50	42.15
4	8-Aug-13	1	*50.00	43.56

Rating/target price changes above reflect Eastern Standard Time

Toronto Dominion (TD.TO)

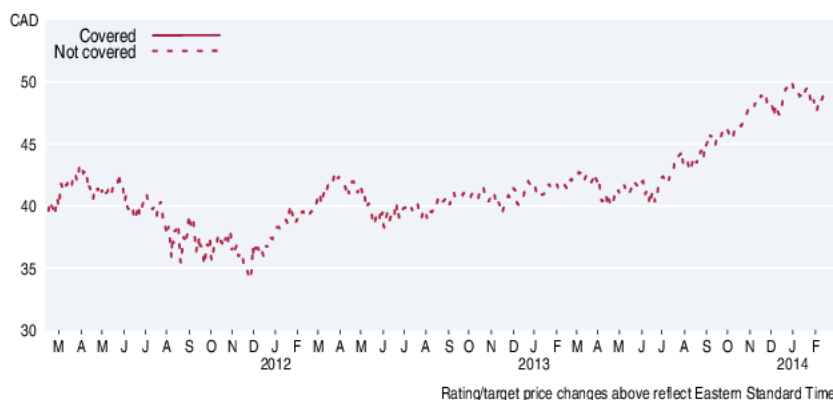
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Stefan Nedialkov

Covered since December 4 2012



* Indicates change

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Data current as of 31 Dec 2013

	12 Month Rating			Relative Rating		
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