

# Canadians support their banks, insurers

## NO BAILOUTS NEEDED

Institutions still have appetite for financial issues

BY EOIN CALLAN

The crisis that has crippled the global banking system revealed a fatal weakness at the heart of many of the world's biggest financial institutions: they did not have enough capital.

As turbulent markets unleashed wave after wave of heavy losses over the last year, international banks have been forced to seek fresh investment, only to find it in increasingly short supply, forcing them to turn to government.

Drained of reserves and with little alternative, many institutions have accepted government bailouts.

Yet Canada's financial institutions have so far distinguished themselves by surviving on private funding, managing to replenish their depleted reserves from a pool of domestic capital.

In the last three months alone, Canadian financial institutions have raised more than \$10-billion by issuing common equity and preferred shares.

The buying has been overwhelmingly dominated by local investors, according to dealmakers privy to the order lists.

This partly reflects the traditional tight-knit and clubby nature of Bay Street, but it is also a sign of a new wave of financial isolationism sweeping the world.

Foreign investors are retreating to their home countries while Canadian institutional investors are using fewer air miles.

"Whenever we go through down cycles we get a contraction, everyone retrenches back to the companies they are most familiar with," says Lawrence Lewis, head of equity capital markets at Scotia Capital.

This trend has accelerated dramatically since the waters were tested early in 2008 by CIBC, Canada's fifth-largest bank, which was the first to raise capital in this cycle and saw strong interest from overseas hedge funds.

"The foreign buyers just aren't there anymore," says Roman Dubczak, head of equity capital markets at CIBC World Markets, who led the capital raising for the bank.

But Mr. Dubczak says it was a tough task at the time to explain to investors why they should participate in a fundraising for a bank struggling to digest losses.

The deal to raise \$2.9-billion was controversial at the time, but looks positively prescient following the 40% drop in Canadian bank valuations since then. The depressed valuations made banks and insurers reluctant to issue common equity as markets nosedived and risks mushroomed following the collapse of Lehman Brothers on Sept. 15.

But the furrowed brows of investors and regulators as they watched pillars of Wall Street crumble became impossible to ignore.

TD's Ed Clark was the first to break the ice, issuing \$1.4-billion in common shares days after disclosing fresh write-downs.

"He found himself on the wrong side of a trade and he acted decisively. It was refreshing," said an institutional investor.

Up next was **Manulife Financial Corp.**, which raised one of the biggest follow-on equity issues in Canadian corporate history.

The deal was handled by a team at Scotia Capital with more than a century of combined experience, led by David Skurka, managing director, John Sherrington, vice-chairman, and Mr. Lewis.

"Manulife came to us looking for a capital markets solution in the latter part of November," says Mr. Lewis.

The Scotia team deployed a strategy that is relatively rare



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CIBC World Markets Dealmakers, back row, from left, Christopher Blackwell, Sean McIntyre, Geoffrey Belsher, Brian Hanson, Rick McCreary, Scott Keyworth, Ted Nash, Dick Falconer, Chris Hind, Paul Spafford. Seated, John Walker and Kevin Li.



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Scotia Capital equity team, from left, Philip Smith, Burhan Khan, Michael Clabby, Lawrence Lewis, David Skurka, John McCartney, John Sherrington, and Mary Vitug.

outside of Canada known as a bought deal, when trusted investors are "brought over the wall" in secret and asked to commit to buying some of the shares before the sale is public.

The issue took place amid wild swings in Manulife's share price, including a rally of 18% and a fall of 15% in the days before the transaction was announced.

But the public offering closed at a modest discount to the trading price of 5%, in

what advisors said was a "testament to the quality and visibility of the company and expertise of the management."

The capital raising leaves the insurer well capitalized going into a period of consolidation, as weaker competitors are bought up by healthier rivals, according to Scotia, which led the Canadian league table for financial services deals in 2008.

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