



Consistency Bearing Fruit for Scotiabank

Scotiabank is emerging as one of the top local performers in the banking industry in 2006 financial year recording impressive earnings growth of 39% at the end of third quarter ending July 2006. With its recent 1 for 2 Bonus Issue the SBTT is expected to gain favour with local investors as liquidity in the stock improves.

SBTT's top line revenue grew 20%, indicative of improvement in its portfolio of loans to customers. In 2005 income growth was driven strong residential mortgage growth and this segment is expected to maintain its positive trend to the end of 2006. Noteworthy is the Group's focus on its retail business and more so the devolution of SBTT's mortgage facilities, making property loans more accessible at the Group's many branches. Salaries still account for a large portion (47%) of the bank's Non-Interest Expenses which generally grew in line with revenue, at a pace of 8.6%. Management's focus on monitoring its expenses was evidenced by marked improvement in the efficiency ratio, which contracted from 32% in the nine months 2005 to 28.7% on a twelve month trailing basis. In addition, the company's tax burden, as measured by tax to income after tax, improved from 37% to 31%.

Momentum on the balance sheet side is also building as Return on Equity increased from 20.7% to 23.5% and similarly ROA moved up from 2.7% to 3.3%. More recently, a two (2) for (1) Bonus Issue was with an Ex Bonus date of September 26th and 58.8 million units were added to the issued share capital. This historically illiquid stock is expected to see an increase in market activity going forward. On the Ex-bonus date the share price adjusted to TT\$25.50, in order to maintain the market capitalization. ScotiaBank has long been associated with more consistent returns which were also seen in the strong earning growth over the last three quarters. However an increase in the ordinary shares outstanding would essentially translate into a dilution of earnings at the end of the financial year. Traditionally, the last quarter has been SBTT's strongest and we expect the earnings momentum to continue. We are therefore projecting a full year EPS of TT\$1.70 which at the current price of TT\$25.39 yields a P/E of 14.93 times.

Regional Market Review

The local Indices continued to trend downwards. The TTSE Composite closed with 870.49 points on October 4 2006 while the ALL Trinidad lost .4% to close with 1,089.03 points. In terms of stock appreciation Trinidad Publishing was ahead of the pack with a return of 5.7%, with Sagicor trailing close behind. Sagicor gained favour with investors in this period capturing 35% of total trades given that the company released news of its intention to list on the London Stock Exchange (LSE). However the 20% share ownership restriction on shareholding must be removed to list on the LSE according to United Kingdom Listing Authority (UKLA) regulations. Accordingly the company will hold a special meeting on October 9th to discuss

the removal all remaining constrained share ownership provisions in the Company's Articles. Trinidad Publishing recorded the largest decline falling 9% to TT\$5.00, with Plipdeco in second after losing 6.6%. Construction of a US\$1.2 billion iron and steel complex is already underway as Plipdeco is set to benefit from US\$4 billion in new projects. These projects include an ethylene and petrochemical complex. Plipdeco seemed to gain favour on this news as the stock accounted for 21% of trades for the period.

On the BSE, market activity was driven by trading in 7 shares with only 3 advancing and 4 declining while 18 remained unchanged. The Composite Index lost traction this week losing .2% compared to a 2% growth in the prior review period; the Index closed with 963.96 points. The Barbadian Equity gauge continues to record the lowest year to date decline of 6.9%. Goddard Enterprises and Sagicor continued to lead volume activity and were responsible for contributing 44% and 30% respectively of the total 204, 967 units traded. These shares also kept pace in terms of price appreciation, while Cable and Wireless Barbados came in first with a gain of 5%, Sagicor gained 2.8% in value followed by Goddard which closed at B\$6.08 up from B\$6.00.

Following from the offer posed last week to Jamaican Producers the company accepted the offer from Dole Food Company to purchase its 65% interest in JP Fruit Distributors Limited (JFPD) valued at J\$2.76 billion, the inclusion of this sale is expected to boost earnings and caused the price to soar 15% to J\$43.70. Pan Caribbean Financial (PCFS) and Caribbean Cement (CCC) also improved by 7.1% and 5.3% respectively. Mayberry Investments fell the most in spite of news of its 49% acquisition in Access Financial Services Limited. MIL intends to expand the firm with a view of listing Access on the JSE in five years or offer an equity stake to other interested parties. The Finance stock lost the most value at the close of the trade on 4 October, falling 7.1% to J\$2.60. The advance/decline ratio ended with 12 advances and 11 declines, leaving 18 shares unchanged. Despite the up tick in activity the market gauges remained flat with the JSE Index ending with 85,883.47 points.

Table 1: Regional Market Performance

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
TTSE Composite	870.49	-0.03	-0.30	-18.40	-19.03
All Trinidad	1,089.03	-0.43	-1.39	-17.66	-18.25
JSE Index	85,883.47	0.00	3.43	-17.22	-16.35
All Jamaica	86,024.51	0.00	7.18	-16.77	-13.79
JSE Select	2,307.51	0.00	5.19	-18.96	-14.79
BSE Composite	963.96	-0.18	-1.19	-6.86	-7.25

Current Happenings

- Repo rate up 8%
- Prime Lending Rate up to 11.75%
- Target 5% inflation rate
- PM puts squeeze on gamblers, smokers and drinkers
- Energy sector team to deal with agriculture

- Barbados to lessen the impact of high energy prices as Government plans shift from sugar cane industry
- Norway debt write-off a \$190m saving for Jamaica
- Lee Chin gives up CEO post at AIC
- Jamaica's tax system gets poor rating... 13th worst worldwide for doing business

Table 2: International Market Performance

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
S&P 500	1,334.11	-0.19	1.59	5.15	9.85
Nasdaq Composite	2,243.65	-0.87	1.72	0.00	4.87
Dow Jones Industrial	11,727.34	0.33	2.25	8.11	12.32
German Dax	5,992.22	0.04	1.40	9.73	16.63
FTSE 100	5,937.10	0.12	-0.83	4.50	8.06
Nikkei 225	16,242.09	1.84	-0.71	0.81	18.22

International Market Review

Economic reports that suggest that expansion is weakening have caused stocks to retreat and halted a further rally that spurred the Dow average toward an all-time high. While stocks advanced on lower oil prices and optimism the Federal Reserve intends to keep interest rates unchanged, with this in mind investors are approaching third-quarter earnings season with caution. The Dow Jones outpaced the S&P 500 and Nasdaq (which shed .2% and .9% each) to closed with 11,727.34 points. In Japan, the Nikkei ended at its highest in five months as stocks soared on optimism about the U.S. economic outlook. The Index closed with 16,242.09 points; a 1.8% increase in value, while the Hang Seng inched up by .5%. In Hong Kong, HSBC and China Mobile led the stock market to its highest level for six-and-a-half years. Funds from mainland China flowed into Hong Kong for short-term trading as Chinese markets closed this week for a national holiday. Crude prices fell yesterday to their lowest levels since February on forecasts that U.S. fuel prices will rise for an eight week. Stocks in Europe have swung between gains and losses in the past week as investors weighed the effects of slowing economic growth and lower oil prices on consumer demand. At the end of the period European stocks rebounded to a near five-year high and boosted Eurostoxx by .5% to 17,606.53. The FTSE and German Dax also followed this trend posting positive albeit marginal gains.

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