

Bank of Nova Scotia Jamaica Limited 1998

Report to Shareholders

FINANCIAL REVIEW

Our Bank recorded another profitable year. Profit after tax increased by 11.4%, from \$1,584 million in 1997, to \$1,764 million in 1998. When viewed against the background of the downturn in many areas of the economy and the sharp movement in its non-performing loans from \$720 million at previous year-end to \$1,238 million at October 31, 1998, these results are satisfactory.

The Bank's largest source of revenue, net interest income, showed good growth and was the major factor contributing to this year's improved profit. The Bank's subsidiaries also continued to make inroads into their designated markets. As a result, their contribution to the group's net profit after tax grew from \$182 million in 1997, to \$274 million in 1998.

Net Interest Income

Net interest income, gross interest income less gross interest expenses, increased \$751 million, or 18.5% year over year. This result was due largely to strong growth in the average total assets of the Bank spread across all its business lines, coupled with an improvement of 15 basis points in the net interest margin.

Other Income

Other income, that is, all income other than interest income, grew by 68% to \$1,246 million. Of this amount, \$373 million was premium income for the four months ended October 31, 1998, from our new product, ScotiaMINT, launched in June 1998 by the Bank's newest subsidiary, Scotia Jamaica Life Insurance Company Limited. All other sources of other income had a combined growth of 17.6%, with commercial fees leading the way with \$54 million, or 18.8%, due largely to strong acceptance of our enhanced cash management services for corporate customers.

Productivity and Expenses

The benchmark for efficiency in banking is the productivity ratio, which represents expenses incurred to earn a dollar of revenue - the lower the better. Our goal is to keep our productivity ratio below 60%, a benchmark used worldwide by Scotiabank. In 1998, the Bank's ratio of 60.6% was marginally above this target, due largely to consolidation of the results of our life insurance subsidiary, where the revenue/expenses pattern is unlike that of the Bank and its other subsidiaries. Excluding the life company results, the productivity ratio was 58.1%.

Dividend & Shareholders' Equity

The Bank distributed 45%, or \$790 million of its aftertax profits, to its shareholders during 1998, compared with \$732 million, or 46%, in the previous year. Retention of profits to support new capital projects is a cornerstone of the Bank's progress over time. This has resulted in an even stronger capital base and capital adequacy ratios, all of which are essential to depositor confidence.

Strong Asset Growth

Scotiabank's total assets grew by 19.5% to \$65.6 billion at the end of 1998. During the year, loan demand remained weak, except for a seasonal surge in the first quarter. As a result of strong growth in the Bank's deposits, moderate to weak commercial loan demand and lower consumer borrowing, we invested excess resources in government securities and deposits with top-rated foreign banks. Consumer loans actually declined 6.4% year over year, the first decline in more than a decade.

Notwithstanding negative factors, our balance sheet remained strong as the mix of assets shifted away from loans toward investments and deposits with banks.

The loan portfolio was negatively affected by a number of borrowers who were unable to meet their obligations, resulting in an increase in our non-performing loans from \$720 million at the end of 1997 to \$1,238 million at year-end. Provision for these loans, net of write-offs and recoveries, increased by \$173 million, taking the total provisions outstanding from \$488 million last year, to \$661 million at this year-end.

This represents 53% of total non-performing loans, compared with 68% at October 31, 1997. The Bank recognizes the difficulties facing a number of its customers, and has strengthened its loan rehabilitation unit to deal with the matter.

Deposits up 10.9%

Deposits grew from \$41.7 billion to \$46.2 billion at this year end. At the same time, our market share increased by 1.15% over the previous year. The average cost of the Bank's interest-bearing liabilities increased by 133 basis points year over year; while term deposits increased, improving the gap between the interest-bearing liabilities and the heavier portfolio of government securities that are re-priced, for the most part, at half-yearly intervals. Reverse repos also played an important role in our financing strategy, and volumes increased by \$1.8 billion over the previous year-end.

Financial Ratios

The Bank's key ratios remained strong. Shareholders received a return on equity of 29.8%, compared with 32.1% for the previous year, significantly above the average risk-free treasury bill rate and the rate of inflation for the year. Return on assets was 2.7%, down from 2.9% at the previous year-end but, again, significantly above that of the financial sector in general. The decline resulted from the expansion of the low-risk securities dealing subsidiary business volume, particularly Bank of Jamaica repurchase agreements, where the margins are low compared with riskier commercial lending.

Scotiabank Jamaica Economic Growth Fund

On September 9, 1998, we established The Scotiabank Jamaica Economic Growth Fund in response to the government's announcement of the phased reduction in the cash reserve ratio of commercial banks.

The total amount in the Fund will vary between \$800 million and \$1.3 billion, depending upon the level of reduction which should range between 5% and 8%.

The Fund confirms the Bank's commitment to the productive sector, and should stimulate growth, increase productivity, create jobs and earn foreign exchange. Facilities granted under the Fund will attract a fixed rate of 8.5% per annum.

Loans are offered to finance approved projects in the productive sector - acquisition of new capital equipment for "green field projects", re-engineering of production processes. re-tooling of manufacturing facilities in the manufacturing and agro-industrial sectors, modernization of technology and the replanting and resuscitation of crops in the agricultural sector.

Pensions & Asset Management

In July 1998, we further diversified our portfolio by offering pension and asset management services to pension and institutional clients. Drawing on our long-standing banking relationship with corporate clients and our excellent reputation for safety, security and integrity, we are confident we will successfully meet the fund management needs of these new clients. We have ensured that the proper management is in place to achieve success by hiring an experienced institutional fund manager from the insurance industry.

Corporate/Commercial Banking

The market for corporate and large commercial business continues to be highly competitive in an environment of low demand for loans and a generally conservative investment climate. To better position our Bank to meet the demands of this environment, we redesignated the Commercial Banking Centre (CBC) as a Corporate and Commercial Banking Centre (CCBC). The CCBC now administers all corporate and large commercial accounts with credit limits over J\$15 million across the entire Jamaican market. Each account is assigned to a management team headed by a senior account officer, who maintains direct contact with the customer to ensure quality service/administration and relationship building.

The Bank's Commercial Services Department, established within the CCBC, maintains a staff of specialists to market computer-based cash management products across the island. These products support our customers in optimizing the management of cash resources, customizing routine

transactions and simplifying reconciliation. We have a dedicated and experienced team of relationship bankers, who have now acquired the necessary training and development to provide an unmatched level of service to our large, local and international clients, in both the public and private sectors.

Despite very tough economic conditions, there were many opportunities in 1998. Our portfolio of corporate/commercial accounts was active, with increases to existing and new relationships.

Retail Banking

During the year, we created T.I.G.E.R. (Teamwork and Innovation Generating Exceptional Results) teams to begin transforming our Bank from a transaction processing, branch-only operation into a multi-dimensional sales and service network.

Under this initiative, we examined all aspects of bank operations at the branch level, working with branch staff and supported by international banking personnel, to identify and eliminate redundant procedures and paperwork. This streamlining will free up significant time for branch staff to improve customer service and selling.

By enhancing branch operations, improving revenue generation, and expanding alternate delivery channels, we will be able to offer our customers a world class sales and service delivery network. We will therefore be better positioned to fulfill our commitment to being the "institution of choice in the financial sector".

We continued our programme of expanding our network of Automated Banking Machines (ABMs) by adding 12 new units, for a total of 41 machines. New locations were Port Maria, Christiana, Greater Portmore, Santa Cruz, Oxford Road and St. Ann's Bay. Additional machines were installed at six existing locations due to the increase in transaction volumes. We intend to increase our number of ABMs significantly in 1999.

ScotiaGold, a new MasterCard product, was launched to attract top-end customers and to complement our credit card portfolio. Our best performing products continued to be ScotiaWise, ScotiaFirst and ScotiaPlus 55, which together experienced overall growth of 37.44%.

During the year, we undertook several new initiatives to stimulate product growth, including

three promotions put us to the Test, MasterCard World Cup and 1% Cash Back - all of which produced satisfactory increases in credit card and youth accounts. There was marginal growth in the other products, while the Scotia Gain Plan portfolio experienced a decline of 9.11%, mainly because of ongoing high interest rate offerings on government instruments.

During the year, we purchased the former Courtleigh Hotel property on Trafalgar Road, where we will construct a 45,000 sq. ft. building to house a central business support facility. When it becomes operational early in the year 2000, this facility will be a central processing hub for our Bank, allowing for more efficient operations and improved customer service.

BNSJ recently became the first debit point-of-sale acquirer in Jamaica, and will begin signing merchants early in fiscal 1999. This initiative will increase the number of electronic transactions, reduce paper handling costs and provide a new and secure payment option for customers and merchants through convenient on-line debits to personal bank accounts.

ScotiaService

Our customer service initiative, branded Scotia Service, was launched in 1997. Initial activities focused mainly on creating a greater awareness of the importance of the customer to the continued viability of our Bank. In 1998, we expanded our focus and worked at improving employee attitudes towards the customer, as well as improving some of the basic service skills that are important components of good service delivery. For example, we created and implemented standards for telephone use and complaint handling.

We provided additional telephone lines at some branch locations and introduced the "message on hold" system at Scotiabank Centre, providing valuable information to our customers while they wait to be connected to their party. Plans are underway to install this service at all our branch locations.

We also implemented the Front Office Re-orientation (FOR) concept in four additional branches - Oxford Road, Ocho Rios, Savanna-la-Mar and Cross Roads bringing the total number of branches that have been re-oriented to improve customer flow and service to 12. Five more branches will be converted in the coming year.

A recognition programme for staff members and the Ex-Customer Survey Form, providing an opportunity for customer feedback, were both introduced during the year. Also, the Bank participated in Customer Service Week, recognized internationally during the first week in October. Customer Service Week also marked the official launch of our renewed thrust at improved

service delivery with the introduction of our vision statement, promising "reliable, professional and convenient" service.

Human Resources

The Human Resources Department completed its re-organization during 1998. In keeping with the new thrust of the Bank to become more customer focused, we introduced a number of training courses, including several that will assist front-line officers and retail lenders in fine-tuning their sales skills.

The need to have a fully computer literate staff, able to respond to technological advances, while increasing efficiency and productivity, underpinned our PC user initiative. Likewise, in keeping with the globalization trend and the expansion of Scotiabank internationally, we initiated the first phase of a Spanish language course. In the near future, we expect to have a cadre of bilingual staff. Increasingly, our staff members avail themselves of opportunities provided by the Bank for further academic training. For example, staff members participated in the distance education programmes offered by the Institute of Canadian Bankers, Nipissing University; the JIOB/University of Wales MBA programme; and the University of Technology (UTECH) degree programme.

In the area of industrial relations, negotiations for the new Collective Labour Agreement for the 22-month

period ending October 31, 1999 were successfully completed in April 1998. Apart from normal improvement in salaries and allowances, other significant achievements included an agreement to formalize the current counselling programme, and the establishment of an Employee Incentive Scheme (EIS). Both the Bank and the union recognize the need to reward productivity and efficiency. This scheme will replace the annual discretionary bonus and will be implemented during fiscal 1999.

Performance management continued to be a focal point of the Human Resources Department. In this regard, the revised Performance Appraisal Programme, introduced in fiscal 1998, emphasizing the participation of each staff member, has begun to yield positive improvement in the review process.

In the area of compensation and benefits, the long awaited Employee Share Ownership Plan was implemented in February 1998. Sixty-three per cent of eligible employees participated.

Year 2000

The Year 2000 issue is one of the most pressing challenges facing businesses and governments

around the World. The Bank of Nova Scotia Jamaica Limited has an extensive Year 2000 Project underway and the Bank has assigned it the highest priority. The objective of the project is to meet or exceed key milestones as set by the Bank, specifically that the performance or reliability of any product or services will not be adversely affected by dates prior to, during the change in century, throughout the Year 2000 and beyond.

We have embarked on a comprehensive programme to become Year 2000 ready by the end of December, 1998 and the programme is on schedule. All mission-critical systems have been repaired and tested in the Year 2000 environment. An inventory and assessment of all other hardware, software and equipment has been undertaken with any necessary testing, upgrades or replacements identified for Year 2000 readiness.

The Bank has contacted all of its significant suppliers in order to obtain their commitment as regards Year 2000 readiness. Our efforts and implementation are partly dependent on the performance of third parties and events that may be beyond the Bank's control.

The Bank is now in the process of preparing contingency plans to cover situations where for whatever reason, a core business function is not operational in the Year 2000.

We at The Bank of Nova Scotia Jamaica Limited are pleased to have been involved in conducting seminars throughout the country, exposing both public and private sector groups to the Year 2000 challenges.

The Scotiabank Jamaica Foundation achieved an unprecedented level of recognition and awareness in the Jamaican community last year. Since its establishment in 1996, the Foundation has donated a total of \$50 million to improve the circumstances of many individuals. Publication of a newspaper supplement in June increased our visibility and yielded a significant increase in requests for assistance.

During the year, the Foundation received an additional endowment of \$20 million from the Bank, increasing the fund to \$150 million. Prudent investment yielded \$39,377,000 in interest income, allowing the Foundation to

make a greater number of donations, totalling \$34,886,818 and to continue focusing on health and education.

Health

In mid-February, the Foundation delivered on its first commitment to dialysis care by completing the construction

and furnishing of the \$17 million Haemodialysis Centre at Cornwall Regional Hospital. The Scotiabank Jamaica

Foundation Haemodialysis Centre was officially opened on April 30 by the Minister of Health.

The Foundation will continue to support the Centre through donations for the cost of drugs, supplies and maintenance

of the dialysis machines at a cost of approximately \$5.6 million, annually for three years. This donation means that

26 patients will be treated weekly in Western Jamaica, an area which did not previously have a facility.

In October, we underscored our support for this area of health care by agreeing to donate to the Kingston Public

Hospital the sum of \$19.34 million for a similar facility. The Unit at Kingston Public Hospital will be housed in

a new location, and the 12 outdated or non-functional machines will be replaced. The new facility will be

able to treat 65 patients each week instead of 51.

We also donated \$1.4 million to the University Hospital for the purchase of a videoendoscope, which diagnoses

disorders such as ulcers, tumours, internal bleeding and inflammation of the gastrointestinal tract. It will

replace outdated and unreliable equipment and will facilitate teaching and research at the hospital.

Education

Donations to education, which totalled \$6.66 million, focused on both the University Scholarship and Secondary

Schools Bursary Programmes. We awarded nearly 200 bursaries during the year.

Just over \$1 million was donated to the Jamaica Adult Literacy Programme to compile a publication on our

national heroes, to be distributed free of cost to schools and students across the island. We also donated \$168,600 to support a literacy programme at the St. Catherine Adult Correctional Facility. This amount provided instructional materials, workbooks and readers for inmates as part of the rehabilitation programme at the correctional facility. One hundred and twenty inmates will benefit.

Other major donations to education included:

- * \$476,325 to the Summer at Ivy League and Language Schools (SAILLS) Programme;
- * \$100,000 to St. George's College Endowment Fund;
- * \$418,609 to the 1998 Jamaican Scripps Howard Spelling Bee Team.

Community

We provided assistance to several communities during the year, including:

- * \$500,000 to The Society of St. Vincent de Paul, for a security fence at Ozanam Home for the Aged;
- * \$160,000 to Addiction Alert for the sponsorship of two peer counsellors;
- * \$840,000 to the Golden Age Home, specifically to support meals for a cluster of 30 residents "adopted" by the Bank;
- * \$100,000 to the Best Care Foundation for living, medical and special education expenses for one disabled child;
- * \$250,000 to the National Foundation for Development of Science & Technology;
- * \$100,000 to the National Crime Prevention Fund;
- * \$240,000 to the Maxfield Park Children's Home.

The Foundation received two community awards in 1998 - the Vocational Service Award from the Rotary Club of St. Andrew, and an award from the Jamaica Teachers Association for the support of education.

Scotiabank Jamaica Trust and Merchant Bank recorded its most successful year in 1998. Total assets increased from \$7.2 billion to \$8.3 billion, while net profit increased from \$60 million to \$65 million.

Despite the adverse conditions prevailing among licensed financial institutions and the credit market in general, we are proud that our core business - commercial mortgages and leases- recorded an increase of 22%, from \$283 million to \$345 million. Although the state of the economy mitigated against large increases in commercial lending, we continued to use our competitive advantages, such as our large commercial banking network, to increase our share of the shrinking market.

The introduction of the Jamaica Central Securities Depository has affected our transaction volumes, and we have repositioned the business accordingly.

We updated our computer systems to meet our growing market share of the securities dealing business, which is a significant contributor to our bottom line. Market share at October 31, 1998, was 22%, the same as the previous year end. The enhancements to our computer processing and management information systems have also benefited our growing number of trust clients and complemented expansion of the trust and asset management business, which is now underway.

SJTMB FINANCIAL HIGHLIGHTS

	1998	1997
Total Loans	246	147
Loans under		
Repurchase Agreements	7,521	6,493
Total Investments	230	199
Total Deposits	395	312
Securities sold		
under Repurchase		
Agreements	7,514	6,487
Shareholders' Equity	290	227
Total Assets	8,349	7,167
Net Profit After Tax	65	60

Return on Equity	22.43%	26.44%
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Scotia Jamaica Building Society experienced a record year, with net profit after tax growing by 68% to \$183 million. Over the year, assets increased by 29% to \$4.4 billion, driven by a rise in deposit market share. Our core business, residential mortgages, increased by 36% year over year to \$685 million.

We have further contributed to the housing market by purchasing an additional \$31 million in mortgage bonds, taking our total investment in residential mortgages and housing bonds to \$962 million, or 29% above the previous year-end.

Our base of mortgage customers will increase by a further 271 households as we conclude the purchase of a \$133 million block of residential mortgages from Life of Jamaica Limited.

We opened our Mandeville office on December 8, 1997, and, mainly through direct contact with employees in several businesses in Central Jamaica, our offer of a "journey towards home ownership" has been accepted by many. To help overseas customers make deposits to their SJBS accounts, we concluded arrangements with Lloyds Bank Plc. of the United Kingdom for an efficient, same-day transfer of funds to Jamaica, using Lloyds' countrywide branch network. We are pursuing similar service arrangements with other overseas providers to meet our growing customer needs.

SJBS FINANCIAL HIGHLIGHTS

	\$Millions 1998	\$Millions 1997
Total Loans	748	570
Loans under Repurchase Agreements	1,091	1,660
Total Investments	1,579	575
Total Deposits	3,736	3,055
Shareholders' Equity	439	255

Total Assets	4,408	3,419
Net Profit After Tax	183	109
Return on Equity	41.69%	42.74%

The Agency, which was established to provide another link in our chain of one-stop services to our customers, continues to meet customers' needs through all offices of the Bank. Net profit declined by \$1 million to \$3.2 million in a market that is contracting as high overheads and low business growth affect the industry.

Under this scenario, the Agency increased its new business written, plus policies in force at year end by 11% over the previous year. This is consistent with its objective of achieving growth through customer satisfaction.

THE WEST INDIA COMPANY OF MERCHANT BANKERS LIMITED (WICMB)

The company's net profit after tax was \$6 million, compared with \$5.5 million for the previous year. The current economic climate does not justify the need for its corporate finance activities to be continued as a core business line. Accordingly, the company surrendered its deposit taking licence on October 28, 1998, and transferred its deposits and corporate finance business to Scotiabank Jamaica Trust and Merchant Limited and the Bank's Corporate and Commercial Banking Centre, respectively. The staff of WICMB was reassigned to positions within the Bank, thus enabling its customers to benefit from uninterrupted Scotiabank service.

SJIA FINANCIAL HIGHLIGHTS

	\$Millions	\$Millions
	1998	1997

Investments under		
Repurchase Agreements	35	30
Shareholders' Equity	21	17
Total Assets	46	43
Net Profit After Tax	3	4
Return on Equity	15.47%	23.53%

WICMB FINANCIAL HIGHLIGHTS

	\$Millions 1998	\$Millions 1997
Loans under		
Repurchase Agreements	-	48
Total Investments	44	3
Total Deposits	-	11
Shareholders' Equity	48	44
Total Assets	51	57
Net Profit After Tax	6	5.5
Return on Equity	12.86%	12.54%

The Scotia Jamaica Life Insurance Company Limited obtained its licence on January 22, 1998, to operate as a life insurance company. The company started with an initial staff complement of seven at its head office.

We officially launched our flagship product, ScotiaMINT on June 16, 1998. At launch date we had a capital base of \$158 million. By year end, this asset base had grown to \$552 million. The total number of policies sold over the five-month period was 2,505 for a total premium of \$373 million, exceeding our target for new business.

ScotiaMINT is a combined life insurance and long-term savings and investment plan, offering higher rates of interest than regular Scotiabank savings accounts plus tax benefits. The product is available through 120 licensed agents located in the Scotiabank islandwide

network of branches

With an excellent brand name/franchise, high rates of interest and no withholding tax after three years, the product has strong appeal for consumers who need a systematic programme for long-term savings. The product is designed for lower to middle income professionals and high net worth customers who are willing to save over a longer term. A computerized on-line interactive sales system offers sound financial advice, discipline and an approach towards long-term savings. The sales system is installed on 43 personal computers in Scotiabank branches islandwide to facilitate in-branch sales of ScotiaMINT by fully trained Scotia Jamaica Life Insurance Company Agents.

A ScotiaMINT policy requires an initial lump sum premium of \$10,000 plus minimum regular premium contributions of \$750 monthly. The minimum ad hoc lump sum deposit is \$1,000.

	\$Millions	\$Millions
	1998	1997
Investments	549	156
Shareholders' Equity	180	159
Life Assurance Fund	358	-
Total Assets	552	164
Net Profit After Tax	21	9
Return on Equity	11.67%	5.66%
