Bank of Nova Scotia

(BNS-T) 1-Year Target: $65.00 1-Year ROR: 34.6% Dividend: $1.36 Recommendation: N/A

Financial Services - Banks & Trusts 28Jan02: $49.30 2-Year Target: $71.00 2-Year ROR: 49.5% Yield: 2.8% Risk: Low

Ratings

Fundamental	-	
Quantitative	3	
Momentum	4	

Qtly Cash Op EPS (FD) (Next Release: 5-Mar-01)

	Jan	Apr	Jul	Oct	Year
2001	0.97a	1.04a	1.05a	1.09a	4.15
2002	1.12	1.12	1.16	1.20	4.60
2003					5.25

Industry Specific

	1998a	1999a	2000a	2001a	2002
Non-LDC LLPs	$495	$485	$765	$1,250	$1,250
LLP % Loans* & BAs	0.33%	0.34%	0.50%	0.79%	0.79%
Net Impaired Loans	$421	($156)	($61)	$259	
NIL % Loans* & BAs	0.28%	-0.11%	-0.04%	0.16%	
General Reserves	600	1,300	1,300	1,475	
Reserves % RAA	0.40%	0.91%	0.83%	0.89%	

LLP-Loan Loss Prov. *Less repos

Capitalization

Shares O/S (M)	503.8
Total Value ($M)	24,837
Float O/S (M)	503.8
Float Value ($M)	24,837
TSE Weight	3.50%

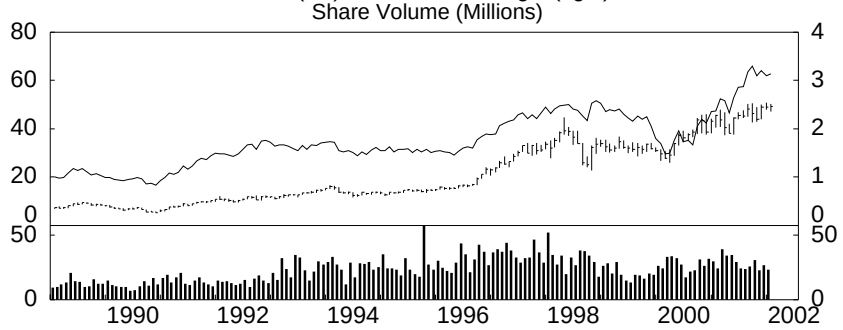
Control Blocks

Widely held

I/B/E/S Estimates

EPS 2002E	$4.44
EPS 2003E	$4.92

Price (left) vs. Relative Strength (right)
Share Volume (Millions)



Valuation: 12.4x 2003 cash earnings estimate

Financial Analysis

October-31	1997a	1998a	1999a	2000a	2001a	2002	2003	97-01 Average	01-03 Growth
Per-Share Data (FD)									
Earnings	$2.95	$2.64	$2.91	$3.51	$4.05	$4.60	$5.25		13.9%
Cash Earnings	$2.41	$2.64	$2.93	$3.58	$4.15	$4.60	$5.25		12.5%
Dividends	$0.74	$0.80	$0.87	$1.00	$1.30	$1.40	$1.48		6.7%
Book Value	$16.19	$18.37	$19.49	$22.49	$25.47	$28.74	$32.62		13.2%
Shares O/S (M)	489.8	492.1	494.3	498.0	503.8	495.8	495.8		-0.8%
Valuation Ratios									
Price/Earnings	10.5	12.2	11.5	12.4	10.8	10.7	9.4	11.5	
Relative P/E	0.5	0.4	0.3	0.5	-0.2	-0.3	-0.2	0.3	
Price/Cash Flow	12.9	12.2	11.5	12.2	10.6	10.7	9.4	11.9	
Dividend Yield	2.4%	2.5%	2.6%	2.3%	3.0%	2.8%	3.0%	2.5%	
Dividend Payout	25.1%	30.3%	29.9%	28.5%	32.1%	30.4%	28.2%	29.2%	
Price/Book	1.9	1.8	1.7	1.9	1.7	1.7	1.5	1.8	
Profitability									
Rev (NII+OI)(TEB)	$6,503	$7,364	$8,018	$8,976	$10,352	$11,167	$11,546		5.6%
Net Interest Mgn	2.1%	2.1%	2.1%	2.3%	2.4%	2.4%	2.3%		-2.1%
Expenses/Revenues	62.4%	60.4%	59.3%	57.0%	53.9%	53.8%	53.7%	58.6%	
Income Tax Rate	35.7%	38.0%	38.9%	37.0%	31.9%	33.2%	31.6%	36.3%	
Net Income	$1,518	$1,414	$1,571	$1,903	$2,230	$2,456	$2,807		12.2%
Return on Assets	0.85%	0.66%	0.69%	0.82%	0.82%	0.84%	0.93%	0.77%	
Cash ROE	16.5%	15.6%	15.6%	17.4%	17.8%	17.2%	17.5%	16.6%	
Debt Analysis									
BIS Tier 1	6.9	7.2	8.1	8.6	9.3	9.9	11.0	8.0	
Total BIS Capital	10.4	10.6	11.9	12.2	13.0	13.4	14.6	11.6	
CE/RAA	5.8	6.0	6.8	7.2	7.8	8.4	9.6	6.7	
Assets/Common Eq.	24.6	25.8	23.1	22.6	22.2	20.4	18.7	23.7	
Capital Structure									
Total Assets	$195153	$233588	$222691	$253171	$284425	$295974	$307992		4.1%
Cash+Securities	$46,173	$52,400	$51,084	$60,130	$73,444	$77,422	$81,644		5.4%
Subordinated Debs	$5,167	$5,482	$5,374	$5,370	$5,344	$5,344	$5,344		0.0%
Preferreds	$1,468	$1,775	$1,775	$1,775	$1,775	$1,775	$1,775		0.0%
Common Equity	$7,930	$9,039	$9,631	$11,200	$12,833	$14,477	$16,432		13.2%
Total Capital	$14,565	$16,296	$16,780	$18,345	$19,952	$21,596	$23,551		8.6%

Company Profile

Bank of Nova Scotia is the third-largest Canadian chartered bank in terms of assets and the third largest by market capitalization. The bank owns Scotia Capital Inc., a Canadian investment dealer, and has a 55% interest in Inverlat. CEO: Peter C. Godsoe. The bank had 46,804 employees, 3,761 ABMs, and 2,005 branches and offices (1,021 in Canada) as of October 31, 2001.

Investment Outlook **Updated: 12JAN02**

- BNS reported strong Q4/01 cash operating earnings of $1.09/share (f.d.), in line with expectations. Cash ROE was 17.6% in the quarter. Earnings quality was high, as the bank absorbed an additional $50M of LLPs.
- Cash operating earnings for F2001 were $4.15/share, up 16% from $3.58 in the prior year (excluding the $0.10/share gain on sale of the stock transfer business and investment in Solidbank). Cash ROE was 17.7% for the year.
- The bank recorded specific LLPs of $350M in Q4/01, including $50M related to credit losses in Argentina and an additional $50M for other credit. Total specific provisions for F2001 were $1,250M, or 0.79% of loans and acceptances (excluding repos), versus $765M, or 0.50% of loans in F2000. Our 2002 LLP estimate is $1,250M, or 0.79% of loans.
- NILs came in at $259M, in line with the bank's target for $250M by year-end. NILs have declined from $1,084M in Q1 when the bank aggressively increased LLPs and recognized deterioration in credit conditions ahead of other banks.
- The bank might modestly buy back shares in F2002 to offset earnings dilution of $0.03/share/quarter (related to stock options, etc). This would represent approximately 9M shares, or 2% of outstandings.
- Capital markets revenue showed some weakness in the quarter at $151M, down 18% QOQ and down 14% YOY. Trading revenue declined 23% from the strong Q3/01 level and was up 24% YOY to $144M. Total revenue growth for Q4/01 was strong at 18% YOY, due to the Inverlat consolidation and strength in other areas.

Note: Scotia Capital Inc. is indirectly a wholly owned subsidiary of the Bank of Nova Scotia.

The Research Analyst, in his/her own account or in a related account, owns securities of this company having a current market value greater than $10,000.

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