SCOTIABANK
Q1 2024 EARNINGS CONFERENCE CALL
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Material economic assumptions underlying the forward-looking statements contained in this document are set out in the 2023 Annual Report under the headings "Outlook", as updated by quarterly reports. The "Outlook" and "2024 Priorities" sections are based on the Bank's views and the actual outcome is uncertain. Readers should consider the above-noted factors when reviewing these sections. When relying on forward-looking statements to make decisions with respect to the Bank and its securities, investors and others should carefully consider the preceding factors, other uncertainties and potential events.

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Additional information relating to the Bank can be located on the SEDAR+ website at www.sedarplus.ca and on the EDGAR section of the SEC's website at www.sec.gov.

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John McCartney – The Bank of Nova Scotia – SVP of IR

Good morning, and welcome to Scotiabank's 2024 First Quarter Results Presentation. My name is John McCartney, and I'm Head of Investor Relations here at Scotiabank. Presenting to you this morning are Scott Thomson, Scotiabank's President and Chief Executive Officer; Raj Viswanathan, our Chief Financial Officer; and Phil Thomas, our Chief Risk Officer.

Following our comments, we'll be glad to take your questions. Also present to take questions are the following Scotiabank executives: Aris Bogdaneris from Canadian Banking; Jacqui Allard from Global Wealth Management; and Francisco Aristeguieta from International Banking.

Before we start and on behalf of those speaking today, I will refer you to Slide 2 of our presentation, which contains Scotiabank's caution regarding forward-looking statements. With that, I will now turn the call over to Scott.

Scott Thomson - The Bank of Nova Scotia – President & CEO

Thank you, John, and good morning, everyone. Welcome to our first call of 2024 and importantly, our first set of results since we shared our refreshed strategy at our Investor Day in December. We are off to an encouraging start to the year, and our results are consistent with our expectations. It is still early in the execution of our strategy, but we are realizing benefits of our enterprise-wide efforts by way of disciplined capital allocation, focusing on investments that deliver returns, maintaining a strong balance sheet, a focus on deposit growth and building primary client relationships that enhance profitability and cost efficiency.

The bank reported adjusted earnings of $2.2 billion or $1.69 per share in the quarter. Strong revenue growth, coupled with disciplined cost performance across our businesses allowed us to improve profitability quarter-over-quarter despite higher credit provisions. We further strengthened our balance sheet and liquidity profile in keeping with our commitment to build capital over time.

Our CET1 ratio at 12.9% reflects our efforts to extend our balance sheet thoughtfully to business segments and clients where we see the opportunity to build holistic and profitable long-term relationships. Our liquidity coverage ratio strengthened to 132% year-over-year, lessening our reliance on market source funding with a reduction in our wholesale funding ratio to 20.3%.

Assets across the bank were up marginally year-over-year, reflecting our disciplined approach to growth in a more muted Canadian residential mortgage market environment. The impact of our ongoing portfolio repositioning in the Global Banking and Markets business was offset by growth in other personal and commercial lines of business. We continue to execute on risk-weighted asset optimization opportunities by reducing our exposure to less profitable relationships where we don't see the opportunity for acceptable risk-adjusted returns on our shareholders' capital.

Our risk-weighted assets have been managed lower by 4% year-over-year as a result of portfolio repositioning and optimization efforts. However, we did see growth sequentially in conjunction with the significant improvement in our return on risk-weighted assets, which we believe to be an important metric in driving shareholder value. Our organizational focus on core deposits continues to show progress with deposits up on an all-bank basis and strong growth in the P&C businesses with 9% deposit growth in Canadian Banking and 5% deposit growth in International Banking.

The result of our efforts to thoughtfully manage growth on both sides of the balance sheet has resulted in a loan-to-deposit ratio that is down over 600 basis points to 110% on a year-over-year basis.

Turning to the economic outlook. Although the Canadian economy has shown more resilience in response to the significant monetary policy tightening over the past 2 years, interest rates are having the desired impact on consumer sentiment and spending which should allow for rate cuts later this year.

This quarter's results reflect an increase in credit provisioning given the incremental financial strain that sustained higher interest rates are having on our clients. We expect the Canadian economy to underperform both the U.S. and our key Latin American countries early this year, but show some growth reacceleration in response to policy easing and more active residential real estate markets in the back half of the year. We are expecting Mexico to show the strongest growth among the larger economies in the Americas in 2024 with some volatility expected leading into the summer's Presidential election.

Our official forecasts are no longer calling for recessionary conditions in any of our operating geographies over the next few years. However, we remain well positioned to manage through more difficult economic scenarios should they unfold.

A few highlights in terms of performance and strategic progress within each of our business lines. Our Canadian Banking business had a strong start to the year, delivering 7% revenue growth and 3% expense growth resulting in positive operating leverage. Loan growth in our domestic business reflects a less active residential mortgage market as well as our own deliberate actions to focus on primary clients. Lower growth in mortgages has been offset by continued growth in business banking and strong credit card momentum, which allows us to continue to diversify our business mix.

Deposit growth continues to track well at 9% in the period, contributing to margin expansion and favorable trends in terms of our loan-to-deposit ratios. In our retail business, Aris and his team are focused on client primacy, deposit growth, client acquisition and relationship deepening across the portfolio. The continued strength of the Scene+ loyalty program now 15 million members strong, provides a significant opportunity to acquire new payment clients, an important step to a longer-term primary relationship with the bank.

Over 40% of new-to-bank clients through the Scene+ partnership already have a multiproduct relationship with the bank. As mentioned, our approach to the mortgage business has evolved. We are having good success with our bundled offerings. Our Mortgage+ product represented 70% of deals done in the quarter, resulting in an average of 3.2 additional products per new-to-bank client. Primary client count was up by 42,000 in the quarter on the back of better cross-sell and proactive engagement.

We are closely tracking client relationship depth and saw progress as the number of clients with 3-plus banking products have seen a 50 basis point increase since the start of the fiscal year. Loan growth in our commercial and small business lines continues in the mid- to high single-digit range, with our teams focused on balancing loans and deposits, targeting growth in lead bank relationships and expanding returns on risk-weighted assets.

Tangerine delivered its highest quarterly earnings ever of $107 million, up 9% year-over-year. Tangerine's differentiated digital offering and expanded product capability continues to be a unique driver of additional primary clients. Tangerine continues to lead the market in mobile adoption with mobile onboarding up 12 points to 62% of all sign-ups and with overall mobile adoption up 4 points to 73% in the quarter.

Global wealth earnings of $374 million reflect the strength of our asset management franchise, the power of our diversified domestic client advisory channels, rebounding market performance in recent months and strong momentum in our international wealth business.

In domestic wealth, our well-established advice channels are integrated with our industry-leading private banking business and are designed to deliver the type of complete solutions that defined primary client relationships.

In our Asset Management business, I will reiterate our opportunity to penetrate our own branch network as well as Tangerine more effectively. Only 10% of our Scotiabank retail banking clients have purchased our mutual fund products. This penetration lags peers. A stronger partnership between our award-winning fund business and our retail networks will deliver meaningful upside to our current results. Jacqui and Aris are partnering to actively implement action plans to address the sizable upside opportunity. Our international wealth business contributed $65 million in the quarter, up 18% year-over-year an increasingly meaningful contributor to our wealth results. Mexico specifically represents the largest opportunity as positive mutual fund inflows and strong fund performance are driving highly accretive growth in this business.

Our Global Banking and Markets business reported a solid quarter with earnings of $439 million. The business remains focused on maintaining top-tier status in key Canadian wholesale products and continues to organically build U.S. capabilities. Our U.S. GBM business delivered 13% earnings growth on 3% revenue growth year-over-year, reflecting our focus on return discipline and fee income through a rigorous client selection and profitability evaluation process.

In GBM, our upside opportunity is based on return optimization by driving more ancillary fee revenue as a percentage of loan exposure through deliberate client selection and relationship deepening aligning our capabilities with client needs. It is important to note that our wholesale business in Canada will face a profitability headwind going forward because of a pending change in Canadian tax legislation related to the elimination of the corporate dividend deduction. Our international banking business delivered exceptionally strong results this quarter with earnings contribution of $752 million.

Solid revenue growth across segments, good expense discipline and a particularly strong performance by our GBM LatAm business drove the result. The business delivered a substantial overall improvement in profitability, up 35% from the prior quarter, supported by almost 400 basis points of improvement in the productivity ratio with no increase in capital deployed. We believe we have more than sufficient capital and product capabilities in place to capitalize on the opportunities in these markets when favorable market conditions and client activity allow as evidenced by our results in this past quarter.

On the retail side of the business, we remain overly reliant on the secured residential mortgage business, and we are too often a single product provider to the client, which is the opportunity ahead.

We are closely monitoring primacy as a percentage of overall relationships in each of international banking, retail, commercial and wholesale with a focus on product penetration and deposit growth. We have already seen a modest uptick from early actions taken.

The retail repositioning will require a sustained effort over the next few years to show meaningful results. The growth agenda in Commercial Banking and our plan to deliver stronger cross-border coverage to multinational clients operating throughout the region, will require further investment in support infrastructure and enhanced cash management capability. I look forward to the evolution of this business under Francisco's leadership as we build a more coordinated regional operating model and orient the business towards the sizable North American corridor opportunity, we believe we are so well positioned to capitalize on.

In summary, the first quarter was an encouraging start to the year. We are now in the early stages of execution against plans to deliver on our key strategic objectives, earning client primacy, growing and scaling and identified priority markets, making it easier to do business with us and winning as one team. We have been through an exhaustive and collaborative exercise to establish the key performance indicators for each business, many of which were shared at our Investor Day. And we will provide progress updates to you on the most impactful KPIs in future financial reporting periods.

With that, I will turn it over to Raj for a more detailed financial review of the quarter.

Rajagopal Viswanathan - The Bank of Nova Scotia - Group Head & CFO

Thank you, Scott, and good morning, everyone. All my comments that follow will be on an adjusted basis for the usual acquisition-related costs. The 2023 competitive figures have been restated to reflect the adoption of IFRS 17.

Moving to Slide 6 for a review of the first quarter results. The bank reported quarterly adjusted earnings of $2.2 billion and diluted earnings per share of $1.69. Return on equity was 11.9% and return on tangible common equity was 14.6%. Revenues were up 6% year-over-year, driven by increases in both net interest income that was up 5% and noninterest income that was up 8%.

All bank net interest margin expanded 8 basis points year-over-year and 4 basis points quarter-over-quarter from higher margins in international and Canadian Banking partly offset by lower contribution from asset liability management activities and increased levels of lower-margin high-quality liquid assets. Noninterest income was $3.7 billion, up 13% quarter-over-quarter, mainly due to higher trading revenues, banking fees and wealth management revenues.

Provision for credit losses were $962 million and the PCL ratio was 50 basis points, up 17 basis points year-over-year. Quarter-over-quarter, expenses were flat as seasonally higher share-based compensation and increased employee benefit costs were offset by lower professional fees and other staffing-related costs. Expenses grew 6% year-over-year or 4% excluding the unfavorable impact of foreign currency translation, reflecting higher share-based compensation, technology costs and business access.

The productivity ratio was 56% this quarter, a decrease of 370 basis points quarter-over-quarter, while operating leverage was flat.

Moving to Slide 7 that shows the evolution of the common equity Tier 1 ratio and risk-weighted assets during the quarter. The bank's CET1 capital ratio was 12.9% as of January 31, 2024, a decrease of approximately 10 basis points from the prior quarter. The CET1 ratio benefited 45 basis points from earnings, share issuances from the bank's shareholder dividend and share purchase plan and fair value through OCI gains driven by stronger debt and equity markets during the quarter, offset by higher risk-weighted assets of 48 basis points.

The RWA increase was primarily driven by the adoption impact of the revised Basel III FRTB market and CVA capital requirements and the 2.5% increase in the capital floor, adding to approximately 70 basis points. The RWA optimization initiatives taken during the quarter including client deselection, reduced the impact to 48 basis points. We expect the RWA optimization efforts to continue during the year in line with our capital allocation strategy, to reduce the impact of the floor.

Turning now to the Q1 business line results beginning on Slide 8. Canadian Banking reported earnings of $1,096 million, an increase of 1% year-over-year as a result of higher revenue, partly offset by higher provision for credit losses and expenses. Year-over-year revenues grew a strong 7% while expense growth was a modest 3%, resulting in positive operating leverage of approximately 4%.

While average loans and acceptances were down about 1% from the prior year, the portfolio mix has changed. We saw continued growth in our high-yielding portfolios as business loans grew 9%, credit cards increased 18% and personal loans grew 2%. This was offset by a decline of 5% in residential mortgage balances.

We continue to see deposit growth primarily in term products, with average deposits up 2% quarter-over-quarter. Year-over-year deposits grew 9% and the loan-to-deposit ratio improved to 123% from 136% last year. Noninterest income was down 5% year-over-year due to elevated private equity gains in the prior year and loss of income from the sale of our equity interest in Canadian Tire Financial Services. Net interest income increased 11% year-over-year, primarily from solid deposit growth and margin expansion. The net interest margin expanded 30 basis points year-over-year and 9 basis points quarter-over-quarter, benefiting from high loan and deposit margins and changes in business mix.

The PCL ratio was 34 basis points, primarily from impaired loan provisions and risk-adjusted margin was 2.2%, up 15 basis points year-over-year. Expenses increased 3% year-over-year, primarily due to higher technology, personnel costs and cost to support business growth. Quarter-over-quarter expenses declined 1%.

Turning now to Global Wealth Management on Slide 9. Earnings of $374 million declined 4% year-over-year as strong 18% growth within International Wealth was offset by Canadian results declining 8%, largely due to higher expenses, lower trading volumes, offset by growth in asset management. However, net income grew a strong 12% quarter-over-quarter, reflecting improving market conditions.

Revenue grew 3% year-over-year due, primarily, to higher mutual fund fees across the international businesses and higher brokerage revenues in Canada. Expenses were up 8% year-over-year due, primarily, to the expansion of the sales force, volume-related expenses and cost to support business growth. Spot AUM increased 5% year-over-year to $340 billion as market appreciation was partly offset by net redemptions. AUA increased 8% over the same period to $655 billion from higher net sales and market appreciation.

Investment fund sales in Canada continued to be under pressure with approximately $13 billion in net redemptions this quarter. However, the majority of Scotia Global Asset Management funds remain in the top 2 quartiles over a 5-year period.

International Wealth Management generated earnings of $65 million, up 18%, driven by higher mutual fund revenues in Mexico and strong loan and deposit growth across our footprint. AUA and AUM grew 15% and 18%, respectively, year-over-year.

Turning to Slide 10, Global Banking and Markets. Global Banking and Markets generated earnings of $439 million, down 15% year-over-year, but improved 6% quarter-over-quarter. The U.S. business generated strong earnings of $237 million, up 13% year-over-year. Capital markets revenue was down 12% year-over-year as fixed income revenues were down 22%. However, quarter-over-quarter, Capital Markets revenue grew 12% while earning through the 1-month impact of the proposed Canadian tax rules change to deny the dividend-received deduction of approximately $40 million, which is also expected to impact future quarters. Business Banking revenues declined 5%, both quarter-over-quarter and year-over-year, as loans were down 7% year-over-year.

Noninterest income decreased 2% year-over-year, primarily due to lower fixed income trading related revenue, partly offset by higher underwriting and advisory fees. However, quarter-over-quarter noninterest rate income grew 7%.

Net interest income was down 22% year-over-year and 11% quarter-over-quarter as a result of lower loan and deposit volumes, lower lending margins and higher trading-related funding costs. Expenses were up a modest 3% quarter-over-quarter, mainly due to seasonally higher share-based compensation. On a year-over-year basis, expenses were only up 4% due mainly to higher personnel costs and technology investments to support business growth. The provision for credit losses decreased $34 million quarter-over-quarter to $5 million. GBM Latin America, which is reported as part of International Banking reported earnings of $372 million, up 24% compared to the prior year as a result of strong revenue growth in capital markets and fee income from business banking across all countries.

Moving to Slide 11 for a review of International Banking. My comments that follow are on an adjusted and constant dollar basis. The segment delivered earnings of $752 million, up 35% and $196 million quarter-over-quarter. Revenue was up 9% year-over-year, driven primarily by higher revenues from capital markets. Strong retail revenue growth benefited from margin expansion and 8% higher fees and commissions.

Year-over-year, loans were down 2%, primarily in Peru, Chile and Colombia. Retail loans grew 4% with mortgages up 6%, while Business banking loans decreased 6%. Deposits grew a strong 5% year-over-year with personal deposits growing 2% and nonpersonal deposits growing 7%. The loan-to-deposit ratio improved to 129% from 140% in the prior year.

Net interest margin expanded 19 basis points quarter-over-quarter, driven by higher asset yields and higher deposit margins. The provision for credit losses was 135 basis points or $574 million, up 16 basis points quarter-over-quarter. This translated to a risk-adjusted margin of 3.23%, an improvement of 7 basis points year-over-year and quarter-over-quarter.

Expenses were up a modest 4% year-over-year driven by business and capital taxes, technology expenses and salaries and benefits. Expenses were up 3% quarter-over-quarter, driven by seasonally higher business taxes in the Caribbean and communication expenses. Operating leverage was a positive 6%.

Turning to Slide 12, the other segment. The other segment reported an adjusted net loss attributable to equity holders of $474 million, a slight improvement of $13 million compared to the prior quarter mainly due to lower expenses.

With that, I'll now turn the call over to Phil to discuss risk.

Philip Thomas - The Bank of Nova Scotia - Chief Risk Officer

Thank you, Raj. Good morning, everyone. Limited economic growth and higher household expenses persisted through Q1 as a result of sticky inflation. This quarter, all bank PCLs were 50 basis points, driven by the following: One Canadian commercial exposure in the transportation industry; Stage 3 migration in our Canadian retail portfolio; and persistent challenging market conditions in Peru and Colombia. Higher delinquencies across most of our retail portfolios this quarter reflect the challenging macroeconomic environment. Total PCLs of 50 basis points or $962 million are down $294 million quarter-over-quarter. The performing PCL was $20 million or 1 basis point, reflecting both lower loans quarter-over-quarter and no material change in macroeconomic outlook.

Impaired PCLs were $942 million or 49 basis points, up $140 million quarter-over-quarter, largely driven by deterioration in Canadian Automotive Finance, Colombia and Peru. Additionally, Chile has returned to run rate PCL levels now in line with historic norms. We continue to maintain strong allowances on loans and the ACL coverage ratio increased 1 basis point to 86 basis points for the quarter.

In Canadian Banking retail, 90-plus day delinquency levels are up 1 basis point quarter-over-quarter and 8 basis points year-over-year to 26 basis points. This is due to increased household expense pressures and borrowing costs. Delinquency is up across all retail products year-over-year. Despite this, credit quality continues to remain strong and average FICO scores remained relatively flat year-over-year at 790.

With the cumulative inflation and interest rate pressures on households, Canadian consumers continue to ease discretionary spending reversing an uptick seen during the holidays. We continue to monitor the number of vulnerable customers in our retail portfolios, which have remained relatively flat quarter-over-quarter.

Turning to our mortgage portfolio. We remained confident in the performance of our variable rate mortgage product, which has maintained strong credit performance despite unprecedented increases in borrowing costs. Our variable rate mortgage clients have experienced an average increase in mortgage payments of over 50% since rate increases began. Notably, VRM multiproduct clients have lower delinquency across their household balance sheets versus single service and fixed rate mortgage clients.

Fixed rate mortgage clients have been relatively unimpacted as the majority of renewals occur in 2025 and 2026. Pandemic-driven excess deposits for variable rate mortgage clients have returned to run rate levels with an average of 2x deposit cushion. We are confident in our credit practices and our variable right mortgage portfolio serves as a strong indicator of credit quality across our fixed rate portfolio, as the renewal cycle plays out over the next 2 to 3 years.

Turning to International Banking. Macroeconomic and geopolitical pressures continue to weigh on our international banking footprint. Having said that, central banks across the region have started to reduce policy rates and expected growth in Mexico remains strong. International Banking's PCLs were $574 million or a PCL ratio of 135 basis points. The increase in PCLs was primarily attributed to retail portfolios across most markets and in particular, Peru and Colombia. As mentioned earlier, Chile saw an expected increase coming off lower provisions in Q4 2023 as the portfolio normalized this quarter.

Mexico, as a highly secured retail portfolio, remains resilient with PCLs down quarter-over-quarter and expected strong persistent growth through 2024. As I mentioned earlier, in business banking, the increase in impaired PCLs and GIL this quarter was primarily driven by a single exposure in Canadian commercial, while GBM experienced a net recovery. Our commercial real estate portfolio continues to perform well, and we continue to monitor the market closely.

Heading into 2024, there was optimism that rate cuts in Canada may materialize earlier in the year. However, it appears that forecasted rate cuts may come later and potentially at a slower pace. In our key international markets, we have seen the central banks take action with rate cuts in Peru, Chile and Colombia. This is starting to provide rate relief to clients.

In the near term, specifically in Peru and Colombia, delinquencies are expected to increase, with economic recovery expected to be more challenged. We are actively monitoring the portfolio and proactively managing our exposures. We expect provisions for credit losses to remain within our full year guidance of 45 to 55 basis points on a full year basis.

With the cumulative build of $1.1 billion in total allowances for credit losses over the last 6 quarters, we remain comfortable with our coverage levels, given the secured focus of our retail book and the investment-grade quality of our corporate and commercial.

With that, I will pass the call back to John for Q&A.

John McCartney – The Bank of Nova Scotia – SVP of IR

Great. Thank you, Phil. Operator, please queue up questions on the line.

QUESTIONS AND ANSWERS

Operator

The first question is from Paul Holden from CIBC.

Paul Holden - CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research

I'm going to ask one quick one to start. Given the strong result on CET1 for the quarter and ongoing capital optimization, any kind of updated thoughts on when you may turn off that DRIP discount?

Rajagopal Viswanathan - The Bank of Nova Scotia - Group Head & CFO

It's Raj. Yes, our capital ratio is very strong at 12.9%. But as we indicated prior both in our Q4 call as well as in other statements we've made in conferences, we'd like to see what OSFI does in June as it relates to the domestic stability buffer, and we'll be guided by that to turn off the DRIP discount that we have in place. But our optimism is definitely increased as we have seen our capital actions feed into the common equity Tier 1 ratio being strong. And we think that once we hear from the Superintendent, in June, we'll be in a much more confident position to turn the DRIP off, which we expect to be quicker than what we thought prior.

Paul Holden - CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research

Great. Okay. And then second one for me is with respect to the NIM expansion, obviously, a good result this quarter. Just thinking about as you're seeing sort of that funding mix change and then modest loan growth and the way you've continued to position your treasury book to benefit from lower rates. Like is there any reason to think that similar NIM expansion will not continue for the remaining quarters of 2024?

Rajagopal Viswanathan - The Bank of Nova Scotia - Group Head & CFO

Yes. Once again, Paul, it's Raj. I'll try to see if I can help you with it. A little bit of color on how we saw the NIM expand during the quarter. Canadian banks NIM went up 9 basis points, almost equally between asset margin expansion and some deposit margin expansion, which we think will be muted going forward. As you know, that is dependent on administrative rate changes, which we don't expect to start happening till Q4. So that should remain flat, maybe a little bit negative to what we saw this quarter as its deposit pricing and term and all that keeps evolving. I think the - so the margin that the Canadian bank reported 256 basis points will be at or about that range. I don't think it's going to expand too much in the short term.

The other component is the International Banking. International Banking significant growth in NIM, as you saw, 19 basis points quarter-over-quarter, a lot of it coming because cost of funds have come down quite rapidly across all those countries. Big rate cuts in Chile, as you saw, rate cuts also happened in Peru and definitely Colombia as well. So cost of funds is a big factor. We'll see how the rate cuts happen and that might help with the international banking NIM. But as far as we think - next quarter and beyond, we think it will be around the numbers that you saw now, which is about 436 basis points.

Asset repricing is definitely helping the international bank as their assets continue to reprice at higher rates. So that's a good progress we've seen this quarter. All bank NIM, you saw up 4 basis points quarter-over-quarter. We think there might be some marginal improvement. But the biggest improvements will start coming, Paul, when we see actual rate cuts happen, which we think is likely going to be Q4, so until then

I think NIM will slowly expanded the bank, maybe a basis point or 2 quarter after quarter, but not as significantly as it will happen when the rate cuts actually do happen.

Operator

The next question is from Doug Young from Desjardins Capital Markets.

Doug Young - Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst

Raj, maybe sticking with you on the all bank NIM. And where I'm trying to go with this is, I think you've been repositioning treasury to get away from directionally taking a view on rates, but your sensitivities show that you're going to benefit from lower rates. And so I'm trying to get a sense of like how long does that adjustment take? So clearly, if rates come down this year, you're going to benefit. Like when does that repositioning? And like how long are these hedges in place for? Just trying to get a sense of when that pivot is going to eventually occur? Or is this just going to not change?

Rajagopal Viswanathan - The Bank of Nova Scotia - Group Head & CFO

Yes. Thanks, Doug. I think I'll try to help you with that. I think as far as the positioning that we had before, where we had positioned it through our treasury actions to benefit more when rates come down, as you know, 2 quarters back or last year in Q2, we reset it back to being neutral to rate cuts across the curve. Obviously, that's a 100 basis point shift that we talk and we disclose externally. So we're kind of neutral to that.

Where I think the benefits will start coming is when rate cuts actually happened, like I mentioned. But as far as the hedge benefits go, we had a lot of benefits that we monetized in 2020, and that life is ending sometime in '24. So year-over-year, when you look at it, that tends to be a headwind because we had bigger benefits as a swap expired, say, 12 months back, some of them, and some of them will kind of finish towards the end of this year. So I don't think it's going to be a big headwind going forward. But when you look at it from this quarter to, say, same quarter last year, that's definitely a headwind, which shows up in the other segment.

The other segment $474 million loss will benefit when our wholesale funding cost comes down, which will track the administrative rate declines. The hedging program, like you mentioned, is going to be more about how do we protect margin going forward and not be as opportunistic as we've been in the past. So we'll position the bank as close to neutral as possible. And then as the balance sheet evolves, we expect to be positioned much better than what we've been in the past.

Doug Young - Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst

Okay. So there's still some benefit from lower rates. It's not going to be as much as it was before. And really, the focus is to kind of protect margin than directionally take a position.

Rajagopal Viswanathan - The Bank of Nova Scotia - Group Head & CFO

That's correct. But I think the benefit when the short end of the rate curve comes down. So we're not talking about parallel shift now, which is what should happen because the curve is inverted, but bank will continue to benefit meaningfully, which will show up through other segment when actual rate cuts happen.

Doug Young - Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst

Yes. Okay. And then, Scott, you mentioned in your prepared remarks a need to invest in international banking support structure, and I think there are some other items in there. I guess my question is, should we be expecting more expenses to be flowing through international banking over the coming year or 2 years as you reposition that portfolio?

Scott Thomson - The Bank of Nova Scotia - President, CEO & Director

Sure. Let me start and then Francisco can add on to that. I mean, one of the things that I was most pleased about this quarter was the international performance. And if you think about the productivity initiatives that we're on and the ability to increase operating leverage to the extent we did on the back of not deploying more capital, I mean it was just a fantastic result in the quarter.

What we talked about a lot was growing our commercial IV business, which we hadn't been focused on before and also growing a multinational business and taking the international business and looking it through a regional lens. And so I think there's a lot of cost

opportunity, but there will also be incremental investments that we'll have to do, particularly around cash management as an example. But Francisco, maybe you want to add more on.

Francisco Aristeguieta - The Bank of Nova Scotia - Group Head of International Banking

Sure, Scott. A couple of thoughts just reiterating what we explained at Investor Day. In the international bank, we have the capital and the resources we need to execute our 5-year plan. So you should not expect any increases in expenses, but our redirection and optimization of both capital allocation for higher returns and certainly expenses for the right client segmentation, where you will see investments are for global initiatives that will have a corresponding benefit in the international bank.

And in that regard, we highlighted, particularly to of interest and great benefit to International Banking. One is multinational banking as a corporate organization, providing a differentiated service to a particular set of clients that operate with us in multiple countries, and we expect to increase our share of wallet with our client segment sustainably over the 5-year program.

And that, again, will benefit not only international, but certainly Canadian clients as well as we focus on the North America corridor. The other one is international cash management of what we defined internally as transaction banking. And there, we intend to build capabilities that allow us to serve these multinational clients with the extension as we connect the onshore capabilities we already have in most of the markets we operate in with international capabilities around cash management. So those will be 2 areas of investment for the group globally that will have a corresponding benefit in International Banking.

Now finally, what I would say, if you look at the 5-year plan, we committed to a roll rate reduction of our expenses in International Banking of $800 million. Q1 was a very good example of execution around that expense discipline as we transition into a regional operating model.

Operator

The next question is from Mario Mendonca from TD Securities.

Mario Mendonca - TD Securities Equity Research - MD & Research Analyst

Can you hear me now?

Operator

Yes, we can.

Mario Mendonca - TD Securities Equity Research - MD & Research Analyst

So Phil, this question is for you. I appreciate you reiterating the guidance on PCLs of 45 to 55 basis points for the full year. It did, however, feel listening to your comments that we could see some near-term deterioration. Is that - would that be an appropriate way to characterize what you're expecting in the near term, some weakness and maybe an improvement in the second half of the year. Is that plausible?

Philip Thomas - The Bank of Nova Scotia - Group Head & Chief Risk Officer

Yes. That's probably the way to think about it, Mario, is if you look at international, we saw rate cuts happen a few quarters ago. So we'll probably see PCL start to peak in Q2 and a little bit into Q3. Then if you look at Canada, obviously, we're going to be reliant upon rate cuts here. So I think it's a tale of 2 halves of the year. We'll probably see things starting to improve towards the latter half of the year into Q3 - Q4 and then into the early part of 2025.

Mario Mendonca - TD Securities Equity Research - MD & Research Analyst

And then in capital markets, just 2 quick ones there. Could you just talk about what the dividend - the change in dividend...

Rajagopal Viswanathan - The Bank of Nova Scotia - Group Head & CFO

Mario, you've got cut off a little bit. It's Raj. Can you repeat the question on capital markets, Mario, please?

Mario Mendonca - TD Securities Equity Research - MD & Research Analyst

Sure. I mentioned how the activity in that business, the business that's impacted by the change in the taxation of Canadian dividends, what activity has been like? Has the activity really dried up? Or are there other products? Or is the activity continue?

Rajagopal Viswanathan - The Bank of Nova Scotia - Group Head & CFO

I think it impacts the equities business, as you would imagine, because it's the equity dividend that has been eliminated for financial services or we expect it to be eliminated effective January 1, the bill is not yet fully passed. So this quarter had a 1-month impact. It's about $40 million to GBM's revenue, primarily in the equities business in Canada, which they burn through in the business and, obviously, has benefited the bank.

And for the rest of the year, we think this will be roughly about $180 million to $200 million of NIAT that we have to earn through. We're optimistic that with the good start we've had in the first quarter, that helps in supporting the marginal EPS growth, which we still expect for the whole year, the outlook that we talked about. But definitely more work to be done to ensure that we're able to find the offsets for the - like I said, $180 million to $200 million of NIAT that we need to find for the next 3 quarters.

Mario Mendonca - TD Securities Equity Research - MD & Research Analyst

I appreciate that, Raj. I think you were talking there about the tax implications. What I'm thinking more about is client activity. Are clients still active in that equity structured products business that benefited from the tax structure?

Rajagopal Viswanathan - The Bank of Nova Scotia - Group Head & CFO

Yes. I think it's a bit of both, Mario. I think some are waiting for the actual dividend laws to be passed. The activity will definitely come down. And that's why we think that there might be some impact to the revenue, but the biggest impact is to the tax line. Because most of these clients do it because they need the hedging program, right, as you can think about. And - so the cost attached to it will not go up substantially for the benefit that we have had, and we expect that to impact us in the tax line mostly.

Operator

The next question is from Nigel D'Souza from Veritas Investments.

Nigel D'Souza - Veritas Investment Research Corporation - Senior Investment Analyst

I had a minor follow-up on NII sensitivity. I've noticed that the benefit you expect to NII from a 100 basis point decline, that benefit is a bit lower this quarter versus your estimates the prior quarter? Just trying to understand why that item seems to be moving around when the declined NII run rates go up, that's staying relatively stable, just to understand both sides of the interest rate sensitivity here.

Rajagopal Viswanathan - The Bank of Nova Scotia - Group Head & CFO

Sure, Nigel. It's Raj. Let me see if I can help you with that. As you can imagine, the balance sheet evolves every day, right? As we borrow money and we lend money out and depends on the term we do and whether it's variable rate, fixed rate. So that will have a natural change to the structure, the interest rate positioning of the bank, forget about hedging and how we manage it at the treasury level where we talked about how we want to protect the margin. And we want to keep the bank neutral to the 100 basis points, a parallel shift over there.

So you'll see from time to time some, and that's what we're seeing this time. It is simply about more term deposits, for example, in Canada, less mortgages, business mix shifts happen not just here, but also in our corporate commercial book as well. So all these only move it around. There's nothing else to look there, Nigel.

Nigel D'Souza - Veritas Investment Research Corporation - Senior Investment Analyst

Got it. And then just a question on deposit trends. You're seeing an increase in deposit balances in Canadian Banking noted lower discretionary spending. Any comments on what you're seeing in terms of savings rate for households in Canada? And do you expect that to continue to build? Or is there a point where that flips and you start seeing a more meaningful drawdown or runoff of deposits as rates remain elevated?

Aris Bogdaneris - The Bank of Nova Scotia - Group Head of Canadian Banking

Aris here. So on deposits, what we're seeing - last year, we saw the growth, and you heard it from Raj, I think, $30 billion in Canada year-on-year and $6 billion quarter-on-quarter. But what we're seeing is on the day-to-day banking balances and on the savings balances, we're seeing the rotation into term. And that accelerated last quarter, but it's starting to slow down. And we expect to see that continue over the coming quarters as we see consumers increasingly dipping into their day-to-day balances. So on a per customer basis, those balances are shrinking. But overall, the pie is growing, as you see, and the rotation into term as people lock in with the anticipation of rates coming down in the latter part of the year, they're trying to lock into term.

Operator

The next question is from Gabriel Dechaine from National Bank Financial.

Gabriel Dechaine - National Bank Financial, Inc., Research Division - Analyst

Just want to ask about the GBM LatAm performance. You called it out, $372 million, maybe a record quarter. I just want to address this obvious sustainability questions about that performance. What was going on in the market? And then when I juxtapose that performance against your stated objective of reducing capital to that - those activities. I'm just wondering how repeatable this performance is, if at all?

Rajagopal Viswanathan - The Bank of Nova Scotia - Group Head & CFO

It's Raj. I'll start on this. Absolutely, you're right. It is a record quarter, $372 million, fantastic performance across all the countries, Mexico, Peru, Chile, Colombia, Brazil everywhere. And what that reflects, Gabe, is not capital increase. It actually has remained flat to lower. You can see it in our disclosures that our loans are actually down $2 billion in GBM LatAm. And that's part of our capital allocation strategy that we talked about. So we're not deviating from that. This is about having capabilities on the ground, which we have invested over many years and harvesting the opportunities when they come by.

There's been a lot of interest rate changes in those markets, as you know. There's a lot of FX movements that have happened, which gives us the opportunity to both grow capital markets revenue and derivatives as well as in FX trading operations over there, client-driven, obviously.

The third component is there is also significant fee-based income that we have had to - we had the ability to harvest over there. So it's showing up both in business banking revenues as fee income and capital markets revenues for the activities that I described. It's expected to come back. I think our normal run rate expectation for this business is somewhere between $275 million, maybe as high as $300 million in a normal quarter. We'd love to repeat this quarter, every quarter as possible, but we know that it depends on market opportunities, but it's not about deploying more capital in that region.

Francisco Aristeguieta - The Bank of Nova Scotia - Group Head of International Banking

What I would add is a couple of thoughts, Francisco here, real quick. One, this is not a deviation from our strategy. So during the quarter, we have fantastic execution of a very strong pipeline on the fee side. But we also had good trading volatility, allowing us to capture P&L, particularly around effects on rates. And that shows the readiness of the team as Raj mentioned, many years of investment in building these capabilities that we intend to continue to develop on the ground and differentiate ourselves.

The important element also here to highlight is that the client activity in the quarter were very strong. If that were to repeat again, we will be ready again to capture that opportunity with a focus of continued optimization of our capital returns. And that's why you don't see an increase in capital allocation to Latin America this quarter.

Gabriel Dechaine - National Bank Financial, Inc., Research Division - Analyst

Okay. Great. My next question is for Phil on the credit. You called out the Colombia and Peru in your commentary. I'm wondering about Canada actually because that's where we saw the biggest increase in impaired loan loss provisions and the delinquency rates are moving higher, 20 basis points on mortgage. And I don't think they're related necessarily, but the variable rate mortgage book, is there any connection at all between the higher delinquency rates and maybe the affordability of the other credit products that they have?

And if not, can you maybe provide some broader commentary on why the auto loan delinquency rates are picking up? I mean, I know higher rates and all that. But if there's any nuance that you can provide to explain that trend and why it might not get worse? Because it seems like I see that now, why won't repeat next quarter and then one after that.

Philip Thomas - The Bank of Nova Scotia - Group Head & Chief Risk Officer

Sure, Gabe. Happy to take that. There's a lot there to unpack. I'll try to remember the different components. Maybe just to go to first because it is a good bellwether for what's going on from a mortgage perspective in for Canada, for the Canadian banks. So delinquency is up. You are seeing 90-day delinquency up in our mortgage portfolio. It's still below - if you go back to sort of 2020, 2019, it's still below that period, but starting to creep up, as you mentioned.

One of the things we were doing as the results came in was really double-clicking on where the stress is coming from. And it is interesting to note that the VRM customers with other products at the bank have - actually have lower delinquency than the portfolio averages. So what we're finding is the VRM customers still holding on to a deposit cushions, so 2 - as I mentioned in my prepared remarks, 2x the deposit cushion now. But they seem to be managing the balances between their payments quite well. And so delinquency is lower on VRM customers with multiproduct than it is across the portfolio.

Maybe just a pivot there, the second part of the question you asked, which is really around auto. And the interesting thing in that portfolio for you would be, as you recall, during the pandemic, we had lower supply of new auto. And so as a result, there was a pivot to do more used. What we're seeing now is higher delinquency rates coming off the used portfolio rather than the new portfolio. Now that paradigm has shifted as supply chains have come back. And so the portfolio at origination has shifted back more towards new origination, but we're still working through the cohort that was acquired during the pandemic for used customers.

And one of the things, I think, we have a benefit of is really learning and developing some of our tools, particularly around the collections activities from our SDA book, which has obviously a large use component to that portfolio. And so we've been really digging in leveraging collections, best practices from SDA. We've deployed a number of digital tools that are really, really helping customers. And we've seen a 4x improvement in some of our repayment rates since we've been deploying these tools. So there's a lot of activities going on, as you can imagine. But I think the sentiment of your question is the right one.

Gabriel Dechaine - National Bank Financial, Inc., Research Division - Analyst

And if I sneak another one, auto related, any signs of stress in your dealer customers on the commercial side? I mean I'm seeing a lot of F-150 Lightnings on the lots these days, not the single Ford but...

Philip Thomas - The Bank of Nova Scotia - Group Head & Chief Risk Officer

No problems there. There's nothing of significance on my desk on the commercial portfolio.

Operator

The next question is from Darko Mihelic from RBC Capital Markets.

Darko Mihelic - RBC Capital Markets, Research Division - MD & Equity Analyst

Just a couple of quick follow-ups on that, Phil. So sticking with you. With respect to the -- when you mentioned that the variable rate mortgage has 2x deposit cushion, what exactly does that mean? Does that mean that their deposits are still 2x what they were pre-pandemic? Or do you mean something else?

Philip Thomas - The Bank of Nova Scotia - Group Head & Chief Risk Officer

No. It means that they have 2 payments in their deposit accounts.

Darko Mihelic - RBC Capital Markets, Research Division - MD & Equity Analyst

Okay. Okay. That's fair. And - sorry, go ahead.

Philip Thomas - The Bank of Nova Scotia - Group Head & Chief Risk Officer

No, no, I was just going to say, maybe as another sort of indicator on the fixed side, it's about 3.5.

Darko Mihelic - RBC Capital Markets, Research Division - MD & Equity Analyst

Okay. But you mentioned that the delinquency statistics are such that there's very few of the variable rate mortgage customers in the delinquency pool, so they're really coming from the fixed rate. Is that...

Philip Thomas - The Bank of Nova Scotia - Group Head & Chief Risk Officer

No, actually, where we're seeing it is on single-service customers. So those customers with 1 product with the bank tend to have - that's where we're seeing the highest level of stress. And actually, as I was thinking through this, it actually is a testament to the strategy that we put forward last quarter, really focusing on primacy, because actually, what we're seeing is primary customers are running even through this stress period with much less delinquency than single-service customers.

Darko Mihelic - RBC Capital Markets, Research Division - MD & Equity Analyst

So single-service customers and broadly speaking, those are fixed rate?

Philip Thomas - The Bank of Nova Scotia - Group Head & Chief Risk Officer

No, I would say customers with one product with the bank outside of the mortgage portfolio.

Darko Mihelic - RBC Capital Markets, Research Division - MD & Equity Analyst

Okay. But the delinquency numbers are then a mix of - I'm just trying to understand, if we're saying it's 20 basis points of delinquency, what you're suggesting is it's single-service customers, but I still don't understand if the breakdown is variable rate or fixed?

Philip Thomas - The Bank of Nova Scotia - Group Head & Chief Risk Officer

Sorry, Darko. I think there's 2 components here. One as I explained it, what we're seeing is - so there's the entire portfolio and then there's the mortgage portfolio. If I could focus on the mortgage portfolio for a second. We're seeing VRM at 90-plus -- at 26 basis points, fixed at 17. So just to give you a sense of where the delinquency is coming from. But my point on multiproduct is more at the portfolio level. If I step back away from customers without mortgages, this is a single service customers where we're seeing stress in the portfolio.

Darko Mihelic - RBC Capital Markets, Research Division - MD & Equity Analyst

Okay. Okay. That's helpful. And really quickly then, just going back to what you mentioned about Colombia and Peru potentially having some issues. You said you were proactively managing exposures. Can you just put a little color on that? And what should we expect? Should we expect lower balances, some NII impact? Or really, this is just about some sort of portfolio trimming and really just working towards a lower PCL, but no revenue impact?

Philip Thomas - The Bank of Nova Scotia - Group Head & Chief Risk Officer

That's exactly right. And I think what Francisco and myself working with the team have been very focused on collections activities, account management activities. So there has been some tightening at the point of originations. We've been focused on certain tactics as it relates to account management, and there's a heightened focus on specialized collections teams, digital offers, loss mitigation tools, enhanced analytics around segmentation in these markets. And - but I would say, when we look at the numbers, we have seen improvements in the risk-adjusted returns and risk-adjusted margins in these portfolios quarter-over-quarter. So it does seem like we're getting paid for the risk.

Operator

The next question is from Ebrahim Poonawala from Bank of America.

Ebrahim Poonawala - BofA Securities, Research Division - MD of United States Equity Research & Head of North American Banks Research

Just one, I guess, Phil, sticking with you on credit. I think you mentioned that you expect PCLs to peak in the first half driven by international. Just talk to us in terms of ex international in Canada, how you expect PCLs trending? And what are you assuming in terms of the unemployment rate at the end of the year? And shouldn't PCLs - impaired PCLs in Canada continue to worsen through the rest of the year into '25?

Philip Thomas - The Bank of Nova Scotia - Group Head & Chief Risk Officer

Yes. I'll just reiterate that we expect to be within the full year guidance of 45 to 55 basis points for the year. I think the impaired loans will definitely be impacted by rates. And I think as we start to see rate decreases, that will be - there'll be a bit of lag and then we'll start to see that benefit clients, the same way we're seeing it in Latin America.

In terms of unemployment, in the sub-pack here, it's at 6.4%, but we did have a revision down to 6.1%. And I think the full year forecast we have - we're using in our models right now for the base case is around the sort of 6.4%, 6.5% range. As I look at - I'm not sure unemployment is going to be the major driver here because there's a lot of moving parts with immigration. And so we're trying to look beyond the unemployment number and just trying to look at how customers are behaving.

We've been using a lot of our behavioral analytics models to model out consumer behaviors and consumer patterns. We've also been looking at just sort of spend patterns, what people are spending on and how they're transitioning their spend. So there's a lot of variables we're looking at beyond just the unemployment rate here, just given some of the idiosyncratic events happening in the Canadian macroeconomic landscape. As I said earlier to one of the other - answer to one of the other questions, I suspect we'll start to see relief in Canada probably in Q3 into Q4 with a more normalized run rate into the latter half of the year and into the beginning of 2025.

Ebrahim Poonawala - BofA Securities, Research Division - MD of United States Equity Research & Head of North American Banks Research

And one quick follow-up, Phil. In terms of the variables, how much is - how much do you look at the 5-year part of the curve versus the overnight rate? Like where we've been having conversations as if the 5-year stays where it is today, despite BoC rate cuts, does that keep the pressure on the consumer spending, et cetera, through next year? Just if you can talk to the sensitivity between those 2 rates.

Philip M. Thomas - The Bank of Nova Scotia - Group Head & Chief Risk Officer

It's a good question. I think what we'll see is I suspect maybe step back and look at it from a credit perspective. I suspect with the VRM book, you'll start to see some further stress in that portfolio into Q2 into Q3. And it will be really the Bank of Canada rate decreases that will start to pull in and have the biggest impact to the clients.

Operator

The next question is from Sohrab Movahedi from BMO Capital Markets.

Sohrab Movahedi - BMO Capital Markets Equity Research - MD of Financials Research

Two quickies. Raj, overall tax rate has been under 22% for a couple of quarters. What is the right number, do you think, looking ahead?

Rajagopal Viswanathan - The Bank of Nova Scotia - Group Head & CFO

I think we should get to around 21%, I think, in the next couple of quarters, Sohrab. So for the whole year, it will still be probably between 20% and 21%. Lots of moving parts, right, across...

Sohrab Movahedi - BMO Capital Markets Equity Research - MD of Financials Research

And then you called out revenue growth year-over-year, 5%. What do you think that revenue growth is going to look like balance of the year? And what would be the contributors? There's obviously puts and takes. You've got balance sheet kind of maybe RWA optimization, what's happening with fees, NIM? Just get a sense of what that revenue growth of - to look like balance of the year?

Rajagopal Viswanathan - The Bank of Nova Scotia - Group Head & CFO

I think revenue growth should continue to be positive, and I think about it sequentially, obviously, in a shorter quarter, next quarter and ignoring that bit. Because we talked about net interest margin continuing to improve in the bank a basis point on $800 billion of earnings is a simple math over there. We don't expect too much loan growth in Q2, but we expect the second half to be stronger than the first half, sequential growth both in Canada as well as in International Banking.

So that should help with NII. NIR, like you mentioned, fee income and trading operations completely depend upon market opportunities. We've had a great start to the year, which would help for - as we think about the whole year, but sequentially, that's a little hard to predict, as

you can imagine. But revenue growth is something that we expect to see for the remaining 3 quarters across the business lines and therefore, benefit the bank as a full.

GBM is the only one I would be a little cautious because it depends on market activity. But the one I'd call out really is wealth management. As the markets have improved, we have seen quarter-over-quarter improvement in wealth even in Q1. I think that will continue as the markets remain - hopefully get better, particularly with the rate situation, helping our debt portfolio and the assets under management and the equity markets, as they remain strong that would help with wealth revenues. So it should be a good news.

Operator

There are no further questions on the line. I would like to turn back the meeting over to Mr. Raj Viswanathan.

Rajagopal Viswanathan - The Bank of Nova Scotia - Group Head & CFO

Well, thank you very much. On behalf of the entire management team, I want to thank everyone for participating in our call today. We look forward to speaking to you again at our Q2 call in May. This concludes our first quarter results call, and have a great day.

Operator

Thank you. The conference has now ended. Please disconnect your lines at this time, and we thank you for your participation.