Canadian Banks

Resilient Earnings, Dividend Growth to Fuel Long-Term Returns

Equal Weight Canadian Banks

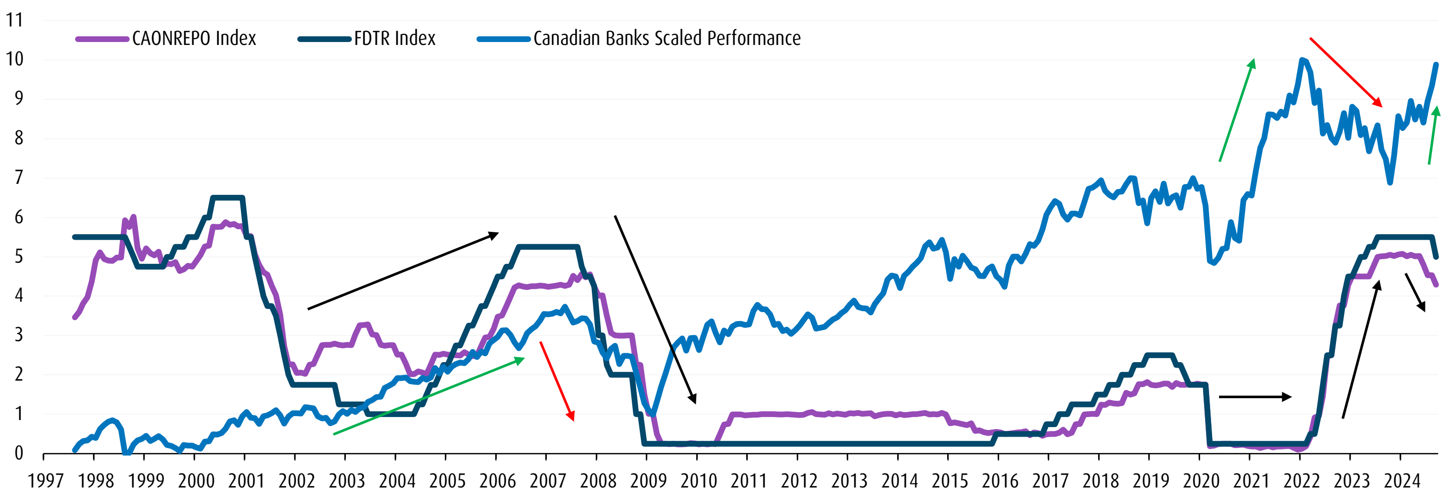
Covered Call Canadian Banks

Canadian banks are benefitting from the potential soft landing of the economy, an outcome that appears more likely due to easing inflation and unemployment, coupled with stimulative economic activity. Investors with long-term horizons and low risk tolerance can typically rely on the Big Six Canadian Banks[1], known for their consistent year-over-year dividend growth. We believe this sector presents an attractive long-term opportunity as interest rates decline and earnings growth continues to gain momentum after the COVID moratorium.

Navigating the shift and the rate advantage

- Canadian Banks have displayed a strong convergence to interest rate cycles in the past. After the dot-com crash in the early 2000's and the great financial crisis of 2008-09 – Canadian banks moved in tandem with rates and entered a subsequent 10-year bull run up until the Covid pandemic in 2020. Post which they established new highs as rates remained flat and only began trending downwards once the rate hike cycle was underway.
- Forward Outlook: As we commence the current rate cut cycle the banks are now in a very favourable position and exhibit a solid divergence to rates. As rates get lower the defaults are expected to subside and this, coupled with the loan books increasing in value marks a stark contrast to previous cycles where an economic downturn accompanied rate cuts. If a soft landing is truly in sight the banks are poised to benefit from slashing rates.

Big Six Banks & Interest Rate Cycles



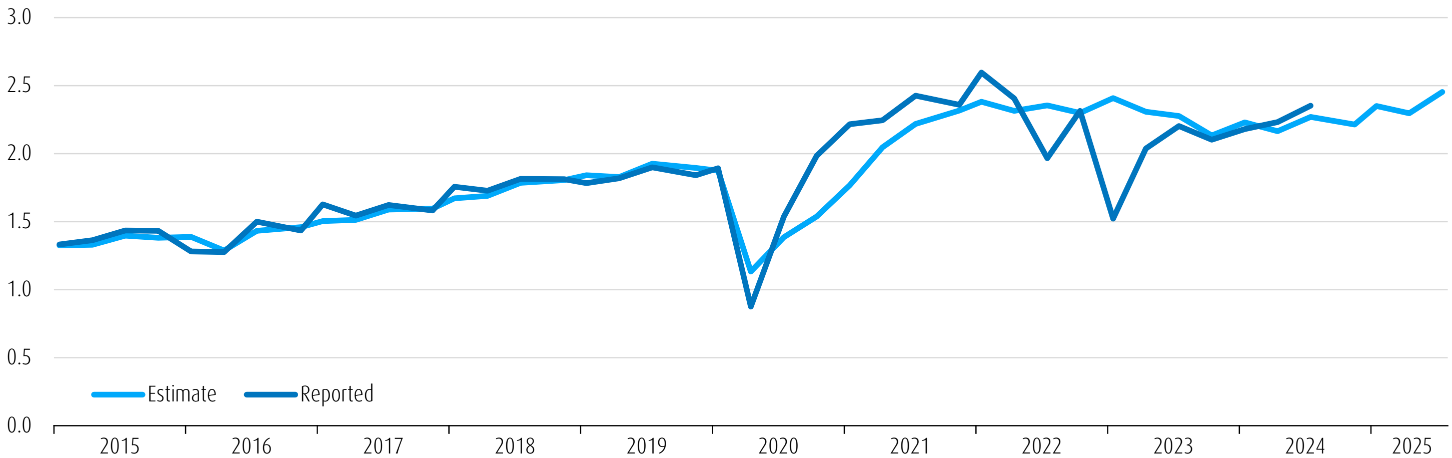
Source: Bloomberg as of September 30, 2024.

The CAONREPO Index represents the Canadian Overnight Repo Rate targeted by the Bank of Canada (BoC) and the FDTR Index represents the U.S. Federal Fund Target Rate. The scaled (min-max) equal weighted price average of the banks has been used to perform a reasonable comparison. This chart does not reflect the past performance of the BMO Equal Weights Banks Index ETF (ZEB), nor does it intend to reflect the future predicted performance of the ETF or the associated Fund.

Canadian Banks showcase strength in Q3, 2024

- The six largest Canadian banks reported approximately $15 billion in after-tax earnings for Q3*, reflecting an average of ~7-8% increase year-over-year.
- Banks experienced double-digit growth in pre-tax, pre-provision earnings which is akin to EBITDA* in traditional sectors and is indicative of robust operational performance.
- Income from Capital Markets exceeded expectations, signaling strength in this segment, and providing a buffer against future economic headwinds.
- Despite ongoing concerns over potential credit losses and their provisions, most banks reported a positive surprise and maintained a cautiously optimistic tone, citing expectations of future interest rate cuts and a resilient Canadian consumer as key drivers for continued earnings growth.

Big Six EPS vs Estimates*

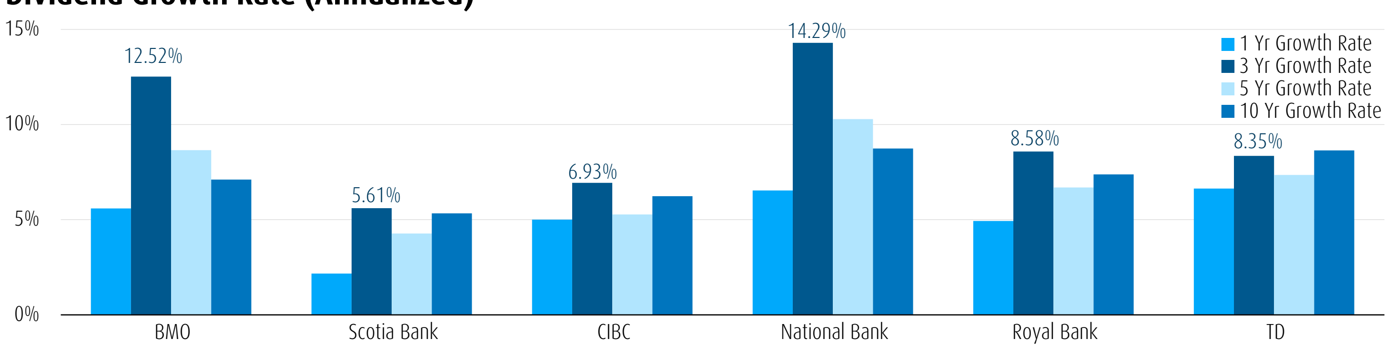


* Source: Bloomberg as of September 30, 2024. Average of the Big Six Canadian banks quarterly reported earnings per share (EPS) vs average consensus estimates of EPS for the quarter. EBITDA: Earnings before interest, taxes, depreciation, and amortization.

Banks have historically offered sustainable dividend growth

- Even after a strong year-to-date performance, we believe Canadian Banks will continue to benefit from the potential soft landing. Although there are concerns about slowing consumer momentum, the Canadian economy showed strong growth in the last quarter which was accompanied by easing unemployment and inflationary pressures. As banks continue to maintain healthy capital positions it enables them to pursue shareholder-friendly actions, such as dividends and stock buybacks, which only enhances investor confidence.

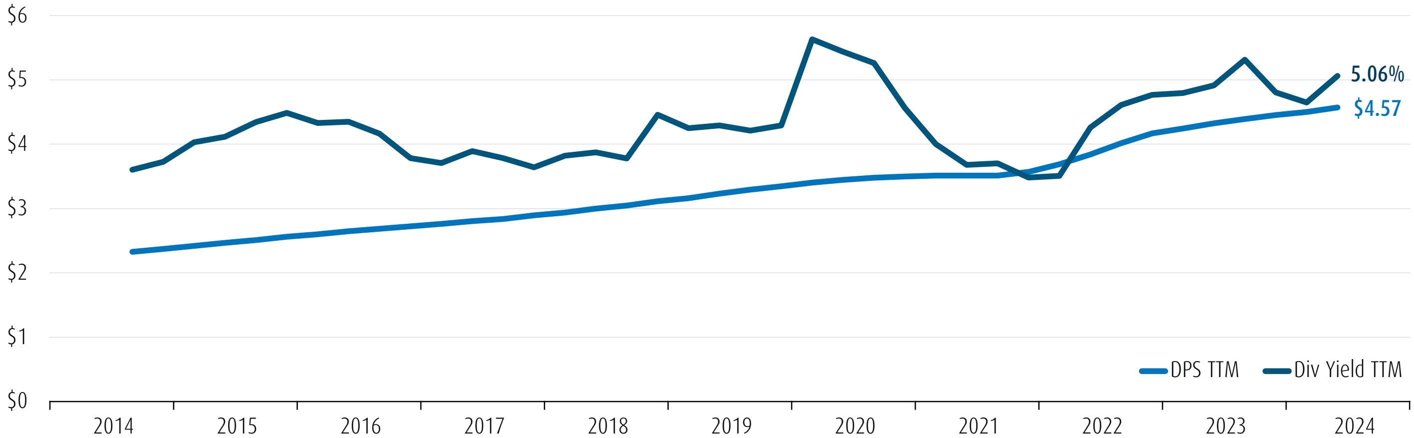
Dividend Growth Rate (Annualized)



Source: Bloomberg as September 30, 2024. Growth rate over the 1, 3, 5, and 10-year period in net dividend per share. Calculated as: (Current year's dividend per share / Dividend per share prior), raised to the power of 1/# of years, minus 1, times 100. Dividends per share includes Interim and Final payments, as well as all Abnormal Dividends. Dividend amounts are adjusted for stock splits and other corporate actions.

- The Big Six group, on average, delivered a ~7% Compounded Annual Growth Rate (CAGR)[2] in dividends during the past decade. This predictability in income – in an environment when inflation could stay elevated for a longer period – suits income investors who want to ride this volatility through a lower-risk[3] approach, while still earning a decent return. After the COVID moratorium on dividend hikes, bank dividend growth is firmly back on track with the three-year dividend growth reaching ~9% annualized.

Big Six Dividends



Source: Bloomberg as September 30, 2024. Average of the Big Six Canadian banks trailing twelve-month (TTM) dividend per share (DPS). Calculated by adding the net dividend amounts for all dividend types that have gone 'ex' over the past 12 months based on the dividend frequency. The dividend yield TTM is then calculated by dividing the DPS TTM by the stock price at the date.

- Canadian banks are well-positioned to provide long-term capital growth with their robust dividend programs, supported by their manageable payout ratios and strong balance sheets. Due to this inherent strength, Canadian banks have always historically recovered strongly from the market volatility and downturns, including the pandemic and the Global Financial Crisis.
- Even if we face a mild recession in North America, history shows buying CAD bank stocks during downturns pays off. Once the economy recovers and banks start releasing reserves back into earnings, this combination of earnings growth and attractive valuations can potentially drive outperformance.

		P/E Ratio				
	Market Cap (in billions)	**Current**	**Forward**	**Pandemic**	**GFC**	**5 Year**
BMO	$82.21	10.88	10.92	7.62	8.33	10.22
RBC	$230.63	13.69	13.00	9.68	11.25	11.56
TD	$141.18	10.41	10.62	8.91	8.42	10.48
National	$42.00	11.83	12.05	8.29	6.79	10.37
CIBC	$74.27	11.26	11.19	6.74	–	9.55
Scotia	$83.24	11.70	10.52	8.1	10.92	9.84
Average		**11.63**	**11.38**	**8.22**	**9.14**	**10.34**

Source: Bloomberg as of September 30, 2024. Ratio of the price of a stock and the company's earnings per share. it is calculated as the stock price at the date divided by TTM EPS. The Forward P/E is calculated using the BEst (Bloomberg Estimates) EPS that reflects the consensus estimate for adjusted earnings per share. The consensus estimate is the mean of sell-side analyst estimates. The Covid-19 pandemic and the great financial crisis figures are as of March 31, 2020, and December 31, 2008, respectively.

BMO ETF based Mutual Funds offer an efficient way to invest in banks

Mutual funds can provide an efficient way to gain exposure to Canadian banks. Both the BMO Canadian Banks ETF Fund and BMO Covered Call Canadian Banks ETF Fund are compelling, low-cost solutions to earn sustainable dividend income from banks.

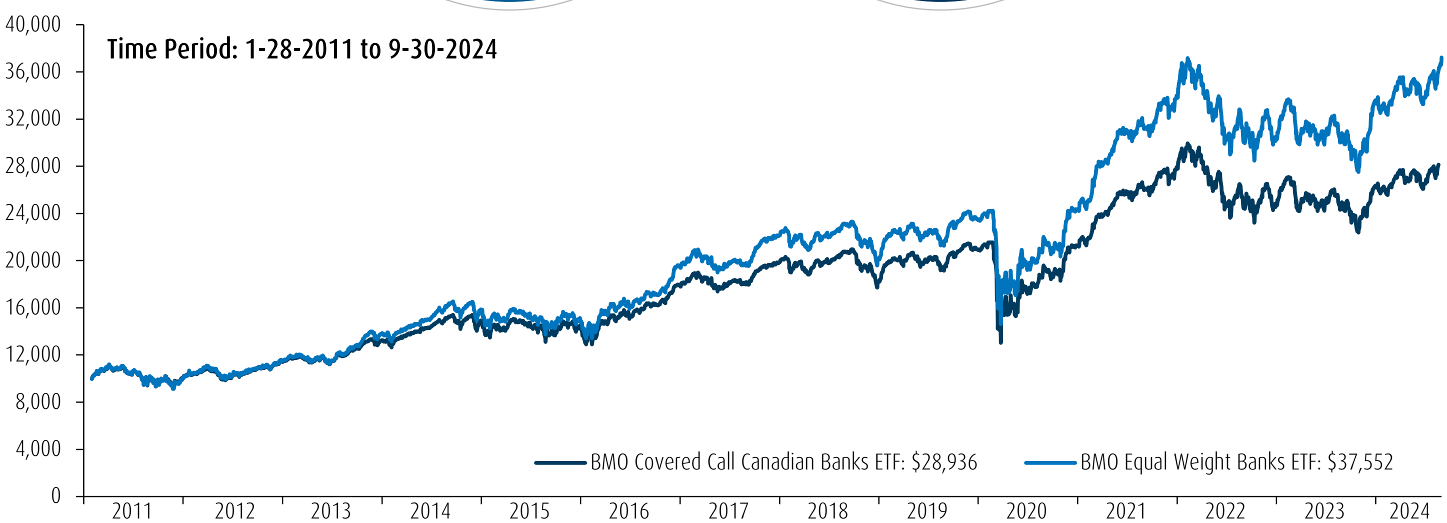
Fund	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	Since Inception†
BMO Equal Weight Banks Index ETF	4.06	7.22	11.92	23.94	6.41	11.53	8.77	10.56
BMO Canadian Banks ETF Fund Series F	4.07	7.22	11.90	23.73	–	–	–	4.59
BMO Covered Call Canadian Banks ETF	3.28	5.59	9.39	17.85	3.66	8.12	6.67	8.13
BMO Covered Call Canadian Banks ETF Fund Series F	3.29	5.58	9.36	17.75	3.60	8.01	–	8.01

Source: BMO Global Asset Management as of September 30, 2024.

The BMO Canadian Banks ETF Fund and BMO Covered Call Canadian Banks ETF Fund have an annualized distribution yield‡ of 4.66%§ and 7.15%§, respectively.

BMO Canadian Banks ETF Fund F Series†
4.66%§
distribution yield

BMO Covered Call Canadian Banks ETF Fund F Series†
7.15%§
distribution yield



BMO Canadian Banks ETF Fund and BMO Covered Call Banks ETF Fund invest their assets into the underlying ETFs. 99.82% of BMO Canadian Banks ETF Fund's assets are invested into the BMO Equal Weight Banks Index ETF as of Sep 30, 2024. 99.76% of BMO Covered Call Canadian Banks ETF Fund's assets are invested into the BMO Covered Call Canadian Banks ETF as of Sep 30, 2024. Both the ETF Based Funds use the same investment strategy as the underlying ETFs which have a longer track record and similar costs to the Funds F series and have been used as a proxy for the purposes of this chart.

† Inception Dates: BMO Equal Weight Banks Index ETF: October 20, 2009, BMO BMO Canadian Banks ETF Fund Series F: May 30, 2022, BMO Covered Call Canadian Banks ETF: January 28, 2011, BMO Covered Call Canadian Banks ETF Fund Series F: April 28, 2016

‡ Annualized Distribution Yield: This yield is calculated by taking the most recent regular distribution, or expected distribution, (excluding additional year end distributions) annualized for frequency, divided by current NAV. The yield calculation does not include reinvested distributions.

§ As of September 30, 2024.

- BMO Canadian Banks ETF Fund and BMO Covered Call Canadian Banks ETF Fund both offer single-ticket access to Canada's Big Six banks.

BMO Bank of Montreal – 16.67%

Royal Bank of Canada – 16.67%

The Toronto-Dominion Bank – 16.67%

National Bank of Canada – 16.67%

Canadian Imperial Bank of Commerce – 16.67%

Bank of Nova Scotia – 16.67%

The chart illustrates the target allocations for the fund. The actual weights will vary month on month until the portfolio is rebalanced semi-annually.

- BMO ETFs call writing strategy consists of writing short dated, out of the money calls[4] on around 50% of the portfolio. That means that for the portion that is overwritten, there is still roo m for capital growth, while the remainder of the portfolio fully participates in market gains.
- We use a dynamic approach to call strike selection, where in periods of heightened volatility we write further out of the money and capture a comparable option premium, providing more opportunity for the portfolio to participate in potential market gains.

Fund Codes

Equal Weight Canadian Banks

Series	Fund Code/Ticker	MER
Advisor Series	BMO99262	1.41%
T6	BMO34262	1.41%
Series F	BMO95262	0.28%
F6	BMO36262	0.27%
BMO Equal Weight Banks Index ETF	ZEB	0.28%
BMO Canadian Banks Accelerator ETF	ZEBA	0.73%

Covered Call Canadian Banks

Series	Fund Code/Ticker	MER
Advisor Series	BMO99765	1.64%
Series F	BMO95765	0.73%
BMO Covered Call Canadian Banks ETF	ZWB	0.71%

BMO | Global Asset Management

Let's connect
1-800-668-7327 bmogam.com

[1] The Big Six Canadian Banks refers to the Bank of Montreal, Royal Bank of Canada, Toronto-Dominion Bank, Scotia Bank, Canadian Imperial Bank of Commerce, and the National Bank of Canada.

[2] CAGR: The compounded annual growth rate is the rate of return that an investment would need to have every year in order to grow from its beginning balance to its ending balance, over a given time interval.

[3] Holdings consist of Canadian equities with lower volatility than the market.

[4] Writing an out-of-the-money call option involves selling a call option that has a strike price above the current market price of the underlying asset. As the writer, you receive a premium upfront from the buyer. If the asset's price remains below the strike price at expiration, you keep the premium as profit. This strategy is often used to generate income, especially in a stable or declining market.

Any statement that necessarily depends on future events may be a forward-looking statement. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties, and assumptions. Although such statements are based on assumptions that are believed to be reasonable, there can be no assurance that actual results will not differ materially from expectations. Investors are cautioned not to rely unduly on any forward-looking statements. In connection with any forward-looking statements, investors should carefully consider the areas of risk described in the most recent simplified prospectus.

This communication is for information purposes. The information contained herein is not, and should not be construed as, investment, tax, or legal advice to any party. Investments and/or trading strategies should be evaluated relative to the individual's investment objectives and professional advice should be obtained with respect to any circumstance.

Distribution yields are calculated by using the most recent regular distribution, or expected distribution, (which may be based on income, dividends, return of capital, and option premiums, as applicable) and excluding additional year end distributions, and special reinvested distributions annualized for frequency, divided by current net asset value (NAV). **Distributions are not guaranteed, may fluctuate and are subject to change and/or elimination. Distribution rates may change without notice (up or down) depending on market conditions and NAV fluctuations.** The payment of distributions should not be confused with a BMO Mutual Fund's performance, rate of return or yield. If distributions paid by a BMO Mutual Fund are greater than the performance of the investment fund, your original investment will shrink. Distributions paid as a result of capital gains realized by a BMO Mutual Fund, and income and dividends earned by a BMO Mutual Fund, are taxable in your hands in the year they are paid. **Your adjusted cost base will be reduced by the amount of any returns of capital. If your adjusted cost base goes below zero, you will have to pay capital gains tax on the amount below zero.**

Distributions, if any, for all series of securities of a BMO Mutual Fund (other than ETF Series) are automatically reinvested in additional securities of the same series of the applicable BMO Mutual Fund, unless the securityholder elects in writing that that they prefer to receive cash distributions. For ETF Series securities of a BMO Mutual Fund, distributions, if any, may be paid in cash or reinvested automatically in additional ETF Series securities of the applicable BMO Mutual Fund and the ETF Series securities will be immediately consolidated such that the number of outstanding ETF Series securities following the distribution will equal the number of ETF Series securities outstanding prior to the distribution. If a securityholder is enrolled in a distribution reinvestment plan, distributions, if any, will be automatically reinvested in additional ETF Series securities of the applicable BMO Mutual Fund pursuant to the distribution reinvestment plan. For further information, see the distribution policy for the applicable BMO Mutual Fund in the simplified prospectus.

Commissions, management fees and expenses (if applicable) all may be associated with investments in mutual funds and ETFs. Trailing commissions may be associated with investments in certain series of securities of mutual funds. Please read the ETF facts, fund facts or prospectus of the relevant mutual fund or ETF before investing. The indicated rates of return are the historical annual compounded total returns including changes in share or unit value and reinvestment of all dividends or distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. Mutual funds and ETFs are not guaranteed, their values change frequently, and past performance may not be repeated.

For a summary of the risks of an investment in BMO Mutual Funds or BMO ETFs, please see the specific risks set out in the prospectus of the relevant mutual fund or ETF. BMO ETFs trade like stocks, fluctuate in market value and may trade at a discount to their net asset value, which may increase the risk of loss. Distributions are not guaranteed and are subject to change and/or elimination.

BMO Mutual Funds are offered by BMO Investments Inc., a financial services firm and separate entity from Bank of Montreal. BMO ETFs are managed and administered by BMO Asset Management Inc., an investment fund manager and portfolio manager and separate legal entity from Bank of Montreal.

BMO Global Asset Management is a brand name that comprises BMO Asset Management Inc. and BMO Investments Inc..

Published: October 2024.