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Subject: Scotiabank's Current Exposure to Non Bank ABCP and its Role in the Sale of Non Bank ABCP Trusts into Retail Market

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I have done some more research on Scotiabank's exposure to Non Bank ABCP under the Montreal Accord. The attached Scotiabank Investor Presentations for Q42007 and Q12008 disclose that Scotiabank had ownership of $207 million of the Canadian Non Bank ABCP under the Montreal Accord as of October 31, 2007. Scotiabank has taken a Q42007 writedown of -$20 million and a Q12008 writedown of -$44 million. This suggests that the total writedown to date taken by Scotiabank on its ownership of Canadian Non Bank ABCP under the Montreal Accord is -31%.

Scotiabank would now own this Non Bank ABCP under the Montreal Accord from four possible original sources:

(a) an asset on their balance sheet, where an active decision was made to own it for investment purposes;
(b) a trading inventory held at the investment bank subsidiary in the course of buying and selling the commercial paper between customers;
(c) Scotiabank proprietary money market funds that owned the Non Bank ABCP
(d) direct Scotia Capital Markets retail brokerage accounts previously owning the Non Bank ABCP who have had their positions bought for cash by Scotiabank/Scotia Capital Markets.

Scotiabank can afford to contribute to a cash settlement for the retail owners who were sold the Non Bank ABCP by Canaccord and Credential Securities, due to its own limited exposure to the Canadian Non Bank ABCP or other credit assets that have been adversely affected by international credit crunch.

Scotiabank CEO Rick Waugh says at the Scotiabank Annual Meeting on March 4, 2008 in Edmonton that Scotiabank was the wholesale distributor of Non Bank ABCP to Canaccord who sold it to its retail customers. His comments may be heard at the following webpage.

http://investorvoice.ca/ABCP/ABCP_index.htm

Being a wholesale distributor, rather than a retail distributor does not spare Scotiabank for legal responsibility to pay damages for its role in the sale and the issuing and paying function for this flawed savings product. Scotia Capital Markets knew it sold Non Bank ABCP to Canaccord for resale into the retail market. Scotiabank was also the issuing and paying agent for Structured Investment Trust III, which is a large portion of the total Non Bank ABCP owned by retail owners. Scotia Capital appears to have had a selling agreement with Coventree and the other Non Bank ABCP sponsors, for the purpose of trading the Non Bank ABCP trusts as an intermediary between customers. As such, Scotia Capital is directly connected to Coventree by contract and therefore was a party to the selling of the Non Bank ABCP into the marketplace on a potentially unlawful basis, breaching provincial securities act requirements for the sale to occur by prospectus. If the Non Bank ABCP has a credit rating from an approved credit rating agency that is below the minimum standard in the provincial securities act regulations, its sale was potentially unlawful. All expert players in the Non Bank ABCP market would have received or certainly knew about the Standard and Poors "Leap of Faith" 2002 research report that concluded all Non Bank ABCP trusts were below investment grade due to their "limited use" liquidity agreements, (ie. the banks would almost never pay cash in response to their liquidity calls to buy out the commercial paper owners). The Standard and Poors 2002 research report was a defacto below investment grade credit rating that failed the minimum standard for Standards and Poors of A-1(low) in provincial securities act regulations. The credit expertise of Scotiabank and its affiliates is very high and so the argument that Scotiabank relies upon the credit research and credit ratings of DBRS is not very sound and if it is the case, the Directors and shareowners have a bigger problem with respect to the risk management function of the bank and its implications for future profitability and balance sheet strength.

Furthermore, there are allegations that Scotiabank sold Non Bank ABCP after it had received specific material information from Coventree on July 24, 2007 that adverse events within the trusts were pending. This is tantamount to an allegation that Scotiabank sold "tainted meat" into the retail marketplace. The allegations surrounding improper wholesale distribution by Scotiabank into the retail marketplace, through its retail sub-agents, Canaccord (who in turn sold it to Credential Securities for sale to its retail customers) comes from the Canaccord court motion to add Scotiabank as a party to its defense against two lawsuits by two of its retail customers, and the Globe and Mail's Black Box Explodes investigative report published on November 16, 2007.

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