

Foreign assets held by Canadian banks overview document

Executive summary

Canadian banks, apart from the Big 5, have generally avoided foreign diversification. All of the Big 5 have a significant foreign presence, however, RBC's massive diversification (\$1.86T foreign assets, 37% revenue) eclipses its rivals. Whereas, National Bank has also proven highly competitive, despite its domestic focus.

Methodology

This document looks at 4 categories of Canadian banks via charts. The charts are derived from OSFI data which provides details with respect to foreign operations held by Canada's domestic banks. I have categorized them as Small/Medium, Mid-Tier, Large and Big 5.

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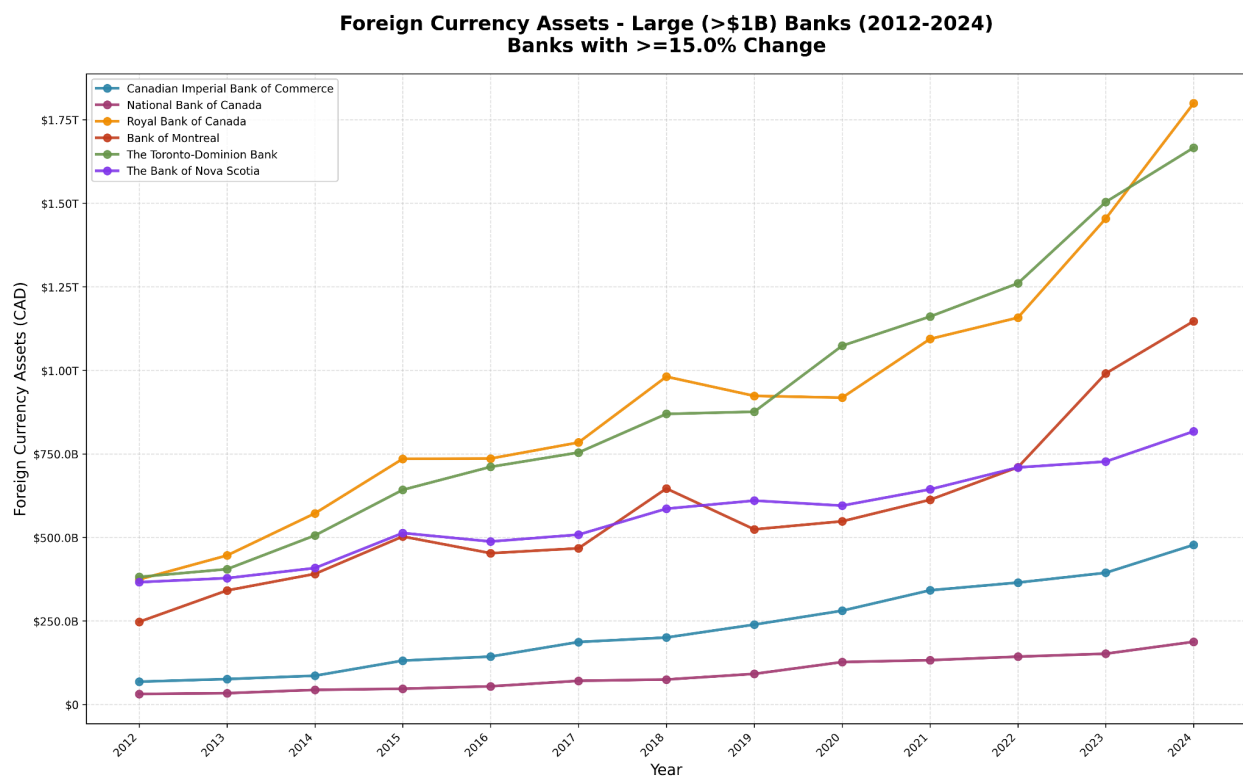
The purpose is to provide a snapshot on foreign diversification and to demonstrate how banks have benefited from diversification. I summarize the how, why and where for each of the banks that met the criteria, and to determine the impact on revenue and risk management.

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¹ Office of the Superintendent of Financial Institutions (OSFI), "Financial Data – Banks," accessed [month year], <https://www.osfi-bsif.gc.ca/en/data-forms/financial-data-banks>

Chart 1: Big Five



Big Five overview

RBC, Canada's most valuable bank, also leads, having the most foreign assets.² A significant amount of RBC's assets are held in diversified markets, although the US is its main non-Canadian market. With \$1.86 TN in foreign assets acquired over hundreds of years, RBC is a juggernaut. 37% of its revenue comes from non-Canadian operations with 26% in the U.S.. See Appendix 1 for an outline of some of the key reasons RBC has diversified.

TD Bank comes a close second. With \$1.7 TN foreign assets and 26.4% of its revenue coming from the U.S., or \$17.88 BN CDN.

BMO is third in terms of growth in foreign assets with \$1.2 TN. 36% of BMO's revenue currently comes from the US. BMO wants to become a top 10 diversified U.S. bank.

CIBC has done poorly with respect to establishing a presence in the U.S. compared to its peers. Notably the \$2.4B loss on Enron-related exposures and troubled U.S. consumer lending, set the bank back a decade compared to peers. CIBC now trying to diversify and get a toe-hold in the U.S. market, but are late to the party. The reason for their laggard behavior is because in the early 2000s their foray into the U.S. was a significant failure. This set the CIBC back from its peers in terms of international expansion.

² <https://www.rbc.com/en/about-us/history/milestones-at-a-glance/our-business-in-the-u-s/>

Bank of Nova Scotia Bank of Nova Scotia, with its long-established Latin American and Caribbean presence, takes a different international approach than its peers, focusing on emerging markets rather than the U.S.

Large Bank Overview

National Bank, despite its focus on domestic markets, National Bank has focussed on domestic banking. Its recent purchase of two Medium sized banks illustrate this strategy. It is worth noting that Chart 2 demonstrates. Laurentian and Canadian Western Bank (see chart 3 mid-tier banks). Ironically, only two mid-tier banks met the threshold, and both are being acquired by National Bank.

Laurentian Bank, to understand how this came about in the case of Laurentian, the bank was operating on its back heel, trying to expand its products and services. Its presence outside Canada reflected a need to diversify, especially in commercial real estate, equipment financing, and inventory financing. Its strategy eventually resulted in its sale to National Bank and its commercial operations to Fairstone Bank. Despite the realignment, Laurentian's foreign aspirations were about as inspired as the rest of its operations, all seemingly directed to it being taken over. Which proved to be the case as it was recently taken over by both National Banks and Fairstone Bank.

Canadian Western Bank, while CWB offers services to facilitate international trade for its Canadian clients, such as US dollar accounts, foreign exchange solutions through a partnership with Convera, and a trade expansion lending program with Export Development Canada (EDC), these are designed to support Canadian exporters, not to build a large foreign investment portfolio or international banking network. Therefore, it has reached the threshold to be included, but this has been incidental, and not part of a foreign diversification strategy.

Chart 2 Large Banks

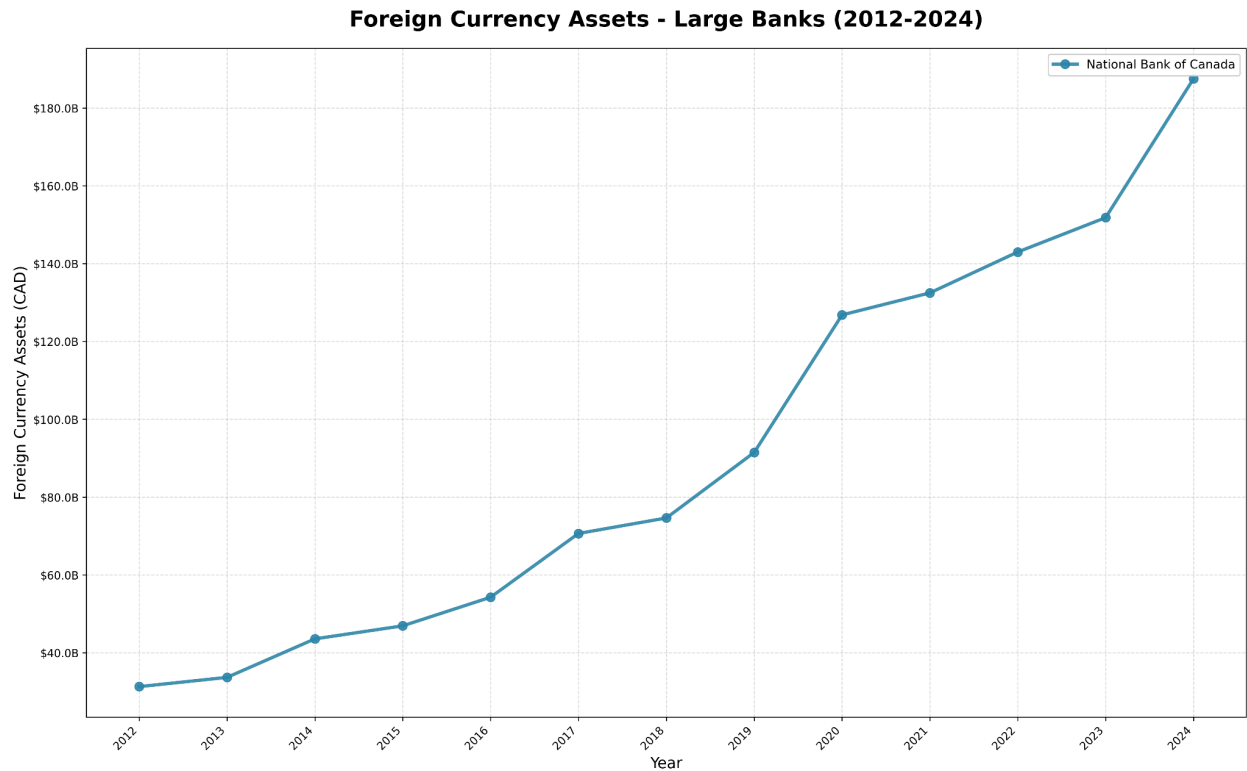
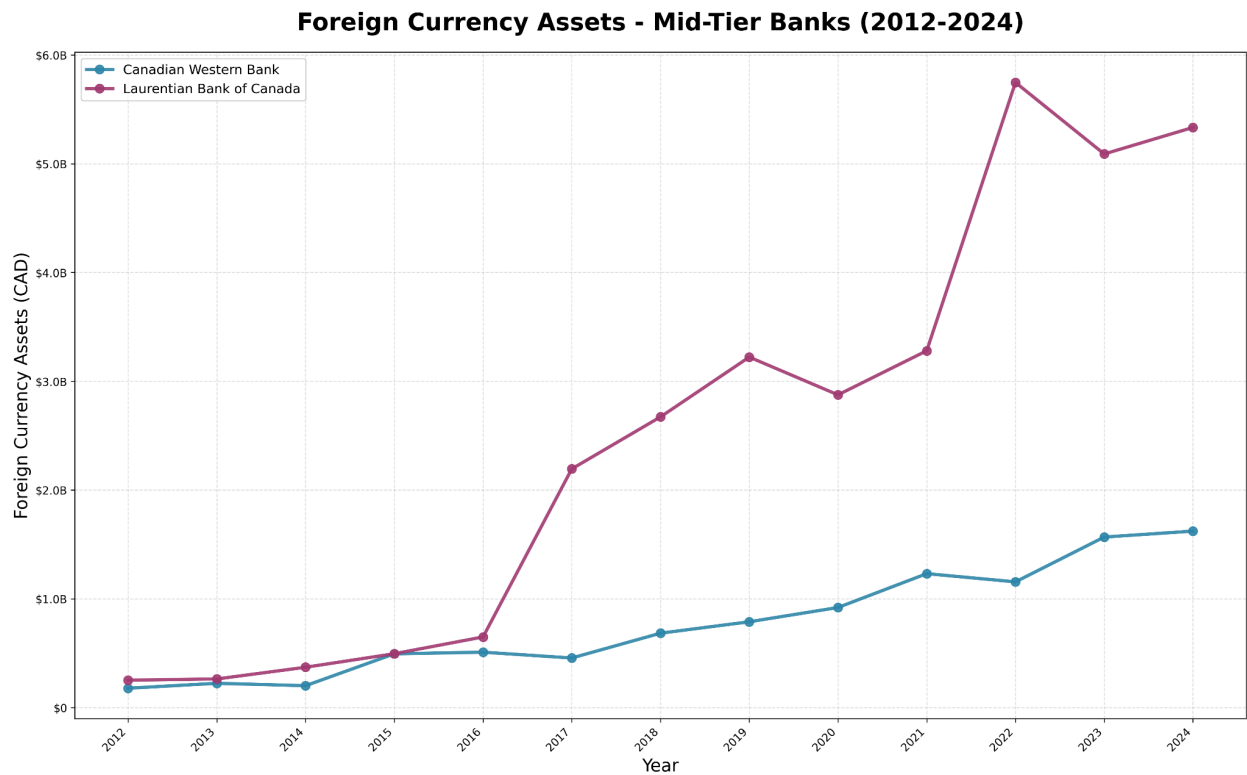


Chart 3 Mid Tier Banks



Small/Medium banks

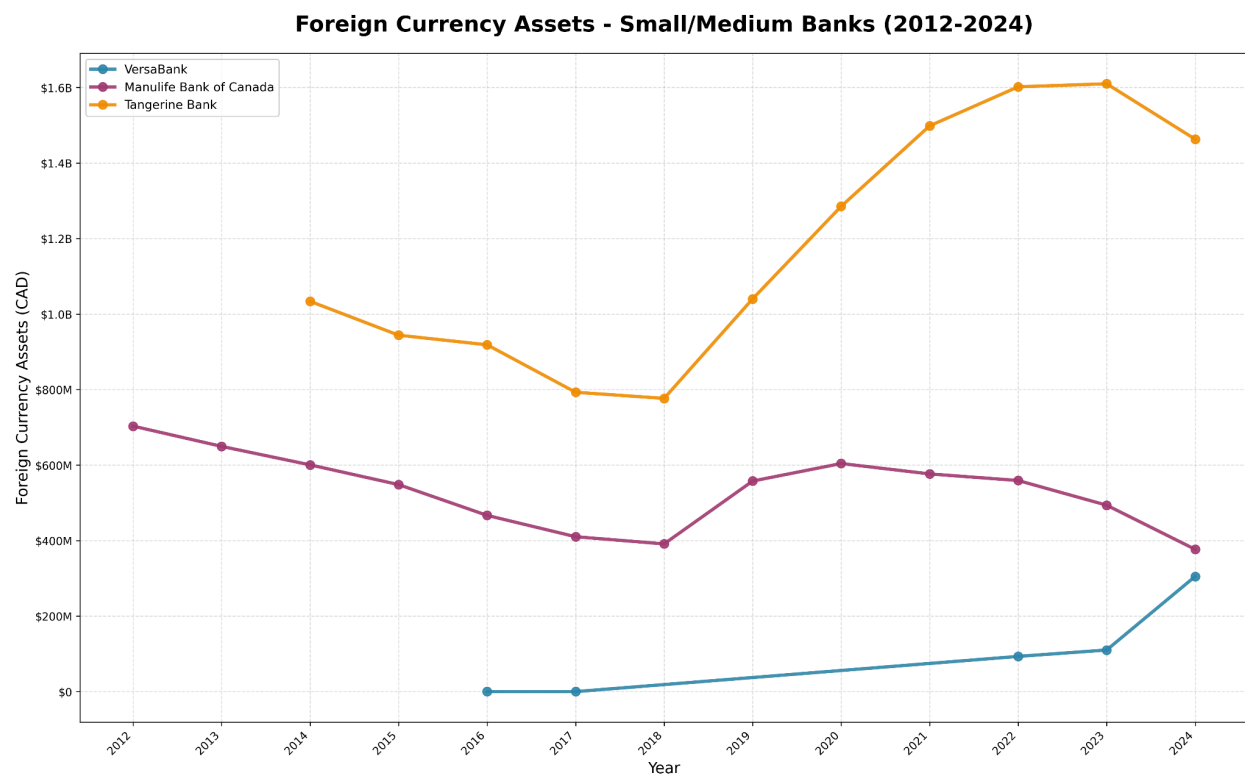
Manulife Bank, as the chart indicates, Manulife has reduced its foreign assets, as the bank has chosen to focus on its insurance and wealth management, and has expanded aggressively into Asia. Its wealth and asset management has grown in double digits in Asia.

Versabank represents the most dramatic shift among smaller banks, going from zero foreign currency assets in 2017 to \$305 million by 2024 - a testament to its aggressive U.S. digital banking strategy. As CEO, David Taylor explains: "...the US, our most significant growth opportunity, we will see the benefit of the higher operating leverage there as growth in the RPP continues to quickly ramp up, with the majority of our cost structure already in place. We expect strong growth in the US to be complemented by continued solid growth in Canada, where spending in the verticals on which we focus remains resilient."

Tangerine Bank, Scotiabank's digital banking subsidiary, holds foreign currency assets primarily to support its international investment products (ETFs tracking U.S. and global markets) rather than through direct foreign operations. The bank leverages Scotia's international network, such as, Scotia's US Equity Index Tracker ETF and Scotia International Equity Index Tracker ETF, which invest in global markets.

Other Small/Medium banks were excluded due to insufficient foreign currency holdings (<\$7M threshold) or flat growth (<25% variation): President's Choice Bank (\$6.1M), Canadian Tire Bank (\$424K), and CS Alterna Bank (\$192K).

Chart 4 Small/Medium Banks.



Conclusion

The intention of the report was to provide a snapshot of the foreign assets held by different tiers of Canadian banks. Based on National Bank, and also the success of upstarts in the Canadian banking sector, it is very possible to be extremely successful without foreign assets.

In the case of the Big 5, however, foreign assets can reduce risk, and provide access to the world's capital markets. Appendix 2 offers a more comprehensive list of the reasons for RBC to be excited about its international diversification strategy.

Appendix 1

Table summary

Bank	Start Value (thousands)	End Value (thousands)	Percent Change	CAGR	Size Category
The Toronto-Dominion Bank	381,558,843	1,666,152,278	337	13.06966289	Large (>\$1B)
Bank of Montreal	247,124,515	1,146,948,578	364	13.64552601	Large (>\$1B)
Royal Bank of Canada	374,041,577	1,799,071,856	381	13.98404175	Large (>\$1B)
The Bank of Nova Scotia	365,843,930	817,145,870	123	6.926079798	Large (>\$1B)
Canadian Imperial Bank of Commerce	68,123,154	477,549,878	601	17.61886908	Large (>\$1B)
National Bank of Canada	31,289,541	187,489,409	499	16.09088687	Large (>\$1B)
Laurentian Bank of Canada	252,628	5,333,397	2011	28.93679451	Large (>\$1B)
First Nations Bank of Canada	2,829	3,595	27	2.016909357	Small (<\$100M)
President's Choice Bank	2,171	6,079	180	8.959313926	Small (<\$100M)
Manulife Bank of Canada	703,197	376,800	-46	-5.066500502	Medium (\$100M-\$1B)
Canadian Tire Bank	1,426	424	-70	-9.613439392	Small (<\$100M)
CS Alterna Bank	622	192	-69	-9.330914166	Small (<\$100M)
Canadian Western Bank	178,661	1,622,905	808	20.18638655	Large (>\$1B)

Appendix 2

Key reasons for RBC's international diversification include:

- **Risk Management and Reduced Volatility:** The Canadian market is heavily concentrated in financial services and natural resources, making it vulnerable to downturns in those specific sectors. By operating in diverse global economies, RBC can offset potential losses in one region or sector with gains in others, which helps stabilize overall performance and provides a smoother investment experience.
- **Access to Global Growth and Innovation:** Canada represents a small portion (less than 4%) of the world's total capital markets. Diversification abroad allows RBC to tap into significantly larger, faster-growing economies and innovative industries underrepresented domestically, such as technology, healthcare, and industrial innovation in Europe, the U.S., and emerging markets.
- **Currency Diversification:** The value of the Canadian dollar often fluctuates with commodity prices, particularly oil. International operations and investments provide a natural hedge against these currency fluctuations. When the Canadian dollar weakens, the value of foreign holdings (when converted back to CAD) can increase, offering protection against domestic economic shocks.
- **Enhanced Competitiveness:** Operating in diverse international markets exposes RBC to new ideas, demands, and regulatory environments, which can improve its overall competitiveness and drive innovation across all its operations, both at home and abroad.
- **Client Support:** Many of RBC's Canadian clients work, invest, or purchase property abroad. Having an established international presence allows RBC to provide seamless cross-border banking solutions, making it easier for clients to manage their global financial needs and strengthening client relationships.