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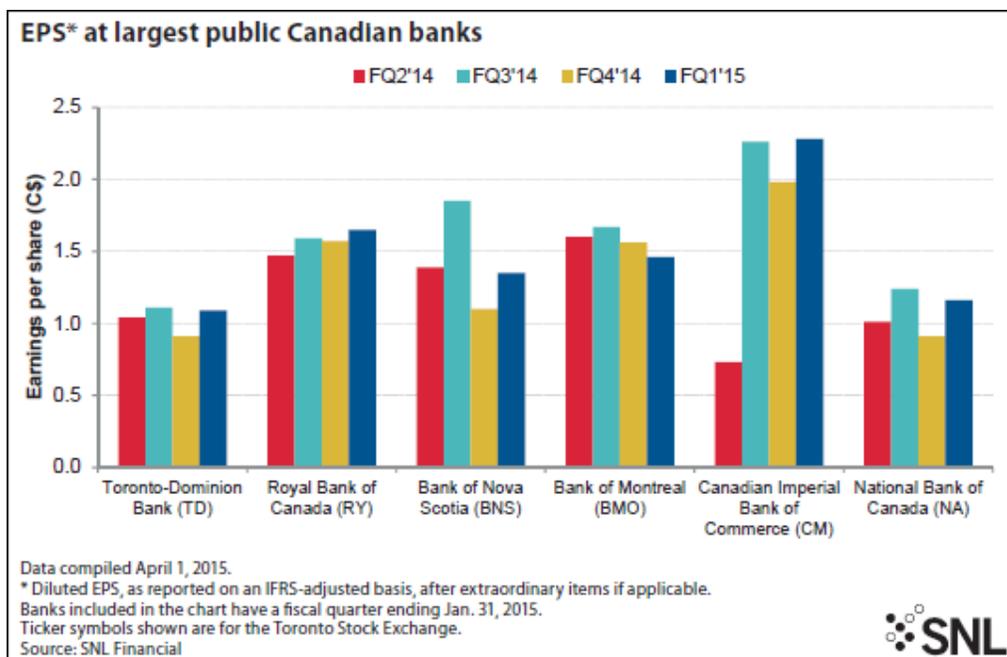
# Canadian banks eye oil prices for remainder of '15

By Daniel Young and Zuhaib Gull

Canada's six biggest banks are keeping a diligent eye on oil prices, despite what one observer noted was little impact on their earnings for the first quarter.

"In terms of oil prices, we are not going to see the credit impacts until several quarters down the road," Barclays analyst John Aiken told SNL. "Credit is not an issue at present, nor do we expect it to over the next quarter or so, but it's definitely something that is bearing a lot of interest in the marketplace," he added.

David McKay, president and CEO at [Royal Bank of Canada](#), said during a Feb. 25 conference call to discuss [first-quarter](#) earnings that despite a 40% decline in the price of oil during the quarter, Royal has "seen some stabilization and recovery over the past few weeks." Since February, oil prices have rebounded somewhat, but are still below \$60 per barrel.



McKay highlighted the potential positive effects from lower oil and gas prices. "Lower energy prices are expected to lead to increased consumer spending, which will help support GDP growth," he said. The impact of lower oil prices has contributed to the depreciation of the Canadian dollar relative to the U.S. dollar, and he added, "We expect our dollar will remain under pressure as the U.S. economy is projected to outperform the Canadian economy." At a conference in March, McKay noted that the central Canada economy and export-oriented industries into the U.S. marketplace would benefit from the weaker Canadian dollar.

Company (ticker)	Common equity Tier 1 ratio		
	FQ1'15 (%)	Change (bps)	YOY
Bank of Montreal (BMO)	10.10	0	80
Bank of Nova Scotia (BNS)	10.30	-50	90
Canadian Imperial Bank of Commerce (CM)	10.30	0	80
National Bank of Canada (NA)	9.30	7	104
Royal Bank of Canada (RY)	9.60	-30	-10
Toronto-Dominion Bank (TD)	9.50	10	60

Data compiled April 1, 2015.  
 Banks included in the chart have a fiscal quarter ending Jan. 31, 2015.  
 bps = basis point  
 Ticker symbols shown are for the Toronto Stock Exchange.  
 Source: SNL Financial

With a Jan. 21 change in its target overnight rate to 0.75% from 1%, the Bank of Canada illustrated that it has "some fairly significant concerns about economic growth in Canada, largely predicated on the damage that the decline in oil price is going to do," Aiken said.

Royal's McKay said while the bank has demonstrated a "very strong margin performance" in Canadian banking, "another rate cut would add incremental margin pressure."

Aiken said the domestic retail side will see margin compression through 2015. He added the growing headwinds and the tailwinds that Canadian banks "have enjoyed over the last several years, including outsized consumer loan growth and improving credit quality are at best waning if not converting into headwinds themselves."

Common equity Tier 1 ratios for [Bank of Montreal](#) and [Canadian Imperial Bank of Commerce](#) were flat for the quarter, while Scotiabank saw a drop of 50 basis points quarter over quarter. Royal saw a decline of 30 basis points, of which Chief

Administrative Officer and CFO Janice Fukakusa said, "Strong internal capital generation was more than offset by higher risk-weighted assets, reflecting [foreign exchange] and business growth mainly in capital markets. Of the total increase in risk-weighted assets this quarter, over half was due to FX, and the balance was volume growth."

CIBC increased its quarterly dividend by 3 Canadian cents, which Barclays' Aiken called a "surprise." CIBC President and CEO Victor Dodig said during a Feb. 26 conference call the company's stated payout ratio is in the 30% to 40% zone. "We're actually below the midpoint today and we've been quite clear as a leadership team that over the medium-term, we'd like to be toward the high end of the payout range."

Among the other Canadian banks, Toronto-Dominion Bank upped its dividend to 4 cents per common share, while Royal and Bank of Nova Scotia increased their dividends by 2 cents per share to 77 cents and 68 cents, respectively.

Company (ticker)	Noninterest expense			Efficiency Ratio		
	FQ1'15 (C\$M)	Change (%)		FQ1'15 (%)	Change (pps)	
		QOQ	YOY		QOQ	YOY
Bank of Montreal (BMO)	2,993.0	-4.07	11.51	64.97	1.80	2.39
Bank of Nova Scotia (BNS)	3,197.0	-4.88	2.96	55.07	-12.14	-0.33
Canadian Imperial Bank of Commerce (CM)	2,195.0	5.63	11.08	60.41	-2.79	3.29
National Bank of Canada (NA)	857.0	-6.54	6.20	59.02	-7.24	-0.76
Royal Bank of Canada (RY)	6,142.0	20.62	15.26	62.05	3.03	0.73
Toronto-Dominion Bank (TD)	4,864.0	-2.29	5.85	61.14	-2.95	0.75

Data compiled April 1, 2015.  
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Article updated at 12:57 p.m. ET on June 1, 2015, to fix a chart.