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Scotiabank gets profit boost from international banking strength

By DAVID BERMAN

Bank helped by growth in its international banking business

Bank of Nova Scotia reported strong profit gains from its substantial international operations, offering evidence that its focus on select markets within Latin America is paying off as the Canadian economy slows.

In its fiscal first-quarter report, which concluded the reporting season for Canada's big banks, Scotiabank said that profit for its international banking division surged 21 per cent from last year, marking by far the biggest contribution to the lender's profit growth during the quarter.

Even after accounting for currency effects, the value of loans rose 12 per cent and deposits rose 18 per cent.

"As we've said before, resources will be prioritized on the Pacific Alliance region, as we look to achieve greater relevance and presence in this important region," said Brian Porter, Scotiabank's chief executive officer, referring to trading bloc of Mexico, Chile, Colombia and Peru.

"With economic growth in the 2.5 per cent to 3.5 per cent range, we remain highly confident that we can run a profitable bank with growing operations in the region," he said in a conference call with analysts.

Scotiabank's international exposure, which accounted for nearly 30 per cent of the lender's profit in the first quarter, has weighed on sentiment toward the bank recently, amid concerns that developing markets will falter because of volatile currencies and weak commodity prices. In 2014 and 2015, Scotiabank's share price lagged other Canadian banks.

Scotiabank's shares rose 3.9 per cent in late-morning trading in Toronto on Tuesday, following the release of quarterly results.

Over all, profit rose to $1.8-billion, up 5.1 per cent from last year. On a per share basis, earnings rose to $1.43, up 5.9 per cent. Scotiabank raised its quarterly dividend to 72 cents a share, up 2 cents.

Profit from Canadian banking rose 7 per cent, driven by higher margins on loans and an expanding slate of credit cards.

However, the bank set aside more money to cover bad loans associated with the depressed energy sector. This continues a theme that has defined the financial results from the big banks this quarter, as the low price of oil raised worries that energy companies would have trouble servicing their loans.

Scotiabank's provision for credit losses rose to $539-million, up 16 per cent from last year, representing 0.45 per cent of all loans.

"These levels remain well within our expectations," said Stephen Hart, the bank's chief risk officer.

He added that the bank downgraded about 10 per cent of the energy companies in its loan portfolio, added nine names to its watch list and classified four accounts as impaired.

After some analysts raised questions last week about how banks were treating companies that had breached their loan agreements, Scotiabank said that it granted covenant relief infrequently and only when it led to an improvement in its position, including higher pricing and better security.

"In these instances, the bank works to be constructive with the borrower to improve the situation, but we do not compromise our economic interest," Mr. Hart said.

Mr. Porter, like his peers at other banks, expressed some optimism that the Canadian economy would continue to grow, with the low Canadian dollar and cheap energy prices benefiting some regions of the country, offsetting weak commodity-producing regions.

"We expect the second half of the year to be stronger than the first half and benefit from a strengthening export economy," Mr. Porter said.

Although the CEO would not comment about the bank's investment in Thailand-based Thanachart Bank, after confirming in December that Scotiabank was considering strategic options for a potential sale of its 49 per cent stake, he did say that acquisitions remain a possibility elsewhere.

"We continue to monitor the marketplace and if we do anything, – like we've done purchasing the Citibank asset in Peru, Costa Rica and Panama – I would view them to be incremental acquisitions," Mr. Porter said.