SCOTIABANK

2023 Investor Day – Canadian Banking and Global Wealth Management Q&A

December 13, 2023

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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.

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CANADIAN BANKING & GLOBAL WEALTH MANAGEMENT Q&A

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

Great. Okay. Questions on the Canadian bank and the Global Wealth Management business?

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

Maybe I'll start off with Aris. We highlighted retail, commercial, small business and Tangerine as there for I guess, vectors, each one is going to be the easiest and which one is going to be the hardest when you think about your medium-term plan.

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

I think for me, when I look at the businesses, I think when you see the retail business in Canada, the commercial business in Canada, they're very strong. They have the assets, they have the pedigree, they have the history, they have everything they need as they build on their strategy for primacy. So there, it's about continuing what they started because as I've arrived there's already great momentum in those businesses as they pivot on this primacy strategy.

When I look at Tangerine, they've also been very successful prior to my arrival. But there, I see a lot more opportunity to scale up and broaden that business beyond what they do today. So it's not about being more difficult or easy. It's about just for me, Tangerine is about making it achieve its true potential that I've seen in my time in Europe and Australia. So that's how I'd answer it.

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

And if I can just have a follow-up on that or the success of Tangerine will at least be in part dependent on the customer acceptance of digital channels made reference to your experience elsewhere. Where do you see the Canadian consumer in adoption of that digital channel versus the best-in-class that you're aspirin?

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

So if I just go back to Europe, and I think about Europe, Europe is not a monolith. So when you look at Europe, you see the Scandinavian countries, I would include Netherlands in that category and even places like Poland and Turkey, where they're very advanced in digital. And then you see in other European countries, more in Italy and the South, the take-up is slower. But what is clear for me and what I've seen over the 20 years I've been there, it's an inevitable trend as the demographics, the young population starts to grow up, digital is how they live their lives.

And so the question is how quickly that trend and that converges because I think that consumer behavior is converging all around the world in Australia, Asia, everywhere. It's that convergence and our banks prepared to serve that client who is very digitally savvy and very oriented and wants to do their banking on mobile, for example. So again, I believe, on the bottom of my heart, that it will actually -- that behavior will come here if it hasn't already started, it will come here. And we just have to be ready to provide our clients with that capability as they make that change.

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

I guess just sticking with that, you've seen challenger banks generally struggle in North America over the last 3 to 4 years, the ones that came from Europe. So in that convergence, do you think Tangerine eventually converges with the retail offering? When does the Scotia mobile app and Tangerine offer the same thing? Do you see?

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

My approach and my way of thinking is that Tangerine to fulfill its potential has to operate independently to the greatest extent, different value proposition, different messaging, different.

How we get synergies in the back end will look always at synergies. But the value propositions and the look and the feel and the experience will be different from the big 4 banks we have in Canada. That's how I believe Tangerine will be successful.

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

And taking that a step further, can Tangerine then be ported to the United States?

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

ING's biggest regret is that they had to leave the U.S. that they were very successful in those days. That's not in our that's not in the thinking. The thinking is there's plenty of opportunity in this country where the population is growing, young population. The market is large for a Tangerine especially the lack of competitors we see in this space. So I think there's so much more opportunity we still have in Canada.

Jacqui Allard - The Bank of Nova Scotia – Group Head, Global Wealth Management

Maybe I'd add to that too, John. I think Tangerine for Wealth Management represents a really interesting opportunity. We have only 6% I mentioned we had 10% penetration within the Red Bank. We have only 6% penetration from mutual funds in Tangerine, a huge opportunity for us. In our 5-year plan, we're expecting to take that to 12%, which would get us about $10 billion in assets under management. It's not a huge number. But the opportunity there is huge. And to your point about Converge, I think there are synergy opportunities. I think ScotiaSmart Investor is a fantastic example of that. It's a great digital tool. It's a natural for Tangerine's digitally savvy, younger client base. But it also works in Scotiabank and the Red Bank, but we'll make it look different for the 2.

And the investment products that we offer through those 2 channels will be different and really tried to be focused on the client base that we have in each of those franchises. So I think it's a it's a 1 plus 1 equals more than 2 by taking the opportunity to actually keep it as a challenger bank and to build on it to provide us with more value over time.

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

Just to give you an indication, the crossover between the 2 banks in terms of customers is 2%. It's very low. Different markets teen target markets.

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

Just a couple of questions. Maybe just to finish up on that before I go on to wealth questions, Aris, the certainly sounds to me like Tangerine's not really the vessel, so to speak, to go after new to Canada customers. Is that not the case as a challenger bank in Canada to make that a bigger focus?

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

I didn't talk about it, but it is a very big focus for Tangerine because often the new to Canada customers or people who come from abroad are very digitally savvy already. because that's just in that part of the world abroad, they're much more advanced digitally and on mobile. So I see them as a natural segment for Tangerine to also approach with their value proposition. So I didn't mention it, but it's a big part of what Tangerine also is looking at.

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

And yet only 2% crossover, and you've had a lot of success with new to Canada. What's Tangerine been doing wrong with respect to the new to Canada?

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

I think Tangerine was not focusing on primacy to the same extent it will now focus on primacy with a full product offering at scale on mobile. So that could be one of the reasons.

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

And my question for Jacqui is when I looked at the metrics, just quickly, when I think of an 8% AUM CAGR over 5 years, I think the market is going to give you that. And if you're looking at 25% growth your primary clients. What -- are you anticipating some sort of AUM disposals in here? Or is it just dark was way too optimistic in the market?

Jacqui Allard - The Bank of Nova Scotia – Group Head, Global Wealth Management

Thanks for the question, Darko. I would tell you that in our 5-year plan, we have built a very conservative 5% weighted average market return across our business. I think to your point, I think we will exceed that. But the 8% target that you saw or 8% CAGR in AUM is based on an assumption of market CAGR of 5%.

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

A question for Jacqui. You mentioned launching or introducing new product capabilities. You talked about the importance of scale and size. You talked about it getting bigger international. When I think about some of those things, I think about the potential for acquisitions, maybe not large acquisitions, but at least the capacity or desire to acquire new capabilities or to get bigger in certain markets? Is that part of the strategy at all?

Jacqui Allard - The Bank of Nova Scotia – Group Head, Global Wealth Management

It's not part of what has been included in our 5-year plan, Paul. It is something we would be open to over time. But I don't think it's -- it's certainly not something we need to achieve what we've set out in my presentation. In Canada, I don't think it's necessary at all, although we'll always be opportunistic. Where in the U.S., it could provide us with some potential acceleration to add some additional capability. When we think about the U.S. though, it really comes down to 3 things for wealth management.

First and foremost, it's our international wealth business. So again, 40% of high net worth, Latin American wealth being held offshore. We have fantastic offshore capabilities for those clients in the Caribbean, both Kaman and Bahamas as well as in Canada. But we know we need to add a U.S. booking point because that is the booking point of choice for most Latin American clients. So that is going to be important for us to establish over time.

The second thing for us in the U.S. is really for our Canadian Wealth Management business. We have some fantastically successful Canadian wealth managers who are managing money for clients whose lives have cross-border lives. We've done so many Canadians, whether it's an expat professionals, snowbirds, et cetera, have wealth holdings on both sides of the border. We want the ability for our advisers in Canada to be able to serve their clients in the United States. And then thirdly, within our asset management business, I think there's maybe two things.

Predominantly, we want the opportunity to distribute our institutional capabilities into that market. But we would also be opportunistic around additional asset management capabilities if the opportunity presented itself. So we're open to an acquisition in the U.S. I will tell you it's not built in. There are no assumptions of an acquisition built into our plan. What we assume instead is that we can also be the masters of our own fate here, and we can do things organically until the right thing comes along. It's just so much timing and opportunity.

And we're not going to make enough position for acquisitions to say if we don't need to do it.

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

And then second question goes back to the digital and importance of digital across multiple categories here. And it's a similar question. In terms of digital, is it something you need to buy capabilities? Do you develop it in-house? Do you do it through partnerships? What about -- I want to get a better sense of how you'll keep ahead of the competition in terms of digital capabilities, again, as it relates to Canadian banking, wealth, et cetera?

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

We have the capabilities in the house. We have a digital factory, which houses, a lot of talented developers and analysts on digital. We have Tangerine, which is, for us, a beta site of where we do digital at scale at a high level. So for us, it's about mobilizing our resources to invest, particularly not only in the front end on mobile to continue to try and get what I mentioned, sales and service capabilities much more than we have today. But also to apply that digital end-to-end and to get digital in our processes, take manuality out, take all that stuff in paper that I see here out. So that's where we have -- we have the resources in-house. It's again the mobilization of those resources.

Jacqui Allard - The Bank of Nova Scotia – Group Head, Global Wealth Management

I'll pick that up for Wealth Management. I think in wealth, it's certain we don't need to acquire what we what we would typically do in our asset management business, our wealth management business is we'd use best-of-breed commercially available products. We're already well underway, for example, in implementing a new adviser desktop, which is a combination of cloud-based technologies a new planning software that we think we will just customize around the edges to make it best-in-class for us. And of course, books of record, all those other things are commercially available.

Scotia Smart Investor was both as a partnership with a Fintech so we'll look at those opportunities to do that when it makes sense for us to. Where we'll focus our internal development would be on two things. One would be on integrating all those capabilities together in a seamless way. So our focus with our adviser desktop is to move towards having all of the tools and capabilities that our wealth advisers need to access in order to manage their businesses and to service their clients available through a single desktop.

That's an integration opportunity that we're doing together with Salesforce. We will also use our internal digital factory to build our client-facing mobile technology that will be integrated. I mentioned it's launching this year and will be integrated with our retail banking app. So we have all the skills that we need in-house to be able to do that. But there's no need for us to reinvent the will when it comes to the kinds of tools that advisers expect to use to service their clients.

Mike Rizvanovic - Keefe, Bruyette, & Woods, Inc., Research Division - Research Analyst

Starting with Aris. Just curious if you have any views you'd like to share on open banking something that was talked about, there was that government consultation paper on it, and it seems to have -- hasn't gone anywhere since. And it seems like it's a dynamic where Tangerine is very well positioned, but it would potentially result in some fee pressure for Scotiabank. So what are your thoughts on open banking? Is it something that you think will ultimately come to Canada, have a sense of timing on that? And what does it mean for fee-based revenue growth over the longer term.

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

What I can tell you, given the short tenure I've had in Canada, I can talk about Europe when open banking came and we prepared for it, and we tried to make sure we were ready and resilient, and it didn't really materialize. It didn't really materialize at all. And it was like Y2K kind of. And so the whole bank was mobilized and it didn't really materialize. In Canada, I don't know, Jacqui, if you have thoughts on that or any of you on open banking here, but I -- if Europe is any gauge, you have to be prepared, but it didn't really impact the banks at all.

Much to the regulators should grind because they wanted to have more competition. and it did really materialize. But that doesn't mean it won't materialize in the future. But in Europe, it actually did materialize very significantly.

Jacqui Allard - The Bank of Nova Scotia – Group Head, Global Wealth Management

I think given our size and scale, we actually have the opportunity to benefit from open banking, perhaps more so than our peers.

Mike Rizvanovic - Keefe, Bruyette, & Woods, Inc., Research Division - Research Analyst

Okay. And then for Jacqui, just wanted to go back to the 40% number that you put up on MD Financial. I'm not sure if that's alluding to core deep relationship with clients, but now that you've had MD Financial for about, what, 5 years now, has that gone to the point of saturation? Or is there more cross-sell opportunities to be had with respect to that core relationship and transitioning some of those medical professionals into the Scotiabank realm?

Jacqui Allard - The Bank of Nova Scotia – Group Head, Global Wealth Management

Yes. So let me clarify the 40% point, and then I'll answer your question. So the 40% was referencing the proportion -- or sorry, the number -- an increase in the absolute number of retail clients that are physicians. So basically, we have grown our physician retail clients by 40% since the acquisition, which I think is quite remarkable. Not all of those new physicians have come from MD's client base. In fact, a number of them are -- it's -- we've driven tremendous success in retail banking by winning the business, the retail banking business of new doctors and medical students, providing us with that future opportunity that I mentioned.

But we have made progress in cross-selling banking and private banking into MD's client base. We've also expanded other types of well services. I mean MD has a very consistent ethos, consistent culture with Scotia Wealth Management in that we're planning led. We're trying to wrap all of our capabilities around the client. But for MD, they didn't have those capabilities when they came to Scotiabank. So we bring the private banking, we bring the retail banking. We bring some of these other wealth services to those clients. As successful as we've been in deepening those relationships, doubling NIAT, as I mentioned, over the period. We still have a lot of opportunity. We've made relatively fewer inroads, for example, with small and medium enterprise partly because of, I think, what Aris mentioned that, that's a real opportunity for us generally with Scotiabank.

Again, when you consider 50% almost market share with new doctors and medical students what a future opportunity that is as they move into practicing physicians and establish their practice as a huge opportunity for us. In small, medium enterprise and ultimately into commercial and ultimately, wealth too, as they develop in their career. So I see a ton of opportunity still in this client base. Ultimately, this is 135,000 clients in Canada, albeit exceptionally valuable clients. I'm also really excited about the opportunity of using these learnings with other high-value professional segments in Canada and in our international footprint.

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

Good morning. Glad I didn't spend too much time on open banking, learning about it anyway. I got a question for Aris first and Jacqui second. Actually, no, I'll start with Jacqui. One of the slides had 10% penetration of the banking clients for mutual funds. That's a number that's familiar because I've seen it in the past. You came from an organization that set the bar for you call it, primacy cross-sell. I guess, how -- what did you see in the world organization that you can bring or even in your personal experience with other products that you can bring to your new role in order to achieve that one?

Jacqui Allard - The Bank of Nova Scotia – Group Head, Global Wealth Management

Yes. I'll focus my comments, Gabriel, thank you for the question on what we're doing here. It's going to and what I think the opportunity is. you think about retail distribution and retail banking -- retail funds distribution and retail banking, typically, it comes through 4 different sales channels. So you have Digital, you have what I'd call Generalists, so basically license advisers in the branches, we call them Financial advisers here at Scotia comes from then specialists. And those specialist could either be planning, designated or not. So they're 4 pretty distinct sales channels. You also have the advice center.

At Scotia, what I see is compared to our peers, not my -- not just my previous employer, but to our peers generally, we're relatively underweight in specialists. So those are -- whether they're planning designated or not, specialists tend to own client relationships. So they actually have a book of clients that they manage. And people who are relationship managed. Banks who have a higher proportion of relationship managed investment clients, retain more of their assets. So I think that's number one, something that we absolutely have to close the gap on.

And I'd say in my 100 days so far at Scotiabank, I'd probably spend almost as much time with my retail banking colleagues as I've had with my own team because I see this as such a massive opportunity for us. So first, it's closing the gap on specialists. And I feel that's something we're exceptionally sure footed in doing. Most of these specialists will be growing internally from existing Scotiabankers that we train, that we develop, that we retain and move up, giving them a career path into these roles that are highly coveted.

We also have a real opportunity with digital. So we've only launched our Scotia Smart Investor tool a year ago. And we're still investing in it. It's already a fantastic tool. I think it is the best role I've seen.

What it does -- what makes it different is that it's not just a goals-based conversation tool, which is important. I think that's really valuable, understanding what your clients' goals are. I think is obviously the first step in meaningful discovery to help them meet those goals through long-term investing. But it also allows the client to do it by themselves, to do it assisted to move between channels in a seamless way to open accounts, full suitability, present you with suitable products that meet your needs and your time line, whether that's a savings product or an investing product.

And then two, ultimately, we could see developing that into service transactions. We could see that in changing your pack or your ongoing investment and things like that. So I feel like we've got now a best-of-class digital tool and we can quickly close the gap in terms of the specialist sales force. We have a fantastic culture of collaboration in this organization. I'm really confident that we're going to get there.

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

All right. Thanks for that. Now going to lie. My next question is not me. The take it Mortgages, although I have a similar one. Mortgages have been flat to declining for Scotia for a number of quarters now. Part of the strategy to improve the loan-to-deposit ratio I suspect debanking some single product customers as well. What's the end line there? Is there a point where we look at Scotia with a much lower percentage of total loans in the mortgage category? Because there's another motivation there as well, I suspect tied to the Basel III output floor.

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

We really like our mortgage business. It's a big revenue generator. We deploy our distribution where our customers are. We serve our customers. That's the most important thing. And mortgage is a key moment product for many of our customers and in our broker channel and in our branch channel, we want to be there for them. More importantly, as we see our mortgage business, we're moving from the monoline lending and as I give an example with our brokers, we're actually increasing the primacy and the second products, actually 70% of the new flow of originations had another product attached.

That's our strategy going forward. We have deep relationships with these brokers. We want to maintain those relationships but we're aiming for primacy and also want to make sure that the monoline product of mortgage when we do it, that there is a good opportunity to cross-sell and get that client as a primary client.

In terms of your question on the balances, of course, every month now, we're seeing a growth in new originations, probably by the summer end of next year, the balances will start to pick up. But we're not driven by market share. We're driven by our clients and where they are, we want to be able to serve them. That's how we see it.

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

So sorry, next year, you expect balances to start growing again?

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

Yes.

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

And it's not -- there's no analogy, I guess, here to when Scotia bought ING Direct, I don't know 2011 or so, there were some $20 billion or mortgages or so they were effectively run off replaced with newer -- or not or but other assets. And the bank, it was actually a good period for Scotia margin went up quite a bit for a number of years. So I'm wondering if we see somewhat of a repeat of that experience.

Raj Viswanathan - The Bank of Nova Scotia – Group Head & CFO

I'll try to help you with that, Gabe. No, that's not what it is at this time. You also had to put in context the last 5 to 6 quarters of negative mortgage balances. With the exceptional growth we had between '20 and '22. So it's -- with the market that has changed, the large growth that we had, the focus on client primacy, like you talked about loan-to-deposit ratio, we need to rebalance a bit. And that's happened, I would put it in the past. I think in the second half of 2024, you start seeing mortgages grow. But what's more important is the relationship is going to grow the mortgage is a key product attached to it. The rest of the product within the Canadian Bank has been growing which are higher spread products. That's where you see the margin improving when deposits grow, it benefits margin, too.

So you'll see more balanced growth going forward, like Aris said, we're not focused only on market share going forward. We want to ensure we have the most profitable clients with multiproduct relationships. And that's a journey. It's in the beginning of the journey. You'll see it continue to improve. So we're not looking at specific products, but the mortgage product is a very important one.

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

Great. Anyone else? I can't see who that is from you. Is that Lemar? Nigel? Okay, who wants to go first? Lemar? Who has the mic?

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

Lemar Persaud from Cormark. Just sticking with Aris on Tangerine. I just want to come back to that for a minute. So how should we think about the stickiness of your deposit base? Because one of the primary pushbacks I get when I talk about Tangerine is that you guys kind of lead with rates to get deposits in the door and is that going to be a concern with deepening primary customer relationships because -- you have people who are shopping around for rates, maybe they're looking for the best credit cards and whatever products you may be looking to kind of introduce?

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

I think if you even go back to the old ING, how it started also in Canada and U.S.. He was leading with rates. That was how they started. And over time, in ING in ING Direct in Europe, as they built out the product set, drove primacy they actually -- it wasn't about rates anymore. It was about the experience. And it was about the experience that when people then shopped at ING, they never went back to their former bank, because the experience was so different and exceptional, as you can expect from a digital experience.

If I look at Tangerine today, 50%, we've now grown 50% or daily everyday banking customers, 50% of our base -- of our deposit base. So that's stickier. That's a difference from previous years as we build primacy so that everyday banking is 50% of the base now. We also will manage deposits and the pricing and not go out and try and win monoline deposits. That's not what we're after. We're after primary customers. and building out that product set, which will allow us to have that stickier deposit base that we have in Europe now.

Raj Viswanathan - The Bank of Nova Scotia – Group Head & CFO

I'll give you one data point, Lemar, which I think is relevant is what we call super savers, the ones you referred to, they are interested in better rates. The average life of supersaver since we bought it from INGs over 11 years. So they tend to be very sticky. We give them great service. They like the product. They like the offering that we have, and that's a very important relationship we have. Growing it will be the next step as we make the primary customers across Tangerine as well.

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

And then my next question is for Phil. I think you look a little tired or board after somebody's asking you anything. So I don't see a specific risk management section. So I'm going to throw it out here. So faster growth in Canadian Banking and Wealth Management and a little bit less growth coming from international. What does that mean for PCLs looking forward? And what are you kind of baking into your assumptions?

Phil Thomas - The Bank of Nova Scotia – Group Head and Chief Risk Officer

No. Thanks, Lemar. I'm not bored. I'm excited and interested. I'm just trying to maintain my composure here. So I appreciate your question. So just going back to maybe some of the comments Scott made earlier and Raj and in line with the 2 presentations you just see, I really like where we're going with the strategy. The moving more capital into developed from developing markets is great. I like -- and I love the focus on risk-adjusted margins. The fact that in Aris' business, we're going to continue to increase. We're going to go from 2% to 2.4%. That sort of takes the conversation away from focusing on absolute PCL and focusing on are we getting paid for the business, which I think is the right discussion for us to be having at this point. in the bank cycle.

As I look at PCLs, because I will answer your question. The -- we're going to be slightly elevated both in CB and Ivey, just given the macroeconomic headwinds in those markets. And impaired for the next, probably the next 12-ish months. We're going to continue to look at how we're building out our performing allowances as well as we're going to continue focusing on strengthening the balance sheet of the bank. And so I think I gave my guidance at the last call, so I won't restate that, but it's -- but we're looking at growing in line with that guidance. And if tailwinds come from the focus on primary, I think we're going to harvest that and you'll probably -- not probably, you will see lower net write-offs going forward from this bank.

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

Okay. Nigel, did you have a question?

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

I said together because I have similar questions to him. So the first is kind of following up on the digital banking side and the emphasis on client primacy. There's two things that might be pulling off the directions here, right? The need to invest in digital to spend to acquire market share as well as to improve productivity ratio. So could you elaborate on the cadence of that spend versus cost savings? Is the spend or investments to alleviate to digital largely in the rearview? Is it more in front of you? Is it front-end loaded? And then how does that ultimately transition into cost savings down line?

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

Let me take a crack and then -- so let's talk more broadly about productivity in the Canadian bank. And so we see productivity across 3 levers. The first is actually, I would mention sales productivity. So how do we drive more sales from the infrastructure that we have with our sales force, how do we get productivity on that side. The second one lever of productivity for me is the cost productivity that you kind of alluded to. Digital is clearly one of those levers where you invest in your processes, you invest in your channels to get more throughput, higher STEP and just a better outcome in terms of productivity. That's the second.

And the third I would mention is trying to keep a lid on FTEs and redeploy our FTEs where we can have, again, more, what I would call, a better outcome in terms of being closer to our clients. And so between those 3 levers, we expect to improve, whether it's cost to income, it's how you measure it, cost to balances or actually the number of employees serving customers. Those 3 ratios is what I look at when I think of productivity. And digital has an important role to play, but it's not the only play you have on the productivity side. I don't know anything you want to ad.

Raj Viswanathan - The Bank of Nova Scotia – Group Head & CFO

I can add something. I'll front run a little bit what Francisco will probably speak after lunch. Our digital offering in the international space, particularly in Latin America, front-end, best-in-class. So we're going to use a lot of it to see how we can help the Canadian bank over here. But both have a requirement to invest in digital to have an end-to-end digital, which is everything that supports the front end over there, which is where we're going to invest both, not just in the Canadian bank, we're investing in the international bank as well.

The bigger message you would likely hear or you'll take away once you hear from Cisco is, how are we going to bring these things together. We've had 6 digital factories in this bank if I include Tangerine. Very important, very important early investments to get ahead. Now is the time to consolidate, which we've already started. So you're going to share a lot of development that has happened in the various countries.

And Chile, for example, is very advanced in digital, how can we bring more of it to Canada. So it's not a new investment, but we need to invest both in the digital capabilities in the middle and the back end of the operations, which is what we'll be doing. You heard Aris, we're going to invest over $0.5 billion in the next 12 to 18 months in the Canadian banking business because we need to invest to support the growth initiatives that they have in plan and digital is part of it.

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

And the second question again for Aris and Phil. Following up on Lemar's line here is your market share in Canadian Banking, first in auto kind of behind an unsecured credit cards and commercial. So risk-adjusted margin is one part of the equation. But the other part is the risk weighting of the assets, the leverage that can be placed those assets, that ultimately feeds into ROE. So how do you tie those together? And why is it important or is important to be first in auto. Is that a better secured lending business than mortgages or commercial? And what is the need to add unsecured and how does the unsecured fit into risk-adjusted margins and capital?

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

Our auto business is a leading business and it's a steady $1 billion-plus revenue provider. I think the auto business for us is also important because it's almost a poster child of what we talked about bringing the whole bank to our clients. So not only do we get high-quality retail paper coming out for the consumers. We work with the dealers for wealth. We work with commercial to do inventory finance, and we have relationships on the corporate side with the top 10 OEMs in Canada.

So that whole ecosystem is very important for us. It has a high revenue generation, low cost to income, so very important for us. On the -- you had the question also you talked about cards. So how I view cards? Cards is a key product in this primary relationship. So you start with the everyday banking and usually, it's attached to a card. So our card isn't going to be growing that share from walk-ins, monoline card.

That's not what we want. We want that primary relationship where the card will be attached. And then obviously, when you have that primary relationship as risk as we've talked about earlier, the whole risk approach and the whole information flow that you have is so much different. And so in my time in Europe, because we had such high primacy. We never had to give cards outside. It was always within our own customer base. We could live off that customer base. And of course, when we're pushing sim plus and that's also growing our card business, but again, through the primary relationship channel. On the risk side, I don't know your thoughts on that, Phil.

Phil Thomas - The Bank of Nova Scotia – Group Head and Chief Risk Officer

It's a great question, Nigel. Thank you. And maybe just to add on to Aris. I love the primary focus from a -- as a risk manager because it gives me comfort that we're to use Aris' -- we're not outselling monoline credit cards. We're deepening the customers that -- with the customers that we know. And the whole strategy around primacy is shown in some of our internal data that we have less net write-offs with our primary customers. And so we want to continue building on that momentum. I think cards is a great business for Canada. We were obviously punching below our weight. If done properly, it can be very, very successful for us.

And I think from what I've seen partnering with Aris already as well as the team that is working with him. I think we've got the right strategy. I would also maybe complement on your comments around digital in the risk side, we've actually been making significant investments to doing our digital originations tools that are built right into our digital platforms, which will help support some of these things.

In addition, I think the other area of comfort I get, we're spending a lot of time on data and analytics right now in the risk space. We're in the process of leading with actually Aris' data and analytics team trying to drive more treasury risk and finance data into the cloud for use. The more we have this data are available at our fingertips, the more we can leverage machine learning, large language models, AI to be able to really expand knowing the customer to be able to make not just the right credit decisions, but what is the next best offer for that customer? And how are we really creating deeper, deeper, more meaningful relationships.

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

Great. Okay. Well, that takes us to time. We're right on schedule 12:50. We'll reconvene in the room after lunch, which will be served out in the atrium here. So we'll see you again at 1:50. Thank you.

(Break)