SCOTIABANK

Q3 2018 EARNINGS CONFERENCE CALL

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PRESENTATION

Philip Smith - The Bank of Nova Scotia - SVP of Investor Relations

Good morning, and welcome to Scotiabank's 2018 Third Quarter Results Presentation. My name is Phil Smith, Senior Vice President of Investor Relations. Presenting to you this morning is Brian Porter, Scotiabank's President and Chief Executive Officer; Raj Viswanathan, our acting Chief Financial Officer; and Daniel Moore, our Chief Risk Officer. Following our comments, we will be glad to take your questions. Also present 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, Phil, and good morning, everyone. I'll start on Slide 4. We are pleased to report third quarter results to our shareholders. The quarter included acquisition-related costs, which we have adjusted for in our results. On an adjusted basis, net income was $2.3 billion, up 7% compared to last year. Diluted earnings per share of $1.76 was up 5% from last year, while return on equity was 14.5%. And year-to-date operating leverage was positive 4.7%.

Turning to our businesses lines. Canadian Banking performed well delivering earnings of $1.1 billion, up 9% year-over-year. Results were driven by broad-based asset growth led by commercial and small business banking, credit cards, auto finance and mortgages. Canadian Banking's results also reflect margin expansion, improving credit quality and positive operating leverage. Strong cost management improved Canadian Banking's productivity ratio this quarter and year-to-date, which is on track to achieve its productivity target of 49% or better. In addition, good progress is being made on growing primary customer relationships in both Scotiabank and Tangerine.

International Banking delivered another quarter of very strong earnings, with adjusted earnings up 15% year-over-year driven by double-digit growth in loans and earnings in the Pacific Alliance, solid credit quality and positive operating leverage. Our financial performance in Mexico was very strong again this quarter, reflecting positive economic growth and strong demand across all products. Revenues grew 15% year-over-year and our operating leverage was 900 basis points. This trend is in line with the last 2 years. In that period Mexico has been winning market share, improving the efficiency ratio from 62% to 55% and improving ROE.

Overall, our personal and commercial banking business which generate 80% of Scotiabank's earnings continued to deliver strong growth, positive operating leverage and improving return on equity. Our recent high-quality acquisition will increase scale and market share in key markets as well as enhance the bank's earnings growth and quality. I will provide some additional comments on our recent acquisitions in a moment. Global Banking and Markets continue to deliver consistent earnings. This quarter was marked by increases in net interest income and improving credit quality.

At the enterprise level, we improved the adjusted productivity ratio to 51.8% from 53% and generated strong year-to-date operating leverage. Our digital efforts are progressing well, and we are seeing increasing momentum in digital adoption and sales across our footprint. From an operations perspective, we continue to invest in technology, process improvement and talented people. Our contact centers are our growing sales channel as our digital adoption and sales continue to increase with more than 70 million customer interactions annually.

In summary, this quarter's strong performance reflects the ongoing execution of our strategy to grow organically and through strategic acquisitions, with a focus on achieving greater scale in our key markets, investing in technology and operations to drive productivity gains and enhance the customer experience and to deploy capital strategically, while maintaining strong capital ratios. At this point, we are confident the bank's fiscal 2018 performance will meet our medium-term financial objectives.

Turning to acquisitions for a moment, I'd like to take this opportunity to provide an overview of our recent transactions. The bank has committed or deployed approximately $7 billion in capital this year that will significantly enhance the bank's scale in key markets, grow earnings and improve business mix. We also like the positive impact to earnings quality. The 2 wealth acquisitions, Jarislowsky-Fraser and MD Financial, will both contribute attractive fee income and grow assets under management. Jarislowsky-Fraser strengthens our high net worth franchise and institutional money management capability. It will also allow us to sell additional products to high net worth clients with sophisticated financial needs. The Jarislowsky-Fraser platform will be used for expansion across the bank's footprint.

Combined with our existing operations, the acquisition of MD Financial creates the largest private investment counsel business in Canada. Under our affinity agreement with the Canadian Medical Association, Scotiabank will become the exclusive provider of financial products to a medical community of nearly 110,000 physicians, their family members and employees, which will further grow the bank's primary customer base.

As we've said many times, the Pacific Alliance countries are a key part of our strategy. This quarter, they generated nearly $500 million in earnings on an adjusted basis. And we are strengthening our scale further through acquisitions of BBVA Chile, Citibank's consumer and small business operations in Colombia and Banco Cencosud Peru.

More recently, we have also announced our acquisition of Banco Dominicano del Progreso in the Dominican Republic, a country which has experienced GDP growth of over 5% annually for the past decade. This acquisition doubles our scale and establishes Scotiabank as a third largest private bank in the country. The management team is now focused on integration efforts. We are experienced at integrating businesses and to date, our BBVA Chile acquisition is proceeding ahead of schedule. From an accretion standpoint, we are committed to our prior guidance of adjusted EPS excluding integration costs of approximately $0.15 per share by fiscal 2020. And we expect the common equity Tier 1 capital ratio to reach 11% or better in early fiscal 2019.

I will now turn the call over to Raj to discuss our financial performance.

Rajagopal Viswanathan - The Bank of Nova Scotia - SVP, Interim CFO & Chief Accountant

Things, Brian. I'll begin on Slide 7, which shows our key financial performance metrics for Q3 2018. The bank reported diluted earnings per share of $1.55, down 7% year-over-year. But as Brian noted earlier, our reported results are adjusted for acquisition-related costs. These include the Day 1 PCL on acquired performing loans as required by IFRS 9, integration costs and the amortization of acquisition-related intangible assets, excluding software. On an adjusted basis, diluted earnings per share was $1.76, up 5% year-over-year.

Our core personal and commercial banking businesses reported very strong earnings growth. Based on these results, we are increasing our quarterly dividend to shareholders by $0.03 to $0.85 per share. This represents an 8% increase over the prior year. Revenues increased 4% from last year, driven primarily by solid net interest income growth. Net interest income was up 7% from strong personal and commercial lending growth in the Canadian and International Banking businesses, as well as higher levels of treasury assets and corporate loans in our Global Banking and Markets business segment.

The core banking margin was unchanged versus last year as higher margins in Canadian Banking and Global Banking and Markets were offset by lower margins in International Banking and asset/liability management activities. Non-interest income grew 1% compared to last year due to higher banking and card fees, trading and brokerage revenues and income from associated corporations. These were partly offset by the impact of lower real estate and securities gains, foreign exchange and the net impact of the prior year divestiture and current year acquisitions.

Expenses were up a modest 2% on an adjusted basis, year-over-year due to higher investments in technology, regulatory initiatives, business taxes and other business growth. Partly offsetting were lower share-based payment expenses, advertising and business development costs, foreign exchange and the net impact of the prior divestiture and current year acquisitions as well as cost reduction initiatives. The bank improved its productivity ratio to 51.8%, down 120 basis points year-over-year on an adjusted basis. The year-to-date productivity ratio is now down to 51.1%. Year-to-date operating leverage on an adjusted basis was a strong 4.7%. The credit quality of our portfolios remain solid, with a PCL ratio on impaired loans of 41 basis points, down from 45 basis points last year. There was a net reversal of provisions on performing loans of $20 million and when combined with provisions on impaired loans resulted in an adjusted total PCL ratio of 40 basis points.

On Slide 8, we provide an evolution of our CET1 capital ratio over the last quarter. The bank reported a common equity Tier 1 ratio of 11.4%, down approximately 60 basis points from last quarter. The decrease was driven primarily from the completion of the acquisitions discussed earlier, partly offsetting was the common share issuance in support of the bank's acquisition of MD Financial, net of share repurchases to offset option exercises. The CET1 risk-weighted assets increased 9% quarter-over-quarter, due primarily to acquisitions as well as growth in business and retail lending, mortgages and higher market risk-weighted assets. Taking into account the impact of announced acquisitions to close over the coming quarters, selective non-core divestitures and strong internal capital generation, the capital ratio is expected to grow to 11% in early fiscal 2019.

Turning now to the business line results, beginning on Slide 9. Canadian Banking had a strong quarter with net income of $1.1 billion, up 8% year-over-year or 9% adjusting for the impact of acquisition-related costs. Lower real estate gains reduced earnings growth by 3% year-over-year. The results reflect strong asset growth, margin expansion, improved credit performance and positive operating leverage. Revenues were up 3% from last year, driven by net interest income growth of 8%. The net interest margin was up 5 basis points year-over-year, primarily due to the impact of Bank of Canada rate increases and changes in business mix.

Partly offsetting revenue growth was non-interest income that was down 3% due to the impact of the prior year divestiture net of current year acquisitions and lower real estate gains compared to last year. Loans and acceptances increased 6% from last year. Residential mortgages grew 5%, credit card 6% and business loan growth remained strong at 14%. Residential mortgage growth year-over-year remained good despite the B20 regulations and higher mortgage rates, while the sequential pace of growth moderated. Provision for credit losses on impaired loans improved 7 basis points year-over-year and 4 basis points quarter-over-quarter. Expenses on an adjusted basis increased a modest 1% year-over-year due to continued investments in technology and regulatory initiatives. And the division's adjusted productivity ratio of 48.8% improved 100 basis points year-over-year. The year-to-date adjusted operating leverage was a strong 2.4%

Turning to the next slide on International Banking. Earnings of $519 million in Q3 2018 was down 16% year-over-year on a reported basis. However, adjusted earnings of $715 million were up a strong 15% year-over-year. My comments which follow are on an adjusted and constant-currency basis. Q3 results reflect strong asset and deposit growth in the Pacific Alliance, positive operating leverage and good credit quality. The Pacific Alliance had a very strong quarter with strong net income growth. Revenues grew 9%, including a 15% increase in the Pacific Alliance countries. Loans grew by 10% compared to a year ago, led by the Pacific Alliance region, which grew by 14%. Net interest margin of 4.7% was down 7 basis points year-over-year, primarily due to business mix changes and lower loan rates in Colombia. The provision for credit loss ratio on impaired loans was up 17 basis points year-over-year. Excluding the credit mark benefits last year, the PCL ratio increased 6 basis points. Expenses on an adjusted basis were up 6%, as the impact of strong business volume growth, inflation and higher technology costs were partly offset by the benefits of cost reduction initiatives. Operating leverage on an adjusted basis was a strong positive 3.4% year-to-date, leading to an improvement in the productivity ratio of approximately 170 basis points.

Moving to Slide 11, Global Banking and Markets. Net income of $441 million was in line with last year. Lower income from equities and fixed income businesses was offset by higher corporate and investment banking results and lower provision for loan losses. Trading revenues on a tax equivalent basis were down 11% year-over-year driven by lower interest rate and credit as well as commodities results. Revenues were down 1% year-over-year, mainly reflecting lower non-interest income, partly offset by higher net interest income. Net interest income was up 7% year-over-year, primarily due to higher lending and deposit volumes and an improved deposit margin. Non-interest income was down 4% year-over-year, strong growth in underwriting and advisory fees and the favorable impact of foreign pay exchange was more than offset by lower revenue in our fixed income commodities and equities business. The PCL ratio improved 16 basis points year-over-year. The improvement was driven by reversal of provisions on impaired loans, in the United States and the impact of a higher provision on one Asia account last year. Expenses were up 2% year-over-year, driven by higher regulatory and technology costs, partly offset by lower performance-related compensation. The year-over-year pace of growth on regulatory and technology costs have moderated in line with our expectations.

I'll now turn to the Other segment on Slide 12. This incorporates the results of Group Treasury, smaller operating units and certain corporate adjustments. The results also include the net impact of asset/liability management activities. The Other segment reported a net loss of $107 million this quarter. The net loss in this segment increased year-over-year due to lower gains on the sale of investment securities and lower contributions from asset/liability management activities partly offset by lower non-interest expenses. This now completes my review of our financial results.

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

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

Thank you, Raj. Turning now to Slide 14. We are comfortable with the fundamentals of the bank's risk profile. Our PCL ratio on impaired loans, or what is referred to as Stage 3, was 41 basis points and declined 5 basis points from last quarter and 4 basis points from the same quarter last year.

Considering the total loan book and excluding the Day 1 impact on acquired performing loans, the all-bank PCL ratio declined 2 basis points to 40 basis points versus last quarter and reflected a $20 million net reversal on performing loans, primarily in International Banking, driven by credit quality improvement in the P&C segment generally. Overall, we are seeing stable loan loss rates in our Canadian personal and commercial banking businesses and in International Banking segment. In our Canadian Banking business, lower retail impaired credit losses were driven mainly by lower credit card provisions.

Moving onto International Banking. We continue to see good credit quality trends and the benefits of our diversification. Higher retail impaired losses were in line with volume growth. In Global Banking and Markets, recoveries were driven mainly by impaired provision reversals in the U.S. energy sector. And looking at other credit metrics. Gross impaired loans were generally stable, at roughly $5 billion and the gross impaired loans ratio declined versus last quarter, while net formations of $780 million remained below the 2-year average.

Turning now to Slide 15. Our residential mortgage portfolio is of high quality and lower risk. 45% is insured and the uninsured portfolio has an average loan-to-value of 53%, providing a substantial home equity buffer. New uninsured originations this quarter continue to reflect an average loan-to-value of 63%, consistent with prior levels. Origination volumes did increase relative to last quarter reflecting seasonality, but they declined relative to the same quarter last year. We attribute some of this year-over-year decline to B20 and there were other contributing factors such as the cumulative effect of other regulatory changes as well as rising interest rates. Overall, the mortgage pipeline remains strong. And we reiterate our mid-single-digit mortgage volume growth outlook for the full year.

Turning now to Slide 16. You can see the recent trend in loss rates for each of our businesses. Canadian Banking's impaired credit loss ratio declined 4 basis points versus last quarter. International Banking's impaired PCL ratio declined 5 basis points over the last quarter from 138 basis points to 133, as the impact of the increase in the retail portfolio was more than offset by the improvements in the commercial portfolio. The increase in international retail portfolio provisions were driven by increases in the Caribbean and Chile, partially offset by improvement in Mexico. The current quarter includes a provision for the potential restructuring of Barbados obligations. Adjusting for the Day 1 PCL on the acquisition-related performing loans, International Banking's total PCL ratio increased by a very modest 1 basis point. Overall, our credit portfolios continue to reflect the benefits of broad diversification. And we believe that our underlying performance remains strong.

Turning now to Slide 17. You can see the recent trend in net write-off rates for each of our businesses. Looking over the last 5 quarters, our net write-off ratio has been relatively stable, and we would expect that trend to continue. And in Canadian Banking, we have seen the ratio decline 9 basis points year-over-year, primarily due to improvements in our retail portfolio. Specifically our continued focus on up-tiering customers and our unsecured lending portfolio, coupled with enhanced collection strategies are driving lower delinquencies in our automotive and in our credit card portfolios. And at current levels, our allowances provide us coverage for approximately 9 quarters' worth of net write-offs.

I'll now turn the call back over to Brian for some closing remarks.

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

Thank you, Daniel. I would now like to highlight some of the key themes from today's presentation and discuss our outlook for the bank.

Firstly, we are pleased to have been able to execute on several key acquisitions, all of which will help us to achieve greater scale in our key markets and segments while driving earnings growth and improving both earnings quality and diversification. As I said before, it's difficult to control the timing of acquisitions. We've put ourselves in a position to be a successful acquirer by building capital, developing relationships and establishing partnerships, which allowed us to take advantage of these opportunities when they presented themselves. Our wealth management platform will benefit greatly from the acquisitions of Jarislowsky-Fraser and MD Financial. As a result, our shareholders will benefit from a higher proportion of high-quality recurring revenues. The acquisition of BBVA Chile doubles our presence in the country and creates the third largest private bank in Chile, while our acquisitions in Peru and Colombia enhance our product offering in these attractive growth markets. Collectively, these transactions will enhance the quality and scale of our key businesses and be accretive to the bank's earnings. Going forward, we'll be focused on the integration and execution efforts of these acquisitions.

Secondly, our continued investment in digital, technology, smart automation and process improvement is generating good productivity gains, while simultaneously improving the customer experience. You can clearly see this in our strong productivity improvements, and we are well on our way to achieving an all-bank productivity ratio goal of 50% or better by 2021. Finally, earnings from our well diversified platform will continue to generate strong capital, and we have many areas of untapped potential for further growth. This provides us with the enviable optionality to deploy capital over the long term and continue to grow earnings. In closing, we are taking the steps to realize the full potential of our platform for our customers and our shareholders. We are doing so in an environment of strong economic performance, with a positive outlook from all our key markets.

I will now turn the call back to Raj who will lead the Q&A.

Rajagopal Viswanathan - The Bank of Nova Scotia - SVP, Interim CFO & Chief Accountant

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

QUESTIONS AND ANSWERS

Operator

Our first question comes from Meny Grauman from Cormark Securities.

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

Just a question about the capital markets business and the performance there over a number of quarters. Just wondering, from your perspective, is this just a function of the markets that you're in and just needing the markets to improve? Or is there something more fundamental that you need to address in this business? And are there steps that you're taking to do that if that's the case?

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

Meny, Dieter Jentsch speaking and thank you for the question. We conveyed at the Investor Day that our focus will be on up-tiering our corporate lending relationships and enhancing our advisory practice. And you can see that in our results in corporate banking, in our M&A and underwriting fees, but we also said that we're going to realign some of our trading businesses. The metals business is one of those, and the results reflect our continued realignment of that business, certainly in the trading line. And also you can see that in our interest rate and credit business, we've moved more to the financing side and that shows up in our net fees and commission rather than in trading numbers. So overall, we're realigning those businesses, relying less on the market source funding our trading book. And we continue to focus on really our lending relationships and M&A advisory. We do anticipate Q4, and the markets will generally more constructive in the fall, but the business performing as per our expectations.

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

In terms of that realignment of some of the trading businesses, what kind of time line do you expect there to see more meaningful improvements?

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

Well, on the metals side, we're about halfway through and the market, of course, was softer on the pricing side for metals in this quarter as you know. And so we anticipate that, that revenue stream has stabilized in the coming quarters. So while we're halfway through on the realignment, we anticipate commodity prices will strengthen, which will also bolster client revenues. So we believe the revenues have stabilized, and we look forward to an enhanced and a more constructive quarter coming up.

Operator

Our next question comes from John Aiken from Barclays.

John Aiken - Barclays Bank PLC, Research Division - Director & Senior Analyst

Daniel, in terms of the international provisions that you provided on Slide 33, were showing a recovery in performing in all regions except for Mexico. As we're trying to figure out the impact of IFRS 9 on a go-forward basis, can you give us some flavor as to what's driving the recoveries on the performing? And as well, can you give us an order of magnitude of what potential impact there would be if the trade agreement between Mexico and the U.S. was actually signed and ratified?

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

Yes. Thank you. So regarding our performing loan performance in International Banking generally, it's driven by strong credit quality across our segment, particularly calling out Peru, Colombia and Mexico. We've had some migration from Stage 2 to Stage 3 in Chile and that's a function of how the IFRS 9 mechanics work as they move from performing to non-performing as well as Caribbean impacts. So overall, we are very pleased with our PCL ratio in International Banking. The go-forward growth should be in line with asset growth from the outlook perspective. Regarding the impacts to the recent news on NAFTA, obviously, early days early disclosure on that, but we're pleased to see the forward progress on that. We think the impact from both the North American perspective as well as on our Canadian Mexico footprint is positive, and we look forward to continued momentum on that front. Nacho, anything to add on that?

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

I would stress that our loan growth in Mexico is very solid. Mexico had a very strong quarter, growing loans at 20% so PCLs are growing at similar levels. And with very strong operating leverage, earnings are growing very strong this quarter. I agree that it is a very positive development, the preliminary agreement on NAFTA, and particularly on the automobile provisions that are very important for Mexico. We see both the election, and NAFTA agreement reducing the geopolitical risk for Mexico and Mexico delivering a very strong quarter and very positive for coming quarters too.

Operator

Our next question comes from Doug Young from Desjardins Capital Markets

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

Just wanted to go back to your capital slide and outlook, so the capital Slide 8. And it looks like your internal capital generation in the quarter was 26 basis points. Your risk-weighted asset growth was 29 basis points. So within that context, I know you mentioned market risk increasing, but also book quality increased the risk-weighted assets. So I'm just trying to get a sense, is there any change now that these acquisitions are on your books, any change to the organic CET1 ratio growth that we would expect? And is that in 15 to 20 basis points? And then the second part of it is. If I look at your MD acquisition, your Dominican Republic acquisition, I think the impact that's been quantified is 30 basis points for MD and 10 basis points for Dominican Republic and I look at your 11.4% that suggest you should be closer to 11% at year-end. Am I missing something or are you guys just more erring on the conservative side?

Rajagopal Viswanathan - The Bank of Nova Scotia - SVP, Interim CFO & Chief Accountant

Doug, it's Raj. I'll take those questions. As far as our organic internal capital generation, you're right. It is strong. It remains at 26 basis points thereabout, consistent with prior quarters. Our organic risk-weighted asset growth slightly elevated this quarter because of some market risk opportunities that we had but the more, I would say consistent run rate we'll see going forward would be in the 10 to 15 basis points level, which means we'll generate between 10 to 15 basis points per quarter and increasing as some of these acquisitions start contributing to our results. As far as the MD and DR acquisitions that you mentioned, the MD acquisition, the 30 basis points was net of capital issuance. As you can see the 47 basis points which we have this quarter as capital – through issuance of capital, the next quarter, you'll see the 70 basis points offset when MD closes, which will take us down to 10.7% on a pro forma basis. We expect that when Q4 comes around based on, again, strong internal capital generation in Q4, our capital ratio will be between 10.8% to 10.9% at the end of Q4.

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

And your capital generation outlook doesn't change in the context of the BBVA Chile, the Citibank acquisition. That doesn't have a material impact relative to what you've put up historically. Is that fair?

Rajagopal Viswanathan - The Bank of Nova Scotia - SVP, Interim CFO & Chief Accountant

In the short term, no. For example, BBVA contributed to our earnings about $15 million this quarter after the noncontrolling interest adjustment. As we indicated on the BBVA transaction, it will grow, but you wouldn't see a material impact in Q4, Doug.

Operator

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

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

A quick one on BBVA Chile and then one on the acquisitions. You closed the deal and added $19.9 billion, so about $1 billion more than when you announced the deal. Are you still expecting the same level of erosion, I guess, to the loan book over time as you got it to when you did the deal?

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

This is Nacho. Actually, we are seeing a much less attrition than we expected. Although we computed for some attrition in our models, the pace of the acquisition has been very good. We closed in Q3. We're already operating both banks. We got a merger approval this quarter. And including attrition, we expect our loan book to grow for the combined entity around 6% next year. And so we are seeing, I would say, less attrition than expected. And I have very positive views on the economy for Chile. The economy of Chile is growing at 3.5%, is expected to grow 4% next year, so very timely the economic environment for the acquisition of BBVA Chile. I should also add, I was there recently meeting our leaders. We are acquiring very good talent, and the combined team will be very strong and competitive.

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

Okay. In any case, the bigger picture and this is for Brian. If I look at the accretion guidance for 2020, $0.15. For all these acquisitions, it works out to about call it a mid-single-digit return on invested capital. That's not dissimilar to what I see from other banks when they make acquisitions. I'm just curious to see where you see that ROIC progressing is 10% at double-digits, achievable in the medium-term? Or is it a much longer-term outcome?

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

Well, the big driver in the accretion number is obviously BBVA Chile. The wealth management acquisitions are obviously strategically important. But when we model these acquisitions and look at potential acquisitions, we do like to get to a double-digit ROIC. So you're going to see a double-digit ROIC around year 3, year 4 on BBVA Chile.

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

And then the wealth deals would be much longer term, I suspect?

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

Not too much longer. MD will be around 4.5 to 5 years, and – but that's in sync with what you'd expect from a wealth acquisition, Gabriel.

Operator

Our next question comes from Sohrab Movahedi from BMO Capital Markets.

Sohrab Movahedi - BMO Capital Markets Equity Research - Analyst

Brian, I just wanted to also stay with you, think a bit kind of higher level here. Over the last few years, you've repurposed some capital, deemphasized, I guess, retail wealth going into institutional high net worth. You've done the acquisition in Chile, and it looks like you've reinvested some of the expense savings and the better credit to grow the bank. The pace of acquisition has probably been a little bit quicker than we had anticipated here anyway. So I guess the real question right now is after all this realignment of the management, taking layers out, what have you, what's execution risk over here? I know you're experienced in it. Probably the single biggest risk right now is the execution integration and being able to not only achieve what you've talked about, maybe even over deliver. Is that something that you could comment on a bit?

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

Sure. Well, just to highlight what we've done on the wealth management business. We obviously divested ourselves of CI at higher price levels. We divested ourselves of HollisWealth. We felt the business was a bit skewed towards too retail (inaudible) and we're very proud of those. These are high quality, we would define them as trophy-like assets, and we're very pleased to have been the acquirer. In terms of integrations and acquisitions, we've got very skilled teams on the ground in these countries. And when we go through and look at an acquisition, it's not just what the ROIC or accretion number is, it's what are the social issues, what kind of people are we getting in that business and how difficult is the integration efforts. The wealth transactions will be much simpler from an integration perspective, the back office, mid-office type things. As I said on Jarislowsky-Fraser, we're not touching the business model. The name is iconic, we're keeping the brand, those types of things. James will have a comment on MD Financial in a moment. But part of the reason we got very fast expedited regulatory approval on BBVA Chile is, we have an integration plan. We've been working on, and as I said, you don't necessarily time these acquisitions, but a number of these have been in the works for 2, 3, 4 years, if not longer. So relationships matter, patience matters. And we know on BBVA Chile what the team's doing on Day 13. We know what they're going to do on Day 42, and we know what they're going to do on Day 184. So we've got a very thorough, well thought out integration plan. And we're very highly confident that we'll meet all our targets. And so again, we're a proud acquirer of these key businesses, and we look forward to enhancing the customer experience and rewarding the shareholders. James, to comment on MD.

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

Yes. Just on the MD, Sohrab. I want to be clear on why we like the business. I should say at the outset, there is not another wealth business in this country as we would admire as much as we do MD Financial Management. We like the client base. We like the business model. We like the management team. This is a client base that has complex financial needs and complexity of client needs is something we like. That's what allows us really to add value. We love the business model here. It's built clearly, I think, for where the puck is going, fee-based, discretionary, holistic wealth solutions. And we really admire the management team. This is a business with low operational risk. The advisers and the management team I think are very well aligned. In fact, they've built a business, I'd say, very consistent with where we've been taking Scotia Wealth Management. So it's a business model we know, that we know works. And on the affinity agreement with the CMA, just to clarify, we've entered into a 10-year agreement. We'll invest $115 million under that agreement, and it's going to be invested in a manner consistent with the CMA vision, which is a vibrant profession and a healthy population. In return, the CMA will exclusively position Scotiabank as the preferred provider of financial products.

Operator

Our next question comes from Mario Mendonca from TD Securities.

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

Before I go to my actual question, James, could you just address one quick thing on MD. Is there any reason why this deal may not close in Q4/18, why it might spill into Q1/19?

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

No. Not that I'm aware of Mario. We expect it to close late September.

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

Okay. Just going to domestic retail then, and again, James, and I'm excluding the wealth business from it. The operating leverage was slightly negative this quarter, it's the second consecutive quarter. And my sense is that, in part, this relates to the timing of those branch sales. So could you speak to where we you're at in the branch sales and what that might mean to operating leverage going forward?

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

Sure, happy to. Thanks, Mario. Well, as you know, we disclosed the impact of branch sales, I think, 3 to the past 7 quarters, recognizing that this good program, which in fact has unlocked a fair bit of shareholder value would be lumpy and would one day come to an end. And I think in Q4, it's in fact comes to an end. So then we're assessing the performance of Canadian Banking ex wealth internally, we do adjust for branch sales as you might expect based on that. And so on that basis, we've had positive operating leverage of 80 basis points year-to-date and that contributed to earnings growth on the same basis of 13% year-to-date. So look, the operating leverage, I would say, does reflect elevated expenses in the second quarter. And as we control expense growth and drive revenue growth, I think there's a lot of room for this number to improve. And so let me, if you will, just address expense growth for a moment. So expense growth in P&C banking was 5.8% year-over-year. That's pretty much as we indicated it would be. I think we showed good discipline this quarter in hiring, in terminations, professional fees and project spend. I want you to know that discipline will continue. So when we think about expenses, we start with our Investor Day commitments, medium-term earnings growth of 7% or better and consistent improvements in our productivity ratio. You'll recall, Mario, we laid out specific targets for productivity ratio. We're going to deliver on those targets. So going forward, look, we'll have more to say next quarter on the outlook for 2019. We'll be primarily guided by our commitment to strong positive operating leverage. To be clear though, I'm looking to build on the progress demonstrated this quarter. I'm asking the team to plan for 5% or so and I'll give you an update on that number next quarter.

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

So just to be clear on this then, if the elevated branch sales or that source of revenue dissipates by Q4/18, would it be fair to say that late in 2019 all in, you should start to see operating leverage. And I'm saying, late in 2019 because the level of branch sales certainly diminished in the second half of 2018 is what I'm assuming? Is that a good way to look at it?

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

I don't have that math in front of me, Mario, because I have pretty consistently now for 7 quarters been looking at the core P&C business ex the branch sales. But ex the branch sales, we're looking at strong positive operating leverage going forward.

Operator

Our next question comes from Steve Theriault from Eight Capital.

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

Question for me. Actually first, just a follow-up, I think, for Nacho, in terms of Chile. You talked about being ahead of plan. How long until we'll start hearing about the $150 million to $180 million of synergies working their way? And can you just touch on the timing of it there in the context of things going better so far?

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

Sure. So we expect the integration plan to be executing in 18 months from now. These will allows to pick up NIAT, next year between $50 million to $70 million and the way we see the pace today, we expect this to be on the higher end of that range and to execute of synergies between $150 million and $180 million on the first 2 years of the acquisition.

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

Okay. Then turning to investments securities gains. They've been quite low all year versus last year, probably for Raj. Is there any structural reduction here we should think of in terms of the run rate, or is it just some unlucky downside volatility that will run its course? Anything you could help us with there would be great.

Rajagopal Viswanathan - The Bank of Nova Scotia - SVP, Interim CFO & Chief Accountant

I think the investment securities gains, Steve, has been slightly elevated in Q2 of this year. It's up to about $60 – $66 million. This quarter it's down to what we think as more normalized levels of about $30 million. Based on the positions we hold, many of it's for liquidity purpose and so on. IFRS 9, obviously, changed a lot of what you can do with investment securities gains. So what I would suggest is the $25 million to $30 million is probably a more reasonable run rate quarterly as we look forward.

Operator

Our next question comes from Scott Chan from Canaccord.

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

Yes, maybe for Nacho on the international side again. Just looking at the margin, it seems like the trend is more declining than stable. How do we think about that going forward and how does the BBVA Chile impact that?

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

Well, we have because of the platform, so many countries, some volatility as I mentioned in previous calls in our NIM. But if you see our NIM, it has been quite stable in the past 3 quarters. Even if you look at the past 15 quarters, there is a lot of stability around 470 basis points and the variation we see is mostly due to business mix. In this case, year-over-year it will be the more growth in commercial than retail loans, especially a faster pace of growth of wholesale deposits relative to personal deposits. So other than that, we see our margins stable. As Raj mentioned, in Colombia, there was some compression of margins due to a reduction of the cap rate, but that is going to be normalized as the cost of funds gradually reduce. So overall, we see stability in our margins that combined with very solid loan growth is allowing us to strengthen revenues, growing at 9% for IB and 15% for the Pacific Alliance countries. We can update you on the BBVA Chile acquisition. BBVA Chile has lower margins, $20 billion of assets that has lower margins and will have an impact overall on our NIM, and we can update you off-line about that estimation.

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

Okay. Great. And maybe just a quick modeling for Raj. The estimated integration cost is $200 million to $250 million for '19 and '20. Is that more straight line or is it more front ended?

Rajagopal Viswanathan - The Bank of Nova Scotia - SVP, Interim CFO & Chief Accountant

It will be more straight line over the next 2 years. We think about 50% of those costs being incurred in 2019, so let's say, about $100 million as you look forward. And that number, Scott, to be clear is after taxes and after non-controlling interest. So that's the net number that will impact our earnings per share.

Operator

Our next question comes from Darko Mihelic from RBC Capital Markets.

Darko Mihelic - RBC Capital Markets, LLC, Research Division - Financials Analyst

My question has to do with the Other segment and the asset and liability management activity that occurred that – just beyond sale of securities, just the ALM. What occurred there in the quarter? And is it perhaps that this quarter it was elevated because of acquisitions coming in or was there something else happening that caused a bigger loss in the Other segment?

Rajagopal Viswanathan - The Bank of Nova Scotia - SVP, Interim CFO & Chief Accountant

The other segment overall has had a higher loss this quarter like I indicated before because of lower securities gains, and of course, the asset/liability management activities that I mentioned in my speaking notes. The asset/liability management activity depends, primarily on what we call margin compression. So we have for liquidity purposes a lot of assets that we hold in the corporate segment for LCR ratios and those purposes. So as interest rates change, margin could move up or down on those assets. We continuously reposition our book as we have our outlook relating to interest rates, and it's just that this quarter it had a slightly elevated level of margin compression compared to prior quarters.

Darko Mihelic - RBC Capital Markets, LLC, Research Division - Financials Analyst

So the bulk of it than is the lower gains is the way I should read that?

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

That's correct. Darko, it's Brian. So it's lower security gains, which is a function of IFRS 9, and we have high-quality liquid assets and as interest rates rise that had some compression on prices. But don't read anything into it other than rising rates or credit spreads going out of it.

Darko Mihelic - RBC Capital Markets, LLC, Research Division - Financials Analyst

Okay. That's helpful. And just a real quick follow-up for James. We have heard of some conflicting stories in deposit growth in Canada. Can you maybe talk to the competition out there for deposits and what are your expectations for deposit growth going forward and if you could talk to the competitive environment?

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

Okay. Happy to, Darko. So let's start with kind of how we did. We had again, in our P&C banking business, we had deposit growth this quarter of 4%. So I think that 4% is a solid result, reflecting the focus we've placed on this. Personal deposits were up 3%, non-personal were up 5%. And just as evidence of the focus we have on it and I believe the progress we're making with it, this quarter spot asset growth exceeded – sorry, spot deposit growth exceeded spot asset growth by $1.5 billion. So from our perspective, our focus on this is very much bearing fruit. As we discussed last quarter, there are some perhaps, well, some idiosyncratic, some broader items that are impacting the results for us. The broker deposit book does continue to decline. It's down about 4% year-over-year. And then our wealth business, we've also seen deposits decline. When we sold HollisWealth, there were deposits associated with that business that have to a certain extent run-off. But look, we see lots of opportunity here both on the personal side and on the non-personal side. We're very focused on small business, in particular, on the non-personal side, commercial has been performing very well. But I'd be the first to acknowledge that the environment for deposit gathering is very, very competitive. It wasn't so long ago that we were able to grow deposits faster than we were growing assets. I don't think that it is the current environment. So there will be some delta between asset growth and deposit growth, and we'll have to manage that sensibly. We've got a balance sheet overall, growing in the 6% range, and as I say, personal and commercial banking deposits are sitting at about 4%. So there's a gap. We'll work to narrow that gap over time. This is our #1 focus in retail banking right now.

Rajagopal Viswanathan - The Bank of Nova Scotia - SVP, Interim CFO & Chief Accountant

Thanks, everyone, for participating in our call today and we look forward to speaking with you again in November. Have a great day.