SCOTIABANK

Q1 2020 EARNINGS CONFERENCE CALL

FEBRUARY 25, 2020

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PRESENTATION

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

Good morning, and welcome to Scotiabank's 2020 First Quarter Results Presentation. My name is Philip Smith, Senior Vice President of Investor Relations. Presenting to you this morning is Brian Porter, Scotiabank's President and Chief Executive Officer; Raj Viswanathan, our 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 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.

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. Today, we announced first quarter earnings of $2.3 billion. The quarter marked a very good start to the year with adjusted earnings per share increasing 5% from a year ago and return on equity increasing to 13.9%. The bank also produced positive operating leverage with good revenue growth and prudent expense management.

The bank's underlying performance, which excludes the impact of divestitures was even stronger with earnings growth over 7%. Revenue growth was solid, net interest margins remain stable, credit quality is high and our capital position has improved.

Our performance reflects the strength of our diversified product mix and our geographic focus on the Americas, which we have been working towards over the past number of years. I am pleased with the results in the quarter, which highlights both the importance of diversification and scale in our 6 core markets.

Canadian Banking produced solid earnings growth, positive operating leverage and an improved productivity ratio. We also saw significantly improved results in Global Banking and Markets and Global Wealth Management, which more than offset slightly weaker results in International Banking. I think it is important to put International Banking results into context. Going into this quarter, the business had posted 18 consecutive quarters of earnings growth. This was due in part to the strong fundamentals of our core markets in the Pacific Alliance. As we continue to see improvement in the outlook for both Mexico and Chile, we expect International Banking to have stronger results for the balance of the year. We experienced growth in our fee-based businesses with non-interest revenue increasing in the high single digits year-over-year, which is important to driving growth in a low interest rate environment.

We demonstrated further progress against our strategy to simplify and de-risk the bank, with a reduction of our investment in TMB Bank in Thailand and the closing of the sale of our operations in Puerto Rico, the U.S. Virgin Islands and El Salvador.

As I mentioned at our recent Investor Day, the repositioning of the bank is substantially complete, and our acquisitions have been successfully integrated. Going forward, our operating performance will continue to benefit from a simpler, more focused bank.

Turning to the balance sheet. Asset growth was solid in the quarter, and asset quality remains strong, with a decrease in gross impaired loans, reflecting the impact of recent divestitures. The bank's PCLs and net formations ratio were also stable. In addition, the bank's risk-weighted asset density has declined. This is further evidence of our efforts to de-risk the bank while increasing returns to our shareholders. While there has been considerable media attention given to rising consumer insolvencies in Canada, our credit trends are stable with retail delinquencies in Canada unchanged year-over-year.

In addition, 93% of our loan portfolio in Canadian banking is secured. Daniel will provide further comments later in the call.

In terms of capital management, our common equity Tier 1 capital ratio improved in the quarter, reflecting good internal capital generation and the positive impact of divestitures, which allowed us to invest in organic growth and maintain an active share buyback program. We will continue to be an active buyer of our shares.

Our efforts in digital banking continued to make steady progress. Our leading levels of technology investments are continuing to drive growth in digital sales and digital adoption. In-branch transactions continue to decline as customers increasingly favor digital and mobile accounts for day-to-day transactions. We are close to achieving our goal of less than 10% of transactions being completed in branch.

This will allow us to focus on delivering more value-added advisory services throughout our branch network. We remain focused on realizing the digital dividend for our technology investments in the form of higher digital adoption and a lower productivity ratio.

The bank's commitment to ESG advanced in the first quarter as we committed to mobilizing $100 billion by 2025 to reduce impacts of climate change, and we have been recognized for our climate change governance and greenhouse gas reduction initiatives.

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

Thank you, Brian, and good morning, everyone. I'll start on Slide 5. The bank delivered $2.3 billion in earnings and the diluted earnings per share of $1.83 for the quarter, up 2% and 5%, respectively, compared to last year. Divested operations reduced net income by $109 million on a net basis and diluted earnings per share by approximately $0.09 and as disclosed on Slide 18.

Revenue increased 5% from last year, with strong growth in both net interest income and non-interest revenues. Net interest income was up 3% and primarily driven by solid growth in assets and deposits in Canadian banking, higher contributions from asset liability management activities and acquisitions. These increases were partly offset by the negative impact of foreign currency translation, the impact of IFRS 16 and divestitures that closed this quarter.

The core banking margin was in line with last year. Higher margins from asset liability management activities offset slightly lower margins in the business lines. Non-interest income grew a strong 8% compared to last year, reflecting higher trading-related revenue, higher underwriting and advisory fees as well as higher bank and wealth management revenues. These were partly offset by the impact of divestitures and lower investment gains.

Expenses were up 4% year-over-year, higher regulatory and technology costs, other employee costs and business growth initiatives were partly offset by lower professional and business development expenses, the impact of foreign currency translation, divestitures and IFRS 16.

The all-bank productivity ratio improved 70 basis points to 53.4% and operating leverage was positive 1.3%. The total PCL ratio was 51 basis points, up 1 basis point quarter-over-quarter and up 4 basis points year-over-year.

Our PCL ratio on impaired loans was 53 basis points, up 4 basis points sequentially and up 6 basis points from last year. The tax rate remained in line with our outlook for 2020.

On Slide 6, we provide an evolution of our CET1 ratio over the quarter. The bank reported a common equity Tier 1 ratio of 11.4%, up approximately 30 basis points, primarily due to the divestitures, which closed during the quarter and strong earnings growth. This was partly offset by good growth in risk-weighted assets, regulatory changes and share buybacks.

The CET1 ratio was also impacted by the changes in pension liability, primarily driven by declining discount rates. Internal capital generation was 7 basis points as strong earnings growth was offset by good organic RWA growth. Risk-weighted assets were flat quarter-over-quarter, but up 3% compared to last year. We repurchased approximately 3.6 million common shares during the quarter at an average price of $74.63 per share.

Since May 2018, when we closed our acquisition of Jarislowsky-Fraser, the bank has repurchased and canceled approximately 25 million shares.

Turning now to the business line results, beginning on Slide 7. Canadian Banking reported adjusted net income of $908 million, up 5% year-over-year. Loan growth was strong at 6%.

In retail lending, residential mortgages grew 5%, personal loans 3% and credit cards 5%. Meanwhile, business lending grew 12% and with strong double-digit growth in commercial lending. Deposits grew 5%. The net interest margin was down 5 basis points quarter-over-quarter and down 3 basis points year-over-year, primarily driven by competitive pressures in lending and the impact of IFRS 16.

Non-interest income was up 7%, driven by higher credit card and banking revenue. Expenses increased 4%, driven by personnel and technology costs to support revenue growth. Canadian Banking delivered positive operating leverage of approximately 90 basis points through prudent expense management that was guided by good revenue growth.

The productivity ratio improved 30 basis points to 45.4%. The PCL ratio was flat compared to last year as higher impaired provisions were offset by lower-performing loan PCLs, primarily due to improved retail portfolio credit quality.

Turning to the next slide on International Banking. My comments that follow are based on results on an adjusted and constant-dollar basis.

Earnings of $615 million were down 17% year-over-year or 7% on pre-tax pre-provision basis. Recall that International Banking had strong growth in the last 16 quarters. Excluding the impact of divestitures, earnings were down 4% year-over-year. Last year benefited from tax benefits in Mexico that have now returned to more normal tax rates. Normalizing for these tax benefits, International Banking's NIAT grew 4%, driven by strong growth in Peru. The benefit of the alignment of reporting period of Mexico in the quarter was offset by the benefit from the alignment of reporting period of Peru in the same quarter last year. Revenue declined 2%, excluding divestitures, revenue grew 4% year-over-year. The Pacific Alliance countries grew revenues by 5% year-over-year.

Net interest margin declined 3 basis points year-over-year to 4.51%, driven by margin compression due to Central Bank rate changes in Mexico, loan spread compression in Chile and the impact of IFRS 16.

NIM was stable relative to last quarter as margin compression was offset by the benefit from divestitures that closed this quarter. The NIM remained well within our guidance range of 4.5%, plus or minus 10 basis points.

Excluding the impact of divestitures, non-interest income was up 2%, driven by higher Capital Markets revenue in Chile, partly offset by the gain on sale of a foreclosed asset in the prior year.

Expenses were up 3% year-over-year. Excluding divestitures, expenses were up 5% year-over-year, primarily driven by the acquisitions in Peru and the Dominican Republic that closed in the second half of last year.

Operating leverage was negative 3.8% or negative 0.8% excluding the impact of divestitures. This was a transitional quarter for International Banking as we reduced our interest in TMB Bank, closed the sale of operations in 3 countries and completed the integration of acquisitions into others.

Turning now to our Global Wealth Management segment on Slide 9. Earnings of $318 million were up a strong 11% year-over-year. Revenues were up 5% year-over-year or 7% excluding the impact of divestitures, reflecting strong AUA and AUM growth and brokerage revenues.

Assets under management increased 6% year-over-year, and assets under administration increased 7% year-over-year, reflecting market appreciation and positive net sales in mutual funds.

Excluding the impact of divestitures, assets under management and assets under administration, year over growth was 13% and 11%, respectively. We are continuing to see strong asset growth and earnings momentum across our advisory and asset management businesses, including Jarislowsky-Fraser and MD Financial. Beyond the impact of improved equity markets, AUM growth benefited from net retail investment fund sales of $1.7 billion in the quarter and sustained superior investment results.

Over the last 5 years, 80% of AUM are in the top 2 quartiles for performance. Expenses grew 2%, primarily reflecting higher business volume. The productivity ratio continues to be industry-leading and improved a further 180 basis points to 62.4%.

Moving to Slide 10, Global Banking and Markets. Net income of $451 million was up a strong 35% year-over-year and up 11% quarter-over-quarter due to record revenue, driven by strong performance in our trading businesses, primarily in fixed income as well as higher underwriting fees.

Despite a continued volatile environment, M&A and advisory pipelines remain strong.

Corporate loans grew 6% year-over-year, reflecting continued growth in Canada, with greater than 80% of this growth in investment-grade loans. On the other side of the balance sheet, customer deposits were up a very strong 21%.

Net interest income was down 13% year-over-year due to deposit margin compression and lower loan origination fees, partly offset by loan growth.

Non-interest income was up a strong 34% year-over-year, driven by strong performance in fixed income trading and underwriting activity.

Expenses were up a modest 1% year-over-year due to higher performance-based compensation, reflecting the strong revenue growth this year.

Recall that this is a seasonally higher expense quarter for the business. The business expense growth will be guided by revenue growth and focused on generating positive operating leverage for the year.

Strong revenue growth combined with prudent expense management contributed to the productivity ratio improving by 850 basis points year-over-year.

I'll now turn 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 gains and losses on divestitures and asset liability management activities.

My comments that follow are on an adjusted basis. The Other segment reported a smaller loss compared to last year, due mainly to higher contributions from asset liability management activities. Quarter-over-quarter, the Other segment reported a lower loss, due mainly to higher contributions from asset liability management activities that were partly offset by lower securities gains and higher non-interest expenses. The results in the Other segment are in line with previous guidance.

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

Daniel Moore - The Bank of Nova Scotia - Group Head & CRO

Thank you, Raj. Now I will begin my remarks on Slide 13. But before I begin, I'd like to draw your attention to the additional disclosure on Page 23 of the MD&A, highlighting certain key macroeconomic variables used to estimate the allowance for credit losses for the additional pessimistic scenario that we added this quarter.

Now as of Q1, our credit quality continues to be strong, and our underlying credit performance remained stable. As Brian mentioned, our delinquency rates remain stable in our Canadian retail portfolio and continue to improve in our international retail portfolio. Our GIL ratios continue to improve across the bank and are in line with our prior guidance following the closing of divestitures in Puerto Rico and El Salvador.

Our net write-off ratio has increased modestly to 54 basis points, driven by higher write-offs in Global Banking and Markets and a 2 basis point impact to be aligned with the reporting period in Mexico, which was mentioned previously. However, it remains well within our risk appetite.

We have strong loan loss provision coverage of over 8 quarters. The adjusted PCL ratio in Q1 was 51 basis points, up 1 basis point quarter-over-quarter and up 4 basis points year-over-year. Higher PCL ratios year-over-year are largely due to business mix changes driven by acquisitions.

Moving now to Slide 14. All my comments exclude the impact of the additional pessimistic scenario. On an all-bank basis, total PCLs of $771 million were up 12% year-over-year and up 2% from the last quarter, reflecting the impact of the higher impaired PCLs, partly offset by lower-performing loan PCLs.

Provisions on impaired loans increased 18% year-over-year and were up 8% quarter-over-quarter. Higher provisions on impaired loans compared to last year were primarily driven by higher Canadian and International Retail provisions, and this was driven by loan growth.

Provisions in Global Banking and Markets also contributed to the increase after 7 consecutive quarters of recoveries over the last 8 quarters.

Provisions on performing loans declined by $40 million year-over-year and quarter-over-quarter. Lower provisions on performing loans compared to last year mainly reflects improvement in credit quality, primarily in International Retail, driven in part by our divestitures. This was partially offset by volume growth, a less favorable macroeconomic outlook and some migration from performing to impaired in Global Banking and Markets.

Turning now to gross impaired loans or GILs on Slide 15. GILs declined 7% quarter-over-quarter. The GIL ratio continues to trend lower across the bank and has improved both on a quarter-over-quarter and on a year-over-year basis. As we previously discussed, the GIL ratio declined 7 basis points quarter-over-quarter and 13 basis points year-over-year, primarily due to the impact of divestitures and International Banking.

So if we look back over the past 3 years, our gross impaired loan ratio has declined from over 100 basis points to 77 basis points today.

Next, we see the net formations of $968 million were down 1% versus last quarter and up 3% year-over-year. The increase compared to prior year relates mostly to portfolio growth as the net formations ratio was stable.

And finally, turning to our net write-off ratio. We saw a modest 4 basis point increase relative to last year, reflecting higher write-offs in Global Banking and Markets and the alignment of reporting periods in International Banking. Excluding the impact of the alignment of reporting period effect and the elevated write-off in GBM, which we do not anticipate in future quarters, the net write-offs ratio remained stable.

In closing, we 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 the balanced performance across our business lines to start the year. Strong performance by Canadian Banking, Global Wealth Management and Global Banking and Markets was more than sufficient to offset the impact of divestitures in International Banking. This reflects the importance of our diversification, both by product and by country across our footprint. I am confident that our core markets in Latin America will again prove resilient and that International Banking will achieve its growth targets.

Our repositioning efforts, while time-consuming, have been substantial. We are now a leading bank in the Americas with competitive scale and diversification in our 6 core markets, which represent over 85% of the bank's earnings. This was, in many ways, a transitional quarter for International Banking, as we closed our last major divestitures and completed important integrations.

Our management team is now focused on demonstrating the earnings power of the reposition bank to our shareholders. I will now pass the call back to Philip.

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

Thank you, Brian. We will now be pleased to take your questions. Please limit yourself to 1 question and then re-join the queue to allow everyone the opportunity to participate in the call. We'll return at the end to make a few closing remarks after the Q&A session. Operator, can we have the first question on the phone, please?

QUESTIONS AND ANSWERS

Operator

The first question is from Doug Young with Desjardins Capital.

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

My question maybe is with Nacho and just on International Banking. I mean Page 21 of the shareholder report gives us the adjusted earnings from Mexico, Peru, Chile and Colombia, and I think there's a lot more that you can unpack there because I think there was some one-time items last year that impacted Mexico and Peru. So hoping you can give us what was the impact from the tax item in Mexico last year, the Peru realignment? And then talk a bit about how things are going in Chile and the outlook for Chile?

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

Sure, Doug. Well, first, let me say that International Banking and putting things in perspective, has had 18 consecutive quarters of strong assets and revenue growth, delivered positive operating leverage and have improved by more than 500 bps of productivity index.

As Brian mentioned, this is a transition quarter for IB with many moving parts. For example, we are reporting wealth separately for the first time, and it is also important to account for divestitures and FX. So just trying to compare Doug, apple-to-apples in constant FX, this is a low quarter in Q1, as I expected and mentioned mainly in our Investor Day, mainly due to the developments in Chile.

In Q1/20, our earnings are 4% less than the last year. So if you adjust for the Mexico tax benefits that I mentioned, we are growing 4% year-over-year. And this is our underlying growth of International Banking in Q1.

I am confident our performance will be stronger from here, particularly in the Pacific Alliance countries, and let me explain you why.

First, Peru is very strong and will remain strong during the year. This quarter, excluding the 1-month lag elimination of Peru last year, Peru is growing earnings by 20%. So what matters really is to understand the trends in Mexico and Chile going forward. And I'm very pleased to see the sequential improvement in both countries. Let's start with Chile. Chile was flat year-over-year at constant, which is better than when I expected and indicated in Investor Day, and this is the main reason why International Banking is below our 9% medium-term target. However, if you look sequentially, Chile Q-over-Q increased earnings 19% and loan growth was 2%, despite the process at the end of the year, I think this is very good news, and I expect Chile to improve gradually.

In the case of Mexico, excluding the tax benefits in the prior year, Mexico is also relatively flat, but Q-over-Q earnings in Mexico increased by 6% and loan growth was very strong at 4% Q-over-Q. So over 2019, we have increased 50 basis points our market share in Mexico. We expect now NIM to stabilize and volumes to translate into revenue growth in future quarters.

Finally, Colombia had a low quarter mainly due to the integration that we just completed in November, but we expect Colombia to rebound to more normal levels in Q2 and deliver on our growth commitments for this year. The Caribbean and Central America after the divestitures also had a good quarter, growing earnings 6%.

So in summary, we expect our earnings to grow starting in Q2 and continue to improve gradually to achieve our 2020 outlook of high single-digit growth on a constant dollar basis and delivered positive operating leverage.

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

So your outlook for achieving your 9%-plus or high single-digit growth, including Q1 for fiscal '20, that hasn't changed including divestitures and excluding all the noise?

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

Excluding divestiture at constant FX, I'm confident we will be growing at high single digits in 2020, including Q1.

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

Brian, unless I'm mistaken, and it's probably possible that I am, you had previously suggested something in the area of 11.5% or higher as an operating level for the CET1 ratio. And obviously, comfortable, you're buying back stock, you're not quite at that level. Does all the M&A being behind you suggest perhaps you can feel comfortable in that 11% to 11.5% range? Or do you still want to be above that 11.5% over time?

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

How about I start, Rob, on that question. This is Raj. Yes, as we indicated in the Investor Day, we'd like to operate around 11.5% plus or minus 10 basis points. As you know, pension is one of those that seems to continuously move against us, and this quarter, we lost about 7 basis points. Buyback is absolutely like we have said before, we expect to continue to buy back our stock. As you know, we issued about 34 million shares as part of the acquisition. So that's our first target we'd like to meet and obviously continue going as we generate strong internal capital in this bank.

Internal capital generation, which is really our earnings minus our organic risk-weighted asset growth, I would say it will be, in any quarter, between 5 and 10 basis points. So we're going to accrete capital for sure.

How do you deploy that 5 and 10 basis points depending on how pension moves, for example, and how many shares we buy back will determine at what rate we'd like to operate, but we certainly will operate around 11.5% range.

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

So Raj, just to confirm, so you're suggesting a sort of run rate capital, all else equal, of something 5 to 10 basis point accretion on a quarterly basis?

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

That's correct, Rob.

Operator

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

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

I was wondering, Raj, if you could address just the outlook for the margin in the Canadian Banking segment? We saw a pretty decent fall off. And this outlook, as you expect, on a go-forward basis and if the Bank of Canada ends up cutting interest rates, what's the sensitivity to your margin outlook? And also on the International, if the 4.5%, plus or minus, still the right way to think about the International NIM?

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

Sure, Ebrahim. I'll start with the all-bank. Overall, as we have mentioned before, we focus on managing the bank's interest rate risk in the balance sheet to minimize the volatility to the all-bank's NIM. And this quarter is actually an example of it when you look at it year-over-year, where it's flat, although we had saw some margin compression in the 2 business lines that you just mentioned. If I address Canadian Banking first, it's primarily driven by competitive pressures that we are seeing in the market, both in the Retail as well as in the Commercial segment. And as far as the International Banking margin changes go, driven by Central Bank rate changes, and of course, the divestitures and International Banking when you compare year-over-year.

The all-bank level, like I mentioned, the NIM was flat. A number of moving parts that impacted the bank's NIM this quarter: divestitures that closed; IFRS 16 is also a big component as you know some of those go through the interest expense line; small, but still about a basis point. But the all bank NIM really benefited from better asset liability management activities, which we've talked about before.

The bank is positioned to be neutral or benefit slightly from interest rate cuts should they happen in Canada or even across the Pacific Alliance. So as we look at the business lines, you might see some margin compression if there are rate cuts. But at the all bank level, we expect to offset that through the balance sheet statements risk management process that we put in place.

So I'd like to say at the all bank level, we expect NIM to be stable to maybe slightly lower through 2020 as we indicated in our outlook in November as well as in the Investor Day.

Operator

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

Sohrab Movahedi - BMO Capital Markets Equity Research - Analyst

Raj, a bit of an unfair question maybe, but lots of moving parts, a bit of obviously transition quarter. As you think about the earnings power for the organization, can you talk us through by segment what number you're working off of as you think about the target numbers and the outlook numbers that you have for each segment's growth in 2020?

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

So let me start at the all-bank level, Sohrab. Like we mentioned at the Investor Day, adjusting for the divestitures on an EPS basis, we expect to have a 2% growth at the all-bank level by the time we end this year. So obviously, International Banking is the one which is most impacted by the divestitures, and we have indicated high single-digit growth on a constant-dollar basis. And that's important because they do have currency changes, particularly if you take Chile. Chile's exchange rate has moved fairly significantly year-over-year when you compare. So we expect that to be in a high-single digit, you could call it 7% in that range on a constant-dollar basis.

As far as Canadian Banking is concerned, we've talked about mid-single-digit range growth, which could be anything between 4% to 5%, so in line with what you saw this quarter, about a 5% year-over-year sequential growth. And luckily, they don't have any more large moving parts with all the real estate gains out of the way now.

Global Banking and Markets, obviously, very strong Q1, driven by a lot of the business changes, which we have been working on for the last 3 years. So stable earnings. We have indicated in the past, it could be anywhere over $400 million on an average when you look across the 4 quarters.

And finally, Global Wealth Management. We expect it to be in this range, $315 million, $320 million in that range, which, sequentially, when you look at it year-over-year will equate it between 7% and 8% growth. So overall, I'd say the bank would grow 2% from an EPS basis, which is adjusted for divestitures, like I mentioned, and the outlook that we gave for each of the business lines is consistent with what we spoke about in November, none of it has changed.

Sohrab Movahedi - BMO Capital Markets Equity Research - Analyst

And the basis that you're working off of in each segment? So for example, in International Banking, the quarter, you came in at $615, on a Canadian dollar basis. That's a number that is a clean number in your opinion?

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

No. The $615 you've got to adjust for. It had divestiture benefit, which is really a Q1 since all the divestitures are now closed, which is about $55 million. And of course, the 1-month lag that we talked about on Mexico. So from there, it will start growing sequentially starting from Q2 onwards and accelerating in Q3 and Q4, like Nacho mentioned. As Chile comes back to more normalized growth levels and Mexico is showing good sequential growth. So the starting point should be, if you want to really use the starting point for Q1, for International Banking, excluding these 2 items, it's more like the $525 million, $530 million range, but growing pretty rapidly from there as we look for the rest of the year.

Operator

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

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

Thanks, Nacho, for the previous answer you gave on the outlook for your countries. I'm wondering about how the coronavirus thing affects your outlook, if at all, and look across the Pacific alliance, China is #1 and #3 export market for these countries. If you're seeing anything yet? Or it's too early, if you can talk about that, please?

Daniel Moore - The Bank of Nova Scotia - Group Head & Chief Risk Officer

Gabriel, Daniel here. I'll start, and then I'll hand over to Nacho. First, let me say on the coronavirus. It is an evolving file, but our first and foremost concern is for the health and safety of our employees. And our management team has responded swiftly and thoughtfully throughout the whole enterprise in this regard.

Secondly, we've had a very strong focus here on the operational continuity, by the senior management response committees throughout our whole footprint so that we can assure the continuity of all our services to all of our customers.

Then, of course, from there, we turn to the financial risks. I want to say, first off, that we have no direct exposure to the acutely affected areas in China. We do look then through, as you indicate to the second order effects such as the impact of lower Chinese consumer demand on top of global demand, such as the global supply chain index and what not. And on this point, I'd say we're continuing to our stress analysis, look at the scenarios and look at the evolving data, but it is too early to tell on whether it would be a material impact from COVID-19 on our business.

Our stress scenarios would indicate that we do not think it is material at this juncture, and we turn to our footprint, for instance, any point in Chile, we're very pleased with the Chile's results. And with that, I'll hand it over to Brian to comment on.

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

Yes, Gabe, just to add to that, if you look at Chile, Chile is a very diversified economy. The market tends to look at as a proxy for copper, which really, when you look at it, mining only represents 12.5% of Chilean GDP, and that contribution has been declining for 10 straight years. So my point is the Chilean economy is a very well diversified economy, approximately 29% of the exports that's all copper go to China. And then the U.S. market would be the second largest market, and the rest is very diversified from there.

And I would highlight, when we've gone through periods like this, is that keep in mind that Chile is the world's low-cost producer of copper, which is certainly beneficial. So the theme here is that these economies are well diversified. The major markets were either the U.S. or China or reverse the other way.

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

Okay. And then, I guess, Daniel, I don't think this is unique to Scotia at all, but for Q2, should we expect some noise in the stage 2 provisions as it relates to this issue growing on the COVID-19 and the rail blockades?

Daniel Moore - The Bank of Nova Scotia - Group Head & Chief Risk Officer

I would say at this juncture, Gabriel, probably too early to tell what the impact will be. I'll come back to that point. We'll continue to monitor it. If there is impact, it would show up in the performing PCL line item. But at this point, we don't think it's material on either file.

Operator

The next question is from Mario Mendonca with TD Securities.

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

Maybe this is for Brian or Raj. When you made the point that you'd be active in the buyback or you'd expect to continue to buy back stock, when you look at your CET1 ratio, do you look at it solely from Scotia's perspective, sort of in isolation, 11.5% makes sense to you in the context of your risks you have? Or do you actually look at it across all your competitors, both Canada and the U.S.? And does the relative Tier 1 ratio make a difference in your decision process?

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

Yes, that's a good question, Mario. And we look at the U.S. banks, which have been taking their common equity Tier 1 numbers down, and have been very active in their buybacks and we look at our Canadian peers. And obviously, it has a lot to do with our risk appetite and the quality of our assets, which we believe are very high. And we look at stress test to see how it's going to impact our capital number under a variety of different scenarios. So we look at the competitive landscape, and what we need to run our business effectively. And we have, as you know, different optionality, we can grow organically, we can acquire businesses where we can buy back our own shares. And the reality is we've done a combination of all those things and to show you the power of the bank in terms of capital generation, while we've gone through this acquisition and divestiture period, as Raj said, we bought back 25 million shares of the 34 million shares we've issued, and we'll continue at these levels to be a buyer of our stock.

Operator

The next question is from Meny Grauman with Cormark Securities.

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

I just wanted to follow-up on Sohrab's question and just from an enterprise point of view. Given the stronger start to the year in terms of especially GBM and also the positive commentary from International Banking, why is it not reasonable to expect better than 2% EPS growth for the year? What are the key sort of risk factors that you're watching as the year progresses?

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

Yes. I think I'll start there, Meny. I think it's a good question. It's been a great start. So absolutely, there's no doubting that GBM has done very well this quarter. But as I mentioned earlier, this quarter does have a little over $50 million of divestiture-related income, which is going to go away for the remaining quarters. But the point remains that on a normalized basis, the remaining quarters are going to continue to grow for the rest of the year. But a $0.40 EPS impact to start with on the divestitures and growing by 2%, like we said in the Investor Day, equates to more 7% growth for the whole year, which is in excess of our medium-term objectives. So if you look at it from that perspective, particularly when most of our industry peers are expected to grow between 3% and 4%. We think that will be extremely strong growth and we expect to deliver that for the remaining quarters. So it's a good start. We're very optimistic. We feel very good to start the year this way. But we'll see how the quarters evolve. We expect International Banking to do significantly better than this quarter, as Chile starts getting back to its normal growth rate.

If you talk about the risks, GBM is a market-facing business, so as our wealth business. So we're benefiting from some of the good market movements, apart from our business strategy playing out the way we think it should play out. The Canadian bank is of some of the real estate gains and so on, solid volume growth we see. I talked a bit about margin earlier. So we're not very concerned about it. The International Bank when it starts performing the way it's been doing for the last 16 quarters, we're very optimistic to finish at the 2% growth rate that we talked about.

And at this time, like I said, it decreased to 7% or greater than 7% growth on a normalized basis.

Operator

The next question is from Scott Chan with Canaccord Genuity.

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

Just kind of going back to the pre-announced charges, specifically the DVA and the ACLs in the pessimistic scenario. Maybe perhaps you can comment on the thought process of putting back to non-core in the results? And yes, I'll just leave it there.

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

Sure, Scott. It's Raj. So let me start on the 3 items. So the first one is the fourth scenario, as we call it, which is severe pessimistic scenario and so on. So we could have done 1 of 2 things: at the time of implementation in 2017, if we were as wise as we are today, we would have probably included in the transition adjustment and had 4 scenarios. As you know, the practices around the world has evolved around how they look at these pessimistic, frankly, all the scenarios. And we have basically chosen to move to the approach that many of our European banks to where they do multiple scenarios, not just the 3 that most of our peers do over here. So we looked at it, and really, we looked at it from the perspective of saying, if we stressed it really to a highly pessimistic level from a balance sheet perspective, it's only 3% on our loan loss provisioning, which is about $150 million. So for us, we looked at it as something which is a one-off methodology change, which is not going to repeat and we expect our PCL ratio to remain around the 51 basis points rate, which is the adjusted base for the rest of the year. So it's a one-time pickup from our perspective. So we decided to adjust.

When you look at the other 2 items that we adjusted, one of which being the software write-off. It's a third-party vendor software, which depends on another third party. So we had limited ability to control. It's the right thing to do from an accounting perspective to take the charge off, and again, it's a one-time item, it's about $50 million pre-tax of $40 million-odd after tax. So that to us is a one-off software, which we had to do the right thing because we had to transition to a better software and a newer version that we have use.

Finally, XVA. XVA, as you know, is a component of derivative valuation, and it affects uncollateralized OTC derivatives, primarily in the GBM Capital Markets division. If you go back to 2014, XVA was significantly revised to include what they call funding related adjustments at that time, but there wasn't a standardized global approach. Over the years, market practices evolved, and we implemented a new centralized valuation platform provides better modeling, data aggregation capabilities and so on. So it really reflects the adoption of an enhanced fair value methodology that relates on collateralized OTC derivatives, very much aligned to current market practices and also, I believe, it's a one-time adjustment to how you do valuation of derivatives.

So that's a common theme. We believe these are all one-time, not repeatable, fairly significant. That's why we called it out and adjusted.

Operator

The next question is a follow-up question from Ebrahim Poonawala with Bank of America.

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

Just had a question, Brian, around just return on equity. You talked at the Investor Day, your 14%-plus target for the enterprise in terms of ROE, highlighted the higher ROEs in the Pacific Alliance. But when I look at the Canadian segment, International segment ROEs have gradually come down. And when we look at that 13.9% you reported for this quarter, just talk to us around your outlook in the current environment, do we expect a meaningful improvement on the ROE front, driven by the deals, the synergies coming off of that? Or just maintaining around 14% would be good enough in this current macro backdrop?

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

Yes, thanks, Ebrahim. As for our medium-term targets, an ROE of 14%-plus has been publicly stated. We had an ROE, as you can see, a 13.9% this quarter. We think, as the bank has absorbed these acquisitions and dealt with the divestitures, that this is a 15%-plus ROE bank and that's what we're striving for. I talked a little bit about that at Investor Day last month in Santiago, Chile. So the quality of the assets of the bank have improved the earnings power of the bank has improved, and you'll continue to see that quarter-by-quarter here.

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

So you think that 15%-plus is kind of something that we can expect Scotia to get close to maybe over the next year or so?

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

Well, I think it's further out than a year, but you're going to see ROE continually improve quarter-by-quarter here, and that's a function of stronger profitability, better expense management, we can certainly move our productivity performance in Mexico, better in Chile, better in the Canadian bank we can be better. And as I said, higher quality earnings are going to drive the ROE. So we think we're a 15%-plus ROE, I think, over time.

Operator

The next question is from Steve Theriault with Eight Capital.

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

I wanted to touch on that Canadian Banking for a moment for likely for Dan. Commercial loan growth was strong at 12%. First time you've gotten well into double digit range. I know that's been a focus for you, Dan, off the hop? Can you talk a little bit about where you're making headway? And is it – should we expect double-digit growth now through 2020, now that you're getting some enhanced traction there?

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

Steve, Dan. Thank you for the question. As you highlighted, this is an area of focus for us for the last number of quarters because we see ourselves as being under-indexed in this segment. And in certain parts of the business bank, particularly in the mid-market, we think we have a specific opportunity to gain share from competitors and have been adding sales capacity, as you've heard for the last couple of quarters to do that. I'm pleased with this growth rate number. I think it's fair to say that across the sectors and the provinces we've been talking about. The growth has been broad-based. Should the growth decline a little bit going forward. I wouldn't be surprised by that, but this was a strong start to the year with customers we have known for a long time. So it's a good start.

Operator

There are no further questions on the line.

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

Thank you, everyone, for participating in our call today. On behalf of the entire management team, we want to thank our investors and analysts for participating in our Investor Day in Chile. I also want to thank all our employees for their focus and hard work to deliver to all our stakeholders, and our customers and shareholders for their loyalty and support. We remain focused on delivering against our strategy and achieving consistent long-term growth. We look forward to speaking with you again at our 2020 Q2/20 call on May 26. Have a great day, everybody.