

CANADIAN BANK EARNINGS REVISIONS

HIGHLIGHTS

- Impact of Recessionary Environment
- Bank 2009 Earnings Revised Lower by 15%
- Largely Driven by Expected Higher Credit Losses

Impact of Recessionary Environment

The outlook for both Canadian and global economic growth has taken a decidedly negative turn over the last several weeks. We believe that there is now a very high probability that a prolonged recessionary environment is likely to follow driven by the severe credit conditions and extreme market volatility recently experienced. We have reassessed the earnings outlook for the major Canadian banks in regards to a recession in Canada. Although we believe that Canadian banks have clearly differentiated themselves and indeed represent significantly lower risk than most global banks, a recession environment overall will nonetheless have a negative impact on earnings.

Although compression of interest margins is also a near-term concern, we believe that bank margins will widen out considerably over the next twelve months as banks more adequately compensate for risk in lending terms through both wider interest spreads and higher lending fees. In addition FX benefits from the sharp decline in the \$CDN relative to the \$US should benefit BNS, RY and TD. The latter should alleviate some but by no means all of the revenue shortfall and higher credit losses going forward.

Impact: 2009 EPS Revised Lower By 15%

For fiscal 2009, it means EPS will decline on average by 8% (previously we expected EPS to increase by 8%). Our rationale for earnings and share price downgrades are as follows.

1. Credit Losses expected to double in fiscal 2009 (previously expected a 30% increase).
2. Capital markets revenues to remain compressed partly offset by higher trading revenues aided by extreme market volatility.
3. Loan volume growth in Canada revised lower to 2% to 5% for fiscal 2009 down from three year annual growth rates of 10% for mortgage and consumer loans and 15% for credit card loans.

Major Bank 2009 Earnings & Share Price Target Revisions

Conclusions: Targets Share Prices Lowered

Major	2008 EPS		2009 EPS		12 Month	
	Estimates		Forecast		Share Price Targets	
Canadian Banks	Current		Current	Previous	Current	Previous
BMO Financial	\$ 4.75		\$ 4.15	\$ 4.95	\$ 43.00	\$ 50.00
CIBC	\$ 7.00		\$ 6.15	\$ 7.35	\$ 54.00	\$ 63.00
National Bank	\$ 5.68		\$ 5.25	\$ 6.00	\$ 51.00	\$ 57.00
RBC Financial	\$ 4.45		\$ 4.25	\$ 4.80	\$ 54.00	\$ 60.00
Scotiabank	\$ 3.98		\$ 3.95	\$ 4.45	\$ 51.00	\$ 57.00
TD Bank Financial	\$ 5.65		\$ 5.35	\$ 6.30	\$ 69.00	\$ 81.00
% Change Y/Y		-7.5%		-8.0%		8.0%

Target share prices have been revised lower by on average by almost 13% and are more or less in line with earnings adjustments and overall lower market valuations. The largest share price target reductions are on CM, BMO & TD. TD's lower target share price recognizes that we were previously too aggressive in our fiscal 2009 earnings outlook. We continue to conclude that investors should focus on three banks namely BNS, RY and TD as attractive buying opportunities. Our conclusions are:

1. 2008 Dividend Payout Ratios Higher: Dividend payout ratios on our revised fiscal 2009 forecast have increased to an average of 52% up from an average of 45% previously.
2. No Dividend Growth Expected in 2009: The higher payout ratios leave little if any room for dividend increases in fiscal 2009. Dividends had been expected to increase at an average annual rate of 5% to 7% which was well below the 17% averaged over the previous 2 years.
3. No Threat of Dividend Reductions: We believe the negative earnings outlook for the major Canadian banks, poses no threat to the current indicated dividend levels.
4. ROE To Decrease But Yet Remain Strong: ROE is expected to average closer to 17.0% down from 21.0% in fiscal 2007 and our previous estimate of 20.0%+ for fiscal 2008.
5. P/E Multiples Attractive: The P/E multiples for our 3 recommended banks; namely, BNS, RY and TD have recently declined to an average of 9.9x our 2009 forecast. .

Recommendations:

Our recommendations for the major Canadian banking are as follows:

- BNS, RY and TD – Our top BUYS with the highest potential 12-month returns in the 25% to 35% range based on current share prices.
- BMO – HOLD and supports the highest yield of the majors.
- NA - HOLD with heavy revenue dependence on capital markets.
- CM – SELL as it is basically considered a high risk bet on sub-prime loan problems in the U.S.

Bank Recommendations & Expected 12-Month Returns

Canadian Banks	Recent Share Price	Target One Year Out	% Return On Shr. Price	Curr. Divid.	Yield	Total % One Year Return	Action	Current Market Cap.	Relative Weight
BMO Financial	\$ 37.25	\$ 43.00	15.4%	\$ 2.80	7.5%	23.0%	HOLD	\$ 28,426	12.7%
CIBC	\$ 50.00	\$ 54.00	8.0%	\$ 3.48	7.0%	15.0%	SELL	\$ 27,430	12.2%
National Bank	\$ 42.50	\$ 51.00	20.0%	\$ 2.48	5.8%	25.8%	HOLD	\$ 8,279	3.7%
RBC Financial	\$ 41.40	\$ 54.00	30.4%	\$ 2.00	4.8%	35.3%	BUY	\$ 64,236	28.6%
Scotiabank	\$ 41.30	\$ 51.00	23.5%	\$ 1.96	4.7%	28.2%	BUY	\$ 48,144	21.4%
TD Bank Financial	\$ 52.50	\$ 69.00	31.4%	\$ 2.44	4.6%	36.1%	BUY	\$ 48,744	21.7%
Average			21.5%		5.8%	27.2%		\$ 224,546	100.0%

Credit Losses Revised Higher – Largely Credit Card & Consumer

Credit losses are expected to increase more than expected over the next eighteen months driven by the recent jump in gross impaired loans, higher expected defaults on credit cards and consumer loans, and higher provisions on business loans generally.

Gross Impaired loans are expected to increase to almost \$12.0 billion (previously we had estimated \$9.5 billion) in fiscal 2009. Credit loss provisions are now expected to increase by over 100% in fiscal 2009 (previously we forecast a 30% increase) following an expected 60% increase in fiscal 2008. We expect the credit loss ratios to exceed the higher end of the banks tolerance range. Credit card and consumer loans may be the hardest hit as discussed below.

Credit Card Loans

- Card lending has increased by 50% over the last 3 years.
- Credit loss provisions on credit cards are estimated to currently average about 4.25% of average loan balances up from 3.50% last year. In a recessionary scenario these loss ratios could be expected to move closer to 7.50%. This level would imply credit card losses increasing by \$1.5 billion over the next 12 months.
- CM, RY and TD have the largest exposures to credit card loans.

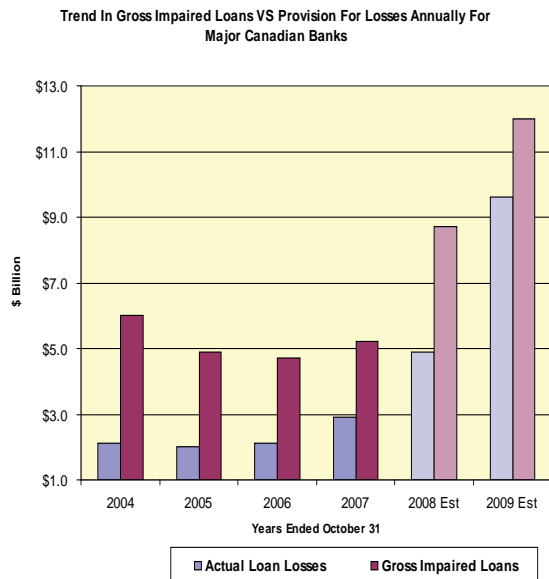
Consumer Loans

- Consumer loans have increased by 33% over the last 3 years.
- Credit loss provisions on consumer loans are estimated to currently average about 0.80% of loan balances. In a recessionary scenario these loss ratios could be expected to move closer to 1.25%. This level would imply consumer credit losses increasing by \$1.3 billion over the next 12 months.

Total Credit Losses

- Total estimated credit losses for banks in fiscal 2009 was estimated to increase to \$6.3 billion or 30% over the \$4.9 billion estimated for fiscal 2008. Increased defaults on credit card loans and consumer loans alone would drive losses up by an estimated \$2.5 billion. In addition we expect business credit losses in general to increase bringing the total credit losses in fiscal 2009 closer to \$9.6 billion or almost double fiscal 2008.

Trends In Problem Loans - Six Major Canadian Banks



Dividends - Are They Safe?

Yes! Dividends appear safe. The average 2009 bank dividend payout ratio is estimated to increase to 52% on our revised fiscal 2009 EPS estimates up from the current 48% on estimated 2008 earnings and the 45% on fiscal 2007 earnings.

However no dividend increases are now forecast for fiscal 2009 and increases are unlikely to resume until credit conditions and the credit loss forecast stabilizes. Most payout ratios forecast for 2009 are above the bank's own target payout ranges except for RBC and NA. This new dividend forecast is well down from the 5% to 7% average increase that we had previously expected. Capital conservation is expected to be deemed a more appropriate strategy by managements.

Bank Current Dividend Rates & Estimated Payout Ratios

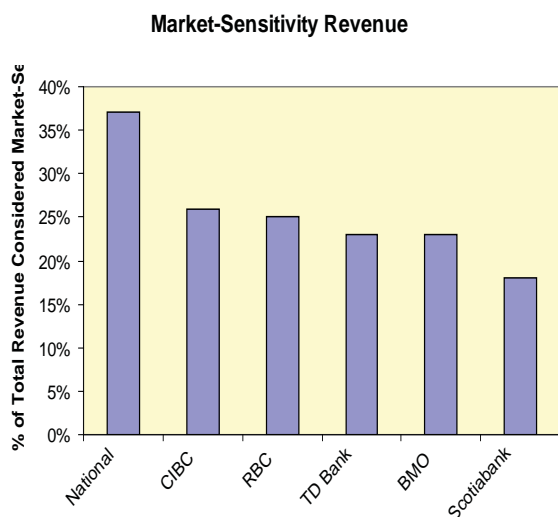
Canadian Banks	Current Divid. Rate	Dividend Payout Ratios			Bank Payout Target
		2007	2008E	2009E	
BMO Financial	\$ 2.80	49.6%	58.9%	67.5%	45%-55%
CIBC	\$ 3.48	39.5%	49.7%	56.6%	40%-50%
National Bank	\$ 2.48	43.9%	43.7%	47.2%	40%-50%
RBC Financial	\$ 2.00	47.2%	44.9%	47.1%	40%-50%
Scotiabank	\$ 1.96	48.8%	49.2%	49.6%	35%-45%
TD Bank Financial	\$ 2.44	42.2%	43.2%	45.6%	35%-45%
Average		45.2%	48.3%	52.3%	

Slower Revenue Growth Expected In Market Sensitive Businesses

We have now factored into our fiscal 2009 earnings estimates a potential 15% decline in revenues from the market sensitive businesses which have increased in importance for the major Canadian banks from 19% in 2002 to 25% of total revenues in fiscal 2008 (see chart below). Market-sensitive businesses include (i) trading revenues, (ii) retail brokerage commissions, (iii) investment banking fees and (iv) merchant banking, venture capital and security gains. The major Canadian banks are experiencing a revenue contraction in these market-sensitive businesses that is exasperating the negative impact on earnings of a down cycle. Individual bank market-sensitivities (last 12 month average) as we see it are:

- National Bank is the most sensitive by a substantial margin with a high 38% sensitivity.
- Scotiabank appears the least sensitive at 18% (even after the E*Trade acquisition).
- RBC, BMO, TD and CIBC fall in a sensitivity range of 21% to 25%.

Market Sensitive Revenue As Percentage of Total Revenue



Canadian & U.S. Bank Comparisons

Canadian Banks (2)	Recent Share Price	Earnings Per Share			Recent Book Value	Price To Book	P/E Multiples			Dividends		
		Actual 2007	Est. 2008	Est. 2009			Actual 2007	Est. 2008	Est. 2009	Ind. Divid. Divid.	Divid. Yield	Payout 2009E
BMO Financial	\$ 43.06	\$ 5.64	\$ 4.90	\$ 5.20	\$ 29.71	1.4 x	7.6 x	8.8 x	8.3 x	\$ 2.80	6.5%	53.8%
CIBC	\$ 52.30	\$ 8.82	\$ 7.15	\$ 7.50	\$ 29.01	1.8 x	5.9 x	7.3 x	7.0 x	\$ 3.48	6.7%	46.4%
National Bank	\$ 46.00	\$ 5.65	\$ 5.52	\$ 5.80	\$ 28.76	1.6 x	8.1 x	8.3 x	7.9 x	\$ 2.48	5.4%	42.8%
RBC Financial	\$ 46.50	\$ 4.24	\$ 4.40	\$ 4.80	\$ 18.35	2.5 x	11.0 x	10.6 x	9.7 x	\$ 2.00	4.3%	41.7%
Scotiabank	\$ 39.11	\$ 4.02	\$ 4.02	\$ 3.98	\$ 18.45	2.1 x	9.7 x	9.7 x	9.8 x	\$ 1.88	4.8%	47.2%
TD Bank Financial	\$ 56.80	\$ 5.75	\$ 5.65	\$ 6.30	\$ 36.70	1.5 x	9.9 x	10.1 x	9.0 x	\$ 2.28	4.0%	36.2%
Average						1.8 x	8.7 x	9.1 x	8.6 x		5.3%	44.7%
U.S. Comparables (1,3)												
Citigroup	\$ 12.14	\$ 0.72	\$ (2.12)	\$ 1.17	\$ 24.42	0.5 x	16.9 x	-5.7 x	10.4 x	\$ 1.28	10.5%	109.4%
Bank of America	\$ 21.07	\$ 1.28	\$ 1.55	\$ 2.58	\$ 35.10	0.6 x	16.5 x	13.6 x	8.2 x	\$ 1.28	6.1%	49.6%
J.P. Morgan Chase	\$ 35.43	\$ 4.38	\$ 1.80	\$ 3.15	\$ 36.94	1.0 x	8.1 x	19.7 x	11.2 x	\$ 1.52	4.3%	48.3%
Wells Fargo & Co.	\$ 30.91	\$ 2.38	\$ 2.06	\$ 2.12	\$ 14.58	2.1 x	13.0 x	15.0 x	14.6 x	\$ 1.36	4.4%	64.2%
US Bancorp	\$ 29.45	\$ 2.43	\$ 2.02	\$ 2.23	\$ 12.41	2.4 x	12.1 x	14.6 x	13.2 x	\$ 1.70	5.8%	76.2%
Average						1.3 x	13.3 x	11.4 x	11.5 x		6.2%	69.5%

(1) Stated Book Value as at June 30, 2008 for U.S. Comparables

(2) Cash Basis

(3) \$US - Source Consensus Estimates: First Call/Thomson Financial/Thomson Investor Network

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