Canadian Banks 2013
A new normal

Perspectives on the Canadian banking industry

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Preface

Persistent regulatory reform, limited economic growth and shifting consumer behaviours . . . is this the new normal?

In the 2013 edition of *Canadian Banks*, we take a look at Canada's Big Six banks, which enjoyed another successful year with an average of 17.1% return on equity.

While the banks continue to demonstrate their strength and maintain their world leading reputation, the new normal means facing conflicting expectations from shareholders, consumers, regulators and central banks. It also means operating in an environment of constant regulatory reform, changing consumer behaviours, restricted economic growth and a low interest rate environment – all of which add additional layers of complexity to the business of banking.

So how do banks continue to thrive in this environment?

Canadian banks are in a strong position to maintain their prominent seat at the global table as the landscape continues to change. The new normal means new business priorities and opportunities for banks. In this edition, we explore these issues and opportunities including new prospects for growth such as new value added services, mobile payments and enhancing the customer experience.

Our *Canadian Banks* publication, now in its 30th year, is the leading banking publication in Canada, examining key industry trends and providing insightful analysis of the larger domestic banks and their results.

We hope you enjoy reading this year's analysis of *Canadian Banks*.

Diane Kazarian
National Financial Services Leader

Bill McFarland
CEO and Senior Partner

01 | *A new normal:* Perspectives on the Canadian banking industry

Banking has entered a new era. In this new normal, banks around the world face massive regulatory reform, constant change and ever-present uncertainty. They find themselves charting a path forward through an environment of limited economic growth and shifting consumer behaviours, demands and demographics. Conflicting expectations for shareholders, consumers, regulators (often across various jurisdictions) and central banks add additional layers of complexity to the decision making process. The old rules no longer apply — and the new ones are still being written.

Canada's banks, which earned worldwide admiration for their performance during and after the 2008 financial crisis, are not immune to these forces. These pressures are driving Canadian banking towards a turning point, and important decisions will need to be made. The Canadian banks are well positioned within the global financial services community with their strong capital levels and track record through the financial crisis. It's a good time for them to capitalize on opportunities and pave the way for the future.

2012 Big Six results:
A good year, but is it sustainable?

Canada's Big Six[1] banks enjoyed another successful year in 2012, achieving an average of 17.1%[2] return on equity (ROE) and managing, in some cases, to surpass analysts' expectations. Trading and investment banking income, rather than retail lending portfolios, were the main drivers of the banks' growth — an indication of how the banking business is changing.

Retail lending did see some growth in 2012, but it appears to be reaching its saturation point for several reasons. Canadians face record household debt levels, which hit a new high of 164.6%[3] of disposable income last year, while government interventions appear to be having their desired effect of cooling off the housing market. Our most recent consumer lending survey (see page 11 for more details) indicates that Canadians are growing more uneasy about their debt and remain intent on reducing it. It appears very likely that retail lending — long the growth engine for Canada's banks — could level off.

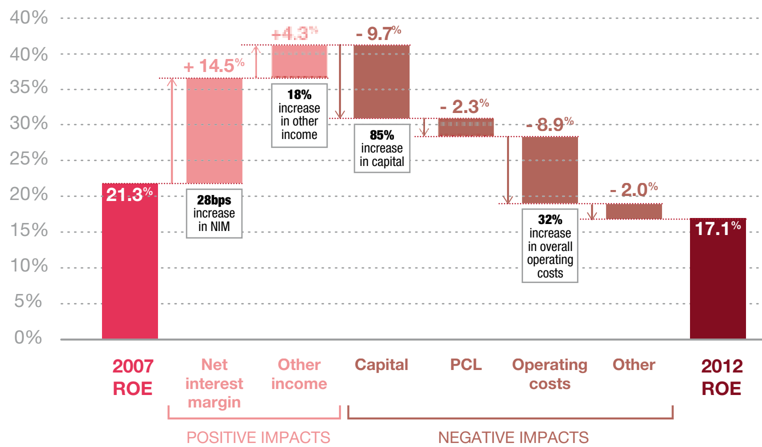
Retail lending — long the growth engine for Canada's banks — could level off

It's a development that's causing concern for investors and ratings agencies alike. Three of the Big Six banks saw their share prices drop after they released their overall results due to the outlook for retail lending. And in January 2013, Moody's Investors Services cut the credit ratings of TD, Scotiabank, BMO, CIBC and NBC by one level, citing concerns over Canadian consumer debt and housing prices. RBC had already seen its rating cut in June 2012. When announcing the January cut in ratings, Moody's Vice President David Beattie stated, ". . . [the] downgrade of the Canadian banks reflects our ongoing concerns that Canadian banks' exposure to the increasingly indebted Canadian consumer and elevated housing prices leaves them more vulnerable to unpredictable downside risks facing the Canadian economy than in the past." He did however add that ". . . the Canadian banks still rank amongst the highest rated banks in our global rating universe."

The larger question is whether Canada's banks can sustain the performance we've seen over the past five or six years, given the consumer debt picture, the housing price outlook and the on-again, off-again US economic recovery.

1. Big Six in this report refers to Canada's six major banks: National Bank of Canada (NBC), Royal Bank of Canada (RBC), The Bank of Montreal (BMO), Canadian Imperial Bank of Commerce (CIBC), The Bank of Nova Scotia (Scotiabank) and Toronto-Dominion Bank (TD).
2. Return on equity has been calculated as net income attributable to common shareholders divided by average common shareholders' capital.
3. Statistics Canada. Q3 2012.

Figure 1: Factors affecting Canadian banks' ROE



ROE under pressure

We may have grown accustomed to seeing the banks post ROEs in the mid to high teens and beyond, but it's worth remembering that ROE has fluctuated significantly over the past 25 years. As banks adjust to the new normal, investors may need to adjust their ROE expectations to a more realistic level. Analysts and the banks themselves are already forecasting high teens to low twenties ROE for 2013 which could settle more towards the mid teens in the long term.

Rising regulatory capital requirements and margin compression are the two largest factors putting downward pressure on Canadian banks' ROE. Our waterfall analysis (Figure 1) shows the impact that capital and net interest margin, along with various other factors, have had on bank ROE between 2007 and 2012. Banks cannot necessarily use capital to manage their ROEs, since they need to maintain their capital ratios leaving out net interest margin, other income and operating costs.

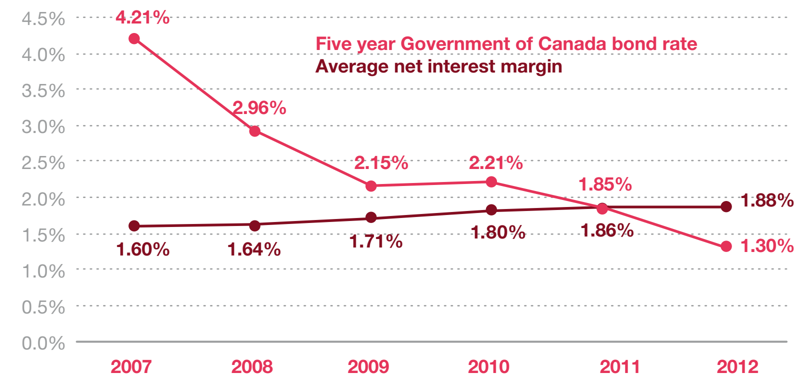
For illustrative purposes, if we project capital levels to remain similar to the current year — as all banks reported that they were on track to meet initial Basel III requirements — but operating costs were to increase by 8% (in line with the average seen across all six banks for the past two years), ROE would automatically reduce from 17.1% to 14.2%. To return ROE to 2012 levels, net interest margin would need to rise about 16 basis points, from 1.88% to 2.04%.

There's one potential obstacle: banks are already facing significant margin compression as a direct result of operating in a low interest rate environment for years. Indeed, over the past three years, average net interest margin has risen only eight basis points in total (Figure 2), and it hasn't increased much since before the 2008 credit crisis.

The Bank of Canada indicated on January 23, 2013, that interest rates will likely stay low for a longer period due to lowered inflationary expectations, which makes improvement in net interest margin even more difficult to achieve. Softening house prices and a saturated retail lending marketing will only serve to intensify competition for customers, and unilateral rate hikes would only risk losing market share.

A 16 basis points increase however is not impossible. The banks could consider where there's elasticity in pricing and add value to those relationships, allowing them to introduce a premium to help reach the 16 basis points goal.

Figure 2: Average net interest margin, 2007–2012



New value added services could help banks supplement a retail lending business approaching a saturation point

Banks could turn to other businesses to grow and shore up returns

Looking elsewhere for growth

No longer able to rely on retail lending to drive growth, banks will increasingly turn to other businesses to grow and shore up returns. All of the Big Six have indicated their intention to do so: trading and investment banking made important contributions to the banks' 2012 results, and wholesale banking and wealth management business also performed well.

This market generally provides higher yields than consumer lending and appears to be a growing market. The Bank of Canada's recent figures on business borrowing and lending indicate that business credit increased 7% year-over-year in November 2012, as Canada's small and medium-sized businesses borrowed more to capitalize on low rates and seize opportunities after a period of pent-up demand.

International expansion is another way for banks to maintain returns, though the banks so far have had mixed success in this area, with weaker profits and low ROE. However, despite economic and regulatory uncertainty there continues to be interesting opportunities available that could support the banks' strategies and footprint across other territories.

As suggested in the latest edition of our annual Canadian consumer lending survey, banks could also drive growth through product and service innovation. Canadian consumer demographics, behaviours and demands are changing, and those that respond quickly and effectively stand to gain from the effort.

There's a clear opportunity in Canada's aging population. Last April, Jean Boivin, Deputy Governor of the Bank of Canada, noted that Canada's population is aging at an accelerated rate: by 2031, one in four Canadians will be over 65. This demographic shift has important consequences for Canada's labour market and private and public bottom lines — and it will also put pressure on private savings.

"As Canadians live longer in retirement," said Boivin, "they will need to change their savings behaviour and to plan over a longer horizon. The high levels of household debt in Canada make the need for such adjustment even more crucial." Boivin's remarks can be seen as yet another signal that the retail lending market is going to shrink in years to come, but they also suggest that creating products aimed squarely at the financial needs of aging Canadians could be a winning strategy.

New value-added services — ones that customers are willing to pay for, that is — are another route banks can explore as they look to supplement a declining retail lending business. These range from new insurance products and warranty protection services to digital wallets and mobile payment systems aimed at the growing number of smartphone-using Canadians.

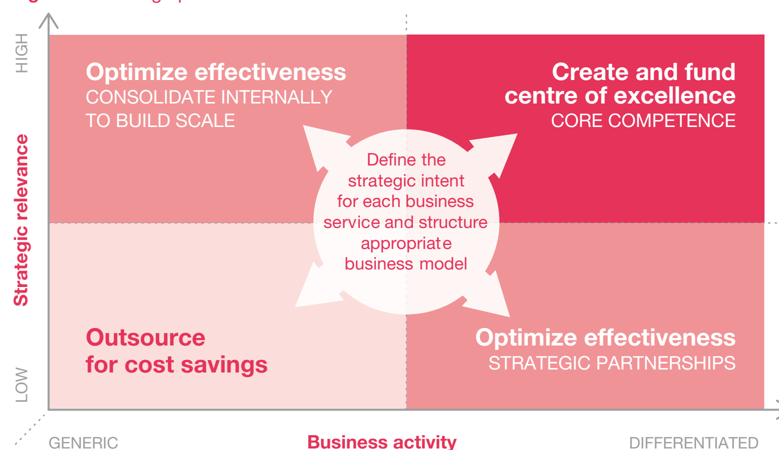
Mobile payments are likely to be an important area of focus and competition in the near future. In the past, payments were the banks' exclusive domain, and payment transactions still constituted an important revenue source for banks worldwide. As more and more people in Canada research and even shop using their smartphones, new players — from retailers and telecoms to technology and device providers — see an opportunity to provide mobile payment services and secure a share of transaction rewards.

However, Canada's banks stand to gain an important competitive advantage. Our mobile payments consumer survey showed that 67% of Canadians and Americans surveyed would prefer that their mobile payments be enabled by their banks. Clearly, consumers want their bank to be involved in mobile payments. This is an opportunity for the banks. To increase adoption, banks will have to do what they did with online banking — they'll have to simplify user interface and make it consumer friendly through innovation.

67% of Canadians and Americans surveyed would prefer that their mobile payments be enabled by their banks

Cost control and restructuring will be key as banks strive to maintain results

Figure 3: Banking operations shared services



Containing costs to preserve ROE

Cost control and restructuring are going to be vital as banks strive to maintain results and offset the drag of increased capital requirements on their ROE. It's much harder to overlook operational inefficiencies when revenue growth falters, and we will see more and more attention paid to cost structure and discretionary spending in the current environment. In our *16th Annual Global CEO Survey*, 63% of banking and capital markets CEOs said they were planning a new cost reduction initiative, while 72% are planning changes to their organizational structure.

Cost efficiency may well become an important competitive differentiator, and we may see banks initiating comprehensive, multi-year, strategic cost reduction programs. This will require tremendous discipline, effective governance and the willingness to make tough decisions about internal priorities, service levels, quality, structure and location. It could even involve decisions to exit certain businesses or markets, to reduce the impact of regulatory requirements and burdens.

Back-office and operational functions are an ideal area for banks to focus on — but offshoring should not be the default option. Instead, banks should examine each function or activity to determine its strategic relevance and whether it can be turned into a competitive differentiator (Figure 3). In such cases, banks can take a page from other industries and set up global centres of excellence to increase volumes and achieve economies of scale.

More generic activities, or those deemed to be of low strategic relevance, are certainly candidates for outsourcing to a third party, but even here there are other options. A shared services joint venture may be a more viable approach. A bank could even opt to set themselves up as a third party provider to other banks, generating revenue from increased volume.

The Tarullo proposal In brief

On November 28, 2012, in a speech before the Yale School of Management Leaders Forum, US Federal Reserve Governor Daniel K. Tarullo outlined a new, modified regulatory approach which substantially narrows the structural flexibility that has been afforded to Foreign Banking Organizations (FBOs) operating in the US. The approach is expected to be formally unveiled soon through the issuance of a Notice of Proposed Rulemaking.

At its heart, the Tarullo proposal will require large Systemically Important Foreign Banking Organizations (SI-FBOs) that operate a network of bank and nonbank subsidiaries to form a top-tier US intermediate holding company (IHC). US branches and agencies of foreign banks would not be included in the IHC however, because they are part of the parent foreign bank.

The formation of these IHCs would allow US regulators to supervise these institutions similarly to US Systemically Important Bank Holding Companies (SIFI BHCs), meaning they would be subject to US SIFI BHC capital rules, including capital and liquidity buffers and surcharges. Moreover, these IHCs would be subject to the same enhanced prudential standards as US SIFI BHCs, including stress testing, risk management and governance requirements, single counterparty credit exposure limits and early remediation requirements.

Based on the policy and structural outline of the Tarullo proposal, banks likely to be affected can start some basic assessments now:

- Assess US operations: Are there operations that can be relocated offshore efficiently? Are there activities that can be done more effectively in a branch?
- Assess impact of new capital, liquidity and governance requirements as proposed for US SIFI BHCs.
- Assess reorganization and other tax impacts that may be triggered by aspects of the proposal.
- Assess opportunities for collaborating with other FBOs and relevant US and non-US trade groups in analyzing the proposal in terms of broader G20, Basel and other principles.
- Alert home country regulatory and finance officials to the possible implications.
- Begin developing a list of key issues for a dialogue with the Fed prior to the NPR (if possible).

Source: PwC, FS Regulatory Brief, November 2012, Fed to raise requirements for foreign banks

The regulatory outlook

Changes in regulatory capital requirements have had a significant impact on bank performance and ROE in recent years. But regulatory changes are also placing other pressures on banks. Regulatory related operational costs are rising as banks add headcount to compliance functions and overhaul IT systems to manage new reporting requirements. Some even argue there is a risk that management can spend so much time on regulatory matters they risk losing sight of growth opportunities that might arise. With banks facing heavy penalties for noncompliance, the costs associated with regulatory implementation are unavoidable.

And it's not likely to change any time soon. True, 2013 will be a decisive year in regulation, with key milestones for regulatory implementation being reached. But there won't be any letup after this: future waves of regulatory developments are predicted to demand further changes from banks over the next five to seven years.

Keeping up with regulatory change is challenging — and the sheer volume of work is made more difficult by tight timelines, uncertainty around interpretations and inconsistency between regulators. The same people are often critical of the implementation of different regulations, stretching resources and putting timelines at risk. Implementation projects can place severe and competing strains on other resources, such as technology. And with several regulatory implementations on the go at once, a delay in one can have unexpected impacts on others.

How can banks survive the onslaught? Certainly not by tackling regulatory changes in isolation. As we note in our UK report, *Smart implementation: Reining in the risk and cost of regulatory change in banking*, this only serves to increase costs and delivery risks while leaving potential synergies unexploited.

Instead, we encourage working across the portfolio of regulatory changes in a consistent manner, bringing regulatory projects together under a single control. Not only does this aid in managing the complexity and risk of multiple, concurrent implementations, but it can also streamline communications with regulators — and create opportunities to identify and seize cost efficiencies. This may prove an important competitive advantage in the years to come.

Is ROE the best measure of bank performance?

Today there's acute sensitivity to levels of capitalization in banks, both from investors and regulators. A more active management of capital consumption has become priority for banks and is top of their agenda.

ROE has long been one of the main metrics for capital management in banks. While a meaningful measure of performance, ROE can be void of a reference point when taken alone.

Economic profit, which is the amount of the excess ROE over the cost of banks' equity capital, creates this point of reference by linking the performance of the bank and its business lines to the cost of equity capital for the bank.

There's strong support for the use of these relative metrics. Straightforward market observations show that economic profit is tracking closely banks' earnings per share, while the ROE measure can be inconclusive.

Future waves of regulatory developments are predicted to demand further changes from banks

Paving the way

Canada's banks find themselves in a very different business environment, a new normal of constant regulatory change, limited economic growth, and rapidly changing consumer needs and behaviours. The old rules may no longer apply — but with innovative thinking, prudent cost control and bold decision making, Canada's banks may well help write the new ones.

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02 | ***Canadians send mixed messages on debt***
Highlights from the consumer lending survey

Canadians may say that they plan to reduce their debt — but as Canadian household debt levels reached new highs in 2012, it seems their resolve is weakening. Despite this, we believe that lending activity is poised to slow and then fall. Canada's banks need to take steps now to prepare.

Canadians are overweight on debt

Overall, Canadians remain remarkably comfortable with the debt they're carrying, although it continues to decline. Our survey of 1,228 Canadians found that 57% of respondents felt their debt level was "about right," down from 59% last year. However, there are signs of growing unease over debt loads: 35% of respondents felt their debt level was too high, up slightly from 33% last year.

This trend of increasing pessimism is more pronounced among those with household incomes over CA$100,000. While this year, 60% of respondents in this group said their debt level was about right, that's down from 68% two years ago. As well, 34% of respondents in this income bracket now believe their debt is too high, up from 28% two years ago. Clearly, they are hearing the concerns from the Bank of Canada and the Minister of Finance.

No matter how they feel about their current debt level, the majority of respondents (66%) said they intend to reduce their debt this year, up slightly from 63% last year. Just under half (49%) said that fears of being unable to pay off their debt was the main motivating factor.

4. Statistics Canada. Q3 2012.

Canadian household debt spiked to a new record of 164.6%[4] of disposable income

Canadians are hearing the debt reduction warnings but, to date, they're not heeding them

But Canadians tire of their financial "diet"

The data suggests that Canadians are hearing the warnings sounded by governments, the Bank of Canada and the media. Yet while Canadians are hearing the warnings, it seems they're not actually heeding them: Canadian household debt spiked to a new record of 164.6%[5] of disposable income in the third quarter of 2012.

Why? Our survey suggests Canadians' resolve is faltering. While 60% of respondents said that a year ago, they had set a goal to reduce their debt, only 23% of this group felt they were very successful in achieving this goal. A further 51% felt "somewhat" successful, and 26% percent admitted they were unsuccessful.

Indeed, it appears that Canadians are finding it harder to maintain their debt reduction discipline. It's surprising to note that respondents were less willing to postpone major purchases such as new cars, new houses or renovations (see chart) than in previous years. Canadians, it seems are showing less resolve.

One reason may be that Canadians remain relatively upbeat about the economy. Over half of respondents (55%) feel the Canadian economy will remain steady or grow, up from 48% last year, while fewer foresee it cooling off or slipping into a recession. Canadians also feel secure about their income prospects: nearly half (46%) expect their income to grow over the next five years.

This economic optimism (or at least, lack of pessimism) may be a reaction to how Canada emerged comparatively unscathed from the global recession in 2008. Canada's persistently low interest rates and the enduring strength of many of our real estate markets may have convinced Canadians that they can continue to service debt relatively easily — explaining Canadians' concerning borrowing levels.

And of course, there's the gap between the individual's goals and resolve. It's easy to make a resolution, but it's much harder to keep up the long-term commitment. That's why the federal government has stepped in — to help keep Canadians on a debt diet.

5. Ibid.

Figure 4: Success in achieving debt reduction goals

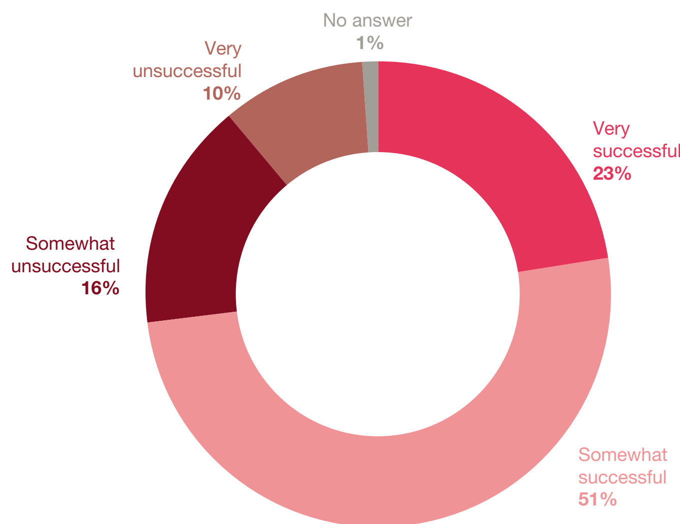
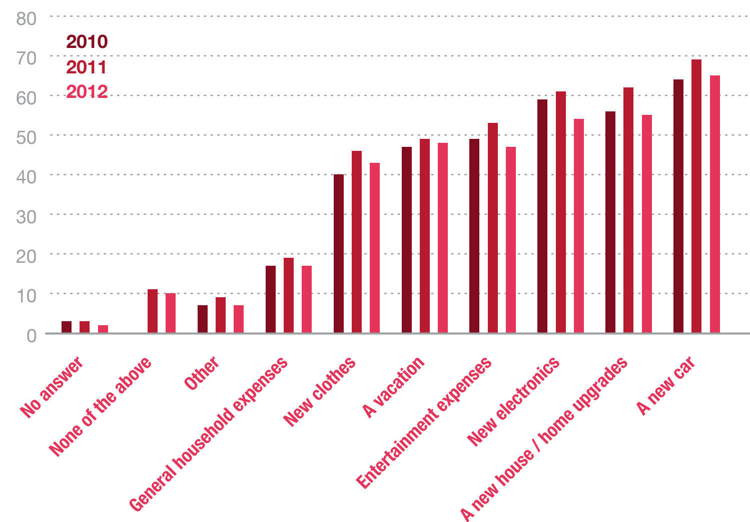


Figure 5: : Willingness to postpone purchases



The tide is turning. Are banks ready?

But the tide is turning on consumer lending. Successive regulatory interventions appear to be having their intended effect of cooling the real estate lending market. As housing prices level off — or even fall in some markets — we expect to see a corresponding drop in secured lending. Over the medium term, we forecast loan volumes will first stagnate and then gradually decline. As this happens, banks will need to find new ways to replace that lost, lucrative business.

Interest rate price wars are a potential strategy, but a questionable one that trades short-term market share gain for long-term return on asset challenges. Expanding unsecured lending is another option, but these measures will struggle to replace lost residential lending volumes. Moreover, it will likely incur the scrutiny of regulators already concerned about Canadians' debt.

Instead, we recommend that banks pursue several options to both grow revenues and improve the bottom line, including:

- improving interest rate spreads (NIMS) through better pricing in specific segments
- aggressively managing costs through process improvement and outsourcing or offshoring commodity functions
- introducing new value-added services that clients would pay for, from digital wallets and mobile payment systems to warranty protection, accounting and financial management applications, and a deeper push into insurance and wealth products
- improving the customer experience to make doing business with banks more enjoyable
- redirecting the focus onto business banking

Canada's lending environment is poised to undergo a profound shift. It may well shock debt-laden Canadians — but Canadian banks can act now to make themselves ready.

*This is a sneak peek into the results of our third annual consumer lending survey. An in-depth analysis of our results will be released in April 2013. Visit www.***pwc.com/ca/consumerlending** *for more details.*

The global economy has seen a growth slowdown in 2012. Canada's recovery has been more robust as a result of a strong commodity market and favourable financing conditions, although its growth has been somewhat limited by sluggish improvement in the US. Looking ahead, external factors will continue to play a crucial role in Canada's economy. In particular, the possibility of fiscal contraction in the US and questions around sustainability of the US debt impose risks on Canada's growth prospects.

An uncertain recovery

The global economy's recovery from the economic downturn has continued to deteriorate since 2010. A concern is whether this growth slowdown will linger or that the global economy is merely experiencing a slow and choppy recovery.

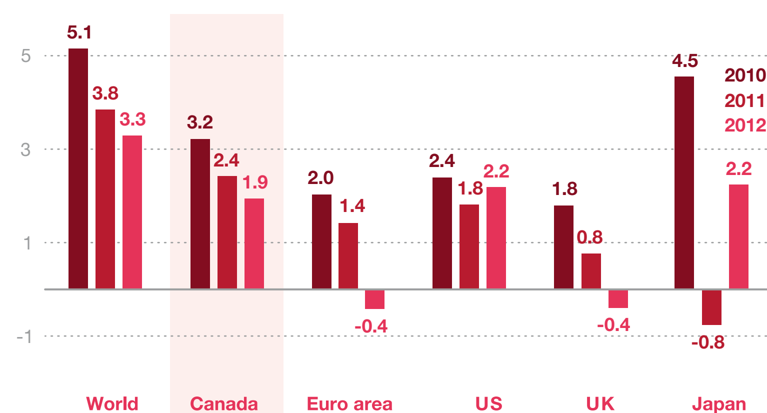
The euro area crisis intensified with record high bond spreads for Spain. Concerns around the ability of countries in the periphery to implement required fiscal and structural adjustments culminated in questions about the viability of the euro area, prompting a variety of actions from euro area policymakers.

The US has experienced a modest recovery with weak job creation, although the housing market is stabilizing as evidenced by broad-based increases in demand. After slowed growth in the second quarter of 2012, real GDP expanded at an impressive annual rate of 3.1% in the third quarter of 2012.

In Canada, the recovery has been more robust, although it's been somewhat limited by the sluggish growth in the US. Canada has benefitted from a robust commodity market, but has seen that subsequently slow. Favourable financing conditions, including low interest rates and credit availability, have also benefitted domestic demand.

Despite this growth slowdown, leading economic indicators are not signaling a recession and economic forecasters do not anticipate a downturn in 2013. The International Monetary Fund (IMF) forecasts overall growth at 3.6% in 2013 and the Canadian economy is expected to grow at a modest 2% rate during 2012-13.

Figure 6: Real GDP growth
The growth slowdown



Source: International Monetary Fund WEO, December 2012

Europe's fiscal drag, sluggish Chinese exports and uncertainty in the US continue to dampen optimism in Canada

Growing concerns abroad

As a small open economy, the fate of Canada depends in large part on the prospects of the global economy. In the near term, Canada faces several risks to its external environment, including growing concerns over the intensified crisis in Europe and lower-than-expected economic activity in China and other large emerging markets.

Europe's emergence from recession in 2013 is expected to be weak due to fiscal drag, tight credit conditions, and refrained consumer spending as a result of high unemployment. Turning to China, industrial activity continues to slow in large part due to the impact of the sluggish foreign demand on Chinese exports. Measures to stimulate the domestic economy have been implemented and are yet to show significant results.

Given its strong economic and financial ties with the US economy, Canada is heavily exposed to the risks facing its trading partner south of the border. The US avoided the fiscal cliff[6] in an eleventh-hour deal limiting the extent of fiscal contraction, mainly through a preservation of middle-income tax cuts and a deferral in spending cuts. However, it faces considerable economic and policy uncertainty. There's uncertainty regarding the nature of spending cuts that will occur in March 2013, and these cuts will coincide with the next debt ceiling stand-off with Congress. Investor concerns about the sustainability of US debt, and the lack of political consensus on how to address it, could lead to increasing risk premiums on Treasury bonds and restrain economic recovery.

6. A US fiscal cliff is a sharp decline in the budget deficit due to increases in taxes and a reduction of spending. The fiscal cliff may have lead to higher unemployment and an economic contraction.

Achieving the right policy mix

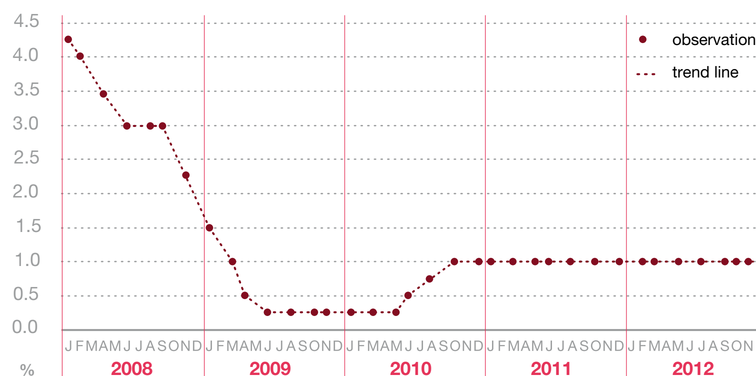
After deploying an effective and sizable fiscal stimulus during 2009 and 2010 estimated at 4% of GDP, Canada is now shifting its focus towards fiscal consolidation. The Canadian government has expressed its intention to bring the budget back into surplus before 2016, as it plans to address long-term fiscal challenges.

Conversely, monetary policy is expected to remain highly accommodative in the medium term, in light of renewed global uncertainties. The Bank of Canada has maintained the overnight interest rate at 1% since September 2010, making this the longest period of no rate move in recent times. They are not expected to increase this rate until 2014 based on its January announcement indicating that the need to raise rates is now less imminent.

Some risks at home

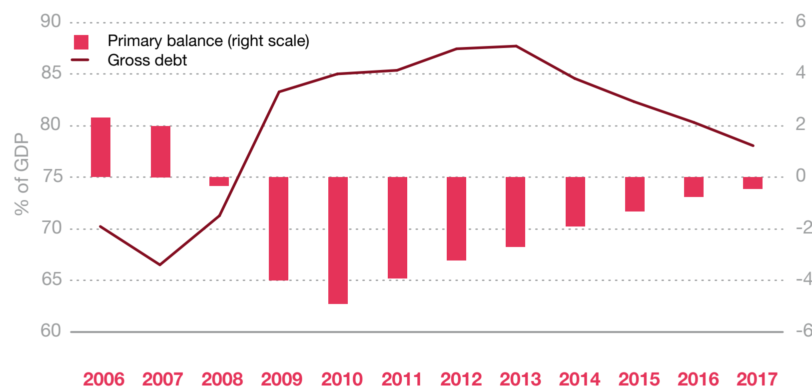
Canada is facing some risks domestically with elevated housing prices and increased household debt levels. Favourable financing conditions since the economic downturn have led to a rise in housing-related credit and household leverage, despite measures to limit mortgage growth. Canadian Finance Minister, Jim Flaherty, has been relying on regulatory steps to rein in mortgage borrowing, as the state of the economy has limited the Bank of Canada's ability to raise low interest rates. Steps taken in 2012 have included tightening mortgage terms, such as shortening the maximum amortization period on mortgages the government insures (from 30 to 25 years), and lowering the maximum amount homeowners can borrow against the value of their homes (from 85% to 80%). It's expected that the Canadian housing market will continue to appreciate until mid-2013. Downward adjustments are expected to occur in 2013 and 2014, with a magnitude of up to 15% for Ontario and British Columbia.

Figure 7: Target overnight rate
Waiting for further developments



Last Observation: December 14, 2012
Source: Bank of Canada

Figure 8: Gross public debt and primary balance
Shifting towards fiscal consolidation

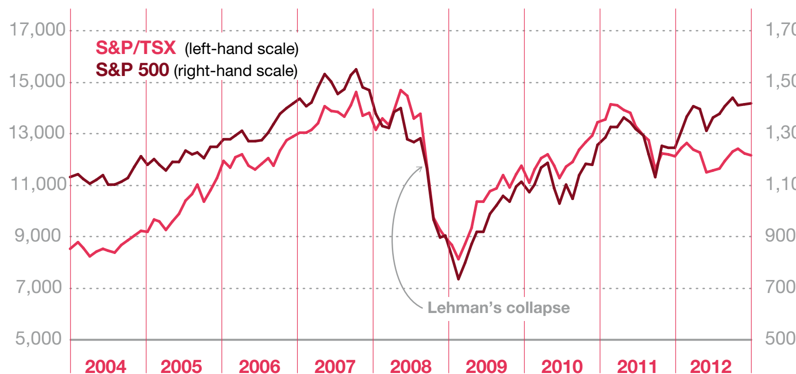


Primary balance = Primary net lending/borrowing
Source: IMF estimates. International Monetary Fund WEO, December 2012

Figure 9: A strong loonie
The new normal

Last Observation: December 7, 2012
Source: Bank of Canada

Figure 10: Equity markets
A continued slow recovery



Source: Yahoo finance

The Canadian dollar and parity

The new reality

Although the loonie dipped slightly in the middle of the year, it hovered around parity for the majority of 2012. The strength of the Canadian dollar was supported by higher commodity prices and a generally weak US dollar, allowing the loonie to reach 1.03 against the US greenback in mid-September 2012.

The sustained strength of the loonie continues to put pressure on Canadian companies, particularly those that export – an issue that has been flagged consistently by the Bank of Canada. However, looming uncertainty surrounding the fiscal cliff in the US has recently affected the loonie. Uncertainty regarding negotiations in the US related to the deferred spending cuts and debt ceiling limit may restrain the economic recovery. As a resource-based currency, this scenario would be bad news for Canada.

Equity markets

Another volatile year

The Canadian market underperformed because of a weak commodity sector in 2012. This is due to the heavy weight attributed to resources in the TSX. However, financial markets continue to rise from the depths of the recent global financial crisis, rebounding in the second half of 2009.

The Canadian equity market exhibited a strong performance in 2012, closing the year above levels seen during the collapse of Lehman Brothers in 2009. In the Canadian market, the S&P/TSX index finished the year 52% higher than its 2009 trough. The S&P 500 in the US, finished the year an impressive 94% higher than its low in 2009.

Canadian banks
Profits across the board

The Canadian banking system was remarkably resilient during the global financial crisis. The IMF attributed Canada's resilience to a combination of sound fundamentals and a strong regulatory framework.

At the end of 2012 the Big Six banks posted increased profits across the board, ahead of analyst expectations. In general, credit conditions were supportive throughout 2012, reflected by stable wholesale funding rates and household and business borrowing costs. However, the household debt burden continues to rise.

Figure 11: Wholesale funding rates

Outlook for the Canadian economy

In Canada, the recovery has been assisted partly by the effects of favourable financing conditions. The expansion is expected to remain modest throughout 2012-13. The Bank of Canada is calling for growth of 2.3% in 2013 followed by 2.4% in 2014.[7] However, both external and domestic downside risks to the outlook remain elevated. In Canada, growth has been constrained primarily by the sluggish expansion in the US, which is a result of the two economies' deep economic and financial linkages.

The near-term growth outlook is subject to large downside risks from both external and domestic factors. The main external risk pertains to a further escalation of the eurozone crisis. External demand for Canada's exports remains modest, reflected by a gradual recovery in the US housing market and an anticipated increase in the growth of US business investment, once the uncertainty around addressing the increasing debt-to-GDP ratio dissipates. However, with the right tools in place, Canada is in good condition to weather these challenges.

7. Bank of Canada Monetary Policy Report, October 2012

Figure 12: Weekly effective interest rates

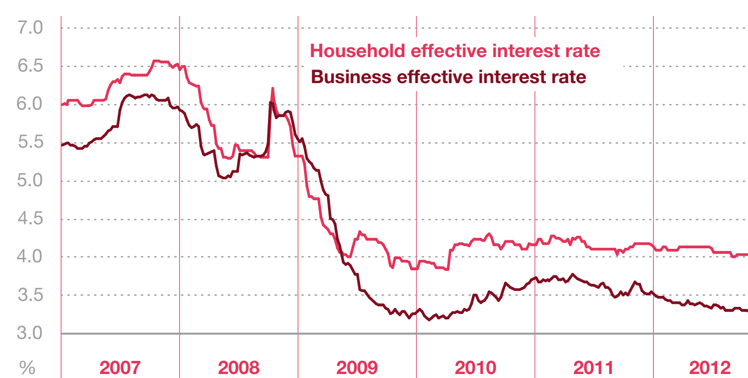


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Figure 12 notes: The 3-month CDOR is the average bid-side rate for Canadian bankers' acceptances determined daily from a survey of market makers and can be used as a proxy for the cost of 3-month bank funding. Five-year debt swapped into 3-month floating rate debt is an indicator of the rate for senior deposit notes, and provides an indication of the longer-term cost of bank funding. The 3-month OIS rate represents the expected overnight interest rate over the 3-month period and can be used as a point of reference to compare the two measures of the cost of wholesale bank funding.

Source: Bank of Canada

Figure 13 notes: The effective interest rate for households is a weighted-average of various mortgage and consumer credit interest rates. The weights are derived from residential mortgage and consumer credit data, adjusted for additional information provided by financial institutions. The effective interest rate for businesses is a weighted-average borrowing rate for new lending to non-financial businesses, estimated as a function of bank and market interest rates. The weights are derived from business credit data.

Source: Bank of Canada

04 | Capital management

The Canadian banks continued to show strong capital positions, with Tier 1 capital ratios ranging from 12.0% to 13.8% and a combined average of 13.0% (12.9% in 2011)[8]. Total capital ratios ranged from 14.9% to 17.3% and a combined average of 15.8% (15.4% in 2011). All these ratios were well above the minimum required levels by the Office of the Superintendent of Financial Institutions (OSFI) of 7% and 10%, respectively, and represent slight improvements from 2011, as the banks readied themselves for Basel III adoption in 2013.

Internal capital generation due to strong earnings was the key driver behind continued capital strength. The only significant common share issuance was from Scotiabank in the amount of CA$3.8 billion to support acquisitions of ING Bank of Canada and Banco Colpatria, and the potential future acquisition of Bank of Guangzhou.

Some Canadian banks issued new Tier 2 capital instruments. However, this was primarily to replace redeemed or maturing capital instruments. Several of the Canadian banks redeemed, or purchased and cancelled, Tier 2 capital instruments partially as a result of the Basel III changes effective January 1, 2013; specifically the introduction of the non-viability contingent capital (NVCC) rules for qualifying Tier 1 or Tier 2 capital instruments.

8. Calculated based on reported results

Dividends

As a result of strong earnings in 2012, all the Big Six banks paid higher dividends per common share relative to 2011. The cumulative average increase from fiscal 2011 was 7.3%. NBC with a 12.4% dividend increase had the largest percentage increase year-over-year. The average dividend paid per common share was CA$2.82 (CA$2.63 in 2011). Interestingly, the average dividend yield calculated as dividends paid divided by the common share price at the fiscal year end was 4.2%; which remained flat when compared to 2011. The average dividend yield remained at 4.2% due to the increasing value of the Banks' common share price despite the increase in cash dividends paid. BMO paid the highest dividend yield at 4.8%.

As of October 31, 2012, all the Canadian banks' dividend payout target ratios were between 40% and 50%, which was met by all the banks with the exception of NBC which fell just below at 39% on an adjusted basis. BMO increased their prior year dividend payout target ratio of 45% to 55% and TD increased their dividend payout target ratio of 35% to 45%.

Acquisitions

With strong capital positions and earnings during 2012, the Canadian banks were active again in seeking opportunities for expansion through acquisition, but to a lesser extent relative to the period from late 2009 through 2011. The largest acquisition was made by Scotiabank which acquired ING Bank of Canada, and paid approximately 50% of the CA$3.1 billion price tag using capital reserves. The banks have been pursuing smaller tuck-in acquisitions to complement their operations as opposed to large scale acquisitions and this trend appears likely to continue. Scotiabank demonstrated that there has been a good market for new equity after they raised $4.8 billion through new issuances during 2012 to help fund these acquisitions if needed.

Basel III

The strong capital levels present today are consistent with prior years and have been maintained by the Canadian banks throughout fiscal year 2012, to a certain extent in preparation for the adoption of Basel III. OSFI's expectation for all federally regulated deposit-taking institutions is to attain target capital ratios equal to or greater than the 2019 minimum capital ratios plus conservation buffer early in the transition period (referred to by OSFI as the "all-in" methodology). This means a target common equity Tier 1 (CET 1) ratio of 7% by the first quarter of 2013, a total Tier 1 capital ratio of 8.5% and total capital ratio of 10.5% by the first quarter of 2014. As of October 31, 2012, on an estimated pro-forma basis, all the Canadian banks exceed the Basel III CET 1 ratio on an "all-in" basis. The estimated pro-forma CET 1 ratio ranged from 7.3% to 9%, as disclosed by the Big Six Canadian banks with a combined average of 8.4%, demonstrating that the Canadian banks are well positioned for the implementation of Basel III in Canada.

The new Basel III capital standards are designed to strengthen banks' resilience to future financial and economic shocks by requiring more and better quality capital and by addressing risks not adequately recognized under Basel II. As a result of the new standards and the changing risk appetite of the common investor, the nature of the banking system has changed. Balance sheets with too much leverage by today's revised standards are no longer being viewed as sound investments. Stakeholder expectations have shifted, and so have the board's expectations of management. There's a trade off between holding capital and a bank's ROE; more capital strengthens a bank's capital base and makes the bank more resilient in times of economic hardship and financial market shocks. However, as we touched upon in our December 2012 publication, *Building on strength – Perspectives on the Canadian Banking industry*, inversely holding higher levels of capital makes it more difficult to improve key performance indicators such as ROE. The banks that will be the most successful in attracting capital, emerging from this period of new regulation, will be those that can strike the right balance between building a fortress balance sheet and the ability to generate competitive returns for investors. To accommodate this shift in mindset, if they haven't already, banks will need to re-evaluate their business models. Management will need to shift from a strategy solely focused on growth in assets and profit to a combined approach of growth, profit, quality and depth of capital and strong liquidity management. Finding the right balance between capital and profitability will be a key challenge for all banks globally moving forward.

Notwithstanding the intrinsic benefits of Basel III, today there are still several key territories, such as the US and EU amongst others, which have not yet completed their implementation plan in compliance with the internationally agreed timeline. While OSFI's implementation approach of Basel III has been timely, it may also be viewed as conservative relative to the minimum Basel III requirements. Conservative adoption of Basel III may be putting Canadian banks at a competitive disadvantage relative to many of their global peers. Banks in other territories with a deferred implementation timeline will not be faced with the same capital constraints as their Canadian counterparts, which may give them more flexibility in terms of how to use their capital. Critics of Basel III argue that the revised capital standards will negatively impact global economic growth. The logic being used is that requiring banks to hold higher capital will result in less inter-bank lending, less capital being made available to borrowers and increased costs of borrowing for consumers and businesses – all of which are detractors of economic growth. On the flip side, OSFI is viewed by international bodies as a leader in banking supervision, and Canada has been recognized as one of the safest banking systems in the

world. With this in mind, it can be argued that prudent implementation standards is what helps Canadian banks differentiate themselves from their global peers. This may be viewed as an advantage in today's changing banking environment, as the global banking system looks to rebuild consumer trust following the events of 2008 and recent industry scandals.

The Basel Committee on Banking Supervision (BCBS) has released a framework for the determination of additional capital requirements for banks which meet the definition of a 'domestically systemically important bank' (D-SIB). OSFI's guidance on D-SIBs is expected during 2013. Currently, none of the Canadian banks are considered to be globally systemically important. However, at the discretion of OSFI, the Canadian banks may be considered domestically systemically important due to the significance of their role in Canadian capital markets. At this time, its unclear what the additional capital requirements will be for D-SIBs and when those would be instituted. Given the Canadian banks current capital strength, if additional capital requirements are implemented by OSFI in the near future, the Canadian banks will be in a good position to adequately meet them.

Early in 2013, BCBS revised the liquidity coverage ratio (LCR) requirements under Basel III. The changes included an expansion in the range of assets eligible as high quality liquid assets and a phased in arrangement, which will be introduced as planned on January 1, 2015. The minimum requirement will begin at 60% for the LCR, rising each year thereafter by 10 percentage points to reach 100% by January 1, 2019. The news that the LCR requirements have been revised had a positive impact on share prices, particularly in Europe.

05 | Canadian banks in a global context

Canadian banks stack up favourably against their global competitors.

The graphs on the following pages compare selected metrics of 25 banks, including the top 15 banks by market capitalization and six banks with market capitalizations comparable to those of Scotiabank, BMO, CIBC and NBC, which fell outside the former group. Of these six banks, PNC Financial is a considered a comparable regional peer, while the other five banks included are, like the Canadian banks, considered to be some of the safest banks globally.

The Canadian banks do well in terms of ROE, with each managing an ROE of close to or above 15%. Using one year total market return (TMR), the Canadian banks fall towards the bottom of the group, although compared to the US banks, Canadian banks' share prices did not suffer the same declines in 2008–2009.

In terms of capital adequacy, Swedish bank Svenska Handelsbanken stands out with a 20.5% Tier 1 capital ratio. In the group, all the other banks are well capitalized, with even the lowest in the group, PNC Financial, at 9.5%, maintaining a buffer excess of current regulatory requirements. The Canadian banks have Tier 1 ratios between 12% and 13.8%, as compared to an average of 12.3% for the group.

While on average Canadian Banks are ahead of the US banks in terms of efficiency ratios, this is an area where they have room for improvement compared to the group. RBC is the most efficient of the Canadian banks at 51%, which places it exactly in the middle of this group at number 13. The four Chinese banks come in as the four most efficient. While lower labour costs enjoyed by the Chinese banks would play a big role in this, the four Australian banks, like the Canadian banks, have an average staff cost of around CA$ 120,000 per employee, and have efficiency ratios between 44% and 48%.

Figure 13: Market capitalizaton
CAD billions

Figure 14: Return on equity (last fiscal year)
Percentage

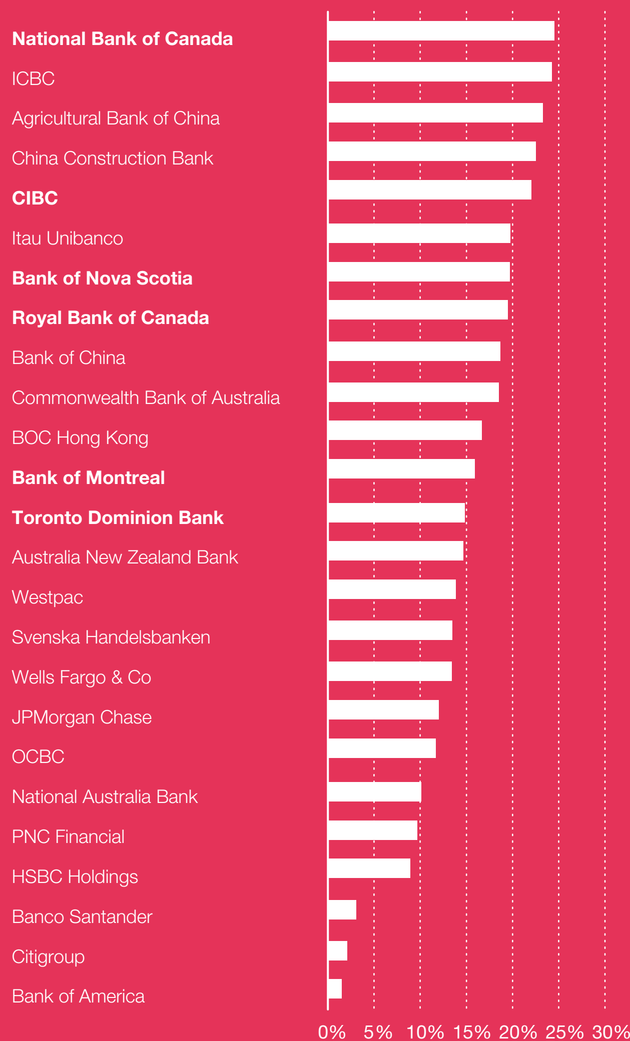


Figure 15: Total market return (last 12 months)
Percentage

Figure 16: Tier 1 capital ratio
Percentage

Figure 17: Total capital ratio
Percentage

Figure 18: Efficiency ratio
Percentage

06 | Snapshot of the Big Six

When compared to other banks globally, Canadian banks remain well regarded principally due to the fact that they have sound business models, operate in a robust regulatory environment and are well run. In 2012, Canadian banks were ranked the soundest in the world by the World Economic Forum for the fifth consecutive year and all the Big Six saw profitable growth despite dealing with the headwinds we have touched on previously such as margin compression and a slowdown in economic growth.

Now let's look a little deeper into their results for 2012.

BMO highlights

BMO had a strong fiscal year ending October 31, 2012, and overall net income saw an increase of 35%, with net interest income increasing by 18% and non-interest revenue increasing by 13% from 2011. Adjusted ROE was 15.5%, compared to 16% in 2011, and following the third quarter, quarterly dividends declared were increased to CA$0.72 per common share. A significant portion of the growth experienced can be attributed to the inclusion of eight additional months of financial results and decrease in provision for credit losses (PCL) of the 2011 acquired business, Marshall and Ilsley Corporation (M&I). There were a number of non-recurring costs relating to the M&I acquisition, including CA$402 million for the integration costs such as system conversion, restructuring and other employee charges, consulting fees and marketing costs, CA$173 million of restructuring costs related to overall improvement in productivity and CA$264 million related to run-off of structured credit activities.

The personal and commercial (P&C) banking operating group is the largest at BMO. The P&C group is composed of two retail and business banking operations, P&C Canada and P&C US. P&C Canada generated net income of CA$1,784 million, which is an increase of 0.6% from 2011. Revenue increased by 0.3%, driven by growth in the loan portfolio and fees; this was however offset by lower net interest margins due to the low interest rate environment in Canada and increases in expenses. Net interest margin decreased by 0.15% resulting from deposit spread compression, competitive pricing and changes in product mix, with loan growth exceeding deposit growth. Non-interest expense grew by 1.6% as a result of increased spending on special initiatives.

P&C US generated adjusted net income of CA$579 million (excluding amortization of acquisition related intangible assets), which is an increase of 48% from 2011. Revenue increased by 50%; 94% of this growth was due to M&I, with the remainder of the increase due to newly originated mortgages and commercial lending fees. Net interest margin decreased 0.1% due to deposit spread compression, decrease in loan spreads and competitive pricing. Adjusted non-interest expense grew by 50% and was largely due to increases in regulatory, support and litigation costs and M&I acquisition. BMO's presence in the US is concentrated in the Midwest region. Economic growth in the region was driven by enhanced automobile production and heavy business investment, offset by the effects of restrictive fiscal policies and severe drought. The acquisition of M&I increased BMO's footprint in the US, contributing CA$318 million to reported net income, and is expected to yield annual cost savings from the integration of at least US$400 million. The overall strong performance was favourably impacted by recoveries on M&I credit impaired loans.

The private client group (PCG), BMO's wealth management division, generated adjusted net income of CA$546 million (excluding amortization of acquisition related intangible assets), which is a 12% increase from 2011. Revenue increased by 12% as a result of acquisition related financial results, earnings from strategic investments and overall business growth. Assets under management and administration grew by CA$40 billion compared to 2011, driven by market appreciation and new client assets. Insurance revenue declined and was impacted by unfavourable movements in long-term interest rates. Adjusted non-interest expense increased by 13% due to increased spending on strategic initiatives.

On June 11, 2012, BMO completed its acquisition of CTC Consulting, which is expected to expand and enhance advisory capabilities and investment offerings to ultra high net worth clientele and increase overall expansion in the US. Additionally, as of August 2, 2012, BMO acquired an ownership interest in COFCO Trust Co. which BMO anticipates will increase access to high net worth and institutional clients in China.

BMO Capital Markets generated an increase in net income of CA$46 million, which is a 5.1% increase from 2011. Growth was largely driven by lower income taxes and reduction in the provision for credit losses, partially offset by an increase in expenses. Overall improvement was also driven by trading product revenues which saw increased returns on equities and interest rate trading.

PCL saw a significant improvement from 2011, dropping to CA$765 million from CA$1,212 million. Decline in PCL was driven by the decrease in M&I related provisions and overall improving trends in credit quality and the economic environment, particularly in the US. Financial results reported under IFRS now include PCL for securitized loans and certain special purpose entities and interest income on impaired loans, with a resulting increase in PCL.

Looking ahead, BMO will continue to be impacted by reformation of the regulatory atmosphere. As a result, it announced in 2012, subject to regulatory approval, that it will implement a buyback program via normal course issuer bid to repurchase up to 15 million of its common shares as part of its capital management strategy in achieving Basel III capital ratios. P&C Canada expects that household credit accumulation will soften and commercial lending growth will be solid. There will be continued global uncertainties including slowing growth in China, concerns over the US fiscal crisis and European debt concerns which will result in a persistent low interest rate environment for Canada. P&C US will see loan growth driven by increased demand for non-residential construction, with increased demand for fuel efficient automobiles and growth due to recovery in the housing market. Growth is also expected in PCG arising from continued growth in North American wealth management and increased high net worth clients resulting from affluent retirees. Lastly, BMO Capital Markets anticipates that capital market conditions will improve with a continued focus on ROE, and stable and high quality earnings.

Scotiabank highlights

Scotiabank is Canada's third largest Canadian bank based on assets and market capitalization. It remains Canada's most internationally active bank with operations in over 55 countries. The bank continued its profitable growth with a record financial year, reporting a net income of CA$6,466 million, which includes a one-time CA$708 million income related to real estate gains – an increase of CA$1,116 million compared to 2011. Led by Canadian and international banking, Scotiabank maintained a relatively consistent ROE of approximately 19.7% (or 17.6% excluding real estate gains) compared to 18.8% in 2011. Based on the strong results, Scotiabank increased its quarterly dividend to CA$0.55 from CA$0.52 in Q2 and to $0.57 during Q4, representing an annual increase of CA$0.05 or 9.6% during the fiscal year.

Canadian Banking had another record year with net income increasing CA$268 million or 16% over last year to CA$1,938 million. The growth was driven by higher transaction-driven card revenues and deposit fees, partially offset with the continuing low interest rate environment which drove interest profits down 5 basis points to 2.16%. For fiscal 2013, Scotiabank continues to see strong growth potential in most business segments with slightly lower growth in real estate lending. In the next fiscal year, Scotiabank had stated it would continue operating ING Direct Canada as a separate entity to maintain its competitive advantage. However, in January 2013, Scotiabank announced that it would close its mortgage broker division and sell mortgages direct to consumers. Any brokerage lending business will now be diverted to Scotiabank.

International Banking continued to expand its operations with net income increasing by CA$267 million to CA$1,734 million, driven by revenue growth from the prior year and recent acquisitions. Overall, Latin America continues to be the strongest geographical region for International Banking with revenues of CA$3,905 million this year, up CA$905 million from 2011. Outside of acquisitions, retail and commercial loan growth continue to experience double digit growth in Peru and Chile. For fiscal 2013, Scotiabank will continue to consider selective opportunities for acquisitions that would grow its footprint in its current markets or new international markets.

Global Wealth Management continued to experience strong organic growth. The decrease in net income in the current year of CA$85 million to CA$1,170 million relates to a one time gain recognized in the prior year for the acquisition of DundeeWealth. Growth in fee-based revenues, from higher levels of assets under management and higher insurance revenue, were offset by declines in the online brokerage revenue. The 2013 outlook remains positive for Global Wealth Management according to Scotiabank, even with uncertain market conditions.

Global Banking and Markets, which was previously known as Scotia Capital, had an active year, increasing net income to CA$1,492 million in 2012 compared to CA$1,258 million in 2011. Scotiabank experienced strong growth in many areas including fixed income, equities and commodities but did experience a decline in investment banking due to a soft mergers and acquisitions market in 2012. Global Banking and Markets continues to expect to face challenges given the uncertainty in the capital markets, but will continue to look to grow its various organic product sectors.

The overall provision for credit losses increased CA$176 million in fiscal 2012 to CA$1,252 million. The increase was largely driven by International Banking due to acquisitions and growth in its retail lending portfolio. Overall provisions decreased in Canadian Banking by CA$86 million to CA$506 million in 2012. Both Global Wealth Management and Global Banking and Markets experienced minimal growth or decline in the provisions for credit losses.

In fiscal 2012, Scotiabank continued to be active terms of acquisitions and divestitures both locally and internationally including the following key corporate events:

- Announcement of the acquisition of ING Bank of Canada (ING Direct) for CA$3.1 billion which was completed post year end on November 15, 2012
- Completed the acquisition of the 51% investment in Columbia's Banco Copatria
- Agreed to acquire 51% of Colfondos AFP, Columbia's fourth largest pension fund company
- Substantially completed the integration of DundeeWealth Inc and R-G Premier Bank in Puerto Rico into the banking operations
- Acquired Howard Weil Incorporated, a US based energy investment boutique
- Sale of Scotia Plaza in Toronto for an after-tax gain of CA$614 million

In fiscal 2013, Scotiabank will face sustained competition for market share both locally and internationally as other Canadian and foreign banks look to expand operations. The global financial situation will continue to impact Scotiabank, but the bank continues to look for opportunities to reduce its exposure to the GIIPS (Greece, Italy, Ireland, Portugal and Spain) to CA$1,701 million from the CA$2,642 million in 2011.

The key strategic priorities for the bank going forward are to continue to expand organically but also look for acquisitions to contribute to higher operating income. The bank stated that they expected to see continued asset and deposit growth in their domestic operations, but reduced volumes in areas such as residential mortgages and personal lines of credit. For international banking operations, they will continue to focus on managing expenditures - a top priority domestically as well. There is a positive outlook for Scotiabank both from a retail and commercial perspective.

CIBC highlights

CIBC is Canada's fifth largest Canadian bank based on loans, assets and market capitalization. CIBC continued its profitable growth with a record year reporting net income of CA$3,331 million – an increase of CA$453 million compared to 2011. Led by Retail and Business Banking, CIBC maintained its return on common shareholder equity of approximately 22%. Based on the strong results, CIBC increased its quarterly dividend to CA$0.94 from CA$0.90, which represents an increase of 4.4% during the year. Although CIBC has had a successful year, it was the only one of the Big Six Canadian banks to reduce its overall bonus pool compensation from the previous year, reducing it by approximately 2% which is consistent with the global trend of major banks.

The Retail and Business Banking continued its growth, as net income was up CA$102 million or 5% compared to 2011, largely driven by volume growth and higher fees, but offset by reduced interest rate spreads given the low interest rate environment. Business loans experienced the highest level of growth year-over-year at 8%, while personal loan growth was flat at 2% year-over-year. CIBC is continuing to look at mobile innovations to help expand its retail banking operations including point-of-sale mobile credit card transactions. Going forward, CIBC will continue to look at volume and fee growth as the low interest rate environment continues in the near future.

Wealth Management had a successful year, increasing net income by CA$60 million or 22% compared to the prior year. The positive earnings for Wealth Management in the current fiscal year were largely driven by the increased asset management revenue. The increase was largely driven by the full year results of the proportionate share (41%) of American Century Investment which was acquired halfway through 2011. In 2012, the retail brokerage and private wealth management revenues were relatively flat compared to 2011. Overall assets under administration grew 7% to CA$14.2 billion, largely impacted by higher average client assets and increased net sales.

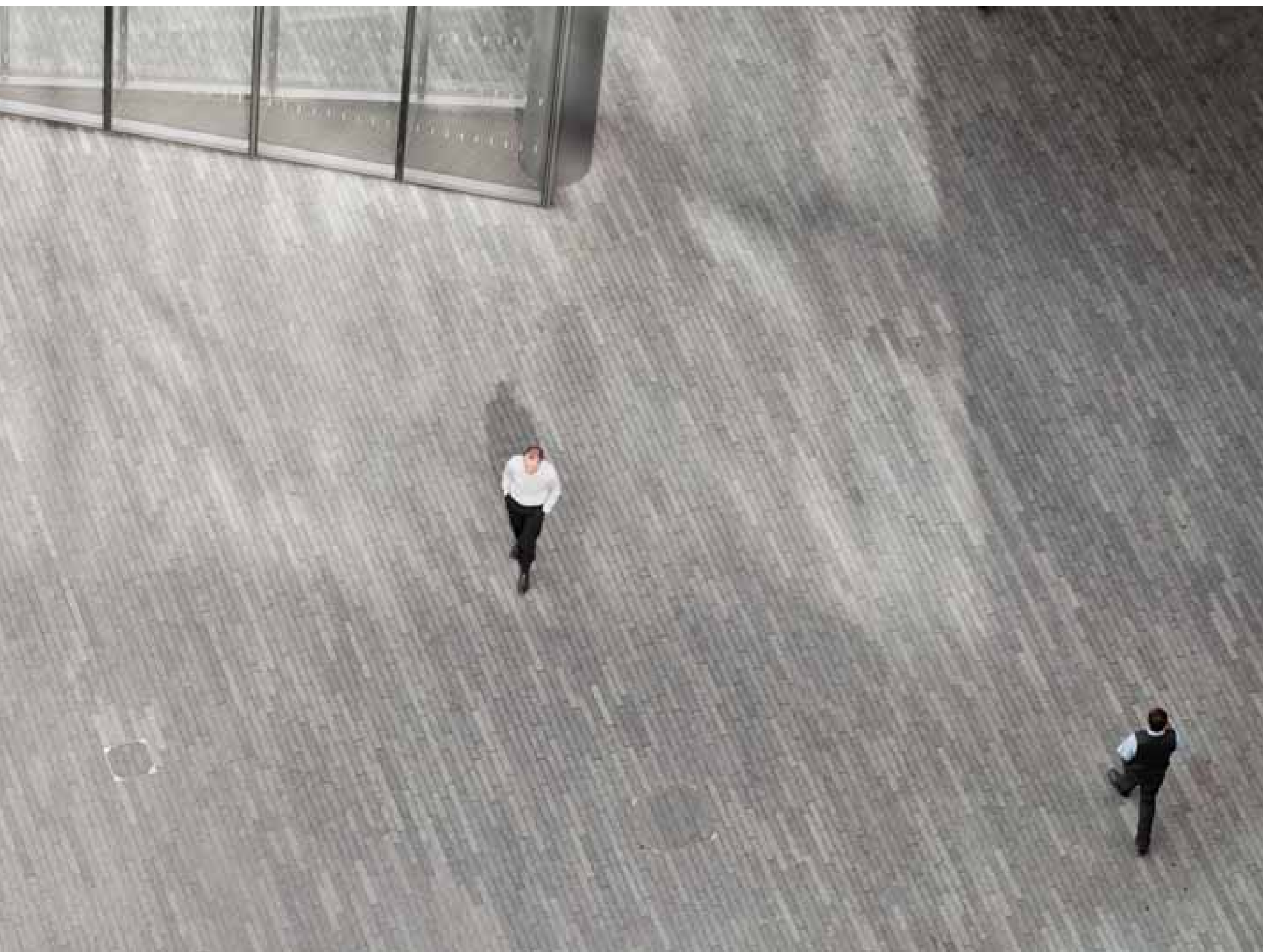
The Wholesale Banking group increased net income in a tough capital market by CA$69 million dollars, largely driven by decreased expenses and a lower effective tax rate. Overall the corporate and investment banking division had the toughest year of the Wholesale Banking group with revenues down CA$147 million or 16% compared to the prior year, largely driven by lower advisory and equity issuance revenue.

The Corporate and Other group of CIBC includes six functional groups as well as the international banking and joint venture operations of CIBC. In the current fiscal year, net income increased to CA$101 million from a loss of CA$128 million in 2011, largely driven by the CA$203 million goodwill impairment taken against FirstCaribbean Bank. International banking revenue increased CA$16 million from 2011, driven by the positive impact of a weaker Canadian dollar on CIBC FirstCaribbean operations.

The provision for credit losses increased in the fiscal year to CA$1,291 million compared to CA$1,144 million in the prior year. The increase of CA$95 million was largely driven by Wholesale Banking, which was exposed to higher losses in US real estate finance and the US leveraged finance portfolios. Overall, the Retail and Business Banking provisions were down CA$16 million compared to 2011, driven by higher recoveries and lower bankruptcies.

In fiscal 2012, CIBC continued to be active in terms of acquisitions and divestitures, including the following key events:

- Completed the acquisition of Griffis & Small, LLC, a Houston-based energy firm specializing in the exploration and production sector.
- Completed the acquisition of the private wealth manager business MFS McLean Budden, which had approximately CA$1.4 billion in assets under management on July 31, 2012.
- Completed a CA$194 million equity investment in Maple Group.



- Entered into an agreement to sell its stand-alone Hong Kong and Singapore based private wealth management business which had approximately CA$2 billion in assets under administration on October 31, 2012.
- Exited the FirstLine mortgage broker channel and renewed FirstLine clients into CIBC branded mortgages.

In fiscal 2013, CIBC sees less robust domestic demand but the overall Canadian economy should benefit from improved global economic conditions. The global financial condition will continue to impact CIBC, but direct exposure has been limited to approximately 2% of European countries with less than AAA ratings including the GIIPS (Greece, Italy, Ireland, Portugal and Spain).

In fiscal 2012, CIBC announced its intention to repurchase 8.1 million common shares or 2.0% of outstanding shares. As of October 31, 2012, CIBC had repurchases of 2.0 million shares at an average price of CA$77.33. It will continue to look at repurchasing the remaining shares in fiscal 2013. According to the management discussion and analysis included in its annual report, the strategic priorities for CIBC remain consistent in 2013 compared to fiscal 2012. It will continue to look for opportunities to accelerate its revenue growth through organic and inorganic initiatives while maintaining the overall client experience. CIBC will leverage its products and services across its banking groups while looking for opportunities to apply its multi-channel strategy.

NBC highlights

NBC capped its 10th consecutive year of record results in 2012 with an adjusted net income of CA$1.396 billion, up CA$91 million or 7% from 2011 (reported net income of CA$1.63 billion, up CA$338 million or 26%). Total revenues were CA$5.3 billion, an increase of CA$647 million or 14% from 2011. NBC also continued its trend of dividend increases, with increases for Q1 and Q3 2012 and a further increase for Q1 2013. Dividends per share were CA$3.08 in 2012, up from CA$2.74 in 2011—a 34% increase. Dividends to common shareholders were 39% of net income, excluding specific items, and just shy of its 40% to 50% target payout ratio. NBC's ROE was 24.5%, up from 20.2% in 2011 (20.7% and 20.9% respectively excluding specified items).

NBC has three business segments – Personal and Commercial Banking, Wealth Management and Financial Markets.

Personal and Commercial Banking's adjusted net income rose CA$66 million or 11% to CA$693 million. Revenues totalled CA$2.59 billion, up CA$80 million or 3% from 2011. Growth in net interest income was a contributing factor thanks to increases in personal and commercial loan volumes. This growth counteracted margin pressure, as net interest margins fell from 2.35% to 2.18%. Earnings were further boosted by a 14% reduction in provisions for credit losses.

NBC has acquired a number of wealth management entities over the past five years. In 2011, the bank completed the acquisition of Wellington West Holdings and in Q1 2012 it completed the acquisition of the full-service investment advisory business of HSBC Securities (Canada) Inc. These acquisitions contributed to the CA$84 million or 9% increase in Wealth Management total revenues to CA$986 million. The HSBC Securities (Canada) Inc. acquisition contributed CA$54 million or 6% of this increase. However, these acquisitions also contributed to higher operating expenses and adjusted net earnings were CA$166 million, down CA$21 million or 11% from 2011.

Financial Markets lead earnings and revenue growth for NBC in the year. Adjusted net earnings were CA$501 million in 2012, an increase of CA$71 million or 19% from 2011. Adjusted total revenues rose CA$108 million or 9% from 2011. Revenue growth came from most core areas, particularly fixed income trading activities (contributing CA$63 million revenue growth), and financial market fees, banking services and other revenues from associate companies. Adjusted earnings grew more than revenues due to controlled operating expenses, which grew only 2%.

On an adjusted basis, provisions for credit losses improved from CA$199 million in 2011 to CA$180 million in 2012, a 10% reduction. The reduction was primarily due to lower provisions for credit card receivables and commercial loans, partially offset by increases for personal and corporate loans.

Although NBC did not announce any new acquisitions in the year, it did dispose of the operations of Natcan Investment Management Inc. (Natcan) to Fiera Capital Corporation (Fiera) on April 2, 2012, in exchange for a 35% interest in Fiera. This resulted in a CA$212 million gain net of income taxes. This also caused a decrease of 4% in assets under administration and management for Wealth Management to CA$233 billion, as institutional clients were transferred to Fiera.

During 2012, NBC issued CA$1 billion in new medium-term notes and redeemed CA$500 million in previous notes, for a net CA$500 million increase to Tier 2 capital. NBC's Tier 1 capital ratio declined in the year, from 13.6% in 2011 to 12% in 2012, and the total capital ratio decreased from 16.9% to 15.9%. These decreases were due to IFRS adoption, the 35% interest obtained in Fiera and the repurchase of common shares. Ahead of year end, NBC was among several institutions that Moody's placed under review for potential downgrade for its long-term rating, due to rising consumer debt levels. NBC was also among the institutions that S&P downgraded one level in December 2012 and Moody's downgraded in January 2013, due to the softening economy.

NBC is the smallest of the Big Six with a regional focus, as 65% of its revenues are from Quebec. The percentage of revenue from Quebec is down 4% from 2011, emphasizing NBC's continued business focus in the rest of Canada and internationally. NBC's outlook for 2013 is to continue this trend, but also maintain its regional footprint in Quebec. This will be through continued streamlining of operations and enhancing client service. Wealth Management expects to increase profitability through cost management, integration and optimization of recent acquisitions and a broadened product offering. Financial Markets plans to continue to build on its leadership position in Quebec and focus on mid-market Canadian companies.

RBC highlights

RBC had another strong fiscal year ending October 31, 2012, despite challenging global and domestic economic conditions. Overall net income from continuing operations grew to CA$7,590 million, a 9% increase. The growth was led by higher fixed income trading and corporate and investment banking results, which were reflective of improved market conditions and overall strengthening of the domestic banking division. Strong business growth was also seen in wealth management and insurance. Net income in the year was favourably impacted by the release of tax uncertainty provisions (CA$128 million), interest income from a tax refund (CA$53 million after tax) and change in estimate of mortgage prepayment interest. Positive results were negated by the effects of increased support costs, PCL and lower transaction volumes in Wealth Management. On March 2, 2012, RBC completed the disposition of its US regional retail banking operations to PNC Financial Services Group, Inc. and accordingly up to the date of disposition, a net loss of CA$51 million was recognized from discontinued operations - a decrease of 90% from 2011.

RBC announced on October 23, 2012 that it has entered into an agreement to acquire the Canadian auto finance and deposit business of Ally Financial Inc., subject to regulatory approvals. RBC also acquired the remaining 50% stake in RBC Dexia (subsequently rebranded RBC Investor Services) from Banque Internationale à Luxembourg S.A. on July 27, 2012. The acquisition triggered a loss of CA$224 million. On May 31, 2012, RBC completed its acquisition of the wealth division of Latin American, Caribbean and African Private Banking Business of Coutts.

The Personal and Commercial Banking operations, formerly referred to as the Canadian Banking segment, now includes operations in the Caribbean and the US. It saw revenues of CA$12,643 million, an increase of 5%, driven by strong volume growth in personal deposits, residential mortgages, business deposits and loans, personal loans and mortgage prepayment adjustment. The mortgage prepayment adjustment is a one-time adjustment to an accounting estimate surrounding the recognition of prepayment interest (cumulatively increased net interest income by CA$125 million). Net interest margin remained flat as a result of the low interest rate environment; PCL saw an increase of 2% largely due to higher provisions in the Caribbean portfolio; and Canadian lending saw a decrease in provisions for the Canadian credit card portfolio. Non-interest expense experienced a 4% increase due to higher support costs.

RBC’s wealth management division is composed of the Canadian Wealth Management, US & International Wealth Management and Global Asset Management. Total revenues amounted to CA$4,835 million, an increase of 3% from 2011, driven by higher average fee-based client assets, volume growth in loans and deposits and increase in US share based compensation plans, offset by decreased transaction volumes. Non-interest expense saw a 6% increase largely due to higher staff levels, infrastructure investments, unfavourable impact of regulatory and legal matters, a weaker Canadian dollar and favourable adjustment in 2011 related to the deferred compensation plan.

RBC’s Insurance segment continued to be impacted by the low interest rate environment and underwent changes in the regulatory environment; however, the segment has managed to weather these challenging conditions and continued to see earnings growth. Total revenues amounted to CA$4,897 million, an increase of 9%, driven by growth in reinsurance, life and home and auto products and fair value changes in underlying investments offset by insurance policyholder benefits, claims and acquisition expense (PBCAE). Non-interest expense increased 3% due to support costs, offset by cost management.

RBC's Investor & Treasury Services, now includes RBC Investor Services and banking and treasury services from Capital Markets. This group was realigned to better service financial institutions and institutional investing clients. It saw revenues of CA$1,325 million, an increase of 16% from 2011, driven by higher funding and liquidity trading as a result of improved market conditions. Non-interest expense increased 38% largely due to the impairment loss and other costs related to the acquisition of RBC Investor Services and higher staff costs.

Capital markets saw increases in revenue of 16% driven by improved market conditions and strong client growth in the corporate and investment banking division. PCL saw an increase to CA$135 million due to higher provisions for a few client accounts and non-interest expense saw an increase of 7% due to higher variable compensation.

Going forward, the Personal and Commercial Banking division anticipates growth across most products but expects decelerated growth in home equity products and personal loans, while business lending activity strengthens. RBC continues to expect spread compression and high levels of competition. The wealth management division is expected to see continued market volatility, investor uncertainty and low interest rates, but global growth is expected in private wealth through high net worth investors. The insurance division is anticipating continued growth. RBC Investor and Treasury Services can expect 2013 to continue holding challenges in the global atmosphere due to concerns around the European sovereign debt crisis. Finally, RBC's capital market division anticipates that 2013 will hold growth in lending, loan syndication, origination and advisory lines, while performance may be adversely affected by global economic uncertainties.

TD highlights

TD's adjusted net income was CA$7.08 billion, up CA$643 million or 10% from 2011 (reported net income of CA$6.47 billion, up CA$426 million or 7%). Adjusted revenues increased CA$1.72 billion or 8% from 2011 to CA$23.3 billion. Dividends during 2012 totalled CA$2.89 per share (CA$2.61 in 2011), an 11% increase. On October 31, 2012, the quarterly dividend was CA$0.77 per share, which was increased twice during the year and is consistent with the bank's current target payout range of 40% to 50% of adjusted net earnings, an increase from 35% to 45% in 2011.

The bank's four main business segments are: Canadian Personal and Commercial Banking (Canadian P&C), Wealth and Insurance, US Personal and Commercial Banking (US P&C) and Wholesale Banking.

Canadian P&C net earnings were CA$3.30 billion, up CA$253 million or 8% from 2011, and revenues were CA$10.7 billion, up 12% from 2011. The addition of the MBNA Canada (MBNA) portfolio had a significant effect, contributing 9% to revenues and assisting in growth of the margin on average earnings, up 8 basis points (bps) to 2.84% from 2011. Excluding MBNA, margins decreased 12 bps from 2.76% to 2.64% and the bank offset this margin decline with volume growth. The continued decrease in margin, excluding MBNA, continues to be due to the low-rate environment and competitive pricing, similar to the other Canadian banks.

Wealth and Insurance net income was CA$1.37 billion, an increase of CA$53 million or 4% from 2011. Revenues declined slightly by 1% to CA$4.02 billion. A decrease in trading revenue in direct investing was offset by higher fee-based revenue from in advice-based and asset management (9% growth in assets under administration and 10% growth in assets under management). Insurance revenues, net of claims expenses, were flat at CA$1.2 billion, as they had increased from

premium growth of 7% and the inclusion of MBNA, but were offset by unfavourable prior year claims development for the Ontario auto insurance market and weather-related events.

US P&C adjusted net earnings were US$1.42 billion in 2012, an increase of US$152 million or 12%, and revenues increased US$398 million or 7% to US$6.13 billion. Earnings and revenues increased primarily due to loan and deposit growth (17% and 11% respectively from 2011) and higher fee-based revenue. This was offset by higher expenses to support growth and the regulatory impacts of the Durbin Amendment to the Dodd-Frank Act to cap interchange fees. The margin on average earning assets for the year decreased by 13 bps to 3.60%, primarily due to the low-rate environment and timing of cash flows on acquired portfolios. Reported net earnings were negatively impacted by litigation reserves of US$248 million as a result of adverse judgements, as announced in January 2012, and the impact of Superstorm Sandy of US$37 million.

Wholesale Banking net income for the year was CA$880 million, an increase of CA$65 million or 8% from 2011, and revenues were CA$2.65 billion, up CA$158 million or 6%. Earnings and revenues were bolstered by fixed income and credit trading from increased liquidity and volatility, debt underwriting and mergers and acquisitions revenue, partially offset by reduced investment portfolio gains and weaker equity trading volumes.

Adjusted provisions for credit losses in 2012 were CA$1.90 billion, up 28% from 2011, due to the MBNA portfolio acquisition in the Canadian P&CB segment and loan growth in the US P&CB segment, partially offset by strengthening in credit quality despite uncertain economic conditions.

Acquisitions in the year:

- On December 1, 2011, the bank acquired substantially all of the credit card portfolio of MBNA for CA$6.84 billion. Results of the acquisition are reported primarily in the Canadian P&C and Wealth and Insurance segments. For 2012, the acquisition contributed CA$811 million to revenue and a CA$15 million loss to net income.
- Near the end of the fiscal year, the bank announced that it entered into an agreement with Target Corporation to acquire Target's US$5.9 billion credit card portfolio and a seven-year program agreement to become the issuer of Target credit cards to its US customers. Subject to regulatory approval, the acquisition is expected to be completed in the first half of 2013.
- The bank also announced on December 6, 2012 that it acquired US based asset management firm Epoch Partners for US$668 million. Subject to regulatory approval, the transaction is also expected to be completed in the first half of 2013.

Consistent with the other Canadian banks, TD's outlook for 2013 is to maintain moderate growth in Canada despite slowing economic growth and the low-rate environment, and grow volumes, insurance premiums and market share in its other segments. The bank plans to continue balancing investment in its business lines and infrastructure and focusing on productivity and controlling expenses.

07 | Market capitalization

Market capitalization increased across all the Big Six banks in Canada, with the rankings as at October 31, 2012 remaining the same as in the previous year.

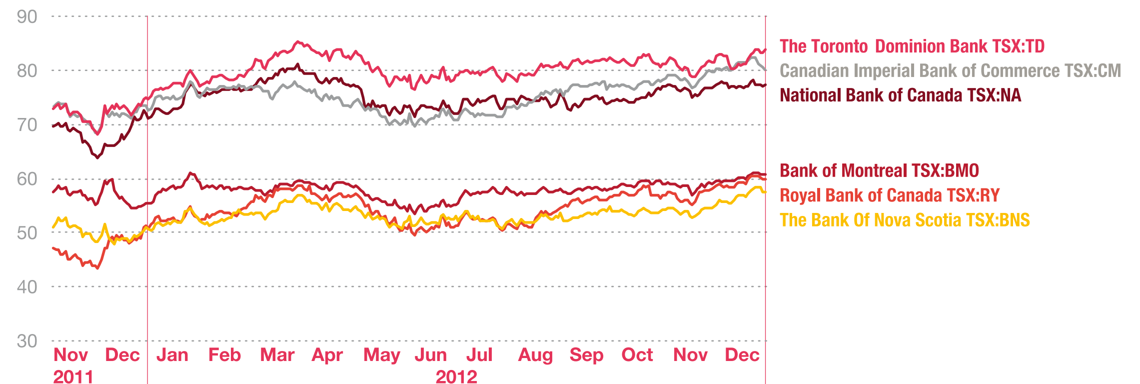
RBC maintained its top position with a market capitalization of CA$82.3 billion, with the largest increase of all the Big Six (up 17.7% compared to October 31, 2011) widening the gap between itself and its competitors.

TD placed second again with a market capitalization of CA$74.4 billion, up 9.6% from the previous year. This increase allowed it to maintain its position above Scotiabank, which in turn saw a significant improvement of 12.4% to CA$64.3 billion (this compares to an increase of only 0.4% in 2011). For Scotiabank, this was mainly driven by a large issuance of capital stock during the period (CA$4.8 billion) coupled with a 3.3% increase in share price to CA$54.25; in the previous year, 2011, there was a drop in share price by 3.9% to CA$52.53 from CA$54.67 in 2010.

BMO registered in fourth seeing a rise in market capitalisation of 2.1% with a market value of CA$38.4 billion followed by CIBC with a market capitalization of CA$31.8 billion, up 5.7% on prior year. NBC ranked sixth with a market capitalization of CA$12.5 billion, an increase of 9.5% from the prior year.

Total market capitalization for the Big Six banks was CA$303.7 billion as of October 31, 2012 – a significant increase of 10.8% from CA$274.1 billion in the prior year.

Figure 19: Canadian banks share price movement
Actual price



The most significant rise in common share price was 17.1% for RBC which was the main driver for the increase in its market capitalization. This was fuelled by increased earnings throughout the year and continued competitive advantage due to their size. TD saw an increase of 8%, NBC shares rose 7.8% and both CIBC and Scotiabank saw share price increases of 4.6% and 3.3% respectively, with all rises being attributable to the banks displaying profitable growth and favourable dividend payout ratios in the current period. BMO showed very little movement in share price compared to the prior period, with a modest rise of 0.2%. It was noted that TD, Scotiabank and CIBC had slight decreases in share price on their respective earnings release dates (December 7, 2012 for Scotiabank and December 6, 2012 for TD and CIBC) with TD exhibiting the largest decrease with a fall of CA$1.46 per share (1.7%).

The S&P/TSX 60 Index (which represents the 60 largest companies by market capitalization on the Toronto Stock Exchange) collectively covers approximately 73% of Canada's equity market capitalization and all six banks are constituents of this index. Looking at the top 10 constituents by market capitalization, RBC, TD and Scotiabank take the top three spots with BMO ranking fifth as of December 31, 2012. All six banks have outperformed the average share price movement of this index which has increased throughout the current year.

Tangible common equity (TCE) ratios looked at below compare tangible common equity to risk weighted assets, essentially measuring the bank's ability to absorb losses incurred (i.e. defaults on mortgage loan assets held on the balance sheet). As at October 31, 2012, Scotiabank lead the big six in this key metric with a TCE ratio of 11.8%. NBC ranked sixth with a TCE ratio of 9.5%. TD, CIBC, RBC and NBC all had lower TCE ratios compared with the prior period and this was attributable to the implementation of the Basel II market risk framework resulting in an increase in risk weighted assets whereas BMO and Scotiabank saw increases of 0.9 and 1.7 percentage points to 10.9% and 11.8% respectively. BMO held the low end placing in this category in 2011 and Scotiabank held this position in 2010. Scotiabank's increase in the current year was primarily driven by CA$4.8 billion in issuances of common equity (of which more than CA$3 billion was issued through two public offerings to fund acquisitions) during 2012.

Dividend increases were seen at all Big Six banks during the period, with increases being considered by analysts as better than expected, indicating an optimistic outlook by Canadian banks.

Direct exposure to riskier parts of Europe (i.e. the GIIPS nations) continued to be small in 2012. However as at October 31, 2012, larger direct exposures to other parts of Europe exist for some banks including:

- RBC with a net exposure of CA$42.84 billion (Non-GIIPS CA$41.37 billion/GIIPS CA$1.47 billion)
- TD with a net exposure of CA$34.54 billion (Non-GIIPS CA$33.96 billion/GIIPS CA$0.58 billion)
- Scotiabank with a net exposure of CA$20.78 billion (Non-GIIPS CA$19,08 billion /GIIPS CA$1.70 billion
- BMO with a net exposure of CA$7.91 billion (Non-GIIPS CA$7.83 billion/GIIPS CA$0.08 billion
- CIBC with a net exposure of CA$5.24 billion (Non-GIIPS CA$5.21 billion/GIIPS CA$0.03 billion

The above exposures exist primarily through lending, securities, deposits, repos and derivative positions. Canadian banks are also indirectly impacted by the uncertainty in Europe through their capital markets and wealth management businesses.

08 | Credit losses

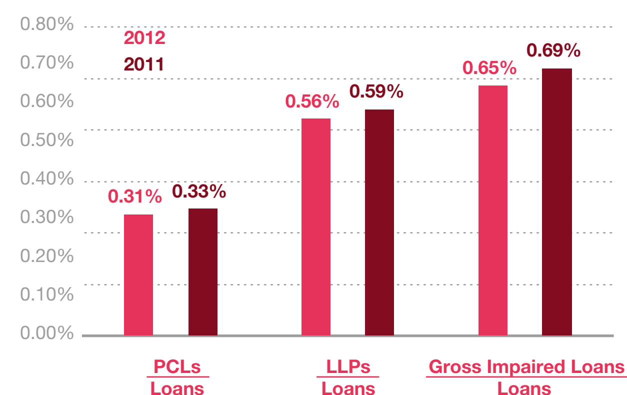
Following the two years in which the major banks benefited from year-over-year improvements in PCL hitting their profit and loss (P&L), the impact of the PCL on 2012 results was mixed, ranging from a year-over-year decline of 36.9% for BMO to an increase of 20.5% for TD. Four of the banks saw an increase in their PCL while two banks showed a decline. At the extremes, the PCL of BMO and TD were skewed by their acquisitions of Marshall & Isley Corporation (M&I) in 2011 and the credit card portfolio of MBNA in 2012, respectively.

The total PCLs across the major banks increased by 5.5% from CA$6.2 billion in 2011 to CA$6.6 billion in 2012. PCLs as a percentage of loans declined from 0.33% to 0.31% as the total loan portfolio increased by 7.8% from CA$1,600 billion to CA$1,725 billion across the major banks. Each bank saw an increase in their loan portfolio ranging from 1.4% at CIBC to 14.0% at NBC. Apart from BMO which experienced a decrease of 18 bps in its PCL as a percentage of loans to 0.25%, NBC who experienced a 3 bps decrease to 0.17%, and RBC who remained flat at 0.26%, the remaining major banks showed an increase in their PCL as a percentage of loans of 5 bps or less.

On the balance sheet, loan loss provisions (LLP) as a percentage of loans decreased slightly from 0.59% in 2011 to 0.56% in 2012. NBC and BMO experienced the largest declines at 16.8% and 11.9% respectively, followed by RBC at 10.6%. TD showed an increase of 4.0% while Scotiabank and CIBC's metrics remained largely unchanged. The continued trend in year-over-year improvement in the LLP relative to the loan balance reflects the continued credit quality of the Canadian banks' portfolios. While the Canadian lending portfolio appears stable, results at each bank reflect the diversity in foreign lending within their overall portfolios.

Gross impaired assets increased by 3% from CA$13.2 billion on October 31, 2011 to CA$13.6 billion on October 31, 2012. As a percentage of loans, gross impaired loans declined 6.6% from 0.69% to 0.65% overall. Apart from BMO which had an increase of 2.1%, the remaining banks showed a decline in gross impaired loans as a percentage of loans ranging from 4.0% for CIBC to 16.6% for NBC.

Figure 20: Credit losses



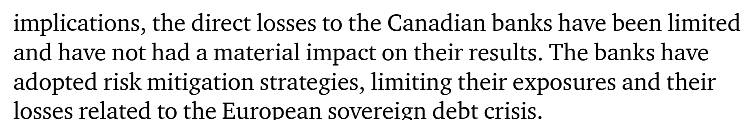
Consistent with recent years, despite being the largest single lending portfolio for each of the Canadian banks, credit losses and the associated provision for Canadian residential mortgages remains a very small portion of the results of the banks and the overall PCL. The historically low level of losses reflects the more conservative underwriting standards of Canadian banks; the fact that many residential mortgages loans are insured; the full recourse nature of Canadian mortgages impacting consumer behaviour; and the increasing housing prices in Canada, which serves to limit the lender's exposure where a mortgage does go into default. The bulk of retail banking credit losses relate to the unsecured credit card and personal lending portfolios. Excluding BMO and RBC, the other banks saw a slight increase in impaired personal loans and the related provision.

The banks experienced strong growth in the business and government loans sector in 2012 with 9.8% growth over 2011. Business and government loan growth in 2012 ranged from 6.4% for TD to 21.3% for RBC, with five of the banks achieving 10% growth or more. Growth in commercial sector lending is a good indicator of economic growth, particularly as economists believe that the Canadian economic recovery will be driven by business spending rather than by the 'cash-strapped' consumer. This is also an indication that Canadian companies have emerged from the economic downturn in relatively good shape financially and are prepared to spend and invest in order to grow and remain competitive.

The increased LLP is due to an increase in both the specific provision and the collective provision overall but year-over-year changes vary greatly by financial institution. The variation in the specific provision from 2011 to 2012 had a wide range, from -14.8% for BMO to 29.8% for CIBC, while the change in the collective provision was low (less than 3% in absolute terms) for all banks except for TD and Scotiabank which had a 17.8% and a 13.7% increase, respectively. Scotiabank is impacted to a greater extent by its foreign lending as it has a greater international exposure compared to the other Canadian banks; 59% of its gross impaired loans at October 31, 2012 are in geographies outside of North America. The LLP was impacted by BMO and TD's recent acquisitions. The credit risk on BMO's 2011 M&I acquisition is performing better than expected in 2012 resulting in a decrease in BMO's LLP. TD's increased LLP reflects a 16% increase in the collectively assessed allowance for individually insignificant impaired loans, mainly due to FDIC covered loans and acquired credit-impaired loans. The majority of the banks do not publish credit related segmented information by province or territory. However, information published by the Canadian Bankers Association, which was obtained from the six largest Canadian banks and several other major lending institutions, shows an overall decrease in the percentage of mortgages in arrears by three or more months to the total number of mortgages. This ratio declined from 0.39% at October 2011 to 0.32% at October 2012, dropping to the lowest rate since December 2008. Alberta showed the greatest year-over-year decline from 0.73% to 0.53%, but continues to have the highest arrears ratio in Canada. Ontario also showed a significant decline from 0.29% to 0.21% and maintains the lowest arrears ratio in Canada. The remaining provinces and territories had a stable or declining arrears ratio within this range.

In previous years, the losses in the US lending portfolios experienced a higher rate of credit losses than Canadian portfolios. The US lending portfolios primarily impacted BMO and TD's results given their proportionately larger US loan portfolios at 24.5% and 21.5%, respectively. The other major banks are at 10% or less. TD's continued improvement in its US lending portfolio is reflected in the LLP, which is a proportionate 21.5% at October 31, 2012. On the other hand, 49% of BMO's LLP relates to its US lending portfolio, primarily as a result of its 2011 acquisition of Marshall & Isley.

In response to continued concerns relating to the European sovereign debt crisis, the largest six Canadian banks have disclosed their direct and indirect exposure to the eurozone and in particular GIIPS (Greece, Ireland, Italy, Portugal and Spain) countries along with their risk mitigation strategies and the credit ratings of European counterparties. While the European uncertainty has had negative repercussions on business and consumer confidence and in turn negative economic



implications, the direct losses to the Canadian banks have been limited and have not had a material impact on their results. The banks have adopted risk mitigation strategies, limiting their exposures and their losses related to the European sovereign debt crisis.

Under IFRS, the LLP consists of a collective provision and a specific provision. Overall, the framework for determining the collective and specific provisions is consistent with the former Canadian GAAP framework for the specific and general allowances and as a result, the adoption of IFRS did not have a significant impact on the banks' LLP or the underlying methodology. As Canadian GAAP to IFRS adjustments are recorded in equity on transition to IFRS, there is no impact to the banks' net income on transition. The practical application of the LLP framework by each bank differs somewhat in that some financial institutions have two types of collective provisions: (i) a collectively assessed allowance for individually insignificant impaired loans and (ii) a collectively assessed allowance for incurred but not identified credit losses. Under this approach, larger impaired loans are assessed individually while smaller retail loans are assessed on a collective basis using historical loss data. TD disclosed a refinement of its loan loss provisioning methodology in 2012, unrelated to the adoption of IFRS.

Overall, the banks' loan balance increased by CA$256 billion to CA$1,600 billion at October 31, 2011 - nearly a 20% increase relating to the transition from Canadian GAAP to IFRS. As a result of the differences between Canadian GAAP and IFRS, most transfers of securitized financial assets that previously qualified for derecognition under Canadian GAAP no longer qualify for derecognition under IFRS and thus remain on balance sheet under IFRS. While the banks' loan portfolio has increased, the LLP does not show a significant increase as their securitization programs typically include fully insured residential mortgages.

Banks continued to experience strong loan growth in 2012 but several economic factors point to a deceleration in Canadian consumer lending in 2013. Statistics Canada reported in December 2012 that consumer debt reached another record high with the pace of the growth in consumer debt slowing. This high consumer debt level leaves Canadians susceptible to increases in interest rates. Meanwhile, the federal government has relied on regulatory steps to reign in mortgage borrowing by introducing tighter lending standards in Canada in the second half of 2012. This, in conjunction with elevated housing prices, resulted in a slowdown in housing sales and in turn a slowdown in mortgage growth in the latter part of 2012. With the Bank of Canada not expected to raise interest rates until late 2013 or early 2014 and with modest economic growth expected in Canada and the US in 2013, demand for personal credit in 2013 is expected to slow down while demand for business credit is expected to remain strong.

Based on our observations of the industry, banks in this country are unlikely to fall into the trap of lending against property values rather than the borrowers' propensity to repay the loan. As a result of the banks' diligent underwriting practices and lending policies combined with OSFI maintaining a tight regulatory regime, including the issuance of Guideline B-20 'Residential Mortgage Underwriting Practices and Procedures', lending portfolios have stabilized and results have benefitted from releases in the PCL in recent years.

09 | Results by business segments

Personal and commercial banking

Personal and commercial banking remains the most significant component for banks in this group, with the net income contribution from this segment steady at 61% of overall net income.

While all banks saw increases in net income from their personal and commercial banking operations to a total of CA$17.5 billion (CA$16.1 billion in 2011), the rate of growth has moderated from 16% in the prior year to 9% in the current year.

PCL were up 10% to CA$6.4 billion (CA$5.8 billion in 2011). This figure is inflated due to TD's acquisition of MBNA – adjusting for this gives a 3% year-over-year increase. Credit quality continued to improve in 2012 with gross impaired loans down from 1.08% of loan portfolios to 0.65% of lending assets, with this being off-set by the lending portfolio increasing by 8% to CA$1,737 billion (CA$1,607 billion in 2011).

Net interest income increased 9% to CA$45.2 billion (CA$41.4 billion in 2011) primarily as a result of the 8% increase (9% in 2011) in loan portfolio balances to CA$1,725 billion, despite general concerns about moderation in the housing market.

Net interest margins remained unchanged at 2.85%. The low interest environment and competitive pressures were cited as being sources of continued margin compression. Trends in this area varied, with BMO and NBC experiencing declines in margins, Scotiabank increasing margins and RBC remaining stable year-over-year. While TD's reported margins increased, this was attributable to their acquisition of MBNA, while TD's portfolio, excluding MBNA, experienced a decline in margin.

Non-interest income increased 7% to CA$16.2 billion (CA$15.2 billion in 2011), again largely driven by the increase in the size of loan and deposit portfolios.

Figure 21: Year-over-year % change in reported net income by segment[1]

	Weighted average	BMO	BNS	CIBC	NBC	RBC	TD
Personal and commercial banking[2]	9%	8%	17%	5%	9%	9%	5%
Wealth management and insurance[3]	2%	10%	-7%	22%	-11%[3]	5%	4%
Wholesale banking and capital markets	15%	5%	19%	13%	14%	22%	8%

1. The banks' operations are grouped in three categories for this analysis. Corporate and other segment is excluded for each bank.
2. International banking incomes for TD, Scotiabank and BMO are included in personal and commercial banking; NBC derives little income from non-Canadian sources, and results from RBC's discontinued US operations have been excluded.
3. Based on adjusted results. Using reported numbers, NBC had a 91% increase, largely driven by a CA$246m gain on sale of Natcan's operation

Expenses (excluding interest expense, PCL and tax expenses) increased 10% to CA$32.4 billion (CA$29.6 billion in 2011), with the efficiency ratio deteriorating from 52% in 2011 to 53%. Key drivers of expense growth were acquisitions, particularly MBNA by TD, Marshall and Ilsley Corporation (M&I) by BMO and acquisitions by Scotiabank's international banking business. Adjusting for expense growth attributed to these acquisitions, expenses across the banks increased 5%.

Wealth management and insurance

Contributing roughly 18% of the banks' net income, results were relatively flat with net income up 2% to CA$5.0 billion (CA $4.9 billion in 2011). Both the wealth management and insurance businesses were affected by low interest rates and global market conditions and the impact of these conditions on investor confidence.

Assets under management and administration increased 8% to CA$2,695 billion (CA$2,495 billion in 2011), with each bank, with the exception of NBC, experiencing growth around this rate. The 4% decrease in assets under management and administration experienced by NBC is due to its disposal of Natcan Investment Management Inc., with NBC recognizing a CA$246 million gain on the sale of Natcan.

Revenue grew by 6% to CA$23.1 billion (CA$21.8 billion in 2011), matched by expense growth of 6% to CA$13.2 billion (CA$12.5 billion in 2011). Consequently the efficiency ratio was relatively flat at 57.1% (57.3% in 2011).

Figure 22: Weighted average contribution to net income[1]

	Weighted average
Personal and commercial banking	61%
Wealth management and insurance	18%
Wholesale banking and capital markets	21%

1 Excludes corporate and other

Wholesale banking and capital markets

Contributing 21% of the banks' net income, net income in the wholesale banking and capital markets segment rebounded this year, increasing 15% to CA$6 billion (CA$5.2 billion in 2011) as compared to 3% growth in 2011.

Strong fixed income and credit trading and wholesale lending results were the key contributors to the increase. TD also cited M&A activity, although M&A revenues were not up for all the banks with both Scotiabank and BMO in particular noting softness in the M&A space.

PCL increased 125% to CA$455 million (CA$202 million in 2011), driven by increased lending activity but also representing a return to more normal PCL levels after recoveries and releases of provisions resulted in a very low PCL in 2011.

Expense growth was comparatively low, with expenses up 4% to CA$10.6 billion (CA$10.2 billion in 2011), with the efficiency ratio improving 2 bps to 56%.

10 | Results by geography

Despite uncertainty in global capital markets, continued concerns over European sovereign debt, and limited prospects for global growth, Canadian banks continue to operate and expand into international markets. For some Canadian banks, international markets are a key focus, and they continue to build on international operations both through organic growth and acquisitions.

However, beyond uncertainly in markets and slow economic growth, international and domestic reforms and regulatory developments also continue to present a challenge. Since Dodd-Frank was first signed into law, there has been widespread certainty that this legislation would impact all financial institutions operating in the US. Though regulations are not finalized, it's clear many areas of business will be significantly affected, and the banks are watching closely and analyzing the impacts on operations.

Looking at activity outside of Canadian borders, Scotiabank remains the most global of the Canadian banks. In 2012, it continued to build upon international operations, working towards the goal of bringing Canadian banking practices to new markets. With operations in 55 countries, Scotiabank generated international banking revenues in 2012 that accounted for 27% of total revenues. The year 2012 saw Scotiabank complete its largest ever international acquisition; it purchased 51% of Banco Colpatria, the fifth largest bank in Columbia. This enhances an existing strong presence in major South American markets including Peru, Chile and Brazil.

Scotiabank also has significant operations in Mexico, the Caribbean, Asia, Central America and the US. Another notable acquisition during 2012 includes Howard Weil, a US energy firm.

RBC's operations in the US generated US$4,872 million or 16% of total revenues during 2012 which is up from US revenues of US$3,906 million in 2011. The disposition of US regional banking operations was completed in March 2012 and results from these operations have been classified as discontinued operations in 2011 and 2012.

In May 2012, RBC acquired the private banking business of Coutts, the wealth division of the Royal Bank of Scotland. The acquired business services client assets of approximately CA$2 billion, spread across Latin America, the Caribbean and Africa. In 2012, RBC's international revenues (excluding the US) were CA$5,109 million or 17% of total revenues.

RBC's other significant transaction saw the company acquire 50% ownership of the joint venture RBC Dexia Investor Services Ltd, which was previously owned by Banque Internationale a Luxembourg.

TD's activities outside Canada continue to be concentrated in the US rather than overseas, though TD Waterhouse International has operations in the UK and Europe. TD's activity in US markets this year included the acquisition of Target Corporation's US visa and private credit card portfolio. With the closing of the deal which is anticipated for the first half of 2013, TD will take the spot as sole issuer of the Target branded visa card and acquire over five million active cards.

TD's US banking revenues for 2012 total CA$6,131 million, or 27% of TDs total revenue. Revenues are supported by 1,315 stores along the east coast from Maine to Florida, as well as other personal and business banking services which can be accessed online and virtually anywhere. With significant operations and focus on the US market, monitoring and responding to regulatory developments remains a priority for TD.

BMO's acquisitions in 2012 were far less significant than those in the prior year, but investment activity did demonstrate a continued interest in international markets.

In June 2012, BMO completed the acquisition of CTC Consulting, a US based company, increasing their US presence and BMO's ability to reach ultra high net worth individuals and wealth advisors. In 2012, BMO's US operations accounted for 33% of total revenues, with CA$1,801 million of the US revenues attributed to the acquisition of Marshall & Ilsley in July 2011.

BMO's other notable acquisition was of a 19.99% interest in COFCO Trust Co., a subsidiary of one of China's largest state owned organizations. This move expands upon BMO's presence in China, where existing operations include an established subsidiary bank. BMO's Asian presence will be further enhanced when it completes the acquisition of an Asian based wealth management business, which was announced in April 2012 and is expected to close in 2013.

Although CIBC's primary focus and operations are in Canada, its focus for growth and investment outside of the country continues to be in the Caribbean market, which makes up 8% of overall revenues and nearly 60% of international revenues. The past year was a difficult one for CIBC's Caribbean operations, where continued economic pressure is felt. International revenues were down by 4% from the prior year, and this includes offsets due to lower interest expense and a weaker Canadian dollar.

CIBC also expanded their US footprint during the past year, purchasing Griffis & Small, a Houston based energy advisory firm.

International operations in Asia were scaled back as CIBC entered into a definitive agreement to exit the wealth management segment in Hong Kong and Singapore through disposal of its wealth management business based there. Other CIBC segments in Asia carry on unaffected by the disposal.

NBC's growth in 2012 remained consistent, with a focus on Canada. Revenues outside of Canada were 4% of total revenues and net income attributed to operations outside of Canada were less than 2% of total net income. The past year saw record income for NBC and although 65% of revenues were generated in Quebec, where it leads the other Canadian banks, the remaining 31% of revenue recorded during the year was across its three main business segments and spread across the country.

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Appendix 1: Shareholder value summary

in millions of Canadian dollars

	BMO				BNS				CIBC			
	2012 IFRS	Change	2011 CGAAP	2010 CGAAP	2012 IFRS	Change	2011 CGAAP	2010 CGAAP	2012 IFRS	Change	2011 CGAAP	2010 CGAAP
Stock performance												
Common share price as at October 31	59.02	0.2%	58.89	60.23	54.25	3.3%	52.53	54.67	78.56	4.6%	75.10	78.23
Book value of outstanding common shares	40.23	1.8%	39.53	34.11	29.77	14.3%	26.06	22.70	37.52	3.1%	36.41	32.17
Trading premium above book value	18.79	-3%	19.36	26.12	24.48	-7.5%	26.47	31.97	41.04	6.1%	38.69	46.06
Market price to book value	1.47		1.49	1.77	1.82		2.02	2.41	2.09		2.06	2.43
Earnings												
Net income attributable to common shareholders	4,115	31.8%	3,122	2,674	6,023	21.5%	4,959	4,038	3,173	-9.3%	2,902	2,283
Basic earnings per share as reported	**6.18**	**17.0%**	**5.28**	**4.78**	**5.31**	**14.9%**	**4.62**	**3.91**	**7.86**	**-7.4%**	**7.32**	**5.89**
Price / earnings ratio	9.6	-14.4%	11.2	12.6	10.2	-10.1%	11.4	14.0	10.0	3.0%	10.3	13.3
Returns												
Return on basic equity[1]	16.6%		14.0%	14.5%	19.6%		19.1%	18.1%	22.4%		21.3%	19.2%
Return on assets	0.8%		0.7%	0.6%	0.9%		0.9%	0.8%	0.8%		0.8%	0.6%
Return on risk-weighted assets[2]	2.0%		1.5%	1.7%	2.4%		2.1%	1.9%	2.8%		2.6%	2.1%
Total market return[3]	**5.0%**		**2.4%**	**25.9%**	**7.4%**		**-0.2%**	**25.1%**	**9.5%**		**0.5%**	**31.8%**
Dividends												
Dividend paid	2.80	0.0%	2.80	2.80	2.19	6.8%	2.05	1.96	3.64	3.7%	3.51	3.48
Dividend yield[4]	4.7%	-0.2%	4.8%	4.6%	4.0%	3.4%	3.9%	3.6%	4.6%	-0.9%	4.7%	4.4%
Dividend payout ratio[5]	45%	-14.6%	53%	59%	41%	-7.1%	44%	50%	46.3%	-3.4%	48.0%	59.1%
Shares outstanding at end of year (millions)	651	1.9%	639	566	1,184	8.7%	1,089	1,042	404	0.9%	401	393
Market capitalization at October 31 (billions)	38.42	2.1%	37.64	34.09	64.30	12.4%	57.21	56.97	31.80	5.7%	30.08	30.72
Total assets per dollar of market capitalization	13.68		12.69	12.08	10.39		10.06	9.25	12.37		11.64	11.46

Notes

1. Return on equity has been calculated as net income attributable to common shareholders divided by average common shareholders' capital.
2. Return on risk-weighted assets has been calculated as net income attributable to common shareholders divided by risk weighted assets.
3. Total market return has been calculated as [change in share price + dividends paid] divided by opening share price and does not include the assumed rate of return on the investment of dividends.
4. Dividend yield has been calculated as dividends paid divided by the common share price at the fiscal year end.
5. Dividend payout ratio has been calculated as dividends paid divided by earnings per share.

Appendix 1: Shareholder value summary
in millions of Canadian dollars

	NBC				RBC				TD			
	2012 IFRS	Change	2011 CGAAP	2010 CGAAP	2012 IFRS	Change	2011 CGAAP	2010 CGAAP	2012 IFRS	Change	2011 CGAAP	2010 CGAAP
Stock performance												
Common share price as at October 31	76.66	7.8%	71.14	67.13	56.94	17.1%	48.62	54.39	81.23	8.0%	75.23	73.45
Book value of outstanding common shares	40.11	-2.1%	40.97	37.54	27.30	0.06	25.65	23.96	48.18	0%	48.16	44.23
Trading premium above book value	36.55	21.1%	30.17	29.59	29.64	0.29	22.97	30.43	33.05	22.1%	27.07	29.22
Market price to book value	1.91		1.74	1.79	2.09		1.90	2.27	1.69		1.56	1.66
Earnings												
Net income attributable to common shareholders	1,518	34.8%	1,126	971	7,442	62.0%	4,594	4,965	6,171	8.1%	5,709	4,450
Basic earnings per share as reported	**9.40**	**35.6%**	**6.93**	**5.99**	**4.98**	**55.1%**	**3.21**	**3.49**	**6.81**	**5.6%**	**6.45**	**5.13**
Price / earnings ratio	8.2	-20.6%	10.3	11.2	11.4	-24.5%	15.1	15.6	11.9	2.3%	11.7	14.3
Returns												
Return on basic equity[1]	47.0%		17.7%	16.9%	21.1%		12.9%	15.0%	14.8%		13.9%	12.0%
Return on assets	0.9%		0.7%	0.7%	0.9%		0.6%	0.7%	0.8%		0.8%	0.7%
Return on risk-weighted assets[2]	2.7%		2.2%	1.9%	2.7%		1.7%	1.9%	2.51%		2.6%	2.2%
Total market return[3]	**12.1%**		**10.1%**	**23.4%**	**21.8%**		**-6.8%**	**2.9%**	**11.8%**		**5.7%**	**23.0%**
Dividends												
Dividend paid	3.08	12.4%	2.74	2.48	2.28	9.6%	2.08	2.00	2.89	10.7%	2.61	2.44
Dividend yield[4]	4.0%	4.3%	3.9%	3.7%	4.0%	-6.4%	4.3%	3.7%	3.6%	2.5%	3.5%	3.3%
Dividend payout ratio[5]	32.8%	-17.1%	39.5%	41.4%	45.8%	-29.3%	64.8%	57.3%	42.4%	4.9%	40.5%	47.6%
Shares outstanding at end of year (millions)	161	9.5%	160	163	1,445	0.5%	1,438	1,425	916	1.5%	902	880
Market capitalization at October 31 (billions)	12.50	0.09	11.42	10.94	82.28	17.7%	69.93	77.51	74.41	9.6%	67.89	64.61
Total assets per dollar of market capitalization	14.23		13.69	13.28	10.03		10.75	9.37	10.90		10.11	9.59

Notes

1. Return on equity has been calculated as net income attributable to common shareholders divided by average common shareholders' capital.
2. Return on risk-weighted assets has been calculated as net income attributable to common shareholders divided by risk weighted assets.
3. Total market return has been calculated as [change in share price + dividends paid] divided by opening share price and does not include the assumed rate of return on the investment of dividends.
4. Dividend yield has been calculated as dividends paid divided by the common share price at the fiscal year end.
5. Dividend payout ratio has been calculated as dividends paid divided by earnings per share.

Appendix 2: Regulatory capital[1]

in millions of Canadian dollars

	BMO				BNS				CIBC			
	2012	Change	2011	2010	2012	Change	2011	2010	2012	Change	2011	2010
Tier 1 capital												
Common shareholders' equity	26,060		24,455	18,753	34,755		27,932	23,199	14,878		15,071	12,995
OCI - Accumulated foreign currency translation losses									(88)		(650)	(575)
Non-cumulative preferred shares	2,465		2,861	2,571	4,384		4,384	3,975	1,706		2,756	3,156
Innovative Tier 1 capital	1,859		2,156	2,542	2,150		2,900	3,400	1,678		1,600	1,599
Non-controlling interests	16		38	23	966		640	579	172		164	168
Less: Goodwill and excess intangible assets	(3,717)		(3,585)	(1,619)	(4,917)		(4,377)	(3,050)	(1,702)		(1,894)	(1,913)
Adjustments to Tier 1 capital	(787)		(854)	(592)	(2,902)		(2,990)	(2,769)	(704)		(839)	(579)
Total Tier 1 capital	**25,896**	**3.3%**	**25,071**	**21,678**	**34,436**	**20.9%**	**28,489**	**25,334**	**15,940**	**-1.7%**	**16,208**	**14,851**
Tier 2 capital												
Subordinated debt	4,351		5,896	3,776	8,893		5,723	5,790	4,617		4,975	4,674
Trust Subordinated Notes	800		800	800	1,000		1,000	1,000	-			-
Accumulated unrealized gain from AFS securities	34		7	10	305		152	176	196		5	4
Eligible general allowance for credit losses	318		309	292	454		353	574	106		108	126
Other adjustments to capital[2]	(730)		(1,091)	(919)	(2,895)		(3,184)	(3,275)	(935)		(1,009)	(689)
Total Tier 2 capital	**4,773**	**-19.4%**	**5,921**	**3,959**	**7,757**	**91.8%**	**4,044**	**4,265**	**3,984**	**-2.3%**	**4,079**	**4,115**
Total regulatory capital	**30,669**	**-1.0%**	**30,992**	**25,637**	**42,193**	**29.7%**	**32,533**	**29,599**	**19,924**	**-1.8%**	**20,287**	**18,966**
Risk-weighted capital ratio												
Tier 1	12.6%		12.0%	13.5%	13.6%		12.2%	11.8%	13.8%		14.7%	13.9%
Total capital ratio	**14.9%**		**14.9%**	**15.9%**	**16.7%**		**13.9%**	**13.8%**	**17.3%**		**18.4%**	**17.8%**
Risk-weighted assets												
Credit risk	171,955		179,092	136,290	210,000		200,800	180,500	93,360		90,110	86,782
Market risk	7,598		4,971	5,217	13,800		5,900	10,500	3,033		1,646	1,625
Operational risk	25,677		24,609	19,658	29,500		27,300	24,000	18,836		18,212	18,256
Total risk-weighted assets	**205,230**	**-1.6%**	**208,672**	**161,165**	**253,300**	**8.2%**	**234,000**	**215,000**	**115,229**	**4.8%**	**109,968**	**106,663**
Assets to capital multiple	15.2	10.9%	13.7	14.5	15.0	-9.6%	16.6	17.0	17.4	8.7%	16.0	17.0
Tangible common equity to risk-weighted assets	10.9%	8.9%	10.0%	10.6%	11.8%	17.0%	10.1%	9.4%	11.4%	-4.6%	12.0%	10.4%
Total assets to risk-weighted assets	256.0%	11.9%	228.8%	255.4%	263.7%	7.3%	245.8%	245.0%	341.4%	7.3%	318.3%	330.0%
Total general allowance as a percentage of risk adjusted assets	0.71%		0.63%	0.80%	0.99%		0.58%	0.66%	1.25%		0.93%	1.08%
Total general allowance	1,460		1,318	1,297	2,508		1,352	1,410	1,441		1,018	1,153

Notes

1. Regulatory capital and risk weighted assets are calculated under Basel II guidelines and there has been no restatement of prior year comparatives as a result of transition to IFRS.
2. Includes requirements for insurance entities, non-consolidated subsidiaries, substantial investments, securitization-related deduction, expected loss in excess of allowance, and other deductions.

	NBC[3]				RBC				TD			
	2012	Change	**2011**	**2010**	**2012**	Change	**2011**	**2010**	**2012**	Change	**2011**	**2010**
Tier 1 capital												
Common shareholders' equity	6,366		6,432	5,934	38,624		38,471	36,229	40,484		42,921	37,903
OCI - Accumulated foreign currency translation losses	(12)		(130)	(133)	195				(426)		(3,199)	(2,901)
Non-cumulative preferred shares	762		762	1,089	4,814		4,810	4,810	3,394		3,395	3,944
Innovative Tier 1 capital	975		975	975	2,580		2,582	3,327	3,700		3,705	3,844
Non-controlling interests	23		28	25	34		30	351			-	-
Less: Goodwill and excess intangible assets	(1,063)		(1,001)	(744)	(7,485)		(7,703)	(8,064)	(12,311)		(14,376)	(14,460)
Adjustments to Tier 1 capital	(341)		(212)	(176)	(1,955)		(2,477)	(2,681)	(3,852)		(3,943)	(3,944)
Total Tier 1 capital	**6,710**	**-2.1%**	**6,854**	**6,970**	**36,807**	**3.1%**	**35,713**	**33,972**	**30,989**	**8.7%**	**28,503**	**24,386**
Tier 2 capital												
Subordinated debt	2,382		1,883	1,894	7,495		7,669	6,641	11,198		11,253	11,812
Trust Subordinated Notes	-				-		1,027	1,023	-			
Accumulated unrealized gain from AFS securities	39		-	13	221		-		99		35	66
Eligible general allowance for credit losses	68		48	79	191		430	517	1,142		940	915
Other adjustments to capital[2]	(341)		(286)	(259)	(2,367)		(3,818)	(4,528)	(4,833)		(5,753)	(6,109)
Total Tier 2 capital	**2,148**	**30.6%**	**1,645**	**1,727**	**5,540**	**4.4%**	**5,308**	**3,653**	**7,606**	**17.5%**	**6,475**	**6,684**
Total regulatory capital	**8,858**	**4.2%**	**8,499**	**8,697**	**42,347**	**3.2%**	**41,021**	**37,625**	**38,595**	**10.3%**	**34,978**	**31,070**
Risk-weighted capital ratio												
Tier 1	12.0%		13.6%	14.0%	13.1%		13.3%	13.0%	12.6%		13.0%	12.2%
Total capital ratio	**15.9%**		**16.9%**	**17.5%**	**15.1%**		**15.3%**	**14.4%**	**15.7%**		**16.0%**	**15.5%**
Risk-weighted assets												
Credit risk	45,181		40,277	39,811	209,559		206,151	197,195	201,280		183,405	167,297
Market risk	2,631		2,478	3,226	30,109		21,346	24,828	12,033		5,083	4,474
Operational risk	8,057		7,665	6,794	40,941		40,283	38,433	32,562		30,291	28,139
Total risk-weighted assets	**55,869**	**10.8%**	**50,420**	**49,831**	**280,609**	**4.8%**	**267,780**	**260,456**	**245,875**	**12.4%**	**218,779**	**199,910**
Assets to capital multiple	18.3	7.0%	17.1	15.9	16.7	3.7%	16.1	16.5	18.0	4.7%	17.2	17.5
Tangible common equity to risk-weighted assets	9.5%	-11.9%	10.8%	10.4%	11.1%	-3.4%	11.5%	10.8%	11.5%	-12.2%	13.0%	11.7%
Total assets to risk-weighted assets	318.4%	2.7%	310.0%	291.6%	294.0%	4.7%	280.7%	278.8%	329.9%	5.2%	313.7%	309.9%
Total general allowance as a percentage of risk adjusted assets	0.7%		0.63%	0.86%	0.64%		0.49%	0.51%	0.92%		0.75%	0.82%
Total general allowance	390		318	429	1,790		1,312	1,317	2,260		1,643	1,632

Notes

1. Regulatory capital and risk-weighted assets are calculated under Basel II guidelines and there has been no restatement of prior year comparatives as a result of transition to IFRS.
2. Includes requirements for insurance entities, non-consolidated subsidiaries, substantial investments, securitization-related deduction, expected loss in excess of allowance, and other deductions.
3. For NBC, off-balance sheet assets have been included with market risk.

Appendix 3: Balance sheet highlights

in millions of Canadian dollars

	BMO				BNS				CIBC			
	2012 IFRS	Change	2011 IFRS restated	2010 CGAAP	2012 IFRS	Change	2011 IFRS restated	2010 CGAAP	2012 IFRS	Change	2011 IFRS restated	2010 CGAAP
Assets												
Cash resources (including deposits with banks)	26,282	2.4%	25,656	20,554	67,191	23.4%	54,471	46,027	4,727	-8.1%	5,142	12,052
Securities												
Available-for-sale (including loan substitutes)	56,382	9.6%	51,426	50,543	33,361	10.6%	30,176	47,228	24,700	-8.9%	27,118	26,621
Held-for-trading	70,109	0.3%	69,925	71,710	87,596	15.6%	75,799	64,684	40,330	23.3%	32,713	28,557
Other	1,833	139.9%	764	1,146	197	-47.5%	375	4,651	3,615	57.0%	2,302	22,430
Total cash resources and securities	**154,606**	**4.6%**	**147,771**	**143,953**	**188,345**	**17.1%**	**160,821**	**162,590**	**73,372**	**9.1%**	**67,275**	**89,660**
Securities purchased under resale agreements	44,238	16.5%	37,970	28,102	47,354	36.9%	34,582	27,920	25,163	-1.9%	25,641	37,342
Loans												
Residential mortgages	87,870	8.4%	81,075	48,715	175,630	8.6%	161,685	120,482	150,056	-0.3%	150,509	93,568
Personal and credit card loans	69,250	2.6%	67,483	54,467	68,277	7.8%	63,317	62,548	50,476	-0.2%	50,586	46,462
Business and government loans	93,175	9.8%	84,883	68,338	123,828	17.6%	105,260	103,981	43,624	10.0%	39,663	38,582
Allowance for credit losses	(1,706)	-4.3%	(1,783)	(1,878)	(2,969)	10.4%	(2,689)	(2,787)	(1,860)	3.2%	(1,803)	(1,720)
Total loans	**248,589**	**7.3%**	**231,658**	**169,642**	**364,766**	**11.4%**	**327,573**	**284,224**	**242,296**	**1.4%**	**238,955**	**176,892**
Customers' liability under acceptances	8,019	11.0%	7,227	7,001	8,932	9.3%	8,172	7,616	10,436	10.4%	9,454	7,684
Derivatives	48,071	-12.8%	55,113	49,759	30,327	-18.7%	37,322	24,778	27,039	-4.4%	28,270	22,034
Assets from Discontinued Operations	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	21,926	5.2%	20,836	13,183	28,320	9.1%	25,953	19,529	15,079	6.5%	14,163	18,428
Total assets	**525,449**	**5.0%**	**500,575**	**411,640**	**668,044**	**12.4%**	**594,423**	**526,657**	**393,385**	**2.5%**	**383,758**	**352,040**
Liabilities												
Deposits												
Individuals	121,230	-0.9%	122,287	99,043	138,051	3.8%	133,025	128,850	118,153	1.3%	116,592	113,294
Business and government	185,182	16.3%	159,209	130,773	295,588	10.7%	266,965	210,687	125,055	6.8%	117,143	127,759
Banks	17,290	-17.2%	20,877	19,435	29,970	40.4%	21,345	22,113	4,723	13.1%	4,177	5,618
Total deposits	**323,702**	**7.1%**	**302,373**	**249,251**	**463,609**	**10.0%**	**421,335**	**361,650**	**247,931**	**4.2%**	**237,912**	**246,671**
Other												
Acceptances	8,019	11.0%	7,227	7,001	8,932	9.3%	8,172	7,616	10,481	10.5%	9,489	7,684
Securities - short sales	23,439	16.0%	20,207	16,438	18,622	20.5%	15,450	21,519	13,035	26.4%	10,316	9,673
Securities - repos	39,737	23.9%	32,078	47,110	56,949	49.0%	38,216	40,286	6,631	-22.6%	8,564	28,220
Derivatives	48,736	-4.3%	50,934	47,970	35,299	-12.3%	40,236	28,293	27,091	-5.9%	28,792	22,809
Liabilities from Discontinued Operations												
Other liabilities (including non-controlling interests)	48,606	-12.0%	55,234	17,414	34,854	4.5%	33,351	33,223	64,849	-1.8%	66,026	16,420
Subordinated debt	4,093	-23.5%	5,348	3,776	10,143	46.5%	6,923	5,939	4,823	-6.1%	5,138	4,773
Preferred share liability	-	-	-	-	-	-	-	-	-	-	-	-
Trust securities	462	-43.7%	821	800	-	-	-	500	1,678	5.3%	1,594	-
Total liabilities and debt	**496,794**	**4.8%**	**474,222**	**389,760**	**628,408**	**11.5%**	**563,683**	**499,026**	**376,519**	**2.4%**	**367,831**	**336,250**
Shareholder's equity												
Preferred share capital	2,465	-13.8%	2,861	2,571	4,384	0.0%	4,384	3,975	1,706	-38.1%	2,756	3,156
Common share capital	11,957	5.5%	11,332	6,927	13,139	57.6%	8,336	5,775	7,769	5.3%	7,376	6,804
Contributed surplus	213	88.5%	113	92	-	-	-	-	85	-8.6%	93	96
Retained earnings	13,540	19.0%	11,381	12,848	22,144	19.6%	18,517	21,932	7,042	29.0%	5,457	6,095
Accumulated other comprehensive income (loss)	480	-27.9%	666	(558)	(31)	-93.8%	(497)	(4,051)	264	7.8%	245	(361)
Total equity	28,655	8.7%	26,353	21,880	39,636	28.9%	30,740	27,631	16,866	5.9%	15,927	15,790
Total liabilities and shareholders' equity	**525,449**	**5.0%**	**500,575**	**411,640**	**668,044**	**12.4%**	**594,423**	**526,657**	**393,385**	**2.5%**	**383,758**	**352,040**

	NBC				RBC				TD			
	2012 IFRS	Change	2011 IFRS restated	2010 CGAAP	2012 IFRS	Change	2011 IFRS restated	2010 CGAAP	2012 IFRS	Change	2011 IFRS restated	2010 CGAAP
Assets												
Cash resources (including deposits with banks)	3,249	14.0%	2,851	2,274	22,872	21.1%	18,888	21,694	25,128	4.2%	24,112	21,710
Securities												
Available-for-sale (including loan substitutes)	10,374	13.5%	9,142	10,997	40,828	5.0%	38,894	38,594	98,576	5.4%	93,520	102,355
Held-for-trading	44,524	-6.2%	47,450	43,271	120,783	-5.7%	128,128	144,925	94,531	28.9%	73,353	59,542
Other	-	-	-	-	383	-	-	-	6,173	45.7%	4,236	9,715
Total cash resources and securities	**58,147**	**-2.2%**	**59,443**	**56,542**	**184,866**	**-0.6%**	**185,910**	**205,213**	**224,408**	**15.0%**	**195,221**	**193,322**
Securities purchased under resale agreements	15,529	24.2%	12,507	10,878	112,257	32.1%	84,947	72,698	69,198	21.4%	56,981	50,658
Loans												
Residential mortgages	33,538	16.0%	28,921	15,806	198,324	5.3%	188,406	126,790	172,172	10.7%	155,471	71,507
Personal and credit card loans	26,529	9.3%	24,274	20,549	100,358	6.9%	93,858	85,435	133,285	7.2%	124,375	109,750
Business and government loans	23,182	11.6%	20,777	21,469	81,559	21.3%	67,233	62,819	106,035	6.4%	99,655	91,072
Allowance for credit losses	(577)	-5.1%	(608)	(636)	(1,997)	1.5%	(1,967)	(2,038)	(2,644)	14.3%	(2,314)	(2,309)
Total loans	**82,672**	**12.7%**	**73,364**	**57,188**	**378,244**	**8.8%**	**347,530**	**273,006**	**408,848**	**8.4%**	**377,187**	**270,020**
Customers' liability under acceptances	8,250	11.6%	7,394	5,946	9,385	22.1%	7,689	7,371	7,223	-7.6%	7,815	7,757
Derivatives	6,696	-18.6%	8,224	7,309	91,293	-8.4%	99,650	102,021	60,919	1.8%	59,845	41,368
Assets from Discontinued Operations	-	-	-	-	-	-	-	34,364	-	-	-	-
Other assets	6,609	11.6%	5,922	7,438	49,055	-28.0%	68,107	31,533	40,510	5.4%	38,444	56,420
Total assets	**177,903**	**6.6%**	**166,854**	**145,301**	**825,100**	**3.9%**	**793,833**	**726,206**	**811,106**	**10.3%**	**735,493**	**619,545**
Liabilities												
Deposits												
Individuals	43,905	8.6%	40,433	34,112	179,502	8.1%	166,030	151,347	291,759	8.6%	268,703	249,251
Business and government	46,223	14.1%	40,524	41,985	312,882	5.2%	297,511	239,233	181,038	7.1%	169,066	168,212
Banks	3,121	-32.2%	4,605	5,688	15,835	1.8%	15,561	23,981	14,957	28.3%	11,659	12,508
Total deposits	**93,249**	**9.0%**	**85,562**	**81,785**	**508,219**	**6.1%**	**479,102**	**414,561**	**487,754**	**8.5%**	**449,428**	**429,971**
Other												
Acceptances	8,250	11.6%	7,394	5,946	9,385	22.1%	7,689	7,371	7,223	-7.6%	7,815	7,757
Securities - short sales	18,124	-0.1%	18,146	18,292	40,756	-8.0%	44,284	46,597	33,435	41.6%	23,617	23,695
Securities - repos	19,539	-3.6%	20,268	12,513	64,032	49.8%	42,735	41,207	38,816	49.3%	25,991	25,426
Derivatives	5,600	-25.0%	7,470	6,418	96,761	-3.7%	100,522	104,832	64,997	5.3%	61,715	45,674
Liabilities from Discontinued Operations	-	-	-	-	-	-	-	24,454	-	-	-	-
Other liabilities (including non-controlling interests)	23,451	20.1%	19,533	11,106	53,165	-24.2%	70,156	40,825	117,790	6.5%	110,602	31,632
Subordinated debt	2,470	23.5%	2,000	2,033	7,615	-13.0%	8,749	6,681	11,318	-1.9%	11,543	12,506
Preferred share liability	-	-	-	-	-	-	-	-	26	-18.8%	32	582
Trust securities	-	-	-	-	900	0.7%	894	727	2,224	-0.2%	2,229	-
Total liabilities and debt	**170,683**	**6.4%**	**160,373**	**138,093**	**780,833**	**3.5%**	**754,131**	**687,255**	**763,583**	**10.2%**	**692,972**	**577,243**
Shareholder's equity												
Preferred share capital	762	0.0%	762	1,089	4,814	0.0%	4,813	4,813	3,394	0.0%	3,395	3,394
Common share capital	2,054	4.3%	1,970	1,804	14,353	2.4%	14,018	13,295	18,525	6.6%	17,375	16,639
Contributed surplus	58	26.1%	46	66	-	-	-	236	196	-7.5%	212	305
Retained earnings	4,091	21.5%	3,366	4,081	24,270	19.1%	20,381	22,706	21,763	19.5%	18,213	20,959
Accumulated other comprehensive income (loss)	255	-24.3%	337	168	830	69.4%	490	(2,099)	3,645	9.6%	3,326	1,005
Total equity	7,220	11.4%	6,481	7,208	44,267	11.5%	39,702	38,951	47,523	11.8%	42,521	42,302
Total liabilities and shareholders' equity	**177,903**	**6.6%**	**166,854**	**145,301**	**825,100**	**3.9%**	**793,833**	**726,206**	**811,106**	**10.3%**	**735,493**	**619,545**

	BMO				BNS				CIBC			
	2012 IFRS	Change	2011 IFRS restated	2010 CGAAP	2012 IFRS	Change	2011 IFRS restated	2010 CGAAP	2012 IFRS	Change	2011 IFRS restated	2010 CGAAP
Interest and dividend income												
Loans	11,141	9.2%	10,203	7,270	15,608	8.6%	14,376	12,372	10,020	-1.6%	10,184	7,481
Securities	2,265	4.1%	2,176	2,134	1,261	4.6%	1,206	4,227	2,013	12.7%	1,786	1,562
Deposits with banks	239	64.8%	145	74	285	4.4%	273	292	42	-33.3%	63	52
Total interest income	**13,645**	**9.0%**	**12,524**	**9,478**	**17,154**	**8.2%**	**15,855**	**16,891**	**12,075**	**0.3%**	**12,033**	**9,095**
Interest expense												
Deposits	2,578	-4.3%	2,693	2,362	5,947	6.4%	5,589	6,768	3,630	-5.5%	3,843	2,192
Subordinated debt	165	5.1%	157	119	381	3.3%	369	289	208	-3.3%	215	188
Other[1]	2,094	-4.8%	2,200	762	823	-6.8%	883	1,213	743	-18.6%	913	511
Total interest expense	4,837	-4.2%	5,050	3,243	7,151	4.5%	6,841	8,270	4,581	-7.8%	4,971	2,891
Net interest income	8,808	17.8%	7,474	6,235	10,003	11.0%	9,014	8,621	7,494	6.1%	7,062	6,204
Provision for credit losses	765	-36.9%	1,212	1,049	1,252	16.4%	1,076	1,239	1,291	12.8%	1,144	1,046
Net interest income after provision for credit losses	**8,043**	**28.4%**	**6,262**	**5,186**	**8,751**	**10.2%**	**7,938**	**7,382**	**6,203**	**4.8%**	**5,918**	**5,158**
Other income												
Capital market fees	1,588	-8.0%	1,727	1,493	493	0.2%	492	561	840	-16.8%	1,010	900
Card service fees	708	2.8%	689	233	768	26.3%	608	426	619	1.6%	609	304
Foreign exchange other than trading	153	17.7%	130	93	365	4.6%	349	337	91	-55.4%	204	683
Insurance income (net)	335	18.4%	283	321	388	32.0%	294		335	4.7%	320	277
Investment management fees	725	46.2%	496	355	324	9.8%	295	781	424	3.2%	411	459
AFS/investment securities gains (losses)	152	-19.6%	189	150	185	-35.1%	285	355	232	-40.5%	390	(223)
Lending fees	641	8.1%	593	572	897	4.8%	856	831	418	10.3%	379	341
Mutual fund revenues	647	2.2%	633	550	1,125	19.7%	940	582	880	3.7%	849	751
Securitization revenues	-	-	-	678	-	-	-	124	-	-	-	631
Service charges	929	11.4%	834	802	1,083	11.3%	973	883	775	2.5%	756	756
Trading income (loss)	1,025	86.7%	549	504	1,316	58.6%	830	1,016	(115)	-361.4%	44	603
Other revenues	419	21.1%	346	224	2,754	16.0%	2,374	988	556	38.7%	401	399
Total other Income	**7,322**	**13.2%**	**6,469**	**5,975**	**9,698**	**16.9%**	**8,296**	**6,884**	**5,055**	**-5.9%**	**5,373**	**5,881**
Non-interest expenses												
Employee compensation and benefits	5,628	16.6%	4,827	4,364	5,749	7.3%	5,358	4,647	4,044	-0.2%	4,052	3,871
Premises and equipment costs	1,916	21.4%	1,578	1,343	1,607	11.1%	1,446	1,526	1,719	3.8%	1,656	1,651
Other expenses	2,694	15.3%	2,336	1,883	3,047	13.8%	2,677	2,009	1,452	-18.3%	1,778	1,505
Total other expenses	10,238	17.1%	8,741	7,590	10,403	9.7%	9,481	8,182	7,215	-3.6%	7,486	7,027
Income (loss) before income taxes and non-controlling interest in subsidiaries	5,127	28.5%	3,990	3,571	8,046	19.1%	6,753	6,084	4,043	6.3%	3,805	4,012
Provision for (recovery of) income taxes	938	7.1%	876	687	1,580	11.0%	1,423	1,745	704	-24.1%	927	1,533
Non-controlling interest	74	1.4%	73	74	223	49.7%	149	100	8	-27.3%	11	27
Discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (loss)	**4,115**	**35.3%**	**3,041**	**2,810**	**6,243**	**20.5%**	**5,181**	**4,239**	**3,331**	**16.2%**	**2,867**	**2,452**
Less: Preferred dividends	-		-	136	220		216	201	158		177	169
Net income (loss) attributable to common shareholders	**4,115**	**35.3%**	**3,041**	**2,674**	**6,023**	**21.3%**	**4,965**	**4,038**	**3,173**	**18.0%**	**2,690**	**2,283**

Notes

1. Includes interest on preferred share liabilities, trust securities and other liabilities.

Appendix 4: Income statement highlights *continued*
in millions of Canadian dollars

	NBC				RBC				TD			
	2012 IFRS	Change	2011 IFRS restated	2010 CGAAP	2012 IFRS	Change	2011 IFRS restated	2010 CGAAP	2012 IFRS	Change	2011 IFRS restated	2010 CGAAP
Interest and dividend income												
Loans	3,037	4.1%	2,917	1,924	15,972	4.8%	15,236	12,968	17,951	5.5%	17,010	12,939
Securities	1,073	3.5%	1,037	964	4,819	-12.2%	5,486	4,719	4,199	19.0%	3,530	3,780
Deposits with banks	17	13.3%	15	5	61	-33.0%	91	59	88	-76.2%	369	668
Total interest income	**4,127**	**4.0%**	**3,969**	**2,893**	**20,852**	**0.2%**	**20,813**	**17,746**	**22,238**	**6.4%**	**20,909**	**17,387**
Interest expense												
Deposits	805	28.4%	627	599	6,017	-5.0%	6,334	4,917	4,670	4.6%	4,466	4,578
Subordinated debt	87	-5.4%	92	100	360	-9.8%	399	2,184	612	-7.7%	663	667
Other[1]	897	-2.5%	920	282	1,977	-27.4%	2,723	307	1,930	-8.9%	2,119	599
Total interest expense	1,789	9.2%	1,639	981	8,354	-11.7%	9,456	7,408	7,212	-0.5%	7,248	5,844
Net interest income	2,338	0.3%	2,330	1,912	12,498	10.0%	11,357	10,338	15,026	10.0%	13,661	11,543
Provision for credit losses	180	-2.2%	184	144	1,301	14.8%	1,133	1,240	1,795	20.5%	1,490	1,625
Net interest income after provision for credit losses	**2,158**	**0.6%**	**2,146**	**1,768**	**11,197**	**9.5%**	**10,224**	**9,098**	**13,231**	**8.7%**	**12,171**	**9,918**
Other income												
Capital market fees	661	4.1%	635	569	2,647	-6.0%	2,816	2,464	1,383	-5.8%	1,468	1,379
Card service fees	113	-2.6%	116	42	920	4.3%	882	521	1,039	8.3%	959	820
Foreign exchange other than trading	94	-10.5%	105	109	655	-4.2%	684	608	187	12.7%	166	161
Insurance income (net)	111	0.0%	111	121	1,276	14.3%	1,116	939	1,113	-4.6%	1,167	1,028
Investment management fees	-	-	-	-	2,074	3.8%	1,999	1,774	241	12.1%	215	189
AFS/investment securities gains (losses)	123	17.1%	105	113	120	15.4%	104	38	373	-5.1%	393	75
Lending fees	369	10.1%	335	314	848	19.9%	707	621	745	11.0%	671	634
Mutual fund revenues	480	12.7%	426	374	2,088	5.7%	1,975	1,571	997	6.0%	941	856
Securitization revenues	-	-	-	289	(1)		-	764	-	-	-	489
Service charges	229	0.4%	228	229	1,376	4.0%	1,323	1,321	1,775	10.8%	1,602	1,651
Trading income (loss)	233	-1032.0%	(25)	(78)	1,298	98.2%	655	1,333	(41)	-67.7%	(127)	484
Other revenues	562	87.3%	300	284	352	-46.8%	662	244	518	-34.6%	792	256
Total other Income	**2,975**	**27.4%**	**2,336**	**2,366**	**13,653**	**5.6%**	**12,923**	**12,198**	**8,330**	**1.0%**	**8,247**	**8,022**
Non-interest expenses												
Employee compensation and benefits	1,953	13.0%	1,729	1,624	9,287	7.2%	8,661	8,430	7,241	7.6%	6,729	5,960
Premises and equipment costs	205	7.9%	190	544	2,190	7.6%	2,036	1,904	2,199	5.4%	2,086	2,116
Other expenses	1,015	2.3%	992	643	3,683	6.1%	3,470	3,135	4,558	7.7%	4,232	4,087
Total other expenses	3,173	9.0%	2,911	2,811	15,160	7.0%	14,167	13,469	13,998	7.3%	13,047	12,163
Income (loss) before income taxes and non-controlling interest in subsidiaries	1,960	24.8%	1,571	1,323	9,690	7.9%	8,980	7,827	7,563	2.6%	7,371	5,777
Provision for (recovery of) income taxes	326	18.5%	275	221	2,100	4.5%	2,010	1,996	1,092	-17.6%	1,326	1,262
Non-controlling interest	73	1.4%	72	68	97	-4.0%	101	99	104	0.0%	104	(129)
Discontinued operations	-	-	-	-	(51)		(526)	(509)	-	-	-	-
Net Income (loss)	**1,561**	**27.5%**	**1,224**	**1,034**	**7,442**	**17.3%**	**6,343**	**5,223**	**6,367**	**7.2%**	**5,941**	**4,644**
Less: Preferred dividends	43		87	63	-		-	258	196		180	194
Net income (loss) attributable to common shareholders	**1,518**	**33.5%**	**1,137**	**971**	**7,442**	**17.3%**	**6,343**	**4,965**	**6,171**	**7.1%**	**5,761**	**4,450**

Notes

1. Includes interest on preferred share liabilities, trust securities and other liabilities.

Appendix 5: Credit risk summary

in millions of Canadian dollars

	BMO				BNS[1,2]				CIBC[2]			
	2012 IFRS	Change	2011 IFRS restated	2010 CGAAP	2012 IFRS	Change	2011 IFRS restated	2010 CGAAP	2012 IFRS	Change	2011 IFRS restated	2010 CGAAP
Balance sheet credit risk												
Consumer loans												
Residential mortgages	87,870	8.4%	81,075	48,715	175,630	8.6%	161,685	120,482	150,056	-0.3%	150,509	93,568
Personal loans	61,436	3.3%	59,445	51,159	55,736	6.6%	52,291	62,548	35,323	1.4%	34,842	34,335
Credit cards[1]	7,814	-2.8%	8,038	3,308	12,541	13.2%	11,076		15,153	-3.8%	15,744	12,127
Corporate loans												
Business and government loans	93,175	9.8%	84,883	68,338	123,828	17.6%	105,260	103,981	43,624	10.0%	39,663	38,582
Customers' liability under acceptances	8,019	11.0%	7,227	7,001	8,932	9.3%	8,172	7,616	10,436	10.4%	9,454	7,684
Securities purchased under resale agreement	44,238	16.5%	37,970	28,102	47,354	36.9%	34,582	27,920	25,163	-1.9%	25,641	37,342
Total loans	**302,552**		**278,638**	**206,623**	**424,021**	**13.7%**	**373,066**	**322,547**	**279,755**	**1.4%**	**275,853**	**223,638**
Allowance for credit losses												
Specific provision	476	-14.8%	559	581	461	-4.8%	484	1,386	475	29.8%	366	631
Collective provision	1,460	0.6%	1,452	1,297	2,508	13.7%	2,205	1,410	1,441	-3.0%	1,485	1,153
Total allowance for losses	**1,936**	**-**	**2,011**	**1,878**	**2,969**	**-**	**2,689**	**2,796**	**1,916**	**-**	**1,851**	**1,784**
Gross impaired loans	2,976	-	2,685	3,221	3,582	-	3,355	4,421	1,867	-	1,917	1,836
Impaired loans net of specific allowance	2,500	-	2,126	2,640	3,121	-	2,871	3,035	1,392	-	1,551	1,205
Credit related ratios												
Allowance for loan losses as a percentage of:												
Total loans	0.6%	-	0.7%	0.9%	0.7%	-	0.7%	0.9%	0.7%	-	0.7%	0.8%
Gross impaired loans	65.1%	-	74.9%	58.3%	82.9%	-	80.1%	63.2%	102.6%	-	96.6%	97.2%
Gross impaired loans as a percentage of total loans	**0.98%**	**2.1%**	**0.96%**	**1.6%**	**0.84%**	**-6.1%**	**0.90%**	**1.4%**	**0.67%**	**-4.0%**	**0.69%**	**0.8%**

Notes

1. In 2010, BNS and NBC included credit card balances in personal loans.
2. General allowance includes amount recorded in other liabilities (BMO: $230 in 2012 and $228 in 2011 (IFRS); BNS: $8 in 2011 (CGAAP) and $9 in 2010; CIBC: $56 in 2012; $48 in 2011 (IFRS), $56 in 2011 (CGAAP) and $64 in 2010; RBC: $91 in 2012 and $91 in 2011 (IFRS)).

	NBC[1]				RBC[2]				TD			
	2012 IFRS	Change	2011 IFRS restated	2010 CGAAP	2012 IFRS	Change	2011 IFRS restated	2010 CGAAP	2012 IFRS	Change	2011 IFRS restated	2010 CGAAP
Balance sheet credit risk												
Consumer loans												
Residential mortgages	33,538	16.0%	28,921	15,806	198,324	5.3%	188,406	126,790	172,172	10.7%	155,471	71,507
Personal loans	26,529	9.3%	24,274	20,549	86,697	7.1%	80,921	75,519	117,927	2.2%	115,389	100,880
Credit cards[1]	-	-	-	-	13,661	5.6%	12,937	9,916	15,358	70.9%	8,986	8,870
Corporate loans												
Business and government loans	23,182	11.6%	20,777	21,469	81,559	21.3%	67,233	62,819	106,035	6.4%	99,655	91,072
Customers' liability under acceptances	8,250	11.6%	7,394	5,946	9,385	22.1%	7,689	7,371	7,223	-7.6%	7,815	7,757
Securities purchased under resale agreement	15,529	24.2%	12,507	10,878	112,257	32.1%	84,947	72,698	69,198	21.4%	56,981	50,658
Total loans	**107,028**	**14.0%**	**93,873**	**74,648**	**501,883**	**13.5%**	**442,133**	**355,113**	**487,913**	**9.8%**	**444,297**	**330,744**
Allowance for credit losses												
Specific provision	187	-13.0%	215	207	298	18.3%	252	721	384	-2.8%	395	677
Collective provision	390	-0.8%	393	429	1,790	-0.9%	1,806	1,317	2,260	17.8%	1,919	1,632
Total allowance for losses	**577**	**-**	**608**	**636**	**2,088**	**-**	**2,058**	**2,038**	**2,644**		**2,314**	**2,309**
Gross impaired loans	387	-	407	369	2,250	-	2,327	4,999	2,518		2,493	3,456
Impaired loans net of specific allowance	200	-	192	162	1,952	-	2,075	4,278	2,134		2,098	2,779
Credit related ratios												
Allowance for loan losses as a percentage of:												
Total loans	0.5%	-	0.6%	0.9%	0.4%	-	0.5%	0.6%	0.5%		0.5%	0.7%
Gross impaired loans	149.1%	-	149.4%	172.4%	92.8%	-	88.4%	40.8%	105.0%		92.8%	66.8%
Gross impaired loans as a percentage of total loans	**0.36%**	**-16.6%**	**0.43%**	**0.5%**	**0.45%**	**-14.8%**	**0.53%**	**1.4%**	**0.52%**	**-8.0%**	**0.56%**	**1.0%**

Notes

1. In 2010, BNS and NBC included credit card balances in personal loans.
2. General allowance includes amount recorded in other liabilities (BMO: $230 in 2012 and $228 in 2011 (IFRS); BNS: $8 in 2011 (CGAAP) and $9 in 2010; CIBC: $56 in 2012; $48 in 2011 (IFRS), $56 in 2011 (CGAAP) and $64 in 2010; RBC: $91 in 2012 and $91 in 2011 (IFRS)).

Appendix 6: Top 25 Banks —Assets of banks registered with the Office of the Superintendent of Financial Institutions of Canada (OSFI)[1]
in millions of Canadian dollars

2012	2011	Bank	Oct. 31/12	Oct. 31/11	% change
1	1	Royal Bank of Canada	**825,100**	751,702	9.8%
2	2	The Toronto-Dominion Bank	**811,106**	686,360	18.2%
3	3	The Bank of Nova Scotia	**668,044**	575,256	16.1%
4	4	Bank of Montreal	**525,449**	477,423	10.1%
5	5	Canadian Imperial Bank of Commerce	**393,385**	353,699	11.2%
6	6	National Bank of Canada	**177,903**	156,297	13.8%
7	7	HSBC Bank Canada	**83,182**	80,328	3.6%
8	8	ING Bank of Canada	**39,710**	38,539	3.0%
9	9	Laurentian Bank of Canada	**34,937**	24,490	42.7%
10	10	Manulife Bank of Canada	**21,750**	20,686	5.1%
11	11	Canadian Western Bank	**16,873**	12,058	39.9%
12	13	CitiBank Canada	**12,024**	11,597	3.7%
13	12	Bank of America, National Association	**9,317**	12,058	-22.7%
14	17	Deutsche Bank AG	**7,887**	7,606	3.7%
15	18	JPMorgan Chase Bank, National Association	**7,464**	6,141	21.5%
16	14	Citibank, N.A.	**7,389**	8,672	-14.8%
17	16	Dundee Bank of Canada	**7,286**	8,132	-10.4%
18	21	State Street Bank and Trust Company	**5,330**	4,949	7.7%
19	20	ICICI Bank Canada	**5,285**	5,153	2.6%
20	23	Canadian Tire Bank	**5,156**	4,728	9.0%
21	N/A	Mizuho Corporate Bank, Ltd.	**4,793**	3,110	54.1%
22	22	Capital One Bank (USA), N.A.	**4,790**	4,732	1.2%
23	24	Amex Bank of Canada	**4,632**	4,181	10.8%
24	25	Bank of Tokyo-Mitsubishi UFJ (Canada)	**4,387**	3,295	33.1%
25	N/A	BNP Paribas (Canada)	**3,399**	3,096	9.8%
Total of 25 largest OSFI registered banks			**3,686,577**	3,261,193	**13.0%**
Total of all OSFI registered banks			**3,728,580**	3,311,071	**12.6%**

Notes

1 Ranking of banks per OSFI website, including domestic and foreign banks

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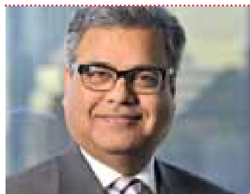

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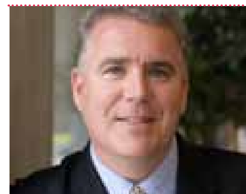

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We're at an unprecedented turning point in financial services. There's massive regulatory reform and uncertainty, we're rebounding from a series of recent scandals that have rocked the wider markets, and the industry must anticipate and respond to shifting consumer behaviours, demands and demographics. Before we look forward though, it's interesting to reflect upon where we've been in Canada and how the landscape has so dramatically changed to take us to where we are today.

In this publication, we take a look at the past and analyze how the Canadian banking system has developed and which emerging issues are having an impact on results such as regulatory capital and return on shareholders' equity today.

THE JOURNAL

Brave new world:
New frontiers in banking M&A

The total number and value of global banking M&A transactions has declined steadily over the past few years. If 2007 represented the end of the bull market for banking M&A, then 2008 and 2009 were defined by a wave of nationalizations and rescue transactions. Since then banking deals have cooled, although M&A has remained a vital tool for adaptation, retrenchment and reform.

In this paper we set out our view that the size and nature of global banking M&A has changed permanently. To support this argument we review the changing drivers of banking deals; how banking M&A is already evolving; and what changes we expect to see in the future. We end with some questions that we believe all banks – including those not currently engaged in M&A activity – should be asking themselves.

FS VIEWPOINT

Rebooting the branch:
Reinventing branch banking in a multi-channel, global environment

The branch of the future has a critical place in banks' overall channel strategy. But branches can't survive in their traditional form. Banks will have to consider their branch strategy in the context of their overarching distribution strategy including direct/self-service channels. Not all models work for all banks. Adopting a combination of branch models based on target customer segments in the local market as well as the bank's strategic goals is the most effective strategy.

If executed well, the branch network of the future can be mutually beneficial for banks and their customer.

Smart implementation:
Reining in the risk and cost of regulatory change in banking

The unprecedented volume of global regulation is placing considerable demands on the change capacity of banks, exacerbated by the dangers of failing to effectively interpret the regulatory agenda and manage external stakeholder expectations. How can you control the risks and costs of regulation?

Banking Banana Skins 2012:
The Canadian results

Banking Banana Skins 2012, a unique survey of the risks facing the industry, which has been produced by the CSFI in association with PwC. The overall response of this year's survey showed that the Canadian economy and banking system are seen to be in better shape than in many other countries, though concern about contagion from more troubled economies, particularly the US and Europe, is clouding the outlook.

Most of the top risks identified by Canada were in line with those in the global ranking: macro-economic risk, funding issues and regulation.

The survey received more than 700 responses from individuals in 58 countries, including more than 40 from Canada.

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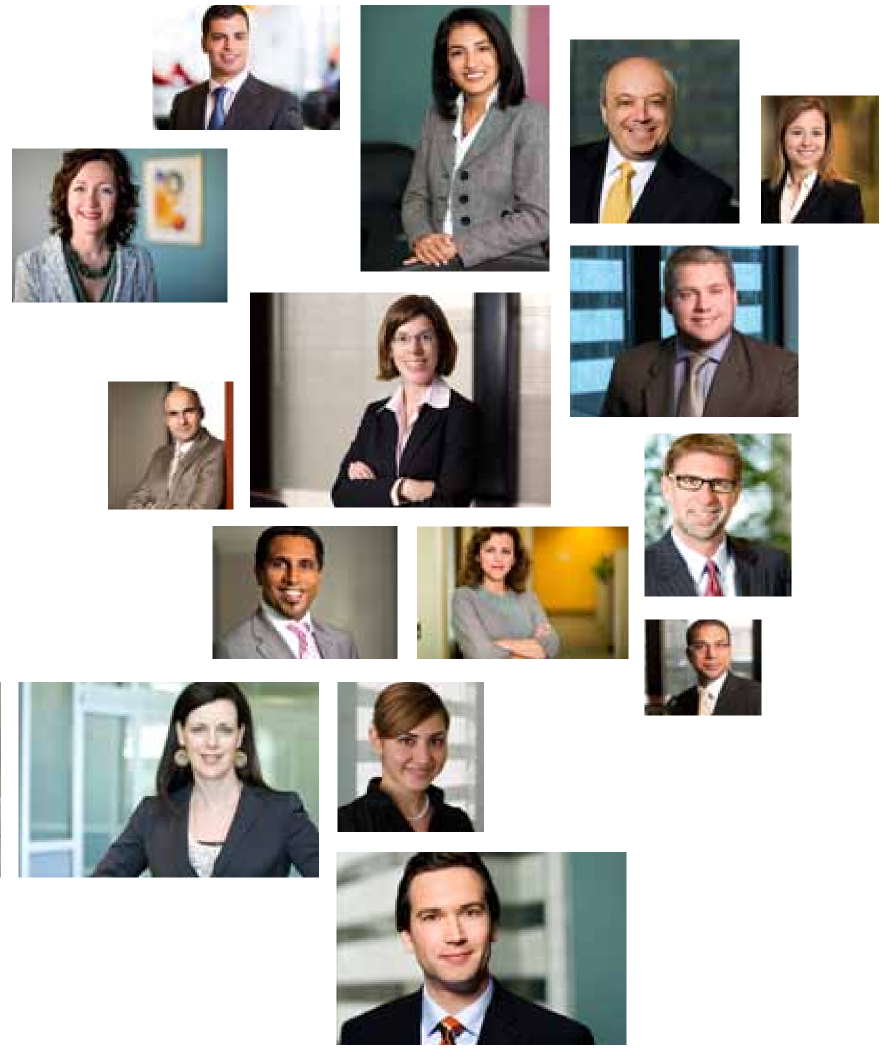

Basis of preparation

The data, charts and figures included in this publication are based on the banks' 2012 annual reports and supplementary financial information, including press releases, which are available on the banks' websites. Certain statistics or ratios included in this publication may differ from those disclosed by the banks, as banks may apply other computational formulas, sources of input or calculate ratios differently. If specific data was not readily available in the banks' annual reports or supplementary information, assumptions have been made to provide reasonable comparative numbers. To ensure that the findings in this analysis are as objective as possible, and that meaningful, relevant and reasonable comparisons have been made, all items have been calculated consistently for each of the banks.

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