



**Scotia Capital  
Financials Summit 2003  
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Note that accompanying slides can be found in the  
Investment Community Presentations section

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## **Scotia Capital Financials Summit – Slide 1**

Thank you, Kevin. It's a real pleasure to be here at the Scotia Capital Financial Summit conference to talk about the Scotiabank Group of companies.

We are in a very strong position, with record earnings last quarter. All of our business lines are doing well and we are firmly on track to meet our financial targets for 2003.

## One Team, One Goal – Slide 2

Before I talk about some key issues for Scotiabank and the banking sector, I would first like to share our corporate objective – what we call “One Team, One Goal” – something we as Scotiabankers feel strongly about.

Our goal, as you see on the slide is “To be the best and most successful **Canadian-based international** financial services company.”

We continually use this message internally to make the point that it is the collective contribution of all of our staff – on the front lines and in supporting roles - that drives our success as an organization.

The One Team, One Goal philosophy helps our employees understand where we are going and what we stand for as an organization. It speaks to our core values, our purposes and our goals.

## Manage for All Stakeholders – Slide 3

We believe that we will achieve these goals by managing the Bank for **all** of our stakeholders:

- **for our customers** – we want to build on our leadership position in customer satisfaction as we help our customers reach their financial goals
- **for our employees** – we want to continue to be an employer of choice - our employees tell us we are a great place to work;
- **for the communities** in which we live and work – we want to be a positive influence, not just a place to do your banking or investing; and
- **for our shareholders** – we want to continue with our strong record of corporate governance, meet our key financial targets and also provide superior returns.

## Key Issues – Slide 4

Now I would like to discuss three key issues of particular interest to investors:

1. credit quality – which is improving;
2. capital management; and
3. growth - how we intend to grow the Bank despite the challenging market conditions.

## 1. Credit Quality – Cautiously Optimistic – Slide 5

Turning now to the first of these – credit quality. This is one area that will help us meet our earnings growth targets.

As the title of this slide indicates, we are “cautiously optimistic.” The optimism comes from the improvement in our portfolios – net impaired loans and provisions are both trending down – which is positive. On the other hand, our caution comes from the uncertain outlook for the Canadian and international economies.

Looking at each of our portfolios:

- Domestic retail continues to perform very well,
- the Canadian Commercial and International portfolios are stable,
- and there is good news in Scotia Capital, where credit quality has improved substantially – with good progress to date on power & energy restructurings.

## Credit Quality – Lower LLP Going Forward – Slide 6

The improvement in our portfolios can be seen in the substantially lower loan loss provisions in 2003. Our annualized rate of provisions as a percentage of average loans & acceptances is 55 basis points, slightly below our peer group and **down** significantly from last year.

During this past credit cycle, we under-performed the peer group in managing loan losses. Prior to that, our track record was superior, and we intend to regain that leadership position going forward.

We expect provisions to continue to decline - as the worst of this credit cycle appears to be behind us. This gives us some real leverage going into next year.

As well, we are taking steps to ensure that we don't suffer the same level of high losses when we get to the next downturn.

## **2. Credit Quality - Strengthening Processes in Scotia Capital - Slide 7**

To accomplish this, we are strengthening our credit processes, particularly in Scotia Capital:

- we have reduced single-name and industry limits.
- our senior management and loan portfolio management teams are proactively managing our corporate portfolio, reviewing all transactions and adjusting exposures, using credit derivatives and loan sales where exposures are too large or not meeting our profitability hurdles.
- As well, our relationship managers are working with each of our clients to improve our profitability and earn an acceptable ROE.

We are seeing some tangible results from these efforts:

- our lending portfolios in the U.S. have decreased by 30% during the past year – in part due to the stronger Canadian dollar – but mainly due to a decrease in corporate lending volumes; as well
- our cross-sell efforts in the U.S. have resulted in an improvement in customer ROE of 200 basis points.

## **2. Capital Management – Industry-Leading Capital Ratios – Slide 8**

A second key lever for us is our capital.

We have the highest capital ratios among the Schedule A banks – for both Tier 1 – and, more importantly – for Tangible Common Equity.

And we continue to generate significant internal capital.

## **2. Strong Capital Provides Flexibility – Slide 9**

This strong capital position provides us with tremendous flexibility:

- We are able to expand our businesses or make acquisitions – such as the purchase of the 36% minority interest in Inverlat.
- Strong capital also gives us a significant cushion to handle unforeseen risks.
- Share buybacks are another option, but the recent increase in our share price has made buybacks less attractive, especially given our ability to earn a very high ROE.
- Last but not least, strong capital gives us the confidence to forecast regular dividend increases.

## **2. Consistent Dividend Increases – Slide 10**

As you can see on the slide, we have increased dividends in six of the past 13 quarters and we expect this trend to continue.

We have also raised our dividend payout ratio target to 35 to 45% of EPS, up from the previous range of 30 to 40%.

### 3. Growth - Diversified Earnings Base – Slide 11

Now turning to the key challenge for all of the banks, including Scotia - how can we achieve growth in very competitive environment - with a sluggish and uncertain economy, particularly in Canada?

We believe that Scotia has good growth prospects - in part because we have a diversified earnings base.

We are not dependent on just one business line for our earnings. We have **three** strong businesses, each of which can provide growth.

This diversification has allowed us to earn through various challenges - such as higher loan losses in the U.S.

### **3. Growth – Three Strong Platforms – Slide 12**

As I mentioned, we believe that each of our three businesses has good growth potential:

- In our Domestic operations, we believe we have room to expand our customer base and grow market share;
- In Scotia Capital, we have a strong, deep history with many of our clients in the U.S. and we are focused on capitalizing on these relationships going forward;
- In International, we continue to leverage our strengths as a group to grow organically and expand in existing markets such as Mexico and the Caribbean, which have good demographics.

Our goal is to continue to build a stream of high-quality, sustainable earnings.

In all our businesses we will focus on:

- bringing in new customers;
- keeping our existing customers; and
- building our distribution channels.

## **Domestic - Strong Retail Franchise – Slide 13**

First let's look at our Domestic retail franchise in more detail. Here we have a very strong operation and are a leader in many respects. For example:

- we have delivered very good financial performance – 15.5% CAGR over the past 4 years with an ROE of 30%+;
- we are #1 in customer service;
- we are #1 in online banking;
- we are #1 in retail credit quality; and
- we are a leader in database analytics & marketing – which is a key driver for cross-sell and retention activity, leading to higher customer profitability.

## **Customer Service Excellence – Slide 14**

In Domestic Banking, the key to success revolves around a commitment to superior service, which starts with our employees.

They are a highly motivated group, and this translates into industry-leading customer satisfaction levels. As you can see on the chart, 31% of our customers rate our service as excellent, compared to just 24% for the peer group.

What all companies strive for, or should strive for, are satisfied customers. We lead the industry in Canada and in several of our international markets.

## **True Sales & Service Culture – Slide 15**

This success is also driven by our sales and service culture. Our branch staff are now totally focused on sales and service. They have sales goals, and are rewarded for key relationship-building activities such as mortgage lending, day-to-day banking and creating savings plans.

As a result of this sales and service focus – along with initiatives to take administrative workload out of the branches - we have been able to increase sales time per officer by more than 70% over the past two years – time they now spend with their customers.

As a result, we have increased our share of wallet on both sides of our customers' balance sheets. We have 51% of their lending business and 28% of their deposit and investment business. This is up 3% from last year on both sides.

## Award Winning Technology – Slide 16

Our success in customer service has also been supported by award-winning technology.

We are a leader in customer analytics and database marketing, for which we have won many industry awards. Our data warehouse is used in a number of ways:

- to segment our customer base;
- to predict behaviour, such as the next likely purchase; and also
- to push sales leads to the sales officer’s desktop, based on customer events, such as a large deposit. Our branch staff have told us these leads are a very effective way to build customer relationships.

Another example of our award-winning technology is our online service was recently ranked #1 by Gomez, and we were also named “best consumer Internet bank for Canada” by Global Finance magazine.

## **Market Share Increase – Slide 17**

These strengths in sales & service and technology – along with a strong lineup of products, such as our very successful STEP lending product and Money Master savings account – have helped us to successfully cross-sell to our existing customer base.

As a result, we have achieved market share increases on both sides of the balance sheet – in personal lending, core deposits and also mutual funds.

## **Integrated Wealth Management Platform – Slide 18**

Another key to growth in Canada will come from our integrated Wealth Management operation – which is organized around three core businesses – retail brokerage, mutual funds and the private client group.

For the past few years Wealth Management has largely been about reorganization and restructuring. We've combined previously separate "silos" taken out costs by combining back offices and installed new systems. We have effectively merged four separate companies with a common platform covering most of our mid and back office operations.

We have also put in a new management team - including a new CEO and Chief Investment Officer. Chris Hodgson returns to us from Altamira, where he served as CEO. Previously he was head of retail brokerage for Scotia McLeod.

The key to our success will be strengthening the partnership with the Retail Bank and focusing on our distribution channels and cross referrals.

We've done much already on this front:

- we have a well-defined referral processes. So far this year, \$1 billion has been referred from the retail branch network, accompanied by an additional \$1.4 of external balances. Our commercial bankers have referred another \$200 million.

We're also expanding our distribution network:

- we have 13 new private client centres;
- more than 350 ScotiaMcLeod financial planners located in bank branches; and
- we also have a single Web site for both brokerage and banking – allowing customers to see their total financial picture in one convenient location.

## **Opportunity to Attract New Customers – Slide 19**

In summary, we have a very strong platform in Domestic on which to build. We have solid technology, strong products, very high employee morale and industry-leading customer satisfaction.

Now, the opportunity is to attract new customers – to build volume and grow market share.

We will be launching several new initiatives over the coming months to increase our market presence and build product awareness among Canadian consumers.

You'll be seeing a lot more of Scotia, and we're confident that you – and the rest of Canada - will like what you see! This is not just about promotion - it is about us using a proven platform. We know that once the customer comes in the door – we can - and do - deliver.

## **Scotia Capital – Leverage Relationships for Growth – Slide 20**

Turning to Scotia Capital our second growth platform, which has been profitable despite credit and capital market challenges.

Here we are focused on leveraging our long-established customer relationships for growth.

In Canada, the full-service model is working well, and we are winning mandates, such as the co-lead in the recent Yellow Pages Income Trust IPO.

In the U.S., we have long-standing relationships – more than 700 clients, comprising all the major corporations - built over the past 30 years – which serves as a solid base for growth.

## **Scotia Capital – Capitalizing on Relationships – Slide 21**

Unlike some of our competitors, we are not exiting the lending business in the U.S. Instead, we are looking for disciplined growth and capitalizing on the relationships I just mentioned.

In order to grow, we've restructured in the U.S., moving to industry coverage and deepening relationships with our "focus" clients.

The majority of these relationships are with "Fortune 1000" companies.

With these customers we can cross-sell:

- our capital market capabilities; and
- our Canadian & Mexican full-service networks.

We are making progress on this front – cross-sell revenues for these "focus" clients are up 20% year over year.

We are also working closely with our other clients to determine whether they have the potential to move to that focus status. If not, we are taking the appropriate steps to exit those relationships that do not meet our profitability targets.

## **Scotia Capital – Global Trading, Strong Growth – Slide 22**

Turning to Global Trading, it is low risk and primarily client driven.

We are building on seven consecutive years of record results - with strength in areas such as derivatives, fixed income and forex.

Moving forward, we will step up our efforts to market these capabilities across our international networks.

## **International – Unique Growth Vehicle – Slide 23**

Finally, International, for Scotia, a unique growth vehicle. It has seen very impressive earnings growth over the past five years.

We are in three regions:

- Caribbean/Central America, where we are by far the dominant franchise;
- Mexico/Latin America; and
- Asia.

## **International – Key Competitive Advantage – Slide 24**

International is a great platform for several reasons.

First – and most important – it has significant growth potential.

In our selected markets, especially Mexico, the demographics are compelling. The population is young. The average age in Mexico is 24, versus 38 in Canada. They are ready to buy houses & cars.

Another growth driver is low banking penetration in these markets – under 30%, compared to almost 100% for Canada.

Second, we can build on more than 100 years of experience in operating successfully as a local bank in local markets

Finally, we can leverage the strengths of the group – strong risk management, superior technology, strong productivity, sales and service excellence and our great team of people.

## **Caribbean – Dominant Franchise – Slide 25**

The Caribbean/Central America is a key market for us - with good growth potential, notwithstanding the recent strength of the Canadian dollar.

We're the dominant bank in the region, twice the size of our nearest competitor. We've produced strong earnings growth over the past five years, as seen on the slide.

We believe there is significant growth potential in Spanish-speaking markets such as Dominican Republic, El Salvador, Costa Rica – 20 million potential new customers. We will expand organically by adding branches, and via acquisitions such as the one we announced recently to acquire 40 branches of the former Banco Intercontinental in the Dominican Republic.

We are rolling out our sales & service platform across the region, bringing the same sales focus that we have in Canada.

We also continue to expand our delivery platform with initiatives such as our off-site ABM program, where we are partnering with Texaco to deploy ABMs in gas marts and convenience stores across the Bahamas.

Finally, we are also growing our wealth management operations. We have begun distributing mutual funds in several countries, and we are adding to our trust and private banking capabilities through acquisition and organic growth.

We expect to see ongoing growth in the Caribbean.

## **Mexico – Scotiabank Inverlat – Increased Contribution – Slide 26**

Mexico is another key market for us – it has strong growth potential.

We recently raised our ownership of Scotiabank Inverlat to 91%, which should add \$80+ million to BNS earnings annually.

We anticipate purchasing the remaining 9% – which should add another \$20 million annually to our earnings.

We also recently acquired a large consumer automotive finance portfolio from the local financing arm of the Ford Motor Company. This is an area where we have strong experience in Canada that we can export internationally - yet another positive earnings contributor.

## **Mexico – Scotiabank Inverlat – Platform for Growth – Slide 27**

Turning to the operations of Inverlat, we expect continued growth from a number of initiatives.

As in Canada and the Caribbean, we are focused on creating a sales and service culture. We've seen success – we were rated #1 in customer service by the influential Reforma newspaper.

The retail business is growing, and we're having great success again this year in the auto loan and mortgage markets - using Scotiabank's best practices and strong local marketing.

We expect future growth will come from:

- expanding our distribution network, adding 10-20 branches per year; and
- increasing our market share in our core lending and deposit products.

The head of our Mexican operation - Anatol von Hahn – will have more to say on Inverlat's progress and initiatives in a separate presentation this afternoon.

## **One, Team, One Goal - Slide 28**

In closing, let me come back to our “One Team, One Goal” theme.

As an organization, we are focused on becoming the most successful Canadian-based international financial services company.

We will continue to stress teamwork. We have an experienced management team with a lot of depth – which we’ve augmented with some new hires. Years of experience injected with fresh ideas.

We also have a great team of dedicated, service-oriented employees.

We have three strong businesses – each of which can provide growth.

Above all, we will continue to foster our unique culture, as we strive to provide superior service to our customers and superior returns to our shareholders.

## Superior Returns in Canada – Slide 29

In fact, our returns have been the highest of the major Canadian banks for many years. Scotia's total return leads its peer group over almost any time period:

- over 3 years;
- over 5 years;
- over 10 years; and
- even over 15 years.

## Superior Returns in North America – Slide 30

Not only do we have the best returns in Canada, our performance is strong compared to the leading U.S. banks.

These returns are driven by our proven track record of delivering strong, consistent – and growing – earnings and dividends. This is a record we will continue to strive to deliver.

Thank you, and I would now like to open it up for questions.