FitchRatings

May 2023

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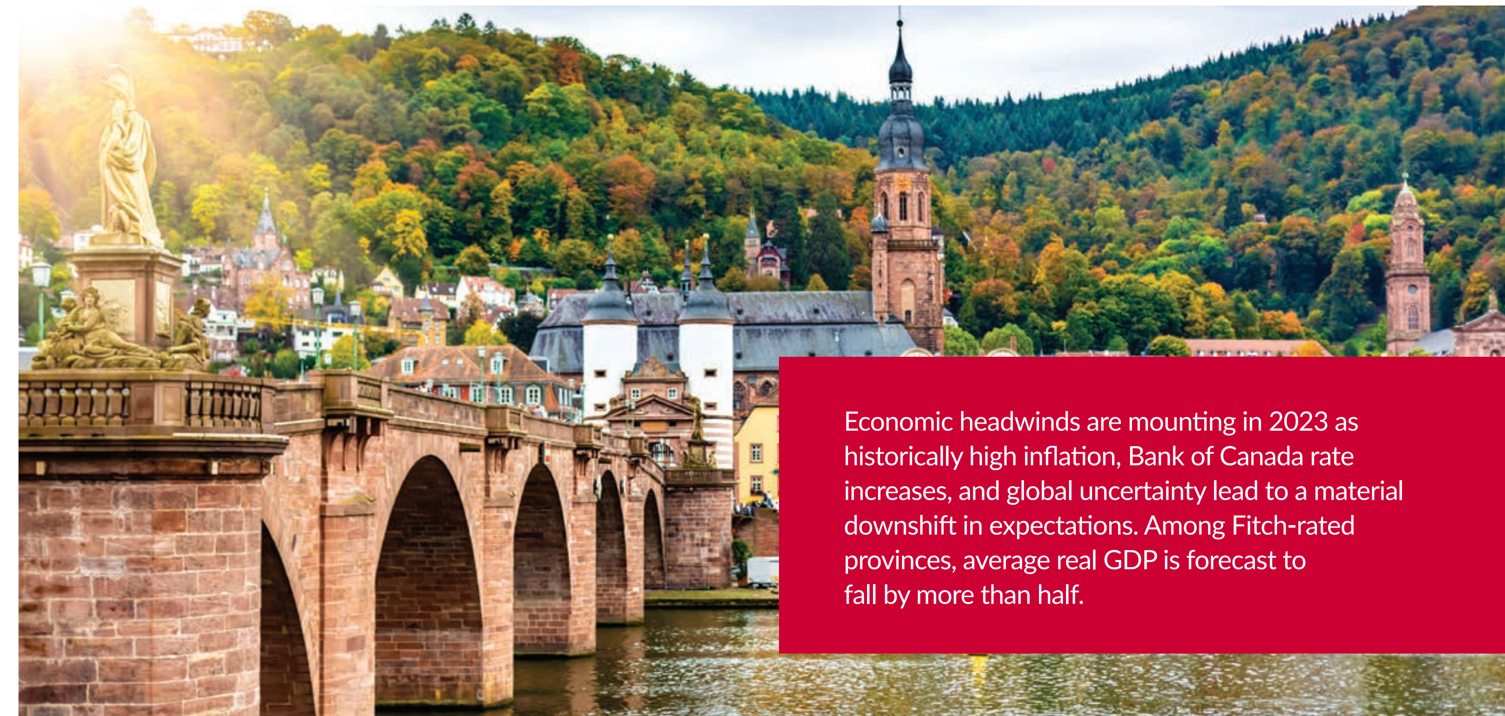
ABOUT FITCH ON: CANADA

Fitch On: Canada is a curated compilation of Fitch Ratings' in-depth research and commentary. This edition provides an overview of the macroeconomic outlook for Canada, as well as sector-specific reviews of Banks, Structured Finance and more. While Fitch has maintained its 'AA+' sovereign rating for Canada, its highly-rated bank system and resilient consumer base are showing signs of stress.

Fitch Canada continues to grow with the addition of a number of high-profile ratings, a significant expansion of our footprint in Toronto and the launch of Sustainable Fitch.

MACROECONOMIC



SECTOR OUTLOOK FOR CANADIAN LRGS REFLECTS DETERIORATING MACROECONOMIC ENVIRONMENT - December 12, 2022

Fitch Ratings' 2023 sector outlook for Canadian local and regional governments (LRGs) anticipates deterioration based on macroeconomic conditions unfolding in 2023 and a range of related risks, including rising wage demands, service delivery pressures, especially in healthcare, rising borrowing rates and side effects of the housing market correction. Still, Fitch-rated provinces are benefitting from significant economic and fiscal momentum that is likely to sustain credit quality through the near term.

The sharp rebound from the pandemic between 2021 and 2022 has left provinces in considerably better shape fiscally than expected. Since spring 2021, when budgets were tabled for fiscal 2021–2022 (ended March 31), forecast revenues for fiscal 2022–2023 have increased by CAD101 billion in aggregate and deficits have been cut by CAD55 billion. Commodities-dominated provinces have had more amplified revenue rebounds, reversing sizable deficits.

The slowdown is likely to weigh on tax collections and other revenues, including natural resource levies.

If revenue growth falls short of rising spending, which is being affected by program needs, wage costs and other inflation-linked pressures, structural budget gaps could re-emerge or expand, leading to higher borrowing requirements. Most Fitch-rated provinces benefit from robust and diverse economies and have broad discretion to respond to changing fiscal circumstances. Moreover, liquidity is solid and debt burdens increased less through the pandemic than anticipated and are falling in some provinces.

NORTH AMERICAN 2023 SOVEREIGN OUTLOOK CLOUDED BY RECESSION, INFLATION AND RISING RATES

- December 16, 2022 (amended May 3, 2023)

A mild recession, stubborn inflation and tighter financial conditions are the main features of the 2023 deteriorating sector outlook for the U.S. and Canada. Fitch Ratings has lowered its forecast for growth in the U.S. to just 0.2% in 2023, after lower-than-expected growth in 2022 of 1.9%. The Canadian economy retains more momentum but will follow a similar path with growth slowing to 0.6% in 2023 after a solid posting of 3.5% in 2022.

We expect inflation will begin to slowly dissipate over 2023 but remain well above policymakers' target. In response, we expect the Federal Reserve to increase its policy rates to 5% by 1Q23 while the Bank of Canada hiked its rate by 50 basis points to 4.25% in December. (Note: The Bank of Canada subsequently raised rates to 4.5% in January 2023, while the Federal Reserve raised rates to 5.25% in May 2023).

Fitch affirmed Canada at 'AA+' with a Stable Outlook in June 2022. Higher interest rates will push up the interest burden for both the U.S. and Canada, with a greater impact on the U.S.

Governments will pay more to borrow, although financing needs are declining. Disinflation and an economic slowdown will mean lower revenue growth in the U.S. and Canada, where the housing markets are slowing in response to a sharp tightening in conditions. The Canadian economy is vulnerable to a housing market correction, given the high level of household borrowing and the sharp rise in house prices during the Covid-19 pandemic.

The Canadian economy retains more momentum but will follow a similar path to the U.S., with growth slowing to **0.6%** in 2023 after a solid posting of **3.5%** in 2022.

PROVINCES

PROVINCES

FITCH AFFIRMS PROVINCE OF ALBERTA'S RATING AT 'AA-'; OUTLOOK STABLE - January 25, 2023

Fitch Ratings has affirmed the Province of Alberta, Canada's Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'AA-'. The Rating Outlook is Stable. In addition, Fitch has affirmed the province's Short-Term IDR at 'F1+' and long-term ratings on senior unsecured bonds at 'AA-'.

The ratings are based on Alberta's 'High Midrange' risk profile and a debt sustainability assessment in the 'a' category, which together result in a Standalone Credit Profile (SCP) of 'a+'. The IDR reflects an additional one-notch uplift based on Fitch's expectation of ad hoc federal support for debt market access during episodes of severe disruption.

Economic and fiscal performance in fiscal 2023 (ending March 31) has far exceeded Alberta's budget expectations, driven by a surge in energy prices and revenues. Alberta is directing the revenue windfall to repay debt, including CAD13.4 billion in fiscal 2023, equal to 18% of fiscal 2022 net adjusted debt, with another CAD5.8 billion reserved for future debt repayment. The rapid decline in debt and a continued focus on containing spending are strengthening the province's ability to absorb future volatility. However, fiscal gains may be tested in fiscal 2024 and 2025 as the province confronts potential recessionary effects on its economy and fiscal performance.

FITCH AFFIRMS BRITISH COLUMBIA 'AA+' RATING; OUTLOOK STABLE – April 4, 2023

Fitch Ratings has affirmed the Province of British Columbia, Canada's Long-Term Foreign and Local Currency Issuer Default Ratings at 'AA+'. The Rating Outlook is Stable. Fitch has also affirmed at 'F1+' British Columbia's Short-Term Foreign Currency IDR. The ratings on the province's senior unsecured bonds have been affirmed at 'AA+'.

The affirmation reflects Fitch's expectation that, despite near-term macroeconomic risks, economic and fiscal performance in British Columbia will remain solid over the longer term. Current uncertainties, including a housing market price correction and a rising likelihood of recession, are expected to weigh on revenue growth even as spending for operating and capital needs rise, leading to higher reliance on borrowing. Despite risks, the current budget for fiscal 2024 (which began on April 1) is cushioned by conservative assumptions and sizable contingencies. The province remains positioned for strong growth and has a history of quickly addressing fiscal challenges.

FITCH AFFIRMS PROVINCE OF ONTARIO RATING AT 'AA-'; OUTLOOK STABLE – November 22, 2022

Fitch Ratings has affirmed the Province of Ontario, Canada's Long-Term Foreign and Local Currency Issuer Default Ratings at 'AA-', and Short-Term Foreign Currency IDR at 'F1+'. In addition, Fitch has affirmed the province's senior unsecured bonds at 'AA-'. The Rating Outlook is Stable.

The affirmation reflects Ontario's 'Stronger' risk profile and a debt sustainability assessment in the 'bbb' category, which result in a Standalone Credit Profile of 'a+'. The IDR, at 'AA-', also reflects a one-notch uplift based on Fitch's expectation that market access will be supported during episodes of market volatility through ad hoc actions of the Bank of Canada. An exceptionally strong economic and fiscal turnaround is currently underway, with the province reporting a small surplus in fiscal 2021-22 and sharply improved debt burden metrics. This strength is tempered by expectations of near-term economic and fiscal erosion as inflation, higher interest rates, a weakening housing market and other macroeconomic risks weigh on projected performance.

FITCH AFFIRMS PROVINCE OF QUEBEC RATING AT 'AA-'; OUTLOOK STABLE

– December 14, 2022

Fitch Ratings has affirmed the Province of Quebec, Canada's Long-Term Foreign and Local Currency Issuer Default Ratings at 'AA- ', and Short-Term Foreign Currency IDR at 'F1+'. In addition, Fitch has affirmed the province's senior unsecured bonds at 'AA-' and 'F1+'. The Rating Outlook is Stable.

The affirmation is based on Quebec's 'Stronger' risk profile and a debt sustainability assessment in the 'bbb' category, which together result in a Standalone Credit Profile of 'a+'. The IDR, at 'AA-', also reflects a one-notch uplift based on Fitch's expectation that debt market access will be supported during episodes of severe disruption through ad hoc federal actions.

Quebec's robust economic and revenue rebound has progressed through fiscal 2023 (ending March 31), supporting progress in lowering the burden of debt. Strong recent trends, a conservative forecast and solid liquidity position Quebec favorably as it confronts forecast economic weakness in 2023, driven by inflation, higher interest rates and global economic uncertainties. Unfavorable demographic trends remain a long-term risk.

STRUCTURED FINANCE

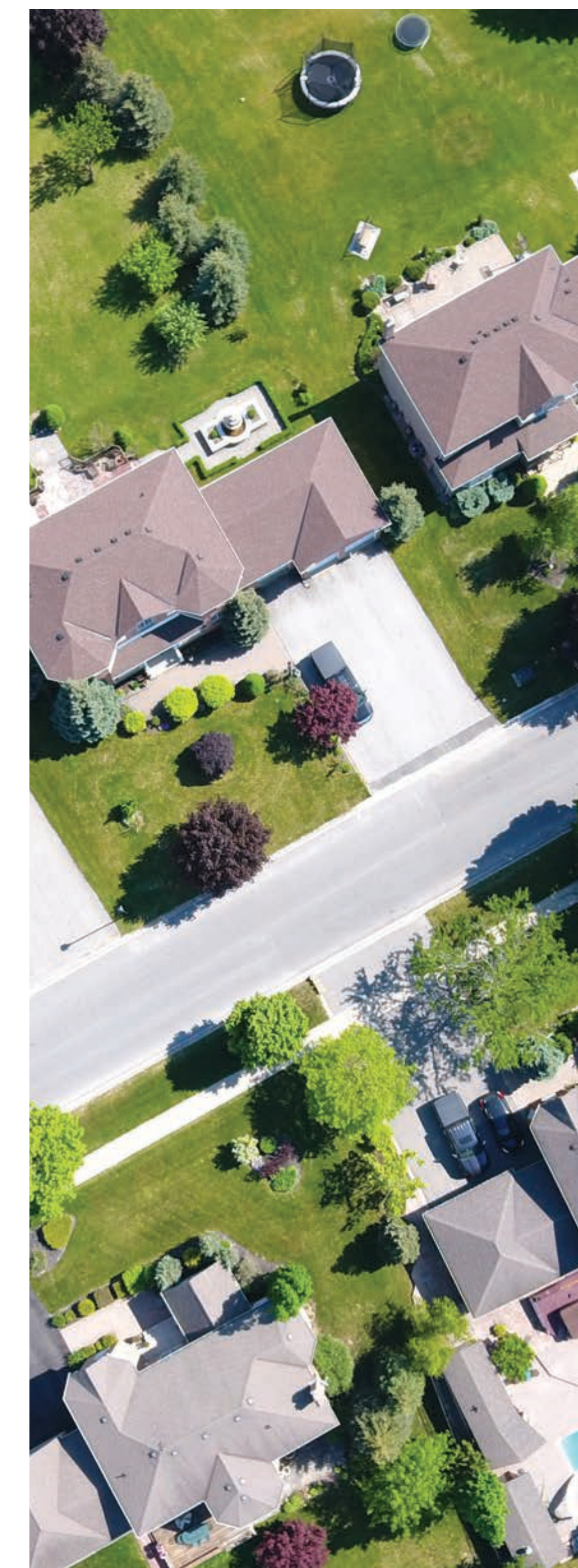
CANADIAN COVERED BONDS GOING STRONG DESPITE FALLING HOME PRICES AND INFLATION – February 21, 2023

Canadian covered bond ratings have shown resilience in 2022 despite falling home prices, inflation, and rising interest rates. All eight Fitch-rated programs have maintained their initially assigned ratings and continue to have Stable Rating Outlooks. All but one have 'AAA' ratings. Fitch assigned the newest Canadian covered program that debuted in 2021 a 'AA' rating on their inaugural issuance.

Some of the banks' long-term Issuer Default Ratings have Negative Outlooks or were downgraded in 2022, but all of the covered bond programs have Stable Outlooks because none use all of their granted uplifts. Total uplifts above the banks' IDRs are either 10 notches or eight notches for issuers that are not considered Domestic Systemically Important Banks (DSIBs) and do not benefit from the Bail-In Regime. The eight covered bond programs benefit from a buffer against a downgrade of their IDRs ranging between one and seven notches.

The cover pools for all programs consist of prime quality loans that are underwritten to the B-20 guidelines. The overall cover pool characteristics are strong with the majority of borrowers exhibiting credit scores above 700 and the loans having current loan to values (LTVs) of less than 50%. Furthermore, 90+ delinquencies for all Canadian mortgages are at record lows (less than 0.20%) and losses to date are about 0.10%. In all cases, the asset percentage (AP) relied upon provides more protection than Fitch's break-even AP for the ratings, which ranges from 92.5% to 100%.

The eight programmes included in the peer review (CAD206.97 billion of bonds as December 2022) are issued by Bank of Montreal, The Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Equitable Bank, The Fédération des caisses Desjardins du Québec, HSBC Bank Canada, National Bank of Canada and Royal Bank of Canada.

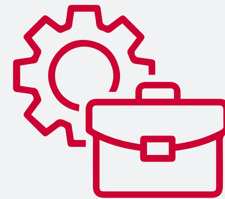


WEAKER HOME PRICES WILL NOT AFFECT CANADA COVERED BOND, PROVINCE CREDIT – February 6, 2023

Fitch Ratings expects Canadian home prices to decline another 5%-7% in 2023 with the dampening effects on demand of higher interest rates, inflationary pressures, a stagnant economy and worsening affordability, resulting in a peak-to-trough decline of around 15%. The home price correction will have a minimal impact on Canadian covered bond asset performance, as borrowers have robust home equity and were underwritten to the B-20 guidelines, which includes a mortgage stress test rate to qualify for a mortgage.

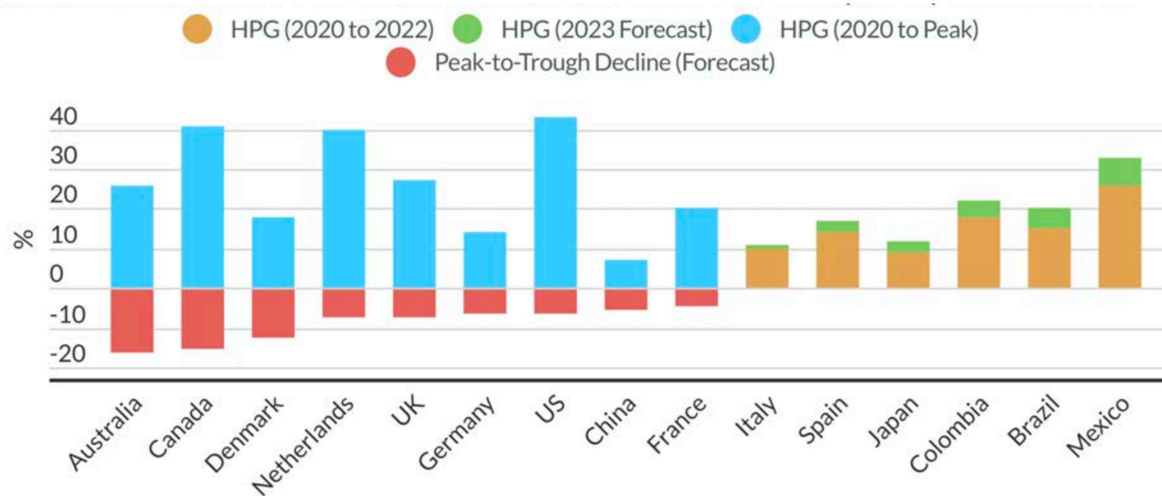
Canadian covered bond pools are composed of mortgages to prime borrowers and have a significant buffer against bank Issuer Default Rating downgrades from the various uplifts granted by Fitch. The buffer against an IDR downgrade ranges between 1 and 7 notches.

Home prices are up 20% from pre-pandemic levels, supported by tight supply and continued strong demand, despite price declines in 2H22. Along with the U.S., Canada had the greatest increases in home prices globally since 2020, but net home price changes in 2023 will not be as severe as seen in Denmark and Australia, given lack of supply and high demand. Our loan loss model assessment of sustainable property values indicates that Canadian housing is 29% overvalued, although this will likely be revised downward based on end-2022 data.



CANADA'S FINANCIAL POSITION IS SOLID, WITH A VERY LOW UNEMPLOYMENT RATE OF 5% AND INFLATION PRESSURES ABATING.
More severe recessionary pressures could result in a steeper housing downturn and negatively affect consumer spending, weakening tax collections.

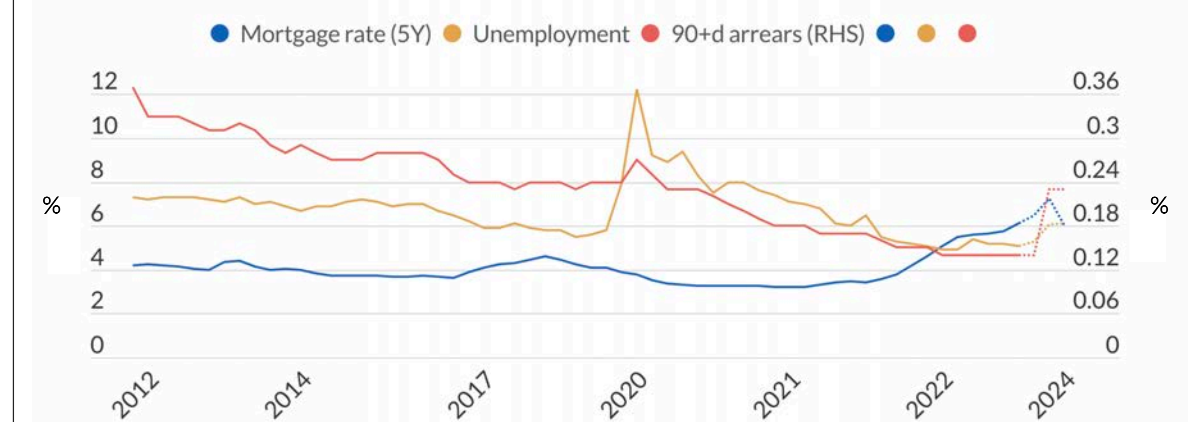
Fitch Home Price Forecasts vs Home Price Growth (HPG) Since 2020



Note: Based on middle of forecast ranges, and estimate for full year 2022 growth. Peak between 3Q21 and 4Q22.A
Source: Fitch Ratings, Haver Analytics, CoreLogic AU, TER/NBC, DKstat, CBS, HMLR, Bulwien, Case-Shiller, CNBC, INSEE, ScenImm/ISTAT, INE, JHFA, DANE, FIPE, SHF

Mortgage delinquencies are at an all-time low, but we expect to see an uptick due to elevated mortgage rates and weakening economic conditions reflected in slowing annual GDP growth (0.6% in 2023 versus our estimate for 2022 of 3.5%). Borrowers who renewed at current rates have seen substantial increases in their monthly mortgage payments. On average, borrowers have seen monthly payment increases of CAD300.00 and CAD700.00 for fixed-rate mortgages and variable-rate mortgages, respectively. Approximately 70% of mortgages are five-year, fixed-rate products.

Canada Mortgage Rates and Arrears



Note: 2023 and 2024 data points indicated the mid-point of the forecast ranges.
Source: Fitch Ratings, Haver Analytics, Canada Mortgage and Housing Corporation, Canadian Bankers Association, Statistics Canada.

Delinquencies have not increased despite higher mortgage payments and are likely to remain below pre-pandemic levels. Significant consumer savings built up during the pandemic have helped to cover higher payments, and borrowers have sizable equity in their homes. Guideline B-20 sets a stressed rate threshold relative to a borrower's debt service capacity to qualify for a mortgage, providing a cushion to absorb the increase in mortgage payments as a result of higher rates. In addition, banks proactively work with borrowers to avoid defaults.

Housing supply is most constrained in the Vancouver and Toronto metropolitan areas, which had the largest home price gains during the pandemic. These areas are now seeing some of the larger price corrections, although demand, driven by local buyers and high immigration, and limited supply are still supportive of net price gains relative to pre-pandemic. When prices dip, buyers on the sidelines jump in, offsetting downward price pressure, similar to market movements in Vancouver in 2017. Other cities have not seen a similar run-up in prices, including Montreal, whose housing market has been fairly steady overall.

Canada's financial position is solid, with a very low unemployment rate of 5% and inflation pressures abating. More severe recessionary pressures could result in a steeper housing downturn and negatively affect consumer spending, weakening tax collections. As strapped mortgage payers reduce discretionary spending, sales and excise taxes are likeliest to be negatively affected, and real estate transaction taxes are also likely to decline. Although property assessment and taxation practices vary across provinces, any valuation declines are likely to be lagged and are unlikely to translate to lower municipal or provincial taxes. Broadly, Canadian provinces have significant cushion to absorb an economic downturn, as they had a solid recovery from the pandemic with strong revenues and lower borrowing needs.

CANADIAN CREDIT CARD INDEX PERFORMANCE HOLDS MOSTLY STEADY TO END 2022

- February 6, 2023

Canadian credit card performance generally remained strong but saw chargeoffs inch up off record levels QoQ. Performance was supported by the still-tight labor market sustaining strong consumer spending, but softening credit trends are pushing moderate deterioration from record strong levels.

Fitch expects performance to continue to trend towards pre-pandemic levels, as many households are facing pressures from higher costs of living and greater debt burdens given inflationary pressures and elevated interest rate environment, with the lower income and higher indebted households being the most vulnerable. However, some of these stress conditions are expected to be offset by the remaining savings cushion accumulated during the pandemic and the continued resilience in the labor market, including near record low unemployment and increasing wages.

During the quarter, the three-month average for Fitch's late stage delinquencies (60+ day delinquencies) was flat at 0.90% but up from 0.83% YoY. The net chargeoff index rose to 1.96% from 1.88% over the same period and was up notably from 1.51% in 4Q21. Monthly payment rate strengthened to 62.81% from 59.22% in the prior quarter, despite growing card balances and stress facing households. Fitch expects continued normalization of performance as the Bank of Canada maintains an elevated policy interest rate, resulting in slower economic growth and tighter financial conditions, potentially impacting the ability for some cardholders to meet payment obligations.

BANKS

CANADIAN BANKS' 1Q23 PROVISION AND EXPENSE GROWTH OFFSET RATE BENEFIT

- March 6, 2023

Canadian banks' reported results reflect incremental normalization of performance measures post-pandemic, as incorporated in Fitch's ratings and outlook. The largest Canadian banks' January fiscal first quarter earnings were materially down yoy on a reported basis, driven by a one-time windfall tax, litigation-related provisions at Canadian Imperial Bank of Commerce (CIBC) and Toronto-Dominion Bank (TD) and costs related to recently closed or upcoming acquisitions by Bank of Montreal (BMO) and TD. Excluding these, and other adjusting items, results were largely flat yoy. Adjusted return on average assets across the seven largest banks, including Desjardins Group (DESJ) which reported as of December 2022, averaged 0.8%, unchanged from the year-ago quarter. Loan growth remained strong, at or near double digit levels yoy, particularly in commercial portfolios. However, on a qoq basis, the pace of loan growth slowed significantly, especially in personal lending, as credit demand responded to the 425 bps in cumulative rate hikes since March 2022. A number of banks reported quarterly contractions in credit card balances and consumer loans for the first time since 2021.

With the exception of National Bank of Canada (NBC) and Desjardins Group, yoy loan growth outpaced deposit growth, which together with an unfavourable mix shift in deposits, compressed net interest margin across most institutions.

Average firmwide net interest margins declined by approximately 6 bps qoq and 5 bps yoy. More asset sensitive TD was the exception, having progressively expanded its adjusted margin by 25 bps relative to 1Q22.

Average bank provisions for credit losses, as a share of loans, were 22 bps as of quarter end, largely flat versus the prior quarter, after stepping up from single digit levels from mid-2021 to mid-2022. Banks continued to guide to normalization of credit losses over the near term, and are expected to close the gap with pre-COVID provision ratio levels over the coming quarters (approximately 12 bps). Impaired loan ratios also ticked upwards modestly qoq, by roughly 2 bps on average, in line with Fitch's expectations.

Mortgage quality remained largely benign, notwithstanding a housing market correction and materially higher debt service costs for renewing borrowers. Year-over-year non-interest expense growth outpaced adjusted revenue growth at most institutions, reflecting personnel costs and an elevated pace of technology investment. However, many banks guided to peaking expense growth and recommitted to positive operating leverage for the full fiscal year.

In terms of segment performance, revenue growth was broad based, with strong performance in Canadian personal and commercial banking (growing approximately 12% yoy on aggregate). Capital markets revenues also ticked upward by 2% yoy, as recovering sales and trading helped offset continued weakness in investment banking. Wealth management revenues similarly increased broadly yoy, benefitting from higher net interest income in private banking, which helped offset lower net sales and fee income from the market-driven contractions in assets under management.

Common equity Tier 1 (CET1) levels continued their rapid normalization to pre-COVID levels, as anticipated. Bank of Montreal, which closed its acquisition of Bank of the West after the end of 1Q23, guided to a CET1 ratio of 11.5% by 2Q23, and 12% by fiscal year-end. TD, which reported a pro forma 15% CET1 ratio following its Cowen acquisition on March 1, similarly guided to a CET1 ratio well in excess of 11% after it closes on its expected acquisition of First Horizon Corporation (FHN).

TD disclosed that a delay in regulatory approval had extended closing on FHN beyond the May 27, 2023 horizon of its merger agreement. In terms of Basel III regulatory capital reforms, which will be implemented as of fiscal 2Q23, banks guided to a small or moderately positive benefit to CET1. Royal Bank of Canada's estimated benefit from the new rules was at the higher end, at 70 to 80 bps.

CANADA RATE HIKES ON PAUSE, BIGGER U.S. DOWNTURN WOULD TEST RESILIENCE

– January 31, 2023

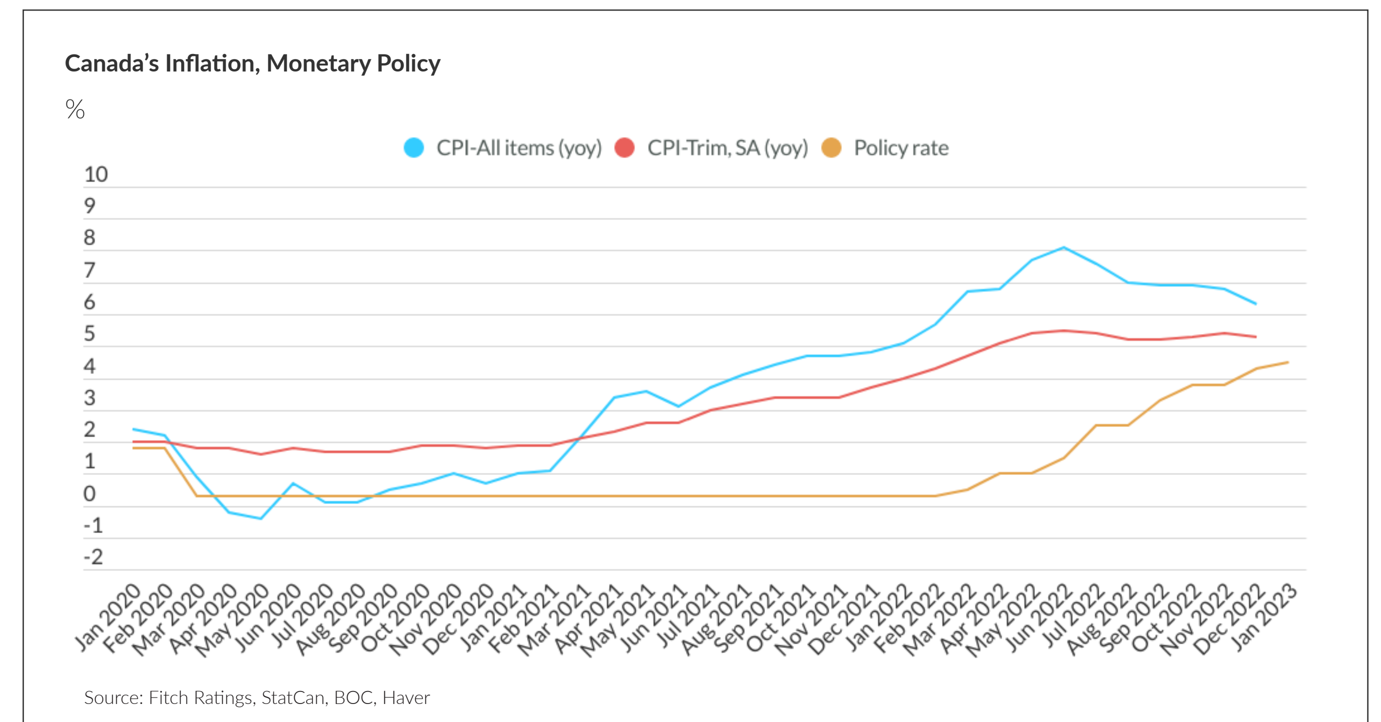
The Bank of Canada (BOC) is unlikely to increase rates again in 2023 given declining headline inflation. Further monetary policy tightening, a larger-than-expected housing market downturn or a deeper-than-forecast U.S recession would test Canada's economic resilience.

The BOC raised its target for the overnight rate by 25bp to 4.5% on January 25, 2023 and said that if economic developments are broadly as expected, it will hold the policy rate at this level 'while it assesses the impact of the cumulative interest rate increases.' It said that it would increase rates if necessary to return inflation to target.

We assumed the BOC was nearing the end of its tightening cycle in our Global Economic Outlook – December 2022, although we projected the policy rate to rise only to 4%. Our forecasts for Canadian real GDP growth to slow to 0.6% in 2023, compared with the BOC's 3.6% estimate for 2022, partly reflect tighter financing conditions and a weakening housing market, as well as lower expected exports to the U.S.

We now expect the BOC to keep the policy rate at 4.5% throughout 2023, given that the BOC forecasts headline inflation to fall to 2.6% this year and its preferred inflation measures appear to have peaked. However, continued tightness in the labour market, keeping wage growth strong, makes policy rate cuts unlikely this year.

A bigger-than-expected slump in Canada's housing market would weigh further on consumption and potentially on residential investment, weakening growth. We see Canadian home prices falling by 5%-7% this year, with a structural housing shortage providing some support. The household debt service/disposable income ratio has risen, but it remains below pre-pandemic levels.



Source: Fitch Ratings, StatCan, BOC, Haver

Another risk would arise in the event of a more severe U.S. recession. We expect the U.S. will have a mild recession, slowing 2023 growth to 0.2%. A deeper U.S. downturn would weigh on Canada's economic performance through close trade and investment links, as well as the potential impact on commodity prices.

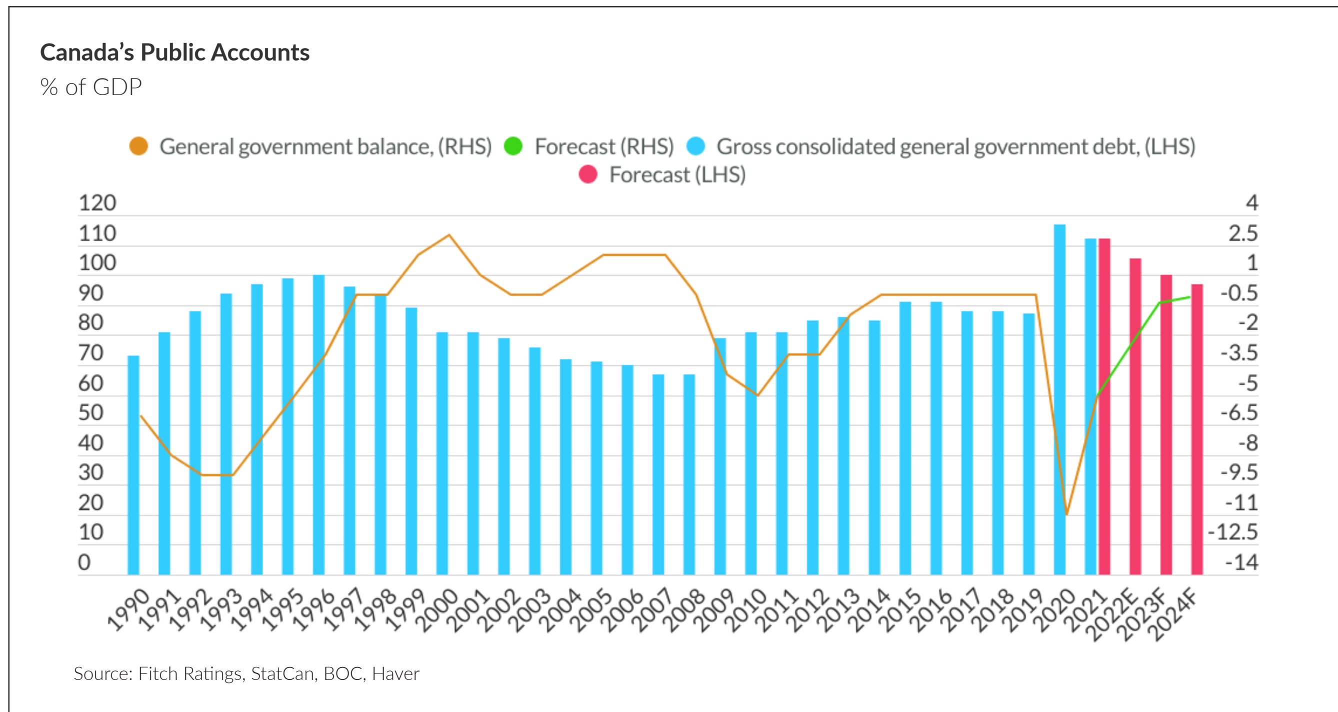
Strong governance, high per capita income and a macroeconomic policy framework that has delivered steady growth and generally low inflation are among Canada's sovereign credit strengths, while the high public debt burden is a key weakness. The Stable Outlook on Canada's 'AA+' rating indicates that these factors are balanced in our rating assessment.

Last year's windfall oil and gas revenues helped narrow the fiscal deficit alongside the rolling off of pandemic support measures. Under our baseline macroeconomic projections, we forecast the general government fiscal deficit to narrow to 1.1% of GDP in 2023 and 0.7% in 2024, from 2.6% last year.

Combined with growth returning to pre-pandemic potential levels, this should support a reduction in gross consolidated general government debt/GDP below 100% of GDP in 2024. A more pronounced economic slowdown and/or higher interest rates could lead to weaker fiscal outturns than we expect.

Conversely, larger debt reduction would depend on additional fiscal measures. While budgeting at the provincial level has been conservative, the federal government will seek to balance social spending commitments and calls by the provinces for greater health spending with less buoyant revenues. Higher interest rates will also push up the sovereign's interest burden.

Canada's Public Accounts
% of GDP



Source: Fitch Ratings, StatCan, BOC, Haver

CANADIAN BANK CAPITAL, EARNINGS WITHIN RATINGS BENCHMARKS IN 2023 – January 25, 2023

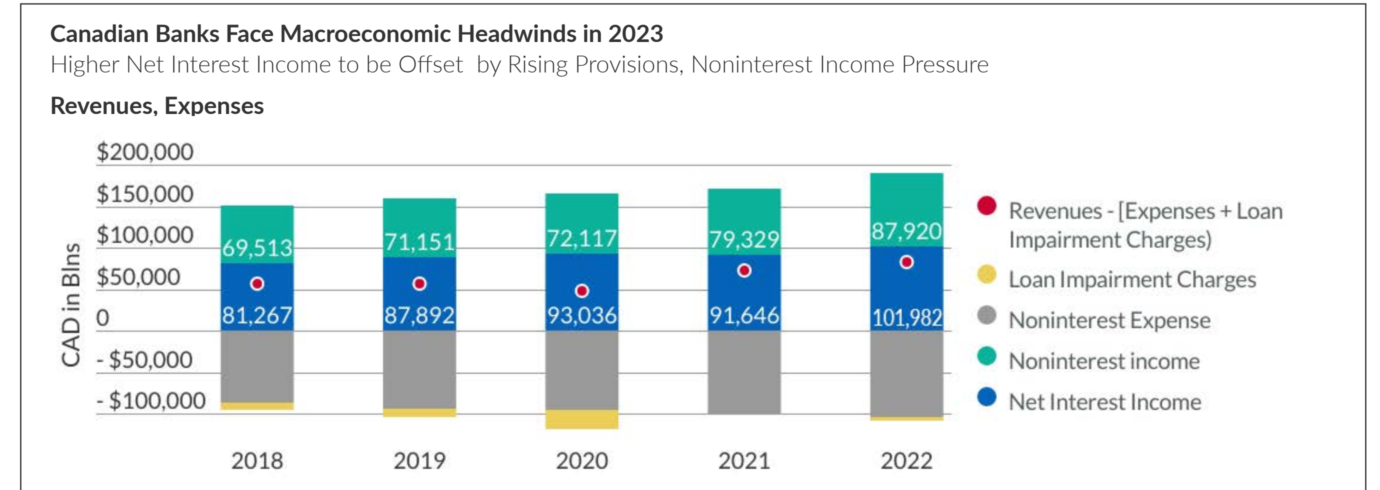
Canadian bank ratings should remain stable in 2023, with asset quality, profitability, capitalization and liquidity profiles softening, but remaining within ratings benchmarks.

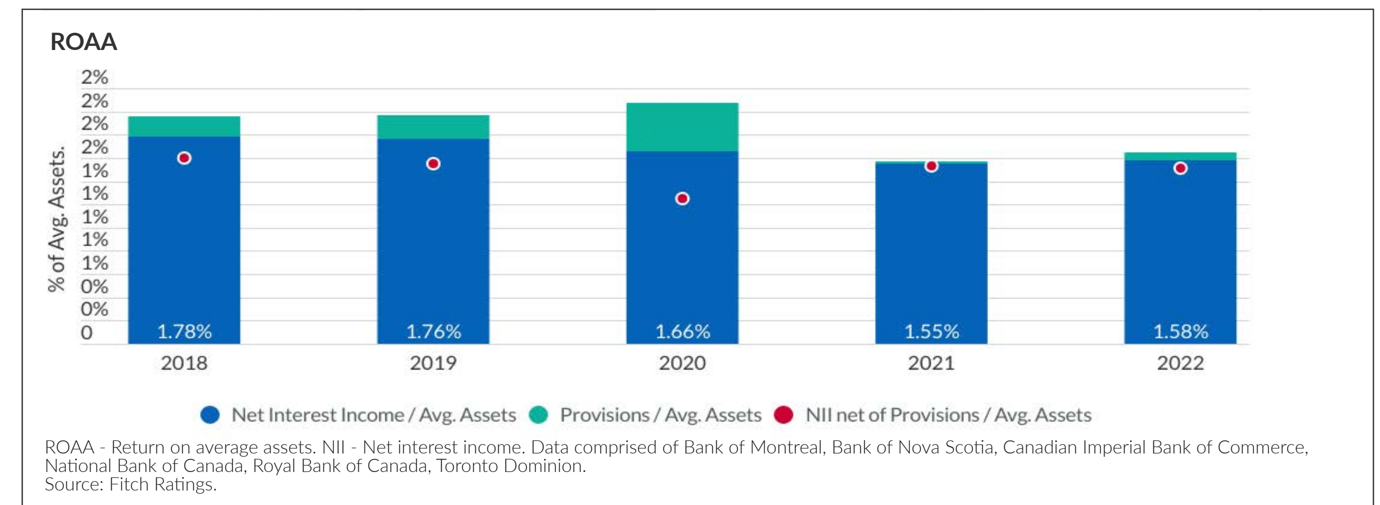
Although the sector outlook for Canadian banks is deteriorating, with financial metrics expected to worsen compared to 2022, banks start the year with historically strong asset quality, profitability, capitalization and liquidity, and should withstand slowing economic growth. Fitch's base case includes a decline in Canada's GDP to 0.6% for 2023 from 3.5% in 2022, and unemployment of 6.1% in 2023, up from 5.1%. This assumes that the Bank of Canada has nearly reached the end of its hiking cycle.

Higher net interest income may be the only bright spot for Canadian bank revenues in 2023. However, net interest income growth will slow compared to 2022, as slower loan growth and increased competition for funding offsets higher rates.

Profitability will be further challenged by a meaningful YoY rise in provisions, persistently weak capital markets activity and softer asset management-related fees.

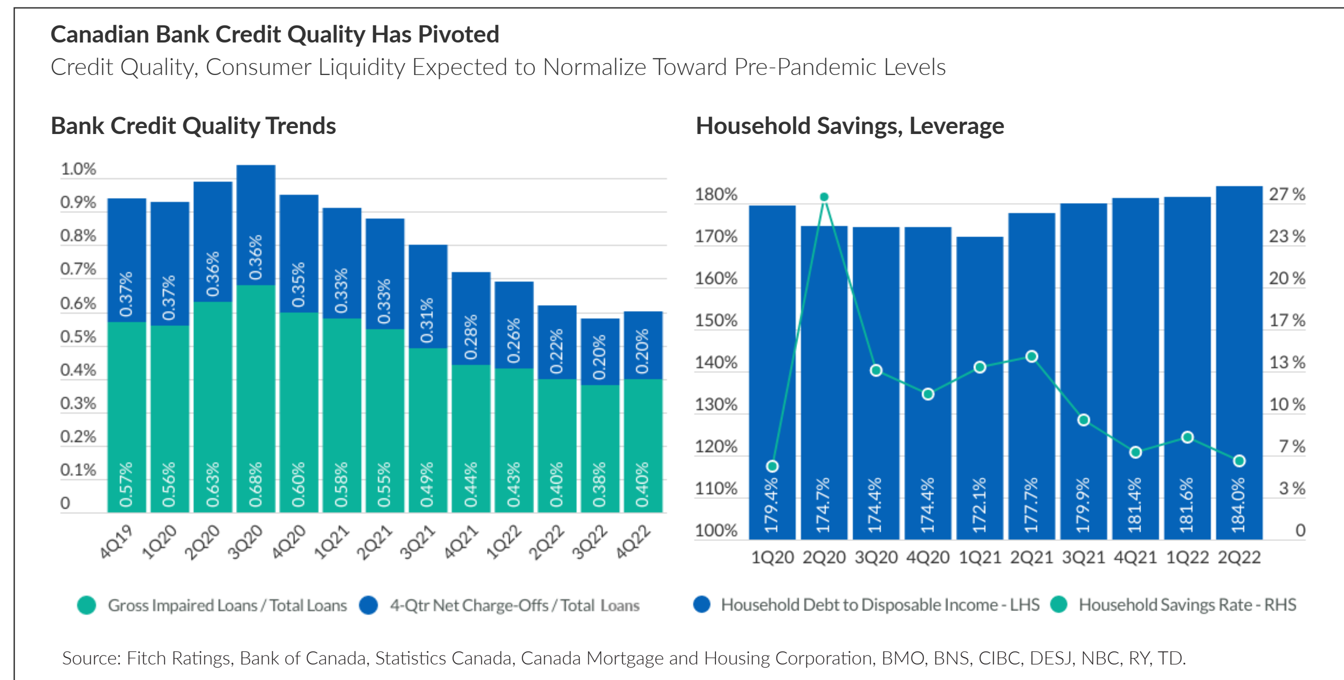
Canadian Banks Face Macroeconomic Headwinds in 2023
Higher Net Interest Income to be Offset by Rising Provisions, Noninterest Income Pressure





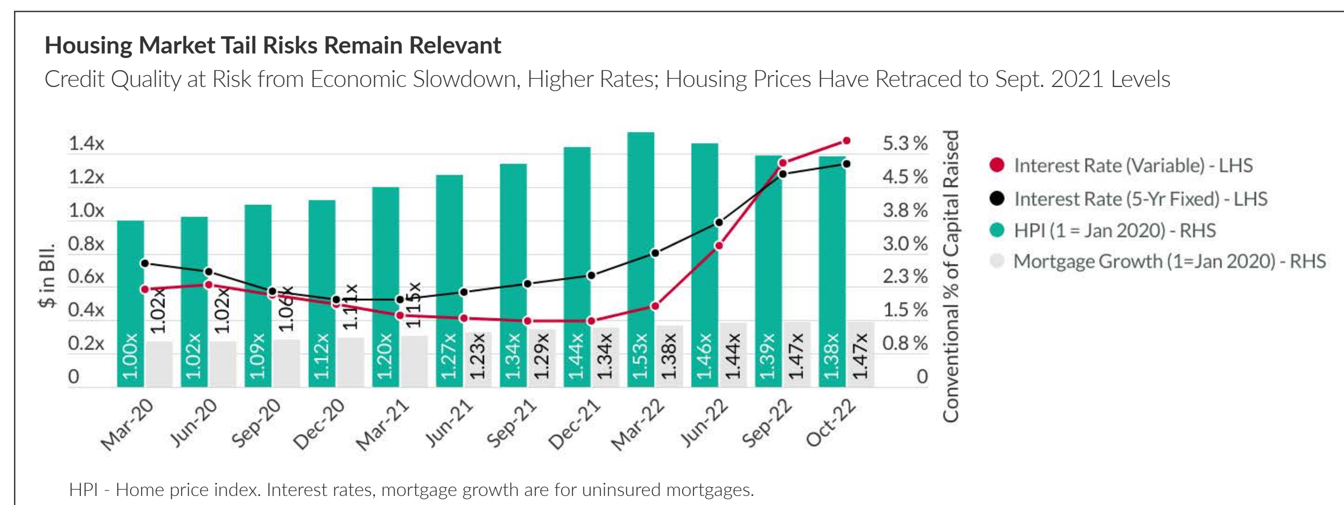
ROAA - Return on average assets. NII - Net interest income. Data comprised of Bank of Montreal, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, National Bank of Canada, Royal Bank of Canada, Toronto Dominion.
Source: Fitch Ratings.

Household savings remain at nearly double pre-pandemic levels. This has underpinned banks' unusually low loan impairments and net charge-offs. However, credit quality has shown signs of pivoting after two years of steady improvement. Credit losses are also rebounding to more normal levels and Fitch expects a doubling of loan impairment charges to levels resembling long-term historical averages.



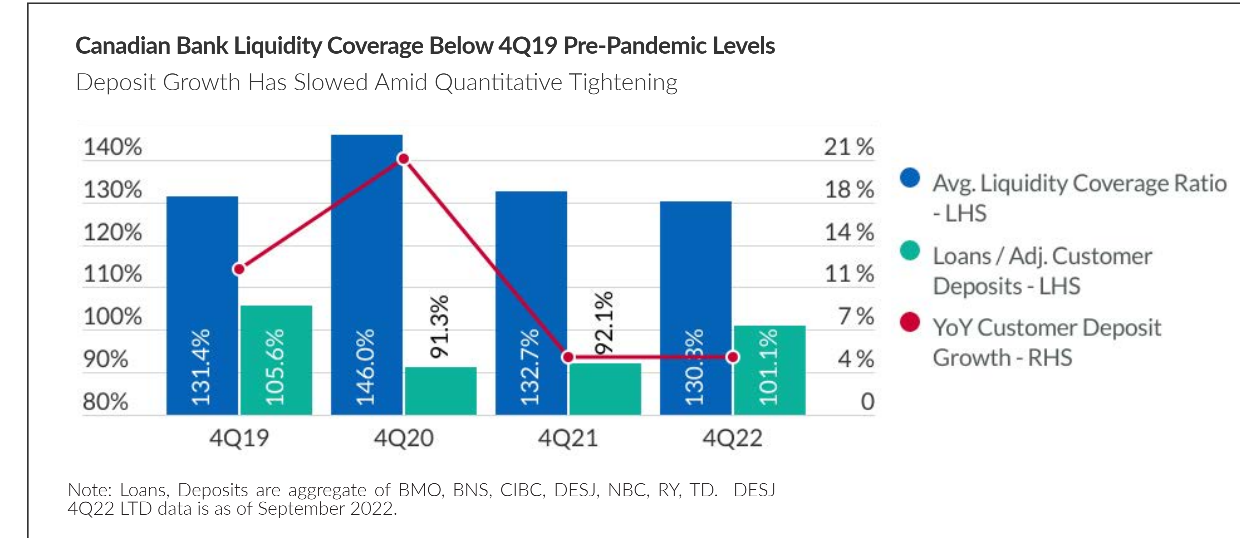
Source: Fitch Ratings, Bank of Canada, Statistics Canada, Canada Mortgage and Housing Corporation, BMO, BNS, CIBC, DESJ, NBC, RY, TD.

Housing market tail risks remain relevant, as banks have meaningful exposure to mortgages (27%-52% of loans at the systemically important banks as of 4Q22). Rate hikes may soon pause, but higher mortgage payments and inflationary pressures, coupled with rising unemployment, pose risks for credit quality. The pace of the housing price decline, while slowing, will continue in 2023. However, high immigration and low housing supply suggest no end to affordability concerns beyond the current rate hiking cycle.



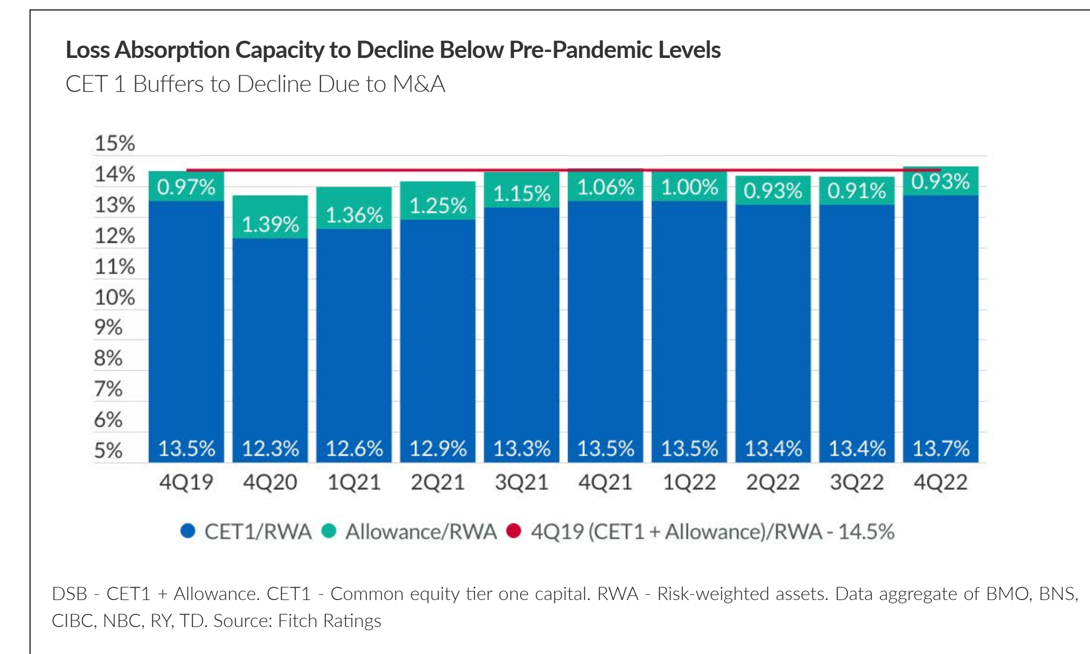
HPI - Home price index. Interest rates, mortgage growth are for uninsured mortgages.

Liquidity management is a priority, as liquidity coverage and loan-to-deposit ratios have largely normalized and will come under added pressure amid increased funding costs and rising deposit betas. Deposit growth is expected to slow and remix to higher yielding products amid lower savings rates as the Central Bank's actions further drain systemic liquidity.



Note: Loans, Deposits are aggregate of BMO, BNS, CIBC, DESJ, NBC, RY, TD. DESJ 4Q22 LTD data is as of September 2022.

Capital deployment for acquisitions amid increased regulatory capital requirements will create additional headwinds for banks. Capital levels are certain to step down, however, banks have the flexibility to raise capital, as seen with BMO's C$2.6 billion share offering. Other options include the securitization or sale of assets. Effective February 2023, large Canadian banks' DSB buffer will increase by 50bps to 3.0%, raising the CET1 requirement to 11.0% from 10.5%.



DSB - CET1 + Allowance. CET1 - Common equity tier one capital. RWA - Risk-weighted assets. Data aggregate of BMO, BNS, CIBC, NBC, RY, TD. Source: Fitch Ratings

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