SCOTIABANK

Q4 2024 EARNINGS CONFERENCE CALL

December 3, 2024

DISCLAIMER

THIS TRANSCRIPT HAS BEEN FURNISHED FOR YOUR INFORMATION ONLY, IS CURRENT ONLY AS OF THE DATE OF THE CONFERENCE CALL, AND MAY BE SUPERSEDED BY MORE INFORMATION. EXCEPT AS REQUIRED BY LAW, THE BANK OF NOVA SCOTIA ("BNS") DOES NOT UNDERTAKE ANY OBLIGATION TO UPDATE THE INFORMATION, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR OTHERWISE. THE INFORMATION CONTAINED IN THIS TRANSCRIPT IS A TEXTUAL REPRESENTATION OF BNS Q4 2024 EARNINGS CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALL. IN NO WAY DOES BNS ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON BNS' WEBSITE OR IN THIS TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE WEBCAST (AVAILABLE AT SCOTIABANK.COM/CA/EN/ABOUT/INVESTORS-SHAREHOLDERS/FINANCIAL-RESULT.HTML) ITSELF AND BNS' REGULATORY FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

FORWARD-LOOKING INFORMATION

From time to time, our public communications include oral or written forward-looking statements. Statements of this type are included in this document, and may be included in other filings with Canadian securities regulators or the U.S. Securities and Exchange Commission (SEC), or in other communications. In addition, representatives of the Bank may include forward-looking statements orally to analysts, investors, the media and others. All such statements are made pursuant to the "safe harbor" provisions of the U.S. Private Securities Litigation Reform Act of 1995 and any applicable Canadian securities legislation. Forward-looking statements may include, but are not limited to, statements made in this document, the Management's Discussion and Analysis in the Bank's 2024 Annual Report under the headings "Outlook" and in other statements regarding the Bank's objectives, strategies to achieve those objectives, the regulatory environment in which the Bank operates, anticipated financial results, and the outlook for the Bank's businesses and for the Canadian, U.S. and global economies. Such statements are typically identified by words or phrases such as "believe," "expect," "aim," "achieve," "foresee," "forecast," "anticipate," "intend," "estimate," "outlook," "seek," "schedule," "plan," "goal," "strive," "target," "project," "commit," "objective," and similar expressions of future or conditional verbs, such as "will," "may," "should," "would," "might," "can" and "could" and positive and negative variations thereof. By their very nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties, which give rise to the possibility that our predictions, forecasts, projections, expectations or conclusions will not prove to be accurate, that our assumptions may not be correct and that our financial performance objectives, vision and strategic goals will not be achieved. We caution readers not to place undue reliance on these statements as a number of risk factors, many of which are beyond our control and effects of which can be difficult to predict, could cause our actual results to differ materially from the expectations, targets, estimates or intentions expressed in such forward-looking statements. The future outcomes that relate to forward-looking statements may be influenced by many factors, including but not limited to: general economic and market conditions in the countries in which we operate and globally; changes in currency and interest rates; increased funding costs and market volatility due to market illiquidity and competition for funding; the failure of third parties to comply with their obligations to the Bank and its affiliates, including relating to the care and control of information, and other risks arising from the Bank's use of third parties; changes in monetary, fiscal, or economic policy and tax legislation and interpretation; changes in laws and regulations or in supervisory expectations or requirements, including capital, interest rate and liquidity requirements and guidance, and the effect of such changes on funding costs; geopolitical risk; changes to our credit ratings; the possible effects on our business and the global economy of war, conflicts or terrorist actions and unforeseen consequences arising from such actions; technological changes, including the use of data and artificial intelligence in our business, and technology resiliency; operational and infrastructure risks; reputational risks; the accuracy and completeness of information the Bank receives on customers and counterparties; the timely development and introduction of new products and services, and the extent to which products or services previously sold by the Bank require the Bank to incur liabilities or absorb losses not contemplated at their origination; our ability to execute our strategic plans, including the successful completion of acquisitions and dispositions, including obtaining regulatory approvals; critical accounting estimates and the effect of changes to accounting standards, rules and interpretations on these estimates; global capital markets activity; the Bank's ability to attract, develop and retain key executives; the evolution of various types of fraud or other criminal behaviour to which the Bank is exposed; anti-money laundering; disruptions or attacks (including cyberattacks) on the Bank's information technology, internet connectivity, network accessibility, or other voice or data communications systems or services, which may result in data breaches, unauthorized access to sensitive information, denial of service and potential incidents of identity theft; increased competition in the geographic and in business areas in which we operate, including through internet and mobile banking and non-traditional competitors; exposure related to significant litigation and regulatory matters; environmental, social and governance risks, including climate change, our ability to implement various sustainability-related initiatives (both internally and with our clients and other stakeholders) under expected time frames, and our ability to scale our sustainable-finance products and services; the occurrence of natural and unnatural catastrophic events and claims resulting from such events, including disruptions to public infrastructure, such as transportation, communications, power or water supply; inflationary pressures; global supply-chain disruptions; Canadian housing and household indebtedness; the emergence or continuation of widespread health emergencies or pandemics, including their impact on the global economy, financial market conditions and the Bank's business, results of operations, financial condition and prospects; and the Bank's anticipation of and success in managing the risks implied by the foregoing. A substantial amount of the Bank's business involves making loans or otherwise committing resources to specific companies, industries or countries. Unforeseen events affecting such borrowers, industries or countries could have a material adverse effect on the Bank's financial results, businesses, financial condition or liquidity. These and other factors may cause the Bank's actual performance to differ materially from that contemplated by forward-looking statements. The Bank cautions that the preceding list is not exhaustive of all possible risk factors and other factors could also adversely affect the Bank's results, for more information, please see the "Risk Management" section of the Bank's 2024 Annual Report, as may be updated by quarterly reports. Material economic assumptions underlying the forward-looking statements contained in this document are set out in the 2024 Annual Report under the headings "Outlook", as updated by quarterly reports. The "Outlook" and "2025 Priorities" sections are based on the Bank's views and the actual outcome is uncertain. Readers should consider the above-noted factors when reviewing these sections. When relying on forward-looking statements to make decisions with respect to the Bank and its securities, investors and others should carefully consider the preceding factors, other uncertainties and potential events. Any forward-looking statements contained in this document represent the views of management only as of the date hereof and are presented for the purpose of assisting the Bank's shareholders and analysts in understanding the Bank's financial position, objectives and priorities, and anticipated financial performance as at and for the periods ended on the dates presented, and may not be appropriate for other purposes. Except as required by law, the Bank does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by or on its behalf. Additional information relating to the Bank, including the Bank's Annual Information Form, can be located on the SEDAR+ website at www.sedarplus.ca and on the EDGAR section of the SEC's website at www.sec.gov.

CORPORATE PARTICIPANTS

Scott Thomson
The Bank of Nova Scotia – President & CEO

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

Philip Thomas
The Bank of Nova Scotia – Chief Risk Officer

Francisco Aristeguieta Silva
The Bank of Nova Scotia - Group Head of International Banking

John McCartney
The Bank of Nova Scotia – SVP of Investor Relations

CONFERENCE CALL PARTICIPANTS

Ebrahim Poonawala
BofA Securities, Research Division - MD of United States Equity Research & Head of North American Banks Research

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

John Aiken
Jefferies - Director of Research, Canada

Lemar Persaud
Cormark Securities Inc., Research Division - Research Analyst

Mario Mendonca
TD Cowen, Research Division – MD

Matthew Lee
Canaccord Genuity Corp., Research Division - Analyst

Paul Holden
CIBC Capital Markets, Research Division – Executive Director of Institutional Equity Research

Sohrab Movahedi
BMO Capital Markets Equity Research - MD of Financials Research

Jill Shea
UBS Securities - Anayst

PRESENTATION

John McCartney – The Bank of Nova Scotia – SVP of IR

Good morning, and welcome to Scotiabank's 2024 fourth-quarter results presentation, and apologies for our late start this morning. My name is John McCartney, and I'm Head of Investor Relations here at Scotiabank. Presenting to you this morning are Scott Thomson, Scotiabank's President and Chief Executive Officer; Raj Viswanathan, our Chief Financial Officer; and Phil Thomas, our Chief Risk Officer.

Following our comments, we will be glad to take your questions. Also present to take your questions are the following Scotiabank executives: Aris Bogdaneris from Canadian Banking; Jacqui Allard from Global Wealth Management; Francisco Aristeguieta from International Banking; and Travis Machen from Global Banking and Markets. Before we start and on behalf of those speaking today, I refer you to slide 2 of our presentation, which contains Scotiabank's caution regarding forward-looking statements. And with that, I will now turn the call over to Scott.

Scott Thomson - The Bank of Nova Scotia – President & CEO

Thank you, John, and good morning, everyone. 2024 was a foundational year for the bank. Nearly one year ago, we held our Investor Day and shared with you our new enterprise strategy to deliver sustainable, profitable growth and maximize shareholder value. We also committed to transparently sharing our progress as we entered into our first year of execution against our plans. Our results reflect a year of transition as we focused on our enterprise-wide priorities, align our capital allocation to each of our business

lines, and started our shift to a value over volume strategy. Our results demonstrate both early progress and areas where more work needs to be done.

Overall, earnings grew marginally in 2024, consistent with our expectations in Investor Day guidance. Recapping our areas of focus. First, our North Star increasing the number of primary clients. We continue to focus on growth in client segments where we have the scale and product capability to compete and win lead relationships.

In our global wealth business, we are relentlessly focused on growing our advice channels and providing holistic wealth solutions to attract high-value primary clients to the bank. This is driving strong growth in the business. We are ranked number two amongst peers and earnings growth in the most recent five-year period and delivered record net income in 2024. We increased personal and commercial deposits by 7% year over year.

In Canadian banking, 30% of our clients now meet our primacy definition, up 1.5 percentage points year-over-year. And across our retail markets, we have increased total primary clients by 280,000. While this progress is meaningful, in order to meet our 2 million increase primary client target by 2028 we need to accelerate our progress in 2025 and beyond.

Next, we have focused on capital allocation to grow and scale across North America. Today, all incremental capital is being allocated to our priority businesses. This has been an example of enterprise-wide thinking at work as our business lines have made trade-offs to support the all-bank strategy.

One of the most rewarding outcomes of this past year has been witnessing the international banking team deliver better results with less capital and generating impressive earnings growth with improved returns. We are delivering on our commitment to remix our portfolio to accelerate growth in fee income. We are de-emphasizing our indirect lending only channels in domestic mortgage and auto.

And in our global banking and markets business in the US, we are optimizing capital and building out our ancillary business capabilities. We have embarked on select inorganic initiatives to support our North American strategy including our agreement to sell CrediScotia in Peru and our investment in KeyCorp, which is an opportunity to profitably deploy capital into the US market.

Finally, and importantly, we have strengthened our balance sheet. We have a solid Tier 1 capital ratio of 13.1%, and we have grown our allowance for credit losses on the balance sheet by approximately 22% since the end of fiscal 2022, including a performing allowance build of approximately $800 million. We are well positioned to fund our growth agenda in 2025 and beyond.

Turning to our business line results and fiscal 2025 priorities. Our wealth business had a very strong finish to the year, delivering net income of $426 million this quarter and record annual earnings of $1.6 billion in 2024 as well as continued ROE expansion to 15.7%.

Our Canadian wealth management business delivered double-digit earnings growth led by a 25% increase in ScotiaMcLeod which is a strong source of recurring fee-based earnings as well as 15% growth from the private bank. We continue to invest in developing talent as well as adding established teams to our ScotiaMcLeod, MD Financial, and Private Investment Counsel advice channels.

Our wealth management business in Canada reached an all-time high in client satisfaction scores and delivered 30% more financial plans. We saw growth in our asset management business as overall assets under management grew to over $370 billion, up 18% this year. Importantly, we have seen a strong rebound in fund sales with a particular focus on distribution through our own bank channel. Gross retail mutual fund sales increased 54% on a year-over-year basis with strong momentum expected in 2025. Growth in our international wealth business is very strategic for us in terms of delivering highly ROE accretive growth. International wealth earnings were a record $261 million in 2024, up 17% year over year.

Our Canadian Bank delivered solid revenue-led earnings growth of 7% in a year of modest loan growth and higher loan losses as the realities of a slowing economy and the impact of peak interest rates made for a challenging operating environment. Expense discipline in the Canadian Bank contributed to positive operating leverage for the year and deposit growth outpaced loan growth.

Segments where we saw asset growth include commercial, small business, and credit cards through focused initiatives like Scene+ and Mortgage+, which target more deeper, solutions-based relationships with our clients. Primary client growth, diversification of our portfolio mix and growth in our fee income remain high priorities for fiscal '25 as stronger profitability in our domestic P&C business is essential to achieving our financial objectives.

Looking ahead, we have initiatives in place to accelerate primacy, including focusing on core day-to-day retail deposits and deepening relationships through personalized value propositions and marketing programs. Optimizing assets like Scene+, which in our view, remains a very large and underexploited opportunity for us to deepen primary data-rich relationships.

Scene+ membership continues to expand rapidly with over 15 million members is on pace for record point issuance. Over 37% of Scene+ members have a Scotiabank relationship and we believe further penetration of the Scene+ member base can meaningfully contribute to our primacy objectives. We are also delivering on our Canadian real estate secured lending strategic repositioning.

Our Mortgage+ offering, a customizable offering with an everyday account, preferred mortgage rate and other retail products continues to drive strong growth and primary relationships with penetration of greater than 75% among our new mortgage originations in 2024.

The early results of these initiatives suggest improved relationship depth with our clients. The number of clients holding three or more products with us increased to 46%, up 2 points from last year, and our annual client attrition rate was lower by 40 basis points. 44% of our clients with term deposits are now primary clients, which is up 4.4 points this year. Importantly, 85% of clients with term deposits renewals this year stayed with the bank as a direct renewal or redeployment to investments or other products.

We continue our positive momentum in Tangerine. Net primary client growth of 19% year over year with our new acquisition offers driving 2 times higher payroll penetration. Sales through the mobile channel reached a record high at the end of 2024 at 49% which is an increase of 7 full percentage points year over year.

Turning to our international banking business. Considering the portfolio repositioning and capital reallocation activity, we were pleased with the performance of this business, which delivered solid 7% year over year earnings growth.

We meaningfully reduced our overall capital deployed to the region in line with our capital optimization strategy as risk weighted assets in the international business were lower by 6% or over $9 billion in 2024. Importantly, we saw margin expansion throughout the year to 442 basis points and an improvement in risk-adjusted margins to over 325 basis points.

The international banking productivity ratio improved over 200 basis points to 50.9% on the path to our objective of 45% over the medium term as we realize the benefits of a more regional operating model. Operating leverage was an impressive 5% for the full year.

Fiscal 2024 return on equity in international banking improved to 14.4% from 13.1% the year prior. We will remain focused on deploying capital prudently to improve the profitability of this segment over the medium term as communicated at our Investor Day.

In global banking and markets, our results this year reflect the impact of continued balance sheet optimization as we redeploy capital and resources into the product and client segments where we envision more optimal returns over time.

Fiscal 2024 earnings of $1.7 billion were a modest 5% below last year or up 9% excluding the substantial impact of the elimination of the Canadian dividend received tax deduction. Our GBM loan balances are lower year over year, the result of lower utilization rates as corporate clients paid down bank lines from free cash flow and finance in the capital markets given the more constructive market environment.

Our underwriting and advisory fees increased by 27%, suggesting franchise growth and the benefits of our balance sheet optimization efforts and product capability builds.

We have added specialized teams within the CLO, private credit and mortgage capital markets businesses to participate in higher capital velocity segments of the US structured credit markets. Enhancing our cash management capabilities is essential to growing our share of primacy with commercial, corporate and multinational clients.

In 2024, we continue to invest in talent, products and client servicing including in our cash management portal, ScotiaConnect. Our investment in enhancing our cash management capabilities, including in the United States will allow us to better support clients throughout the North American corridor.

In summary, while I am pleased with our financial results in 2024, which demonstrate progress against our strategy, they also reflect our transformation as an organization and the significant work ahead of us in the coming years to increase returns for our shareholders.

Looking ahead, the economies in which we are operating in are also in transition from both an economic and geopolitical point of view. The Bank of Canada's policy rate action in recent months should lead to a rebound in economic activity next year.

We anticipate additional easing through the first half of the year which we expect will be stimulative to activity in the domestic housing and mortgage markets and buoy consumer and business confidence after a period of relative restraint. We are closely monitoring policy actions from the new administration in Mexico as well as the incoming US administration.

While new governments often bring initial uncertainty with respect to trade policies, we believe policy will ultimately support a cooperative environment that encourages capital investment and continued regional growth. We continue to believe in the long-term economic growth potential of the North American corridor and the strategic value that connectivity among Canada, the US and Mexico will provide to our clients and to the long-term success of the bank.

Central Banks in Latin America are well along on the easing path to stabilize interest rates, but the pace of interest rate cuts has slowed from first half of 2024 expectations. Growth is expected to remain more modest than previously forecasted in our larger markets with less certainty on near-term growth, particularly in Mexico through the period of presidential transition. As we navigate this period of uncertainty, we will be thoughtful with our capital allocation into the country.

I would now like to draw your attention to our enhanced disclosure, which provides performance updates against critical strategic metrics shared last year at our Investor Day. These select metrics are representative of the many underlying strategic and operating metrics being monitored and measured. Progress in primary client growth, deposits, digital delivery, enterprise-wide cross-sell and growth in fee income will position us well to achieve our financial goals.

Reflecting on the first year of performance we shared in our Investor Day five-year plan, we are confident in and committed to delivering against our stated medium-term financial objectives. Progress towards achieving 14% plus return on equity within our five-year strategy period.

A commitment to ongoing positive operating leverage and operating with Tier 1 capital levels with a sufficient buffer above regulatory minimums. Our earnings expectations have not changed. We continue to expect earnings growth between 5% and 7% in 2025, prior to incorporating any benefit from our minority investment in KeyCorp.

In summary, I am pleased with the progress we have made in our first year of delivery against our strategy. We remain focused on disciplined capital allocation and execution, primary client growth, improving productivity and maintaining a strong balance sheet.

Our teams are rallied behind our strategy, execution and commitments and are living our core values and key behaviors as part of our cultural transformation to drive high performance and support the execution of our strategy.

Importantly, starting this fall, we rolled out ScotiaBond, our new culture framework, which includes refreshed values and behaviors that will help drive our strategy forward. Our updated performance management metrics go beyond measuring results and evaluate how in terms of the leadership behaviors that we believe lead to great outcomes. This new framework is being embedded in all aspects of our organization from goal setting to how we reward performance and recognize our culture catalysts throughout the bank.

I would like to thank our global team of Scotiabankers for their support and commitment to the bank and to our clients this year. Our momentum is a result of their efforts to deliver on our shared vision and collective objectives.

I will now turn it over to Raj for a more detailed financial review of the quarter.

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

Thank you, Scott, and good morning, everyone. This quarter's net income was impacted by $430 million of after-tax adjusting items or $0.35 of earnings per share and approximately 5 basis points on the common equity Tier 1 ratio.

This consisted of a $379 million after-tax impairment charge related to the write-down of our investment in Bank of Xi'an and certain intangible assets, including software, and after-tax severance provisions of approximately $38 million, both recorded in the other segment.

The Q4 results also reflect our usual adjustment for amortization of acquisition-related intangibles. All my comments to follow will be on an adjusted basis.

Starting on slide 6 for a review of the fiscal 2024 results. The bank ended the year with an adjusted diluted earnings per share of $6.47, a return on equity of 11.3% and return on tangible common equity of 13.7%. The revenue was up 6% year over year, while expenses grew 4%, resulting in

(technical difficulty)

Operator

We are currently experiencing technical difficulties. The conference will resume momentarily. Thank you for standing by.

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

Okay. I'm going to continue from T-- starting on slide 6 for a review of the fiscal 2024 results. The bank ended the year with adjusted diluted earnings per share of $6.47, a return on equity of 11.3%, and return on tangible common equity of 13.7%.

Revenue was up 6% year over year and expenses grew 4%, resulting in positive operating leverage of 2.3% for the year. Notably, fee and commission revenue was up 5%. The provision for credit losses were $4.1 billion in 2024, $629 million higher, driven by higher impaired PCLs. Phil will speak to this later.

Canadian banking earnings were $4.3 billion, up $290 million or 7%. Revenue grew 7%, driven by deposit growth and margin expansion partly offset by higher expenses and PCLs. The business generated positive operating leverage and achieved a return on equity of 20.8%.

International banking earnings were $2.7 billion, up 10% year over year. Revenues were up a strong 9% or approximately $950 million while expenses were up only 4%, resulting in positive operating leverage of 5%. Global wealth management earnings of $1.6 billion were up 10% year over year, benefiting from strong assets under management growth of 18%. Revenues were up 9%, driven by higher fee revenue and net interest income across the Canadian and international wealth businesses.

Global banking and markets reported earnings of $1.7 billion, down 5%, impacted by the denial of dividend received deduction. Excluding this, the earnings grew 9% during the year while optimizing risk-weighted asset growth. The other segment reported a loss of $1.8 billion compared to a loss of $1.4 billion in 2023. The high loss was due to lower revenues, primarily from

increased funding costs and higher taxes, partially offset by lower expenses.

Now a few comments on the outlook for 2025. 2025 earnings growth is expected to be within the range of 5% to 7% in line with the Investor Day outlook. This does not include any earnings pickup benefits if the second stage of the KeyCorp investment were to be approved during fiscal 2025.

Revenues are expected to benefit from strong net interest income growth driven by lower funding costs and growth in loans and deposits. Earnings are expected to be impacted by a higher tax rate of between 23% and 24%, driven by the implementation of the global minimum tax of 15% and a reduction in the inflation benefit in certain international banking markets as well as higher provision for credit losses.

Expense growth is expected to be modest as investments in strategic initiatives are partly offset by productivity benefits, resulting in positive operating leverage for the year. The bank remains committed to maintaining strong capital and liquidity positions in 2025.

From a business line perspective, we expect strong earnings growth in global wealth management and solid growth in Canadian banking and GBM. International banking earnings are expected to be lower, in line with our Investor Day presentation, impacted by weaker LatanAmerican currencies, slow growth economies and a higher tax rate. The other segment losses are expected to improve as net interest income continues to benefit as we saw this quarter from the 2024 rate cuts and further rate cuts expected in the first half of fiscal 2025.

Moving to slide 8 for a review of the fourth quarter. The bank reported quarterly adjusted earnings of $2.1 billion and a diluted EPS of $1.57. Return on equity was 10.6% and return on tangible common equity was 12.8%. Net interest income was $4.9 billion, up 6% year over year and 1% quarter over quarter. Year-over-year NII growth was driven primarily by loan growth.

Quarter over quarter, net interest income grew in Canadian banking and the other segment, while it declined in GBM impacted by a 7% decline in loan balances. International Banking net interest income decline was impacted by the weaker Latin American currencies.

Net interest margin grew 1 basis point quarter over quarter, mostly from lower funding costs, partly offset by lower margins in Canadian banking and lower levels of higher-yielding international banking loans. Deposits were up 2% year over year, mostly in term while loans were down 2% year over year, mainly in corporate, P&C deposits were up 6% year over year.

Non-interest income was $3.6 billion, up 11% year over year, mainly due to higher trading revenues, wealth management revenues and other fees and commissions. These were partly offset by lower fees related to the conversion of bankers' acceptances to loans due to the cessation of CDOR.

The provision for credit losses were $1 billion, down $22 million quarter over quarter. The PCL ratio was 54 basis points this quarter. Year over year expenses were up a modest 1% driven by higher performance-based compensation and technology-related costs, partly by the favorable impact of foreign currency and lower communication costs.

The productivity ratio was 56.1% this quarter, an improvement of 360 basis points year-over-year. The effective tax rate was approximately 22% this quarter compared to 15% per year ago and 18.6% last quarter, driven by lower tax exempt income, prior year taxes and lower income in lower tax jurisdictions.

Moving to slide 9. The bank's CET1 capital ratio was 13.1%, a decrease of 20 basis points quarter-over-quarter and an increase of 10 basis points year over year. Earnings less dividends contributed 13 basis points to CET1 and the DRIP contributed 11 basis points.

As a reminder, this quarter was the last dividend eligible for the DRIP discount. This was offset by 27 basis points from the $10 billion RWA growth, 8 basis points from the closing of the initial KeyCorp investments, 5 basis points from the write-down of our investment in Bank of Xi'an and 9 basis points from other items, mostly relating to foreign exchange.

The $10 billion increase in risk-weighted assets was driven primarily by book quality changes from correlation changes and PD/LGD parameter recalibration that increased our RESL and corporate commercial loan books RWA density.

Turning now to the business line results, beginning on Slide 10. The Canadian Banking reported results of $1.1 billion an increase of 34% year over

year, driven by lower PCLs and higher revenue. The business generated positive operating leverage of 2.6%. Average loans and acceptances were

up 1% quarter-over-quarter and up 2% compared to the prior year. Business loans grew 6% year over year.

Credit card balances grew 12% while personal loans and residential mortgage balances wereeach up 1%. We continue to see deposit growth as

year-over-year deposits grew 7%, driven by nonpersonal deposits growing 11% primarily in demand accounts and personal deposits growing 5%,primarily in term.

Net interest income increased 9% year over year from asset and deposit growth and the benefit from BAs converting to loans. Net interest margin was flat year over year at 247 basis points as higher loan margins offset lower deposit margins. The margin was down 5 basis points quarter over quarter driven by changes in business mix and lower deposit margins.

Non-interest income was down 9% year over year, primarily due to lower banking fees including the impact of BA conversion and the sale of the bank's equity interest in Canadian Tire Financial Services last year, partly offset by higher mutual fund fees.

The PCL ratio was 40 basis points, up 1 basis point quarter over quarter. Expenses were up 4% year-over-year, primarily due to higher technology, professional and advertising costs. Quarter-over-quarter expenses were up 3%, primarily from higher advertising and business development costs to support the bank's strategy and to drive business growth.

Turning now to global wealth management on slide 11. Earnings of $426 million were up 28% year-over-year as Canadian earnings were up 30% year over year. Quarter-over-quarter earnings were up 3%, primarily from higher mutual fund fees partly offset by higher volume-related expenses.

Revenues were up 13% year-over-year, driven by higher mutual fund fees and brokerage revenues across the Canadian and International Wealth businesses. The expenses were up 6% year over year, due primarily to higher volume-related costs.

The spot assets under management increased 18% year over year to $373 billion as market appreciation was partly offset by net redemptions. Assets under administration grew 15% over the same period to over $700 billion from higher net sales and market appreciation. International wealth management generated earnings of $63 million, up 21% year-over-year as asset management, trust and the brokerage business delivered strong double-digit growth.

Turning to slide 12, global banking and markets. Global banking and markets generated earnings of $403 million, down 3% year over year. Capital markets revenue was up 7% year over year, primarily from higher FICC revenues, partly offset by lower equities. Quarter over quarter, capital markets revenue was up 6% from higher FICC revenues. Business banking revenues were down 4% year over year and 3% quarter over quarter.

Corporate and investment banking revenues were down compared to the prior quarter, partly offset by higher global transaction banking revenues.

Loans and acceptances were down 18% year over year and 7% quarter over quarter to $101 billion, reflecting market conditions and continued balance sheet optimization. The business is focused on reducing unprofitable less stable deposits that was down $2 billion quarter over quarter on a spot basis. Net interest income decreased 1% year over year primarily due to lower corporate lending and deposit volumes.

Non-interest income was up 4% year over year due to higher fee income, mostly underwriting and advisory fees and stronger trading-related revenues. The business is focused on reducing its reliance on lending revenue and growing fee revenue, a trend that was evident this quarter.

Expenses were up 6% year over year due mainly to an increase in personnel and technology costs to support business growth and the negative impact of foreign currency.

Quarter-over-quarter expenses were up 3%, largely driven by higher personnel and technology costs. The US business generated earnings of $217 million, down 5% year over year driven by lower corporate and investment banking earnings, partly from RWA optimization efforts, offset by higher capital markets revenue. GBM Latin America, which is reported as part of international banking, reported earnings of $264 million, up 5% compared to the prior year but down 7% compared to the prior quarter.

Moving to slide 13 for a review of international banking. My comments that follow are on an adjusted and constant dollar basis. The segment delivered earnings of $634 million, up 18% year over year. Quarter over quarter, on a reported FX basis, earnings declined 6%, primarily relating to a weaker Mexican peso and GBM Latin America earnings that was down 7% driven by lower client activity. Revenue was up 7% year over year as net interest income was up 5%, driven by margin expansion.

Net interest margin expanded 25 basis points year over year and was stable quarter over quarter at 442 basis points, driven by higher loan and deposit margins, offset by business mix changes. Year over year, loans were down 2%, primarily in Brazil, Peru, and Chile. Total business loans declined 7%, partly offset by year-over-year growth of 5% in mortgages.

Deposits were down 1% year over year, while personal deposits grew 1%, non-personal deposits declined 3% year over year. The provision for credit losses was $556 million, translating to 137 basis points, down 2 basis points quarter over quarter. The expenses were up a modest 1% year over year driven mainly from high salaries and benefits reflect international banking's focus on managing expense growth in a high inflationary environment.

Quarter over quarter, expenses were flat. The fiscal 2024 operating leverage was a strong positive 5%. Turning to slide 14, the other segment. The other segment reported adjusted net loss of $453 million compared to a loss of $465 million in the prior year.

Net interest before income and taxes improved $114 million quarter over quarter from higher revenues, primarily driven by lower funding cost benefiting from rate cuts. This was largely offset by higher taxes from adjustments related to prior year taxes and a lower pretax loss. We expect the improvements in net interest income to continue through '25 and into 2026 in this segment.

I'll now turn the call over to Phil to discuss risk.

Philip Thomas - The Bank of Nova Scotia - Chief Risk Officer

Thank you, Raj. Good morning, everyone. All bank PCLs were 54 basis points and the full year total PCL ratio was 53 basis points.

Looking forward to 2025, we expect our full year total PCL ratio to be in the mid-50s basis point range, remaining elevated in the first half of the year with some more positive trends towards the end of 2025. PCL performance throughout the year was driven by an uncertain macroeconomic environment that saw elevated unemployment levels and higher for longer interest rates.

Looking at Q4 specifically, all bank PCLs of approximately $1 billion were down $22 million or 1 basis point quarter-over-quarter, primarily driven by lower performing provisions in Canadian retail as recent rate cuts will lessen the payment shock experienced by a fixed rate mortgage clients at renewal, increased impairments in Canadian retail and one account in Canadian commercial.

Improved client performance across most of our international retail portfolios. We remain comfortable with our ACL coverage at $6.7 billion or 88 basis points, down 1 basis point quarter over quarter. Over the last two years, we have built $800 million of performing allowances in anticipation of potential impacts from higher longer rate environment, and we are now seeing some migration as expected.

Turning to Canadian banking. PCLs were $450 million or 40 basis points, up 1 basis point quarter-over-quarter. Retail PCLs were down $10 million quarter over quarter, driven by lower performing allowances as recent rate cuts lessen renewal risk faced by our fixed rate mortgage clients.

Impaired retail PCLs were up quarter-over-quarter as higher impairment was observed across most products but mainly driven by expected formations in mortgages and HELOCs. Despite increased impairments, we are encouraged by mortgage tail risk remaining stable and comfortably below 1% of outstanding retail balances.

Furthermore, our mortgage clients' deposits have trended upwards for the second consecutive quarter after falling from pandemic highs. Overall, we remain comfortable with our portfolios as they continue to perform as expected.

Moving to international banking. PCLs were $556 million in Q4, resulting in a PCL ratio of 137 basis points, down 2 basis points quarter over quarter. Retail PCLs improved $27 million quarter over quarter as Stage 3 improved in most markets.

Performing retail PCLs were down $40 million, driven by lower delinquency, some migration to impaired and an improved macroeconomic outlook across our international markets. We continue to monitor our portfolio closely, but we are encouraged by improved performance in our retail portfolio with overall 90-day delinquency declining quarter-over-quarter.

Looking at our international commercial portfolio. PCLs improved quarter over quarter, down $6 million. As I mentioned earlier, we expect our full year total PCL ratio to be in the mid-50s basis point range. We expect it will remain slightly elevated in the first half of the year and trend positively through the end of 2025.

Our outlook is guided by clients continuing to manage the higher for longer rate environment, until expected benefits from lower interest rates work their way through client balance sheets and a mixed macroeconomic environment.

Across our markets, despite expected stabilization of inflation and unemployment. We continue to monitor our portfolios closely given the macroeconomic uncertainty and remain mindful of potential geopolitical risk.

With that, I will pass the call back to John for Q&A.

John McCartney – The Bank of Nova Scotia – SVP of IR

Great. Thank you, Phil. Operator, please queue the line for questions. (Event Instructions)

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Ebrahim Poonawala, Bank of America.

Ebrahim Poonawala - BofA Securities, Research Division - MD of United States Equity Research & Head of North American Banks Research

I guess maybe, Scott, going back to the summary you provided in terms of the strategic sort of execution around the turnaround. I guess just big picture, if you look at top down, give us your comfort level as we think about the 5% to 7% earnings growth this year, what pushes you towards the higher end or maybe even above the higher end of that target given the macro backdrop that you are assuming in your forecast? And as we think about the ROE improvement, 11.3% for full year, do we exit 2025 with something that's north of 13%? Thank you.

Scott Thomson - The Bank of Nova Scotia – President & CEO

Great. Thanks, Ebrahim. As we look through '25 and then importantly, '26, I think we have a high level of confidence in the 5% to 7% in '25 and then frankly double digits in '26 and its earnings growth. And I think it's driven by a couple of factors. Obviously, if you look at the PTPP growth here, it's strong across all businesses.

And what could determine higher or lower on that 5% to 7% and then longer term is obviously the PCL outlook and Phil highlighted, we think it's going to get modestly better through the back half of the year, and that's an important assumption.

I think the second piece is just the rate environment. And as you know, we are well positioned for a declining rate environment. You're starting to see it was really nice to see in the fourth quarter, the $114 million improvement in the other segment, unfortunately, offset by the one-off tax. But you're going to see it in the first quarter come through, and you're going to see it accelerate through the back half of the year. And so that is the underpinning of that 5% to 7% growth.

As I look to one year out, you also have the addition of Key, and we're hopeful that, that happens in the first quarter. That's a meaningful NII contributor, and that is a component of the double-digit growth into 2026 that we talked about. The 5% to 7%, to be clear, does not include any contribution from Key in that '25 outlook.

In terms of ROE expansion, I'm not going to give you a target, but that is the key metric that we're driving towards, right? You can see the capital discipline. You can see the cost discipline. The operating leverage in the bank was really encouraging. I can feel that across all of the business lines is that they're really taking this cost discipline seriously.

And then on the capital allocation to see us move capital among the bank into this North American corridor strategy was really encouraging. And I called out international in my opening comments, but $9 billion reduction in RWA and record earnings growth in that business.

Similarly, in GBM, we're optimizing that balance sheet as well. And those types of attributes are going to rise to or drive higher ROE in the enterprise. And the first instance of that is international. We saw an international ROE uptick between '23 to '24 that was meaningful. So we'll continue to see that progress and that will lead to the 14% plus ROE we have in the five-year plan.

Operator

Gabriel Dechaine, National Bank Financial.

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

Just want to ask about that international business a bit, both the -- I guess, the P&C component and then the GBM component. So loan balances have been declining both in the mortgages and the commercial side of things. And then GBM, up year over year, but the steady decline in GBM revenues and -- or earnings anyway over the course of the year from unusual peak in Q1.

I'm just wondering, is this something that your outlook for international overall didn't sound too bullish and lower earnings next year. I'm wondering if that's become more pessimistic or more cautious in the wake of what happened in the US election. Is there a reduced CapEx expectation or investment in some of these countries and factoring in the impact of dollarization and all that stuff. Just wondering if you can give an updated perspective.

Francisco Aristeguieta - Bank of Nova Scotia - Group Head - International Banking

Thank you for the question, Francisco here. Good morning everyone. A couple of things. Let me try to tackle the question in two fronts. One is what are we doing deliberately to improve our performance. And the other one is the environment that we expect will prevail in '25.

We have been deliberately working on returns, and that has led to the reduction or reallocation of RWA out of [IB] earning opportunities. And that's the $9 million that Scott and Raj mentioned earlier in the call. That has been a deliberate effort to improve our returns, and that has tackled both GBM, commercial banking as well as retail. That is an integral part of the transformation period that ends at the end of 2025, which we are very much on track to complete by the end of the next calendar year.

Now the environment around us is something we're adapting to. And what we expect in 2025 is that Mexico, Chile and Peru, all economies will slower in '25 that they grew in '24. We don't believe that it will be a massive slowdown, but it will be slower. For example, in the case of Mexico, we expect it to grow at 1% or less. In the case of Peru, we expect it to grow maybe 0.2% less. And in the case of Chile, also 0.2%, 0.3% less than DC. So that is an element that we need to adapt to, and we got to be very nimble in making sure that we continue to our productivity on the back of our regionalization efforts. So that path continues strong. And as you see the expense performance this year, we see that continuing in 2025, preparing us to maximize returns in 2016 and beyond.

So that's a little bit of how we're tackling these two avenues of deliberate work to improve returns while adapting to a potentially slower growth environment in '25 that should recoup in '26.

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

And then aside from your cost, your productivity gains and stuff like that, what else can you -- how else can you adapt?

Francisco Aristeguieta - Bank of Nova Scotia - Group Head - International Banking

Well, there's a number of efforts at play, right? So going back to what we committed to at Investor Day, the North Star is primacy, and that is the driver across all segments. So in the case of GBM, it's really driving our transaction banking business at the heart of the relationships, moving from a lending-only relationship to a fully cross-sold transaction banking driven relationship. And to that effect, we've made great progress in the global transaction banking platform across all markets, and that will be continued on in '25.

In the case of commercial, we regionalized the commercial banking model in IB, and we're now driving a consistent segmentation and value proposition across all markets. That's going to give us scale, but also better discipline in terms of how we deploy the balance sheet while completing the value proposition with stronger transaction banking efforts. In the retail bank is now fully regionalized.

That means that we are consistently segmenting that business across all countries in affluent, emerging affluent, top of mass and mass. We now have P&Ls stacked against each of those four segments, and that is driving very consistent value proposition in each segment that is driving scale that before we couldn't achieve. That has also rationalized our approach to expenses.

So right now, we have moved all budgeting powers to a regional office both for operations and technology, for example. And what that's allowing us to do is prioritize investments for scale. So we're going to our common app, we're moving to common processes and procedures. All of that is driving scale to a degree that we couldn't reach before.

Again, all of that is deliberate and is an integral part of how we are ahead of our cost roll rate efficiency drivers towards 2028. So that offer – that process in '25 as we position ourselves to maximize the benefit in '26 and beyond.

Operator

Matthew Lee, Canaccord Genuity.

Matthew Lee - Canaccord Genuity Corp., Research Division - Analyst

Maybe a clarification on the RWA growth this quarter. I think you guys mentioned book quality changes. It seems like exposure you're seeing isexpanding pretty much every quarter, but sort of jump this one. So I know part of it is recalibration, but is there any change in the risk of the book to call out? And how should we think about RWA growth impacting capital for '25.

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

It's Raj. I'll take that question. So you got it right. There was some migration in the corporate book too. That was about a couple of billion dollars of the $8 billion.

The rest was all about the calibration that I referred to in my prepared remarks. I think RWA growth for us is in 2025 compared to '24 is going to be driven by organic growth. And from time to time, we could have migration. That's just part of the business we are and we are in multiple countries.

Various portfolios drive migration, be it retail or corporate commercial. Hard to predict, but it's not something that we're looking forward saying this could increase our RWA consumption in 2025. It could be a few basis points early part of the year and so on. But I think organic growth is going to drive some of the internal capital generation that we have is going to get deployed in good quality growth in line with the comments you have made primary customers and so on that should drive superior returns to what we generated in the past.

The capital ratio, like we have said before, we are quite comfortable operating a little north of 12.5%. It seems like the right capital ratio for us as we think about how we increase the return on equity of the company as well.

Matthew Lee - Canaccord Genuity Corp., Research Division - Analyst

Okay, that's fair. Then can we potentially see a reversal of that increased exposure or that growth if macro environment gets better?

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

Yeah, absolutely. I think credit quality is always a factor. It moves around every quarter as you probably know multiple portfolios drive it up or down. Depending on the outlook, I would say in the first half of the year, a little less probability, Matthew, the way we see it because it's heard from

Francisco about low-growth economies as well. So we're going to be cautious. And capital, as you know, PDs, LGDs are always conservative. PD is through the cycle, LGDs are downturn LGDs. So it factors into our models and our metrics that come about. But

I would say in the second half, we might likely see some benefits, but I don't think there should be any major deviation in the first half, but it could be a few basis points.

Operator

Paul Holden, CIBC.

Paul Holden - CIBC Capital Markets – Analyst

I have a question for Phil. On the Canadian residential mortgage books saw a bit of an uptick in impairments this quarter. I know you commented that as something you expected. But just wondering if you can kind of provide any more details on what drove it? It was just simply interest rate pressures?

And then with renewals on fixed mortgages coming up in '25, why that's not going to be more problematic, if that's the case and or if there's a certain cohort of mortgages this quarter that saw more pressure than the overall book.

Philip Thomas - The Bank of Nova Scotia - Chief Risk Officer

Listen, I think across our retail book in Canada, we're definitely seeing some impact of higher for longer. It was a softer quarter from a GDP perspective, some unemployment. So not totally unexpected, but we are seeing some -- as it relates to our mortgage portfolio, specifically, we're starting to see some green shoots as it relates to interest rates starting to come through. And if I -- but if I look at the [91 plus] that you're referring to, and I double-click on what's driving that. It's about 250 customers, primarily in Toronto and Vancouver that are driving that uptick this quarter. In terms of FRM, we're actually seeing some improvement as customers come in for renewal in that portfolio. So optimistic there. And maybe just to comment, to give you maybe a little bit more context. From a deposit perspective, we actually saw some interesting trends as well this quarter. We saw fixed rate mortgage customers holding about 6% more in their deposit account quarter-over-quarter and VRM customers about 5.5% more in their deposit account.

So you can start to see there's some early signs. I mean, one period is not a trend, but there's some optimism there. I would say on the credit card portfolio, you saw some uptick in delinquency there. We expect that portfolio will stay higher probably into the first half of 2025 as I guided in my outlook. So we're continuing to expect a little bit more deterioration in that portfolio. And so we'll manage that as we forward.

Paul Holden - CIBC Capital Markets – Analyst

Can I sneak in one really quick one for Scott. You said hopeful Key closes Q1. Is that calendar or fiscal?

Scott Thomson - The Bank of Nova Scotia – President & CEO

Calendar.

Operator

John Aiken, Jefferies.

John Aiken - Jefferies - Director of Research, Canada

In the MD&A, you talked about some pressure from Brazil negatively impacting top and bottom line in international. A little surprised that this got called out because I did not think that the Brazilian operations were that meaningful to have an overall impact on international. Can you describe what happened in the quarter and try to give us some sort of quantification in terms of what the scale of the operations are in Brazil?

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

Yes, I'll help you with that, John. You're right. Brazil is a very unique operation we have. It's very targeted towards very high-quality corporate clients. We built up business over many, many years.

Brazil contributes somewhere. It can vary by quarter because it's very transactional-driven. It will be about $50 million a quarter in that range NIAT some quarters being slightly higher and some lower. And that's what happened to us in Q4, one of the transactions, which was expected to close were delayed because of the currency impact from the US elections and so on. Those volatility, the client chose to close like 10 days afterwards, so it impacted our Q4 results.

Plus Brazil is one of those that we are focused on saying, are we getting the appropriate returns for the capital that we have deployed over there, all part of the capital optimization strategy. But I think Brazil is a very strong operation for us. It's a corporate bank operation. We don't have anything else over there. And it's a very unique operation in that it contributes very consistently somewhere in the $50 million range per quarter, which was lower this quarter.

Operator

Mario Mendonca, TD Securities.

Mario Mendonca - TD Cowen – Analyst

First for Phil. Phil, when you offer the mid-50s guidance on total PCLs, could you give us any insight into what that implies on the performing side? Like what I'm getting at here is -- are we at the stage now where the allowances have been sufficiently built up that we can actually see the releases come through the way IFRS 9 was sort of intended?

Philip Thomas - The Bank of Nova Scotia - Chief Risk Officer

Yes, I think that's fair, Mario. As I said in my prepared remarks, we had -- we built over the last two years with the anticipation that we would hit -- now we're starting to release into that. And so as I said earlier, performing as expected.

Mario Mendonca - TD Cowen – Analyst

And then on capital, and this might maybe Raj or Scott. Can you talk about what dividend growth expectations would be like in 2025 will that resume? And also, is there room for Scotia to start to return capital to shareholders in other ways, like buybacks, for example, just sort of in line with that outlook you have for our ROE improvement over time. I know you're not talking about this year necessarily, but --

Philip Thomas - The Bank of Nova Scotia - Chief Risk Officer

Great question, Mario. I mean as we didn't grow the dividend this year, as you know, because we had earnings flat and now as we resume earnings growth in that 5% to 7% range, and then accelerate beyond that, we'll see a resumption of the dividend. It's my expectation that we're going to have to grow into the payout ratio, and we'll do that over multiple years, but you should see modest improvements in the dividend is my expectations.

On the share repurchase side, we're not there yet, but it's on our mind. And so as we go through '25 and close the Key acquisition and start generating some of those earnings. I think it's going to be a topic of discussion with shareholders in back half of the year into '26.

Operator

Lemar Persaud, Cormark.

Lemar Persaud - Cormark Securities – Analyst

Maybe for Scott or Raj, can you guys help me square up why despite a higher tax rate challenges in primary client growth and perhaps a tougher economic backdrop in international, why the 5% to 7% EPS growth for 2025. Like is it all down to lowering interest rates versus when you provided the guidance at Investor Day last year. Just talk about some of levers in driving that 5% to 7%.

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

Sure. Happy to do that, Lemar. I'll break it down by business line or makes it easier and related back to the Investor Day comments that we made. We were clear in the Investor Day on International Banking that it would be lower in '25 compared to '24. One of the drivers is the tax. The other driver is everything that Francisco talked about. This is about how we want to optimize the capital deploy. And that's the short-term right decision. So it's playing to our Investor Day plan, frankly, and that's what we expect in 2025.

Canadian Bank earnings will grow. I called it solid, which is another way of saying it will be low to mid-single digits from our perspective on earnings. That's going to come primarily from perhaps stable PCLs because like Phil said, we have built a lot. So hopefully, to require more PCLs as well as loan and deposit growth both of which are expected by compared to '24, again, in line with Investor Day. Wealth management. Wealth management, you saw this year, pretty close to 10% growth in earnings. That's what it should do in '25 as well, again, in line with what we thought at Investor Day as AUM starts growing, markets are helping as well. But we also have the initiative to sell retail mutual funds through the branches and so the strategic initiatives in Wealth. So confident about the growth in wealth management is going to help us.

And finally, like what you said. The rate situation is a big contributor. You've already started seeing it in the other segment over $100 million NII improved this quarter. That should continue into Q1 and then start accelerating as well as the full benefit of the rate cuts start playing into. GBM, this was a tough year for them because the dividend received deduction. But excluding that, they grew 9%. So mid-single digits growth in GBM is what we expect.

Again, as they start rationalizing capital, I think they're in the back half of that to see how we can continue to improve the profitability all of which, Lemar, what I'm telling you is consistent with what we said at the Investor Day and what we expected in 2025. That's why the confidence, the 5% to 7%. Macro will always be a factor. We estimate it as best as we can, whether it's FX rates or macro,

but I don't think that should have a serious impact to the 5% to 7%, maybe push it closer towards the midpoint of 5% to 7% from what we thought at the beginning of the year and we talk to you at the Investor Day.

Lemar Persaud - Cormark Securities – Analyst

If I could squeeze in just a really quick one here. Just Scott, for you. When you mentioned the double-digit EPS growth for 2026, does that include KeyCorp or is that ex-KeyCorp?

Scott Thomson - The Bank of Nova Scotia – President & CEO

Yes. No, it would be including KeyCorp because you have the benefits of the PTPP growth, you have a little bit of a better macro environment, so PCL is moderating, you get the benefits of the rates, and then you have KeyCorp on top of that. So it's mid digit, double digit. That makes sense there's a lot -- there's three big components there. So it's a very attractive 2026 profile as those things play out as we expect.

Operator

Jill Shea, UBS.

Jill Shea - UBS – Analyst

Raj, just on the Other segment, we did see the NII number improved this quarter. Just curious if you could give us some more color in terms of both the NII trajectory into 2025 with rate cuts as well as the bottom line results in other segments, just given I presume that tax rate hit is going to run through the Other segment. Any color there would be appreciated.

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

Yes, absolutely, Jill and nice to take your call. The NII improvement, like you said, is primarily from lower funding costs, that should continue. So the $100 million are expected to be something consistent next quarter as well as we see the benefits going from rate cuts that have happened. And to be clear, we are most exposed to the Canadian rate cuts.

Our US book tends to be floating on both sides. So it's not a huge differentiator whether rate cuts happen or not. But the Canadian book will certainly benefit as rate cuts come through, and that will show up in this segment. This quarter, there was some noise in the expense line. If you look at it. So bottom line, $453 million this quarter. I think it will get to the low $400s next quarter and then get into the $300s as the year goes by. The tax rate in this segment, if you just calculate it, it's about 35% and that's what I expect for the rest of next year as well.

This segment should have a tax rate around 35%. That's the right rate. As you know, the segment has got a lot of components, group treasury being one of the big components, which we have our investment book as well as our funding books. And then we do operate in multiple countries, which are all aggregated in some of these smaller segments as we call it, nonrelated to the business.

So 35% is the right tax rate. Global minimum tax is coming up, so 1% is going to bank as a whole. So this segment, like I said, should get down to the low 400s and then get into the 300s for the rest of the year, mostly driven from NII improvement. The investment gains, which goes through NIR, that can be lumpy, as you know. Some quarters, we might have some gains on the quarters we may not. If I focus on the NII line, and that should start reflecting in the bottom line.

Operator

Sohrab Movahedi, BMO Capital Markets.

Sohrab Movahedi - BMO Capital Markets – Analyst

I just wanted to clarify something with Phil. Phil, for '25, I think that, let's call it, mid-50s PCL-- like do you expect '25 PCLs to be higher than '24 PCLs?

Philip Thomas - Bank of Nova Scotia - Group Head and Chief Risk Officer

So right now, we're signaling we're going to be sort of right in line with where we are. And again, Sohrab, as I said in my prepared remarks, will be slightly elevated in the first half of the year with improved performance coming down in the second half of the year. That's how we're forecasting things right now.

Sohrab Movahedi - BMO Capital Markets – Analyst

I mean I don't want to put too fine a point on it, Phil. But in your sub pack, you have 2024 total bank PCLs 53 basis points. That seems to me to be mid-50s and you finished the second half with 55, 54. So when you say first half of next year might be a little bit elevated, it could be higher than how the second half of this year has gone. Is that what you're implying to us?

Philip Thomas - Bank of Nova Scotia - Group Head and Chief Risk Officer

I would think about it flat to slightly elevated and then starting to come down in the second part as we hit to Q3 into Q4.

Sohrab Movahedi - BMO Capital Markets – Analyst

But I mean you've got one of the smallest relative credit card book. So what's causing this degradation in the first half of next year?

Philip Thomas - Bank of Nova Scotia - Group Head and Chief Risk Officer

Remember, we have the SDA portfolio, the near prime auto book. I mean that actually operates similar to a credit card portfolio with the other Canadian banks in terms of the credit performance we're seeing in that book today.

And so there's -- but we -- as I said in my prepared remarks, we've built allowances were we're -- we've expected this to come through for a little while. If you also look in the investor slides into the -- some of the international portfolios, you'll see that there's some 91 plus in the Mexican portfolio.

And so that's causing a little bit of noise as well as we look towards -- these are customers that had deferrals through the pandemic that are now sort of rolling off given our write-off policy in that market. We have some of these noncore portfolios we're looking at in international such as the one we have in Chile. And so there's a few moving parts that we're just simply mindful of in the overall retail portfolios.

Sohrab Movahedi - BMO Capital Markets – Analyst

And maybe a quick one for Raj. I know I hear the 14% ROE. Do you have the equivalent number from a return on asset perspective that you're targeting?

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

ROE, as you know, is lower now, it's around the 60 basis points. We expect that to continue to improve. Sohrab I would say around 2026, we should be closer to the 80 basis points Eventually, we want to get to 100 basis points, which might be in the second half of the five-year plan.

Operator

We have no further questions registered at this time. I would now like to turn the meeting back over to Raj.

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

Thank you very much. And on behalf of the entire management team, I want to thank everyone for participating in our call today. We look forward to speaking to you again at our Q1 call in February. This concludes our fourth quarter results call. Wish you all a great day.