



Banking Bull Riders: Canadian Banks Manage the Storm

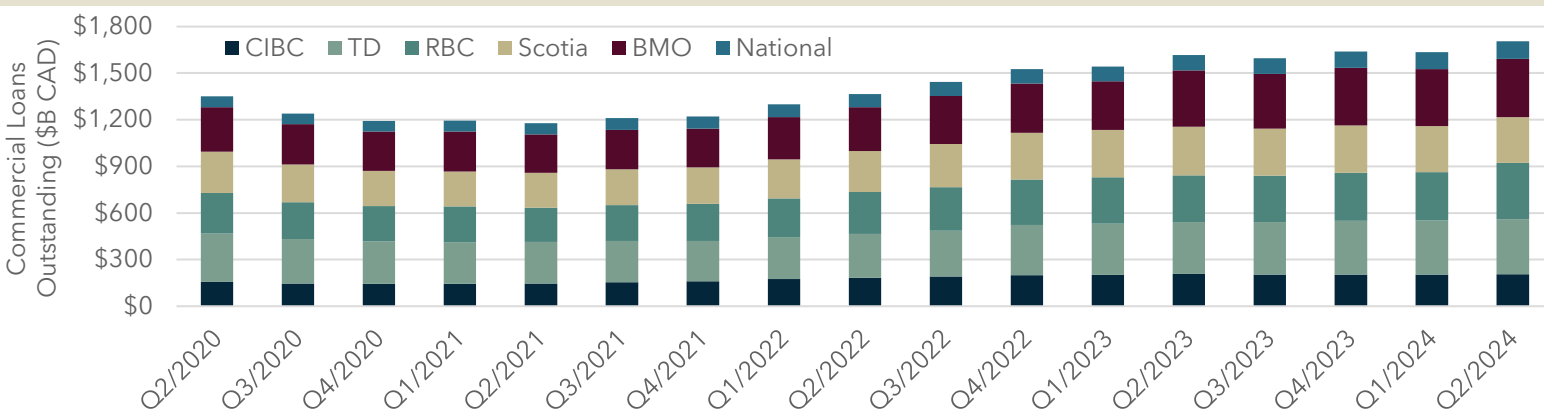
Loan Books Growing But so are Bad Loans

With a flurry of recent developments at Canada’s Big 6 Banks, including RBC’s acquisition of HSBC, National Bank’s announcement to acquire CWB and the Bank of Canada reducing the policy rate by 25 basis points, it appears the sector is positioned for strength. However, with credit loan loss provisions increasing yet again in Q2 2024 (the eighth consecutive quarter of such increases), it appears the ‘higher-for-longer’ interest rate environment continues to have negative implications for indebted Canadian consumers and business owners.

Key Takeaways this Month:

- **Commercial Loans Continue To Grow:** Contrary to popular belief, the commercial loan environment in Canada continues to experience modest growth of 1.2% Q/Q (4.2% if you include RBC’s acquisition of HSBC).
- **Gross Impaired Loans and Credit Loss Provisions Ramping:** Gross Impaired Loans and Credit Loss Losses have increased for the seventh and eighth consecutive quarters, respectively, with impaired loans now representing 0.85% of the national loan book or \$14 billion.
- **Capital Buffers Are Comfortable:** In response to the BoC’s 2022 rate hike campaign, Canada’s Bank’s increased their capital adequacy to ensure they remained onside with stringent regulations.

Total Commercial Loans Outstanding



Q2/24 commercial loan growth increased 1.2% (4.2% including RBC’s acquisition of HSBC)

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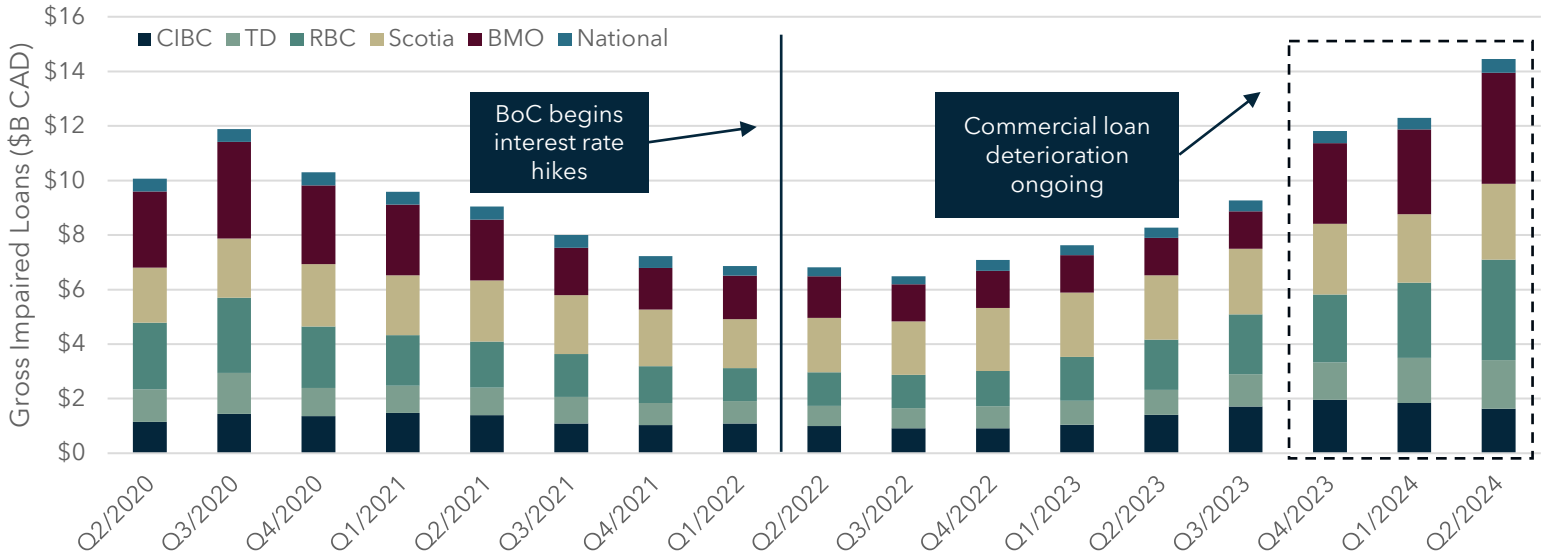
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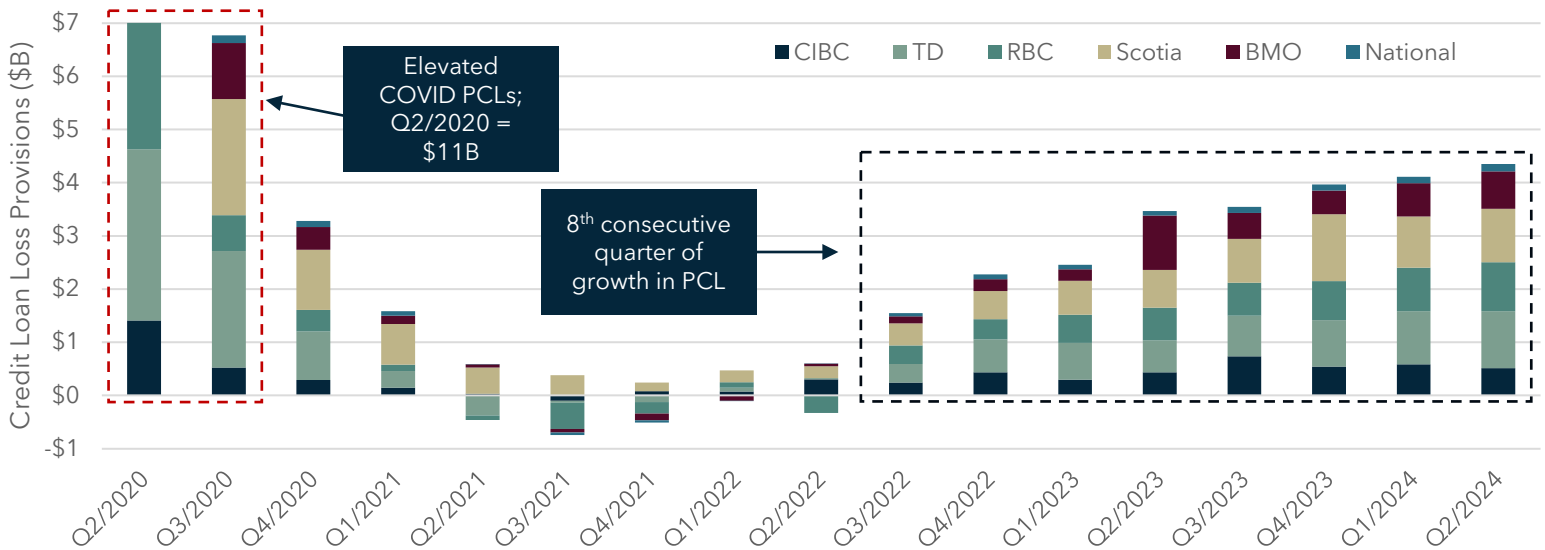
Total Gross Impaired Loans



Q2/24 gross impaired loans rose 17.6% Q/Q and 112% since Q2 2022 when the BoC began interest rate hikes

Gross Impaired Loans Continue To Remain Elevated: Gross impaired loans continue to accelerate (most notably 17.6% Q/Q in Q2 2024) as credit conditions continue to remain tight in response to the Bank of Canada aggressive rate hiking cycle in 2022. This represents the seventh straight quarter of growth in gross impaired loans, which currently represent 0.85% of the national commercial loan book or \$14 billion.

Credit Loan Loss Provisions

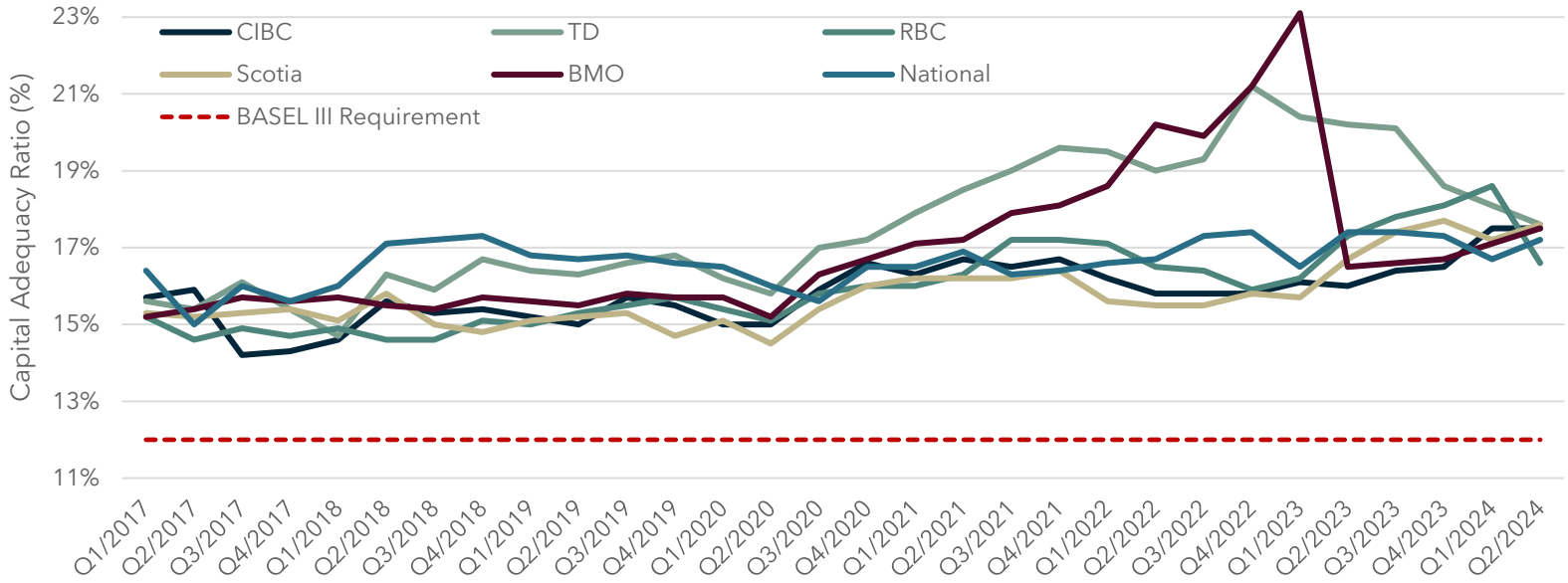


Credit Loss Provisions have increased for 8 consecutive quarters

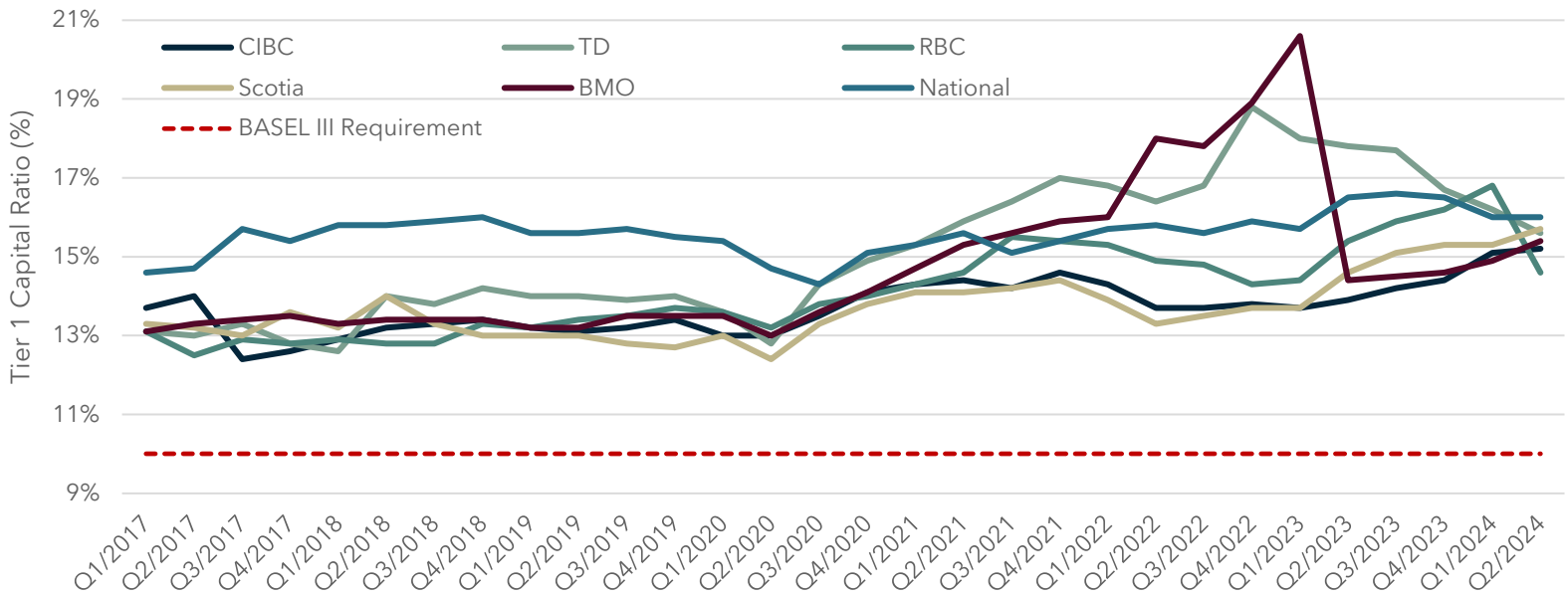
Are The Banks Running Out Of Sandbags?: Provisions for credit loans losses have increased for a staggering eighth consecutive quarter, increasing 5.8% Q/Q in Q2 2024 and now accounting for 0.3% of the national commercial loan book. While still depressed from COVID levels, which reached \$11 billion in Q2 2020, the rise of credit loan loss provisions signals the Canadian Banks are anticipating continued challenges for borrowers while interest rates slowly decline.



Capital Adequacy Ratio



Tier 1 Capital Ratio



Canada's Banks are maintaining capital ratios well above those required by regulators (BASEL III)

Is Capital Well Positioned Or Sidelined?: Following the Bank of Canada rate hike campaign in 2022, Canada's Big 6 responded by ensuring they had adequate capital to withstand any projected economic hardship. The initial 25 basis point rate cut by the BoC on June 5th is expected to provide some relief and allow the Big 6 to increase their appetite for loans, however the magnitude and speed that the BoC is able to move is largely uncertain. Until then, it appears a large amount of the Big 6's capital will remain sidelined to preserve their capital flexibility.



DWA is a premier financial advisory firm specializing in securing debt capital for businesses

Typical DWA Client Profile



Company size: **\$8+ million in revenue**



Financing size: **\$2+ million in debt**



Situation: growth, acquisition, turnarounds, optimization, niche industries and more



Profitable or clear path to profitability



Any sector and with a **Canadian presence**



Exclusions: DWA does not broker equity/securities and does not directly source mortgage-related debt instruments

Types of Loans Across All Industries

We secure debt financing for corporate borrowers and ensure our clients' businesses are positioned to obtain the most attractive debt capital available both now and in the future.

Our experience allows us to solve the most complex financial situations and we are committed to upholding the highest ethical standards in the industry.

- ✓ Term loans
- ✓ Acquisition financing
- ✓ Operating lines
- ✓ Refinancing
- ✓ Bridge financing
- ✓ Asset-based lending
- ✓ PO financing/WIP financing
- ✓ Trade financing
- ✓ Factoring receivables
- ✓ Equipment loans/leasing
- ✓ Revolving acquisition lines
- ✓ Working capital/lines of credit

DWA Value Proposition



Network

- ✓ Vast lender network (~450)
- ✓ Network of trusted ancillary service providers



Accelerated Timeline

- ✓ Expedite timeline via professional process and deep lender relationships
- ✓ Create competitive tension and never get a "maybe"



Expertise & Execution

- ✓ Customized process and lender-focused materials (financial model, CIM, etc.)
- ✓ 65+ years combined experience in capital markets



Resource Allocation

- ✓ Allow business owners to focus on operations while delegating capital raising efforts



Aligned Structure

- ✓ Heavily weighted success fee creates strong alignment with the borrower
- ✓ Preference for clients with similar values of integrity, accountability, communication and execution