SCOTIABANK

Q3 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 Third 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. Also present to take your questions are the following Scotiabank executives: Dan Rees from Canadian Banking; Nacho Deschamps from International Banking; Jake Lawrence and James Neate from Global Banking and Markets; and Glen Gowland from Global Wealth Management. Following our comments, we'll be glad to take your questions.

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. Before I discuss our financial results for the quarter, I'd like to comment briefly on the macroeconomic environment across our footprint and what it means for our businesses and our shareholders.

There has been increasing focus by investors on the risk to the global economic growth and its impact on interest rates. While there are emerging risks, it is important to provide some context to recent market volatility.

In Canada, our largest market, we are experiencing strong population growth, unemployment remains near 40-year lows, and we are experiencing wage growth of over 4%.

Across our footprint in Latin America, where we have been deploying capital, increasing our scale and enjoying double-digit earnings growth, GDP in most Pacific Alliance countries is forecast to grow approximately 3% this year and next year.

Given market conditions, we remain positive on our business outlook, and we'll continue to execute on our strategy while being mindful of emerging risks.

The bank has been active in redeploying capital through a series of acquisitions and divestitures to reposition the bank's geographic footprint in-line with our strategy of improving earnings quality and simplifying our operations. We are focused on our Americas footprint and the alignment across our 6 key markets of Canada, the U.S. and the Pacific Alliance countries, which contribute over 80% of the bank's earnings. The bank is positioned for future growth to support our objectives.

We saw continued progress in the third quarter. We formalized an agreement to reduce our banking interest in Thailand, which will result in a gain to shareholders and increase our common equity Tier 1 capital ratio by 25 basis points.

We also announced the sale of our operations in Puerto Rico and the U.S. Virgin Islands. The transaction, along with others previously announced, will further simplify our footprint in Central America and the Caribbean and have a positive impact on the bank's credit quality while reducing gross impaired loans by approximately 10%. With these transactions, the repositioning of our geographic footprint is substantially complete.

Our capital position remains strong with a common equity Tier 1 capital ratio of 11.2%, an increase of 10 basis points over the previous quarter. On a pro forma basis, taking into account announced divestitures, our common equity Tier 1 ratio is 11.7%. With a clear path to higher capital, we enjoy considerable optionality across our key markets while continuing to return capital to our shareholders through dividends as well as common share buybacks.

Our third quarter results were highlighted by a strong operating performance across our P&C businesses in Canada and internationally. In addition, Global Wealth Management experienced strong growth in earnings, especially here in Canada where earnings increased 20% year-over-year, with acquisitions contributing 12% to this growth. This strong performance was partially offset by weakness in Global Banking and Markets, which was impacted by market volatility and margin compression.

The bank delivered adjusted earnings of $2.5 billion, an increase of 9% over the same period last year. Diluted earnings per share were $1.88, up 7% year-over-year. We experienced strong asset and deposit growth across all our business segments while exhibiting positive operating leverage.

Based on these results, we are increasing our quarterly dividend to shareholders by $0.03 to $0.90 per share. This represents an increase of 6% over the prior year.

The integration of our material acquisitions continues to progress very well, and we are delivering improved market share, higher customer retention rates and strong performance against integration metrics and expected synergies. The acquisitions will contribute approximately $250 million of earnings this year and over $400 million in 2020, which is better than our previous estimate of $0.15 per share for 2020.

In International Banking, our operations in Chile have experienced higher combined market share, an improved productivity ratio and strong earnings growth. The integration of our operations in Chile will be completed by the end of this year.

A number of important milestones were also achieved this quarter. We were recognized as the industry leader in mobile banking by J.D. Power, and we successfully launched our new mobile banking app here in Canada. The bank issued its first Green Bond, boosting our commitment to sustainable finance. And finally, Tangerine benefited from our long-term partnership with Maple Leaf Sports and Entertainment as the Official Bank of the 2019 NBA Champions.

Before turning the call over to Raj, I would like to remind everybody of our upcoming investor event in Santiago, Chile, on October 24 and 25. We have an excellent program, and look forward to a successful event.

With that, I'll turn the call over to Raj.

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

Thank you, Brian, and good morning, everyone. I will begin on Slide 6. 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 most significant adjustment this quarter relates to the after-tax loss on the announced divestiture of Puerto Rico of $402 million.

The bank delivered $2.5 billion in earnings and diluted EPS of $1.88 for the quarter, up 9% and 7%, respectively, compared to last year.

Revenue increased 11% from last year or about 5%, excluding the impact of acquisitions and IFRS 15, with strong growth in both net interest income and non-interest revenues.

Net interest income was up 7% driven mostly from the impact of acquisitions. Also contributing to the increase was growth in cards, auto, commercial loans and retail deposits in Canadian Banking and commercial and retail lending in International Banking. These increases were partly offset by lower contributions from asset-liability management activities and the negative impact of foreign currency translation.

The core banking margin was slightly lower 1 basis point versus last year driven by lower margins in Global Banking and Markets and the impact of a flattening yield curve on our asset-liability management activities compared to last year. This was partly offset by higher margins in International Banking from the change in business mix driven by the acquisitions and in Canadian Banking from prior rate increases by the Bank of Canada.

Non-interest income grew 16% compared to last year, with approximately half of this growth driven by acquisitions. The remaining growth was driven by higher banking, wealth management and trading revenues, gains on investments and income from associated corporations. This was partly offset by lower revenues in Global Banking and Markets primarily from lower underwriting fees and the impact of the adoption of IFRS 15.

Expenses were up 11% year-over-year. The increase was largely driven by the impact of acquisitions, partly offset by the adoption of IFRS 15. Excluding the impact of these items, expenses rose 4% year-over-year due primarily to the bank's investment to meet regulatory requirements, technology initiatives, amortization, other employee costs, advertising and business development expenses.

The bank's productivity ratio improved 10 basis points to 51.7% and achieved positive operating leverage again this quarter. Excluding the impact of the 2018 pension revaluation benefit, the bank's year-to-date operating leverage has improved to negative 1.2%.

The total PCL ratio was 48 basis points, improving by 3 basis points quarter-over-quarter but up 8 basis points year-over-year. Our PCL ratio on impaired loans was 52 basis points, up 11 basis points from last year.

Our tax rate remained in-line with our outlook of 21% to 25% through 2019.

On Slide 7, we provide an evolution of our CET1 capital ratio over the last quarter. The bank reported a common equity Tier 1 ratio of 11.2%, up approximately 10 basis points. Strong internal capital generation of 16 basis points was partly offset by increased employee pension and post-retirement benefits liability that was impacted by discount rate changes in the quarter and continued share buybacks.

Risk-weighted assets were flat quarter-over-quarter and up a modest 1% compared to last year.

We repurchased 2.8 million common shares during the quarter or 10 million shares on a year-to-date basis at an average year-to-date price of $71.66 per share. Since May 2018, when we closed our first acquisition of Jarislowsky-Fraser, the bank has repurchased and canceled 16 million shares.

Including the capital benefit from the announced non-core divestitures that have yet to close, our pro forma common equity Tier 1 ratio would increase by approximately 50 basis points to 11.7%.

We're pleased with the pace of rebuild of our capital driven by strong internal capital generation, prudent management of risk-weighted asset growth and the divestitures of non-core businesses.

Turning now to the business line results, beginning on Slide 8. Canadian Banking reported adjusted net income of $1.2 billion, up 3% year-over-year. As disclosed on Slide 19, the impact of lower real estate gains reduced the division's earnings growth by approximately 2%.

In retail lending, residential mortgages grew 3%; personal loans, 3%; and credit cards, 7%. Meanwhile, business lending grew 10%. Given a slower start to the housing market in 2019, we expect to finish the year at low-single-digit volume growth in mortgages.

Deposits grew a strong 10% driven by both personal and non-personal deposits and outpaced asset growth.

The net interest margin was up 3 basis points quarter-over-quarter and year-over-year driven by the impact of prior rate increases by the Bank of Canada. We expect margins to be stable to modestly higher for the balance of the year, in-line with our prior guidance.

Non-interest income was up 5% due to higher wealth management fee income from acquisitions and credit fees, partly offset by the impact of IFRS 15 and lower real estate gains.

Canadian Wealth Management's adjusted earnings increased 20% year-over-year driven by strong contributions from recent acquisitions as well as the core businesses. AUM growth was strong, up 23% year-over-year, with the sequential increase reflecting positive net sales and market appreciation.

Canadian Banking delivered positive operating leverage of over 100 basis points through prudent expense management and as we previously committed, guided by growth in revenue. Excluding M&A and the impact of IFRS 15, Canadian Banking's expenses grew a modest 1%. The productivity ratio improved 50 basis points to 48.3%.

PCLs were higher compared to last year mainly due to higher retail provisions due to portfolio mix changes. Meanwhile, commercial provisions reported lower recoveries compared to last year. On a quarter-over-quarter basis, PCLs were down 5% largely due to improvements in credit quality.

Turning to the next slide on International Banking. Earnings of $815 million were up 14% year-over-year driven by strong loan growth in the Pacific Alliance, impact of acquisitions and higher non-interest income. Our GBM operations in Latin America were also very strong, with earnings up 23% year-over-year driven by strong growth in our capital markets and corporate banking businesses as well as the impact of acquisitions.

My comments that follow are based on results on an adjusted and constant dollar basis. Revenue grew 20%, with net interest income up a strong 19% and non-interest income growing 23%. Our Pacific Alliance countries grew revenues by 26% year-over-year that included the impact of acquisitions. In the Pacific Alliance, deposits grew a strong 4% sequentially and outpaced asset growth.

Margins declined 25 basis points year-over-year, within the plus or minus 10 basis points of 450 basis points that we had previously guided to. This was driven by the business mix impact of the Chile acquisition that closed in Q3 2018, which is a higher-quality, lower-margin business as well as some margin compression in Mexico this quarter, reflecting higher cost of funds on deposits in that country.

Non-interest income growth was driven by acquisitions, higher banking fees and increased contribution from associated corps, higher trading revenues and some investment gains. Approximately three-quarters of the expense growth were driven by acquisitions with the remaining growth in-line with business volume growth, higher regulatory cost and the impact of inflation.

Prudent expense management contributed to the productivity ratio improving by 140 basis points year-over-year.

Operating leverage continued to be strong at positive 3.2% for the quarter.

Moving to Slide 10, Global Banking and Markets. Net income of $374 million was down 15% year-over-year due to more challenging market conditions, lower client financing activity and higher expenses compared to last year. GBM Latin America results, which are reported in our International Banking segment, reflect a strong double-digit year-over-year growth. Corporate loan growth was up 12% year-over-year, reflecting continued growth in the U.S. and Canada. In addition, M&A and corporate lending pipelines remain strong.

On the other side of the balance sheet, customer deposits are up a very impressive 18%. Both net interest income and net interest margin was down year-over-year. The net interest margin declined by approximately 20 basis points to 1.61%. The margin compression primarily resulted from strong growth in customer deposits and declining market rates.

Non-interest income was stable year-over-year. We had a strong quarter in equity trading that was offset by modest underwriting and advisory income growth as last year benefited from a couple of large transactions in the energy and financial space.

Expenses were flat to the seasonally shorter Q2 and in-line with the guidance we provided last quarter. The year-over-year increase of 9% was driven by higher regulatory, technology and risk infrastructure costs to support our operations and manage regulatory and compliance requirements as well as the unfavorable impact of foreign currency translation.

I'll turn now to the Other segment on Slide 11, which incorporates the results of Group Treasury, smaller operating units and certain corporate adjustments. The results also include the net loss on divestitures and the net impact of asset-liability management activities.

The Other segment reported a smaller loss versus last year due mainly to higher investment gains and lower taxes. Contributions from asset-liability management activities were lower versus last year. However, sequentially, the Other segment reported a lower loss due mainly to higher investment gains and positive contributions from asset-liability management activities.

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, and I will begin my remarks on Slide 13. Our credit quality is high, and our underlying credit performance remains stable. The evidence of this is as follows: stability in our delinquency rates with improvement in our Canadian Banking business quarter-over-quarter and across most product categories; improving GIL ratios across the bank, and as Brian mentioned, this will further improve once the announced divestitures of Puerto Rico and El Salvador are completed; stability in our net write-off ratios of 50 basis points; and strong loan loss provision coverage of 9 quarters.

So on an all-bank basis, total PCLs of $713 million were down slightly from last quarter but up 32% year-over-year. Looking deeper at this number, roughly 2/3rd of the year-over-year increase was due to volume growth and the impact of our acquisitions. Higher provisions on impaired loans compared to last year were primarily driven by retail provisions that were in-line with asset growth as well as the impact of acquisitions.

Provisions on performing loans were a recovery, mostly reflecting improving credit quality this quarter as well as more favorable macroeconomic factors across our diversified portfolio compared to last quarter.

The total PCL ratio was 48 basis points, improving by 3 basis points quarter-over-quarter but up 8 basis points year-over-year. Our PCL ratio on impaired loans was 52 basis points, which is up 11 basis points from last year and just slightly above the historical average of 46 basis points. These changes reflect the impact of growth in International Banking. So we remain confident in our portfolio quality, and given the underlying credit quality trends, we expect our impaired PCL ratio to remain stable.

Turning now to Slide 14. You can see the recent trend in loss ratios for each of our businesses. And 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 due to portfolio mix changes in retail. As well, commercial experienced a lower level of recoveries. And finally, international PCLs grew in-line with organic growth combined with acquisition-driven asset growth, which was primarily in retail.

Looking now at other credit metrics on Slide 15. Gross impaired loans or GILs decreased to $5.2 billion from $5.4 billion last quarter. Now the gross impaired loan ratio is trending down across the bank and improved on a quarter-over-quarter and on a year-over-year basis. As the announced divestitures are completed, going forward, we expect GILs to improve by a further 10%.

Next, we see that net formations of $861 million were flat with last quarter but up 10% year-over-year. The increase compared to the prior quarter, prior year relates mostly to increases in our international retail, in-line with acquisition-related portfolio growth.

And finally, turning to our net write-off ratio. It continues to remain stable with the increase in International Banking reflecting recent acquisitions.

So in closing, we continue to remain confident in the strong underlying credit quality of our portfolio.

I will 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. We are pleased with this quarter's results, which represent a marked improvement from results earlier in the year. We delivered strong EPS growth. Our recent acquisitions are contributing ahead of expectations, and we made significant progress towards our geographic repositioning while building capital and improving our risk profile. We are delivering a stronger second half performance in 2019, as I indicated last quarter.

Mindful of the lower interest rate environment and emerging macroeconomic risks, we are focused on prioritizing our investment spend, investing effectively and targeting further productivity improvements. The bank's steadily improving capital position provides us with optionality for capital deployment across our high-quality and diversified footprint.

With that, I'll now turn the call over 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

Yes, and that first question comes from Steve Theriault with Eight Capital.

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

Lots of focus on margin this quarter. Raj, last quarter, you talked about sustainability of that 4.50% international margin, plus or minus 10 basis points. We're here in Q3, we're down to 4.45%. You broke out some of that impact. Maybe you could talk a little bit about your outlook. Does that 4.50% still hold in terms of a bogey as we start to think about next year and your outlook relative to Pacific Alliance and other relevant geographies?

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

Sure, Steve. I'll start, and then Nacho will probably provide some color as well. As you know, the all-bank NIM was down only 1 basis point because the Canadian Banking NIM expansion plays a very big part in the all-bank NIM because of the size of the Canadian Bank rather than, say, International Banking. So put it in perspective, International Banking's NIM reduction, which we saw this quarter and down to 4.45%, the year-over-year decline actually benefited the bank as a whole simply because of the high-margin assets that International Banking has and the portfolio mix. So that's to put it just in context. Like I mentioned in my speaking notes that, yes, we had indicated plus or minus 10 basis points to 4.50% after we did the Chile acquisition this time last year, and we're 5 basis points below that 4.50% mark. We expected to be in the range, but I'd probably pass it on to Nacho to provide some more color.

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

Yes. Good morning. We expected to be in that range 4.50%, plus/minus 10 bps. Last quarter was 8 bps above. This quarter, it's 5 bps below. This quarter, in particular, this lower margin was driven by some margin compression in Mexico; some business mix, wholesale growing faster than retail; and also a faster growth of other earning assets as we position ourselves well for lower interest rates. But overall, I remain confident on this range of 4.50% with plus/minus 10 bps going forward for International Banking.

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

And the noise from Mexico this quarter, in terms of higher cost of funds, was that just competition? Or was there something else there? Mix?

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

Well, I think there are several things in this quarter. First, we are comparing a soft quarter in Q3/19 in Mexico with a very strong Q3/18 quarter, really a record year in Mexico. Last quarter, business was strong, but also we had tax benefits last year. So if you exclude that, Mexico is really flat year-over-year in terms of earnings. And that's driven, as you say, mostly by margin compression. The market overall, the cost of funds in the market has increased around 40 bps. That's a matter of term deposits growing faster than chequing and savings account. And in our case, on the lending side, also corporate short-term growing faster than retail, also other earning assets growing faster than loans.

But we continue to see opportunities for us in Mexico and for our customers. As you know, Mexico is an 18% ROE operation. We have significantly improved it with our technology transformation, more than 1,000 bps efficiency improvement.

Also, I would say it's important to highlight that Mexico is 6% of the bank earnings, and the other 3 Pacific Alliance countries are growing earnings 18% year-over-year. So overall, we will compensate for a softer Mexico, and I remain confident on our medium-term target of 9%-plus growth in earnings for International Banking.

Operator

We'll hear from Robert Sedran with CIBC Capital Markets.

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

Brian, you mentioned in your prepared remarks that the renovation is almost finished, I guess. But now that the capital ratio has been rebuilt, and it's a couple of years since the big flurry of acquisition activity, are you starting to think again about deepening and adding to the existing footprint, especially in the International Banking side? Or is the focus still more on protecting capital and buying back some shares?

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

Well, thank you for the question, Rob. Obviously, there's a variety of things we can do with capital. We can pay it out in cash dividends, we can repurchase shares, we can build our businesses organically or we can purchase a business. And the reality is we've done a mix of all 4 of these things in the past.

We're very pleased with our integration in Chile and our wealth integrations. As I highlighted in my remarks, those are going very well and delivering above the metrics that we set out for the financial community.

So we've repurchased 10 million shares this year, and we think our stock is very inexpensive here. And in terms of capital going forward, I think you can think of us repurchasing approximately 4 million shares a quarter.

And our common equity Tier 1 ratio, I think that as a management team, we're comfortable with it around 11.5%, Rob.

Operator

We'll now hear from Meny Grauman with Cormark Securities.

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

Can you just remind us about what you expect the loss earning stream from Thailand to be? And then how much of that EPS impact do you expect to be offset by buybacks in 2020?

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

Sure. I'll go with that, Meny, and see if I can provide some color and restate some of the messages we have had in the past. So Thanachart Bank, as you know, has got a lot of moving parts. We still have 2 subsidiaries which are yet to be sold. And then we have a rate interest of 6% in the combined bank. So with that context, Thanachart Bank, if you look back on an average contributes between $250 million to $300 million of NIAT. For the year, we have slightly higher earnings this particular year in 2019. As I mentioned in the previous call, it can be lumpy, some of the movements that happen in Thanachart Bank. But I think as a run-rate, $300 million is probably the right number to use, and that is approximately a little over $0.20 on the EPS. As you mentioned, some of it is buybacks to contribute to offsetting some of the EPS impact in 2020. We'll provide a more wholesome update, I would suggest, in the Investor Day or in the Q4 call when we're there. But those are probably the numbers here, I think, you can use looking forward.

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

Okay. And then just a follow-up. You talked about acquisitions expected to contribute $250 million in earnings in '19 and then $400 million in 2020. Can you just help triangulate that in terms of the previous guidance, especially for 2020 of $0.15? And what's driving the delta here? What's the reason for an increased estimate?

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

Sure, Meny. It's Raj again. I'll go again on that. So in our previous guidance, we have provided that all the acquisitions, which is the wealth as well as our international acquisitions, will be neutral to the EPS in 2019. Based on the numbers we have seen for 3 quarters and what we estimate for Q4, we think it will be a slightly positive contribution to the 2019 EPS, roughly about $0.02. And like you pointed out, 2020, we had indicated approximately $0.15 to the diluted adjusted EPS. We think it's going to be slightly higher than that, a lot of it driven by better performance not necessarily in Chile, which we talked about a lot. But our wealth acquisitions are doing better than we had previously estimated and what we had put in our models when we did the acquisition.

The acquisition costs are tracking to exactly where we thought it will be. It's actually a couple of million dollars off, which is great when the number's about $250 million. But it's more the revenue synergies. And certainly, we talked about Chile, for example, how 2 banks with 7% market share is adding up to greater than 14%. So it's coming through, and we are very optimistic about how these acquisitions will contribute to our NIAT in 2020 as well. And that's why we think it's going to be greater than $0.15.

Operator

Yes. We'll hear from Doug Young with Desjardins Capital Markets.

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

Just maybe going back, Brian, to one of the comments you made in your opening remarks, you said repositioning of the geographic footprint is substantially completed. Can you maybe flesh out a little bit more about what else are you thinking on that front?

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

Well, not a whole lot. As I chose my words carefully, we are largely done. There might be a couple other small properties that are immaterial to the bank from a P&L standpoint, but we're very pleased with what we've accomplished, the results. And I know that equity analysts are going to focus on lost NIAT, and that's obviously important, and we're focused on that as well, too. But we also think of this from an operational risk standpoint, a country risk standpoint, geopolitical risk, and we've reduced this for the bank significantly.

So in Raj's comments and my comments, we speak about just Puerto Rico and El Salvador. The sale of those 2 smaller jurisdictions is a reduction of GILs of 10% for the overall bank. So that's significant.

Operational risk is really important given our footprint. So you're not going to see anything else of any consequence. Anything else that gets done is going to be immaterial or what I would describe as housekeeping, Doug, but we're pleased with our accomplishments and the status of our footprint today.

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

And if I can sneak just one in for Nacho. Looks like you mentioned Peru or Mexico earnings were down, and you gave a description of that. It looks like Peru is – and I guess it was growing from an earnings perspective but not as much as I would have anticipated. I don't know if there's some noise in the Peru results that you can kind of unpack as well?

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

Yes. It's a little bit difficult to see the year-over-year performance of Peru in – basically because we have timing of recoveries between Q2 and Q3 and acquisition-related PCLs. But if you normalize this impact, Peru has had a very strong quarter. Year-over-year, underlying earnings grew in the double digits. And you can see that because revenues are growing 13% year-over-year and 10% Q-over-Q. Operating leverage was positive 1.5% even when Peru has had an efficiency ratio of 35%. And loan growth came back after 2 soft years, 3% growth Q-over-Q, 11% deposit growth. So I'm very confident that Peru will continue to grow double digits going forward, especially because we expect the economy of Peru also to strengthen next year.

Operator

Yes. You'll hear from Gabriel Dechaine with National Bank Financial.

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

Just want to ask about Canada, actually for Dan. It's been a year where the operating leverage, I think, has been positive for a year, but that's really a reflection of negative or slightly negative expense growth that offset a weaker top line. I'm just wondering what your outlook is for the business into 2020? How sustainable these expense growth rates are? And what the plan is to get the top line moving again? And I'm looking at it excluding real estate gains from the prior year. It's positive revenue growth but a little bit on the low side.

Daniel Llewellyn Rees - The Bank of Nova Scotia - Group Head of Canadian Banking

Hi. It's Dan here. Thanks, Gabriel, for the question. Our intent is to finish this year, fiscal '19, and fiscal '20 with positive operating leverage for the full year. And this quarter, we were particularly pleased to have met our productivity ratio target to "The Street" of 45% a full year ahead of schedule. As you mentioned, expenses were a significant contributor to progress on both of those metrics, which leads me to a few comments about revenue.

My #1 priority in the Canadian bank is to continue to grow the commercial bank at above-average levels, and you saw good results from us this quarter.

Retail revenue, however, requires more attention. In retail, we have more opportunity in credit cards and in insurance in select areas as well as in small business. And you'll see us continue to tilt a little bit further towards deepening relationships with existing customers and redefining the opportunity around the household. We have lots of room to grow in terms of product market share gain where we have attractive risk-related returns and ROEs. So my outlook for next year is to see higher retail revenue growth and continue to see full year positive operating leverage.

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

I know I'm limited on questions here, so I'll just sneak a housekeeping one. The IFRS 16 and securitization impact for Raj in Q1?

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

Yes. Sure, Gabriel. I'll go with that. I think the impact to us is expected to be between 15, no higher than 20 basis points, and that's primarily related to IFRS 16 and securitization. We have limited impact on the counterparty credit risk changes that have happened because we were one of the banks which are on what we call the IMM model. So there shouldn't be much impact on transition. And the capital plans contemplate that in 2020, and we expect to be at the levels that Brian mentioned earlier in spite of this, which will impact our Q1 ratios.

Operator

Scott Chan with Canaccord Genuity.

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

Brian, I just want to go back to the fiscal 2020 updated earnings adjusted accretion guidance. It looks like it's kind of more than double the $0.15. You talked about Chile, BBVA Chile being okay, but commented on wealth being better. And I'm assuming that's kind of driving that variance. And within wealth, what is driving the variance? Is it asset retention? Net sales? Or expense efficiencies? Maybe you can just talk a bit through that for us.

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

So I'll take that, Scott. It's Raj, and I'll see if I can give you some color about the numbers and how they work out. As you know, we issued stock against couple of these acquisitions. So when we talk about $0.15 and diluted EPS, the issued stock which is approximately 34 million shares plays into the calculation. The actual, if you just look at NIAT contribution of all the acquisitions, it will be double that. It will be over $0.30 to the EPS. So hypothetically, if we bought it for cash, it will be $0.30 EPS contribution in 2020. But we have the stock that we need to consider that we issue that reduces it to the $0.15 to slightly above $0.15 we think it'll be for next year.

As far as the acquisition contributions, the $250 million that Brian referenced in his comments is higher, like I mentioned, $0.02 probably to the 2019 EPS in that range and higher than the $0.15. And that's equally distributed. If I look at the wealth result side, Q3 to Q3, it's about $75 million of NIAT contribution, which is $85 million we got from the International Banking acquisition. So it's kind of tracking along considering the capital that we deployed, the split between wealth and international business.

And specifically on the wealth, it's all the items that you mentioned. It is about synergies that we are achieving, and Glen might want to add some color to that once I'm done, but it's also got to do with AUM growth and the business performing better than what we first estimated. Glen?

Glen Gowland - The Bank of Nova Scotia - EVP of Global Wealth Management

Sure. And just to add to that, so we're seeing good organic growth across the business. So if we look at the underlying businesses themselves, on the distribution side, very strong double-digit growth in our investment counsel business, our private banking businesses. On the asset management side, we've had outstanding investment results as well as being in key areas. We're closing in on $1 billion in our liquid alternative launch, so very strong growth across there.

And then as mentioned earlier, on the acquisition side, client retention, any measure, expense revenue, synergy, all going very well. But I think as we look forward, we've got private banking and a number of the wealth services now across our footprint in our MD office as well as Jarislowsky-Fraser, and those are really just building momentum. So we will expect that to continue.

Operator

Yes. We'll hear from Sohrab Movahedi with BMO Capital Markets.

Sohrab Movahedi - BMO Capital Markets Equity Research - Analyst

Nacho, just with the overall volume growth organically, and we're going to lap the benefit of the BBVA Chile acquisition, but when you just think about what Brian said, call it, 3% plus or minus GDP growth in the Pacific Alliance region that you participate in, do you think you're going to be able to maintain this organic, call it, high-single digit, low double-digit loan growth given that NIM guidance of 4.50% plus or minus 10 basis points?

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

Good morning, Sohrab. Yes. I'm quite confident. Loan growth in International Banking has been quite strong, 3% this quarter. And it's interesting to even highlight Mexico, which is softer. But in terms of lending demand, this is 120 million people, a large domestic market. We saw retail growth at 3% Q-over-Q and wholesale at 4% Q-over-Q. That is consistent also with what we are seeing in Peru, in Chile, in

Colombia. So overall, I'm confident that we will be able to continue growing assets in the Pacific Alliance countries at double-digit growth going forward.

Sohrab Movahedi - BMO Capital Markets Equity Research - Analyst

And, Nacho, just to be clear, you are a top 3 bank in Chile, you are a top 3 bank in Peru, you still expect to be able to grow at a healthy rate in those geographies as well as Colombia and Mexico?

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

Yes, definitely. I would say, let me start with Chile. As Brian mentioned, we have won 20 bps of combined market share of this new very large bank. And the asset growth in the market is at that pace, and we expect to do even real better than the market.

And Peru is back. Peru, remember the past 2 years, Peru was soft. The market had a hard time to grow for some quarters. Now Peru is growing at solid double-digit earnings and driven mainly by retail asset growth, but also corporate and commercial is coming back. So we expect a better year for Peru in 2022.

Operator

We will hear from Mario Mendonca with TD Securities.

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

Brian, you've made, obviously, a lot of big changes to the bank, and I think you highlighted for us that you're pleased with how it's adjusted the risk profile of the bank. And when I hear something like that, I immediately think of trade-offs. What was the trade-off in taking the risk profile of the bank down the way you have over the last years? What have you really given up? Obviously, you're pleased with the trade up, but what have you given up, do you perceive?

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

Well, thank you for the question, Mario. If you look at GBM for instance, the repositioning of that business at a trade finance in Asia, changing our business model around the Mocatta business, so those took some time, and they took some effort and refocusing those businesses. But it gives us a better risk profile.

If you look at our RWA density over the last year, that's improved, I think, I might have at the top of my head something like 8%. And we continue to make strides on that. And so as I've said before, we're mindful of economic conditions here. But we have a grade for business, and we're downturn ready. And we're not forecasting a recession by any measure. But at some stage, the cycle will turn, and we'll feel good about that from the perspective of our risk profile is much cleaner as a bank, operational risk is cleaner, all those things. So again, you'll forgo a little bit of net income along the way, but you'll sleep better at night to answer your question.

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

And do you feel like you've given up long-term growth potential for the bank like a few points as a result of this?

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

Not at all. If you go back to my remarks in our annual report 4 or 5 years ago, I outlined that we were going to increase our penetration in the P&C business as in wealth management. And that's not because we don't like the capital markets business, we do, but we want the capital markets to deliver more consistency and predictability in terms of NIAT. And that's exactly what we've done.

Chile is a country we're very comfortable operating in. But you're seeing that in our accretion numbers of putting these 2 businesses together. So it's about consistency and predictability and high-quality growth. And as the countries of Colombia, Peru and Chile are going to grow at 3%-plus next year on any sort of global metric, that's a really good number, and it's a good place for us to be, and we know how to execute.

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

And just finally, when you look at 2020, there's so many moving parts. I really appreciate the difficulty it creates for us in the outlook again. Is there anything you can offer us? Does 2020 feel like a year when there will be EPS growth? Or should we sort of see it as a transition because there's ins and outs and really the growth resumes in 2021?

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

Well, I think in terms of our footprint, there will be growth in 2020, there's no question about that. I think what you're seeing is the divergence globally of corporate economy and the retail economy, if I can use those words. And so corporate spending might come off a bit here. You're seeing that in the U.K., but the consumer is a still strong. So if you cut rates from 2 to 1 in 3 quarters, that might not mean a lot of corporation, but it does to an individual. And that's why I made my opening comments, if you look at Canada, the unemployment rates were at a 40-year low, wages are growing at 4%, mortgage rates are inexpensive. On any historic basis, fuel prices, energy prices are low. It's a sweet spot for the consumer. Not just here in Canada, the U.S., you're seeing it and globally. So that's why Nacho is positive about loan growth in the Pacific Alliance countries, both on a commercial, corporate and retail basis. So we're optimistic about the growth profile of this bank.

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

All right. Thank you, everyone, for participating in our call today. We delivered solid third quarter results. And on behalf of the entire management team, we want to thank all our employees for their hard work. The bank has made good progress towards strengthening our businesses and offering a superior customer experience. We remain focused on delivering against our differentiated strategy and achieving consistent long-term growth. We look forward to speaking with all of us again in November. Thank you very much.