169 Tragarete Road Port of Spain
Trinidad and Tobago

INVESTMENT AND SOVEREIGN RESEARCH *Thursday March-10-2016*

Scotiabank Trinidad and Tobago Limited Update

Scotiabank Trinidad and Tobago Limited first opened its doors in 1954 and has grown into one of the leading financial institutions in Trinidad and Tobago. At the end of the first quarter of 2016, Scotiabank continued to recognize growth. Below are some key takeaways from Scotia's first quarter of 2016.

Performance

- For the first quarter ended January 31st 2016, Scotiabank saw strong profitability growth.
  - Overall revenue grew by 11% YoY. This was driven by loan portfolio growth (7% YoY) primarily.
  - Scotia is positioned as #1 in auto loans and mortgages in the retail market.
  - Scotia's Retail, Corporate and Commercial Banking unit has been the fastest growing business unit (15.8% YoY), driven by loan portfolio growth.
  - Net interest income rose 16% YoY.
  - Non-interest income has also grown (1% YoY), driven by the insurance business unit policyholder growth (22% YoY).
  - Scotia's ROE rose to 17.12% from 15.13% at January 31st 2015
  - Scotia's ROA rose to 2.81% from 2.53% at January 31st 2015

Capitalization and Liquidity

- Scotia is well capitalized and paid a dividend as a result of its liquidity.
  - Dividend of 40.0c paid (payout ratio for Q1 is 45%).
  - Cash and cash equivalents of $1 billion, in addition to statutory reserve deposits of $3 billion held with the Central Bank of Trinidad and Tobago.
  - Treasury bills and investment securities held increased 43% YoY, further testament to Scotiabank's liquidity strength.
  - Capital adequacy ratio of 25% is well above industry minimum of 8%
  - Operational efficiency of 43.6% is better than industry average of 50% (the lower the number, the better)
- Scotia's asset base has grown by 3% YoY led by growth in its loan portfolio, liabilities have grown by 3% driven by a 6% increase in deposits YoY.
  - Scotia's non-performing loans as a percentage of the gross loan portfolio fell to 1.6%, down from 2% at January 31st 2015.

Valuation

- Scotia's valuation in terms of P/E is the highest of its peers, trading at around 24 times whilst its peers are in the range of 15 times.
  - This is a function of its thinly traded shares and its historical performance being priced in.

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Conclusion

Scotiabank Trinidad and Tobago Limited continues to grow organically despite challenging economic conditions. During the quarter, growth was primarily generated by increases in the loan portfolio and supported by continued credit risk management; which is key in the current environment.

A significant point worthy of consideration is Scotia's liquidity. This liquidity may be used to compensate shareholders in the form of dividends, which Scotia has been doing consistently, or undertaking growth projects. Either possibility will yield rewards for investors.

With a stable dividend payout, the possibility of further future special dividend payments and a stable dividend yield, this is a strong defensive income play for investors, the only constraint being supply and availability of shares.