

Letter from the Editor



PATRICIA DE MOYA, EDITOR IN CHIEF OF REVISTA MERCADO, AND RICK WAUGH, PRESIDENT OF SCOTIABANK.,



ECONOMIST OSCAR SÁNCHEZ (AT THE HEAD OF THE TABLE). RUBÉN LAMARCHE AND MARIÓN PAGÉS (LEFT). RIGHT: PATRICIA DE MOYA AND ROSARIO ARVELO.



THE STAFF OF REVISTA MERCADO AND THE MAIN SCOTIABANKERS FROM TORONTO: RICK, FRANK, ELSA AND LAUREL; FROM DOMINICAN REPUBLIC: ROSARIO ARVELO, AND IRMA MARTE.

Another great story of the business world is added to our editorial history, Scotiabank, the protagonist of this edition, which has been chosen on the basis of being a financial corporation which, through its business philosophy, shows that integrity, diversification and social responsibility are its core values. The Scotiabank family appears united, respectful, hard-working and focused on its advanced culture of customer service, customer satisfaction, and transparency. You can feel this from their main headquarters in King Street, Toronto, to their offices at Winston Churchill Ave. in Santo Domingo, led by Jim Meek, which is the only foreign bank operating as a multiple service bank in our country. I should not insist on the material prepared by our international editor, Ruben Lamarche, who was able to reflect from the beginning the know-how and goodwill of a financial entity that, in spite of being immersed in a turbulent world, is able to go forward with its President, Rick Waugh, steering the corporate helm of 4,000 branches in 50 countries, with its first rule being prudence, solvency and responsibility in all its actions.

Patricia De Moya
Editor in Chief

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“Rick Waugh only has a half hour for you,” said the staff member at Scotia Capital in charge of coordinating the exclusive interview with Scotiabank’s President worldwide. One and a half hour later we had learned how SB, and Canadian banking (and economy) as well, survived the economic recession with barely a few scratches.

MERCADO

EXCLUSIVE INTERVIEW WITH RICK WAUGH
Translation of Article in Mercado Magazine, October 2009

Survival Lessons... Scotiabank Style

(“blame Canada!”)*



Street is the road to perdition. From Greenspan to Bernanke, including Henry Paulson and the other boys on the ‘hood, all of them made mistakes whose consequences we are only starting to see. Saints are still falling from their altars. But up north, things are different. What follows are Scotiabank’s lessons (from its president, Rick Waugh, and team of bankers), on how to survive: the first one in their book is “Pru-dence”.

By: Rubén Lamarche

Photos: Adelle Hart

There is something going on between Canadians and North Americans that goes beyond any acute Latin American perception, beyond the complex psychology of South Park, Margaret Atwood's science fiction, William White's (Canadian, by the way) warnings against the stark economic recession while working at the Bank of International Settlements and later as international speaker and globe trotter, with his litany of "I told you so" and "I knew it".

According to the existential implications of that mysterious something, Canada should be to blame for the economic recession, as they were to blame for the 2003 24-hour blackout which (it was eventually discovered) commenced with a failure in Boston ("blame Canada!").

The search for who is or are to blame is still on, while new frauds emerge, the pillars of capitalism are shaken, and the most sophisticated restaurants in New York are left without any diners (A.I.G. was the last great institution to touch bottom, and before that Goldman Sachs, and first, Fannie Mae, Freddie Mac, and Long Term Capital Management). The debacle's last debutante is Ginnie Mae, a North American State-owned company that does business based on quality mortgage security below the usual average, insured by the government. Its parents are behaving conservatively, but Ginnie Mae is up to her usual tricks in the current bull mar-

Canada is still one of the most important economies in the world, when these last years have not really been good for anyone in the financial sector.

ket that has been provoked within the general recessionary panorama. How so? By issuing papers secured by mortgages helter-skelter. Meanwhile, banks like Citicorp are looking for a way to return the bailout money that was given them by the Federal Reserve. And the institution, in turn, is asking itself, why don't they do something with the money we gave them?

-RICK WAUGH, CEO
SCOTIABANK,
TORONTO, CANADA

The Federal Reserve's role is being reassessed by one of the many special commissions that populate the galleries of power in Washington (because that's where "special commissions" were created; let's not fool ourselves). The low interest rates of Greenspan's and his predecessor Ben Bernanke's little book, are now the monster that devastated the economy; and barely a few talk about the greed and low level of regulation of investment funds, the blind eye of the Securities and Exchange Commission and many other little problems that ruined a financial system that, let's admit it, comes with problems and for years had shown to suffer from the germ of its own destruction.

But in Canada it is a different story. Canada is still one of the most important economies in the world, when these last years have not really been good for anyone in the financial sector. They have all have suffered, but some more than others, that's for sure. When thinking about the current recession, we all ask ourselves what is it that keeps a multinational institution in its tracks and focused, while the whole world around it is shaking; you tend to think about institutional values, integrity, and a corporate culture that prevents any banker blinded by the height of his own ego from committing some financial crime, corporate suicide, in addition to government regulators ("corporate and private banking is very highly regulated in Canada... phenomena

such as what happened with hedge funds and other institutions in the insurance sector would not happen because both the government and regulatory laws would have fallen on them," said Jim Meek, Vice-President for Scotiabank in the Dominican Republic), no matter how good their intentions.

Institutionality... and, after contemplating Scotiabank's operation from the inside, from the heart of its operations in No. 40 King Street, Toronto, Ontario, it is all confirmed.

After all, we are talking about a bank with 175 years of institutional history, operating in over fifty countries in both commercial and corporate banking; a bank that has a staff turnover rate under 2% (nobody leaves Scotia-



bank; all interviewees for this article have over 10 years with the institution, and its current president, Rick Waugh, has been with the bank 39 of his 64 years), so, what can you think?

However: "We have not been immune to this turmoil," says Waugh (pronounced "ua") in Scotiabank's 2008 Annual Report, and he continues by saying that Canadian banks have been affected too. "On the positive side, with these conditions as the backdrop, Scotiabank has performed well over the past year when compared to our major Canadian and global competitors, although it was clearly a difficult year for our company and our shareholders."

The duty of every banker is to tell the truth, no matter what (I know this sounds very difficult to believe, from any viewpoint and considering recent international events, but the annual report of a highly regulated bank like Scotiabank, both internally and externally, speaks for itself...).

In any case, Canadian banking was good for Scotiabank in 2008: net earnings of CD\$1,724 million, with a 10% increase with respect to the previous year, including CD\$ 92 million of earnings after taxes for global restructuring of Visa, in addition to the underlying net earnings of CD\$ 252 million, with a considerable growth in retail mortgage loans and retail loans and deposits, partially compensated by a somewhat nar-

International banking recorded net earnings of CD\$ 1,186 million, with a 5% decrease with respect to the previous year.



**-MURRAY LEITH, ANALYST
ODLUM BROWN, CANADA**

rower margin. International banking recorded net earnings of CD\$ 1,186 million, with a 5% decrease with respect to the previous year. On its part, Scotia Capital had a more difficult year, with net earnings for fiscal year 2008 reduced by 30%, to CD\$ 787 million.

But in international banking, Scotiabank was able to increase its presence in the segments of wealth management, small and medium business financing, consumer banking, and micro-lending, capturing 1.1 million new customers and opening over 90 branches worldwide, including 58 in Mexico; in addition, Scotiabank grew in Peru, increasing its share in this branch to 98% (and they acquired the operations of the Banco del Trabajo in that country). In Chile (one of the region's most dynamic and potential markets, as expressed by

SCOTIABANK INTERNS ON THEIR WAY TO LATIN AMERICA: ACCOMPANIED BY CRAIG HARDEN, CORPORATE BANKING HUMAN RESOURCES; (CENTER), CELIA MIRANDA (LEFT), AND MARNI HALTER, ALONGSIDE RICK WAUGH (RIGHT) AND BRIAN MALONEY, VICE PRESIDENT CORPORATE BANKING, LATIN AMERICA.

Foto cortesía Archivos Scotiabank Group



Oscar Sánchez,
Senior Economist
Latin America

Oscar Sánchez, senior economist for Latin America), Scotiabank acquired select assets from the Grupo Altas Cumbres, with repercussions in the operations of that bank in Guatemala and Dominican Republic.

“We also formed a company together with Bank of Beijing and acquired participation in a funds management company based in China, in order to create and commercialize a wide variety of mutual funds,” reads Scotiabank’s 2008 Annual Report.

In a chaotic panorama, where credibility shines for its absence in the global financial market, and is equally absent in consumers, this intangible is the key asset of a bank that is seemingly part of the strange rose bush amid the mud.

Oscar Sánchez was seduced by Scotiabank to leave behind the Canadian academy and instead dedicate himself to monitor Latin American economies. His experience in the federal bank of Mexico has allowed him to perform tenacious and dedicated work. What follows is an excerpt of his interview, where Sanchez shares with us some of his knowledge on the region.

Revista Mercado: Let’s talk a little about the panorama that has been developing in Latin America in the last years, in the economic level, from Scotiabank’s viewpoint and its multiple investments in emerging markets.

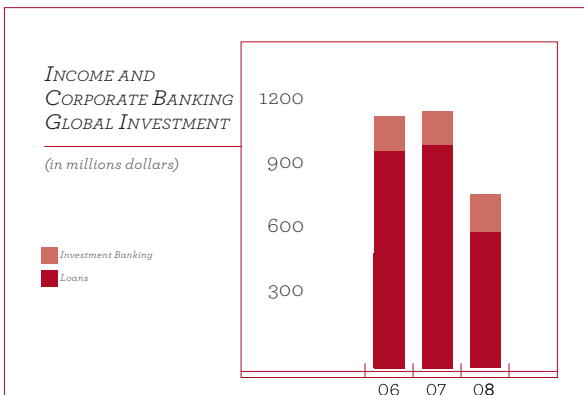
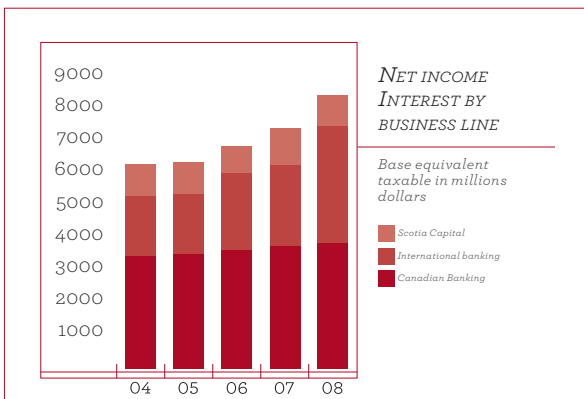
Oscar Sánchez: Scotiabank’s actions should be interpreted from the perspective of fundamental macroeconomic principles. The recurring crises, in these terms, that have been suffered by the region have affected it, even though the region has had a relative recovery. The behavior of growth and employment variables has been very similar to those of the years of great crisis. Macroeconomic policies are more sound and balanced now. Scotiabank’s entry to the region has to do with a gradual expansion based on the foundation; the Mexican case goes hand in hand with the convergence of economic policies that have restructured that country’s economy, solidified with the Free Trade Agreement.

R.M.: Another example?

O.S.: Central America. The Dominican Republic is another example I like to think about. The same with Peru and Chile, where policies clearly (in the latter case), are more advanced, in global terms.

R.M.: Talk to us about the Chilean case.

O.S.: Chile structured its savings definitively. At the moment of a fall, they had a cushion. It’s an extraordinary model because it is constitutionally established. The structured surplus allows you to go around the cycle. They don’t go about making parties and always save, regardless of the revenues, keeping stable expenses. In these cases, regardless of the ups and downs of politics or who is the Treasurer, no one, absolutely no one, may increase the public expense. It depends on Congress, and would require a political consensus which, as you can imagine, is very difficult.



R.M.: Scotiabank in Chile, then, parting from the bank's good performance in the region in general, and especially parting from the macroeconomic perspectives of the entire continent.

O.S.: We should always see growth under the magnifying glass of stability. And, as we know, where there is macroeconomic stability we are talking about a market where Scotiabank must be. The case of Chile is a proof of this.

R.M.: And the Mexican case?

O.S.: After the Tequila Crisis, the Mexican government needed support in order to take the foreign currency short-term debt to a position where it could be settled. In March 1995, the US government strongly supported the government. That was the great banking crisis of Mexico. The Mexican regulatory entity established high limits to banks, in order to force fast capitalization. This is where the opportunity arose for the Canadian government, which helped Mexico. Scotiabank purchased part of a bank in Mexico with the option to extend its share in 2000. A great opportunity, similar to that of the Dominican Republic.

R.M.: How has the Latin American situation evolved from the viewpoint of Scotiabank's diversification?

O.S.: One of its strengths here in Canada, being an experienced bank, maybe more than many central banks of the region, is commercial banking. In a way, we have effectively adopted and Latinized the business model.

R.M.: How do you assess the risk of a specific country?

O.S.: We are trying to standardize the model to do this. First, we analyze the indicators published by central banks.

R.M.: Trusting blindly?

O.S.: Not at all. We also talk to people from all countries, with the authorities, with other institutions dedicated to analyzing these markets. There are always contrasts, for sure. The political part plays a specific role. At present, the political cycle in Latin America has again a relevant position when analyzing a market's viability. El Salvador, Honduras, Haiti, are only three examples. In February comes Costa Rica... at year end, Brazil. In Mexico, intermediates. These are not isolated events. At present, the fall of the economic activity in El Salvador has left it in bad conditions, because they expanded their expense,



OSCAR SÁNCHEZ, AT THE 26TH. FLOOR OF THE SCOTIABANK TOWER, WHERE HE WORKS AS SENIOR ECONOMIST FOR LATIN AMERICA, AND REPORTS DIRECTLY TO THE CHIEF ECONOMIST OF SCOTIABANK, IN ARGENTINA.

and public finances have led them to renegotiate their debts with the exterior, which has reached Congress...

R.M.: If you were to tell us where the best perspectives and higher volatility lie, what would you say?

O.S.: Stability with low growth in general. Chile, with a stable situation in financial terms. Nobody, in general, had a crisis like the one seen in the United States.

R.M.: What are your perspectives for the Dominican Republic?

O.S.: 0.5% growth.

Rick Waugh is a tall man with an easy smile and fluent conversation. At Scotiabank they call him Rick. No Mr. Waugh, doctor, sir... Simply Rick. This is the introduction to a corporate culture with over one century (Scotiabank was first an international bank, expanding to Jamaica even before Vancouver, which is in Canada, and, in fact, it is the only multinational bank with commercial operations in Haiti, since 26 years ago).

Born in Winnipeg 64 years ago, Waugh describes himself, being a young man who saw the world open up before him, full of possibilities, as someone who simply wished to live in his small and secure native city.

"I wanted to stay in Winnipeg, I had no ambition after finishing school... it was a comfortable city, with a population of five thousand. I was young and wanted to visit all of Europe. Scotiabank told me that I could do it, and that I could have a job when I came back, in Winnipeg, which was wonderful. I didn't want to go to Toronto. When I came back, three months later I was transferred to Toronto," says Waugh, laughing. And the rest is history, being Toronto the financial capital of Canada (Ottawa is the federal capital).

From there to New York... Wall Street.

It is interesting to note that most of international banking leaders have remained in the institutions they preside since joining such banks, oftentimes for over thirty years, having joined very young and in the lower levels of the hierarchical structure. Ironically, many of these leaders have been the ones who have demolished these institutions, having taken them to the summit, and subsequently to the lowest. Rick Waugh has done no such thing with Scotiabank.

To start, Waugh has been an active witness of the crashes suffered by world economy first hand (starting with his tenure in New York, which ended in 1991, when the Long Term Capital Management debacle made the hedge funds and Federal Reserve start reassessing their role in the stock market, and right after, when Russia fell followed by Japan... in other words, Waugh has known

the consequences of Wall Street's greed, and has known how to dodge its effects successfully as leader of a multinational bank).

"As an organization, we are aware that our strength lies in risk assessment. This prevents many headaches. It is a part of the bank that meets three times a week to absolutely verify all management areas of the bank. We have a risk culture. At all levels, and over all markets," comments Waugh.

"We have made mistakes, like everybody else. But actually we have learned from those mistakes. We have survived 175 years, thanks to diversification... Canada, for example, is strong now, but the truth is that Canada has been weak at times. In the long term, risk is the key, a thorough knowledge of markets," he continues.

Let us go back to diversification: "100% of something is too much," says Waugh. "We are in over fifty countries. We are not interested in being first, but rather in being diverse. That way you have a cushion. If an area fails, you have the other one to support you," he comments, and, as we already know, the formula has worked for them. "We want to be important, not the biggest; we want to have a wide action basis, giving the best service, and thus having the best customers," he says, and it seems easy, coming from Rick Waugh.



Scotiabank Group

"PORTRAIT OF ADOLESCENT BANKER": "I WANTED TO STAY IN WINNIPEG," SAYS WAUGH, SPEAKING ON THE OCCASION OF THEIR DEPARTURE FROM COLLEGE. "I HAD AMBITION," HE SAYS. THEN HE WALKED ALL OVER EUROPE AND CAME A CHANGED MAN.

More so, it was Waugh who, after taking over as president of the bank, redirected the destinies of the institution, and its general orientation, to a restructuring qualified by his friend Jim Meek (for over thirty years) as “ambitious, well structured, patient, and which has worked very well since its commencement,” in the 80’s. While the restructuring was taking place, the critical areas of the bank (risk management, international corporate banking, were thoroughly applied to support the commercial part, thus converting the retail banking business in an efficient extension and, more so, prudent, within Scotiabank’s operational standards) (sic).

Waugh supervised Scotiabank’s investment in the Puerto de Punta Caucedo, one of the institution’s most ambitious investments in the Dominican Republic (more recently, the bank participated in the recapitalization of Aerodom, and in the company’s subsequent change of management), and motivated the purchase, in the first place, of the customer portfolio of the disappeared Banco Intercontinental, and later the acquisition of its infrastructure (an operation carried out under the leadership of Jim Meek in our country), which gave Scotiabank the required competitive presence in local commercial banking.

“We had the opportunity and we took it, at a ten year term. At the time the environment for foreign investment was good. Now it is better. We have been here for a long time, and our financial perspectives for the

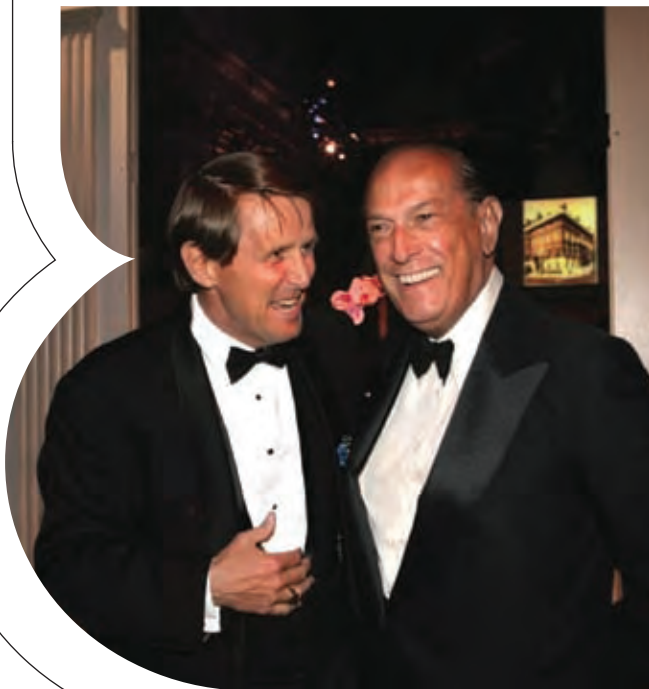
nation are very good,” the senior executive explains. “The idea is to provide local services and products in every country,” Waugh comments, when I asked him what the key of his management was. The key is local workforce. “It is very simple,” he says. “If you want to succeed at a local level, the best thing is to have the best, in labor terms, of the local talent.”

And the truth is that, in their wisdom, Latin Americans are not all the same. “North Americans think Latin Americans are all the same. That is not true. They are all different.”

In a time of crisis like we are living now, while Scotiabank preaches its philosophy of prudence and attention to risk above all things, the bank’s constant expansion in Latin America, a culturally, politically, and economically volatile region, could appear contradictory. Scotiabank has been expanding in Mexico on an ongoing basis. Peru and Chile are two of its most important and dynamic markets in the region. Waugh explains that “it is true, this may not be a good year for anyone, but we are sure that our part of this cycle, has been safely safeguarded by our labor talent, because we trust in the potential of the region” (see tables and interview with Oscar Sanchez).

While the shares of Canadian banks have not suffered major mishaps in comparison to their North American counterparts, the fact is that their values have declined everywhere: those of the Royal Bank of Canada fell by 28% last year, as well as those of CIBC. However, no Canadian bank has accepted or taken money from the government, for the concept of bailout. In fact, the World Economic Forum ranked Canadian banking as “the most healthy/sound of the world,” while North American banking ended in the 40th place, and British in 44th, at the rhythm of Barack Obama’s words: “Canada has proved to be a good manager of its financial system, in a way that we have not in the United States.” “Integrity, security, service, that is the difference, supported on technology. But, without trust and integrity you don’t get anywhere,” says Waugh.

IN THE “AMERICAS SOCIETY 27TH ANNUAL SPRING PARTY” IN MAY 2007, OSCAR DE LA RENTA AND RICK WAUGH WON THE GREAT RECOGNITION “FOR THEIR CREATIVE LEADERSHIP AND HUMANITARIAN CONTRIBUTIONS TO THE ARTS AND SOCIAL INITIATIVES WITHIN THE WESTERN HEMISPHERE.”



The World Is a Backyard

For Scotiabank, corporate and commercial banking has been the basis of its management since its beginnings, 125 years ago, when the bank expanded to Jamaica before any other city in Canada, coming from Scotland, where it was originally founded. However, the bank is young in the rest of Latin America, both as a corporate and commercial bank. Originally, its platform in Jamaica and the Dominican Republic was to accommodate all commercial negotiations between Europe and the Caribbean region.

“At present, no region is more important than another for us, of all the regions where we currently operate,” says Jim Louttit, Vice-President International Banking for Latin America. “Some regions are smaller than others, but each market always represents a basis for relationships with our customers, which, of course, we take very seriously in Scotiabank.”

But Latin America is still a volatile region, both politically and economically. Only through a dedicated risk assessment management can you reconcile the corporate motto of “prudence”, with the bank’s evident aggressiveness when investing in Latin America and the Caribbean, taking advantage of clear and evident expansion opportunities, of course.

Now then, how have they been able to relieve the political and economic instability of the different environments where they have done business in the region? “In the first place,” says Stephen Guthrie, Vice-President Corporate & Commercial Banking at the international level, “it’s about applying prudence to our lending practices, paying attention to what really matters, our customers.”

But, how else could it be? “In times of economic prosperity, such as 2004-2007, our credit policies may appear conservative... however, these are the policies that have kept us safe during turbulent times.”

Good point... which leads us back to the memorable “prudence” of which all Scotiabankers talk about. “For example, during the financial crisis of the last twelve

months, Scotiabank continued lending to its customers even when many of our competitors went out of business,” Louttit says.

Guthrie adds, “The only way of achieving this is through a sound position in terms of capital, strong diversification by business and geography, and a tremendous risk management culture.”

In this sense, both executives declare almost in unison that Scotiabank is always looking for opportunities to grow and expand, if the opportunity arises. This adagio has served the bank well, in the measure it has grown in Asia (with the purchase of 49% of the Thanachart Bank, and its agreement with the Bank of Beijing), and in Latin America, with its acquisitions in Chile, Costa Rica, Dominican Republic, and Peru.

“Our footprint remains in the Caribbean. We continue strong and serving our customers, in spite of the crisis,” Louttit says.



JIM LOUTTIT, IN LATIN AMERICAN BANKING, AND STEPHEN GUTHRIE, THE CORPORATE AND COMMERCIAL BANKING IN THE REGION, CONSTITUTE THE SPECIAL PAIR OF KNOWLEDGE AND EXPERIENCE IN MANAGING SCOTIABANK.