



## Bank of Nova Scotia Continues to Impress With its Latest Earnings

### Description

It seems that investors don't understand how Canada's banks are faring in the current harsh operating environment. Over the last year the banks have been sold down heavily because investors are fearful of a Canadian recession, a housing market collapse, and exposure to an increasingly troubled energy patch.

Despite these headwinds, **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) recently reported some solid results. This was even after ratings agency **Moody's** downgraded the bank because of its increased exposure to unsecured consumer lending and Latin America.

Let's take a closer look at exactly how the bank performed.

### Now what?

Bank of Nova Scotia's first-quarter 2016 results were quite impressive, particularly once the difficult operating environment is taken into account. It beat analyst expectations and reported net income of \$1.8 billion, giving it diluted earnings per share of \$1.43. These solid earnings came about because of strong revenue growth, which was up by 9% year over year as both loans and deposits continue to grow.

In fact, international banking experienced impressive double digit growth in loans and deposits, which were up by 19% and 27% year over year, respectively. Most of this growth came from Latin America, which is surprising because the economies in that region are feeling the impact of the commodities rout because they depend on the extraction and export of commodities as key drivers of economic growth.

Impressively, Bank of Nova Scotia continues to maintain a strong balance sheet with impaired loans only making up 0.48% of total loans, which is two basis points lower than it was a year earlier. It also remains well capitalized with a common equity tier one capital ratio of 10.1%, well above the minimum regulatory requirement of 4.5%.

This solid performance allowed Bank of Nova Scotia to hike its quarterly dividend by \$0.02 to \$0.72 per share, its fifth straight year. It pays a juicy but sustainable 5% yield.

However, it wasn't all good news for investors; there are still some concerns about the quality of the bank's operations.

Key among these is its exposure to Canada's troubled energy patch. For the first quarter, drawn energy exposure grew by 8% to \$17.9 billion, or 3.6% of the bank's total loan book. While 60% of these loans are rated as investment grade, this makes Bank of Nova Scotia one of the most directly exposed of Canada's banks to the oil and gas industry.

Allowances for credit losses grew quite sharply, jumping by 15% year over year to over \$4 billion.

This is symptomatic of the harsh operating environment where the rout in metals, oil, and other commodities is having a considerable impact on Canada's economy.

Until the economy picks up and commodity prices recover, this will remain a key risk for the bank as impaired loans and allowances for loan losses are likely to increase over the course of 2016.

### **So what?**

Bank of Nova Scotia's results are quite impressive and underscore why it should be a core holding in every investors' portfolio. Even in the current operating environment, the bank has performed strongly and maintains a solid balance sheet that has allowed it to yet again reward investors with another dividend hike.

### **CATEGORY**

1. Bank Stocks
2. Dividend Stocks
3. Investing

### **POST TAG**

1. Editor's Choice

### **TICKERS GLOBAL**

1. NYSE:BNS (The Bank of Nova Scotia)
2. TSX:BNS (Bank Of Nova Scotia)

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**Date**

2025/10/01

**Date Created**

2016/03/04

**Author**

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