3 Canadian Banks Providing Security And Profit

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We may see a return of Glass-Stegall, at least in a global sense. The current financial crisis has left many banks bleeding cash as they struggle to find a foot hold with their deteriorating mortgage portfolios. While in the United States, the regulators are taking their time with new bank restrictions, the European Union is having a field day. The EU has determined that banks that receive bailout funds or guarantees should not be given any sort of competitive edge over their more conservatively run sisters and are ordering asset sales and increasing balance sheet requirements.

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World of Uncertainty

Germany's **COMMERZBANK** (OTCBB:CRZBY) has been ordered to shrink its balance sheet by over 45%. One of the more drastic examples comes from the Netherlands. The Dutch government backs nearly 80% of **ING Group's** (NYSE:ING) portfolio of mortgage-backed securities that was valued at $35 billion. The government also provided a $15 billion cash infusion in October of 2008. The bank is being forced to split up its banking and insurance businesses, and to dispose of its ING Direct U.S. internet banking business along with its investment management arm. Other targets for the EU include **Royal Bank of Scotland** (NYSE:RBS) and its U.K. government backed £282 billion of assets and **Lloyds Group** (NYSE:LYG). The global banking sector is certainly in a world of uncertainty. Investors wanting to participate in banks are at odds on where to invest. However, one winter wonderland might be the safe haven portfolios are looking for.

Go North

Canada maybe the answer to struggling financial portfolio. While many shares of Canadian banks cratered along side with their United States counterparts, this was undeserved. As constituents of already strict regulation, Canadian banks aren't permitted to make subprime loans and an average mortgage term in the nation is a scant five years. In addition, the banks receive virtual monopoly status as there are rules dictating regional expansion. This all results in very conservative balance sheets. In fact, UBS analysts estimate that banks in the nation will hold an *excess* $40 billion in capital on their books by 2012. This bodes well for the future as Canadian financial institutions can use this excess capital to make loans to people who can actually afford them. There are several choices for investors who want to participate in this growth and receive high dividends while you wait. (For more, see *The Evolution Of Banking*.)

Three Canuck Banking Picks

Toronto-Dominion (NYSE:TD) has used Canada as profitable base while moving into the United States market place with its acquisition of Commerce Bank. Through this merger, Toronto-Dominion U.S. subsidiary TD Bank has nearly $134 billion in assets. The company has also moved into stateside retail wealth management via its **TD Ameritrade** (NASDAQ:AMTD) brokerage business. The bank yields a healthy 3.90%.

The **Royal Bank of Canada** (NYSE:RY) has one of the highest Tier One capital ratios in the banking world at 12.9%. The bank is steadily adding to this ratio. Analysts estimate that the bank will have an estimated $17 billion in excess capital by 2012. Making it one of the most sound banks in the world. RBC, like Toronto-Dominion, has been exploiting the pieces of the collapsing U.S. market by acquiring 39 branches of AmSouth Bank in 2007 and all of Alabama National Bancorporation in 2008. The Royal Bank of Canada pays a 3.8% dividend.

The **Bank of Nova Scotia** (NYSE:BNS), known as Scotiabank, has been making inroads into the U.S. and global markets. To pay for their floundering billion dollar mortgage portfolio, online brokerage firm turned bank **E*TRADE** (NASDAQ:ETFC) sold its Canadian division to Scotiabank for just over $400 million, giving BNS a huge stake in the discount brokerage market. The company is also working its way into Latin America, buying a 100% stake in Chilean bank, Banco del Desarrollo. The stock is also the highest yielding bank on this list at 4.3%.

Bottom Line

While the rest of world begins the process of unwinding the behemoth banks through regulation, Canadian financial institutions are standing ready. Canada's regulated market place has created a safe haven for depositors and a conservative lending environment. Canadian banks are using this conservatism to find worldwide assets on the cheap and expand beyond their borders. Investors wanting to get back into the financial sector can look to the previous three banks as a good place to invest for dividends as well as future growth as they pick up the pieces of the crumbling banking landscape. (For further reading, check out *Choose To Beat The Bank*.)