SCOTIABANK

Q2 2019 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 2019 Second Quarter Results Presentation. My name is Philip Smith, Senior Vice President of Investor Relations.

Presenting to you this morning are Brian Porter, Scotiabank's President and Chief Executive Officer; Raj Viswanathan, our Chief Financial Officer; and Daniel Moore, our Chief Risk Officer. Following our comments, we'll be glad to take your questions. Also, present to take questions today are Scotiabank's business line group heads: James O'Sullivan from Canadian Banking; Nacho Deschamps from International Banking; and Jake Lawrence and James Neate 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, and good morning, everyone. Our second quarter results were highlighted by a strong operating performance across all 3 business lines. We achieved strong earnings growth in International Banking, delivered improved results in Global Banking and Markets, demonstrated prudent expense management across the bank and made progress on our comprehensive strategy to derisk and simplify the bank. Global Wealth Management, which we'll report as a stand-alone division of the bank beginning in fiscal 2020, also experienced strong earnings growth and AUM growth. And Canadian Banking delivered positive operating leverage in the quarter. The quarter demonstrated our ability to manage expenses prudently by prioritizing investments, both business and regulatory. This resulted in an improvement in our adjusted productivity ratio to 52.3% for the quarter.

We remain focused on improving our productivity target to achieve positive operating leverage this year. Our strategy to reposition the bank's geographic footprint achieved several key milestones in the quarter. In the Dominican Republic, we completed the acquisition of Banco Dominicano del Progreso as well as the sale of our pension and related insurance businesses. In El Salvador, we announced the sale of our banking and insurance operations. In Asia, we announced a nonbinding MOU to reduce our ownership stake in the combined Thanachart/Thai Military Bank. The net gain on the divestitures announced and closed this quarter contributed $0.11 to reported diluted earnings per share in the quarter and added approximately 8 basis points to our common equity Tier 1 ratio. Our focus on our 6 key markets in the Americas which account for roughly 80% of our operating earnings will continue to drive market share and earnings growth.

Turning to our financial performance for the quarter. The bank delivered adjusted earnings of $2.3 billion and diluted earnings per share of $1.70. We saw strong growth in our Personal and Commercial businesses with earnings up 8% year-over-year, led by International Banking with earnings up 14% year-over-year on an adjusted basis.

International Banking results were led by our Pacific Alliance countries, where we are increasing our market share and making very good progress in our integration efforts. Raj will speak more on that in just a moment.

Canadian Banking delivered 4% adjusted earnings growth driven largely by good growth in commercial lending and wealth management and better expense management. On the digital front, we also made progress enhancing our customer experience and increasing digital adoption rates with the launch of our fully digital end-to-end eHOME mortgage lending platform and our new mobile banking app, Nova.

Global Banking and Markets results rebounded from Q1 with earnings up 25%. We also demonstrated strong expense management and an improved productivity ratio from last quarter. The Other segment, which includes the bank's funding center, experienced a slightly elevated loss due to a flattening yield curve and some pre-funding activity.

Turning to risk. Credit quality remains high, and the outlook is stable. Growth in PCLs was substantially driven by acquisitions and volume growth. Our PCL ratio is in-line with our long-term average. Daniel Moore will have more to say in a moment.

Strong internal capital generation in the quarter allowed us to be more active in our share buyback program. We ended the quarter with a common equity Tier 1 capital ratio of 11.1% or 11.3% on a pro forma basis considering the impact of announced divestitures expected to close in fiscal 2019. The potential monetization of our interest in Thanachart Bank would add another 25 basis points and provide even further capacity for share buybacks. In summary, the bank continues to make progress towards meeting its medium to long-term objectives, and we are focused on driving stronger momentum in our results.

I want to briefly discuss our recently announced plan to breakup Global Wealth Management in a fourth business line effective November 1, 2019. Establishing Global Wealth Management as a stand-alone division reflects the importance of this business to our bank, our growth aspirations and provides increased transparency to our external stakeholders. This new division will be led by Glen Gowland who will report directly to me.

The decision to create a fourth business line also fundamentally changes the scope of our Canadian Banking business, resulting in a change of role for James O'Sullivan. I, along with the Board and the management team want to personally thank James for his leadership of Canadian Banking, and I look forward to his role as a strategic adviser to the bank.

Dan Rees who currently runs our global operations group, which closely supports Canadian Banking, will lead our Canadian P&C and insurance businesses. Dan joined the bank nearly 20 years ago and has 6 years experience within the Canadian bank. He'll be sharing the division's priorities for the business in the near future.

I will now turn the call over to Raj. Thank you, Raj.

Rajagopal Viswanathan - The Bank of Nova Scotia - Executive VP & CFO

Thank you, Brian, and good morning, everyone. Before reviewing our financial results, I'd like to start on Slide 6 and provide an update on the material acquisitions, BBVA Chile, MD Financial and Jarislowsky-Fraser. These integrations are proceeding very well as reflected in improved market share, very high customer retention rates and strong performance against integration metrics such as synergies, which are on track to meet our targets.

In International Banking, our operations in Chile have seen an increase in the combined market share, a significantly lower productivity ratio and strong growth in earnings from the acquisition of BBVA Chile. In wealth management, both MD Financial and Jarislowsky-Fraser have experienced positive asset growth since they were required. MD surpassed $50 billion in assets during the quarter for the first time in its history. Customer retention rates are higher quarter-over-quarter and above pre-acquisition levels. And we have co-located Scotia private banking in all major MD offices in Canada. This quarter, the acquisitions contributed approximately $60 million to the bank's earnings. We are well on our way to exceed our goal of $0.15 of adjusted diluted EPS accretion in 2020.

Turning to the financial results. I'd like to draw your attention to our new disclosure on Slide 20 titled Other Items Impacting Financial Results. We list the items we have discussed in prior quarters in our MD&A and investor presentation but did not adjust reported earnings.

Turning now to the Q2 2019 key financial performance on Slide 7. All my comments that follow, including the discussion of business line results, will be on an adjusted basis that excludes acquisition- and divestiture-related amounts. The bank turned over $2.3 billion in earnings and diluted EPS of $1.70 for the quarter, down slightly compared to last year.

Revenue increased 8% from last year primarily driven by the impact of acquisitions. Net interest income was up 6% driven mostly from the impact of acquisitions. Also contributing to the increase was growth in commercial and retail lending in International Banking, solid loan and deposit growth in Canadian Banking as well as higher corporate loans in Global Banking and Markets. These increases were partially offset by lower contributions from asset-liability management activities.

The core banking margin declined 2 basis points versus last year primarily driven by the impact of a flattening yield curve on our asset-liability management activities. The bank earned higher margin from International Banking, from change in business mix driven by the acquisitions and in Canadian Banking primarily from deposits that were partly offset by lower margins in Global Banking and Markets.

Non-interest income grew 11% compared to last year. Also contributing to the growth was higher banking revenues, wealth management and underwriting fees, higher income from associated corporations partly offset by the impact of the adoption of IFRS 15.

Expenses were up 8% year-over-year. The increase was largely driven by the impact of acquisitions, partly offset by the adoption of IFRS 15 on the expense line. Excluding the impact of these items, expenses were only up 1% year-over-year, reflecting the bank's effort to prudently manage its expense growth by prioritizing its regulatory and business growth related investments. Consequently, the bank's productivity ratio declined to 52.3%, an improvement of 20 basis points year-over-year.

Our PCL ratio on impaired loans was 49 basis points, up 3 basis points from last year. There were net provisions on performing loans of $22 million and when combined with provisions on impaired loans, resulted in a total PCL ratio of 51 basis points. Our tax rate was in-line with last year and in-line with our outlook of 21% to 25% through 2019.

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 11.1%, in-line with the last quarter. The bank's strong internal capital generation of 21 basis points was deployed in organic risk-weighted asset growth across the businesses, absorbed by the net impact from the bank's acquisitions which closed during the year and offset by share buyback activities and increased employee pension and post-retirement benefits liability that was impacted by the discount rate changes in the quarter. Risk-weighted assets increased by 1.6%.

During the quarter, we repurchased 4 million common shares or 7.25 million shares on a year-to-date basis at an average price of $70.19 per share. In the last 12 months, the bank has repurchased and canceled 13.25 million shares.

The pro forma impact of announced non-core divestitures that are yet to close will increase the CET1 ratio to be approximately 11.3%. The monetization of our significant investment in Thanachart Bank will further increase our pro forma CET1 ratio approximately 25 basis points. We are pleased with the pace of capital rebuild driven by strong internal capital generation, proven management of risk-weighted asset growth and the divestitures that will continue to improve the bank's CET1 ratio.

In addition, the Bank of Xi'an in China, in which we have an 18% ownership position recently completed its initial public offering. At current market valuations, our equity stake stands at over $1.2 billion and provides additional flexibility for capital over the medium-term.

Turning now to the business line results, beginning on Slide 9. Canadian Banking reported adjusted net income of $1.1 billion, up 4% year-over-year. The Q2 2018 benefits from aligning the reporting of our Canadian insurance business, and higher level of real estate gains reduced the division's earnings growth by approximately 4%. As you can see on Slide 20, the earnings growth rate in the second half of 2019 will benefit from lower real estate gains in the same period last year.

In retail lending, residential mortgages grew 2%; personal loans, 3%; and credit card, 6%. Meanwhile, business lending grew 9%. Given a slower start to the housing market in 2019, we would expect low-single-digit volume growth for the year in mortgages. Deposits grew a strong 11% and for the third straight quarter, outpaced asset growth.

The net interest margin was up 3 basis points year-over-year and 2 basis points quarter-over-quarter driven by higher deposit spreads. We expect margins to be stable to modestly higher for the balance of the year. Non-interest income was up 5% due to higher fee income from banking, wealth management business and higher credit fees. The lower level of real estate gains and the alignment of the reporting of our Canadian insurance business last year reduced this growth by 4%.

Wealth management adjusted earnings increased a strong 26% year-over-year driven by contributions from recent acquisitions as well as the core businesses. AUM growth was strong at 6.3% quarter-over-quarter, reflecting positive net sales and market appreciation. We delivered positive operating leverage of 1.1% this quarter through prudent expense management. Consequently, the productivity ratio improved 60 basis points to 50%.

Turning to the next slide on International Banking. My comments are based on results on a constant dollar basis. Adjusted earnings of $787 million were up 14% year-over-year driven by strong contributions from organic and acquisition-related asset growth, well above our medium-term adjusted net income growth target of 9%-plus. Q2 results reflected strong asset growth in the Pacific Alliance, positive operating leverage, good credit quality and growing digital sales.

The Pacific Alliance had very strong net income growth of 11% driven by strong performance in Chile, double-digit growth in Peru and improved portfolio quality in Colombia. Our GBM operations in Latin America were also very strong, up more than 25% year-over-year driven by both our capital markets and corporate banking businesses.

Revenue grew 22% with net interest income up 20% and non-interest income growing at 26%. Net interest income growth was driven by loan growth in the Pacific Alliance region, which increased 42% year-over-year, including our acquisitions in Chile and Colombia. Non-interest income growth was driven by higher banking and credit card fees and increased contribution from associated corporations.

More than three quarters of the expense growth was from acquisitions, with the remaining growth in-line with business volume growth and impact of inflation. Prudent expense management contributed to the productivity ratio improving by 210 basis points year-over-year. Operating leverage was strong at positive 5% for the quarter, marking the 18th straight quarter of positive operating leverage.

Moving to Slide 11, Global Banking and Markets. Net income of $420 million was up a strong 25% from Q1 due primarily to better market conditions. Net income was down 6% year-over-year. While revenues were in-line with the last year, higher non-interest expenses and lower credit loss recoveries impacted the net earnings. Corporate loan growth was strong, up 16% year-over-year, reflecting strong growth in the U.S. and Canada. Overall, the M&A and corporate lending pipelines remained strong.

Lending margins remained stable while deposit margins were lower compared to last year. Non-interest income grew mainly due to higher trading revenues and fixed income and improved underwriting and credit fees.

Expenses were down 8% quarter-over-quarter and up a modest 5% year-over-year. The year-over-year increase was driven by higher regulatory and technology investment partly offset by lower performance-related compensation. The productivity ratio improved by 840 basis points versus last quarter to 51.6%.

I'll turn now to the Other segment on Slide 12, which incorporates the results of Group Treasury, smaller operating units and certain corporate adjustments. The results also include the net gain on divestitures and the net impact of asset and liability management activities. The Other segment reported lower revenues from asset-liability management activities and lower returns from our holdings of high-quality liquid assets that were negatively impacted by the flattening yield curve. Some pre-funding done late last quarter of TLAC-eligible instruments to meet the 2021 TLAC requirements also impacted the results this quarter. Given the current shape of the yield curve, we expect continued margin compression on our high-quality liquid asset portfolio.

This 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. I will turn to Slide 14. Our credit quality is high, and our underlying credit performance remains stable. This is evidenced by our stable delinquency rate in Canadian retail and our improving rates in international retail as evidenced by our stable GIL ratios in Canadian Banking and our improving ratios in International Banking and Global Banking and Markets. Moreover, our loan loss provision covers 9 quarters of write-offs, and our impaired PCL ratio of 49 basis points is in-line with our 30-year historical average of 46 basis points.

Our PCLs were impacted by Day 1 adjustments of $151 million relating to our acquisitions in Latin America as reported by IFRS 9. My comments that follow will exclude this amount. From an all-bank basis, total PCLs of $722 million were up 5% from last quarter and up 35% year-over-year. Roughly 1/3rd of the year-over-year increase was due to acquisitions, another 1/3rd was due to volume growth and the balance was due to changes in forward-looking indicators and other items. More importantly, however, the PCL ratio on impaired loans was generally stable quarter-over-quarter and year-over-year.

In our retail portfolio, we remain focused on A and B customers and using proactive analytics and collection efforts. Our non-retail portfolio continues to perform very well with modest levels of PCLs and stable to declining formations. Given our portfolio quality, our diversification and our continuous oversight, we are well positioned for economic growth while remaining downturn-ready. Our risk management philosophy is to position conservatively, and we certainly believe we are ahead of the curve in this regard.

Turning now to Slide 15. You can see the recent trend in loss ratios for each of our businesses. On impaired loan basis, PCL loss rates are generally in-line with last quarter across all 3 business lines. The increase in our total PCL ratio was largely driven by Canadian Banking, led by less favorable forward-looking macroeconomic inputs as well as by volume growth, but partially offset by the impact of our continued improving credit quality.

Looking now at other credit metrics on Slide 16. Gross impaired loans increased modestly to $5.4 billion from $5.3 billion last quarter with the growth primarily due to acquisitions and underlying organic portfolio growth. Therefore, the gross impaired loan ratio remains flat versus last quarter and down compared to a year ago.

Net formations of $861 million were down 9% quarter-over-quarter but up 24% year-over-year. Lower net formations versus last quarter were driven primarily by lower net formations in Global Banking and Markets and the Canadian P&C business partly offset by a lower reversal international commercial. The increase compared to prior year relates mostly to increases in our international retail portfolio largely due to acquisitions.

Turning to our net write-off ratio. It remains stable with a small impact in International Banking from recent acquisitions. In summary then, we continue to see the benefits of our diversified business model and the benefit of our investment in digital and in analytics and support our adjudication models and our collections processes as evidenced by our generally stable credit metrics, and we remain confident in the underlying credit quality of our portfolio.

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. As we look to the second half of 2019, we expect our financial performance to be better than the first half of this year for a number of reasons: further contributions from recent acquisitions, along with the positive benefits from our integration efforts; secondly, continued strong growth in International Banking; thirdly, stronger second half performance in Canadian Banking and Global Banking and Markets; fourthly, our continued focus on prioritization and expense management and productivity improvements; and lastly, strong capital ratios which provide the bank optionality.

That concludes my comments from the quarter, and I'll turn the call back to Raj.

Rajagopal Viswanathan - The Bank of Nova Scotia - Executive VP & CFO

Thanks, Brian. 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 Robert Sedran of CIBC Capital Markets.

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

Just wanted to come back to the loan losses and that slide that shows the long-term average on there. I mean, Daniel, if I take out Argentina and the global financial crisis, which arguably are very unusual events, I guess we're comfortably above that longer-term average. And is – do you feel like – given the evolution of loan and geographic mix, does it suggest that the 49 basis points this quarter on impaired is going to continue to migrate higher just given where the growth is coming from?

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

So I think, Rob, thanks for the question. The bank is a very different bank than it was over the long-term average as we've increased International Banking credit exposure and we're getting paid for that risk. Through our discipline as a bank, we are very focused on originating the right sorts of customers, originating A, B in retail, and we're very focused on making sure that the impaired loan ratio maintains our conservative underwriting discipline. So we would have a cautiously optimistic outlook from here regarding forward-looking impaired PCLs.

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

Okay. I didn't mean to suggest that there wasn't revenue attached to that shift in loan and geographic mix. It just seems like the loss rates should be rising commensurate with that higher revenue that you're getting in some of the different – the shift in mix. The structurally higher loan losses should come with the structurally higher revenues. Is that the right way to think about it?

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

Right. I think that's the right way to think about it, but it is offset significantly by the improving credit quality in the book.

Operator

Our next question comes from Meny Grauman of Cormark.

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

A question about the broker channel. We're hearing that competition in the broker channel is increasing quite significantly. And I noticed that if you look at published market share data, that your market share fell. I think it's about 640 basis points in Q1, the latest data that we have. So I'm just wondering what is the outlook is from your perspective in the broker channel? And what – where do you see your share going, going forward?

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

Yes. Well, thanks, Meny. I think in the broker channel, we are consistently #1 or #2. And my observation on that channel as compared to some others would be that there continues to be a strong consumer preference for that channel particularly amongst millennials. So that remains a channel that we are very, very committed to, bearing in mind that we also have a direct sales force, we also have branch channel. And most recently, we have both Scotia eHOME as well as Tangerine. So lots of channels, but that's one we're committed to because Canadians love it.

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

And just a follow-up. Is competition getting tougher there? And what's driving that competition from some of the nonbank peers from your perspective?

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

Yes. I don't know that it's – I'd say tougher, yes, but I'd say it's been getting tougher over 4, 6 quarters, frankly, maybe since B20, but it's always been. There's a lot of participants in that market, so it is a competitive channel. But nothing – Meny, nothing markedly different this quarter than, say, last quarter.

Operator

Our next question comes from Steve Theriault of Eight Capital.

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

Question on capital markets. We saw the revenue line get back to Q2 levels of last year, but expenses still elevated and operating leverage negative. So I guess in terms of the question, as capital markets sounds like you think it will continue to get back on track here, how much of that is about higher revenues and how much of it is about getting the expense base back to sort of $550 million, $560 million range versus closer to $600 million range this quarter? I know you cited higher regulatory costs and technology costs. Maybe also some comments around – do you expect those to alleviate? Or is it contributing to a higher run-rate on expenses?

Rajagopal Viswanathan - The Bank of Nova Scotia - Executive VP & CFO

Steve, it's Raj. I'll start with expenses, and then maybe Jake can talk about the revenue side of it. GBM's expense growth is a modest 5%, as you know, this quarter compared to the double-digit we had in Q1. Looking forward, it's going to have elevated expenses because of all the regulatory investments we made. So the run-rate of the $550 million that you quoted is probably going to be higher than that. And if I were to guess, it won't be the $645 million that we had in Q1 because you also have some seasonality relating to our performance-based compensation, which always happens in Q1. And it shows up more significantly in GBM being a lower cost base.

Without giving a specific number, I think it would be anywhere between $550 million and $600 million, probably closer to $600 million as a quarterly run-rate on expenses as we look forward for the next 2 to 3 quarters. But I think, more importantly, if you look at the bank as a whole, I think we are very pleased with our productivity ratio improvements that's happened, and GBM is also a big part of – contributor to the bank's productivity ratio. We will continue to manage expense growth by prioritizing our spending across the bank and GBM as also part of it. And we'll be informed by revenue growth that happens across our business so that we can generate positive operating leverage for the bank as a whole. Jake, you want to talk about revenue?

Jake Lawrence - The Bank of Nova Scotia - Co-Group Head of Global Banking & Markets

Yes. Just one other point on the expense side. In addition to the regulatory cost, we also are investing in our business and our people. I think that's going to be an important driver of revenue growth going forward. When James and I look at some of the underlying fundamentals of the business this quarter, loan growth, that's 16%, deposit growth also up double-digits, we're encouraged that we're to see some more stability in that revenue line in Q4, assuming we get reasonable market conditions to operate in. So we're comfortable with the revenue outlook, and we're getting our hands on the expenses, as Raj noted.

Operator

Our next question comes from Mario Mendonca of TD Securities.

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

Dan, if I just take you to Page 25 of your presentation, there were a few numbers that stood out for me, and it'd be helpful to get an understanding. What I'm getting at here is the sequential increase in the PCLs ratio, impaired loans and personal loans specifically. Now I

imagine that's mostly auto we're looking at. And would you point us to something like seasonality or anything in particular that would drive the sequential increase?

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

Yes. You see a bit of seasonality in those numbers, in the impaired loan line in particular, as well as some particular one-off risk strategies that we had tested and ran around that we wouldn't see recurring in the future.

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

Can you elaborate on that? You said one-offs. What do you mean by that?

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

So as we continuously improve through our risk strategies, we are looking at various different ways of originating and improving that risk/return curve. By and large, as you see through our numbers, if you look through our unsecured line across all segments, we have an improving delinquency rate, we have an improving GIL rate, we have an improving formation rate. But in this one quarter, we have a non-recurring personal loan adjustment, which is largely driven through that line item that we talked about that we don't see going forward.

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

Is that the same thing we're seeing in credit cards? There's over 400 basis points in Canadian credit cards. Again, not a huge number for cards, but it's unusual in Canada. Is the same thing happening there?

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

Yes. So the interesting thing about cards is that, look, as we look forward with the complexities of the IFRS 9 model, Mario, these forward-looking indicators come into our unsecured lines disproportionately. So as we look to conservatively reserve against our future loan losses and we look to that point in time where the Canadian economy was at the end of the quarter, those forward-looking indicators flow disproportionately through to the card lines. But if I take that number out, Mario, when I look at the core underlying impaired PCL metric for cards, that is declining, has been declining for a number of quarters and we anticipate will continue to decline as we exercise more advanced analytics, derisking strategies, origination strategies and collection strategy across the bank. So that has been declining for 6 quarters now across the bank.

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

So just sort of final point on this. This sequential change you're seeing now on this page doesn't affect your strategy in domestic retail lending? James, maybe you want to comment on that.

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

Yes. No, not at all. I mean we've spent a lot of time on these, and the bulk of this was driven by FLI. So in cards, Mario, as you know, we've identified that as one of 2 areas where we are not solidly a top 3 bank in this country, and over time, we're determined to be. So cards continues to be a growth focus with an emphasis on A and B customers given where we are in the cycle.

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

And James, if I could just hit on that one more time. I think the – you'll see that feed, Mario, through to the top line PCL ratio for Canadian Banking as we have grown 7% – almost 7% year-over-year in our card portfolio. But as I said, that PCL ratio in that line item is declining. And as we look through all our line items, PCL ratios are flat to declining in Canadian Banking. So our delinquency trends continue to perform very well on cards, down 15% year-over-year.

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

Okay. A quick question for Nacho then. Is there anything going on in Mexico from a regulatory perspective that you want to highlight, either as it relates to restrictions on fees or rates or anything? Has there been any change or anything you anticipate?

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

No, Mario, there have been no changes. The fee proposal by Congress was negotiated with the banks, and it's a reasonable proposal. It has no material impact for the financial system or for us. We actually continue to see Mexico performing very well on the top line. Q-over-Q, wholesale loans grew 4% and retail loans grew 2.5%. Revenues grew 9%. So Mexico, we have to remember is a 120 million population. And even with the lower GDP forecast, we see banking and lending penetration relatively low at 40% levels, so we expect Mexico to continue growing both in the business and retail market.

Operator

Our next question comes from Doug Young of Desjardins Capital Markets.

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

Just on expenses. I mean the expense trends looked favorable in the quarter. I guess the question is, is this sustainable. And I gather from your comments that you do believe that this is and we should be expecting mix growth to be more in-line with revenue growth going forward. So just want to get a little more detail on that.

And then the SCT program, I think your plan was to remove $750 million in fiscal '19. Just wondering where you are with that.

And then just kind of maybe pegged on – Brian, I guess the 52% mix target is what you've put in for fiscal '19. I assume that you still think that's more than achievable.

Rajagopal Viswanathan - The Bank of Nova Scotia - Executive VP & CFO

Okay. Thanks, Doug. I'll start on the expenses and see if I can cover the SCT as well as your last question on the mix rate. I'll start with SCT. As you know, the SCT program has been around since 2016. It was a concerted effort to help the bank take out structural costs over $1 billion and has been very successful, if I can add. The effort is mostly complete on the structural cost side. About 80% of the savings has been redeployed back into the bank, in all the initiatives we have talked about in the past, digital banking, data analytics as well as strengthening the control functions of the bank, including risk management, AML, etc. The teams that are part of the successful effort are now focused on improving the enterprise productivity as we call, which is primarily looking at revenue initiatives across all the business lines to see how we can assist the business lines in enhancing the revenue growth pace that the bank has had across the business. So bulk of the redeployment has happened in the technology space, which the SCT program has delivered on, and you can see it in the productivity ratio improvement across the years. We're getting closer to our 52% target that we committed for 2019. Based on our expectations for the balance of the year, we should be pretty close to that, if not at that rate, to answer your third question.

But in general, on expense run-rate, I would say that we expect to have a run-rate which should be in the low single-digit growth, completely guided by our revenue growth, so that we expect to generate positive operating leverage for the bank. International Banking has had strong positive operating leverage, as you've probably seen, the 5% year-over-year. Canadian Banking is now generating positive operating leverage for this quarter, and we expect that to finish with positive operating leverage for the year. The GBM business, once the revenue gets to more normalized levels, we expect that they would contribute to the operating leverage as well. But the bank as a whole, we expect, at end of the year, we would be delivering positive operating leverage.

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

That's for the full year positive operating leverage?

Rajagopal Viswanathan - The Bank of Nova Scotia - Executive VP & CFO

That's correct, Doug.

Operator

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

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

Just a couple quick questions, one on the international business. Trying to peel away onto the organic growth here. It looks like Asia had a big quarter. And I'm wondering what is underlying that.

And then the other one is on the corporate side. You were helpful in your commentary on what's behind the negative carry item, and you said it could persist. I'm just trying to figure out which sections of the yield curve I should be looking at and what your outlook for that drag to persist is and if there's anything you can do about it in the interim.

Rajagopal Viswanathan - The Bank of Nova Scotia - Executive VP & CFO

Okay. Gabe, I'll start on Asia relating to International Banking and address the corporate segment negative numbers as well. As far as Asia goes, the biggest contribution to us is the Thanachart Bank equity pickup that we have, the 49% that we hold. It tends to be lumpy, and it tends to move around quarter-over-quarter because it's an equity-accounted investment. We don't get too far down to figuring out is it a higher PCL, is it expenses. We have some visibility. This quarter, you notice we picked up $130 million, which is kind of consistent with – if you go back, Q4 was a high number, too. Before that, it tended to be $80 million, $90 million. The point I'm trying to make is you will see a level of volatility in those numbers that is driven by the equity based on the operations that happened in Thailand. A couple of years back, if you remember, they had a lot of provisions relating to floods that they had in Thailand. So it could be impacted by that. And this quarter certainly was a pickup, which has created an abnormal run-rate attached to the Thai investment.

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

Okay. And then while I have you on the international, for the Mexico – if I look at one your disclosures, it shows Mexico was down year-over-year. I know stage 2 additions were part of that. Is that the main issue?

Rajagopal Viswanathan - The Bank of Nova Scotia - Executive VP & CFO

I think it was stage 2, but it is also the tax benefits that we have had in prior years in Mexico, Gabe, which has gone away, and that contributes to the negative growth. But like Nacho mentioned, Mexico has grown 9% year-over-year if I exclude the tax benefits.

As far as the corporate segment goes, which is the other half of your question, in the corporate segment, we have indicated in the past we tend to have between $50 million and $100 million of losses in the corporate segment. It depends a bit on how our investment securities moves as well on the realized gains. This quarter was slightly elevated at $121 million primarily driven by the yield curve, as you mentioned. We expect that Q3 might not be too dissimilar to Q2, but we expect it to gradually improve as the yield curve gets to a more normalized level, if I can use the term better flow. But these are HQLA assets, which are high-quality liquid assets, we maintain for liquidity purposes and LCR ratio purposes. They tend to be U.S. T-bills, government of Canada bonds. As you know, it's low yielding, and that will have an impact to the Other segment.

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

If the yield curve doesn't normalize, is there anything you can do? Could you just reduce liquidity? Is there an impact of that across anywhere else?

Rajagopal Viswanathan - The Bank of Nova Scotia - Executive VP & CFO

No, I wouldn't say reduce liquidity. As some of these securities mature and some tend to be fixed-rate securities that we hold in the portfolio, they will reset at higher rates, which should improve the spread.

Operator

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

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

I just wanted to go back a little bit to the discussion around provisioning for credit losses. I just want to make sure that I understand this. The commentary is that in auto loans, there was a little bit of seasonality. And I just want to make sure that I understand that comment because you're the only bank actually to highlight auto as an area that's sort of impacted. Was there also an element on the auto portfolio forward-looking information? Or was it purely just actual delinquency?

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

So Darko, we addressed the – this was in the context of the question, but we don't see material change in the auto portfolio. There's been a slow uptick, but the auto portfolio continues to perform generally very, very well. There is, of course, in retail, some elements of forward-looking indicators built into all the retail lines, particularly what we think of as the unsecured lines, which include autos, new loans and credit cards. So there's some element of that. But if you look sort of at the core underlying delinquency, there's not a material change there.

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

Okay. And then with respect to your discussion on what you're going through on the risk side, you mentioned analytics, improved recoveries and so on. Is this a new sort of initiative? Or is it just ongoing improvements to the way you manage your credit risk?

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

So this has been something we've been undertaking with velocity now for about 6 to 8 quarters, Darko. And as we get improved access to data, improved management practices, we're seeing these really start to create some traction. We're doing this in partnership with the business lines across all elements of the primarily retail life cycle through strategies around A/B origination and focus, through derisking strategies, through credit line management through the life cycle of credit and better segmentation strategy on the collection portfolio. And we're seeing that really start to impact the overall numbers of the bank, and those initiatives will continue in flight as we continue to stand up and improve the overall bank and its capabilities, and you'll see more from us on that.

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

Okay. And if I can just sneak one last question. I apologize, but on the international side, the discussion was that 75% of the expense growth was due to acquisitions. For my modeling purposes, do you have a similar number for the revenue impact of the acquisitions?

Rajagopal Viswanathan - The Bank of Nova Scotia - Executive VP & CFO

Yes. I'll try to give you some perspective on that, Darko. It's Raj. I think from the revenue side, we see almost $1 billion growth across the acquisitions, which includes our wealth acquisitions. And I would say of that growth, about 60% comes from our International Banking business. So it gives you a good understanding of how much was contributed from the international business, primarily in net interest income.

Operator

Our next question comes from Scott Chan of Canaccord Genuity.

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

Just sticking to international, maybe going about it the other way. Total loan growth was up 29%, Pacific Alliance was 42%. That was similar to last quarter. If you kind of strip out or exclude acquisitions, can you provide like an organic growth rate perhaps this quarter or year-to-date?

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

Sure. If you exclude acquisition impacting the Pacific Alliance, our loan growth is 12%. And this is double-digit growth both in retail and commercial, and we are seeing this as a very positive trend. Even in Chile, where it's the most material impact, excluding acquisition, we have double-digit growth in retail and commercial. And this is driving revenue growth and 500 basis points positive operating leverage in the quarter.

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

That's helpful. And maybe sneaking in one more, Nacho. Just on the international margin side, it was up 8 bps quarter-over-quarter and kind of in-line with your prior guidance of 4.5% plus/minus 10 bps. Is there anything that changed within that guidance you provided last quarter?

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

None. We see our margins stable. And due basically to business mix, this is plus/minus 10 bps, and we will remain around that level of 450 basis points plus/minus 10 bps.

Operator

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

Sohrab Movahedi - BMO Capital Markets Equity Research - Analyst

Just wanted to stay with international, again with Nacho. Nacho, the international expense-to-revenue ratio has improved steadily, and now you're just around 50% or maybe a trifle below that. Is this the byproduct of building scale? And how sustainable is it as you kind of think through over the next 12 to 18 months?

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

I would say, Sohrab, this is the opportunity that we have especially driven by the Pacific Alliance countries, so solid loan deposit and revenue growth and a very focused plan in International Banking and the bank to capture cost savings as part of our performance. And this is driving not only the operating leverage that had been for the last 18 quarters positive but also consistently improving the productivity index, which has improved in international 200 basis points year-over-year. And this is our business to be very focused both on our revenue growth and on our efficiency improvements.

Sohrab Movahedi - BMO Capital Markets Equity Research - Analyst

And I guess maybe a question for Brian. Just when you stand back and you think about it, Brian, I mean, obviously, the acquisitions have helped in international. But the growth – the earnings contribution growth in international even on – based on the Investor Day targets is larger, greater than domestic banking operations. I guess domestic is slowing. Is there any limitations as to how much of the overall bank can come from International Banking over the medium-term?

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

No. Look, it's a good question, Sohrab, and thank you. We're very proud of what the international bank has delivered for our shareholders. We see a very positive outlook for the balance of this year and into 2020. And you can see, as Nacho just answered, the benefits of scale in these markets is critically important.

The other point I'd make is that I was in Mexico the week after last, and there's been lots of news about Mexico. But sometimes, you have to pull yourself away from a Bloomberg screen when it comes to some of these countries. And as Nacho said, Mexico is a country of 120 million people. The biggest driver for the economy is how the U.S. is playing, point one. There's a huge growing middle class and they're consuming. So you can't mix that up with GDP forecast or outlook from time to time and you're seeing that in our Mexican numbers, which were up 9% year-over-year despite all the noise and rhetoric about what's going on, on a political level.

So we see stronger performance out of Peru this year, great performance out of Chile. Our integration both on the financial and an operational basis is ahead of schedule. Colombia is performing much better as a country, and our integration there is going exceedingly well. So the Pacific Alliance countries are performing very well and will continue to deliver for our shareholders.

Rajagopal Viswanathan - The Bank of Nova Scotia - Executive VP & CFO

Thank you, everyone, for participating in our call today. We delivered solid second quarter results. And on behalf of the management team, I want to thank all of our employees for their hard work. The bank has made good progress towards strengthening our businesses and offering a superior customer experience. Looking ahead to the second half of 2019, we expect to deliver a stronger performance. We remain focused on delivering against our differentiated strategy and achieving consistent long-term growth.

I also want to remind investors that we'll be hosting an International Banking Investor Day on October 24 and 25 in Santiago, Chile. We hope you can join us to learn more about our bank.

In closing, we look forward to speaking with everyone in late August, and have a great summer.