SCOTIABANK

Q3 2024 EARNINGS CONFERENCE CALL

August 27, 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HAS BEEN FURNISHED FOR YOUR INFORMATION ONLY, IS CURRENT ONLY AS OF THE DATE OF THE CONFERENCE CALL, AND MAY BE SUPERSEDED BY MORE INFORMATION.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 Q3 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

Forward-looking Statements 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 2023 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," "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; 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 of war or terrorist actions and unforeseen consequences arising from such actions; technological changes 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, 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; climate change and other environmental and social risks, including sustainability that may arise, including from the Bank's business activities; the occurrence of natural and unnatural catastrophic events and claims resulting from such events; inflationary pressures; 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 2023 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 2023 Annual Report under the headings "Outlook", as updated by quarterly reports. The "Outlook" and "2024 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

Aris Bogdaneris
The Bank of Nova Scotia - Group Head of Canadian Banking

Travis Machen
The Bank of Nova Scotia - CEO and Group Head, Global Banking and Markets

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

Darko Mihelic
RBC Capital Markets, Research Division - MD & Equity Analyst

Doug Young
Desjardins Capital Markets, Research Division – Diversified Financials and Insurance Analyst

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

Nigel D'Souza
Veritas Investment Research Corporation - Senior Investment 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 third quarter results presentation. My name is John McCartney, and I'm Head of Investor Relations here at Scotiabank. Presented here this morning are Scott Thomson, Scotiabank's President, Chief Executive Officer; Raj Viswanathan, our Chief Financial Officer; and Phil Thomas, our Chief Risk Officer. Following our comments, will be glad to take your questions.

Also present to take your questions are the following Scotiabank executives, Aris Bogdaneris from Canadian Banking; Jackie 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'll 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 Scott.

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

Thank you, John, and good morning, everyone. We are pleased to share our Q3 results, which demonstrated another quarter of progress and focused execution against our strategy. Through a challenging market environment, we achieved quarter-over-quarter EPS growth and continued positive operating leverage. Our results reflects the strength of our balance sheet, while demonstrating revenue acceleration led by performance in our Canadian banking business and ongoing positive momentum in Global Wealth.

Importantly, we are seeing the profitability benefits of our shifting focus from volume to value. Let me take a moment to recap a few key enterprise initiatives. Personal and commercial deposit growth will remain laser focused on developing primary client relationships. And while we expect this to be an ongoing and incremental journey, we are well underway with P&C deposit growth across our Canadian and international retail business is up 7% on a year-over-year basis. Since we started this journey 18 months ago, deposits in our Canadian Banking business are up $43 billion.

Capital discipline. We are deploying our incremental capital to our priority businesses in line with our medium-term objectives. We are starting to see the benefits of this repositioning with strong revenue and earnings growth in Canadian Banking and Wealth and a sharpened focus on returns in GBM and international banking. Today's results demonstrate our ability to generate earnings growth while focusing on disciplined capital deployment, priority client segments.

Cost and process efficiencies. Our efforts to increase our productivity will be an important contributor to meeting our medium term profitability metrics. All bank positive operating leverage, driven by cost discipline and Canadian International Banking will be an important driver of results going forward.

And finally, maintaining a strong balance sheet remains a high priority. Through the challenging rate environment over the past 18 months, we have strengthened our balance sheet with CET1 capital, ACL coverage and liquidity metrics all significantly improved levels.

Turning to our Q3 results, the bank reported adjusted earnings of $2.2 billion or $1.63 per share in the quarter. The bank delivered solid top line revenue growth again this quarter, driven by higher net interest income and non-interest revenue. We are realizing on the productivity initiatives that are already underway at the bank. Specifically in our international and Canadian retail businesses, our productivity ratios improved by 210 basis points and 130 basis points, respectively on a year-to-date basis.

Credit costs are at high end of our previously communicated range as we see the impact of sustained higher rates on our retail portfolios. In our international markets, we expect to see credit conditions begin to stabilize in response to the monetary easing over the past few quarters. And we remain focused on delivering favorable risk-adjusted margins and returns. Despite higher credit costs it is important to note that risk adjusted margins have trended higher year to date in both Canadian and international banking.

Loans grew sequentially in the Canadian bank, in line with our strategic objective to deploy capital to our priority businesses and with our profitable primary relationships. Loan balance trended lower in International Banking and GBM. This lending discipline, coupled with early success and what will be a relentless ongoing effort to strengthen our deposit franchise is already showing clear progress.

Our wholesale funding requirement has been reduced over the past year by $33 billion, resulting in a 250 basis point reduction in our wholesale funding ratio. A few performance highlights across each of our businesses. We're pleased with the strong performance of our Canadian Banking business, which delivered $1.1 billion of earnings in the quarter, up 6%. Pre-tax, pre-provision earnings grew 11% year over year.

We're making good progress towards our medium term, 1 million new primary client growth objectives in domestic retail and 500,000 primary client growth target in Tangerine. Year to date, we've added 143,000 net new primary clients in our Canadian retail and Tangerine franchises. Although balances in the Canadian residential mortgage portfolio are down slightly year over year. We have clearly reached an inflection point as we've seen the success of our multiproduct mortgage plus offerings, result in sequential residential mortgage growth.

Specifically 82% of mortgage originations in Q3 were mortgage plus offerings with new clients averaged an additional 3.1 products. Mortgage portfolio retention rates have also improved 190 basis points year over year to over 90%. Enhancing the profitability of our Canadian banking franchise will be a key driver of shareholder value creation. I was encouraged by the sequential 150 basis point improvement in Canadian Banking return on equity this quarter.

Global wealth delivered a very strong contribution of $415 million this quarter as a result of continued franchise momentum in our Canadian wealth business, led by growth in our advice channels as well as double-digit growth from international wealth. Our Canadian Wealth Management advisory businesses saw 19% increase in earnings year over year, led by very strong performance from Scotia McLeod and Private Banking.

We continue to invest in advisor growth and technology within Scotia McLeod and have recently achieved a record assets managed in that channel. Our total wealth approach to providing full client solutions is driving growth in assets and relationship depth with new and existing clients. Financial plans in place, for example, which we know reflects stronger relationships and importantly better outcomes for our clients are up 29% year over year.

Stronger collaboration and client cross-sell were highlighted asa clear priority for our domestic businesses at our Investor Day. We've seen good success in terms of the partnership between our businesses, driving a 21% year-to-date increase in closed referrals from the Canadian retail bank to our wealth business.

These are tangible measurable metrics that confirm our advisors are working more successfully with their clients and with partners across our organisation to bring more value to those clients. We expect to see similar significant benefits from the partnership between Global Wealth and our commercial banking business going forward.

In our Global Banking and Markets business, we reported solid earnings of $418 million this quarter, despite lesser activity in the capital markets business, offset by stronger corporate banking and US business results. I have been impressed by GBM's ability to substantially earn through the headwind created by the elimination of the dividend received deduction this year.

We were encouraged by strong growth in our fee businesses. Underwriting and advisory fees were up over 30% on both a year over year and year to date basis, benefiting from the continued build-out of our product capabilities in the US capital markets business. A critical component of our client primacy strategy is a more connected transaction banking capability across our primary markets to generate higher deposit growth.

Scotia Connect, our new cash management platform will elevate our capabilities in both Mexico and Canada, with our focus now squarely on enhancing capabilities in the US to make it easier for our multinational corporate and commercial clients to do business with us.

In our International Banking business, we delivered strong earnings up 6% 9% PTPP growth year over year, representing a solid 14% return on equity despite elevated credit costs and more normalized GBM LatAm results compared to prior quarters. We continue to reposition capital deployed within our international footprint. Customer deposits grew 4% year over year, while loans were managed 2% lower. The resulting loan to deposit ratio in International Banking was down 9 points to 126% over the period.

We are pleased with the early results of our productivity efforts, expense control and capital repositioning this business. We are confident that the retail client segmentation initiatives underway and our plans to develop a more regional standardized operating model will position our international banking business well for improved efficiency and greater profitability going forward.

Our International Banking business is doing more with less, generated impressive earnings growth with lower capital deployed. Since the beginning of the year, risk-weighted assets deployed by the region are lower by $6.7 billion.

Turning to the current economic environment, interest rate increases over the past two years are now weighing on consumers and to a lesser extent on our commercial and corporate clients. In Canada, we expect the economy to improve modestly in response to further monetary easing, but remain below average historical growth rates for the foreseeable future.

We do expect policy rates in Canada to trend gradually lower into mid next year providing welcome early relief to the Canadian consumer and driving a likely rebound in home and vehicle sales activity. US data in recent weeks has resulted in a repricing of the entire yield curve suggesting much lower policy rates in the near term than were expected a few months ago. This will be a benefit to our earnings in 2025.

The larger economies in our Latin American footprint are all now well into a period of monetary accommodation. Central Bank policy rates in Chile at 5.75% and peru at 5.5% of continued lower from double digit levels last year. And Mexico and Colombia have more recently lowered policy rates as well. The Latam region has experienced relative political stability and stronger growth than anticipated this year because of proactive policy action this cycle. And should benefit further going forward from a strengthening global economy.

We are not anticipating recessionary conditions in any of our key operating geographies in the foreseeable future. In closing, I would like to provide a few additional thoughts on the recent announcement of our agreement to purchase an approximately 14.9% interest in KeyCorp, a leading US regional commercial focus banking franchise.

This investment is consistent with our commitment to reallocate capital from developing to developed markets with a focus on the North American corridor. Our investment in KeyCorp represents a low cost, low risk approach to deploying capital in the US banking market at a time when valuations are favourable and as the regulatory and competitive environment evolves. The additional primary capital will allow KeyCorp to optimize their balance sheet and be more front-footed in growing their business, which will also result in increased income to Scotiabank over time.

This capital efficient transaction is expected to add greater than $0.25 to EPS in the first full year of ownership and approximately 45 basis points to Scotiabank's return on equity. Given both confidence in our capital plan and greater clarity on future capital requirements, we evaluated a range of capital deployment options, including share buybacks.

The investment in Key is 65% more EPS-accretive than the buyback alternative and 20 basis points better from an ROE perspective. The capital impact of a full transaction will be approximately 50 basis points to 55 basis points. We believe that in the current environment, a 12.5% CET1 ratio represents an appropriate capital level at which to run the bank, 100 basis points above the regulatory minimum.

Therefore shareholders need not be concerned about Scotiabank holding excess capital as we continue to execute on our North American quarter of our strategy. Our investment in Key is financially attractive to our shareholders in the near term and add strategic value in terms of optionality on future US platform growth in the long term.

It is also important to note that our organic growth plans within our well-established US Global Banking and Markets business remain unchanged. We continue to enhance our US capital markets product offering and highly rated market segments. Our recent Mortgage Capital Markets team higher within our structured credit business is the most recent example.

In summary, I'm pleased with the bank's results this quarter in terms of delivering positive earnings progression while at the same time building balance sheet strength despite a challenging economic backdrop. We are making measurable progress against our strategic plan

and our performance in 2024 sets a strong foundation for the resumption of organic earnings growth in 2025 in line with our Investor Day commitments.

With that, I will 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. All my comments that follow will be on an adjusted basis, which exclude the following items. The loss mostly relating to goodwill associated with the sale of CrediScotia, our consumer finance business in Peru with the bank expects to receive regulatory approval in fiscal 2025. A legal provision related to certain value added tax assessed amounts relating to certain client transactions that occurred prior to the bank acquiring the Peruvian subsidiary and the usual of acquisition related intangible amortization amounts.

Moving to Slide 6 for a review of the third quarter results. The bank reported quarterly earnings of $2.2 billion and diluted earnings per share of

$1.63. Return on equity was 11.3% and return on tangible common equity was 13.7%. Revenues were up 5% year over year, as net interest income grew 6%, driven by net interest margin expansion, while non-interest income grew 4% year over year.

The all bank net interest margin expanded 4 basis points year over year. Margin was down 3 basis points quarter over quarter, driven mainly by lower margins in International Banking and Canadian banking, as well as higher levels of low yielding liquid assets. We expect the margin to modestly improving Q4 and expand beyond Q4 as the benefits of the rate cuts of fully realized.

Noninterest income was $3.6 billion, up 4% year over year, primarily from higher wealth management revenues, underwriting and advisory fees and the positive impact of foreign exchange. The provision for credit losses was approximately $1.1 billion and the PCL ratio was 55 basis points, up 1 basis point quarter-over-quarter.

Expenses grew 5% year over year, driven by higher personnel costs from inflationary adjustments and amortization and other technology related costs that support business growth. Quarter over quarter, expenses were up a modest 1%, driven by amortization and other technology related costs and professional fees. The productivity ratio is 56% this quarter in line with the prior quarter and year to date, operating leverage was a positive 0.9%.

Moving to slide 7, it shows the evolution of the CET1 capital ratio and risk-weighted assets during the quarter. The bank's CET1 ratio was 13.3%, an increase of 10 basis points quarter-over-quarter and 60 basis points year over year. Total risk-weighted assets was $454 billion, up from $450 billion in the prior quarter. Driven by growth in balance sheet assets and undrawn commitments, book quality changes that were partly offset by lower market risk.

Earnings contributed 16 basis points, the DRIP contributed 11 basis points and the revaluation of securities through the OCI contributed a further 7 basis points. This was offset partly by higher risk rated assets consuming 11 basis points and effects and other impacts of another 11 basis points. As a reminder, the Q3 dividend and the bank announced this morning will be the last dividend eligible for DRIP discount.

Turning now to the business line results, beginning on slide 8. Canadian Banking reported earnings of $1.1 billion, an increase of 6% year over year as higher revenues were partly offset by higher loan loss provisions and expenses. The business generated another quarter of positive operating leverage, resulting in year-to-date positive operating leverage of 2.1%.

Average loans and acceptances were up 1% quarter over quarter and roughly in line with the prior year. Business loans grew 7% year over year credit card balances grew 16%, while residential mortgage balances declined 2%.

We continue to see deposit growth and year-over-year deposits grew 8%, including an increase in personal deposits of 5%. The loan-to-deposit ratio improved to 120% compared to 129% in Q3 2023. Net interest income increased 11% year over year, primarily from solid deposit growth, margin expansion and the benefit from conversion of bankers acceptances due to the cessation of CDOR.

Net interest margin expanded 60 basis points year over year, driven by higher loan margins and favorable changes to business mix. Margin was down 4 basis points quarter over quarter as asset margin expansion was more than offset by lower deposit margins, reflecting the impact of rate cuts and mix shifts. Noninterest income was down 1% year over year, primarily due to bank -- lower banking fees impacted by the bankers acceptance as converting to loans partially offset by higher deposit and mutual fund fees and insurance revenue.

The PCL ratio was 39 basis points, down 1 basis point for (inaudible) quarter. Expenses increased 5% year over year, primarily due to higher technology, professional and personal costs. Quarter-over-quarter expenses grew a modest 1%, primarily due to the impact of two more days in the quarter, higher professional fees that were offset by good expense management controls.

Turning now to Global Wealth Management on slide 9. Earnings of $415 million were up 11% year over year, driven by higher brokerage revenues and net interest income in Canada and higher mutual fund fees across the Canadian and international businesses. Partly offset by higher expenses, largely volume related. Quarter-over-quarter earnings were up 7%, primarily due to higher brokerage revenues and mutual fund fees and net interest income, partly offset by higher expenses.

Revenues of $1.5 billion were up 10% year over year, driven by higher brokerage revenues and net interest income as well as higher mutual fund fees driven by AUM growth. Expenses were up 9% year over year due to higher volume related expenses, sales force expansion and higher technology costs to support business growth.

The Spot AUM increased 10% year-over-year to $364 billion as market appreciation was partly offset by net redemptions. AUA grew 10% over the same period of $694 billion from market appreciation and higher net sales. International Well Management earnings of $68 million

were up 11% year over year, driven by higher mutual fund fees, primarily from Mexico and strong deposit and loan growth at both Latin America.

Turning to slide 10, Global Banking and Markets generated earnings of $418 million, down 4% year over year significantly impacted by the denial of the dividend received deduction. Capital markets revenue was down 8% year over year, primarily from lower fixed income revenues that were

partly offset by higher FX. Quarter-over-quarter capital markets revenue was down 5%, from lower fixed income revenues partly offset by higher to equities and foreign exchange revenues.

Business banking revenues grew 8% year-over-year and 9% quarter-over-quarter due to higher corporate and investment banking, including higher underwriting and advisory fees. Loans and acceptances were down 5% quarter-over-quarter to $109 billion, reflecting market conditions and management's continued focus on balance sheet optimization.

Net interest income increased 16% year over year, primarily due to higher corporate lending and deposit margins and higher loan fees. Non-interest income, however, was down 4% year over year due to lower trading-related revenue, including the impact from dividend received deduction partly offset by higher fee and commission revenues.

Expenses were up 5% year-over-year due mainly to higher personnel costs and technology costs to support business growth as well as the impact of foreign exchange. Quarter-over-quarter expenses were up a modest 2%, largely driven by higher personnel costs.

The US business generated strong earnings of $244 million, up 12% year over year, driven by higher corporate and investment banking revenue, equities revenues and lower funding costs, partly offset by higher expenses. GBM Latin America, which is reported as part of International Banking, reported earnings of $285 million, down 9% compared to the prior year and down 2% compared to the prior quarter.

Moving to slide 11 for a review of International Banking. My comments that follow on an adjusted and constant dollar basis. The segment delivered earnings of $674 million, that was up 6% year-over-year. Revenue was up 6% year over year, as net interest income was up 7%, mainly in Chile, Mexico and Peru.

Net gross margin expanded 33 basis points year over year, NIM was down 5 basis points quarter over quarter, mainly due to lower inflation benefits in Chile and the impact of rate cuts that reduced asset margins in excess of cost of funds.

Year over year loans were down 2%, primarily in Chile and Peru. Total business loans declined 7%, partly offset by 5% growth in residential mortgages. The deposits grew 4% year over year, primarily in Mexico, Chile and Colombia. Non-personal deposits grew 5%, while personal deposits grew 1% year over year mostly term. The loan-to-deposit ratio improved to 126% from 135% in the prior year. The provision for credit losses was $589 million, translating to 139 basis points, up only 1 basis point quarter-over-quarter.

Expenses were up 4% year over year, driven mainly by higher salaries and employee benefits and technology costs. Quarter over quarter, expenses were flat as a business continues to see the benefits of restructuring, prudent expense management and the focus on regionalization that offset the challenges of operating in a high inflationary environment. Year to date, operating leverage was a very strong positive 4.6%.

Turning to slide 12, the Other segment reported an adjusted net loss attributable to equity holders of $465 million compared to a loss of 421 million in the prior quarter. Net interest income was in line with last quarter and is expected to improve going forward benefiting from rate cuts. The non-interest revenue declined mainly due to lower non-interest revenue and higher expenses.

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 55 basis points, slightly above last quarter and are expected to remain around these levels for Q4. As we look to finish 2024, we continue to maintain our prudent approach and respond to the corresponding to the evolving macroeconomic landscape, but we are encouraged by the following trends. Stable delinquency rates in Canada, despite elevated unemployment and house hold expenses, flat net write-offs in GIL's quarter over quarter in International Banking, despite a mixed macroeconomic environment.

Healthier balance sheet for our borrowing clients with both quarter over quarter and year over year deposits growing faster than loans. The resulting all bank PCLs approximately $1.1 billion was up $45 million quarter over quarter. We continue to maintain sufficient allowances for credit losses.

Over the last four quarters, we have increased total allowances by approximately $800 million, of which $500 million was for performing loans, bringing our ACL coverage ratio to 89 basis points, up 11 basis points from last year.

Canadian Banking PCLs of $435 million were up a modest $7 million, but down one basis point quarter over quarter as increased provisions for performing loans were partially offset by lower impaired provisions. Canadian retail PCLs were flat quarter over quarter with decreased in impaired provisions, offset by an $84 million performing build.

Canadian retail clients continue to show resilience and are managing their budgets prudently as discretionary spending hovered around 20% of total spending for the last six quarters. Expected rate relief will serve as a tailwind, product performance remained strong in the meantime. The number of tail risk clients, our mortgage portfolio continued to improve sequentially and represents less than 1% for total retail loan balances.

The bank is set aside allowances to cover expected loss on these accounts. 90 day delinquency in our variable rate mortgage portfolio has increased by a modest two basis points quarter over quarter. Our fixed rate mortgage portfolio has maintained a stable 90 day delinquency rate of 15 basis points, and our variable rate mortgage performance gives us confidence in our books credit quality. We are comfortable with the amount of allowances for the fixed rate mortgage portfolio.

Turning to International Banking. International banking PCLs were $589 million, translating to a PCL ratio of 139 basis points. Total retail PCLs were stable and in line with expectations. We are encouraged by the performance in our retail portfolios. Delinquency remained flat quarter over quarter for the first time two years. Our clients remain resilient, given the macroeconomic environments in the region.

We remain confident in our clients resilience as Central Banks continue managing inflation across our footprint. The overall portfolio continues to perform as expected, and we continue to remain within the top end of our outlook for the full year 2024.

With that, I'll pass it back to John for Q&A.

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

Great, thank you Phil. Operator please open the line for questions.

QUESTIONS AND ANSWERS

Operator

Ebrahim Poonawala, Bank of America.

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

Good Morning. I guess maybe Raj for you. Just around the net interest margin outlook. So I heard your comments earlier if we get a series of rate cuts from the Bank of Canada, which is expected at this point, give us a sense of the trajectory of where you see both the Canadian NIM playing out over the next four to six quarters and the consolidated NIM. And I'm assuming the corporate segment has to play a role somewhere in there with wholesale funding costs coming down. Thanks.

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

Yeah. Good morning, Ebrahim. Happy to do that. Couple of points before I start on where this would go. So we disclosed in our analysts deck saying every 25 basis points is about $100 million of benefit in the NII over the full fiscal year. To be clear, it doesn't go as equal each month, little bit back ended because of our assets and liabilities repriced.

The second thing is we have seen two rate cuts in Canada, and the full quarter benefit of which shows through our wholesale funding benefits that come from cost of funding reductions over there. As you know, most of these on our 90 day repricing schedule. So we'll see some benefits in Q4 in the other segment, but we'll see the full quarter benefit starting from fiscal -- first quarter in fiscal 2025 and through. and likewise for every rate cut that will happen both in Canada and the United States.

Our current forecast is we should have two more rate cuts in Canada before the end of the calendar year and likely you know starting in the United States in September, two rate cuts for the remainder of the calendar year and four more rate cuts for 2025 and so on in both countries. So all of these benefits should show up in the other segment as you point out.

Even this quarter, if you look at the other segment, Ebrahim, the NII number, the loss is exactly the same as last quarter. So it's plateaued in our opinion and the benefits should start showing up starting next quarter. The Canadian banks division NIM will continue to show some level of decline because deposit margins will go down in a declining rate environment, as you know. But it will pick up as the asset repricing starts happening in line with the fixed rate mortgages, the schedulers as you know 2025 and 2026, but likely towards the latter part of 2025.

So that's the dynamic you will see in the business line, the international banking NIM, I suspect will be around the range that we operated this quarter. And as you know it moves around a little bit, multiple factors, different countries, inflation, many things that impactIB NIM. But I think it will be around the levels that you saw this quarter. So the summary would be, we should start seeing NII and NIM benefits modestly in Q4 and then see it accelerate through 2025.

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

Got it. And I guess maybe it's a good question maybe for you, Scott. The investment you made, I think got -- folks by surprise, just I think to me the fact that Scotia was back to playing offence and just was wondering if you could give us an update like the two core pieces in terms of the strategic sort of priorities one, give us a mark to market on where we are in improving the deposit franchise within Canada, like early signs of success like outside of rates coming down, what's actually happening from an execution standpoint. And then with Travis coming on in the capital markets business, is there kind of a heightened focus in terms of growing the US dollar business going forward? Thanks.

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

Sure. So there's three parts to that. So I'll start with the Key investment, I'll give it to Aris on the deposit franchise. And then Travis, maybe you can talk about the fee business in the US. So on the Key investment. We've gotten increased confidence over the last quarter in terms

of the capital site, capital peak, in terms of what we need to run from a CET1 ratio with the Basel deferrals, and frankly, the strength of our balance sheet.

And so, we evaluated a whole bunch of redeployment options and capital, and the investment in Key was the most financially attractive, and best for our shareholders. And there's a page in the Investor Day, which highlights the differences relative to a share repurchase. So that's first and foremost. I think the second aspect of that, however, is it's a low cost, low risk way to get into the US market.

In a market that's very uncertain right now, both from a political, regulatory and economic perspective. And so, the ownership interest in Key, which has a five-year standstill, allows us to dip our toe in the water, learn about the market, and actually get the benefits of NII, from developed market earnings over time, which has been part of the strategy in the North American corridor.

We are going to continue to focus, and Travis will come to this on growing our US GBM business, particularly through the fee side of that business. So with that, maybe, Travis, you can start on outlook for the US business, then we'll come to Aris on the deposits.

Travis Machen - The Bank of Nova Scotia - CEO and Group Head, Global Banking and Markets

Sure. Hi Ebrahim, this is Travis. Thanks for the question. As Scott mentioned, we see great opportunities in the US, obviously one of the largest markets. We see increased connectivity between our Canadian and US clients, where we can capitalize on some of the fee opportunities that come across.

And you saw a week or so ago, we did announce an investment in a new team there. So as we start to build our expertise in our products, I think you'll see continued growth in the US, above some of other markets within GBM.

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

Aris, do you want to talk about deposit?

Aris Bogdaneris – The Bank of Nova Scotia - Group Head, Canadian Banking

Sure. We grew, and Scott alluded to this, in the last year, we've added more than $28 billion in deposits to the Canadian business. And you see it primarily in the loan-to-deposit ratio has gone down, I think, from 130 to 120 -- 8 points or 9 points. And this is something I mentioned back at Investor day, about building a more balanced business. And we start to see that now quarter-on-quarter.

I think what I particularly want to highlight is in the third quarter, we actually saw day-to-day banking balances grow, and that is a new development. But is, an offshoot of all the work we've done, whether it's booking our mortgage, originating our mortgages and getting the mortgage plus and driving deposit first strategies, and day-to-day banking strategies, when we lend.

We see it in the commercial banking business, small business, retail. And so you're starting to see day-to-day balances, despite the difficulty in the market and the consumer, we're seeing these balances grow. We added, I think, 60,000 net day-to-day banking clients in the third quarter. So the strategy is working. And it's a continuous focus of ours in all our channels, to build this deposit day-to-day banking muscle and then, lend on the back of it.

I think today 56% of our mortgage customers have a day-to-day banking count and conversely 46% of our term deposit holders have a day-to-day banking account. So this continues to be the focus, and will continue to be a focus going into next year. And we'll build more product muscle, we build more incentives in the branch network. We're also, of course, focusing, as I mentioned also during Investor Day, to get more mutual fund sales out of our branch network. And that also is showing, early signs of success.

The mutual fund sales coming out of our branches increased on a gross basis 44% year-on-year. So again, this balanced business model, we continue to push, and we're seeing success and will continue going into the following quarters.

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

Yeah. Thank you very much.

Operator

Gabriel Dechaine, National Bank Financial.

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

Hey, good morning. On the International segment, I think you were saying that the margin is going to be, kind of in and around this level for the foreseeable future. I don't know if you said anything similar about the loan loss ratio?

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

Gabe, it's Phil. I hope you're well. Good to hear you. We are -- as I said earlier, really encouraged by what we're seeing in IB, GILS flat, net write-offs flat. So that's an early positive sign. I'll give you guidance into Q4, and then happy to come back next quarter and sort of give more clear guidance into '25. But we're generally seeing things, as I look into next quarter, in line with this quarter.

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

Okay. Now if I look further ahead and your loss right now, is kind of in line-ish with historical levels, there's been obviously some volatility there over the years, but kind of eyeballing it looks at a normalized level, if you will. Yet your consumer portfolio, not the mortgage, but the mostly unsecured consumers, is still nearly 20% below where it was in the pre-COVID days.

Just wondering why maybe beyond next quarter, if you factor in the rate cuts, you factor in the portfolio, the change to the portfolio mix. Why that that loss rate couldn't actually trend lower in the segment? Or is there some other factor I'm not considering?

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

No, I think listen, you've done a thorough analysis there. Francisco and I have been very focused on developing high quality in our portfolios. We've been very focused on primary customer acquisition. We're focusing on sort of our mass and top of mass segments. And so we're encouraged by what we're seeing, Gabe. And I think, there's more to come from me next quarter on outlook..

We're trying to stay extremely focused on what you've heard Scott say often this value versus volume. And just to give you a bit of background on that. So 70% of our new mortgage originations are coming with 3 or more products. And actually, in April, that number was approaching 80% across all channels.

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

Okay. I wasn't that thorough, actually, but thanks for that. Have a good one.

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

Thanks.

Operator

Paul Holden, CIBC.

Paul Holden - CIBC Capital Markets – Analyst

Thank you. Good morning. A couple questions. Maybe just continuing with international. I think if you look at the macro backdrop, particularly in Chile and Peru, seems to be improving. And then, also there's a focus on the client primacy.

So what I'm trying to figure out is, as the demand environment improves for loans. But put that against sort of your strategy. How should we think about balance sheet growth for international in 2025? Is this somewhere where balance sheet will still be flattish, or can we expect some decent growth next year? Thank you.

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

Well, thank you for the question. This is Francisco here. A couple of thoughts. The first is 2025, going back to our commitment in Investor Day, was part of our transitional year. So you're going to see throughout 2025, as you've seen in '24, the combination of a refocusing of our targeted penetration effort on existing relationships, on particularly top of mass emerging affluent-and-affluent.

While an exercise of client de-selection drives a reprofiling of our balance sheet. So the net effect has been an overriding reduction of RWA, all delivered, all intended towards focusing on the right clients and the right returns. That exercise will continue throughout 2025, where we're going to be very deliberate on where we place balance sheet, both on retail, commercial and GBM, ensuring that we have a balanced relationship where lending is not the driver or the anchor, but rather the ability to transact on a day-to-day basis with our clients.

So you will see on the commercial and GBM side, a deliberate focus on cash management penetration. And on the retail front, it will be about a balanced relationship where payroll, investments, insurance and ultimately transactional credit drive the relationships. So you will see 2025 as a flattish balance sheet year just, because of the net effect of de-selection and refocusing of our portfolio.

Paul Holden - CIBC Capital Markets – Analyst

Understood. That's a helpful answer. Thank you for that. Second question, and I guess it's for Phil. If I look at slide 34, it shows Canadian retail PCL trends. And what I see here is sort of, I think it's suggesting that the impaired, are actually starting to improve. Well, I think you're pretty conservative still on total provision. So does that suggest that at a point in time, when macroeconomic forecasts start to improve, there's potential for performing allowance releases? Would that be a correct assessment? Thank you.

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

That's a great question, Paul. And obviously, it's something we're spending a lot of time thinking about right now. I have to say the numbers came in as we had expected, quarter-over-quarter. But I continue to be impressed by how resilient the Canadian consumer has been through this period, the trade-offs that they continue to make. We see that coming through our VRM, our VRM portfolio for sure.

I think, I've been signaling auto stressing the auto portfolio for about a year now, and I was really encouraged this quarter to see, we're finally stable as it relates to net write-offs and in that portfolio. So have we turned a corner? I mean, one quarter is not a trend, but I'm really

encouraged by what I'm seeing for this quarter. And even as I look into next quarter, I look -- I see stability in these portfolios moving forward.

Paul Holden - CIBC Capital Markets – Analyst

Okay. That's it for me. Thank you.

Operator

Thank you. The next question is from Jill Shea from UBS. Please go ahead. Your line is open.

Jill Shea – UBS Securities - Analyst

Good morning. Thanks so much for taking the question. So Raj, I appreciate all the color on the margin dynamics and just hoping to follow up on the corporate segment more specifically. You had the adjusted bottom line results coming out the negative CAD 465 million this quarter, which was in line with the guidance that you had laid out previously. Just wondering if you could put a finer point on how to think about bottom line results as we move forward and get policy rate cuts.

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

Yes. Thanks, Jill. I think the Corporate segment is something that earlier we have talked about somewhere around the $475 million range. Bottom line is the right number for this year. And it's going to improve significantly next year. It's in line with the NII improvements, driven by the rate cuts that we talked about a little earlier and the wholesale funding benefits that will translate, and show up in the Corporate Funding segment. I think just near term, next quarter, likely around this range.

A couple of other comments on the Corporate segment. It's got multiple components. As you probably know by now. There is a lot of transfer pricing movements that happen between the Corporate segment and others. There's investment gains, sometimes there's mark-to-market gains that happen highly difficult to predict over there. And the investment gains have been fairly small in the last few quarters, because we've been holding onto it for NII income and that's kind of the change in philosophy on how we want to manage the portfolio going forward.

But mark-to-market gains are a little hard to predict, particularly in a volatile environment. So near-term, I think this would be about the right number, somewhere around the $450 million to $475 million range. And we'll talk in November, but directionally, it should be significantly better in 2025.

Jill Shea – UBS Securities - Analyst

Okay. Thank you for that.

Operator

Mario Mendonca, TD Securities.

Mario Mendonca - TD Cowen – Analyst

Good morning. Phil, help me understand what proportion of your business, and government loan book would be on your watch list. And I'm curious as to what that is currently versus what it's been in the past?

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

Yeah. Thanks, Mario. It's a good question. We continue to focus on high investment-grade corporate lending. Business and government, we have very little on the watch list right now. There's maybe -- there's a few things that I'm watching mostly on the commercial side of the business, but I'm feeling really good about where we are on the corporate side. Obviously, we're a very disciplined organization from a credit perspective.

We are very conservative in terms of how we approach these segments. There's -- we're seeing downgrades, some downgrades higher than upgrades, obviously, during this period. But I've got no major file on my desk that I'm working out right now. We are looking at -- there's a couple of pockets of softness in Canada on the commercial side.

Agriculture would be one of them and transportation. And then, we're watching some pockets in some of our Latin America markets as well. But there's nothing that's standing out to me that I'm losing sleep on, on the corporate side right now.

Mario Mendonca - TD Cowen – Analyst

It would be fair to say that it would be well below what, like far less than 5% - of your corporate -- of your business and government loan book. The watch list that is like well below 5%.

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

Yes.

Mario Mendonca - TD Cowen – Analyst

Okay. Maybe sort of a follow-up question on the auto side. I like others have been waiting for unsecured Canadian consumer credit to accelerate materially at some point and drive, every bank's PCL is higher. And it just seems like that's not happening. And I guess what I want to ask you said that you've been surprised or encouraged by the resilience of the Canadian consumer.

Do you think that rates have dropped sufficiently, or maybe the outlook for rates has the -- outlook for rates that they will be lower over the next say, 12 months? Is that sufficient that we could be looking at a bit of a no landing scenario for the unsecured Canadian consumer, that we will never see that spike in losses. Is that a possibility now?

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

It's a really interesting question. I have been a proponent of the soft landing as I sort of look through what -- how the Canadian economy is performing. And interestingly enough, when I look at our credit card repayments -- I mean we've got a really small credit card portfolio compared to our peers. But credit card payments have actually been improving.

And the -- as people have been saving money, they've actually been paying off their credit card fairly regularly, which is encouraging. Again, I mentioned auto before that -- that's always been the bellwether. We focused really our credit card portfolio. We focused on sort of higher prime, super prime FICOs in terms of our origination strategies there. But I've got -- honestly, Mario I'm not seeing any major concerns coming through the Canadian unsecured credit card portfolio.

I mean, we're looking at our lines of credit really closely, as it relates to our people drawing down on those lines to make payments to the mortgages, that sort of thing. But again, I'm super encouraged by the fact that this quarter -- those levels of delinquency, or any stress seem to be leveling off.

Mario Mendonca - TD Cowen – Analyst

Thank you.

Aris Bogdaneris - Bank of Nova Scotia - Group Head, Canadian Banking

I just, I'd like to add to something that Phil said, it's Aris here. I think from my experience and unsecured rates matter, but what matters most is unemployment and how that tracks. And I think, when we look at unemployment, that's a real bellwether and how the unsecured book will perform. Obviously rates matter, but I think you also have to look at the unemployment picture going forward.

Mario Mendonca - TD Cowen – Analyst

Thank you for that.

Operator

Thank you. Darko Mihelic, RBC Capital Markets.

Darko Mihelic - RBC Capital Markets – Analyst

Hi, thank you. Good morning. My question is directed to Francisco. And I'm just trying to maybe get a gauge for where you are in your journey, with respect to maybe the proper term is deselecting clients. When I look at your revenue growth and I go back to Investor Day, and I think about kind of the way you were depicting it, there was a momentary point in time where there would be stress in your revenues, because you were reducing certain portfolios or selling things.

And I just want to maybe think about that for a moment and get your perspective on whether or not there could be some revenue pressures coming up, or whether or not you're far enough along the journey that, maybe you don't have to do more. So I don't know if there's a proportion, you can tell me, I don't think you ever actually told us how much revenues you expected to lose from removing certain books of businesses and so on and so forth.

Hopefully you get the idea of where -- what I'm asking, and you can give me some perspective on where revenues can go from here knowing that maybe there's some pressures around the corner, or maybe there isn't? Hopefully, my question makes sense, Francisco?

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

It does. It does. Thank you for it. I think the first thing to position here is the decision-making process for us is about profitability and returns, given the amount of capital we have deployed in the region. To get to where we need to be, it has to be a combination of making the right decisions on the clients, we can compete and win for business on a balanced relationship, while being significantly more efficient in serving those clients.

On the first portion of that, we have done a lot of work in understanding segmentation better and that is generating our ability to tackle the wallet of those clients, be it in GBM, in commercial, in retail or in wealth on a more integral fashion. And that is resulting in the performance you're seeing this year, which in spite of the fact that we have been restructuring and repositioning our organization, we have been able to capture a disproportionate amount of business coming our way, therefore, having revenues grow at 6% in the quarter, 7% year-on-year. We believe that performance to be sustainable in that range.

Now the most important aspect of the progress is in expenses as well. We have been able to maintain expenses flat quarter-on-quarter. And when you look at year-on-year, 4% growth on an environment that has inflation north of 5% on average, creates the opportunity to continue operating leverage while we reposition the business.

So overall, we are on track to where we need to be in terms of repositioning our client franchise for primacy and multi-product. While on the five-year horizon, targeting the $800 million expense roll rate reduction. We are on track also to position our organization by the end of 2025 to be reorganized, refocused from the client perspective, and embracing a different level of efficiency.

And when you look at our productivity, where we started the journey at Investor Day, we were at 53%. This quarter, we are at 50.9%. We committed to be at 45%. So we're making powerful progress here across the three important components of our strategy.

Darko Mihelic - RBC Capital Markets – Analyst

And so, specifically then with respect to portfolios or businesses that you'd look to dispose of, would you say that you are kind of complete with that process or could there be a continuation on that process? And I'm just thinking about potential revenue headwinds from some dispositions that may or may not be coming in the next, say, year?

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

Yeah. Well, again, going back to the principles that are driving our decision-making, primarily returns on profitability, we're not done. We need to make sure that our portfolio across the board contributes to the higher ROE we targeted and sustainable return revenue growth and profitability. So we are making progress in the assets or with the assets that have been underperforming. But as we committed on Investor Day, when we don't see a path to getting to where we need to be, we would redeploy it. And that remains our disciplined way forward. That has not changed.

Operator

Lemar Persaud, Cormark Securities.

Lemar Persaud - Cormark Securities Inc. – Analyst

Yeah, thanks. My first question maybe for Aris here. One of the things I've been watching closely is this evolution of mortgage growth at Scotia, to kind of suggest that we might be moving past some of these profitability actions, let's say, in the domestic retail business. This quarter, you guys mentioned that you've turned the corner on mortgage growth sequentially.

So my question is, has Scotia then crossed an inflection point here in domestic P&C, because it sounds like you're trying to go in that direction? Or should we just look at it as you're happy on the progress, but it could be a bumpy road as we move forward in Q4 and into 2025? So thoughts there would be helpful?

Aris Bogdaneris - Bank of Nova Scotia - Group Head, Canadian Banking

Okay. Thank you for the question. So let me give you just a brief summary of the mortgage business to-date. We added $5 billion spot in the third quarter in terms of volume growth, net. That compares to $2 billion in the second quarter. So you see from $2 billion to $5 billion as we start to ramp up a bit. This is obviously -- the mortgage market is heating up, rates are coming down, there's activity there.

You're right, July was an inflection point where the actual balances of our mortgage business are now starting to grow, and it will continue into the fourth quarter. I think Scott alluded to it earlier. 71% of our new originations are coming from our brokers, but more importantly, 90% of that volume is coming with additional products and day-to-day accounts, et cetera.

We're focused our branches on retention, and the retention rates we're seeing are very strong. We've also added something new virtual retention specialists. So this is a group of folks who are virtually-based, and are driving retention across the country. This whole idea that we've been talking about for a while now about value versus volume, you see it actually in the mortgage P&L, where revenue growth is double-digit, 20% year-on-year as we focus on margin, quality customers, et cetera.

So will this continue? Yeah, it will continue into the fourth quarter. We'll probably see a slightly higher growth rate, slightly, but we're not driven by market share. We over-indexed on mortgages for many years. We're interested in strong relationships with our brokers, strong retention, multiproduct and focusing on value over time. So that is really the story.

And so have we turned the point? Yeah. But we're just going to continue what we've been doing up to now, and maintain this model that we're trying to build this balance. I hope that answers your question.

Lemar Persaud - Cormark Securities Inc. – Analyst

Yeah that's helpful. And then what about like earnings growth at your segment level, like regardless of the mortgage business, just taking it up to the segment level. Should we expect increased earnings growth as we kind of move forward into 2025? Like, I'm just trying to think through that as well?

Aris Bogdaneris - Bank of Nova Scotia - Group Head, Canadian Banking

Well, again, earnings is driven by, of course, the volumes and revenue, the costs, the PCLs, they're all in combination as Phil talked about, it will be interesting, and we're watching how the PCLs will evolve that will have a big impact on the profitability going forward. But I think what we continue to see, again, is day-to-day banking growing; retail, customer, primary growth continuing. Good cost discipline.

This is operating leverage three quarters in a row is positive, as we really focused on our customer-facing channels to optimize them, branches, contact centers, mobile advisers. We're working all the levers is what I'm trying to say. And we continue to hopefully see the ROE improving, and the RAM improving all the quality metrics that we monitor.

Operator

Nigel D'Souza, Veritas Investment Research.

Nigel D'Souza - Veritas Investment Research Corporation - Senior Investment Analyst

Good morning. Thank you for taking my question. I wanted to touch on the EPS accretion that you had on page 18, comparing the buyback versus KeyCorp. Could you just understand why $2.3 billion was used in that calculation rather than $3.9 billion for the buybacks, and the $80 million in net funding costs, what that represents?

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

Yeah. Sure, Nigel. It's Raj. It's a good question. It's the $2.3 billion we use, that equates to the 50 basis points to 55 basis points on capital. If you want to do the comparison to the Key transactions. So that's apples-to-apples. If I use the $3.9 billion, it will equate to about 70 basis points to 75 basis points of capital. Therefore, it's a different basis to use and likely not comparable for the outcome.

So that said, the $80 million is actually quite simple. It's really the funding cost of the $2.3 billion, or you can look at it as the opportunity cost. The $2.3 billion is invested in some securities towards the return that we would lose, and that's the after-tax number that we have calculated based on average. I think it will work out to somewhere between 4.8% to 5% I think if you did the math.

Nigel D'Souza - Veritas Investment Research Corporation - Senior Investment Analyst

Okay. I guess where I was going with that is, I'm trying to understand why not look at the actual capital outlay and then you look at the Key accretion, why isn't the opportunity cost netted off against that as well to reduce the benefit by $80 million, but maybe something to follow-up offline? Thank you.

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

I can actually help you now, because the Key income that we have shown, the $300 million to $350 million has got three components. It's the potential equity pickup that we will have, net of the cost of funds relating to what we are deploying, which is on the entire $3.9 billion proceeds that we will deploy. And it's got a benefit, because of interest rate mark accretion that will come through after we do purchase price accounting. So that's got cost of funds to include in it, and it's a net number.

Operator

Sohrab Movahedi, BMO Capital Markets.

Sohrab Movahedi Movahedi - BMO Capital Markets – Analyst

Okay. I appreciate we've gone over time. Thank you for squeezing me in. I have two hopefully quick questions. Scott, I think the 12.5% CET1 being the right level. And so does that suggests that the optimization exercise in GBM is complete now, we shouldn't expect to see further rationing of credit and RWA there? That's the first one.

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

No. I mean, listen, I think GBM optimization, I wouldn't actually -- characterize it as an optimization, I would characterize as a focus on primary clients with relationships where we can add value to the client, and it's beneficial for the shareholder as well. And so we're going to continue to be very disciplined on how we allocate our capital.

That's going to allow us to continue to allocate capital to primary client relationships, where there's a mutual win-win. And it will continue to allow us to build capital for the overall bank, which when we can then redeploy into other uses. So that would be a continuing strategy similar to what-- how Francisco talked about IB and similar to how Travis talked about the fee business that we're talking about in GBM.

Sohrab Movahedi Movahedi - BMO Capital Markets – Analyst

And so, I guess that leads me into the Key investment and some of the tangential benefits over there. So is the expectation here that some of the balance sheet would reside with Key, for example, and you'll get some fee businesses? Is that the way to think about it, if this is executed on kind of to dreamlike levels?

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

No, not at all. I mean the Key investment I would separate from our GBM organic growth. Key investment, as I talked about, near-term accretion better than a share repurchase gives us some optionality over time in a low cost, low risk fashion. In terms of our GBM business, you see what we're doing on the fee, the fee side, where we're up 30% year-over-year.

30% year-to-date continue to build up the capital markets capabilities in really attractive businesses, and the capital market is higher that Travis referenced is another example. The CLO business is another example. So I would separate our GBM organic opportunities and that Key investment. Those are different strategic paths.

Sohrab Movahedi Movahedi - BMO Capital Markets – Analyst

Perfect. And Scott, a couple of times, I think, on this call -- on the August 12 call, I think, you've talked about the optionality that longer term, Key, I think, provides. Can you talk to prior experience of the bank with options like this and how shareholder accretive they've been over time?

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

Yeah. I mean I think you're referencing how we entered into Mexico, which obviously has been a great outcome for the bank. I think it's a 25% type ROE business, and we're positioned well. That wasn't in my mind, as I thought about this transaction. We thought about this transaction, again, as financially accretive, good for shareholders and optionality long-term.

Remember, there's a five-year standstill. And so that's a long ways out. Right now, we're going to focus on building out our GBM business organically with a fee focus, optimizing the capital we deploy to that business to make sure we're getting good returns for our shareholders.

Operator

Doug Young, Desjardins Capital Markets.

Doug Young - Desjardins Securities Inc. – Analyst

Yeah. I'll hopefully keep this relatively quick. Just focus on international banking. And I guess, there's two questions. One, there was -- there seems to be a bit of an uptick in PCLs in Mexico, just hoping you can give a little bit of color. Is this impaired or I mean is this corporate or retail? Just so you can give some color. And then second, Colombia still continues to lose money, and just hoping maybe you can provide a bit of an update on the plans for this particular region?

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

Doug, it's Phil. I'll start and then I'll hand it over to Francisco. In the case of Mexico, that's one account in the -- one commercial account in the retail sector that's driving that increase.

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

Yeah, on Colombia, thank you for the question. Two things to keep in mind. First, we are a reflection of the markets we serve. The Colombian market has been challenged throughout last year. We continue to believe the challenge will remain for the next two to three years.

As you look at the system performance, around half of the banks in the system are consistently losing money. And what we've done is focus on a number of decisions that allow us to improve our efficiency and performance in country.

And to that effect, what we've done with great discipline is reduce expenses 2% year-on-year, generate positive operating leverage, and remain on a very disciplined approach as to how we deploy credit in a very challenged market.

So that is the path forward, is continue to operate on a difficult environment, trying to improve our position consistently over time. We maintain our view that to the extent that there's no improvement, we will redeploy. And that is the principle we apply to all the businesses we run.

Operator

Thank you. There are no further questions on the line. I will now turn the call back to Raj Viswanathan.

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

Thank you. On behalf of the entire management team, I want to thank everyone for participating in our call today. We look forward to speaking again at our Q4 call in December. This concludes our third quarter results call. Have a great day.