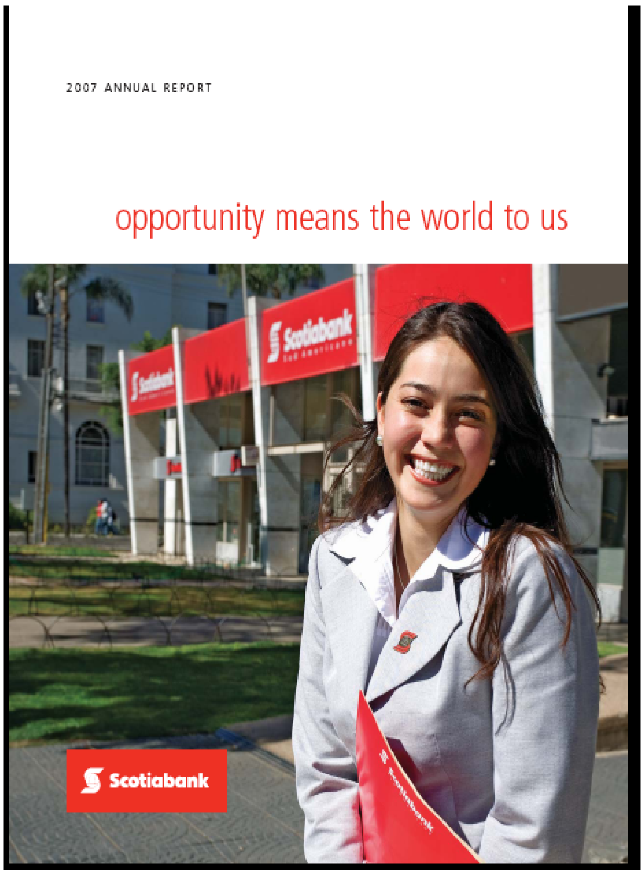
Report of the Month

Scotiabank

Toronto, Ontario, **Canada**



Report Facts

Company name: The Bank of Nova Scotia

Fiscal year end: October 31, 2007

Report title: *Opportunity means the world to us*

Chairman of the Board: Arthur R.A. Scace

President and CEO: Rick Waugh

Number of books: 1 + separate CSR report

Report length: 144 pages (+ 46 for CSR)

Auditors: KPMG LLP

Design: N/A

E-mail: corpaff@scotiabank.com

Report Rating: ★★★★

(Rating scale below)

Profile-Mission (Excerpts, as from the report)

Scotiabank is one of North America's premier financial institutions and Canada's most international bank. Through our team of approximately 60,000 employees, the bank's offer includes *retail, commercial, corporate and investment banking to more than 12.5 million customers in some 50 countries…*

(Annual Report p 1) (Italics are own company's words)

Key Figures

Total assets: $ 411.51 billion

Total revenue: $ 12.49 billion

Net interest income: $ 7.1 billion

Net income: $ 4.04 billion

Earnings per share: $ 4.04 (basic)

Dividends per share: $ 1.74

Return on equity: 22%

Tier 1 capital ratio: 9.3%

Total capital ratio: 10.5%

(Source: figures sourced from the annual report)

Major Competitors

- **RBC (Royal Bank of Canada)**
- **TD Bank Financial**
- **BMO Financial**
- **CIBC (Canadian Imperial Bank of Commerce)**
- **National Bank of Canada**
- **Laurentian Bank**
- **… and a number of U.S. banks**

Report Rating: ★★★★

Triple A

> Outstanding financial *performance* and *condition* review: 30 pages, introduced with a quick overview; supported with 20 tables and 32 charts –these really allow a parallel grasp, or an invitation to read further as most are placed at the top of the pages (see selected page). Clearly structured and written in plain English.

> Tables about *Regulatory Capital* and related changes over the last five years (p 41).

> Narrative-based overviews of business lines and number-based performance analysis supplement each other.

> Comprehensive and very clear *Risk management* chapter: each risk category is first defined, then analyzed and substantiated with figures (see e.g. *Interest rate gap*, *Liquidity*, *Contractual obligations*…).

Double A

> Thorough yet shown late *Financial Highlights*: over 5 years, including major ratios and share indicators.

> Last year *Accomplishments* and next year *Priorities* placed on the same footing.

> 52 tables (not including statements and notes), all numbered, and with many over 3 years or more.

Simple A

> Chairman and CEO's messages go to the main points and are backed with next year *Objectives*.

> It's about more numbers, we know, but a more strongly sustained theme in a more animated style would be a bit more inviting.

> The use of post-consumer waste paper is of course fine, yet it may look, er, cheap…

Some Bs

> Unless you take the ones in the inside cover for granted, it takes 27 pages to get real financial highlights,

> The aggressive acquisition policy is emphasized. Couldn't it be questioned as organic growth measures are hard to find –and check?

> Such a quantity of tables and charts could have deserved a special index.

> In spite of a number of worthwhile achievements shown and indicators measured, the CSR report doesn't deliver up to the best in class. KPIs are not really checked out and 2008 priorities are vague. And medium-term targets were not found.

Cautionary Statement Triple and other A ratings have nothing to do with and were not approved by official ratings agencies!

Rating Scale
★★★★★: First-rate ★★★★(★): Excellent ★★★★: Very good ★★★(★): Sound ★★★: Average
★★(★): Uneven ★★: Common ★(★): Substandard ★: Poor (★): Uncompetitive
The rating is based on ReportWatch internal desk research and does not take into account the independent Rating Panel's judgment. It may therefore differ from ratings (to be) published in the ***Annual Report on Annual Reports***.

How does the company report in key areas? What are the main report pluses and minuses?
*The **Report Scan** gives an overview of strengths and weaknesses, and scores each item.*
Contact e.com@reportwatch.net

Chart 7
Credit losses
specific provisions as a % of average loans & acceptances

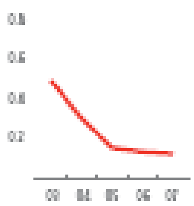


Chart 8
Net impaired loan ratio
as a % of loans & acceptances, as at October 31

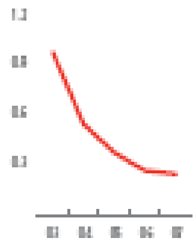
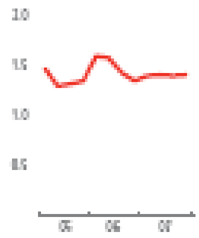


Chart 9
Low delinquency in Canadian retail portfolio
delinquent loans as a % of total loans



Credit quality

Provision for credit losses

In 2007, the total provision for credit losses was $270 million, up from $216 million last year.

Specific provision for credit losses

The specific provision for credit losses was $295 million, up $19 million from 2006, largely reflecting portfolio growth.

Domestic Banking provisions were up $16 million from last year, with higher retail provisions in line with growth in the portfolio, partially offset by lower provisions in the commercial portfolio. Specific provisions of $101 million in the International Banking portfolios were up $41 million from last year, with higher retail provisions due to the impact of acquisitions and portfolio growth, partially offset by net recoveries in the commercial portfolios. Scotia Capital had net recoveries of $101 million in 2007 versus net recoveries of $63 million in 2006. Recoveries in 2007 were realized primarily in the United States.

General provision for credit losses

The general allowance for credit losses was reduced by $25 million in the Consolidated Statement of Income in 2007. This decline follows reductions of $60 million in 2006 and $45 million in 2005.

Impaired loans

Net impaired loans, after deducting the specific allowance for credit losses, were $601 million at October 31, 2007, an increase of $31 million from a year ago. There was an increase of $153 million in International Banking, partially offset by declines of $106 million in Scotia Capital and $16 million in Domestic Banking.

As shown in chart 8, net impaired loans as a percentage of loans and acceptances were 0.25% as at October 31, 2007, compared to 0.27% a year ago.

Portfolio review

Corporate and commercial

Scotia Capital's credit performance remained strong on a year-over-year basis, reflecting the favourable credit conditions prevailing for most of 2007. Year over year, gross impaired loans in Scotia Capital's U.S. portfolio fell by $108 million or 91% to $11 million. Gross impaired loans also declined in Europe by $86 million or 74% to $30 million, and remained stable in Canada at $18 million over the same period. The improvement in gross impaired loans is attributed to a significant amount of loans returning to performing status, as well as the impact of foreign currency translation.

Scotia Capital had a net loan loss recovery of $101 million in 2007 compared to $63 million in 2006. Recoveries were concentrated primarily in Scotia Capital's U.S. region, with the Canadian and European regions reporting lower net recoveries year over year.

The credit quality of the Domestic commercial loan portfolio remained strong, with gross impaired loans decreasing by $66 million to $197 million. Provisions for credit losses declined compared to last year.

In International commercial banking, the credit quality of the portfolio also remained stable. Gross impaired loans decreased by $98 million or 17% to $471 million, compared to portfolio growth of 8% over the prior year. The reduction was due primarily to the writeoff of fully provisioned loans, as well as foreign currency translation.

Domestic retail

The overall credit quality of the consumer portfolio in Canada continues to be excellent. Gross impaired loans in the retail portfolio increased by $17 million or 5% to $391 million, compared to portfolio growth of 14%.

Portfolio quality continues to benefit from high levels of security, with 91% of retail loans being secured by an underlying asset, such as a house or car. This high level of security reflects the growth in Scotia Total Equity Plan lending, where all products, even lines of credit and credit cards, are secured by residential real estate. Currently, 61% of the ScotiaLine line of credit and ScotiaLine VISA portfolios are secured. Reportable delinquency increased marginally year over year, but the portfolio remains stable. (See Chart 9)

The provision for credit losses in the Domestic retail portfolio was $274 million, up $45 million or 20% from last year. The provision for credit losses as a