Bank of Nova Scotia Jamaica Limited 1997

REPORT TO SHAREHOLDERS

FINANCIAL REVIEW

Our Bank and its Subsidiaries recorded another successful year, showing net profit after tax of $1.58 billion, just 4.6% below 1996's record-breaking level of $1.67 billion. During the year, the subsidiaries' contribution to the Group's profit continued to grow.

Investments in Government of Jamaica securities increased by $1.5 billion to $7.2 billion, as a result of soft loan demand and strong deposit growth. The average yield on the portfolio showed a declining trend, in line with other market rates, as maturing securities were renewed at lower yields.

Loans, net of provisions for losses, increased by $3.3 billion to $19.8 billion over the period due to low demand, a situation that persisted for most of the year.

The general deterioration in the quality of the loan portfolios of the financial sector as a result of continuing high interest rates and other factors was also seen in our portfolio. The Group's total non-performing loans at year end stood at $718 million, up from $333 million a year ago. Adequate provisions are in place to meet any losses that may occur, especially since nearly all of these loans are supported by tangible security and are collectible over time.

Total assets at year end climbed to $54.9 billion, or 30.1% above the level of 1996. This expansion was funded by strong growth in the Group's deposits and retained earnings. Deposits also rose to $42.2 billion, up 35.5% above outstandings at the end of 1996, as the Bank continued to grow its market share and as a result of a high level of customer confidence.

Stockholders' equity has now reached $4.9 billion, up from $4.1 billion a year ago. All member companies are well above their statutory minimum capital adequacy requirements as the Group reinvests some of its profits to enhance its capital base.

Net interest income for the year rose by $184.3 million to $4.1 billion. The higher volume of average total earning assets proved adequate to counteract the negative impact of the decline in the net interest margin, resulting in an improved net interest income over last year. Other revenue for the year was $741.6 million, down from $768.8 million in 1996. Non-interest expenses for the year amounted to $2.6 billion, or 11% above the previous year.

Earnings per share for the year were $1.08, compared with $1.14 for the previous year.
Return on equity was 32.1%. compared with 40.6% in 1996, while return on assets amounted to 2.88%, down from 3.93% last year. The decline in earnings per share, return on equity and return on assets is a consequence of the downturn in the Group's net interest margin.

On September 19, 1997, at an Extraordinary General Meeting, a resolution was passed to offer a one-for-one bonus share issue to stockholders on record as at October 6, 1997. The authorized share capital of the company was increased from $750,000,000 to $1,500,000,000 by the creation of an additional 750,000,000 shares of nominal value to rank pari passu with the existing shares.

RETAIL BANKING

During the year, our Bank continued to increase the range of products and services offered through traditional branch banking.

We added five new machines to our ABM network, increasing the total number of machines to 30. The additional five machines were installed at Red Hills Road, Texaco Washington Boulevard/ Molynes Road, New Kingston, Ocho Rios and Portmore.

Several additional machines will be available in the first half of 1998, for use at new locations, and sites where the existing machines experience heavy traffic.

In addition to increasing the number of ABMs, we incorporated into them additional functions, such as the generation of ministatements.

We also participated in the launch of MultiLink, a product developed through the Jamaica Electronic Transfer Services Limited, a company owned by nine financial institutions, including BNSJ. Debit cards will be offered under this same initiative in due course.

During the year, we focussed on continuous improvement, adding convenience and enhancing customer service, by expanding the application of the Front Office Re-orientation concept. Four new branches were converted, Red Hills Road, Half-Way-Tree Road, Hagley Park Road and Liguanea. We rationalized our branch network, closing the Duke Street branch.

Scotia Gain Plan, ScotiaPlus 55, and our youth products, Scotia First and Scotia Wise, experienced significant growth during the year. Our Gain Plan portfolio grew by 75%, due to a combination of high investor confidence in Scotiabank and competitive interest rates. Our youth products responded to strong marketing efforts, especially to schools, growing by 68.2% during the year.

In response to the increase in delinquency in our retail portfolio, a function of our economic climate, we established the Centralized Retail Collections Unit to rehabilitate weak consumer loans. This Unit manages these problem loans to allow the branches to focus on acquiring good quality new business, the growth of which has remained flat, year-over year.

COMMERCIAL BANKING

During the year, the Bank trained and developed Relationship Managers, who were provided with the required tools to manage the Bank's relationships with large, local and international clients, in both the public and private sectors.

Our Bank continued to provide a full range of credit and non-credit products and cash management services.

Our marketing strategies, coupled with the reduction in interest rates during the year produced an acceptable level of loan growth. We achieved this growth despite the fact that some large projects were downsized or deferred, and some large manufacturing entities replaced debt financing with equity.

During the year, we held a series of business forums from which we developed a list that will serve as a base for prospective new business relationships.

We also embarked on an automation programme for our commercial loans, letters of credit and guarantees to increase internal efficiency as well as respond more quickly to our customers. This was the latest aspect of our customer account business to be automated. With continued weak economic conditions, and increased challenges to the business community, our corporate and commercial banking teams worked to maintain and enhance the quality of the credit portfolio.

Continued profitability and low loan losses are expected to result from strict adherence to policies and guidelines; the employment of a risk rating system to quantify, evaluate and monitor each borrower's risk throughout the life of the loan; a widely diversified portfolio; and the re-structuring of loans for viable operations.

Going forward, we will continue to focus on providing superior service that distinguishes us from the competition.

HUMAN RESOURCES

During the year, we continued to train and develop our staff at all levels. Our objective is to enhance an already disciplined, motivated and committed workforce, one of our major strengths in the financial sector.

To meet the challenges of our immediate environment, we re-organized our Human Resources Department, hired new personnel to widen our human resources pool and conducted a series of seminars in industrial relations and performance management in anticipation of the introduction of a revised Performance Appraisal Programme. This programme empowers staff members to actively participate in the process of improving performance.

It engenders more confidence in the objectivity of the process, thereby improving morale and promoting confidence in the Bank's compensation system, which will be linked to performance.

We continued our financial and moral support of staff members who are participating in the Institute of Canadian Bankers Distance Education Program, the JIOB/University of Wales MBA Programme, and the UTECH Diploma/Degree Programme. We also maintained a number of scholarships for the children of employees, and supported extracurricular activities, such as the Scotiabank Chorale and various sporting endeavours.

In keeping with our commitment to widen the participation of our staff within Scotiabank, the Employee Share Ownership Plan remained a priority for the Bank. We were able to secure Government authority and complete the administrative/operational work to implement the plan early in 1998.

SCOTlA SERVICE

In keeping with our objective to continuously improve customer service, we launched a major initiative during the year with the creation of the Scotia Service Unit. This Unit is responsible for improving customer service throughout our branch network.

We intend to reinforce, among staff and customers, Scotiabank's commitment to becoming the industry leader in customer satisfaction.

Also, the Caribbean Improvement Project was implemented in September 1997 to review our business process, reduce or centralize back office activities and free up employees to concentrate on sales and service. This programme is expected to run for two years and should provide direct benefits to our customers.

COMMUNITY lNVOLVEMENT

The Bank, largely through its network of branches across Jamaica, maintains an intimate relationship with its customers at the community level. This is reflected in the involvement of many of our employees in community service as well as through participation in social, cultural and sporting activities. During the year, we donated over $11 million to such activities.

Importantly also, the Bank, through its local leadership, identifies and recommends individuals and projects which may be eligible for assistance through the Scotiabank Jamaica Foundation.