



**National Bank Financial  
Canadian Bank CEO Conference**

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Note that accompanying slides can be found in the  
Investment Community Presentations section

## **Agenda – Slide 2**

Thank you, Rob, for that kind introduction. It's my pleasure to be here in Montreal to talk about the prospects for Scotiabank.

Notwithstanding the current uncertainty created by the conflict in Iraq and a somewhat cloudy economic outlook, I am confident that we have a solid foundation for growth – here in our home market, and particularly in our international operations. I have several reasons for my optimism, but a key one is our people and our culture – we have a great team of people motivated to serve their customers. I'll have more to say on that later in the presentation.

Today I'd like to address four themes:

1. what I think are some of the key “big-picture” issues for Scotiabank investors – namely succession, credit quality, use of capital and growth prospects;
2. key priorities in each of our businesses;
3. a brief summary of our significant milestones, which clearly demonstrate our consistent performance over the past several years; and finally
4. our targets for 2003.

### **Succession – Slide 3**

First, a brief word about succession. At Scotiabank, we have a well-developed, consistent approach to succession – the Scotiabank way. I am working with Peter to ensure an orderly transition prior to his retirement sometime this year.

Our existing management team will play an important role. We have a very strong team – well-seasoned – most have been with the bank for more than 20 years. This expertise runs across the organization in all of the business lines and all our support functions.

You won't see any fundamental changes to our strategy or to our culture, which have played such a large part in our success. We'll remain focused on our core strengths – execution, customer service, cost discipline and diversification of our operations.

We will continue to manage the bank for the benefit of all stakeholders:

- our employees – to continue to make Scotiabank a great place to work;
- our customers – to make Scotiabank the bank of choice;
- our communities – to be seen as a positive influence; and
- our shareholders – to achieve our financial goals and create shareholder value.

## **Credit Quality – Slide 4**

A second key issue is, of course, credit quality, where we've had our successes in Canada, and challenges in the U.S. and Europe.

In Domestic, retail credit quality has been – and continues to be – excellent. Our losses have been well below those of our peer group over the past five years – thanks to best-in-class adjudication process and great success in our secured lending products.

In Domestic Commercial and in our international portfolios, credit quality remains stable.

Our well-publicized challenge has come in our corporate portfolios in the United States and more recently in Europe – now focused primarily on the power and energy trading sectors – which I'm glad to say are becoming less of a concern.

## **Credit Quality – Slide 5**

In the U.S. and Europe, problem accounts have largely been confined to two sectors – Cable & Telecom and Power & Energy Trading.

In Cable & Telecom, we believe the problems are largely behind us.

In Power & Energy Trading, we have a limited number of problem accounts, all of which have been identified. We have successfully participated in a number of restructurings – including one large account last week – and the balance are in progress.

We believe that losses in the power sector will be far less severe than in cable & telecom. We lend primarily at the operating company level, secured by hard assets and, in the long run, the energy business is a viable business. We are cautiously optimistic that the worst of the crisis has passed, and liquidity pressures appear to be easing.

Regarding our airline exposure – it's modest, about \$400 million – more than half of which is secured by a combination of aircraft assets, government guarantees and cash.

We don't believe that our airline exposure will impact this year's provision levels.

In fact, notwithstanding this less than robust economy, we believe that our loan loss provisions will be moderately less in 2003.

## **Industry-Leading Capital – Slide 6**

The third key issue – actually, we view it as an opportunity – is our capital.

As you can see on the slide, we have a very strong capital base – the highest Tier One capital ratio of the major banks. We are generating a significant amount of capital internally – over \$1 billion – closer to \$1.5 billion a year.

And, importantly, we are the leader in Tangible Common Equity. Our capital base is not inflated by goodwill or other intangible assets created by acquisitions.

## **Uses of Capital – Slide 7**

This strong capital base gives us a great deal of flexibility – a great opportunity – to expand our businesses through organic growth or through acquisitions.

Importantly, it provides a large cushion for credit or other risks.

It allows us to confidently forecast dividend increases and share buy backs – to offset dilution and return capital to shareholders.

It also leaves us well positioned to participate in bank consolidation in Canada.

## **Growth – Slide 8**

The final key issue is growth, particularly earnings growth. In this challenging economic environment, where will it come from?

We believe we are well positioned to deliver earnings growth going forward. In our domestic operations, we are the clear leader in customer satisfaction – by a wide and growing margin. We have also made substantial investments in our delivery network and our customer database over the past three years. We believe that we can leverage these strengths and continue to win market share.

Our international operations will be a significant long-term engine for growth – something that clearly separates us from our peer group. In particular, the Caribbean & Central America, Mexico – and, longer term, Asia – offer opportunities for organic growth, as well as in-market acquisitions that will be accretive.

Finally, we have future growth possibilities in the United States, where we have been looking to purchase a retail & commercial operation – but to do so in a disciplined way – the right bank, with the right culture, at the right price. It would have to be accretive to earnings within three years.

## **Businesses and Key Priorities – Slide 9**

Turning now to our three divisions and their key priorities.

They are:

1. **Domestic** – which includes retail, small business and commercial, and in our organization structure - wealth management;
2. **Scotia Capital** – our capital markets and wholesale lending group; and
3. **International** – our retail, commercial and wealth management operations outside of North America.

## **Key Priority Earnings Diversification – Slide 10**

As you can see on this slide, a key priority will be to maintain our earnings diversification.

Domestic had a record year last year, as did International, excluding Argentina. Together, these divisions have, on average, comprised more than 70% of earnings over the last three years, and they will continue to provide a steady – and growing – source of annuity-type income.

In Scotia Capital, two of the three units – Canada and Global Trading – have been solidly profitable, and we expect overall divisional profitability to rise as loan losses in our U.S. and European portfolios return to more normal levels.

Diversification in our core businesses and markets has been a real strength for us, and we are committed to maintaining this focus.

## **Steady Earnings Growth – Slide 11**

Turning now to our Domestic operations ...

As shown on this chart, earnings have, on average, grown at more than 15% a year. This is a great accomplishment in Canada's mature – yet very competitive – market, and we will continue to grow earnings going forward.

## **Leverage Customer Satisfaction – Slide 12**

This impressive growth results from a commitment to superior sales and service – which starts and ends with a motivated work force – based on a strong foundation of teamwork and core values. Our internal surveys tell us that 85% of our Domestic employees think Scotiabank is a “great place to work.” We think we’ve created a unique culture that values each employee’s contribution and rewards strong performance.

Satisfied employees provide excellent service, which leads to satisfied customers. In 2002, we led all major banks in Canada in customer satisfaction for the third year in a row. Nearly a third of our customers rated our service as “excellent”, a remarkable accomplishment.

Great service also increases customer loyalty, an area where we were again rated #1. Loyal customers stay with you – buy more products and services – and generate more referrals.

## **Build Relationships With our Best Customers – Slide 13**

Providing great service also requires knowing your customers. We divide our customers into two broad groups. This segmentation drives our sales and marketing activities. For instance the top 20% – about 1.2 million customers – are proactively contacted by Personal Banking Officers and Financial Planners. On average these customers exhibit greater loyalty and generate more than 2.5 times as many accounts compared to the remaining 80%.

In this second group, we also identify high-potential customers. We have found that when they are proactively managed, we typically see an immediate 7% increase in balances – balances which continue to grow.

## **Enhance Sales Capabilities with CRM Data Warehouse – Slide 14**

All of this sales contact is driven by state-of-the-art, industry-leading database analysis.

We use a variety of sources – market research, customer profiles, transaction information and third-party data such as credit bureau scores – to generate sales leads, guide cross-sell and retention activity, and manage very focused marketing campaigns.

As well, our focus on sales efficiency – including moving non-sales activity out of the branches – has, on average, resulted in an additional seven hours of sales time per week for each of our sales staff.

In short, our success in Retail & Commercial has been driven by:

- motivated employees;
- industry-leading analytics;
- a focus on productivity and excellent risk management; and,
- most importantly, an ability to execute – time and time again.

This has translated into market share gains, and we definitely see this trend continuing.

## **Wealth Management Key Priorities – Slide 15**

Turning now to Wealth Management, which is organized around three core businesses for us – Retail Brokerage, Mutual Funds and the Private Client Group – the latter providing personal trust, money management and private banking services.

For the past few years Wealth Management has largely been about reorganizing and restructuring. Our platforms are now very competitive – both in terms of technology and people.

A key for us is to take advantage of referrals, working closely with the retail bank. Over \$4 billion was referred from our branch and telephone networks in 2002, with two-thirds coming from assets previously managed by our competitors. This level of referrals is up significantly from \$2.5 billion only two years ago.

We also use financial planning – and database marketing – to build relationships at a lower cost with a higher level of service. Our key customer segment is the middle market – which holds 45% of investable assets and is where the greatest opportunity lies.

In summary, we have a strong base from which to grow our wealth management businesses, once the markets start to become favorable.

## **Scotia Capital Profitable Despite U.S. Credit Challenges – Slide 16**

Turning next to Scotia Capital, where we have been profitable despite some challenges – mainly in the U.S.

## **Scotia Capital Key Priorities U.S. and Europe – Slide 17**

Our results in the U.S. are clearly unsatisfactory, and the challenge for 2003 is to reduce loan losses and improve ROE.

To do this, we have significantly reduced single-name exposure and industry limits. We also created a portfolio management group based in New York, which looks at all transactions and uses tools such as credit derivatives to manage industry exposures.

We've reorganized our U.S. operations, and segmented our client base. We are reviewing profitability on a name-by-name basis, which could result in exiting up to one-third of the accounts.

But we have a number of valuable long-standing relationships in the U.S. – built successfully over many years. We are not exiting the market. Rather, we are focusing our efforts on those accounts that we can cross-sell to other parts of the Bank – Canada, Mexico, the Caribbean and Global Trading – and thus earn an acceptable overall ROE.

## **Scotia Capital Key Priorities Canada & Global Trading – Slide 18**

In Canada, our goal is to be a top-ranked full-service provider – a leader in each product – and we have met that goal in most areas, with a very acceptable overall return on equity. We have scored some significant successes – for example, we're #1 in overall equity research, #1 in syndicated lending and #2 in the income trust market.

And our Global Trading operations – which are primarily client-driven – had another record year. Revenues were up 14% in 2002. It is a business with good growth potential – through U.S.-cross-sell and, most importantly, through expanded activities in Mexico. We will be leveraging existing client relationships, as well as building on our expertise in risk management and foreign exchange products.

Overall, we expect profitability in Scotia Capital to improve in 2003, and even more so in 2004 as loan losses decrease.

## **International Engine for Long-Term Growth – Slide 19**

Finally, to our International operations, which we believe will be an engine of significant long-term growth – with compelling demographics and, in many markets, low banking penetration. We're in good shape, having now put our problems in Argentina behind us.

While we are in more than 40 countries, our key markets are the Caribbean – where we have operated for more than 100 years – and Mexico, where we have a majority interest in Scotiabank Inverlat.

First, a few words on Asia. It remains a stable, profitable operation focused on niches such as trade finance, commercial lending and treasury operations in about 9 countries.

Looking forward we are exploring selected opportunities for expansion. For example, we've made a modest investment with the Chinese government in Xian City Commercial Bank, with a view to long-term development – almost an R&D effort. We are also looking at further expansion in India.

Turning to the next slide, you can see the very strong growth in earnings from this part of the bank.

## **International Rising Earnings – Slide 20**

Overall, these earnings have grown at a compound annual rate of 28% – thanks primarily to our expansion in the Caribbean and Central America plus the consolidation of Scotiabank Inverlat last year.

## **Caribbean Strong Earnings Growth – Slide 21**

An important part of the growth has come from our operations in the Caribbean and Central America. Earnings have increased at a compound rate of 15% over the past five years – a record \$290 million in 2002. This growth rate mirrors our Canadian retail and commercial operations, for many of the same reasons – a focus on sales and service, improving productivity and strong risk management.

Our success comes from being a local bank in a local market – Jamaican in Jamaica – Bahamian in the Bahamas. Our country managers are local. Another reason for our success is that we are transplanting and adapting the best of the Canadian initiatives suited to these local market conditions.

We're also leveraging our technology. We have telephone banking available 24/7 in most countries. We increased our ABM network by more than 20% last year.

We're expanding our insurance and wealth management businesses in the region – a natural extension of our dominance. For example, we recently added to our trust and private banking capabilities with the purchase of MeesPierson in the Bahamas.

## **Caribbean Strong Earnings Growth – Slide 21 (cont)**

Additional growth opportunities come from our expansion in Spanish-speaking markets, such as the Dominican Republic, El Salvador and Costa Rica, to reach a potential 20 million new customers.

Earnings in each of these countries are growing at double-digit rates, and we believe we can achieve the same long-run successes that we have enjoyed in other parts of the region.

We remain very pleased with our Caribbean operations. It's the “crown jewel” of our international franchise. We are the dominant bank in the region, double the size of our nearest competitor. We believe we are very well positioned for future growth.

## **Mexico Scotiabank Inverlat Steady Organic Growth – Slide 22**

Now turning to our Mexican operation, Scotiabank Inverlat. Earnings continue to grow strongly – our share of Inverlat's earnings was up 56% in Q1 vs the same period last year.

We've done well in growing our key retail business – by offering great services and competitive products, credit cards, car loans and mortgages, where we have been an industry leader. In 2002 we captured about 30% of all the new bank-financed car and residential mortgage business. And we've have done even better on the retail deposit side – increasing our market share by 140 basis points over the past 15 months.

We are also doing well in the commercial and corporate market, where loans are up 16% year over year.

On the ownership question, we have submitted a bid to the Mexican government to purchase its 36% stake in Inverlat, which should add close to \$100 million to our earnings annually.

We expect to close this transaction in the next few months.

Overall, Mexico is a key and exciting market for us, as we see tremendous opportunities and upside.

## **Consistent Long- term Performance – Slide 23**

I'd now like to talk for a moment about our consistent long-term performance. We have built our success on consistency.

As you can see from the next slide ...

## **Consistent Long-Term Performance – Slide 24**

... by almost every metric, BNS has been #1 or #2 in performance among the major banks over the past five years:

- # 2 in earnings growth and return on equity
- #1 in productivity and capital strength
- # 2 in internal capital generation and, importantly,
- #1 in customer service in virtually all of our markets.

We are particularly proud of our leadership in customer service, which is organization wide as you can see on the next slide.

## **Bank-wide Focus on Customer Service – Slide 25**

We have been ranked:

- #1 in customer service in Canada according to Market Facts,
- Best bank in the Caribbean – by LatinFinance magazine,
- Tied for #1 in customer service in Mexico – by Reforma newspaper,  
and
- Best multinational company in Chile – by El Diario newspaper.

We not only talk about customer service, we practice it every day, in Canada and in all the markets in which we operate.

Our management team is committed to building on this strong culture of consistency and solid execution. It has been very rewarding for our shareholders, who have enjoyed superior returns, which you can see on the next slide.

## **Superior Returns – Slide 26**

We've outperformed our peer group, as well as the broader market as represented by the TSX, over the past 10 years and, in particular over the last two years.

I believe Scotiabank will continue to be an excellent long-term investment, and the lower P/E multiple which we currently trade at is unwarranted, given this record of consistent and long-term performance and the position we hold in our markets.

## **Targets – Slide 27**

Finally, looking ahead to our targets for the balance of the year...

## **2003 Targets – Slide 28**

... they remain unchanged from our previous guidance.

We are targeting a return on equity of between 15 and 18% – and EPS growth between 5 and 10%. Our productivity ratio will be below our 58% target, and we will maintain our very strong capital position, with Tier 1 capital well in excess of 8%.

So looking forward, we have solid growth prospects from our diversified businesses, and considerable flexibility and opportunity – thanks to our extremely strong balance sheet and capital base.

We will continue to emphasize consistency – in superior customer service, in building strong client relationships, and in constantly striving to improve productivity. In summary, we will continue to focus on executing well – to ensure that we meet our performance targets and create long-term value for our shareholders.

Thank you, and I would now be pleased to answer your questions.