

BANK OF NOVA SCOTIA JA. LTD 1996.

REPORT TO SHAREHOLDERS

FINANCIAL REVIEW

The Bank of Nova Scotia Jamaica Limited and its subsidiaries recorded another good year with growth in profits, assets, deposits and loans.

Scotiabank's profit, before tax and extraordinary item, grew by 15.1 % to end the year at \$2.5 billion. Net profit grew by \$369.8 million, or 28.6%, to \$1.66 billion. The Bank refocussed its subsidiaries along specific business lines in late 1995. This resulted in business growth and operating efficiencies.

The increase in net profit resulted in a commendable increase in earnings per share, from \$1.76 after Government levy to \$2.27. Total dividend for the year was \$658.6 million, up \$109.8 million over 1995. Share price rose from \$13.60 to \$14.90 at year end, despite the down-turn in the stock market during the year. The stock market was negatively affected by the upward movement of the yield on treasury bills during the first half of the year, as well as the low levels of liquidity experienced by some institutional investors.

At year end, your Bank's assets were \$42.2 billion, representing an increase of 21.5% when compared to assets of \$34.7 billion at the end of October 1995. Return on assets grew from 3.7% to 3.9%. Loan growth in the banking sector was minimal as a result of the Government's high interest rate policy which prevailed for most of the year. Loans and advances, however, grew by 39%, from \$15.1 billion to \$21 billion.

Despite these successes, it was a challenging year for the Bank, the financial sector and the economy. Regrettably, the Bank experienced disruption in its customer service as a result of industrial action. The financial sector experienced some upheaval as a result of the closure of one of its major entities, adversely affecting confidence in the sector.

Following the successes achieved in economic management in the previous year, the monetary authorities were more resolute and committed to staying the course of their medium-term economic programme of stabilization and structural reform. With this approach, there was notable improvement in some of the key macro-economic and financial indicators. Money supply declined and inflation slowed, while interest rates began to fall. Continuing large inflows of foreign exchange led to substantial accumulation of net international reserves. With the buoyant foreign exchange market, the currency appreciated. Much of the improvement reflected the implementation of policy initiatives intended to dampen inflation, while allowing the gradual downward movement of interest rates. In the productive sector, growth, while still sluggish, proceeded at a faster pace than the previous year. Fiscal policies during the year attempted to improve the external accounts, moderate inflation, support stability in the foreign exchange market and continue investment in the priority areas of physical infrastructure.

RETAIL BANKING

Scotiabank maintained its share of retail deposits and consumer loans during the year, despite stronger competition. This was achieved by maintaining competitive interest rates in a high interest rate climate. The Group improved its market share of deposits as it expanded the service network through larger branches, and improved service delivery through greater automation. As well, a diversified savings portfolio, which customizes accounts for youths, investors and senior citizens, enhanced by a savings campaign offering attractive prizes, made Scotiabank the bank of choice for many. The benefits of these achievements were shared with our customers, as the bank increased its rates on all its retail deposits by over 4 percentage points. This kept our savings deposit rates at the highest in the market at October 31, 1996.

Total deposits stood at \$33.8 billion, up 21% from last year.

During the year, our Scotia Plan Loan portfolio grew by over 36%, youth accounts grew by 100%, Gain Plan savings by 40% and regular savings by 16%. Scotiabank remained a leading lender to students under the Students Revolving Loan Scheme, and our agricultural loan scheme continued to be attractive to farmers.

In 1996, new product initiatives in card services resulted in market share gains.

In July, the Bank became the first to introduce a dual currency credit card in Jamaica. By year end, we had issued more than 1,000 cards under the new dual currency portfolio, with outstanding balances of more than US\$652,000 and J\$13 million. Following the successful launch of the dual currency card, we introduced the Corporate MasterCard credit card. Our corporate card portfolio includes a uniquely designed card for the members of the Junior Doctors' Association, which currently boasts an active membership of more than 700.

To further utilize modern technology in card service delivery, and to improve its competitive position, the Bank introduced dual currency electronic data capture at point-of-sale terminals, as part of its merchant acquisition programme. Our merchants can now use one terminal to process local and international Visa and MasterCard transactions, instead of submitting paper to the Bank for processing. Merchants access this facility through a toll-free number from any point in Jamaica.

Also in 1996, we upgraded our processing capability at the Kingston and Mandeville Data Centres in an effort to improve our service to customers; improved the appearance of some of our branches, converting the New Kingston branch to a more customer friendly design; and completed construction of a new branch building in Falmouth. This building was officially opened in May 1996. We also relocated our sub-branch in Gayle.

During the year, we added three new automated banking machines, at our Falmouth, Linstead and Montego Bay branch locations. Our Montego Bay branch now has two machines, bringing our total number of machines to 25 islandwide.

CORPORATE/COMMERCIAL BANKING

Despite the generally tough economic climate and the high cost of borrowing, our corporate and commercial banking teams successfully strengthened existing customer relationships and established new ones during the year. As a result, corporate and commercial loans grew 33% year over year. We also achieved creditable performance in the tourism (hotel financing), construction (cement production), distribution and manufacturing sectors. Furthermore, additional credit was accorded the public sector.

The response of our customers to the economic climate heightened the importance

of managing and maintaining the quality of the Bank's loan portfolio. Customers continued to institute measures to deal with the challenge of converting to a more liberalized, market-driven economy. This, coupled with the high interest rate environment, resulted in significant downsizing and reorganizing of critical business processes, initiatives which were particularly important for businesses that must remain internationally competitive.

The significant challenges for 1997 are both internal and external. The traditional methods of delivering corporate/commercial banking products and services are changing at an increasing pace. An important challenge is to selectively incorporate some of these new products and delivery systems into our portfolio in a timely and cost-effective manner.

HUMAN RESOURCES

Our success in 1996 was due to a team of 1,617 dedicated Scotiabankers. In response, the Bank reinforced its commitment to its employees by continuing to provide opportunities for professional development and health improvement.

External development programmes, in particular the Long Distance Education Programme offered by the Institute of Canadian Bankers (ICB), remained an important part of the educational opportunities available through the Bank. Currently, more than 500 staff members are enrolled. The programme has been extended to include management staff, who, upon completion, will receive the Fellow of the Institute of Canadian Bankers (FICB) designation. Scotiabank participants continue to represent a high percentage of the students registered in ICB courses in Jamaica, this year approximately 50%. Jamaica's registration continues to be among the highest worldwide.

The bank also provided assistance under its Education Assistance Programme to supervisory and management staff to pursue Masters in Business Administration courses through distance learning at the University of Wales, U.K., and Barry University, U.S.A.

At the same time, recognizing the importance of education in adapting to change, the bank used specialized courses to help develop a more customer focused ethos throughout the organization. We placed particular emphasis on front-line staff, using in-house sales and service training. To reinforce and support this

initiative, supervisors were coached to ensure sustained transfer of learning to the work environment.

In keeping with its concern for employee health, the Bank followed up its "No Smoking" policy, implemented in 1994, with a Substance Abuse Policy. This policy initiative arose from concerns about substance abuse in the society and its possible impact on job performance, employee conduct and workplace safety.

COMMUNITY INVOLVEMENT

Throughout the year, the Bank continued to redefine its relationship with many communities throughout Jamaica by increasing its involvement in educational, health, cultural and national initiatives. The involvement of many employees in community service continues to be a source of pride for the Bank.

We again offered scholarships and bursaries to secondary and tertiary institutions totalling just under \$2 million. Six scholarships were awarded to the University of the West Indies, Mona; one to the University of the West Indies, Trinidad; seven to secondary schools; six to the University of Technology and 79 bursaries to Caribbean Examinations Council/GCE "O" Level students. We expanded our involvement in education by offering two new post-graduate scholarships in the area of human resource management, a relatively new offering by the University of the West Indies. The Bank's initiative in granting a scholarship for study in this field was born out of a dearth of personnel trained at this level.

Our charitable donations to hospital and health projects totalled \$1.4 million, of which church and outreach organizations received approximately \$300,000, sporting organizations approximately \$300,000, PALS Jamaica \$500,000 and service clubs \$300,000.

During the year, the Bank increased its aid to rural communities, basic schools and feeding programmes for the indigent and the young. We adopted "Cluster F", helping 32 residents at the Golden Age Home, at a cost of approximately \$1 million annually. As well, branches continued to participate in several Labour Day and community projects around the Island, totalling nearly \$1 million.

SCOTIABANK JAMAICA FOUNDATION

On February 13, 1996, Scotiabank Jamaica registered a charitable organization, the Scotiabank Jamaica Foundation. The principal objectives of this foundation are to relieve poverty, deprivation, and distress among economically and socially disadvantaged persons and their dependents, and to undertake research into these problems and methods of alleviating them.

With this mandate, the foundation, which is endowed with J\$100 million, subscribed quarterly, will invest its funds and grant donations to charitable/benevolent entities that meet stipulated requirements. This includes subscription or aid to educational, health, cultural, religious, scientific, national or other institutions falling within the principal objectives. The foundation's first and only donation of J\$500,000 in fiscal '96, was made to assist the Trench Town Primary School in carrying out urgently needed improvements to its facilities.

Emphasis in 1997 will mirror the Bank's overall thrust in education and health. Although aid will be extended across Jamaica, greater focus will be placed on providing increased opportunities for the youth in rural areas. Already, eight major projects are being considered, a possible outlay of nearly \$11 million, with a further \$3 million towards scholarships. A major project of at least \$1 million in each of the country's three counties is also under consideration. The overall budget for the year will be approximately \$16 million. In keeping with one of the foundation's major objectives, skills training has been identified as an area in which we will commence research. Findings should assist in the search for methods of alleviating poverty.

OUR SUBSIDIARIES

The Scotia Jamaica Building Society

In fiscal '96, Scotia Jamaica Building Society (SJBS) was ranked as the fifth largest building society in Jamaica, based on assets. Total assets currently stand at \$2.3 billion, an increase of 38.8%. Mortgage growth increased by 236.4%

SJBS moved to new offices at 95 Harbour Street, Kingston in November 1995. The

building was officially opened in February, 1996. The new building was refurbished as part of the Kingston Downtown Restoration programme.

For 1997, SJBS faces the challenge of garnering a significant pool of retail deposits with which to fund residential mortgages. The building society intends to focus on its mortgage product, targeting returning residents and low to middle income earners.

West India Company of Merchant Bankers Ltd. (WICMB)

The West India Company of Merchant Bankers Limited (WICMB) had its most profitable year in fiscal 1996.

In keeping with its mandate to perform as a full service local, regional and international merchant bank, WICMB originated, structured and distributed significant capital markets' transactions in areas of bond issuance, equity underwriting and equity private placements. Total revenues were \$33.4 million of which fee income was \$18.6 million; and return on assets and equity were a respectable 22% and 36%, respectively.

In 1997, WICMB will continue its commitment to the development of local and regional capital markets, as well as to the expansion of financial products.

Scotiabank Jamaica Trust & Merchant Bank (SJTMB)

Scotiabank Jamaica Trust and Merchant Bank (SJTMB) recorded total assets of \$3,922 million at year end, with growth in excess of 100%. Pre-tax profit grew by 138%; the loans and mortgage portfolio now stands at \$118 million; and commercial leases at \$170 million. SJTMB traded more than \$20 billion in government paper in 1996.

During the period under review, SJTMB was appointed the trustee and fiscal agents for a Government of Jamaica US\$70 million bond and registrar for Telecommunications of Jamaica and Caribbean Cement Company. We also expanded our registration services. The total number of shareholders on our registers is now more than 138,000.

The company relocated its offices to the 4th floor of the Scotiabank Centre

building, corner of Duke and Port Royal Streets in Kingston in September of 1996.

On behalf of the Board of Directors, we express sincere appreciation to our customers for the support they have given us throughout the past year. The Board also wishes to thank the management and staff for their dedicated service, without which the organization would not have achieved this level of success.

M.C. Johnston
Chairman

W.E. Clarke
Managing Director

December 3, 1996
