SCOTIABANK

Q1 2018 EARNINGS CONFERENCE CALL

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CORPORATE PARTICIPANTS

Brian Johnston Porter
The Bank of Nova Scotia - President, CEO & Director

Sean D. McGuckin
The Bank of Nova Scotia – Group Head & CFO

Daniel Moore
The Bank of Nova Scotia – Executive VP & CRO

James O'Sullivan
The Bank of Nova Scotia – Group Head of Canadian Banking

Ignacio Deschamps
The Bank of Nova Scotia – Group Head of International Banking & Digital Transformation

Dieter Werner Jentsch
The Bank of Nova Scotia – Group Head of Global Banking & Markets

Adam Borgatti
The Bank of Nova Scotia – VP of Investor Relations

CONFERENCE CALL PARTICIPANTS

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

Ebrahim Huseini Poonawala
BofA Merrill Lynch, Research Division - Director

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

Mario Mendonca
TD Securities Equity Research - MD and Research Analyst

Mehmed Rizvanovic
Macquarie Research - Analyst

Meny Grauman
Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research

Nick Stogdill
Crédit Suisse AG, Research Division - Research Analyst

Robert Sedran
CIBC Capital Markets, Research Division - MD & Head of Research

Scott Chan
Canaccord Genuity Limited, Research Division - Director of Research of Financials & Financial Services Analyst

Sohrab Movahedi
BMO Capital Markets Equity Research - Analyst

Stephen Theriault
Eight Capital, Research Division - Principal & Co-Head of Research

PRESENTATION

Adam Borgatti - The Bank of Nova Scotia - VP of Investor Relations

Good morning, and welcome to Scotiabank's 2018 First Quarter Results Presentation. My name is Adam Borgatti, Vice President of Investor Relations. Presenting to you this morning is Brian Porter, Scotiabank's President and Chief Executive Officer; Sean McGuckin, our Chief Financial Officer; and Daniel Moore, our Chief Risk Officer. Following our comments, we'll be glad to take your questions. Also, in the room with us to take questions are Scotiabank's business line group heads: James O'Sullivan from Canadian Banking; Nacho Deschamps from International Banking; and Dieter Jentsch from Global Banking and Markets.

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 Brian Porter.

Brian Johnston Porter - The Bank of Nova Scotia - President & CEO

Thank you, Adam, and good morning, everyone. I'll start on Slide 4. We are very pleased with the bank's strong start to 2018. Scotiabank delivered $2.3 billion in earnings and diluted earnings per share of $1.86 for the quarter, up 18% compared to last year. Our return on equity was strong at 16.2% and within our medium-term objectives. We are increasing our dividend to shareholders by $0.03 to $0.82 per share. This represents an 8% increase over the prior year.

Turning to our business lines, I'd like to make some comments. Canadian Banking had another strong quarter with earnings in excess of $1 billion. The division's performance continues to be supported by growing primary customers, investments in digital banking capabilities to improve the customer experience and reducing structural cost. Taken together, the Canadian bank produced very strong operating leverage.

International Banking delivered another quarter of strong earnings, driven by double-digit loan growth in the Pacific Alliance, positive operating leverage and solid credit quality.

Overall, our Personal and Commercial Banking businesses are generating roughly 80% of Scotiabank's earnings with strong earnings growth and improving return on equity.

Global Banking and Markets also had a solid performance in Q1 with good results across our global equities, foreign exchange and fixed income businesses in the quarter.

At the enterprise level, our structural cost initiatives are progressing well, 1 year ahead of schedule, and the bank generated adjusted operating leverage of 2.9% this quarter.

The bank remains very well capitalized with a strong common equity Tier 1 ratio of 11.2% or 11.75% on a pro forma basis. The bank's strong financial position provides us with optionality to invest in our businesses organically, growth through acquisitions or return capital to our shareholders.

On January 31, we reached an agreement to acquire the consumer and small and medium enterprise operations of Citibank in Colombia. The acquisition positions Banco Colpatria as the leading credit card issuer in Colombia and increases our commercial banking presence. Along with the previously announced BBVA Chile transaction, these acquisitions are fully aligned with our Pacific Alliance strategy and will create value for our shareholders. The quarter's strong performance reflects the ongoing execution of our strategy and building on our momentum to sustainably grow earnings and dividends for our shareholders.

Subsequent to quarter end, we announced our plan to acquire Jarislowsky-Fraser Limited, a leading independent Canadian investment management firm. The firm has approximately $40 billion in assets under management for institutional and ultra-high net worth individuals. Jarislowsky-Fraser has been widely recognized for its disciplined research process and high-caliber team with a proven track record, and we are excited to join forces.

The transaction significantly enhances our institutional investment capabilities and creates the third largest active asset manager in Canada with $166 billion in assets under management. Through this acquisition, we are following through on our strategic commitment to diversify our Global Wealth Management business and build our platform across Canada and the Pacific Alliance.

Before I turn the call over to Sean, I wanted to make a few comments on our All-Bank Investor Day, which we held earlier this month. At our Investor Day, we highlighted some of the transformational work we've done over the past several years to build a much stronger and more competitive bank. Our heavy lifting was focused on 5 key areas that will turn the dial for the bank: achieving alignment across the bank, both strategically and operationally; reshaping our leadership teams and developing a much more performance-oriented culture; being a digital leader by setting aspirational goals and getting the fundamentals right; transforming our cost structure, which is critical to realizing our untapped potential; and strengthening our balance sheet, including an improved funding and liquidity profile. Many of these efforts were front-end loaded, and the benefits are now starting to materialize.

Looking forward, we have 3 key areas of focus: building a superior experience for our customers and increasing our share of primary customers; harnessing our untapped potential, including organic growth, leveraging our partnerships and making better use of our scale and geographic footprint; and strengthening the core of the bank by developing deeper capabilities and enhancing controls. These focus areas are all underpinned by our digital strategy, which is the connective tissue across the bank.

Finally, we raised our medium-term EPS growth objective to 7%-plus, reflecting the quality of the opportunities we see in front of us and our increased confidence in seizing them.

I will now turn the call over to Sean to discuss our financial performance and will return with some closing remarks.

Sean D. McGuckin - The Bank of Nova Scotia - Group Head & CFO

Thanks, Brian. I will begin on Slide 8, which shows our key financial performance metrics for Q1 2018. The bank reported diluted earnings per share of $1.86, up 18% year-over-year. Included in our results is an employee benefits remeasurement credit, resulting in $150 million of net income or $0.12 of diluted EPS. Our core retail and commercial banking businesses reported double-digit earnings growth, and Global Banking and Markets delivered a strong recovery versus last quarter, up 16%.

Revenue growth was up 3% from Q1 of last year or almost 6% adjusting for the impact of foreign currency translation and the impact of the sale of HollisWealth last year. Net interest income was up 8% from strong growth in retail and commercial lending in Canada and internationally as well as higher deposits. The core banking margin was up 6 basis points compared to last year. On an adjusted basis, non-interest revenues grew at a more modest pace as good fee and commission and insurance growth was partly offset by lower trading revenues and lower real estate and securities gains.

Expenses were down 5% on a reported basis, primarily due to the aforementioned benefits remeasurement credit. Adjusting further for the impact of foreign currency translation and the impact of the sale of HollisWealth last year, expenses were up 3%. Higher investments in technology, digital banking, employee-related cost and professional fees were partly offset by continued cost-reduction initiatives.

The bank delivered strong positive operating leverage this quarter, further improving the bank's productivity ratio. The credit quality of our portfolios remain stable, with the provision for credit loss, or PCL ratio on impaired loans of 43 basis points versus 45 basis points last year. There was a modest net reversal of provisions on performing loans of $20 million from improved credit quality and when combined with provisions on impaired loans, resulted in a PCL ratio of 42 basis points.

On Slide 9, we provide the evolution of our common equity Tier 1 capital ratio over the last quarter. The bank continues to maintain a strong capital position with a common equity Tier 1 ratio of 11.25%. Internal capital generation contributed to roughly 30 basis points of capital improvement, partly offset by strong organic business growth. This quarter was also negatively impacted by the full transitional impact of IFRS 9 of 14 basis points and an additional 10 basis points from the Basel I floor. However, the new Basel II floor is effective in the second quarter, increasing our common equity Tier 1 ratio by 50 basis points or 11.75% on a pro forma basis. CET1 risk-weighted assets increased roughly 2% quarter-over-quarter or $6 billion.

Moving to Slide 10 on IFRS 9. Our current quarter, fiscal Q1/18 is based on IFRS 9. All prior periods were not restated and are based on IAS 39. The transition net reduction to equity was $610 million. And as I mentioned earlier, the common equity Tier 1 capital impact was negative 14 basis points. The Q1 total provision for credit losses included a net reversal of $20 million on performing loans, also known as Stage 1 and Stage 2, due mainly to credit quality improvements in the Canadian Banking and Global Banking and Markets portfolios, primarily in commercial and corporate provisions. We saw minimal changes to our gross impaired loans as a result of IFRS 9. As part of our transition to IFRS 9, certain allowances previously attributed to impaired retail loans are now attributed to performing retail loans.

Turning to the business line results beginning on Slide 11. Canadian Banking produced a strong quarter with net income of $1.1 billion, up 12% year-over-year. The results reflect strong asset growth, margin expansion, improved credit performance and positive operating leverage.

Total revenues were up 4% from last year, driven by net interest income growth of 7%, partly offset by the impact of the HollisWealth sale last year. Loans and acceptances increased 7% from last year. Residential mortgage growth was up 6%, and business loans were up a strong 14%. Provision for credit losses on impaired loans improved 3 basis points year-over-year and was stable quarter-over-quarter.

Expenses were well controlled and decreased 2% year-over-year. Higher investments in technology, digital and regulatory initiatives were more than offset by continued progress on our cost-reduction initiatives and the impact of the HollisWealth sale last year. Canadian Banking delivered strong positive operating leverage, driving an improvement in the productivity ratio to 48.6%.

Turning to the next slide on International Banking. Earnings of $667 million in Q1 were up 16% year-over-year or 18% adjusting for the impact of foreign currency translation.

My comments to follow on International Banking are on a constant-currency basis. Q1 results reflected strong asset and deposit growth, positive operating leverage and lower taxes. Revenues grew 7% with net interest income up 8%, including a 12% increase in Latin America. Loans grew by 11% compared to a year ago, led by the Latin American region growing by 16%. The net interest margin of 4.66% was down 7 basis points year-over-year, mainly driven by changes in business mix. The margin was stable with the previous quarter.

The loan loss ratio on impaired loans was up 4 basis points year-over-year. Excluding acquisition-related benefit last year, the underlying loan loss ratio on impaired loans improved versus both last year and the previous quarter. Expenses were up 3% as higher business volume growth, inflation cost and increased technology and digital investments were partly offset by cost-reduction initiatives. Operating leverage was strong, a positive 4% leading to an improvement in the productivity ratio.

Moving to Slide 13, Global Banking and Markets. Net income of $454 million was down 3% compared to last year, primarily due to the impact of foreign currency translation. Higher contributions from corporate banking, global equities and investment banking were offset by lower global fixed income. On a quarter-over-quarter basis, net income increased 16%. These markets were more constructive. All-bank trading revenues on a taxable-equivalent basis nearly doubled Q4/17 levels but were down 17% year-over-year. Revenues were down 2%

year-over-year reflecting lower global fixed income and precious metals trading revenues. However, net interest income was up 13%, mainly from higher loan fees as well as higher deposit volumes and lending margins.

The PCL ratio on impaired loans reflected a net reversal of 1 basis point, an improvement of 5 basis points quarter-over-quarter and year-over-year. Expense growth was up 2% year-over-year, driven by higher regulatory and technology costs, partly offset by lower performance-related in share-based compensation and the positive impact of foreign currency translation.

I'll now turn to the Other segment on Slide 14, which incorporates results of Group Treasury, smaller operating units and certain corporate adjustments. The results include the net impact of asset and liability management activities. The Other segment reported net income of $56 million this quarter. Earnings in this segment included the employee benefits remeasurement credit I referred to earlier, partly offsetting were lower gains on investment securities and higher expenses. This completes my review of our financial results.

I'll now turn it over to Daniel, who will discuss the risk management.

Daniel Moore - The Bank of Nova Scotia - Executive VP & CRO

Thank you, Sean. I'll turn now to Slide 15. We continue to remain comfortable with the fundamentals of the bank's risk portfolios. Our PCL ratio on impaired loans or what is referred to as Stage 3 in IFRS 9 terminology, was 43 basis points, increasing 1 basis point from last quarter but improving by 2 basis points from the same quarter last year. On an IFRS 9 basis, our all-bank PCL ratio is 42 basis points and reflects a $20 million net reversal on performing loans that Sean spoke to earlier. Overall, we are seeing improvements in the PCL ratios across our personal and commercial banking businesses in Canada and internationally.

Specifically in Canada, delinquency rates improved from prior periods across all of our retail product categories. Our residential mortgage portfolio is of high quality and lower risk. 48% is insured, and the uninsured portfolio has an average loan to value ratio of 53%, providing a substantial equity buffer. New originations this quarter continue to reflect an average loan to value of 64%, consistent with prior levels. These results are based on strong underwriting and credit margin practices we have in place, and we maintain consistent mortgage adjudication standards across all of our origination channels.

Moving on to International Banking. We continue to see good credit quality trends. Retail performance was generally stable to improving across Mexico, Peru and Colombia. In the Caribbean and Central America region and Chile, the results were impacted by the benefits from acquisition adjustments, which are no longer recognized.

We continue to monitor the impacts of customer assistance programs, which are impacted by natural events, and growth in unsecured lending across our international footprint. However, our portfolio is stable and within our risk appetite.

In Global Banking and Markets, we experienced reversals in both performing and impaired loans, largely related to improved credit quality in the energy sector.

Now looking at our credit metrics. Gross impaired loans were generally stable at roughly $5 billion.

Turning to Slide 17, you can see the recent trend in loss rates for each of our businesses. Here again, I draw your attention to PCLs on impaired loans, or Stage 3, for purposes of conformity to IAS 39 and as we move to a more robust measure going forward. Canadian Banking's credit losses are consistent with prior quarters. International Banking's credit losses improved 9 basis points over last quarter from 134 basis points to 125 basis points, excluding prior acquisition benefits under IAS 39. Overall, we believe our credit portfolios continue to reflect broad diversification, and notwithstanding the expected impact around the adoption of IFRS 9 standards, as Sean discussed, our underlying performance remains strong.

Turning to Slide 18. You can see the recent trend in net write-off rates for each of our businesses. As discussed during our recent all-bank Investor Day, we believe it is important to distinguish between accounting and the economic performance, and we believe our net write-off experience is indicative of that economic performance. Looking over the last 5 quarters, our net write-off ratio has been relatively stable, and we would expect that trend to continue.

I'll now turn the call back over to Brian.

Brian Johnston Porter - The Bank of Nova Scotia - President & CEO

Thank you, Daniel. I'd like to highlight some of the key takeaways from our presentation and comment on the outlook for Scotiabank. We delivered strong results to start the year, continuing the momentum we built over the last year. In Canada, we continue to target revenue growth through increasing the number of primary customers and investing in digital capabilities, while maintaining a sharp focus on improving productivity.

For the international bank, we continue to see great potential across the Pacific Alliance countries as we diversify our presence in key markets and leverage our footprint to improve connectivity. More specifically, we are seeing strong global growth that we anticipate will be a tailwind for our international businesses. A strong U.S. economy always benefits U.S. trading partners, and an increase in U.S. output typically leads to significant increases in GDP growth in LatAm, as we see in the current forecast for our key markets.

NAFTA negotiations continue, and we remain hopeful that parties can reach a modernized agreement. However, as we have said before, we are confident in our footprint and particularly, in the resilience of the Mexican market. To give some context, the private sector in Mexico grew approximately 3% last year, and given the country's extensive network of free-trade agreements, Mexico is well positioned to adjust to any NAFTA outcome.

In Global Banking and Markets, we are expanding our investment banking capabilities to continue to improve results. We continue to transform the bank digitally, and we are making further investments to re-design and streamline processes to make us more efficient, enhance the customer experience and support our growth efforts to grow primary customers.

Our capital position remains strong, allowing us to make strategic investments to grow our businesses and support higher returns of capital to shareholders, as evidenced by our increase in the dividend. We have many areas of untapped potential, and we are very optimistic about the bank's future.

I will now turn the call back to Sean for the Q&A.

Sean D. McGuckin - The Bank of Nova Scotia - Group Head & CFO

Thanks, Brian. That concludes our prepared remarks. So now we'll be pleased to take your questions. Operator, can we have the first question on the phone, please?

QUESTIONS AND ANSWERS

Operator

Yes, our first question comes from Robert Sedran of CIBC Capital Markets.

Robert Sedran - CIBC Capital Markets, Research Division - MD & Head of Research

I actually just wanted to ask about the shares you intended to repurchase after Jarislowsky's deal closed. Is there any reason why you would not wait until that deal actually closes to do that. And I guess, where I'm coming from, Brian, is that it feels like after Colombia, Chile and Jarislowsky, you're likely to land somewhere around an 11% CET1 ratio. And I'm just curious if we're still seeing a little bit of creep higher in terms of the operating level toward that 11% level rather than something lower in the mid-10s.

Sean D. McGuckin - The Bank of Nova Scotia - Group Head & CFO

Yes, it's Sean. I'll take that one, Rob. So after the acquisitions, which will take place in a couple of quarters, you're right, after some capital accretion over the next couple of quarters, we expect to be in or around 11%. In terms of the buying back of shares related to the Jarislowsky-Fraser transaction, we will look to start that in due course. We will try to be opportunistic in terms of finding the right price level to buy that back. But as we've said before, being around 11% or towards the higher end of our peer group gives us flexibility optionality. You may find us, for acquisition purposes, dipping a bit below 11%. But I think we're comfortable kind of targeting in or around that 11% and being towards the higher end of our peers.

Operator

We'll now take our next question from Mario Mendonca of TD Securities.

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

Sean, and maybe Daniel, the concerns about the Canadian housing market have resurfaced with a bit of a vengeance recently, and we're hearing it from a lot of different quarters. One theme or talking point, in particular, is the potential for more than just a modest amount of mortgage fraud in the country. Could you speak to what the bank does to both prevent and monitor and detect mortgage fraud? And what your experience has been so far in terms of what have you actually seen? What have your tests and all the work you've done, what has it uncovered about mortgage fraud for Scotia?

Daniel Moore - The Bank of Nova Scotia - Executive VP & CRO

That's all? I'll ask James O'Sullivan to answer that question.

James O'Sullivan - The Bank of Nova Scotia - Group Head of Canadian Banking

Yes. So Mario, a few thoughts. First, as you well know, we have, of course, 3 distribution channels, and we have the exact same adjudication standards across those 3 channels with the same independent oversight led by Daniel Moore's risk team. And I do think the quality of the portfolio overall is probably best reflected in the delinquency ratio. And to be specific there, that delinquency ratio reached a record low in Q1 of 57 basis points. It was down quite markedly year-over-year. And I'd say, Mario, if we think about B20 and progress we've made as a bank and as an industry, we've made a lot of enhancements over the past few years to our underwriting policies, whether it's risk score thresholds, whether it's income verification, there has been an awful lot of progress made in just tightening the whole thing up. And the other thing I'd point out is even our broker channel and in our direct sales force channel, we have specific clawbacks for credit and fraud issues. And so if we look at fraud, we have not seen an increase in fraud. In fact, it has been quite stable for some time, and Daniel may want to add to that.

Daniel Moore - The Bank of Nova Scotia - Executive VP & CRO

No, I'll just backstop what you said, James. We apply the same process to our mortgages coming from all channels. And we continue to adjudicate and have our credit policies in line with the risk appetite. We monitor the delinquency rate very closely, as an early warning indicator. And whether that's 30 days or 90-day delinquency, we've actually seen it on a positive and improving trend over the last number of quarters. So we're very comfortable with our portfolio, Mario.

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

Now we all know that you can have very low delinquencies and fraud at the same time. I mean, those 2 can happen simultaneously. So in the work you've done so far in reviewing it, is there anything you can offer in terms of the propensity for fraud in your mortgage book? And any differences you've seen between broker-distributed mortgages – and what I'm referring to is the intensity of fraud, the level of fraud in the mortgages originated by Scotia proper and by the broker channels separately?

Sean D. McGuckin - The Bank of Nova Scotia - Group Head & CFO

Mario, for as long as I've been in this chair, there has been no distinguishable trends amongst or across those 3 channels. And look, we have, as you'd expect, a significant fraud management unit. And again, as long as I've been on this chair, mortgage fraud has not been a topic. We do have frauds. We have them every quarter. But mortgages has not surfaced as a product where we have seen any meaningful amount of fraud whatsoever.

Operator

We will now take our next question from Ebrahim Poonawala from Bank of America Merrill Lynch.

Ebrahim Huseini Poonawala - BofA Merrill Lynch, Research Division - Director

I was wondering if you can just talk about the outlook for the margin. Have you seen the margin in Canadian P&C flatline for the last few quarters? I would love to get sort of your outlook there relative to what you expect the BOC to do this year? And also in terms of the International Banking margin, do you expect that to continue to trend lower? Or what your expectations are?

James O'Sullivan - The Bank of Nova Scotia - Group Head of Canadian Banking

All right, it's James. I'll start with the Canadian Banking margin. So margin, this quarter at 2.41%, it continues to improve, up 2 basis points year-over-year. Look, it's challenging to forecast as you know there are many moving pieces, but the direction clearly is up. To be more specific, over the balance of this year, assuming there's no further rate increases, we'd expect to see a further increase in the Canadian Banking margin, up to 5 basis points. Roughly, each 25 basis point increase in the Bank of Canada rate is worth roughly $60 million to $70 million to Canadian Banking kind of pre-tax. After-tax and after some basis risk, it's less than that obviously. But that's a bit of a sense of the sensitivity of Canadian Banking and the outlook as the year progresses.

Ignacio Deschamps - The Bank of Nova Scotia - Group Head of International Banking & Digital Transformation

In terms of – and this is Nacho. In terms of International Banking, on a quarter-over-quarter basis, our NIM was stable. And although there are many components that James says and more given the international franchise, really the main driver that is leading to some variation is the mix of commercial and retail growth. And year-over-year, commercial has grown faster than retail, that is the main component. More importantly, we see our underlying risk-adjusted margin as stable. And we expect our risk-adjusted margin to remain stable in the medium-term.

Ebrahim Huseini Poonawala - BofA Merrill Lynch, Research Division - Director

Got it. And just to follow-up, James, in terms of when you think about each rate hike, what are your expectations in terms of the longer-term rates and how impactful are those going to be in the $65 million to $70 million that you mentioned?

Sean D. McGuckin - The Bank of Nova Scotia - Group Head & CFO

I'll take that one. So obviously, there's fund transfer pricing between the center so as long-term interest rates go higher, they will over time get higher value of capital ascribed to that division. So they will benefit from the near-term rate increases and over time, the longer-term rate increases.

Operator

Our next question comes from Gabriel Dechaine of National Bank Financial.

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

I just want to go to Slide 17 there and the impact of IFRS 9 through the results for this quarter. And in the international business, I see you released some Stage 2 provisions in your commercial portfolio and then added to the retail portfolio. Can you talk a bit about what changed in your outlook for these portfolios?

Daniel Moore - The Bank of Nova Scotia - Executive VP & CRO

I can speak to that. This is Daniel Moore. In the International Banking side, we had an increase in our retail portfolio from Stage 1 to 2 due to asset growth, strong asset growth, which was supported by good risk-adjusted margins. On the commercial side, there's release, and Stage 1, 2 have to do with improved quality, which was consistent with the release we had in Canadian Banking and in GBM, which is overall driven by credit quality.

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

So the retail change and the book growth, I guess, is that a particular portfolio that has higher expected losses on it or what?

Daniel Moore - The Bank of Nova Scotia - Executive VP & CRO

No. Bear in mind that there's a number of factors that go into these Stage 1, 2 calculations. It has gotten more complicated than the previous standard. Those 3 primary factors would be: outright stock change of the portfolio that we saw in growth; credit quality changes; and economic indicator changes. And here, we're really seeing volume growth within the retail portfolio.

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

Very good, helpful. And the other one to sneak in there. Your Canadian margin was flat for the past year or so, and now we're focusing on risk-adjusted margin, which is great. But I just want to get a sense of why – and it looks to be coming mostly from loan spread compression despite double-digit commercial loan growth, despite your card and personal balances, still growing at a pretty healthy rate. So why are we seeing that level of spread – or where is it coming from, I guess?

Sean D. McGuckin - The Bank of Nova Scotia - Group Head & CFO

What I would say, quarter-over-quarter, we've seen expansion in deposit margin as you mentioned, primarily because of the recent Bank of Canada hikes. We have seen some asset compression. These spreads on mortgages was a bit tighter in Q1 as the longer-term funding rates were moving up faster than the repricing of the assets. Over the next couple of quarters, we'd like to see that reverse somewhat. So again, as James mentioned, we would expect our margins in Canadian Banking over the coming year to grow upwards of 5 basis points towards the end of the year.

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

And did you have an Interac gain?

Sean D. McGuckin - The Bank of Nova Scotia - Group Head & CFO

We did have a gain on that this quarter, yes.

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

About $30 million?

Sean D. McGuckin - The Bank of Nova Scotia - Group Head & CFO

It was around that level. But it's important to note that the lower real estate gains recorded in Canadian Banking this quarter year-over-year was offset by those Interac gains. So the underlying performance of Canadian Banking of 12% is the true underlying performance.

Operator

We'll take our next question from Mr. Doug Young of Desjardins Capital Markets.

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

I guess, this question is probably for Nacho. But Latin America earnings were up 20% year-over-year. I'm just hoping you can flesh that out a little bit in terms of what you're seeing in some of the divisions. And specifically Colombia, I know you've done the recent acquisition of Citi or doing the recent acquisition of Citi's business, but I know Colombia has been an area that has been a bit more challenged. I just wanted to see if you're seeing a bit of a reversal there as well.

Ignacio Deschamps - The Bank of Nova Scotia - Group Head of International Banking & Digital Transformation

Thank you. Well, I'm very pleased with the quarter. It's really across the lines, and we have a very strong performance in International Banking, particularly in the Pacific Alliance countries, double-digit growth, strong deposit growth, revenues growing at 11%. And a structural cost also under control and improving with a very strong operating leverage. I would say as you saw the performance of Mexico, it's very strong. The performance of Chile is very strong. And Peru too, even considering the softer economy this year. In the case of Colombia, is Colombia coming out of a difficult economic cycle of commodities and high inflation, we are seeing better trends. Most of the financial system in Colombia has been affected by higher PCLs. What we are encouraged to see is that the underlying performance of Colombia is growing around 15%, and we expect Colombia to have better results in 2018 compared to 2017.

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

And was there anything unusual or any benefits that came through in the quarter and any of those? I think Mexico had a bit of a tax gain. I don't know if you'd quantify that. But is there anything else unusual that flowed through in the quarter?

Ignacio Deschamps - The Bank of Nova Scotia - Group Head of International Banking & Digital Transformation

We have a very positive developments in the quarter across the footprint. But even if you consider our performance, the Pacific Alliance earnings before tax is growing 17%. We had a very strong quarter in capital markets and corporates revenue in Chile, very strong wealth business, particularly in Mexico, due to a repatriation program. So you must say a solid quarter across the lines.

Operator

Your next question comes from Meny Grauman of Cormark Securities.

Meny Grauman - Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research

We know that there was a pickup in trading volatility towards the end of the quarter. But looking at Slide 36, it just caught my eye that the spike up in trading revenue towards the end of the quarter and then immediately coming down and kind of trending down. So I wondering if you could comment on that. Is there anything that's notable going on there specifically? And then just the outlook for trading so far in the second quarter?

Dieter Werner Jentsch - The Bank of Nova Scotia - Group Head of Global Banking & Markets

It's Dieter Jentsch. The first 2 months of the quarter were relatively soft in terms of volatility that we saw in the prior quarter. And it really picked up in January. We saw the Bank of Canada increase its rate, and so you saw lots of trading activity take place. As a matter of fact, probably 2/3 of the trading revenue pickup was in the month of January. And then the equity markets began a little bit of volatility near the end of the quarter and into February, and you saw it come down a little bit. But what we're seeing now is that the overall markets are more constructive. And once we see more of a calmer wave of the equity markets, we see the market actually being quite constructive to ongoing trading revenues.

Meny Grauman - Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research

And just a related question on Mocatta, there were some news, I think, late last year about a potential sale and some rumors about a buyer. I'm wondering if there's any update there on that. Have you changed your view of that business at all?

Brian Johnston Porter - The Bank of Nova Scotia - President & CEO

Well, we recently concluded a strategic review of this business, and I'm pleased to confirm that most of our key services in our key markets to our key clients will be continuing. But that said, we will be exiting some markets, we will be simplifying our product suite and we'll be much more judicious about our allocation of capital and liquidity.

Operator

Your next question comes from Sohrab Movahedi of BMO Capital Markets.

Sohrab Movahedi - BMO Capital Markets Equity Research - Analyst

Just a quick question for Daniel. I mean when you look at under IFRS 9 with combined Stages 1, 2 and 3, I guess, if you have any thoughts on the outlook for the combined PCL and then the level of volatility that you may expect to see out of the Stage 1, 2, let's say, over the next 4 to 6 quarters?

Daniel Moore - The Bank of Nova Scotia - Executive VP & CRO

Sure. Thank you, Sohrab. I would say that with respect to Q1, obviously, we had muted volatility, particularly Stage 1, 2 volatility this quarter, which was consistent with both the strong economic performance that we had in the quarter as well as the improved credit quality that we had overall in our book. And that credit quality has been driven by our continued focus on originating A and B customers and increasing collections and analytical capabilities across retail and upgrading the portfolio across our corporate book. Under IFRS 9, it's certainly going to be the case that PCL movements are going to be more sensitive to economic cycles and more volatile going forward, especially that in Stage 1 and 2. We will continue to draw your attention to the Stage 3, the provision on impaired loans as we think that's a more robust measure going forward. But as an overall comment, I would say that we feel that we will continue to be, as we've always been, prudent on our reserves and appropriately conservative on our methodologies.

Sohrab Movahedi - BMO Capital Markets Equity Research - Analyst

Sorry, Daniel, if I could just follow up on that. I mean, I would have thought with your geographic footprint and your exposure – as business exposure to a multitude of economic cycles and different jurisdictions, the volatility at least on a relative to the peer basis should be more moderate. Is that a fair supposition on my part?

Daniel Moore - The Bank of Nova Scotia - Executive VP & CRO

I think, again, it'll be driven by a number of factors. So we do think that from an overall perspective and this is a comment away from IFRS 9, Sohrab, that the strength and diversity of our platform is the real strength to our overall business model. It's something that we're very passionate about and is core to our strategy. The go-forward Stage 1, 2 volatility will be driven by a variety factors. Those include economic factors and growth and performance of the portfolio. But it would be our expectation that in the long run, that our diversity would be a strength, both vis-à-vis IFRS 9 as well as generally.

Sohrab Movahedi - BMO Capital Markets Equity Research - Analyst

Okay. So you're not going to manage the way you run the business any differently if you see undue volatility, is that what you're saying?

Daniel Moore - The Bank of Nova Scotia - Executive VP & CRO

That is correct. We will continue our focus on robust measures and on the set of credit metrics and risk appetite that we've always had.

Operator

Your next question comes from Nick Stogdill of Crédit Suisse.

Nick Stogdill - Crédit Suisse AG, Research Division - Research Analyst

First, just a quick follow-up on the $20 million benefit on the Stage 1 and 2 loans under IFRS 9. Is improvement in Colombia driving any of that benefit? And can Colombia get better from here? Meaning, we could see more, I guess, improvements in Stage 1 and 2 in 2018 on Colombian market.

Daniel Moore - The Bank of Nova Scotia - Executive VP & CRO

So overall, we're very pleased with the performance of our Colombia portfolio. And as you know, we spent a lot of attention and energy to upgrade our technology, our people and our strategies throughout the course of the year. And that's paid dividends, not to mention, we had a turnaround in delinquencies, 13 basis points improvement quarter-over-quarter and in vintages, 71 basis points quarter-over-quarter. And that's been declining over the past several quarters. So from a go-forward perspective, I agree with Nacho that we would have a cautious outlook, given that we have presidential elections and we have the seasonality effects coming after elections, but we would expect that we would have a cautiously stable outlook vis-à-vis Colombia going forward.

Ignacio Deschamps - The Bank of Nova Scotia - Group Head of International Banking & Digital Transformation

Okay. I'll just add. If you're looking at the Colombia performance on Slide 34, the improvement is primarily Stage 3, not so much Stage 1 or 2. We are seeing improvement in the credit quality in Colombia.

Nick Stogdill - Crédit Suisse AG, Research Division - Research Analyst

So if Colombia, the economic environment did improve this year, we could see maybe better performance in Stage 1 and 2 in that market, I guess?

Daniel Moore - The Bank of Nova Scotia - Executive VP & CRO

If all else being equal, that would be correct.

Nick Stogdill - Crédit Suisse AG, Research Division - Research Analyst

Okay, great. So my second question, just quickly for James on business banking in Canada. Your loan growth continues to accelerate, which I know is a specific focus for the business. Can you just give us a sense on what regions and industries are driving the acceleration in business growth?

James O'Sullivan - The Bank of Nova Scotia - Group Head of Canadian Banking

Yes. Sure, happy to. So on commercial, look, it was a strong quarter and a very strong start to the year. We've got momentum in this business. So as I've said before, if you think about it geographically, we've had a big push out west in B.C., in particular. If you think about it sectorally, agriculture is a sector that we've wanted to be a more significant participant in, and we're doing that. But more broadly, I mean, what's driving all of this growth would be growth in customers' working capital needs. There are investments in plant and equipment, there's commercial real estate development in the portfolio and there is business succession as well. So I think it's fairly well diversified, but if I had to pick a region, it would be B.C. and if I have to pick a sector, ag is something that we're focused on. So 13% growth year-over-year, and assets 12% growth year-over-year in deposits, that business is doing very well.

Operator

Your next question is from Scott Chan of Canaccord Genuity.

Scott Chan - Canaccord Genuity Limited, Research Division - Director of Research of Financials & Financial Services Analyst

If I look at the Jarislowsky transaction, $40 billion of assets, 77% institutional, 23% ultra-high net worth. What client segment attracted you more to the transaction of JF? Or is it both?

James O'Sullivan - The Bank of Nova Scotia - Group Head of Canadian Banking

Well, it's both for sure, Scott. I mean, this really extends our region to 2 customer segments, where we believe we're underpenetrated, institutional and ultra-high net worth. So as Brian has said, we really think that we can build a platform here or use this as a platform. And over time, we'll build a multi asset class investment firm. It will have disciplined investment process. And our goal would be to carry that across our footprint.

Scott Chan - Canaccord Genuity Limited, Research Division - Director of Research of Financials & Financial Services Analyst

And is there a potential, over time to put JF products on the retail side in Canada or internationally?

Brian Johnston Porter - The Bank of Nova Scotia - President & CEO

There is, but we're going to be thoughtful about it. It's an iconic brand. We want to think about how best to leverage that brand, and we're going to want to work with our new partners in making those decisions thoughtfully and carefully.

Operator

Your next question comes from Mike Rizvanovic of Macquarie Capital Markets.

Mehmed Rizvanovic - Macquarie Research - Analyst

Maybe just a quick one for Nacho, I just wanted to go back to your international business and specifically, the Pacific Alliance. Just looking at your Slide 28 and clearly, your results have been very strong, in light of decelerating GDP growth. And I think the commentary in the past has been around anything in the 2% to 3% GDP growth range would be conducive to strong growth in your banking businesses in that region. I'm just wondering, very high level, but what would have to happen to GDP growth before that resilience would, in your view, get tested? How low would it have to go before you start to have maybe some concerns that growth would not be as robust as it's been lately?

Ignacio Deschamps - The Bank of Nova Scotia - Group Head of International Banking & Digital Transformation

Well, I think the factor there that I assess very positively our outlook for International Banking is that the low level of credit and banking penetration across the Pacific Alliance countries. In general, the past decade, there has been a factor of 2 or 3x growth of banking and lending in the Pacific Alliance countries, and that had been very consistent on average. So the good news is that we are seeing right now an improvement as you mentioned, for the outlook in GDP growth for the 4 Pacific Alliance countries in 2018. So I would say, it's quite resilient because of this bonus of low credit and banking penetration.

Mehmed Rizvanovic - Macquarie Research - Analyst

Okay. And then to the upside if you do get a much better GDP growth, is it fair to say that the correlation is not necessarily that high? You just mentioned the 3x GDP growth so if you do see Chile get back to that 3% or 4% range, is it fair to say that maybe the upside is not quite as significant relative to what you've seen?

Ignacio Deschamps - The Bank of Nova Scotia - Group Head of International Banking & Digital Transformation

It's 2 factors. So the more GDP growth, of course, that has connectivity across the economy. I would say that what we are seeing in the case of Chile, for example, is a lot of strengthening of business confidence. So we would expect our corporate and commercial business to be quite dynamic in the coming years in Chile. But I would say, it is a factor that affects positively our performance.

Operator

Your next question comes from Steve Theriault of Eight Capital.

Stephen Theriault - Eight Capital, Research Division - Principal & Co-Head of Research

Just a quick one from me. Sean, the gains on investment securities, it's the lowest we've seen in a number of years going back at least the last 3 or 4. Can we get some color on that? In particular, I'm wondering if 2017 featured any pull forward of gains that we've seen at, at least one of your peers that could account for a lower run rate this year. Anything IFRS 9-related? How should we think about that? And then going forward, if there's any implications?

Sean D. McGuckin - The Bank of Nova Scotia - Group Head & CFO

Yes, I think we've signaled in the past, Steve, that we would expect security gains to have a lower run rate level than they have in the past. One of the main reasons is IFRS 9. Under IFRS 9, we have, in equities, investment portfolio. If you want the realized gains to go through P&L, you also have to take the unrealized gains through P&L. So we're being very cautious on the volatility to our earnings. So we would expect lower equity gains going forward, but we will still have periodic debt security gains as we manage our treasury portfolios. So overall, we would expect to be running closer to these levels than what we've seen in the past.

Operator

Your next question comes from Sohrab Movahedi of BMO Capital Markets.

Sohrab Movahedi - BMO Capital Markets Equity Research - Analyst

Sorry, Sean, just wanted to reconfirm the expense savings expected to come through from the restructuring initiatives that were started a couple of years ago. Do you still expect to outperform the $550-or-so million in 2018 that you had originally talked about?

Sean D. McGuckin - The Bank of Nova Scotia - Group Head & CFO

Most definitely, we had signaled $200 million additional savings in 2018. We expect to track ahead of that. We've expanded our program beyond the original charge we took in 2016. So we're having a much broader base. And we're still only probably about 60% to 70% through our expense base. We still think this program will continue on for the next couple of years and then some. So yes, definitely we would expect our savings this year to be higher than the $200 million that we've signaled as our plan for 2018.

All right. I believe that's the last call. Again, thank you for joining us on the call. We look forward to talking to you again in May with our Q2 results.