

DBRS Canada Newsletter

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CANADIAN BANK EARNINGS Q1 2010 – STRONG PERFORMANCE

The Canadian banking industry had a strong performance in the first quarter of 2010 relative to the same period last year. This was due to the resiliency of the domestic retail banking franchises (which is the core strength underpinning DBRS's ratings of the largest five Canadian banks), higher than expected trading revenues and improvement in loan loss provisions. DBRS concluded that the quarterly results had no ratings implications for Bank of Montreal (BMO), Bank of Nova Scotia (BNS), Canadian Imperial Bank of Commerce (CIBC), Royal Bank of Canada (RBC) or The Toronto-Dominion Bank (TD).

Ratings of the Largest Five Canadian Banks

Issuer	Debt Rated	Rating	Trend
Bank of Montreal	Deposits & Senior Debt	AA	Stable
Bank of Nova Scotia	Deposits & Senior Debt	AA	Stable
Canadian Imperial Bank of Commerce ¹	Deposits & Senior Debt	AA	Negative
The Toronto-Dominion Bank	Deposits & Senior Debt	AA	Stable
Royal Bank of Canada	Deposits & Senior Debt	AA	Stable

1. The trend on the ratings was changed to Negative on April 2, 2008.

The domestic retail banking segments continued to perform well in the first quarter of 2010. Consumer real estate related lending continued to grow during the quarter. DBRS believes that new measures announced by the federal government for the housing market effective April 2010 will not have a material impact on loan demand; higher interest rates, which do not appear imminent, will have a greater effect on reducing demand. Net interest margins have expanded on a quarter-over-quarter basis, primarily due to re-pricing initiatives started in 2009. DBRS expects net interest margins to remain fairly constant as much of the improved loan pricing is now complete. A rising interest rate environment should have positive implications for margins. Loan loss provisions were sequentially better and appear to have peaked in Q3 2009. DBRS expects credit costs to remain elevated for the remainder of the year, albeit with some improvement as the year progresses.

Wealth management revenues had a marked improvement year-over-year as higher equity capital market values positively impacted assets under management. Additionally, money that had moved into deposits and away from equity assets during the last two years is returning. Although the rotation favours longer-term assets, the emphasis is on bond and balanced funds, which carry lower fees than equity funds.

The capital markets segments of the banks have benefited from the volatility in the capital markets and the widening of bid-ask spreads, resulting in very strong trading revenue in Q1 2010, particularly interest rate and foreign exchange. Year-over-year results were also helped by the absence of large structured credit losses and valuation adjustments this quarter.

The banks as a group have been increasing capital levels over the last five quarters given the uncertainty surrounding new capital rules. On average, the banks were in the 11.2% to 13.0% range and the 7.5% to 9.2% range for the Tier 1 capital ratio and the tangible common equity to risk weighted assets ratio, respectively, at the end of Q1 2010. At Q1 2010, the average Tier 1 capital ratio and the tangible common equity to risk weighted assets ratio were higher by 2.6% and 1.1%, respectively, compared to Q4 2007.

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