



Top Canadian Bank Stocks of 2023

Description

Bank stocks are financial institutions that are licensed to accept and hold deposits, issue loans, and sell financial products (like GICs).

In the spectrum of different [types of stocks](#), banks stocks fall on the low-risk side. Their financials are usually solid (they are, after all, *banks*), and they often pay reliable dividends with payouts increasing every year. Though they're not immune to market downturns, they typically fare better than higher risk investments, like cyclical or [tech stocks](#).

Below, we'll break down the banking industry and help you choose some of the best bank stocks in Canada.

What are bank stocks?

Bank stocks are financial companies that store money for clients, sell financial products, and lend out money.

Banks can be national or local, online or in-store, retail or commercial. But notwithstanding their differences, most banks make money in the same way: they take money from depositors and pay them an interest rate, then lend the money to borrowers at a much higher rate.

Types of bank stocks

In general, banks can be broken down into three main categories:

- **Commercial banks:** These banks provide services to individuals and small- to medium-sized businesses. Commercial banks make most of their money from interest on loans and fees on services.
- **Investment banks:** For high-net worth individuals and large corporations, there are investment

banks. Not only do these banks offer wealth management to high-profile consumers, they also help companies go public through IPOs.

- **Universal banks:** These are hybrid banks, or banks that offer both investment and commercial services.

Top Canadian banking stocks

Canada has some of the largest and safest bank stocks in the world. Below we'll cover some of the top bank stocks on the [Toronto Stock Exchange](#).

Banking Stocks

Royal Bank of Canada ([TSX: RY](#))

The Toronto-Dominion Bank ([TSX: TD](#))

Bank of Nova Scotia ([TSX: BNS](#))

Bank of Montreal ([TSX: BMO](#))

Canadian Imperial Bank of Commerce ([TSX: CM](#))

Description

The largest company in Canada by market cap and one of the largest banks

The largest bank in Canada with \$1.7 trillion in total assets.

Third-largest bank with over 25 million customers

The oldest bank in Canada and the fourth largest by market cap.

Canada's fifth largest bank with around 11 million customers

1. Royal Bank of Canada

The Royal Bank of Canada (RBC) is the one of the largest banks in Canada. Not only does it serve 17 million customers in 29 countries, but it boasts *trillions* of dollars in assets.

For over 157 years, RBC has been serving clients with banking services. And though it's grown exceedingly large (now employing around 89,000 people), the company still manages to post single-digit revenue growth. It was one of the few banks that *actually* made money during the pandemic, not surprising considering RBC has thrived through every economic downturn that's come its way.

RBC is also a Canadian Dividend Aristocrat, having increased its dividend every year for the last 11 years.

2. The Toronto-Dominion Bank

Toronto-Dominion (TD) has officially surpassed the Royal Bank as the largest bank in Canada.

With roots stretching back to 1855, TD now serves 26 million customers worldwide, with 11 million of those residing in Canada. Of the top five banks, TD has been the most digitally innovative (winning "Best Consumer Digital Bank" in 2021) with over 8 million digital customers actively using its apps and services. The bank has recently acquired First Horizon, a large bank based in Tennessee, which will help it expand its already large U.S. presence.

Like RBC, TD performed exceedingly well through the recent pandemic. As of September 2022, it's one of the [highest paying dividend stocks](#) in the banking industry.

3. Bank of Nova Scotia

Founded in 1832, the Bank of Nova Scotia (or Scotiabank) is Canada's most international bank, with its 15 million global clients in 50 countries exceeding its Canadian customer base (10 million).

Scotiabank provides personal banking services, along with corporate banking and wealth management. The company registered \$31.3 billion in revenue at the end of 2021, which was slightly less than its annual revenue in 2020 (\$32.52).

4. Bank of Montreal

The oldest bank on this list (founded in 1817), the Bank of Montreal is the fourth largest bank in Canada by market cap, as well as one of the top 10 banks in North America.

BMO has over 20 million clients across the world, with 8 million of those residing in Canada. Though BMO was hit hard during the pandemic, it has slowly rebounded, even posting positive revenue growth at the end of 2021 (\$26 billion, up 1.44%).

5. Canadian Imperial Bank of Commerce

CIBC has occupied the fifth position in the ranking of Canada's largest banks for some time. And not without reason: though CIBC has 11 million customers across 1,100 branches, this bank has not done a great job at expanding its global clientele. Most of its revenue comes from Canada, with a relatively large secondary stream coming from the U.S.

And yet CIBC is still a hefty bank. Its annual revenue for 2021 was \$18.5 billion and net assets were \$666 billion, a 16.4% increase from 2020. It's also the second-highest paying dividend stock on this list.

How do banks make money?

As an investor, you want to put your money in companies that will expand their revenue, grow profitability, and increase the value of their stocks. So, naturally, you may wonder if banks even make enough money to reward investors.

The truth is, banks make a lot of money. Though bank stocks are not [growth stocks](#), a bank can expand its revenue by signing up more clients, merging with other banks, or providing additional services.

In general, banks make their money in two primary ways: commercial banking and investment banking.

With commercial banking, banks earn money by offering banking services to individuals, such as chequing and savings accounts, personal loans, mortgages, lines of credit, financial planning, and other financial amenities. In this way, commercial banks make the bulk of their money by borrowing it

from individuals at a low rate and lending it out at a much higher rate.

Investment banking is a much bigger operation. Investment banks offer guidance and services to corporations, governments, and higher net worth individuals. Investment banks make money by charging fees for services such as [initial public offerings](#), mergers and acquisitions, and wealth management.

Some banks focus on only one of these revenue streams, while others (called “universal banks”) offer a combination of the two. Most of Canada’s biggest banks are universal banks.

Are banking stocks right for you?

Although bank stocks have their risks – too many customers defaulting on loans, technological disruption from [fintech](#), recessions – the best bank stocks in Canada have a strong history of generating profits and managing crises.

Additionally, many of Canada’s top banks have high dividend yields, with a long history of increasing payouts. For Canadian investors looking to pocket a little extra from their stocks, dividends can help you buy more shares or more cash.

If you already have stocks in other [market sectors](#) (mining, technology, energy), bank stocks could add much needed stability, as well as diversification through exposure to another sector.

If you’d like to capitalize on numerous banks at once, you can invest in a bank-focused ETF. In Canada, some top bank ETFs include:

- BMO Equal Weight Banks Index ETF ([TSX: ZEB](#))
- CI First Asset CanBanc Income Class ETF ([TSX: CIC](#))
- BMO Covered Call Canadian Banks ETF ([TSX:ZWB](#))

TICKERS GLOBAL

1. TSX:BMO (Bank Of Montreal)
2. TSX:BNS (Bank Of Nova Scotia)
3. TSX:CIC (CI First Asset CanBanc Income Class ETF)
4. TSX:CM (Canadian Imperial Bank of Commerce)
5. TSX:RY (Royal Bank of Canada)
6. TSX:TD (The Toronto-Dominion Bank)
7. TSX:ZEB (BMO Equal Weight Banks Index ETF)
8. TSX:ZWB (BMO Covered Call Canadian Banks ETF)

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