



Insight beyond the rating.

Date of Release: June 29, 2009

DBRS Downgrades Canadian Banks' Preferred Shares and Tier 1 Innovative Instrument Ratings

DBRS has today downgraded the preferred shares and innovative Tier 1 instrument ratings of the Canadian banks it rates, following the application of changes in DBRS's global banking methodology. The ratings have been removed from Under Review with Negative Implications, where they were placed on April 20, 2009. All other ratings for the Canadian banks are unaffected; related rating trends remain unchanged.

The downgrades reflect the revision of DBRS's views on external support as it relates to preferred shares and the elevated risk of non-payment of preferred dividends relative to the risk of default indicated by senior debt ratings. The downgrades do not reflect any specific credit event at any of the listed institutions or related entities.

The change in methodology affects preferred shares ratings in three ways:

(1) The change in the global banking methodology dictates that the starting point for notching preferred shares will be based on the intrinsic assessment rating, rather than the senior debt rating (which may incorporate the benefit of external support). The primary factor that has led to this change in the methodology is recent actions taken in other jurisdictions that demonstrate no systemic external support for preferred shares. As such, the preferred shares and Tier 1 innovative instruments ratings of the listed institutions and their related entities that benefited from a one-notch uplift in October 2006 (due to the support assessment designation of SA2) will now be removed.

The preferred shares and Tier 1 innovative instruments of the affected institutions are: Bank of Montreal, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, National Bank of Canada, Royal Bank of Canada, and Toronto-Dominion Bank.

(2) The other change in the global banking methodology incorporates the elevated risk of non-payment of preferred dividends relative to the risk of default for more senior debt instruments. As such, the changes in the methodology have increased the base notching, even within the strongest rating categories, and the base notching now expands as the credit quality of the bank migrates downward. Within this approach, there exists some flexibility to adjust the notching for factors that reflect the position of individual banks. Historically, DBRS's methodology resulted in a fixed relationship across all rating categories.

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The preferred shares and Tier 1 innovative instruments of the affected institutions are: National Bank of Canada and Laurentian Bank of Canada. *Insight beyond the rating.*

(3) The final change in the global banking methodology affects SA1 category banks. The preferred shares rating for the subsidiary will be notched relative to the preferred share of the parent in the same way that all debt ratings are notched between the two entities.

The preferred shares and Tier 1 innovative instruments of the affected institution is: HSBC Bank Canada.

Please see the DBRS methodology *Rating Bank Preferred Shares and Equivalent Hybrids* for further details.

Bank of Montreal, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Royal Bank of Canada, Toronto-Dominion Bank

AA	Final Rating (Senior Debt and Deposits)
AA (low)	Intrinsic Assessment
SA2	Support Assessment

The aforementioned change to the methodology has resulted in a one-notch downgrade for all the preferred shares and Tier 1 innovative instrument ratings. The downgrade is limited to one notch due to the elimination of support ascribed to preferred shares and Tier 1 innovative instruments and DBRS's determination that there is only a two-notch differential between the intrinsic assessment and the preferred share ratings at this intrinsic assessment level, as opposed to the base notching policy of three. The better-than-base notching reflects the strength of the banks' capital levels (Tier 1 capital ratio, tangible common equity-to-risk weighted assets ratio, quality of capital), ongoing capital generation to pay preferred and common shared dividends, and accessibility to the capital markets at all levels of the capital structure. Additionally, there is no political or regulatory pressure to reduce preferred share dividends as the Canadian financial system remains robust; it has not had structural or systemic problems requiring direct government injection of capital.

National Bank of Canada

AA (low)	Final Rating (Senior Debt and Deposits)
A (high)	Intrinsic Assessment
SA2	Support Assessment

The aforementioned change to methodology has resulted in a two-notch downgrade for all the preferred shares and Tier 1 innovative instrument ratings. The downgrade consists of one



Insight beyond the rating.

notch due to the elimination of support ascribed to preferred shares and Tier 1 innovative instruments and a second notch due to an increased differential (to three from two) between the intrinsic assessment and the preferred share ratings at this intrinsic assessment level, as opposed to the base notching policy of four. The better-than-base notching is warranted given ongoing ability and willingness to pay the dividend, strong capital structure and lack of political or regulatory pressure to reduce the dividend.

Laurentian Bank of Canada

BBB (high)	Final Rating (Senior Debt and Deposits)
BBB (high)	Intrinsic Assessment
SA3	Support Assessment

The aforementioned change to methodology has resulted in a two-notch downgrade for the preferred share ratings. Since Laurentian Bank of Canada (LB) has a support assessment of SA3, the preferred rating is already notched down from the intrinsic assessment. The downgrade is limited to two notches due to DBRS's determination that there is only a four-notch differential for preferred share ratings at this intrinsic assessment level, as opposed to the base notching policy of five. The better-than-base notching reflects the ongoing ability and willingness to pay the dividend, strong capital structure and lack of political or regulatory pressure to reduce the dividend.

HSBC Bank Canada

SA1	Support Assessment
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Intrinsic assessment is not applicable in this case.

The aforementioned change to methodology has resulted in a two-notch downgrade for all the preferred shares and Tier 1 innovative instrument ratings. The SA1 support assessment indicates DBRS's expectation of very strong likelihood and predictability of timely explicit or implicit external support from HSBC Holdings plc. (the Parent), HSBC Bank Canada's (the Subsidiary) ultimate owner. The methodology dictates that the preferred shares rating for the Subsidiary will be notched relative to the preferred share of the Parent in the same way that all debt ratings are notched between the two entities. As such, the preferred shares and Tier 1 innovative instrument ratings are one notch lower than the implied preferred shares rating of the Parent, which is consistent with the one-notch difference that exists at the senior and subordinated debt levels.



Insight beyond the rating.

DBRS will host a teleconference tomorrow morning, Tuesday June 30, at 11:00 am ET, to discuss today's rating action.

Interested callers should dial the appropriate number listed below at least five minutes before the 11:00 am ET call time.

Local Callers: 416-695-7806, quoting passcode: 1861831

Toll Free Callers: 888-789-9572, quoting passcode: 1861831

Table 1. New Ratings versus Previous Ratings

Issuer	Debt Rated	Rating Action	Old Rating	New Rating
Bank of Montreal	Non-Cumulative Preferred Shares	Downgraded	Pfd-1	Pfd-1 (low)
Bank of Montreal	Cumulative Preferred Shares	Downgraded	Pfd-1	Pfd-1 (low)
BMO Capital Trust	Trust Capital Securities (BMO BOaTS)- Series B	Downgraded	A (high)	A
BMO Capital Trust	Trust Capital Securities (BMO BOaTS)- Series A	Downgraded	A (high)	A
BMO Capital Trust	Trust Capital Securities (BMO BOaTS)- Series C	Downgraded	A (high)	A
BMO Capital Trust	Trust Capital Securities (BMO BOaTS)- Series D	Downgraded	A (high)	A
BMO Capital Trust	Trust Capital Securities - Series E (BMO BOaTS - Series E)	Downgraded	A (high)	A
BMO Capital Trust II	BMO Tier 1 Notes – Series A	Downgraded	A (high)	A
Bank of Nova Scotia	Non-Cumulative Preferred Shares	Downgraded	Pfd-1	Pfd-1 (low)
Bank of Nova Scotia	Cumulative Preferred Shares	Downgraded	Pfd-1	Pfd-1 (low)
Scotiabank Capital Trust	Scotiabank Trust Securities - Series 2006-1 (Scotia BaTS - Series 2006-1)	Downgraded	A (high)	A
Scotiabank Capital Trust	Scotiabank Trust Securities	Downgraded	A (high)	A
Scotiabank Tier 1 Trust	7.802% Scotiabank Tier 1 Securities – Series 2009-1 Due June 30, 2108 (Scotia BaTS III Series 2009-1)	Downgraded	A (high)	A
BNS Capital Trust	Scotiabank Trust Securities	Downgraded	A (high)	A
Canadian Imperial Bank of Commerce	Non-Cumulative Preferred Shares	Downgraded	Pfd-1	Pfd-1 (low)
Canadian Imperial Bank of Commerce	Cumulative Preferred Shares	Downgraded	Pfd-1	Pfd-1 (low)
CIBC Capital Trust	CIBC Tier 1 Notes	Downgraded	A (high)	A

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HSBC Bank Canada	Non-Cumulative Preferred Shares Class I (no guarantee)	Downgraded	Pfd-1	Pfd-2 (high)
HSBC Canada Asset Trust	HSBC Canada Asset Trust Securities (HSBC HaTS) (no guarantee)	Downgraded	A (high)	A (low)
National Bank of Canada	Non-Cumulative Preferred Shares	Downgraded	Pfd-1 (low)	Pfd-2
National Bank of Canada NBC Capital Trust	Cumulative Preferred Shares Trust Capital Securities - Series 1 (NBC CapS - Series 1)	Downgraded Downgraded	Pfd-1 (low) A	Pfd-2 BBB (high)
NBC Asset Trust	Trust Capital Securities - Series 1,2 (NBC CapS II - Series 1, 2)	Downgraded	A	BBB (high)
Laurentian Bank of Canada	Non-Cumulative Preferred Shares	Downgraded	Pfd-3 (high)	Pfd-3 (low)
Laurentian Bank of Canada	Cumulative Preferred Shares	Downgraded	Pfd-3 (high)	Pfd-3 (low)
Royal Bank of Canada	Non-Cumulative Preferred Shares	Downgraded	Pfd-1	Pfd-1 (low)
Royal Bank of Canada RBC Capital Trust	Cumulative Preferred Shares Trust Capital Securities, Series 2010, 2011, 2013, 2015, 2008-1	Downgraded Downgraded	Pfd-1 A (high)	Pfd-1 (low) A
The Toronto-Dominion Bank	Non-Cumulative 1st Preferred Shares	Downgraded	Pfd-1	Pfd-1 (low)
The Toronto-Dominion Bank	Cumulative 1st Preferred Shares	Downgraded	Pfd-1	Pfd-1 (low)
TD Capital Trust	Capital Trust Securities (TD CaTS)	Downgraded	A (high)	A
TD Capital Trust II	TD Capital Trust II Securities (TD CaTS II)	Downgraded	A (high)	A
TD Capital Trust III	TD Capital Trust III Securities (TD CaTS III)	Downgraded	A (high)	A
TD Capital Trust IV	TD Capital Trust IV Notes (TD CaTS IV)	Downgraded	A (high)	A

Notes:

All figures are in Canadian dollars unless otherwise noted.

The applicable methodologies are Rating Banks in Canada and Enhanced Methodology for Bank Ratings – Intrinsic and Support Assessment, which can be found on the DBRS website under Methodologies.

This is a Corporate (Financial Institutions) rating.

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Insight beyond the rating.

Issuer	Debt Rated	Rating Action	Rating	Trend
Bank of Montreal	Non-Cumulative Preferred Shares	Downgraded	Pfd-1 (low)	Stable
Bank of Montreal	Cumulative Preferred Shares	Downgraded	Pfd-1 (low)	Stable
BMO Capital Trust	Trust Capital Securities (BMO BOaTS)- Series B	Downgraded	A	Stable
BMO Capital Trust	Trust Capital Securities (BMO BOaTS)- Series A	Downgraded	A	Stable
BMO Capital Trust	Trust Capital Securities (BMO BOaTS)- Series C	Downgraded	A	Stable
BMO Capital Trust	Trust Capital Securities (BMO BOaTS)- Series D	Downgraded	A	Stable
BMO Capital Trust	Trust Capital Securities - Series E (BMO BOaTS - Series E)	Downgraded	A	Stable
BMO Capital Trust II	BMO Tier 1 Notes – Series A	Downgraded	A	Stable
Bank of Nova Scotia	Non-Cumulative Preferred Shares	Downgraded	Pfd-1 (low)	Stable
Bank of Nova Scotia	Cumulative Preferred Shares	Downgraded	Pfd-1 (low)	Stable
Scotiabank Capital Trust	Scotiabank Trust Securities - Series 2006-1 (Scotia BaTS - Series 2006-1)	Downgraded	A	Stable
Scotiabank Capital Trust	Scotiabank Trust Securities	Downgraded	A	Stable
Scotiabank Tier 1 Trust	7.802% Scotiabank Tier 1 Securities – Series 2009-1 Due June 30, 2108 (Scotia BaTS III Series 2009-1)	Downgraded	A	Stable
BNS Capital Trust	Scotiabank Trust Securities	Downgraded	A	Stable
Canadian Imperial Bank of Commerce	Non-Cumulative Preferred Shares	Downgraded	Pfd-1 (low)	Negative
Canadian Imperial Bank of Commerce	Cumulative Preferred Shares	Downgraded	Pfd-1 (low)	Negative
CIBC Capital Trust	CIBC Tier 1 Notes	Downgraded	A	Negative
HSBC Bank Canada	Non-Cumulative Preferred Shares Class I (no guarantee)	Downgraded	Pfd-2 (high)	Negative
HSBC Canada Asset Trust	HSBC Canada Asset Trust Securities (HSBC HaTS) (no guarantee)	Downgraded	A (low)	Negative
National Bank of Canada	Non-Cumulative Preferred Shares	Downgraded	Pfd-2	Stable
National Bank of Canada	Cumulative Preferred Shares	Downgraded	Pfd-2	Stable

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Insight beyond the rating.

NBC Capital Trust	Trust Capital Securities - Series 1 (NBC CapS - Series 1)	Downgraded	BBB (high)	Stable
NBC Asset Trust	Trust Capital Securities - Series 1,2 (NBC CapS II - Series 1, 2)	Downgraded	BBB (high)	Stable
Laurentian Bank of Canada	Non-Cumulative Preferred Shares	Downgraded	Pfd-3 (low)	Stable
Laurentian Bank of Canada	Cumulative Preferred Shares	Downgraded	Pfd-3 (low)	Stable
Royal Bank of Canada	Non-Cumulative Preferred Shares	Downgraded	Pfd-1 (low)	Stable
Royal Bank of Canada	Cumulative Preferred Shares	Downgraded	Pfd-1 (low)	Stable
RBC Capital Trust	Trust Capital Securities, Series 2010, 2011, 2013, 2015, 2008-1	Downgraded	A	Stable
The Toronto-Dominion Bank	Non-Cumulative 1st Preferred Shares	Downgraded	Pfd-1 (low)	Stable
The Toronto-Dominion Bank	Cumulative 1st Preferred Shares	Downgraded	Pfd-1 (low)	Stable
TD Capital Trust	Capital Trust Securities (TD CaTS)	Downgraded	A	Stable
TD Capital Trust II	TD Capital Trust II Securities (TD CaTS II)	Downgraded	A	Stable
TD Capital Trust III	TD Capital Trust III Securities (TD CaTS III)	Downgraded	A	Stable
TD Capital Trust IV	TD Capital Trust IV Notes (TD CaTS IV)	Downgraded	A	Stable

For more information on the methodology or credits or on this industry, visit www.dbrs.com or contact us at info@dbrs.com.

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