Canadian Banks Remain Amongst World’s Strongest

Description

With bank earnings on the brains of many Canadian investors this week, let’s take a quick look back at Bloomberg’s World’s Strongest Banks report that came out earlier this month.

Based on fiscal 2012 results, Bloomberg ranked the world’s banks that exceeded the minimum asset threshold of $100 million. Aside from the minimum asset level, the other variables considered in a weighted calculation were:

- Tier 1 capital vs. Risk Weighted Assets
- Nonperforming assets vs. Total assets
- Efficiency – cost vs. revenues

Six of Canada’s biggest banks met the minimum asset threshold, and 5 of the 6 made it into the top 20 based on a combination of the variables above. Four appeared in the top 10. **CIBC** (TSX:CM), **RBC** (TSX:RY), **Scotia** (TSX:BNS), and **TD** (TSX:TD) ranked 3rd, 4th, 7th, and 8th respectively.

Scotia was the bank that marked the biggest improvement, moving up from 18th last year. Royal also improved and TD fell.

The report goes on to indicate that revenue and loan growth for the entire Canadian banking sector is expected to slow as this country’s household debt-to-income ratio had climbed to a stratospheric 167% at the end of 2012.

It’s hard to figure how consumer debt can move materially higher from this level, without credit quality and/or prudent lending practices being sacrificed. Without a tailwind from Canada’s retail lenders, the banks will have to look for other sources to fuel growth in the coming years.

Topping the list was **Qatar National Bank** (QNB), which has grown to become the largest lender in the oil rich Middle East, and one of the region’s most profitable banks.

This was QNB's first appearance in the ranking as it finally crossed the minimum asset threshold of $100 billion.

Foolish Takeaway

It's important to realize when you come across a ranking like this that it's backward looking. Fiscal 2012 results and a minimum asset threshold were all that went in to spitting out the list of 78 that Bloomberg produced. A consistent showing however by the Canadian banks certainly indicates their reputation on the global stage remains in-tact.

With their reputation in-tact, the banks will continue to be a go-to source of income for dividend investors both here and abroad. It's important however to have some diversification in your portfolio. A concentrated bet on these dividend payers could have dire consequences. The Motley Fool's Special Free Report "**13 High Yielding Stocks to Buy Today**" is a perfect way to diversify your portfolio's income stream. This report is sure to have you rolling in dividend cheques from a variety of sources before you know it! Simply click here and we'll send you this report – **FREE!**

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Fool contributor Iain Butler does not own shares of any of the companies mentioned at this time. The Motley Fool has no positions in the stocks mentioned above.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BNS (Bank Of Nova Scotia)
2. TSX:CM (Canadian Imperial Bank of Commerce)
3. TSX:RY (Royal Bank of Canada)
4. TSX:TD (The Toronto-Dominion Bank)

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