



**CIBC World Markets  
Frontenac Institutional Investor Conference  
September 18, 2003**

**Mr. Richard E. Waugh  
President, Scotiabank**

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

Please check against delivery

## **CIBC World Markets Frontenac Conference**

Thank you, Quentin. It's a real pleasure to be here in Quebec City to talk about Scotiabank.

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

## **Slide 2 - One Team, One Goal**

Before I talk about some key issues for Scotiabank and the banking sector, I would first like to share with you 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.”

Our success as an organization is driven by the collective contribution of all of our staff – on the front lines and in a supporting role – a message we continually reinforce.

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.

### Slide 3 - Manage for All Stakeholders

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

- **for our customers** – to provide great service
- **for our employees** – to be a great place to work;
- **for the communities** in which we live and work – to be a positive influence; and
- **for you, our shareholders** – to meet our key financial targets.

All of our stakeholder groups play an important role in Scotia's success.

## **Slide 4 - Key Issues**

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

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

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

Turning to the first of these – credit quality. Improving credit quality will help us meet our earnings growth targets this year – and in 2004.

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.

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
- in Scotia Capital, credit quality has improved substantially – with good progress to date on power & energy restructurings.

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

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

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 loan losses remain well controlled.

## **1. Credit Quality – Strengthening Processes in Scotia Capital – Slide 7**

To accomplish this, we are strengthening our credit processes:

- 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 targets.
- As well, our relationship managers are working with each of our clients to improve our profitability and earn an acceptable ROE.

I'll have more to say about progress on these and other initiatives in a few moments.

## **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 – over \$1 billion in the first three quarters [excluding the impact of the stronger Canadian dollar].

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

This strong capital base 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 and our recent acquisition in the Dominican Republic.
- Strong capital also gives us a significant cushion to handle unforeseen risks.
- Share buybacks are also an option.
- Last but not least, strong capital growth gives us the confidence to forecast regular dividend increases. We have increased dividends in 6 of the past 13 quarters and we expect this trend to continue.
- We have also increased our payout ratio, with a new target range of 35-45%. We are currently at 36%, so we have room to grow.

### 3. Growth - Diversified Earnings Base – Slide 10

Now turning to the key challenge for all of the Banks, including Scotia - how to grow in very competitive environment - with a sluggish economy?

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

We have **three** strong businesses, each of which can provide growth. This diversification has also allowed us to earn through various challenges - such as Argentina, and higher loan losses in the U.S.

### **3. Growth – Three Strong Platforms – Slide 11**

Let me start with an overview of the opportunities in each of our three businesses:

- 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 Canada and the U.S. and we are focused on capitalizing on these relationships.
- In International, we continue to leverage our strengths as a group to grow organically and expand in existing markets such as the Caribbean and Mexico, which has good demographics.

In all our businesses we will focus on:

- attracting new customers;
- keeping our existing customers; and
- expanding our distribution channels. An example of this is our recent partnership with Shell Canada to install 500 ABMs in gas stations across the country – a 20% increase in our ABM network.

## **Domestic - Strong Retail Franchise – Slide 12**

First let's look at our Domestic retail franchise in more detail. 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 – by outside measures - #1 in customer service;
- we are #1 – by outside measures - in online banking;
- we are #1 in retail credit quality; and
- we have been recognized as a leader in database analytics & marketing.

## **Customer Service Excellence – Slide 13**

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

Scotiabankers 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. And the gap is widening.

High levels of customer satisfaction are important indicators of customers' intention to maintain, increase and refer business.

We lead the industry in Canada and in several of our international markets.

## **True Sales & Service Culture – Slide 14**

The strength of our operations is also driven by our sales and service culture. Our branch staff is now totally focused on sales and service. They have sales goals, and they are rewarded for key relationship-building activities such as mortgage lending, day-to-day banking and creating a savings and investment plan.

As a result of this sales and service focus – along with many 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 now spent with customers.

As well, we have increased our share of wallet on both sides of our customers' balance sheet. We now have 51% of our their lending business and 28% of their deposit and investment business. Both sides have grown 3% from last year.

## Award Winning Technology – Slide 15

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

As I mentioned, we are a leader in customer analytics and database marketing, for which we have won a number of industry awards. We use our data warehouse:

- to segment our customer base;
- to focus our sales and marketing efforts
- to predict behaviour such as the next likely purchase; and
- to provide leads to the sales officer's desktop based on customer events such as a large deposit or even a birthday. Our branch staff have told us these leads are a very effective way to build customer relationships and grow share of wallet.

Another example of our award-winning technology is our online banking platform - which was recently ranked #1 by Gomez.

## **Market Share Increase - Slide 16**

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, in core deposits and in mutual funds.

## **Integrated Wealth Management Platform Slide 17**

Another key growth driver for us in Canada will come from our integrated Wealth Management operation.

For the past few years Wealth Management has largely been about restructuring. We effectively merged 4 separate companies and installed a common back-office platform.

We also put in a new management team - including a new CEO and Chief Investment Officer.

Going forward, the key to our success will be strengthening the partnership with the Retail Bank. We've done a lot to date. For example:

- We have a well-defined referral process. So far this year, \$1 billion has been referred from the retail branch network, accompanied by an additional \$1.4 of external balances.
- We have more than 350 ScotiaMcLeod financial planners located in bank branches; and
- We also have a single Web site for both brokerage and banking.

## **Opportunity to Attract New Customers – Slide 18**

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, highlight our expertise in financial planning, and build product awareness, particularly for our savings and investment products such as our very successful Money Master savings account and Scotia Partners Portfolio mutual funds.

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!

## **Scotia Capital – Leverage Relationships for Growth – Slide 19**

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 - over 700 clients, including all the major corporations - built over the past 30 years – which serves as a solid base for growth.

In Global Trading, we are building on 7 consecutive years of record results - with strength in areas such as derivatives, fixed income and forex.

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

## **Scotia Capital – Strong Cdn Franchise – Slide 20**

In Canada, we have had an integrated corporate and investment banking group for four years. As I mentioned, the model is working well. For example, we have made excellent progress in areas such as equity underwriting, where we rank #2 - our share of equity underwriting has doubled over the past three years. We also have a very talented research group – we received 13 All Star Analyst rankings in the most recent Brendan Wood survey.

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

Turning to the U.S. ...

Unlike some of our competitors, we are not exiting the lending business in the U.S. Instead, we are looking for disciplined growth.

In order to grow, we've restructured in the U.S., moving to industry coverage and deepening relationships with our 600+ "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 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. As you can see on the slide, the number of exit accounts is down 40% this year, and related commitments are down 50%.

## **Scotia Capital – Cross Sell Success – Slide 22**

We are making progress on increasing cross sell, thanks to our focus on building client relationships:

In the U.S., cross-sell revenues are up 27% contributing an additional 4.3% to the ROE.

In Canada - a similar story - higher cross sell revenues.

We are confident that with a continued focus on improving credit quality and strengthening relationships, Scotia Capital will continue to show improved results.

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

Finally, International -for Scotia a unique growth vehicle. It has seen very impressive earnings growth over the past 5 years.

International is a great platform for several reasons, most importantly because of its significant growth potential. In our selected markets, especially Mexico, the demographics are compelling. Another growth driver is low banking penetration – under 30% in Mexico compared to 100% for Canada.

We are in three regions:

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

## **Caribbean – Dominant Franchise – Slide 24**

The Caribbean/Central America is a key market for us.

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 this slide.

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

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.

Finally, we are also growing our wealth management operations, distributing mutual funds in several countries, and adding to our trust and private banking capabilities.

We expect to see ongoing growth in the Caribbean.

## **Mexico – Scotiabank Inverlat – Very Strong Lending Growth – Slide 25**

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

We recently raised our ownership of Scotiabank Inverlat to 91%.

As you can see from the slide, Inverlat's lending business is growing – loan balances are up 34% year over year. We're having great success again this year in the auto loan and mortgage markets - using Scotiabank's best practices and strong local marketing.

And our margins are very attractive – well above what we earn in Canada.

## **Scotiabank Invelat – Good Deposit Growth – Slide 26**

We have also been focused on gathering low-cost deposits. This has become a core strength for us in Mexico. Over the past 12 months, retail and commercial deposit growth has been strong - up 13%.

## Mexico – Scotiabank Inverlat

### Key Objectives – 2007

#### Slide 27

Looking forward, we've set some fairly aggressive targets.

We aim to double our local currency earnings by 2007.

To do this, we will expand our footprint, adding 50-100 branches in attractive markets, and focusing our staff on sales and service, as they are in Canada and the Caribbean.

We will also continue to improve efficiency and bring down costs – we are targeting a productivity ratio of below 60% - closer to the all-bank average.

Maintaining high credit quality is important priority. Our Scotiabank credit culture has been successfully transplanted to Mexico.

As well, we are exploring strategic initiatives such as bancassurance. We are the only major financial group in Mexico not yet distributing insurance products – but we plan to be in this business in the next 18 months.

We are also interested in purchasing portfolios, branches or other assets. For example, last week we purchased a \$500 million portfolio of retail auto loans from Ford Credit Mexico. Auto finance is an area of strength in Canada and one that we can export internationally.

Overall, we are very pleased with progress to date in Mexico.

## **Superior Returns in Canada – Slide 28**

In summary, we are looking for growth from our strong base of diversified businesses. We will continue to foster our unique culture as we strive to provide superior service to our customers and superior returns to our shareholders.

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.

## **Record of Consistent Growth – Slide 29**

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 Q&A.