SCOTIABANK

2023 Investor Day – Financial Update

December 13, 2023

FORWARD-LOOKING INFORMATION

From time to time, our public communications include oral or written forward-looking statements. Statements of this type are included in this document, and may be included in other filings with Canadian securities regulators or the U.S. Securities and Exchange Commission (SEC), or in other communications. In addition, representatives of the Bank may include forward-looking statements orally to analysts, investors, the media and others. All such statements are made pursuant to the "safe harbor" provisions of the U.S. Private Securities Litigation Reform Act of 1995 and any applicable Canadian securities legislation. Forward-looking statements may include, but are not limited to, statements made in this document, the Management's Discussion and Analysis in the Bank's 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 cyber-attacks) 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

Raj Viswanathan
The Bank of Nova Scotia – Group Head and Chief Financial Officer

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

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

Great. Thank you, Scott. And now we'll hear from our Chief Financial Officer, Raj Viswanathan, well known to many of you here in the room, who will provide an overview of the financial components of our plan and detail our medium-term financial objectives. Raj is a long tenured Scotiabank executive. Prior to taking on the CFO role, Raj has held senior roles in finance and accounting, including Head of Capital Management as well as Chief Accountant of the bank. Raj?

PRESENTATION

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

Good morning. It's great to see everyone, and thank you for joining us today. I'll spend some time providing an update on how we performed compared to our 2020 Investor Day objectives. From there, I'll build on the strategic framework that Scott laid out and talk about how this translates to the bank's medium-term financial objectives.

While many of you may already be familiar with these results, I would like to briefly revisit them as it is an important starting point for our go-forward strategy. On this slide, you can see the medium-term financial objectives we set ourselves in 2020. Since we shared these objectives, the world has changed dramatically with the global pandemic and an interest rate situation that is quite extreme. Against this backdrop, some of our assumptions have not materialized.

The macroeconomic environment that is playing out both in Canada and in our international markets was not what we expected when we built this plan and some of our portfolios yielded more punitive results in the downturn than we anticipated. Our earnings per share growth has been challenged, particularly during 2023 when we made the strategic decision to strengthen our key balance sheet metrics.

As capital and liquidity strength are becoming increasingly important and regulatory capital requirements have been growing over the last 2 years, we believe that a strong balance sheet will be key to succeeding in our future strategic growth plans.

When we began our enterprise-wide strategic assessment, we first evaluated where we were on a relative basis to our Canadian peers on some key metrics. We narrowed the drivers for the underperformance to 3 key areas: noninterest revenue growth, return on risk weighted assets and risk-adjusted margin. We determined that being focused on improving client profitability and allocating our capital to the most profitable relationships should improve all 3 of these metrics.

Noninterest revenue growth has lagged peers at an all bank level, specifically in our P&C businesses, even though our performance in fee-generating businesses such as wealth has been strong. We know that we need a deeper focus on growing fee income across all our business lines, if you want to shift away from a balance sheet-led approach.

While our risk-adjusted margin has led our peer group, what this shows us is that the capital associated with generating higher risk-adjusted margins has not translated into better earnings. This was supported by our analysis of return on risk-weighted assets. It is important that each business generates returns commensurate with the capital they consume. This has become more relevant as the Basel III rules have evolved and capital has become most case.

As a leadership team, we believe that these factors are key to the success of our go-forward strategy and the ability to exceed our medium-term financial objectives.

Our plan incorporated return on risk-weighted assets and risk-adjusted margin as foundational metrics in evaluating where we want to allocate our capital going forward to drive sustainable and profitable growth.

We took important steps to strengthen our balance sheet metrics in 2023. Strong balance sheet metrics will help ensure that we have a strong foundation as we navigate through the current uncertain macroeconomic backdrop and support our plans to grow the bank. As you've heard us speak about this past year, deposit gathering has been an enterprise priority. We grew our deposits by over 9% this year, faster than our peers and as a result, improved our loan-to-deposit ratio from 116% to 110% and reduced the wholesale funding ratio by 100 basis points to 20.6%.

We also increased our allowances for credit losses by approximately $1.1 billion over the year, of which over 75% were performing ACLs to improve our coverage ratios. We intend to continue building on this momentum. Our belief is that our frontline bankers should be focused equally on growing lending, deposits and everyday banking relationships in order to deepen client relationships.

Overall, the metrics on this slide reflect the business of actions we took to improve balance sheet metrics. I also wanted to highlight the evolution of the common equity Tier 1 ratio over the last 2 years. We built approximately 70 basis points of capital since Q4 2021 when (inaudible) lifted capital distribution restrictions to prepare us to meet the additional capital requirements driven by the floor and the fundamental review of the trading book.

We did this by focusing on risk-weighted asset optimization and deselecting clients that were not profitable under the higher capital requirements. Looking forward, the key message will continue to be capital optimization. Basel III reforms are a key driver of changes for the sector and the most important part of our capital allocation decisions.

Our plan has taken into consideration, the fully phased-in floor impact and other upcoming changes to ensure a decision today is still the right decision in 2026 and onwards when the floor of 72.5% is reached.

Our normal risk-weighted asset deployment is between 15 to 20 basis points per quarter. But more recently, we have curtailed it to 8 to 10 basis points as we become more deliberate on allocating capital to more profitable relationships. We have adjusted our capital allocation decisions and criteria so that our internal capital generation can result in a capital level that allows us to operate comfortably about regulatory minimums while supporting our clients and profitably growing our businesses.

We intend to continue to take decisive actions where we believe we can optimize our risk-weighted assets and capital as we absorb the additional floor impacts in 2025 and 2026. We are comfortable operating above our desired payout range, the dividend payout range. While our 5-year plan contemplates returning to within the range of 40% to 50% payout ratio in the latter half.

Moving on to the go-forward strategy. In the first 3 columns, I'll talk about the key factors and foundational elements that we expect will help us deliver on our medium-term financial objectives. The first is balance sheet strength. Our plan assumes that we will maintain a strong liquidity coverage ratio of around 130% and a net stable funding ratio between 110% and 115%. We are focusing on the NSFR as a key metric as it's important to differentiate that all deposits are not treated equally from a liquidity perspective. And we need to grow and maintain deposits that contribute to stable funding.

Second is purposefully allocating capital. As you heard Scott say, we expect to allocate approximately 90% of our incremental capital over the next 5 years towards our priority businesses in North America, which are expected to generate higher and more stable returns.

To be clear, this is considered alongside other key factors such as the client's contribution to stable funding, the size of the market opportunity, the competitive positioning and the ability to use the growth -- to build capabilities that can then be leveraged in multiple parts of our global footprint.

At an all bank level, as we shift our loan portfolio towards North America and improve our funding mix, we expect to see an improvement in our risk-adjusted margins and expect them to be consistently about 2% over the medium term.

Moving to the third pillar. In addition to driving revenue growth, we intend to improve our productivity ratio through continued expense discipline. We expect that the 2023 restructuring charge will generate meaningful bottom line benefits in fiscal 2024 and reach full run rate benefits of over $350 million starting in 2025.

Our plan assumes continued focus on cost efficiency through automation and digitization. We expect that approximately half of the savings from these initiatives will fall to the bottom line in the coming years, while we intend to reinvest the remaining to support growth.

We believe that achieving this, combined with strong capital and liquidity ratios, should generate appropriate risk-adjusted returns and help us achieve our medium-term objectives.

As I mentioned previously, how we allocate capital going forward is going to be different. I will focus on incremental capital that is more meaningful as the overall portfolio mix will take longer to shift simply because of the size of the balance sheet today. So this is truly a long-term commitment to a strategy we believe will deliver better risk-adjusted returns.

Scott touched on the details, so I will be brief. We expect strong incremental earnings contributions of 90% from these North America priority businesses, earning through the approximate 40% headwinds from the incremental capital floor. For our managed growth and turnaround businesses that consume approximately 10% of incremental capital, we expect to improve returns through targeted clients and segments that are more profitable and through productivity initiatives.

Let me now address how we are thinking about risk and return going forward that is different from our historical approach. We expect to maintain strong ACL coverage as we grow our portfolios or said another way, appropriate allowance build for the portfolio growth and macroeconomic changes, something we already demonstrated in this most recent quarter.

Our incremental capital allocation decisions are focused on redeploying capital to higher-return businesses in developed markets and skewed towards building deeper client relationships. We believe this will result in a better write-off experience and deliver higher risk-adjusted margins.

We are aware that this will require investments to manage both financial and nonfinancial risks and these have been built into our plans. A few of the areas where we expect to invest to support business growth and keep our clients and bank safe include collections, data analytics, fraud, cyber, end-to-end automation and improving risk management talent.

Both Aris and Francisco will talk about the focus on primacy that provides the bank with richer data, allowing us to better manage risk while providing better advice and service. We expect this will result in better risk management and improve our risk-adjusted margins to grow and exceed 2% over the medium term.

Let me now talk about how our ongoing strategic productivity initiatives, including the 2023 restructuring charge will support our must win priorities while protecting the bank. Expense management is a cornerstone of this bank, and we intend to continue to manage our expense growth in line with growing revenue and prioritizing our investments to protect and grow the bank.

As I previously mentioned, we expect to have an excess of $350 million of run rate productivity savings by 2025 from the 2023 charge. In addition, our plan contemplates an ongoing focus on efficiency initiatives that will support our investments in the must-win priorities listed on this slide. With about half of the savings falling to the bottom line, we also expect to deliver a productivity ratio of approximately 50% and generate positive operating leverage starting fiscal 2024.

Over the medium term, we are projecting robust EPS growth in excess of 7%. Throughout the day, our business line heads will walk you through the strategies that underlie their individual growth expectations. Now let me touch on a few of the highlights.

Consistent with our capital allocation strategy, Canadian Banking is expected to deliver greater than 9% earnings growth, materially higher than our previous commitments through a combination of growing client primacy, business mix changes and prudent expense management. As we thoughtfully recycle our capital in certain international markets, we expect this will result in moderate growth of approximately 6% from International Banking.

The first 2 years will be spent on transforming the business to pivot toward more client primacy and regionalization of operations with a focus on becoming more efficient. This will position the business to grow high single digit in the latter part of the 5-year plan. We expect our global wealth management franchise to lead the bank in earnings growth over the medium term with approximately 10% earnings growth.

In the last 3 years, this division has grown earnings in both Canadian Wealth Management and International Wealth while prudently managing expense growth. Our GBM business is expected to deliver approximately 7% earnings growth earning through the Basel III capital headwinds. This will be done through improving fee revenue and thoughtfully redeploying capital to more profitable relationships with a focus on further growing our U.S. business.

I also wanted to give some additional context on the other segment and how it is expected to evolve over the plan period. In 2023, the higher loss of $1.4 billion was driven by significantly higher funding costs and lower investment gains. Over the medium term, we expect improvement in the other segment results. This segment's results can be broken down into 3 main components: treasury results relating to funding and managing liquidity, investment gains and corporate costs. The variability in this segment generally comes from investment gains that can be lumpy and more recently due to higher funding costs, including the cost of higher liquidity ratios.

In 2024, we expect the loss in the segment to be in line with 2023 but improved starting 2025, specifically as it relates to net interest income from central bank rate reductions as the rate curve normalizes, loans repricing at higher rates with the largest cohort of Canadian fixed rate mortgages renewing in 2025 and 2026. And lastly, as we continue to make progress in our strategy to reduce reliance on wholesale funding and the liquidity costs become more embedded in the business line results.

Investment gains, which were muted in 2023 are expected to improve but trend lower than our historical levels. Based on the earnings growth objectives for our business lines and the improvement in the other segment, we expect to deliver greater than 7% earnings per share growth over the medium term despite the higher liquidity and capital requirements.

This slide details how we expect to achieve the return on equity objective, earning through the approximately 10% higher capital requirements driven by the implementation of the Basel III reforms. The gray bars in the middle reflect the 2028 return on equities of the businesses adjusted for the full 72.5% floor, a high attributed capital at the 11.5% level and the impact of the fundamental review of the trading book rules.

As you can see on this slide, we expect our business line return on equity to improve by between 150 and 500 basis points through our revised approach to capital allocation, business mix changes and our focus on efficiency initiatives. At an all-bank level, by 2028, we expect our capital allocation decisions to result in an ROE in excess of our medium-term objective.

Now that I've walked you through all the components that build up to achieving the plan objectives, I'll bring it together from an earnings perspective. As we discussed in our Q4 earnings call, we expect to deliver marginal earnings growth in fiscal 2024. We entered 2024 with a challenging macroeconomic backdrop of slower economic growth and the expectation of higher for longer interest rates that is reflected in our outlook. This lower growth environment will allow us time to take the continued investments necessary to execute on the key strategic pillars that Scott laid out.

The benefits of these investments and repositioning will contribute to the expected 5% to 7% growth in 2025 and accelerate from there to generate earnings growth in excess of our objective of 7% over the plan period. We want to highlight our commitment to strive to exceed our medium-term objectives, all while absorbing higher capital requirements and maintaining strong balance sheet metrics.

Specifically on capital, our plans contemplate operating above 12% with a buffer to exceed regulatory minimums at all times. We expect a significant capital build through 2028, providing optionality for deployment, the benefits of which have not been factored in these planned numbers.

In addition, we have included 3 strategic metrics: productivity ratio, risk-adjusted margin and dividend payout ratio, which we think are key to achieving these medium-term financial objectives.

In closing, we are committed to maintaining a strong balance sheet metrics, purposefully allocating capital to improve client profitability, aided by productivity initiatives to deliver on our medium-term financial objectives. And now I'll ask Scott to join me back on stage for Q&A. John will join to moderate. Thank you very much.