

The Bank of Nova Scotia Jamaica Limited 1998

SCOTIABANK COMPLETES SUCCESSFUL YEAR WITH \$1,764 MILLION PROFIT.

Scotiabank Jamaica's net profit for the quarter ended October 31, 1998 was \$488 million, compared with \$544 million for the previous quarter which was inclusive of a gain of \$187 million on the disposal of certain investments. This takes the net profit for the year ended October 31, 1998 to \$1,764 million compared with \$1,584 million for the previous year.

Mr. William Clarke attributes the good results of the Bank to continued expansion in the Group's asset base and growth in the various lines of business of the operating subsidiaries. The net profit after tax of these subsidiaries is as follows:

TOTAL ASSETS stood at \$66 billion, up \$3.4 billion from the previous quarter

	\$ Millions	
	1998	1997
The Scotia Jamaica Building Society	183	109
Scotiabank Jamaica Trust & Merchant Bank Ltd.	65	60
Scotia Jamaica Life Insurance Company Ltd.	21	9
Scotia Jamaica Insurance Agency Ltd.	3	4
The West India Company of Merchant Bankers Ltd	<u>6</u>	<u>6</u>
TOTAL	278	188

The Board of Directors of the Bank approved the surrender of the deposit taking licence of The West India Company of Merchant Bankers Limited and the company's deposit liabilities and corporate finance activities were assumed by Scotiabank Jamaica Trust and Merchant Bank and the Corporate Banking Centre. There will be no redundancies arising from this change as the staff will be redeployed elsewhere in the Group. The move will improve the operating efficiencies of the Group.

CASH RESOURCES increased during the quarter by \$3.1 billion to \$21.5 billion. The year over year increase was \$5.2 billion as deposit growth outpaced loan growth, thus improving the Bank's already strong liquidity position. These are all liquid reserves which enable the Bank to meet its obligations in an orderly way.

INVESTMENTS grew by \$5.6 billion to \$13.2 billion of which 97% was Government of Jamaica securities held to meet statutory liquid assets and and \$10.6 billion or 19% from October 31, 1997. Scotiabank's asset quality remains very high, as a result of which the Group's risk based capital adequacy ratio is above 18%, significantly above the Bank of Jamaica's 10% guideline which is now in place. prudential reserves. This is the same level as at previous quarter-end, as new loan demand was adequately funded by deposit growth during the quarter. This quarter, the average yield on the portfolio was above the average for the previous quarter, in keeping with yield movements in the market.

PERFORMING LOANS stood at \$17.9 billion, or \$1.7 billion over the previous quarter end but \$1.2 billion below outstandings at October 31, 1997 as demand increased in this quarter in keeping with the seasonal trend. The average yield on Scotiabank's total loans has been decreasing each successive quarter since August of 1996 because the Bank has been gradually decreasing its lending rates to stimulate growth, and there has been a significant increase in the level of non-performing loans over the same period. The portfolio of the Bank is sufficiently diversified to mitigate against being severely affected by a fall out in any one sector of the economy.

NON-PERFORMING LOANS increased from \$1,213 million at July 31, 1998 to \$1,237 million. This is quite encouraging as it represents a further reduction in the rate of growth of these impaired loans. The total specific provisions against these loans now stand at \$286 million. In addition to this Scotiabank has general provisions of \$375 million, based on its recent historical experience, to cover credit losses that are deemed to be inherent in its portfolio. The total provisions of \$661 million represents 3.5% of total loans, and 53% of non-performing loans. Mr. Clarke further noted that the vast majority of these loans are collectible over time as they are, for the most part, adequately secured.

DEPOSITS stood at \$46 billion, up \$5 billion or 11% from the previous year. Mr. Clarke noted that the Bank's customer base continues to expand. During the past year the Bank's market share of deposits grew a full percentage point.

STOCKHOLDERS' EQUITY now stands at \$5.9 billion, up 20% from previous year. This is in keeping with the Bank's policy of retaining a share of its earnings to support the capital needs of the Bank as it expands. Scotiabank's deposits to capital ratio is 9 to 1, over three times stronger than the minimum statutory requirement.

NET INTEREST INCOME for the year was \$4,819 million, up \$750 million from last year. The net interest margin improved over the previous quarter as the average yield on our investments peaked in the fourth quarter. This, coupled with increased volume of average total earning assets, resulted in our net interest profit for this quarter being \$42 million above that of the previous quarter.

OTHER REVENUE was \$1,246 million, up \$504 million from last year, and up \$101 million from the previous quarter. The year-over-year and quarter-over-quarter increases reflect growth in business volumes and the launch of our long term savings product, Scotia Mint, in June 1998 through our newest subsidiary, Scotia Jamaica Life Insurance Company Limited. This product has been well received in the market and shows excellent potential for further growth.

NON-INTEREST EXPENSES for this year was \$3,425 million up \$980 million from last year. This increase is due to personnel costs arising from an increased number of employees and the impact of the wage award for 1997 and negotiated settlement for 1998, charged against profits for this year, as well as costs related to the new product, Scotia Mint.

PROVISION FOR LOAN LOSSES was \$249 million, up \$53 million from the previous year in line with the increase in non-performing loans and credit losses written off.

EARNINGS PER SHARE was \$1.21 cents compared with \$1.08 cents for 1997 adjusted for the one for one bonus share issue in October 1997.

RETURN ON EQUITY at year-end was 30%. This was down from 32% last year, but up from 29% at the end of the previous quarter.

RETURN ON ASSETS at year-end was 2.7%, down from 2.9% last year but the same as at the end of last quarter. The movements reflect the fluctuations in the Group's net interest margin for reasons mentioned earlier in this report.

DIVIDEND: The Directors have declared a dividend of 24 cents per stock unit (12.5 cents regular and 11.5 cents special) to stockholders on record as at December 4, 1998, payable on January 4, 1999. This dividend, when paid, will take the total distribution for 1998 to 54 cents per stock unit, compared with 50 cents per stock unit for the previous year, after adjusting for the one for one bonus share issue of October 6, 1997.

Scotiabank Jamaica thanks its many customers and shareholders for their continued display of confidence in the Bank. To our dedicated staff, we say thank you for your efforts, as we work together on our mission of being the institution of choice for all users of financial services in Jamaica.

FINANCIAL HIGHLIGHTS

	(\$ Millions)	
	12 Months Ended	
	Oct. 31	Oct. 31
	1998	1997
GROSS OPERATING REVENUE	9,414	8,961
NET INTEREST INCOME - OTHER REVENUE		
Total Interest Income	8,168	8,219
Interest Paid on Deposits	<u>3,349</u>	<u>4,151</u>
Net Interest Income	4,819	4,068
Other Revenue	<u>1,246</u>	<u>742</u>
Net Int. Income and Other Revenue	6,065	4,810
Staff Costs	2,056	1,599
Other Operating Costs	1,370	846
General Provision for Loan Losses	<u>249</u>	<u>166</u>

Total Non-interest Expenses	3,675	2,611
Profit Before Tax and Exceptional Item	2,390	2,199
Exceptional Item	<u>187</u>	<u>64</u>
	2,577	2,263
Taxation	<u>813</u>	<u>678</u>
Net Profit	1,764	1,585
Capital Distribution	-	476
Dividend	791	256
Earnings Per Share Based		
on 1,463,616,000	121c	108C
Dividend Payout Ratio	45%	46%
Return on Equity at Quarter-end*	29.8%	32.1%
Return on Assets at Quarter-end*	2.7%	2.9%

*After one-for-one bonus issue Oct. 6/97
