SPEAKING NOTES

Mr. Bruce Bowen, President and CEO, Scotiabank Jamaica

Annual General Meeting, Jamaica Pegasus Hotel

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INTRODUCTION

- Ladies and gentlemen: I think you will all agree that 2009 was a very turbulent period in the global financial services.

- Last year, the collapse, nationalization and financial rescue of some of the world's largest financial institutions led to the general freezing of credit markets, rising unemployment and huge losses on major stock, commodity and bond markets. However, massive stimulus packages employed by the world's leading economies over the last 18 months or so have not only stemmed the downward economic spiral, but since the third quarter of last year have begun to reverse some of the negative economic indicators.

- Locally, Jamaica's economy was not immune to the impact of the financial crisis, as the country's major earners of foreign exchange – remittances, bauxite and tourism – have been negatively affected by varying degrees. The threat of significant devaluation of the JMD due to reduced supply of foreign exchange led the Bank of Jamaica to raise interest rates significantly in late 2008. While this had a positive impact on Scotiabank and other financial institutions in the short term, it had a detrimental impact on the Government's fiscal situation. This together with the virtual closure of international credit markets forced the Government to seek assistance from the International Monetary Fund; and to develop an aggressive medium-term economic programme to put the country back on a path of sustainable growth.

- The austerity measures associated with the IMF funding, while critical for the success of the economic programme, will present challenges for certain sectors of the society, and the journey to recovery will be difficult.

- At Scotiabank, we are not daunted by difficult times, as the American Reformed Church Minister, Entrepreneur and Author, Robert H. Schuller said "*Tough times never last, but tough people will*."

- The Jamaica financial sector and Jamaicans have been through tough times before and we can do it again, so in an environment like this, we will remain committed and focused on maintaining our high standards of corporate governance and risk management, utilizing the knowledge, experience and expertise of our people to carry us through and maintain our levels of profitability.

- We are proud that we have continued to manage the resources of our institution in a way that will benefit you - our shareholders, as well as our customers, employees, and the wider Jamaican society.

- In 2009, we leveraged the Group's financial strength, business line diversity and market position to achieve solid financial results, notwithstanding an economy mired in recession, weak consumer and corporate loan demand, and volatility in the financial markets.

- We also further positioned our institution to participate more effectively in the wealth management market and we fulfilled our responsibility to contribute meaningfully to the society in which we operate. In doing so, we have remained true to our core purpose and to our core values of integrity, spirit, respect, commitment and insight.

- This morning I am pleased to share with you the results of our efforts over the fiscal year ended October 2009, as well as the first quarter of 2010.

FINANCIALS

<u>Net Profit</u>

- As you can see from the results in the 2009 Annual Report, our efforts have not gone unrewarded. The Scotia Group recorded net income available to common shareholders of $11.2 billion representing an 18.8% increase over 2008.

- This marked the 13^{th} consecutive year of increased profits for Scotia Group Jamaica, and our earnings have grown at a rate of 18.6% compounded annually over a ten-year period; a record of which we are justifiably proud.

- Our results in 2009 were achieved by:
  - improved interest margins resulting from increased market interest rates
  - continued focus on cost containment through improved operational efficiencies and re-negotiation of supplier contracts
  - introducing several successful business strategies to grow revenue in all our business lines

- Among the successful business strategies were;

  - Continued integration of Scotia DBG into the wider Scotia Group, realizing improved operating leverage and customer growth,
  - expansion to our insurance product offerings such as ScotiaBRIDGE and ScotiaCRITICARE,
  - continued focus on the SMJE sector which saw significant growth in our small bsiness customer base and

  - significant public sector financing while the government had little access to external financing sources.

Earnings per Share

- In 2009 our earnings per share grew to $3.58 reflecting a growth rate of 17.9%, compounded annually over a ten-year period. The increase in Earnings per Share of 56 cents represents an 18% increase year over year. Again, this is a reflection of continued profitability and represents a strong performance measure for stockholders.

Revenue Growth

- Total revenue grew to $35.2 billion in 2009 reflecting a growth rate of 16% compounded annually over the five-year period ending October 2009. The growth in 2009 alone was $6.6 billion or 23%.

- We experienced significant growth in Net Interest Income of $7.1 Billion year over year, driven primarily by the higher investment portfolio yields coupled with volume increases. Our Corporate and Commercial Banking division also experienced higher revenues due to solid growth in loan volumes.

Productivity

- Our productivity ratio which measures total non-interest expenses as a percentage of total revenue stood at 56.29%, compared with 54.07% last year.

- . The major reason for the decline in productivity year-over-year was the significant increase in loan losses (which are included in non-interest expense for the purpose of calculating the productivity ratio). Loan losses went up by $1.1 billion year over year.

- Another major attributing factor was the increase in salaries and benefit costs of $1.2 billion year over year, due primarily to the salary increase of 18% for our unionized staff at the beginning of the 2009 fiscal year.

- While we face challenges with rising costs due to inflation and loan losses, we will continue to focus on cost containment and tighter risk management to stem the increase in future.

CONTRIBUTION BY SUBSIDIARIES

Profit After Tax and Minority Interest – 2009

- While the Bank’s earnings constitute the greater part of our bottom line with a contribution of 50% at October 2009; our subsidiaries: Scotia Insurance, ScotiaDBG, and Scotia Jamaica Building Society, continue to make an increasing contribution to our profits. In their respective roles, they continue to enhance the relevance of the Group to our customer base through savings, investment, protection and wealth creation products and innovative home ownership solutions.

- In 2009 Scotia Insurance continued to hold its own against the giants in the life insurance industry with a contribution of 32% to the Group's bottom line at October 31, 2009. This compares to 24% in 2008 and the increase was primarily due to improved interest margins due to high market interest rates, coupled with volume growth.

- ScotiaDBG increased its contribution to the Group from 8% in 2008 to 14%. This was due primarily to increased yields on earning assets, and improved margins as consumers moved funds to Scotia DBG at lower rates in return for the safety of the Scotia Group during difficult times. There was also a 13% growth in the funds under management – both on and off balance sheet.

FIRST QUARTER RESULTS – Q1/ 2010

Strong Start

- We continued our strong performance in the first quarter November 2009 to January 2010. We announced results yesterday, with reported net income available to common shareholders of $2.65 billion. Our consolidated net income increased by 11% or $259 million compared to Q1 for 2009. Earnings per share also increased by 10% over Q1, 2009.

- Our strong start to the new fiscal year is attributable to our sustained focus on growing core business and the diversity of our earnings. We continue to place significant emphasis on strong risk management and expense control, as well as ensuring total commitment to customer satisfaction.

Diversified Earnings

- The breakdown by business lines of our net profit before tax for the quarter showed a significant movement in contribution from the Investment Management Services moving from **12%** in Q1 2009 to **19%** in Q1 2010, as well as in Insurance Services moving from **25%** in Q1 2009 to **32%** in Q1 2010.

- We experienced a reduction in contribution by Retail Banking (moving from **24%** in Q1 2009 to **15%** in Q1 2010. This reduction was primarily due to increased expenses in staff costs and loan losses, coupled with reduction in fee revenues from the retail business.

Total Assets Growth

- Total Assets grew at a rate of 13.4% compounded annually over the last five years. At the end of 2009 total assets had increased by $35 billion or 12.58% when compared to 2008, and grew to $321 Billion as at January 31, 2010.

Loan Growth

- We continued to record solid growth in total loans (retail and commercial). As at January 31, outstanding loans were $92.7 billion reflecting a growth rate of 11.5% compounded annually over a five-year period.

- Our loan portfolio totaled $92 billion at the end of 2009, up $2.5 billion over the previous year and was mainly due to the growth in the commercial loan portfolio during 2009 as retail loan demand across the market was sluggish.

- Base lending rates were reduced in November 2009 to 19.875%, down from 20.5% and is now among the lowest base lending rate in the banking sector.

Credit Quality

- Non-performing loans as at October 31, 2009 totaled $3.59 billion, an increase of $616 million when compared to the previous year. The year-over-year increase reflects the impact of the current economic conditions and the difficulties being faced by our borrowers. The NAL portfolio stabilized during the first quarter of 2010, with the balance increasing marginally to $3.67 billion. Our non-performing loans as a percentage of total loans is now 3.9% (at Jan 2010), down from 3.96% as at Jan 2009.

- During January 2009, our Customer Assistance Programme was launched to assist existing customers experiencing short term cash flow difficulties. Through this initiative the Bank has already assisted customers with total loan balances amounting to just under $3 billion.

Deposit Growth

- As at January 31, deposits stood at $158 billion, reflecting ongoing confidence in Scotiabank. At the end of 2009 deposits totaled $153 billion up $12.7 billion over 2008, with significant growth in both the retail and commercial segments.

Shareholders' Equity

- Capital strength remains a distinct advantage of Scotiabank, and we continue to strengthen our capital through solid growth in earnings, with total shareholders' equity growing to $47 billion at the end of January.

- Shareholders' equity grew by $7.8 billion during the 2009 fiscal year to stand at $46 billion at October 2009. This makes us one of the most well-captitalized financial services providers in Jamaica and further positions us to take advantage of future growth opportunities.

- Our prudent strategy adopted several decades ago to limit dividend payout to no more than 50% of distributable earnings has allowed your Bank to build a strong capital base that facilitates growth and expansion of the business.

Dividends

- Our record of consistent earnings growth has been matched by our record of consistent dividend growth. Yesterday we announced an interim dividend of 37 cents per stock unit. Our dividends are paid quarterly providing a very reliable source of cash flow to meet the needs of our investors. Over the last five years, we have had a compounded annual growth rate of 8.49% in dividends per share.

- We are very proud that we have continuously paid you, our shareholders an increased dividend every year since 1967. Our unprecedented achievement of increased dividends over the last 40 years is a testimony to the fact that when an institution operates at a high level of efficiency and profitability then all shareholders benefit.

- Overall 2009 was a very strong year for Scotiabank Group Jamaica, and the trend is continued with very robust first quarter results.

CORPORATE RECOGNITION

- As in previous years, your Scotiabank team continues to be recognised for the work we do on your behalf.

Best Bank Awards

- In 2009 we walked away with six Best Bank Awards.
    - Scotiabank Group was named **Best Bank in Jamaica** by both Latin Finance Magazine and Euromoney Awards for Excellence. We were also named **Best Banking Group** by World Finance Magazine Awards, **Best Internet Bank** in the category Best Consumer Internet Bank from the Global Finance Magazine, **Best Foreign Exchange Bank** by Euromoney Magazine and **Best Foreign Exchange Bank & Providers** by Global Finance Magazine.

Best Practices Awards

- Your Scotiabank team also walked away with five prizes from the Jamaica Stock Exchange Best Practices Awards:

- ScotiaDBG took home the **Governor General's Award for Overall Excellence**, as well as **First Runner-Up Best Practices Website for a Brokerage Company**, **Second Runner-Up Best Practices Website for a listed company**. Both ScotiaDBG and Scotiabank Group were joint **First Runner-Up Best Practices Annual Report** and Scotiabank Group was also **Second Runner-Up Best Practices Corporate Disclosure & Investor Relations.**

<u>Quality Award</u>

- Scotiabank Jamaica also received the **Regional Quality Award** from MasterCard.

<u>HR Awards</u>

- We were also recognized in the area of development and advancement of our people, receiving the **Human Resources Silver Star Innovation Award** from the Human Resources Association of Jamaica and the **Employer of Choice – Sectional Award, Learning and Development Opportunities** from the Jamaica Employers' Federation.

<u>Philanthropy Awards</u>

- And our final set of awards is in the area of philanthropy and corporate social responsibility. Scotiabank was the recipient of the **old Camera Award** and two **Certificates of Excellence** from the US International Film and Video Festival for our Street Smart! Street Safe! demonstration video on road safety.
- From Scotiabank Toronto, we received the **Bright Future – Philanthropy Country Award** and the **Top Performer – Philanthropic Contribution Award**.

CORPORATE SOCIAL RESPONSIBILITY

- Our commitment to corporate social responsibility and our strong community involvement is unwavering, as we recognise that our stewardship of your investment cannot ignore social responsibilities.

- Scotiabank staff members in Jamaica rallied forces and donated $897,400 to the Haitian relief efforts. The Bank also made a corporate donation of $5 million together with a contribution of CAD250,000 by Bank of Nova Scotia globally. We opened all our branches as collection centers for relief supplies from the public and our volunteers gave time to the Salvation Army helping to sort and package clothing and food donations.

- Last year we maintained our thrust in the areas of education and health, through the ScotiaFoundation with a focus on *Renal Care, Cancer Care, Accident and Emergency Care, Student Care, Scoliosis and Spine Care and Community Care* with over 1,000 ScotiaVolunteers giving of their time to national and community projects.

- At year end the Foundation had donated $612 million to social projects since its inception in 1996. The Annual Report outlines more details on the main projects of 2009, which includes our branded programmes - *Speak Up! Speak Out!*' Education programme aimed at increasing HIV/AIDS awareness among young Jamaicans and Street Smart Street Safe aimed at increasing road safety among children.

PROGRESS ON STRATEGY

Expansion of Products and Services

- SDBG Caribbean Income fund is a key component of SDBG's off balance sheet strategy and was launched in October 2009. The fund, which is domiciled in St. Lucia, provides tax-free US$ income to Jamaican investors. Sales of the fund have surpassed our expectations to date.

- ScotiaBRIDGE, our individual Approved Retirement Scheme was launched by Scotia Life in Q2. There has been great interest from self employed persons and companies seeking to place their staff on an approved retirement scheme. Through this product, the Group is well positioned to capture a large share of the approved retirement savings market in Jamaica. In the ten months since the Scheme was launched, we enrolled 2,692 members with funds under management valued at $320 million.

- The Productive Sector Growth Fund was launched in Q4 and provided a pool of $500 million at 9.95% to the productive sector with the aim of stimulating employment, generating exports and replacing imports. As at February 12 the fund is oversubscribed, with $228.6 million being approved and another $282 million in the pipeline.

- The Customer Assistance Programme was launched in Q1 to retail customers and later to Small Business customers. The programme provided bridge financing for a period of up to 12 months to assist customers through the difficult economic period.

- During Q3 we launched Scotia Private Client Group, an expanded Private Banking offering with enhanced products and services. Concurrently, Signature Banking was launched in the Bank to accommodate those hugh net worth clients who do not yet require the more extensive services of SPCG.

Customer Experience

- The Scotia Experience Survey, a service quality monitoring tool that has existed in Scotiabank for several years, was implemented for all our subsidiaries during the second quarter. This involved polling customers who had done transactions within the past month, to get feedback on all aspects of service - from wait times to quality of service interactions and complaint handling. This now gives us the ability to track monthly our progress on service metrics and to centrally coordinate the resolution of system-wide issues that affect service.

- We launched a complaint management system in Q2/2009. With its successful launch, we are able to track all complaints lodged within the Group, their causes and the progress of resolution.

- During Q3, the Bank initiated a major project to upgrade personal computers and other hardware across the network of branches and offices with the intention of improving the system response times which had impacted negatively on the speed of customer service. The entire upgrade program has been scheduled for execution in multiple phases over the next 12 months. Also considerable investment was made in our ABM platform, improving/eliminating some of the issues that had resulted in our ABMs being out of service.

Efficiency Imperative

- The focus on cost/expense control continues to be a high priority item as we seek to ensure that revenues grow faster than expenses.
- We have implemented several major cost saving initiatives during the year which will reap great benefits in 2010 and subsequent years.

1. Chief among these is consolidating like functions across the Group in Jamaica (such as the mergers of SJLIC and SDBG Contact Centres). In addition, Jamaica is becoming a hub for the Northern

Caribbean region, providing support to other Scotiabank territories (Contact Centres, Shared Services). Over the medium term this will bring efficiency gains to Scotia Group Jamaica.

2. Also our focus on supplier management has seen our procurement unit negotiating several group-wide branch contracts which should deliver significant potential savings

3. We have also completed the implementation of our new internal telephone system with closed user group networks allowing us to communicate internally at a fraction of the cost that we previously used to.

Strategic Focus

- Our strategic focus for the upcoming 3-5 years is the maintenance of a Return on Equity that meets shareholders' expectations.

- Our strategies are built around three key pillars :

1. Firstly, we are focused on enhancing customer experience through strategic relationship management initiatives. Through these, we aim to build customer loyalty and retention, while improving our customer acquisition.

2. Secondly, we have to find ways of expanding our distribution without building expensive branches. We must be able to reach potential customers and service existing customers without requiring that

they come into a branch. This will necessitate further investment in alternate delivery channels.

3. Thirdly, we will have to create efficiencies in our business by consistently reviewing the way we do business today, and making changes as appropriate. This strategic pillar becomes even more important in today's environment in which interest margins are shrinking, and revenues are not expected to grow as fast as they historically have.

CONCLUSION

- We believe that this dynamic period in the financial services sector presents enormous opportunities for a group that is skilled, committed and prepared to remain best in class. The over 2000 team members of the Scotia Group are engaged in providing shareholders, customers and the wider Jamaican community with opportunities to achieve their financial goals and realize their dreams. I am extremely proud to lead a team that is world-class by any measure.

- Our success at Scotiabank is founded on our people. It is attributable to their skills, motivation and passion to serve our customers. We value all our employees. One of our goals is to be recognized consistently as an employer of choice in Jamaica, and we strive for an always higher level of employee satisfaction and engagement.

- Please join me in applauding the Hon. Mayer Matalon the patriarch of Scotiabank Jamaica for his continued commitment, dedication and support. We thank our Board members for the role they play in oversight as we strive to maintain and deepen our leadership in the financial services sector. And we thank you for your continued confidence in us and we assure you that we will work to make 2010 another successful year for Scotia Group. -30-