



SPECIAL EDITION

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Report Card on Canada's banks: In the black and still attracting investors

The world's banks were awash in red ink last year and their capital positions were decimated. Some of the best-known names in banking collapsed under the weight of toxic assets. Others effectively became wards of the state as governments propped up their capital by taking equity in the foundering banks.

Canada's banks, by contrast, have weathered the storm remarkably well. For the six largest banks, 2008 was a difficult year with significant write-downs of assets. However, Canadian banks did not, by and large, have significant exposure to the U.S. sub-prime mortgage market and, as a result, they were able to absorb any write-downs far better than their global peers. Canada's banks are one of the few bright spots in a gloomy environment.

At their fiscal year-end on October 31, Canada's six largest banks, collectively, reported net income of \$12.2 billion and double-digit returns on equity, and they continued to report positive earnings in the first quarter.

(Continued overleaf. Please see, "In the black.")

Canadian banks' Net Income & ROE – FY2008 and Q1, 2009 (C\$ million):					
	FY 2008	Q1 2009		FY 2008	Q1 2009
BMO	\$ 1,978 (14%)	\$ 225 (5%)	RBC	\$ 4,555 (18%)	\$ 1,053 (14%)
CIBC	(\$ 2,100)	\$ 147 (4%)	BNS	\$ 3,140 (17%)	\$ 842 (17%)
National	\$ 776 (16%)	\$ 69 (5%)	TD	\$ 3,833 (14%)	\$ 712 (8%)

FOR THE RECORD: Barrack Obama, President of the United States

(From an interview with CBC Television, broadcast February 17, 2009)

"One of the things that I think has been striking about Canada is that in the midst of this enormous economic crisis, I think Canada has shown itself to be a pretty good manager of the financial system in the economy in ways that we haven't always been here in the United States. And I think that's important for us to take note of, that it's possible for us to have a vibrant banking sector, for example, without taking some of the wild risks that have resulted in so much trouble on Wall Street."

FOR THE RECORD: Mark Carney, Governor, Bank of Canada

(From a speech by Governor Carney to the Halifax Chamber of Commerce, January 27, 2009)

"It bears repeating that the Canadian banking system does not face the same challenges as those in other major economies. Canadian banks had modest exposures to the U.S. subprime market and other complex structured products. More importantly, our banks are better capitalized and substantially less leveraged than their international peers. In contrast to many international banks, which face enormous pressures to scale back their assets and liabilities to bring them into line with their capital, Canadian banks have actually been raising private capital to grow their businesses. Indeed, over the past year, they have raised over \$15 billion in Tier 1 capital from the private capital markets.

"Consequently, Canadian banks continue to lend. This is significant, because banks are a more important part of our financial system than in many other countries, and their relative strength means that total credit is continuing to grow in Canada....

"While the current financial crisis presents challenges for policy-makers and citizens alike, Canada faces those challenges from a position of strength."

In the black (continued from Page 1)

Moreover, while Canadian banks were not immune to the sell-offs that battered equity markets around the world, their share prices held up much better than their global peers, and their capitalization remains strong by any standard.

As if to prove the point, Canada's largest banks have successfully gone to market to raise nearly \$10 billion in Tier One capital from private equity markets over the past four months, while many of their global peers have had to rely on injections of capital from government.

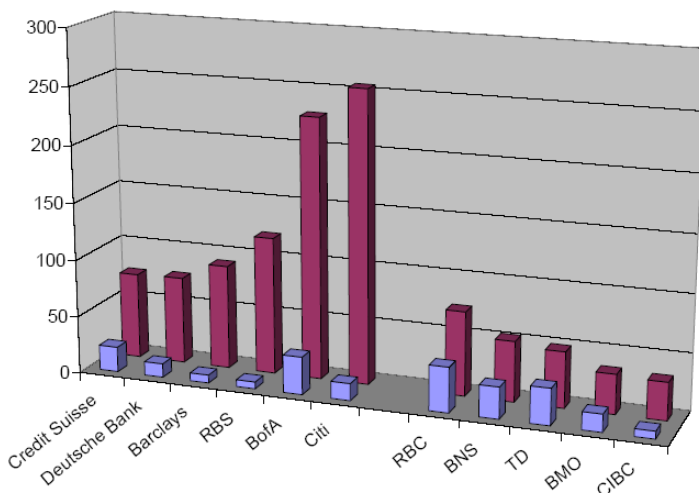
Canadian banks' Additions to Tier 1 Capital, Nov. 1, 2008 to Feb. 28, 2009 (C\$ million):			
BMO	\$ 1,600	RBC	\$ 3,450
CIBC	\$ 316	Scotiabank	\$ 850
National Bank	\$ 315	TD	\$ 3,172

Among North American banks, all five of Canada's biggest banks are in the Top Ten in terms of market value, according to Forbes.

As a nation, Canada entered the current recession in considerably better shape than many of its trading partners around the world. For 12 years, Canada had been running budget surpluses and its economy was growing faster than the OECD average.

Like its trading partners, Canada is also steering a deliberate course to stimulate the economy. The latest federal budget forecasts a total deficit for 2009 and 2010 of \$64 billion. Most commentators believe, however, that Canada will be better able to absorb such a deficit and be quicker to return to surplus, thanks to its strong performance in prior years.

For the Canadian banks, the health of the domestic economy is the single best predictor of the sector's future performance. Revenue growth is expected to slow and credit losses are expected to increase, but Canadian banks are still expected to put in a good performance relative to their international peer group.



Market capitalization, Q2 2007 (red) vs. January 2009 (blue). \$ billion (international banks in \$US, Canadian banks in \$Canadian)

FOR THE RECORD: The 2008 Global Competitiveness Report, World Economic Forum

"Canada benefits from top-notch transport and telephony infrastructure; highly efficient markets, particularly labor and financial markets (ranked 7th and 10th respectively); and well-functioning and transparent institutions (ranked 15th). In addition, the educational system gets excellent marks for quality, which has prepared the country's workforce to adopt the latest technologies for productivity enhancements (ranked 9th)."

[On the 12 pillars that make up WEF's Global Competitiveness Index, Canada scored particularly highly for its financial markets, with three top-10 rankings, including first in the world for the soundness of its banks.]

Pillar No. 8

Financial market sophistication

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