THE ENVIRONMENT

Key Achievements in 2007
- We rolled out a new energy consumption tracking system across Canada.
- Equator Principles Guidelines were developed to supplement our existing policy.
- Six new “green” branches were opened in Ontario and Quebec.
- We doubled the number of paperless recordkeeping accounts.

a responsibility we all share

Scotiabank is a major international financial institution, and our day-to-day operations have a number of direct and indirect impacts on the environment. We have launched internal initiatives aimed at reducing consumption, and we routinely factor environmental considerations into our strategic decision-making process and consult regularly with stakeholders on environmental issues.

Our direct impacts include our consumption of paper products and other supplies, for both customer communications and administration purposes; our energy usage to heat and light facilities around the world; and the environmental footprint made by our extensive real estate holdings, including the construction and sustainable operation of our branch network and offices.

Indirectly, we are involved in environmental issues through our lending, project finance and investment practices in the countries where we operate. We are also committed to supporting environmental causes and collaborating with stakeholders on key environmental issues.

Environmental policy and management structures
Scotiabank has an environmental policy in place covering our direct and indirect environmental impacts (available at www.scotiabank.com). Various groups across the Bank provide a diverse pool of expertise on environmental issues ranging from energy efficiency to the development of products and services that promote environmental stewardship among our customers and employees.

Supporting reforestation in Mexico
Approximately 300 employees of Grupo Scotiabank donated their time to help restore severely deforested wilderness areas. The employees and their families spent the morning in the 700-hectare Ecological Park near Mexico City, planting more than 1,000 seedlings in a two-hectare area. The group was proud of their contribution to restore the forest, aid local biodiversity and diminish the effects of climate change. In the past 10 years, Mexico has suffered among the highest levels of deforestation in the world, and areas such as the Ecological Park are among the few remaining reserves of natural vegetation in the Valley of Mexico river basin.
In 2007, we provided practical, green tips to consumers through our free digital financial newsletter, MyVault News. During the year, MyVault’s 1.5 million subscribers received helpful articles on topics ranging from making their workplace or household more eco-friendly to planning green home renovations.

Direct environmental impacts

Paper

Paper consumption is a major component of Scotiabank’s environmental footprint because of our extensive customer communications, administrative and documentation processes. In addition to reducing our environmental footprint, we recognize that careful management and reduction of our paper consumption can help reduce our operating costs.

- In 2006, the Bank created a working group mandated with the task of creating an environmental paper policy. The policy will give direction on paper conservation efforts and on improving the environmental qualities of the Bank’s paper choices, such as recycled content and forestry certification. The policy will be reviewed by an external group of stakeholders and will be launched in 2008.

2007 paperless banking initiatives

Online banking

A number of new features and a promotional marketing campaign led to a 109 per cent increase in the number of paper-free, eco-friendly accounts. New features include:

- 18 months of online transaction history
- Ability to view cheque images, and receive and pay bills online.

Scotiabank also introduced paperless recordkeeping for all Canadian staff. During 2007, our employees switched more than 18,000 banking accounts to this eco-friendly option, and we now have more than 57,500 paperless employee accounts.

Paperless investor options

ScotiaMcLeod and ScotiaMcLeod Direct Investing customers currently access information and transaction documents via Scotia OnLine. In 2007, clients gained online access to 30 months of transaction history – increased from 45 days. Planned for 2008 is electronic delivery of trade confirmations, together with a new Document Centre. This secure electronic filing cabinet features robust search functionality intended to increase the speed and precision with which documents can be retrieved for viewing, electronic filing or printing.

Internal processes

- To improve the paper-intensive lending adjudication process, a paperless pilot project was launched in 50 Alberta branches. They are now submitting retail customer and small business borrowing applications using “fax to image,” which reduces paper consumption by almost 95 per cent.
- Scotiabank continued to implement its Image Retrieval and Information System (IRIS) in Canadian branches,

Forest Stewardship Council (FSC) certified paper is used in the production of many Scotiabank publications, including our annual report, customer wall calendars and corporate newsletters, helping to reduce our consumption of trees, waste, water and energy. Our focus is on finding environmentally sensitive solutions for our highest-volume documents that meet the Bank’s production, quality and cost criteria.
so that employees can access many reports and documents in electronic format. After implementing phase 1 in early 2007, which eliminated more than 80 paper reports, we are now piloting the next phase of the new system at the Toronto Central Accounting Unit. We are fine-tuning processes before rolling out the function across the country. We have already saved millions of printed pages as a result of the phase 1 implementation.

**International paperless initiatives**

Internationally, Scotiabank is introducing new technologies that not only create administrative efficiencies but also deliver environmental benefits. For example:

- Through collaboration with the Canadian project team implementing the IRIS image retrieval and information system described above, International Banking is preparing to convert routine branch documents to paperless digital formats. This initiative not only lowers paper consumption but also reduces copying, faxing, storing and transporting print materials. The pilots to date involve Dominican Republic’s branches and Scotiabank Jamaica Life Insurance Co. Expansion of document imaging technology is planned for Trinidad & Tobago in 2008, with future implementation anticipated across the Caribbean network.

- Across our International Banking operations, a project to provide all locations outside Canada with online access to more than 260 key sales and operational reports has reduced the volume of printed paper reports by 50 per cent since 2003.

**Recycling**

Across the organization, we participate in waste reduction programs to reduce, reuse and recycle wherever possible.

- In 2007, as part of our national toner cartridge recycling program, we used and recycled 10,616 re-manufactured cartridges for printers and fax machines.

- Our Canadian branches and offices take part in locally available recycling programs. We provide paper, glass and waste recycling stations in our Toronto Executive Offices, helping the Scotia Plaza complex achieve an 82 per cent annual waste diversion rate in 2007, including approximately 140 metric tonnes of cardboard and 606 metric tonnes of organic waste. From Bank-occupied floors alone, we recycled approximately 750 metric tonnes during 2007.

- Scotiabank is a member of both Stewardship Ontario and Eco Enterprises Quebec, provincial non-profit organizations through which major companies pay 50 per cent of provincial Blue Box recycling programs.

- In 2007, our Asset Management Services area redirected more than 8,047 pieces of equipment for environmental disposal or re-use, including 1,960 desktops or laptops, 1,773 monitors and 4,314 printers. A number of computers and printers were donated to non-profit groups such as the Royal Canadian Legion, Safe Communities Foundation and Zareinu Educational Centre.

- During 2007, we continued the tradition of donating surplus office supplies to community groups. We provided more than 50 boxes of excess binders, CD and video tape covers to Toronto area school boards and daycare centres.

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**2007: Energy Consumption**

<table>
<thead>
<tr>
<th>Type of energy</th>
<th>Consumption unit</th>
<th>Total consumption</th>
<th>Consumption per sq metre</th>
<th>Branches / Owned office buildings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity</td>
<td>Megawatt hours</td>
<td>204,700</td>
<td>0.25</td>
<td>895 / 23</td>
</tr>
<tr>
<td>Natural gas</td>
<td>Cubic metres</td>
<td>16,458,300</td>
<td>29.0</td>
<td>688 / 21</td>
</tr>
<tr>
<td>Fuel oil / Propane</td>
<td>Litres</td>
<td>340,000</td>
<td>5.4</td>
<td>46 / -</td>
</tr>
</tbody>
</table>

Notes:
1. The above information was collected from the best available data and methodologies, which includes information captured from invoices processed for payment from various utility vendors. Given the scope of the system implementation undertaken, we expect to continue refining systems and processes going forward. This data has not been verified by a third party.
2. The scope of our reporting is based on IRIS owned and leased branches and 23 owned office buildings across Canada representing 818,665 square metres. This area varies depending on utility type.
Thanks to the persistence of Xinia Valverde, Scotiabank’s local social responsibility officer, the Bank was able to locate a supplier to collect recycled materials, and began recycling plain and coloured paper, newsprint, cardboard, plastic bottles and tin cans last summer to mark World Environmental Day on June 5.

Staff in seven test branches and the San José office responded to an internal campaign to recycle paper, plastic, aluminum cans and utilize two-sided printing. Now many employees are bringing recyclable materials from their homes to include in the workplace program.

The program was expanded in September to cover all 42 national branches and, by Nov. 1, employees had collected more than 28 metric tonnes of materials in just five months, including 24,784 kilograms of paper – which saved approximately 425 trees. Proceeds collected from the recycled goods manufacturers will be donated to a children’s shelter. The Bank has also funded an initiative to help reforest a 60-hectare urban park in San José. These programs are helping Scotiabank earn a reputation as the first green bank in Costa Rica.

• To reduce the quantities of wireless devices that often end up in landfill sites, Scotiabank participates in the Think FOOD/Phones-for-Food project. Through this program, funds are raised for local foodbanks by recycling used cellphones and printer cartridges. During 2007, Scotiabank donated 112 mobile phones and 367 BlackBerry devices.

Measuring energy consumption
Scotiabank maintains an ongoing commitment to operating in an energy-efficient manner to preserve our planet’s finite energy resources.
• In 2006, we successfully completed an energy management pilot project for select branches in southwestern Ontario. Based on our experience with this pilot, in 2007, the Bank rolled out an energy consumption tracking system across Canada, leveraging our invoice payment processes, for both branch and non-branch locations. This consumption information will help us better identify and assess opportunities for improved energy efficiency and conservation. See chart on page 26.

Real estate practices
Scotiabank’s Real Estate Department develops real estate solutions for the Bank and its customers with due consideration to environmental matters. The group adheres to an Environmental Compliance Policy that respects principles of sustainable development. Several of the Real Estate Department’s efforts involve ensuring that our facilities minimize their energy consumption. Our energy-saving innovations include:

Ballasts and light bulbs
• Lighting retrofit in more than 275 branches across Canada, where we upgraded ballasts and light bulbs, switching from old “T-12” technology to more energy-efficient “T-8” incandescent lighting.
• Additional upgrade of ballasts and light bulbs in major owned corporate premises to “T-8” incandescent lighting, to be completed in 2008.

These two projects will lower greenhouse gas emissions by 4,367 tonnes per year and reduce energy consumption by 2,434 kilowatts, which equals enough power for 800 average Canadian homes for a year.

External signage
For our external signage in both domestic and international locations, we include significantly more efficient LED lighting for new individual letter signs. We are also installing timers and light sensors on selected exterior signs.

Roofing
We include white-coloured roofs in our new domestic and international branch design specifications. These roofs reflect heat during the warm months of the year which, in turn, reduces our air conditioning consumption.

HVAC
We continue to maintain the heating, ventilation and air conditioning systems in our branch network through a national contract with a third-party supplier, to ensure that all of these systems across our network operate as efficiently as possible.

Employee awareness
• Our branch administrative manuals for both domestic and international locations contain instructions and information to help employees reduce environmental impacts in the workplace.

Sustainable real estate development
In 2007, we opened six new “green” branches, including four in Ontario and two in Quebec.
• Three of the four new Ontario “green” branches participated in the “Green Globes” benchmarking program. As part of this internationally recognized environmental program, these branches were audited by an independent third-party assessor, and will be certified as Green Globes facilities, indicating excellent progress in achieving eco-efficiency results through current best energy and environmental design practices. The fourth new Ontario “green” branch incorporated features and innovations from previously constructed “green” branches.
• The two new Quebec “green” branches also incorporated successful features and innovations from previously constructed “green” branches.
• Over the next year, we will analyze the effectiveness and benefits of our six new “green” branches and look to replicate, in other locations, the benefits that we have achieved when opening new locations or renovating existing ones.
• To encourage car-free commuting, we continue to install bicycle racks in front of most new branches and, wherever practical, in front of newly renovated branches.
**SETTING ENVIRONMENTAL GOALS IN MEXICO**

In 2007, Grupo Scotiabank in Mexico increased its commitment to environmental responsibility, setting goals and introducing new operational initiatives.

For example, the Bank aims to reduce office paper demand by 10 per cent and use 100 per cent recycled paper to print institutional communications. In the first six months of 2007 alone, it used recycled paper to produce campaign posters, newsletters, flyers and pamphlets, equalling 3.8 tonnes of eco-friendly paper which saved 91 trees. It also transferred many print communications to electronic format (see 5MinutosScotia electronic bulletin at left) and began recycling programs, which target a five per cent reduction in the Bank’s materials consumption.

The Bank also supported staff volunteer activities such as tree-plantings (see page 24) and sponsored a cycle-a-thon event which encouraged 200 Scotiabankers to commute by bicycle. In 2008, a third-party environmental audit will help the Bank measure its progress and establish more environmental projects.

### The supply chain

As a purchaser of products and services, ranging from printed forms and marketing materials to computers and photocopiers, building materials, furniture and carpet, we incorporate environmental considerations into our purchasing processes.

Some examples in 2007 include:

- **Janitorial services**
  Contracts specify that our suppliers must use environmentally friendly cleaning products and equipment (including hepafilter vacuums and microfibre cloths) for servicing our domestic branch network.

- **Carpeting**
  - In 2007, we purchased and installed 46,546 square yards of environmentally friendly carpet throughout various Scotiabank facilities. As a result, 593 short tonnes of certified carbon dioxide credits have been permanently retired, which represents the total life-cycle impact of this purchase.

- **Chairs**
  New chairs purchased for both our domestic and international locations are composed of up to 44 per cent recycled materials, and each chair is 90 per cent recyclable by weight.

- **Supplier selection**
  In 2007, we reviewed the CSR criteria included in our standard supplier request for proposal documents (RFPs), advising suppliers that adherence to CSR principles is a factor in the Bank’s sourcing process.

### Indirect environmental impacts

**Addressing environmental risk in our lending activities**

Scotiabank has an environmental lending policy in place, which seeks to identify and mitigate environmental risks in the Bank’s commercial and corporate lending activities.

- As part of the overall credit assessment process and initial due diligence, Scotiabank requires lending officers to ascertain each borrower’s compliance with applicable environmental regulations and to consider, review and document current and potential environmental risks associated with their business operations.

- Since changes in environmental legislation or a deterioration in the borrower’s environmental management practices may result in an environmental problem, lending officers are instructed to monitor environmental risks on an ongoing basis.

### Renewables and clean tech financing

Scotiabank RFPs can require applicants to describe their CSR and environmental management system policies and practices, relevant CSR or environmental accreditations, programs to deliver energy-efficient products and services, recycling and disposal methods and employment practices that support diversity.

This year, Scotia Capital increased its commitment to the financing of renewable energy projects, including making sizeable investments in several wind, hydro and other environmental projects. During 2007, we provided financing and raised more than $2 billion for the renewables sector. Some examples of our renewable energies and clean tech financing activities include:

- Joint lead placement agent role on a private placement for FPL Energy’s White Pine Hydro assets. FPL Energy is a leading clean energy provider, with natural gas, wind, solar, hydroelectric and nuclear power plants in operation across the U.S.

- Managing agent role and a US$25.5 million commitment to FPL Energy’s Lone Star Wind financing in Texas.

- Lead arranger role on Fortistar’s US$97.5 million landfill gas acquisition financing.

- Tier 1 role and a US$73.25 million commitment to Noble Environmental Power wind farm financing, plus an additional US$15 million participation in Noble’s wind turbine equipment financing.

- US$50 million commitment to AES Corporation’s Changquinola hydro project in Panama.

- Co-lead arranger & syndication agent on a C$55 million financing for EnGlobe Corp.’s acquisition of Biogénie, a company that specializes in contaminated site assessment and remediation. EnGlobe is a leading integrated environmental services company specializing in the management of organic-based waste streams and contaminated soils with an emphasis on beneficial re-use.
Scotiabank has provided some $12.5 million in funding to the Doña Julia Hydroelectric project in Costa Rica to help this facility expand the use of renewable energy technologies and reduce the country’s reliance on fossil fuels. This innovative, 16 megawatt plant produces an estimated 83-88 gigawatt hours of electricity per year and will offset an estimated 210,000 tonnes of CO₂ emissions over its 15-year lifetime (1999-2014). The project has been accredited as a “Joint Implementation Project” under the Kyoto Protocol.

**Climate change**

**Spheres of actions and responsibility**

Global warming is one of the most important issues facing our planet. In 2007, concern about climate change reached new heights in many countries. Scotiabank is committed to playing our role in reducing harmful greenhouse gas (GHG) emissions, in our own operations and through our spheres of influence. In particular, we are committed to better addressing material climate change risk in our risk management processes, and being proactive on climate-related opportunities.

The following diagram sets out potential spheres of action and responsibility regarding climate change for the financial sector, and helps Scotiabank assess where we can have a positive impact. Information on specific Scotiabank policies and practices in these areas are found throughout the Environment section of this report.

1. **Employees and internal operations**: Global financial institutions have large employee and branch networks and, as a result, can make a positive impact on reducing GHG emissions by promoting energy efficiency throughout their operations; for example, by encouraging behaviour among employees that will help reduce individual carbon footprints, both at work and at home, and measuring energy consumption and GHG emissions to help better identify opportunities for improved efficiencies.

2. **Suppliers**: In purchasing products for their operations, banks can choose those with lower carbon footprints whenever possible; for example, choosing energy-efficient photocopiers or fax machines, or carpeting with a low-carbon footprint.

3. **Customers**: Climate change presents both risks and opportunities among a bank’s customer base. From a risk perspective, banks can assess material climate change risks in lending activities. From an opportunities perspective, they can assist those companies that are having a positive impact on the environment. Examples include lending to the renewable energies and clean technologies sectors, providing carbon- and energy-related services, such as emissions trading and weather derivatives, and offering retail products such as climate-friendly mutual funds.

4. **Communities**: Dialogue with external stakeholders allows financial institutions to obtain valuable feedback on climate change policies and programs, as well as share their expertise – in areas such as risk management, reporting and supply chain management – within the industry and among multiple stakeholder groups focused on climate change. Banks can also provide financial support to the growing number of important charities and think tanks dedicated to addressing climate change.
Sharing their capital markets expertise, Travis Chernichen, Global Energy Solutions (left); Sharon Telem, Fixed Income Origination; and Jeremy Lucas, Global Energy Solutions, help serve a broad range of clients.

- Co-lead arranger & co-syndication agent on a C$405 million financing for GreenField Ethanol Inc. The financing was structured to provide the company with project financing for two new ethanol plants in Ontario, and funds to expand their recently constructed plant in Quebec, as well as to refinance existing senior debt financing. GreenField is the largest producer and distributor of ethanol in Canada, a greenhouse gas-reducing vehicle fuel blend made from corn, wheat or other grains.

**Expertise in energy risk management**

A market leader for many years, Scotia Capital has recently observed an increased interest in energy hedging among clients as a result of rising oil prices, finite fossil fuel supplies, government policies and incentives and public climate change concern. In response to this momentum, Scotia Capital recently expanded its risk management team to include an energy derivatives group.

- Based in Toronto, the Global Energy Solutions (GES) team has an international scope and provides complete risk management capabilities to Scotia Capital’s power, infrastructure, and oil and gas clients, as well as heavy users of energy.

- With an increased emphasis on green initiatives, companies across North America have started to voluntarily implement pollution-reduction programs. These programs often involve the use of products such as carbon emission credits or green energy credits. GES has the ability to assist with the trading of carbon emission credits or green energy credits and work with clients to structure a program that accomplishes their desired carbon reduction goals.

**Dedicated expertise in renewable energy research**

Renewable energy sources, and the provision of financial products and services that help this sector grow, are important components of addressing the issue of climate change. Scotia Capital is helping promote the renewable energy sector and attract investor interest by offering extensive expertise to institutional clients in the area of renewable energy, including industry trends, public policy and economic analysis of the sector.

- The Institutional Equity Research group, which recently added a dedicated alternative and renewable energy analyst position, prepares special reports on industry issues and provides analytical coverage of Canadian public companies in the sector. Through site visits and meetings with company management and energy experts, the research team aims to identify attractive investment opportunities in these companies.

**Meeting global standards for international project finance**

In September 2006, Scotiabank adopted the revised Equator Principles, a set of internationally recognized, voluntary project finance guidelines that establish social and environmental standards in the banking industry. The new principles have a wider scope than those adopted by the Bank in 2005, and apply to project financing where capital costs exceed US$10 million, instead of US$50 million. They also reflect recent revisions to the International Finance Corporation’s (IFC) performance standards, upon which the Equator Principles are partly based.

- In adopting these principles, Scotiabank agrees to provide loans only to those projects where borrowers can demonstrate their ability and willingness to comply with comprehensive processes aimed at ensuring that projects are developed in a socially responsible manner and according to sound environmental management practices.

- To ensure it is able to meet its commitments, in 2007 the Bank worked with internationally recognized Equator Principles consultants to produce a comprehensive set of guidelines, which provide banking and credit officers with tools to assist in meeting Equator Principles requirements.
Memberships and stakeholder engagement

To support co-operation on environmental issues, Scotiabank participated in a number of domestic and international environmental initiatives throughout the year:

• We are a long-standing member of the United Nations Environmental Program Finance Initiative (UNEP FT), and we participate in its North American Task Force (NATF), which commits signatories to incorporate environmentally sound practices into their internal operations, risk assessment and management practices, and to develop environmentally sound products and services. In 2007, the NATF completed a study and training day on the development of “green” financial products for the financial sector in the North American context. The study is available at www.unepfi.org.

• We are a member of Environment Canada’s network on linking environmental performance to financial value, made up of financial institutions, governments, academics and other groups. In 2007, the network commissioned a report on the relevance of Canadian financial institutions’ activities to the sustainability of Canada’s boreal region.

• We take part in the Canadian Bankers Association’s Environmental Issues Specialist Group to discuss and participate in an industry approach to addressing issues relating to the environment.

• Scotiabank is a signatory and contributor to the Carbon Disclosure Project (CDP), an initiative on behalf of international institutional investors to collect information on climate change and its impact on the world’s largest companies. To review Scotiabank’s submission, please visit www.cdpproject.net.

• In 2007, we met with a number of environmental non-government organizations to obtain their insights and to work towards making our business transparent with respect to environmental issues.

Supporting environmental causes

Scotiabank also supports environmental initiatives by not-for-profit organizations. For example, in 2007:

• We began a five-year platinum-level sponsorship of the Pembina Institute to implement Greenlearning.ca, an online learning and research centre designed for teachers and students in Grades 1 through 12, focusing on the issue of climate change.

• We committed to a new five-year gift to the Tides Canada Foundation, a unique national public foundation which supports innovative projects in the areas of environmental sustainability and progressive social change. Our $100,000 contribution will help create a permanent conservation endowment fund that will help preserve British Columbia’s Great Bear Rainforest and also benefit First Nations communities.

• We continued our annual support to the World Wildlife Fund, providing a $15,000 donation directed to their Endangered Species Recovery Fund. This project supports the research and education efforts of scientists and conservation specialists who are working to recover some of the more than 500 Canadian species currently listed as being “at risk.”

In Peru, Scotiabank has been a supporter of the innovative Children’s Lands (Tierra de Niños) since 2005. This international non-profit organization promotes environmental stewardship by teaching children to care for plots of land of one square metre or more. Currently 4,000 Peruvian children oversee more than 300 hectares of land in 10 states. In 2007, Scotiabank donated US$20,000 and the Bank has pledged US$50,000 more to help the project involve 20,000 children in restoring 4,000 hectares by 2010.

Going forward

Scotiabank has set several environmental objectives and is committed to communicating our progress through our annual corporate social responsibility report. We will:

• Adopt an environmental paper policy that will set out a framework for conservation and choosing papers with recycled content and sustainable forestry sources.

• Launch a mutual fund product with an environmental screen.

• Enhance climate risk assessment in the Bank’s lending procedures and publicly report on the process.

• Further strengthen our due diligence policies to promote sustainable forestry practices in our lending activities to this sector.

• Track domestic water consumption.