

Bank of Nova Scotia

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Author: Dr Frederik Kunze

Bank of Nova Scotia (BNS; brand name: Scotiabank) is Canada’s third-largest bank as measured by assets and is assessed as a domestic systemically important bank (D-SIB). BNS is listed on the TSX and NYSE. Its activities are the most geographically diversified in comparison with its Canadian peer group. Canada (62% of net income; FY 2022), the USA (8%) and the Pacific Alliance (Mexico, Peru, Chile and Colombia; 22%) form its six core markets. Reporting takes place in the following segments: Canadian Banking (44% of net income; FY 2022), International Banking (23%), Global Banking and Markets (18%) and Global Wealth Management (GWM; 15%). International Banking focuses on the franchise development in the Pacific Alliance countries. Services offered to BNS’s client base of more than 25 million customers include retail and corporate banking, investment banking and capital market operations in addition to wealth management and private banking. A total of 64% of the loan portfolio in Canada consists of private mortgage loans. 16% are attributed to business and government loans, where the categories Auto as well as other personal loans stood at 10% and 8%. In the International Banking segment, business loans had the highest share (56%), followed by residential mortgages. For FY 2022, the CET1 ratio stood at 11.5%. The liquidity coverage ratio (LCR) was reported at 119% and the net stable funding ratio (NSFR) stood at 111%. In addition to that, the ratio for the total loss absorbing capacity (TLAC) was above the 24% regulatory minimum. The financial year of BNS ends on 31 October each year. The bank is focusing on its ambitious ESG targets and is for example member of the Net-Zero Banking Alliance.

Ratings

	Rating	Outlook
Fitch	AA-	Stable
Moody’s	A2	Stable
S&P	A+	Stable

Homepage

www.scotiabank.com

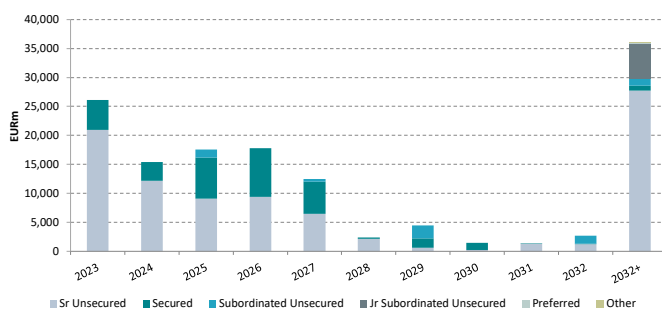
Balance Sheet

(EURm)	2020Y	2021Y	2022Y
Net Loans to Customers	394,411	449,963	558,264
Total Securities	249,479	267,979	331,419
Total Deposits	470,530	542,238	656,993
Tier 1 Common Capital	31,705	35,580	39,364
Total Assets	732,871	826,440	1,000,709
Total Risk-weighted Assets	268,999	290,237	342,945

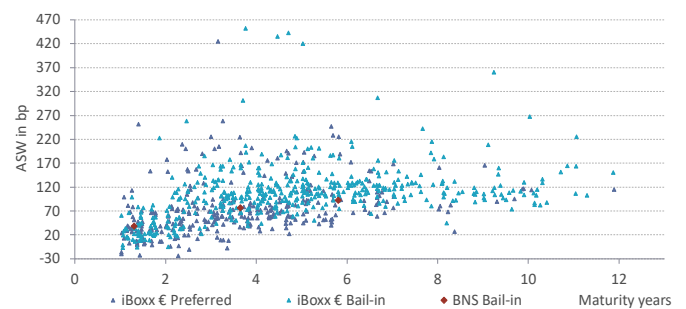
Income Statement

(EURm)	2020Y	2021Y	2022Y
Net Interest Income	11,442	11,299	13,180
Net Fee & Commission Inc.	6,313	6,960	7,756
Net Trading Income	1,994	1,634	1,357
Operating Expense	10,949	11,002	12,372
Credit Commit. Impairment	4,020	1,205	999
Pre-tax Profit	5,547	8,545	9,409

Redemption Profile



Senior Unsecured Bonds (EUR BMK)



Company Ratios

	2020Y	2021Y	2022Y	2020Y	2021Y	2022Y	
Net Interest Margin	1.58	1.55	1.50	Liquidity Coverage Ratio	138.10	124.39	118.90
ROAE	9.75	13.95	13.87	IFRS Tier 1 Leverage Ratio	4.56	4.53	4.19
Cost-to-Income	53.41	52.83	53.73	NPL/ Loans at Amortised Cost	-	-	-
Core Tier 1 Ratio	11.79	12.26	11.48	Reserves/Loans at Amort. Cost	1.25	0.88	0.71

As of: 09.01.2023; Source: Bloomberg, S&P Global Market Intelligence, NORD/LB Markets Strategy & Floor Research

Strengths / Opportunities

- Market positioning
- Diversified earnings profile
- Cost discipline

Risks / Weaknesses

- Expansion into volatile markets
- Dependency on wholesale funding
- Unsecured exposure (including consumer loans)

Covered Bonds

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Bank of Nova Scotia's cover pool totals EUR 86.2bn

The Bank of Nova Scotia's mortgage cover pool has cover assets with a volume of CAD 86.2bn (EUR 59.4bn). In contrast to that, the outstanding volume on covered bonds amounts to CAD 48.1bn (EUR 33.1bn). The calculated nominal overcollateralization is thus significantly higher than the statutory minimum requirement in Canada. As a EUR benchmark issuer, Bank of Nova Scotia is represented in the iBoxx EUR Covered with nine bonds.

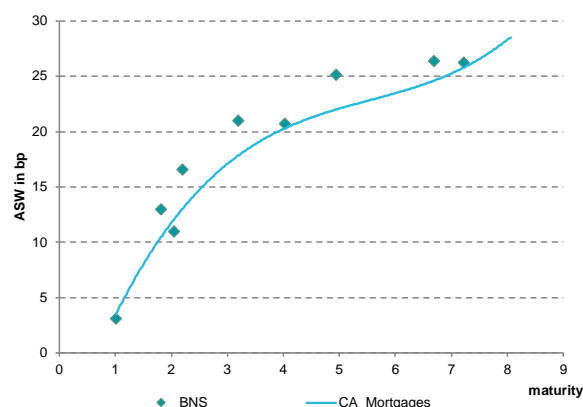
Programme data

15 October 2022

	Mortgage
Covered bonds outstanding	CAD 48,111m (EUR 33,145m)
Cover pool volume	CAD 86,203m (EUR 59,387m)
Current OC (nominal / legal)	73.9% / 3.0%
Type	100% Residential
Main country	100% Canada
Main region	59.3% Ontario
Number of loans / exposures	303,626
Average loan size	CAD 283,911 (EUR 195,591)
Fixed interest (Cover Pool / CBs)	64.2% / 81.3%
WAL (Cover Pool / CBs)	2.8y / 3.3y
NPL	0.00%
CB Rating (Fitch / Moody's / S&P)	- / Aaa / AAA

Source: Issuer, rating agencies, Bloomberg, NORD/LB Markets Strategy & Floor Research

Spread overview (BMK) – Canada



Mortgage cover pool with exclusively residential share

The cover pool of Bank of Nova Scotia is composed of 100% residential cover. In addition, the financing is exclusively residential in nature and is located entirely in Canada. Regionally, Ontario dominates with a 59.3% share of cover assets, followed by British Columbia (22.4%), Alberta (7.6%) and Quebec (4.8%). The average loan volume amounts to CAD 283,911 (EUR 195,591). The cover pool is also composed of 303,626 mortgage financings, reflecting granularity. The average indexed loan-to-value ratio is reported at 45.6%. There are no non-performing loans (NPLs) among the cover assets. 79% of the financings had been outstanding for more than twelve months at the reporting date. With regard to the type of use, 84% of the mortgage financings fall into the category of residential properties occupied by the owners themselves. In terms of ranking, 100% of the mortgage loans are classified as "1st Lien / No prior ranks".

Rating and regulation

Bank of Nova Scotia's mortgage covered bonds have the respective top ratings of Moody's (Aaa) and Fitch (AAA). The quality of the cover assets from a rating perspective is expressed, among other things, by the Moody's ratios Collateral Score (5%) and TPI Leeway (4 notches). In addition, a risk weight of 20% can be derived for the covered bonds in accordance with the CRR. Also on the basis of the now applicable requirements of Article 14 of the Covered Bond Directive, we believe that the EUR benchmarks of Bank of Nova Scotia are suitable as Level 2A assets in the context of LCR management. In addition, due to Canada's G10 membership, the conditions are met for the EUR benchmarks to be used as collateral in the context of ECB collateral management.

Annex

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