Bank of Nova Scotia hikes dividend as third-quarter profit rises to $1.9 billion, credit loss provision declines

JOHN SHMUEL | August 30, 2016 12:37 PM ET
More from John Shmuel | @jshmuel

The Bank of Nova Scotia reported better than expected earnings Tuesday and said it is actively pulling back in domestic mortgage lending as worrying signs have emerged in the Vancouver and Toronto housing markets.

The third-biggest lender announced that it saw growth in both domestic and international banking, despite fears that slowing domestic borrowing and energy loan losses would weigh on earnings. Scotiabank reported earnings per share of $1.55 for the third quarter, compared with analyst expectations for earnings of $1.46, based on analysts polled by Reuters.

During a conference call, executives with the company said that they were ceding market share in the mortgage lending space in Canada, hoping that limiting exposure to housing loans will help insulate the bank from any correction or crash in the Canadian housing market.

"We have been taking progressive action across a number of (mortgage) portfolios," said James O'Sullivan, executive vice president of Canadian banking. "We're tightening exceptions, tightening organizations and reducing pre-approvals."
O'Sullivan said that Scotiabank's pull back in the mortgage market is "very much a choice."

"We're being prudent — I think we're being vigilant in the market, but we're not overly concerned," he said.

Scotiabank also reported that the amount it had set aside to cover bad loans in the energy sector had declined for the quarter. The bank was seen as being among the most exposed to such loans, but a rebound in oil prices in the third quarter helped energy firms make payments.

“Provision for credit losses declined $181 million from last quarter,”said Brian Porter, President and CEO of Scotiabank. “The majority of the decline related to lower losses in the energy sector, which is consistent with our previously stated expectations that energy losses had peaked during the last quarter.”

For the energy sector specifically, Scotia said it set aside $37 million to cover bad loans in the third quarter, compared with the $150 million it set aside in the second quarter. Total loan exposure to oil and gas was also down — Scotia now has $16.1 billion in loans to the energy sector, or 3.3 per cent of its total portfolio. That is down from $16.3 billion in the second quarter, which was 3.4 per cent of its loan portfolio.

Overall, Scotiabank’s profit rose to $1.96 billion for the quarter, compared with $1.85 billion during the same time last year. Revenue hit $6.64 billion compared with $6.12 billion a year ago.

The lender continues a win streak for Canadian banks, which have shrugged off fears of slowing consumer borrowing and damage to their balance sheets from bad energy loans. Toronto-Dominion Bank, Bank of Montreal, Royal Bank of Canada and the Canadian Imperial Bank of Commerce all reported better-than-expected earnings last week.