

Canadian Auto Sales To Edge Down In 2017

- Sales gains in Alberta and Saskatchewan are expected to be more than offset by declines in Ontario, Quebec, and Atlantic Canada.

Passenger vehicle sales climbed to 1.95 million units last year in Canada amidst a record year for [global sales](#), the fourth consecutive annual record, and accelerated further in January. Volumes exceeded an annualized 2 million units last month, but are expected to move down to 1.94 million for all of 2017.

Recent price increases for new cars and light trucks have started to dampen affordability, and will likely outweigh the positive impact of stronger economic growth in Canada this year. Demographic trends are also becoming less supportive of further sales gains, with the number of potential vehicle buyers advancing in 2017 at the slowest pace in several decades.

Vehicle sales in the commodity-producing provinces are finally starting to recover from sharp double-digit declines of recent years, but activity in the rest of the country is likely to trend lower alongside slowing real income growth and some moderation in the BC and Ontario housing markets—the key drivers of domestic economic activity in recent years.

SALES RECOVERY BEGINS IN RESOURCE-RICH PROVINCES

The sharp downturn in the Alberta auto market, which included a 30% peak-to-trough slump, has come to an end. Firmer oil prices and the rebuilding in Fort McMurray are expected to boost economic growth in the province to around 2% this year, reversing the first back-to-back annual economic contraction since the early 1980s. Drilling activity bottomed in the spring of 2016, and recently climbed above a year earlier for the first time since late 2014 (see chart 1). The labour market has also started to turn positive, with payrolls advancing by 20K net new jobs in the second half of 2016. Consumer confidence is on the upswing and will move higher as job gains strengthen. This improving economic backdrop should lift auto sales in the province to 223,000 units in 2017, from a five-year low of 220,000 in 2016.

Economic activity and vehicle purchases are also bottoming in Saskatchewan, with late-2016 sales largely in line with a year ago. This represents a significant improvement from a peak-to-trough decline of nearly 20% through the third quarter of 2016. We expect sales in Saskatchewan to edge up to 52,000 units this year, from 51,000 in 2016, as economic activity and employment begin to reverse the weakness of the past two years.

LOWER VOLUMES IN ONTARIO AND QUEBEC

In contrast, purchases in Ontario will likely edge down to 796,000 units this year, from a peak 802,000 in 2016. The moderation reflects slower economic growth over the coming year, as vehicle production and the province's housing market move lower. Housing and the auto sector accounted for one-third of the overall increase in economic activity in Ontario last year, double their share of the economy. In fact, the contribution to growth from these sectors peaked in the first half of 2016 and has been subsiding since then. Despite the moderation, stronger export growth to the United States and a continued solid performance in the service sector will support car and light truck sales at the second-highest level on record.

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Chart 1

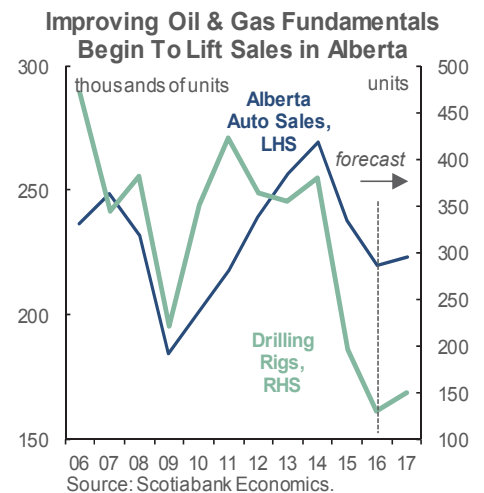
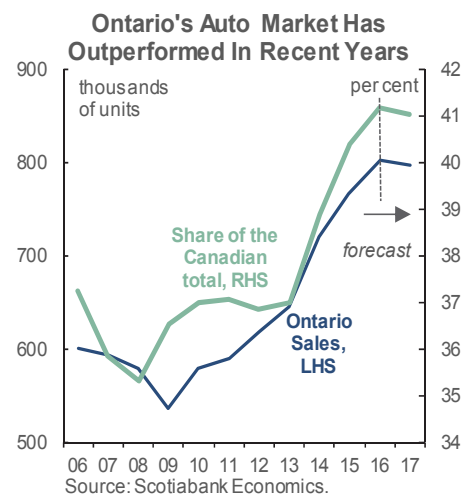


Chart 2



Ontario's auto market has outperformed in recent years (see chart 2), with sales jumping 50% above the 2009 low. This represents a recovery in line with past cyclical upturns, and suggests that the ongoing economic expansion may not be enough to lift sales further. In addition, more than 15% of Ontario households bought a new vehicle last year, the highest level since the previous market peak in 2002, and up from an average 13% per annum during the past fifteen years.

Sales are also likely to edge down in Quebec, but purchases are expected to remain above 460,000 units for the second consecutive year, supported by stronger exports. Manufacturing shipments are reviving from the persistent weakness since mid-2015. The key aerospace, food and primary metals industries, which account for nearly half of Quebec's manufacturing shipments are on the upswing, with exports posting a double-digit year-over-year increase in late 2016. Quebec's auto market will also be supported by the highest lease penetration rate in Canada, which limits sales volatility and provides downside protection. Leasing accounts for nearly 40% of overall retail volumes in Quebec, compared with 22% in the rest of the country.

FLAT PERFORMANCE IN BC & MANITOBA

BC has been the second-best performing auto market in Canada in the latest expansion, and we expect sales to remain unchanged this year at 215,000 units, as economic activity remains solid outside of a less hot Vancouver housing market. Real estate activity accounts for nearly 20% of the provincial GDP and the slowdown in the Vancouver housing market will likely dampen overall economic growth across the province. However, exports are the key economic driver and have gained significant momentum in recent months, surging in excess of 20% y/y at the end of 2016—the strongest performance since early 2014. The province also has the strongest labour market in Canada.

Sales in Manitoba have remained steady in recent years at 56,000 units. We expect a similar performance in 2017, with volumes supported by stronger manufacturing activity. Manufacturing shipments have picked up in recent months, and are now advancing 4% y/y—a significant improvement from declining volumes during much of the previous year. While exports of food products, transportation equipment, and machinery are back on the upswing, employment remains weak and will continue to restrain sales gains.

NEWFOUNDLAND LEADS ATLANTIC CANADA SALES LOWER

Vehicle purchases were flat in Atlantic Canada last year at 149,000 units, but are expected to decline to 135,000 in 2017—the lowest level in four years. Newfoundland will continue to be the source of weakness, with volumes falling to a five-year low of only 32,000 units alongside rising unemployment. Purchases will hold up better in the Maritimes, but will also be constrained by sluggish labour markets and weak demographic trends.

INTERNATIONAL CAR SALES OUTLOOK (millions of units)

| | <u>1990–99</u> | <u>2000–13</u> | <u>2014</u> | <u>2015</u> | <u>2016e</u> | <u>2017f</u> |
|-----------------------|----------------|----------------|--------------|--------------|--------------|--------------|
| TOTAL SALES | 39.20 | 53.74 | 71.18 | 72.61 | 77.31 | 77.83 |
| North America* | 16.36 | 17.74 | 19.42 | 20.64 | 21.05 | 21.31 |
| Canada | 1.27 | 1.61 | 1.85 | 1.90 | 1.95 | 1.94 |
| United States | 14.55 | 15.15 | 16.44 | 17.39 | 17.50 | 17.80 |
| Mexico | 0.54 | 0.98 | 1.13 | 1.35 | 1.60 | 1.57 |
| Western Europe | 13.11 | 13.79 | 12.11 | 13.20 | 13.97 | 14.25 |
| Germany | 3.57 | 3.25 | 3.04 | 3.21 | 3.35 | 3.42 |
| Eastern Europe | 1.18 | 3.03 | 3.81 | 3.15 | 3.16 | 3.29 |
| Russia | 0.78 | 1.83 | 2.49 | 1.60 | 1.45 | 1.50 |
| Asia | 6.91 | 16.08 | 31.69 | 32.29 | 36.06 | 35.85 |
| China** | 0.43 | 6.52 | 18.37 | 20.01 | 23.57 | 23.34 |
| India | 0.31 | 1.18 | 1.87 | 2.06 | 2.09 | 2.14 |
| South America | 1.64 | 3.10 | 4.15 | 3.33 | 3.07 | 3.13 |
| Brazil | 0.94 | 1.90 | 2.50 | 1.82 | 1.39 | 1.32 |

*Includes light trucks. **Includes crossover utility vehicles from 2005.

CANADA/US MOTOR VEHICLE SALES OUTLOOK

| | <u>1991-05</u> Average | <u>2006-13</u> | <u>2014</u> | <u>2015</u> | <u>2016e</u> | <u>2017f</u> |
|-----------------------------------|----------------------------------|----------------|--------------|--------------|--------------|--------------|
| | (thousands of units, annualized) | | | | | |
| CANADA | 1,398 | 1,618 | 1,851 | 1,898 | 1,949 | 1,940 |
| Cars | 797 | 786 | 759 | 714 | 662 | 650 |
| Domestic | 583 | 488 | 512 | 476 | 440 | 435 |
| Imports | 214 | 298 | 247 | 238 | 222 | 215 |
| Light Trucks | 601 | 832 | 1,092 | 1,184 | 1,287 | 1,290 |
| | (millions of units, annualized) | | | | | |
| UNITED STATES | 15.5 | 13.8 | 16.4 | 17.4 | 17.5 | 17.8 |
| Cars | 8.3 | 6.7 | 7.7 | 7.5 | 6.9 | 6.4 |
| Light Trucks | 7.2 | 7.1 | 8.7 | 9.9 | 10.6 | 11.4 |
| | (millions of units, annualized) | | | | | |
| NORTH AMERICAN PRODUCTION* | 15.58 | 13.86 | 17.43 | 17.95 | 18.20 | 18.50 |
| CANADA | 2.50 | 2.22 | 2.39 | 2.28 | 2.40 | 2.39 |
| UNITED STATES | 11.67 | 9.27 | 11.67 | 12.10 | 12.25 | 12.40 |
| MEXICO | 1.41 | 2.37 | 3.37 | 3.57 | 3.55 | 3.71 |

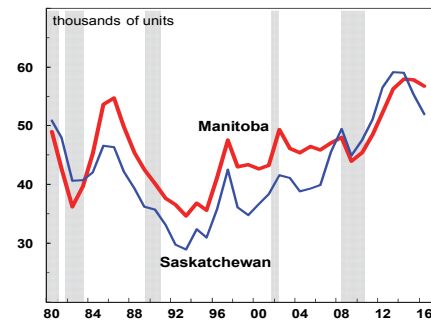
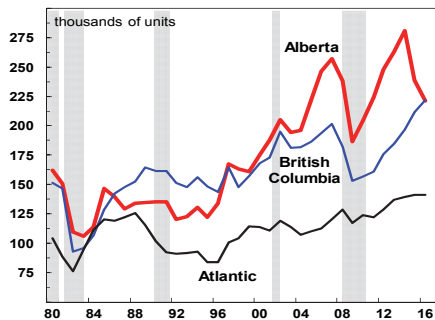
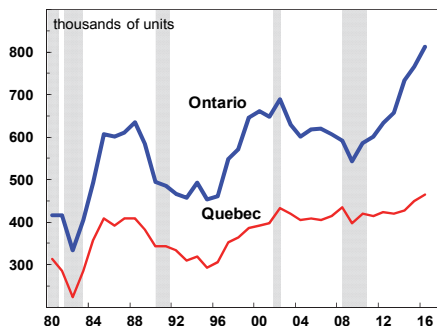
*Includes light, medium and heavy trucks. **Canadian sales are Scotiabank estimates.

VEHICLE SALES OUTLOOK BY PROVINCE*

(thousands of units, annual rates)

| | <u>1994-05</u> Average | <u>2006-13</u> | <u>2014</u> | <u>2015</u> | <u>2016e</u> | <u>2017f</u> |
|------------------|---------------------------|----------------|--------------|--------------|--------------|--------------|
| CANADA | 1,446 | 1,618 | 1,851 | 1,898 | 1,949 | 1,940 |
| ATLANTIC | 102 | 121 | 137 | 140 | 140 | 135 |
| CENTRAL | 936 | 1,002 | 1,139 | 1,205 | 1,267 | 1,259 |
| Quebec | 366 | 410 | 420 | 444 | 465 | 463 |
| Ontario | 570 | 592 | 719 | 761 | 802 | 796 |
| WEST | 408 | 495 | 575 | 553 | 542 | 546 |
| Manitoba | 42 | 47 | 56 | 56 | 56 | 56 |
| Saskatchewan | 36 | 48 | 56 | 54 | 51 | 52 |
| Alberta | 166 | 227 | 269 | 236 | 220 | 223 |
| British Columbia | 164 | 173 | 194 | 207 | 215 | 215 |

*Includes cars and light trucks. **Scotiabank estimates.



Includes cars and trucks (light, medium and heavy).
Shaded bars indicate U.S. recession periods.

AUTO MARKET SHARE BY MANUFACTURER — CANADA*

(thousands of units, not seasonally adjusted)

| | <u>2015</u> | | <u>2016</u> | | <u>2016</u> | | <u>2017</u> | |
|----------------|--------------|--------------|--------------|--------------|-------------|--------------|-------------|--------------|
| | Jan to Dec | | Jan to Dec | | Jan | | Jan | |
| | Units | % of Total | Units | % of Total | Units | % of Total | Units | % of Total |
| TOTAL | 714.4 | 100.0 | 662.7 | 100.0 | 33.7 | 100.0 | 32.3 | 100.0 |
| Big Three | 154.6 | 21.7 | 137.7 | 20.8 | 6.5 | 19.2 | 6.7 | 20.7 |
| General Motors | 70.9 | 9.9 | 70.3 | 10.6 | 3.4 | 10.1 | 3.1 | 9.6 |
| Ford | 54.7 | 7.7 | 47.0 | 7.1 | 2.2 | 6.4 | 1.9 | 5.8 |
| Chrysler | 29.0 | 4.1 | 20.4 | 3.1 | 0.9 | 2.7 | 1.7 | 5.3 |
| Japanese | 306.6 | 42.9 | 288.1 | 43.5 | 15.7 | 46.5 | 14.5 | 45.0 |
| Honda | 96.4 | 13.5 | 93.8 | 14.2 | 5.5 | 16.2 | 4.4 | 13.7 |
| Toyota | 92.9 | 13.0 | 89.1 | 13.4 | 4.3 | 12.8 | 4.1 | 12.9 |
| Nissan | 50.9 | 7.1 | 47.7 | 7.2 | 2.9 | 8.7 | 2.7 | 8.5 |
| Mazda | 41.4 | 5.8 | 32.3 | 4.9 | 1.5 | 4.4 | 1.8 | 5.5 |
| Mitsubishi | 9.5 | 1.3 | 9.8 | 1.5 | 0.6 | 1.8 | 0.5 | 1.5 |
| Subaru | 15.5 | 2.2 | 15.4 | 2.3 | 0.9 | 2.6 | 0.9 | 2.9 |
| Hyundai | 86.0 | 12.0 | 82.1 | 12.4 | 3.6 | 10.7 | 3.1 | 9.6 |
| Volkswagen | 56.9 | 8.0 | 47.4 | 7.1 | 2.6 | 7.7 | 2.3 | 7.3 |
| Kia | 44.4 | 6.2 | 41.3 | 6.2 | 2.1 | 6.3 | 1.8 | 5.6 |
| BMW | 25.2 | 3.5 | 23.9 | 3.6 | 1.3 | 3.9 | 1.1 | 3.3 |
| Mercedes-Benz | 22.4 | 3.1 | 23.1 | 3.5 | 1.1 | 3.3 | 1.6 | 4.9 |
| Other | 18.3 | 2.6 | 19.1 | 2.9 | 0.8 | 2.4 | 1.2 | 3.6 |

*Source: Dealer sales from the Global Automakers of Canada.

TRUCK MARKET SHARE BY MANUFACTURER — CANADA*

(thousands of units, not seasonally adjusted)

| | <u>2015</u> | | <u>2016</u> | | <u>2016</u> | | <u>2017</u> | |
|----------------|----------------|--------------|----------------|--------------|-------------|--------------|-------------|--------------|
| | Jan to Dec | | Jan to Dec | | Jan | | Jan | |
| | Units | % of Total | Units | % of Total | Units | % of Total | Units | % of Total |
| TOTAL | 1,219.6 | 100.0 | 1,315.9 | 100.0 | 76.3 | 100.0 | 80.2 | 100.0 |
| Big Three | 679.3 | 55.7 | 711.9 | 54.1 | 42.6 | 55.9 | 43.6 | 54.3 |
| General Motors | 192.5 | 15.8 | 197.1 | 15.0 | 11.0 | 14.4 | 11.5 | 14.3 |
| Ford | 223.8 | 18.3 | 257.6 | 19.6 | 14.5 | 19.0 | 15.4 | 19.2 |
| Chrysler | 263.0 | 21.6 | 257.2 | 19.5 | 17.1 | 22.5 | 16.7 | 20.8 |
| Other Domestic | 44.2 | 3.6 | 38.8 | 2.9 | 2.2 | 2.9 | 2.3 | 2.9 |
| Japanese | 337.7 | 27.7 | 379.7 | 28.9 | 21.4 | 28.1 | 23.5 | 29.3 |
| Honda | 81.1 | 6.7 | 92.9 | 7.1 | 4.6 | 6.0 | 5.8 | 7.2 |
| Toyota | 116.2 | 9.5 | 128.7 | 9.8 | 7.7 | 10.1 | 8.0 | 10.0 |
| Nissan | 79.0 | 6.5 | 86.5 | 6.6 | 5.5 | 7.2 | 5.6 | 6.9 |
| Mazda | 30.3 | 2.5 | 36.9 | 2.8 | 1.9 | 2.5 | 2.3 | 2.8 |
| Mitsubishi | 11.9 | 1.0 | 12.5 | 1.0 | 0.7 | 0.9 | 0.7 | 0.9 |
| Subaru | 31.1 | 2.5 | 34.8 | 2.6 | 1.8 | 2.4 | 1.9 | 2.3 |
| Hyundai | 49.6 | 4.1 | 56.0 | 4.3 | 3.0 | 3.9 | 2.8 | 3.5 |
| Kia | 23.5 | 1.9 | 31.7 | 2.4 | 1.5 | 1.9 | 1.6 | 2.0 |
| Other Imports | 85.3 | 7.0 | 97.8 | 7.4 | 5.6 | 7.3 | 6.4 | 8.0 |
| LIGHT TRUCKS | 1,184.3 | 97.1 | 1,286.2 | 97.7 | 74.7 | 98.0 | 78.6 | 98.0 |

*Source: Dealer sales from the Global Automakers of Canada.

AUTO SALES BY PROVINCE

(thousands of units, not seasonally adjusted)

| | <u>2015</u> Jan to Nov | <u>2016</u> Jan to Nov | <u>2015</u> Nov | <u>2016</u> Nov |
|----------------------|---------------------------|---------------------------|--------------------|--------------------|
| CANADA | 671.6 | 624.0 | 50.4 | 48.8 |
| ATLANTIC | 52.3 | 45.0 | 3.7 | 3.3 |
| Newfoundland | 11.0 | 9.1 | 0.8 | 0.6 |
| Nova Scotia | 22.2 | 19.3 | 1.6 | 1.6 |
| New Brunswick | 15.8 | 13.6 | 1.1 | 0.9 |
| Prince Edward Island | 3.3 | 3.0 | 0.2 | 0.2 |
| CENTRAL | 473.9 | 442.3 | 35.7 | 34.7 |
| Quebec | 207.6 | 189.4 | 15.5 | 14.0 |
| Ontario | 266.3 | 252.9 | 20.2 | 20.7 |
| WEST | 145.4 | 136.7 | 11.0 | 10.8 |
| Manitoba | 15.0 | 13.6 | 1.2 | 1.0 |
| Saskatchewan | 10.1 | 8.7 | 0.7 | 0.6 |
| Alberta | 48.8 | 44.7 | 3.6 | 3.2 |
| British Columbia | 71.5 | 69.7 | 5.5 | 6.0 |

TRUCK SALES BY PROVINCE*

(thousands of units, not seasonally adjusted)

| | <u>2015</u> Jan to Nov | <u>2016</u> Jan to Nov | <u>2015</u> Nov | <u>2016</u> Nov |
|----------------------|---------------------------|---------------------------|--------------------|--------------------|
| CANADA | 1,134.7 | 1,228.1 | 97.7 | 114.1 |
| ATLANTIC | 81.9 | 88.5 | 6.7 | 7.4 |
| Newfoundland | 22.1 | 22.6 | 1.8 | 1.8 |
| Nova Scotia | 29.5 | 31.9 | 2.4 | 2.8 |
| New Brunswick | 26.1 | 28.8 | 2.1 | 2.4 |
| Prince Edward Island | 4.2 | 5.2 | 0.4 | 0.4 |
| CENTRAL | 672.4 | 762.1 | 59.4 | 70.3 |
| Quebec | 217.3 | 246.3 | 18.8 | 23.1 |
| Ontario | 455.1 | 515.8 | 40.6 | 47.2 |
| WEST | 380.4 | 377.5 | 31.6 | 36.4 |
| Manitoba | 38.7 | 39.8 | 3.3 | 4.0 |
| Saskatchewan | 41.2 | 39.9 | 3.5 | 4.2 |
| Alberta | 177.3 | 162.5 | 14.1 | 15.9 |
| British Columbia | 123.2 | 135.3 | 10.7 | 12.3 |

*Light, medium and heavy trucks.

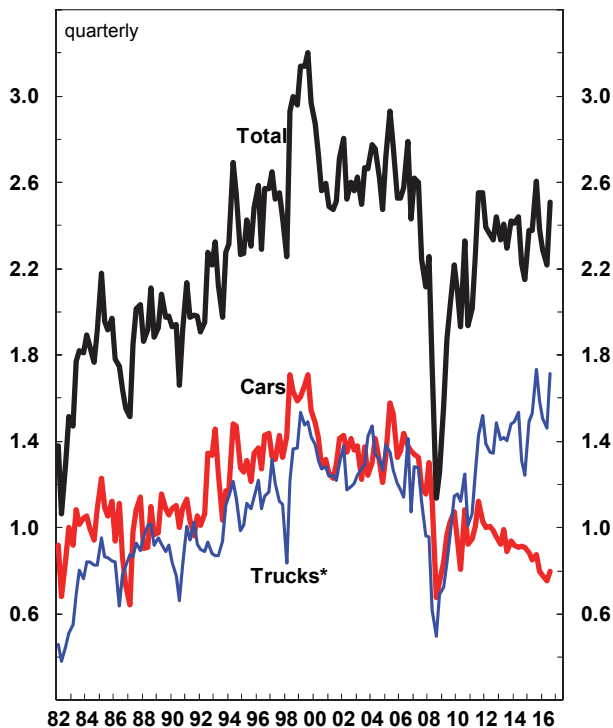
CANADIAN MOTOR VEHICLE PRODUCTION*

(thousands of units, not seasonally adjusted)

| | <u>2015</u> Jan to Dec | <u>2016</u> Jan to Dec | <u>2015</u> Dec | <u>2016</u> Dec |
|-----------------|---------------------------|---------------------------|--------------------|--------------------|
| TOTAL | 2,283.3 | 2,370.3 | 179.0 | 166.3 |
| CAR | 888.6 | 802.1 | 61.9 | 55.3 |
| Chrysler | 254.2 | 237.5 | 18.0 | 18.3 |
| GM | 203.2 | 122.3 | 12.6 | 8.9 |
| Honda | 178.8 | 204.7 | 14.1 | 13.0 |
| Toyota | 252.4 | 237.6 | 17.2 | 15.1 |
| TRUCKS** | 1,394.7 | 1,568.2 | 117.1 | 111.0 |
| Chrysler | 260.8 | 309.3 | 27.7 | 22.6 |
| Ford | 200.7 | 271.5 | 20.5 | 18.8 |
| GM | 374.4 | 402.7 | 27.7 | 30.1 |
| Honda | 206.1 | 208.1 | 15.5 | 14.4 |
| Toyota | 338.4 | 364.2 | 25.0 | 24.3 |
| Others | 14.3 | 12.4 | 0.7 | 0.8 |

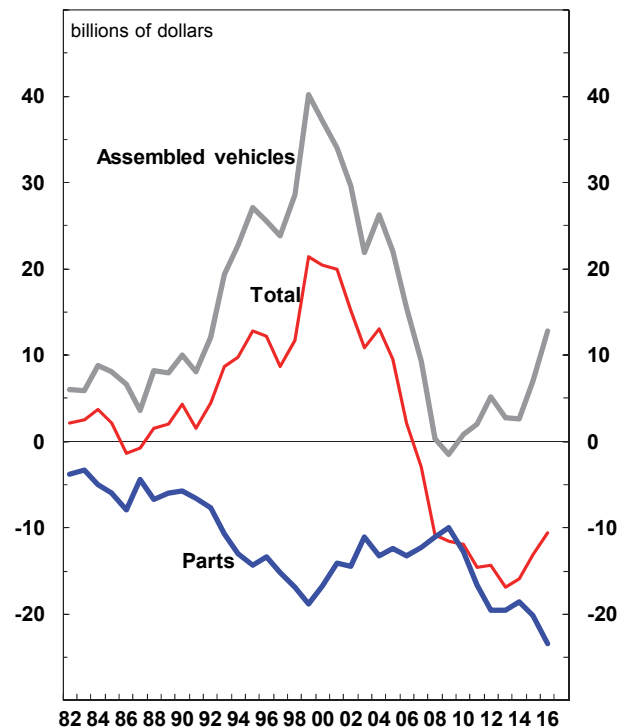
*Production data from Ward's Automotive Reports. **Light, medium and heavy trucks.

Canada — Motor Vehicle Production



Millions of units, seasonally adjusted annual rates.
*Light, medium and heavy trucks.

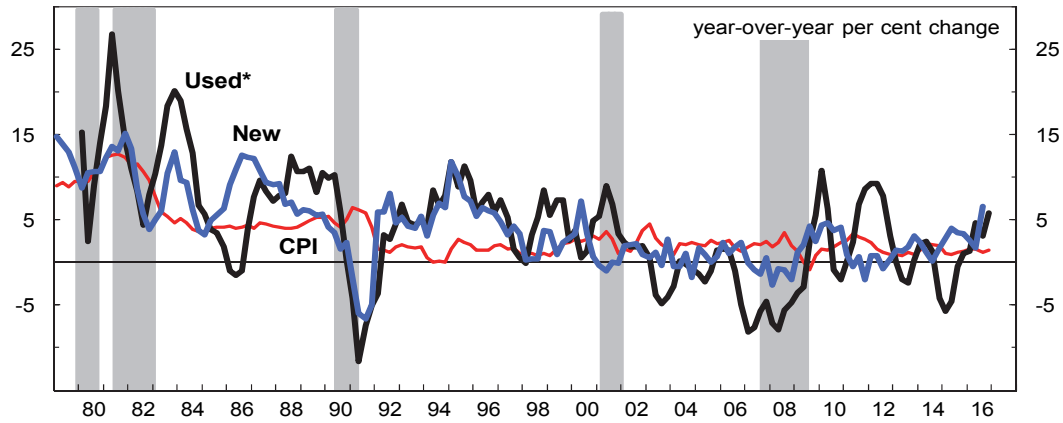
Canada — World Auto Trade Balances



2016 data are January-November annualized.

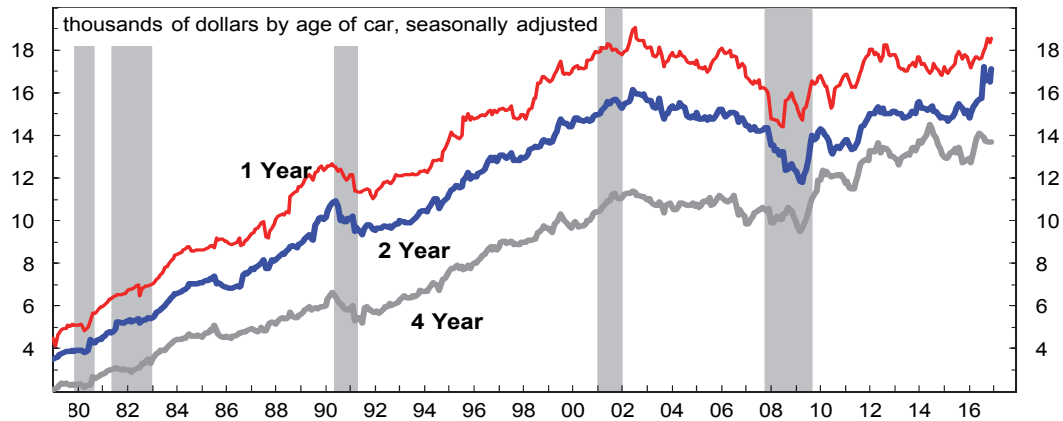
New & Used Car Prices

Scotiabank Car Price Indicators — Canada



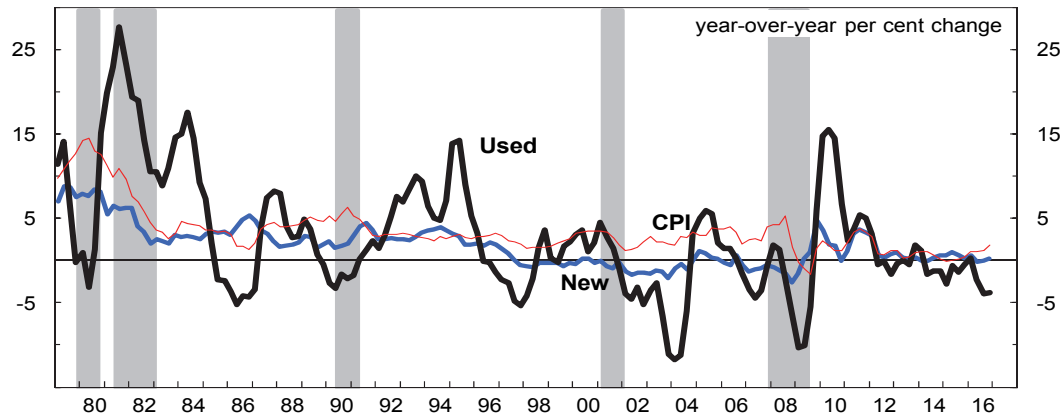
*Scotiabank estimate from Canadian Black Book data.

Scotiabank Car Price Indicators — Canada



Scotiabank estimate from Canadian Black Book data.

Scotiabank Car Price Indicators — United States



Consumer price indices for new and used cars.
Shaded areas indicate recession periods.

CANADIAN CORPORATE FINANCIAL PERFORMANCE
MOTOR VEHICLE DEALERS AND REPAIR SHOPS

| | | Net Income After Tax (\$ mil) | Pre-Tax Profit Margin (%) | Inventory Turnover Ratio | Interest Coverage Ratio | Debt/ Equity Ratio | Return on Shareholders Equity (%) |
|---------------------------|-----------------|-------------------------------------|---------------------------------|--------------------------------|-------------------------------|--------------------------|---|
| Annual | 2003 | 594 | 0.91 | 5.30 | 2.65 | 2.91 | 10.14 |
| | 2004 | 571 | 0.69 | 4.98 | 2.25 | 3.17 | 10.49 |
| | 2005 | 799 | 0.93 | 5.35 | 2.55 | 2.74 | 12.90 |
| | 2006 | 942 | 1.20 | 5.16 | 2.64 | 2.75 | 14.37 |
| | 2007 | 1089 | 1.41 | 5.05 | 3.36 | 2.56 | 15.13 |
| | 2008 | 1142 | 1.43 | 5.04 | 3.51 | 2.44 | 14.66 |
| | 2009 | 1392 | 1.84 | 5.34 | 4.85 | 2.07 | 16.99 |
| | 2010 | 1649 | 2.06 | 4.91 | 5.34 | 2.11 | 18.09 |
| | 2011 | 1664 | 1.99 | 5.17 | 5.19 | 2.02 | 17.44 |
| | 2012 | 1748 | 1.97 | 4.86 | 5.32 | 2.03 | 16.71 |
| | 2013 | 2215 | 2.32 | 5.08 | 6.64 | 2.02 | 20.08 |
| | 2014 | 2740 | 2.65 | 5.10 | 7.56 | 1.86 | 20.90 |
| 2015 | 2854 | 2.57 | 5.07 | 7.81 | 1.87 | 20.50 | |
| Quarterly at annual rates | | | | | | | |
| | 2015Q3 | 3244 | 2.76 | 5.32 | 8.80 | 1.82 | 23.05 |
| | Q4 | 2988 | 2.65 | 4.98 | 7.57 | 1.84 | 20.63 |
| | 2016Q1 | 2000 | 1.93 | 4.56 | 6.54 | 1.96 | 13.96 |
| | Q2 | 3260 | 2.43 | 5.40 | 8.77 | 1.94 | 22.16 |
| | Q3 | 2732 | 2.43 | 5.10 | 7.83 | 1.91 | 18.03 |
| | Average (89–15) | 929 | 1.28 | 6.03 | 3.30 | 2.33 | 12.05 |
| | Low (89–15) | -68 | 0.10 | 4.38 | 1.10 | 3.57 | -1.20 |

Definition of Ratios:

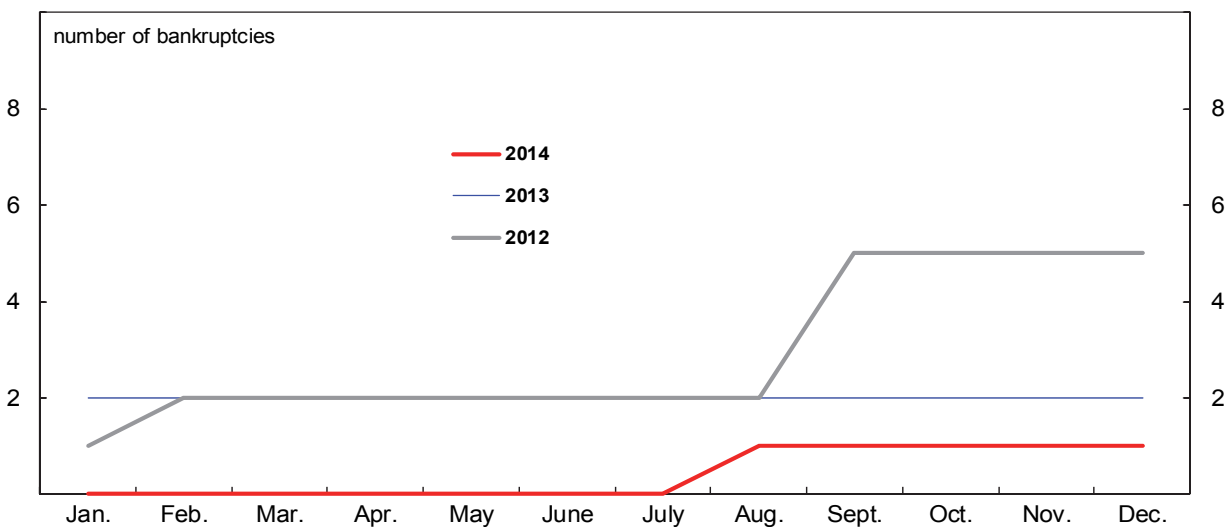
Pre-tax Profit Margin: pre-tax income/sales

Inventory Turnover Ratio: sales/inventory

Interest Coverage Ratio: (pre-tax income and interest payments)/(interest payments)

Debt/Equity Ratio: (short-term and long-term debt)/total equity

Return of Shareholders' Equity: after-tax income/total equity

Retail Auto Dealer Bankruptcies


New car dealers only; cumulative total during the year.

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