

# BANK OF NOVA SCOTIA JA. LTD 1996.

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## Notes to Financial Statements

31 October 1996

### 1. Identification

The Bank of Nova Scotia Jamaica Limited ('the Bank') is incorporated under the laws of Jamaica. It is a 70% subsidiary of The Bank of Nova Scotia, which is incorporated in Canada.

The Bank is licensed and these financial statements have been prepared in accordance with the provisions of the Banking Act, 1992.

The Bank's subsidiaries, which together with the Bank are referred to as 'the Group', and its associated company are as follows:

	Holding	Financial Year End
<b>Subsidiaries</b>		
Scotiabank Jamaica Trust and Merchant Bank Limited	100%	31 October
The West India Company of Merchant Bankers Limited	100%	31 October
The Scotia Jamaica Building Society	100%	31 October
Scotia Jamaica Life Insurance Company Limited	100%	31 October *
Brighton Holdings Limited	100%	31 October



reflected in IFH's audited financial statements for the year ended 31 December 1995, and the unaudited results for the eight months ended 31 August 1996.

**(d) Interest**

Interest income and expense are recorded on the accrual basis except that, where collection of interest income is considered doubtful or payment is outstanding for more than 180 days, interest is taken into account on the cash basis.

**(e) Foreign currency translation**

Assets and liabilities denominated in foreign currencies are translated into Jamaican dollars at the exchange rates prevailing at the balance sheet date. This is, in the case of each currency, the mid point between the Bank's buying and selling rates at that date.

Transactions in foreign currencies are translated at the rates of exchange ruling at the dates of those transactions.

Gains and losses arising from fluctuations in exchange rates are included in the revenue and expense statement.

**(f) Investments**

(i) Investments in Government of Jamaica securities are stated at cost plus, in the case of Treasury Bills and Local Registered Stock, accrued interest.

(ii) Quoted securities are stated at the lower of cost and market value.

(iii) Unquoted securities are stated at cost.

**(g) Provision for loan losses**

The Bank maintains an allowance for credit losses which consists of specific provisions and general provisions for doubtful credits.

Specific provisions are established as a result of reviews of individual loans and is based on an assessment which takes into consider-

ation all factors, including collateral held and business and economic conditions.

General provisions are allocated against sectors rather than specifically against individual loans. These provisions are established in respect of particular industries, or other groupings of credits where a prudent assessment by the Bank of adverse economic trends suggests that losses may occur in the sector but where such losses cannot yet be identified on an item-by-item basis.

**(h) Fixed assets**

Land and buildings are stated at an independent valuation obtained in 1994, with subsequent additions at cost. Other fixed assets are shown at cost. Depreciation and amortization are calculated by the straight line method at rates estimated to write off the assets over their expected useful lives as follows:

Buildings	40 years
Furniture, fixtures and equipment	10 years
Computer equipment	7 years
Motor vehicles	5 years
Leasehold improvements	Period of lease

**(i) Deferred taxation**

Taxation payable due to timing differences between charges allowed for taxation purposes and those shown in these financial statements is provided for only to the extent that there is a reasonable probability that the liabilities will arise in the foreseeable future.

**(j) Pension plan costs**

Ordinary contributions by the Group to fund benefits under the pension plan operated by trustees for employees of the Group are charged as an expense in the year in which they are due. Special con-

tributions are charged as an expense when paid.

**(k) Finance lease**

The gross investment in finance leases net of unearned income is recorded as a receivable balance.

**3. Profit before Taxation**

In arriving at the profit before taxation, the following have been charged:

	The Group		The Bank	
	1996 \$'000	1995 \$'000	1996 \$'000	1995 \$'000
Directors' Emoluments				
Fees	1,025	1,470	633	1,008
Other (salaries of full-time officers who are directors)	14,372	11,712	14,372	11,712
Auditors' remuneration -				
Current year	4,917	4,125	3,150	2,958
Prior year	123	-	-	-
Depreciation	<b>90,857</b>	<b>76,790</b>	<b>87,350</b>	<b>70,939</b>

**4. Taxation**

Income tax is computed at 33 1/3% of the profit for the year as adjusted for tax purposes. The charge for taxation comprises:

	The Group		The Bank	
	1996 \$'000	1995 \$'000	1996 \$'000	1995 \$'000

Current income tax -				
Charge for the current year	716,561	641,564	687,742	634,314
Adjustment for under/ (over) provision of prior year's charge				
	15,962	1,698	16,667	1,698
Deferred income tax	26,377	17,458	20,363	6,809
	758,900	660,720	724,772	642,821
Share of associated company's charge	54,987	42,946	-	-
	<b>813,887</b>	<b>703,666</b>	<b>724,772</b>	<b>642,821</b>

#### 5. Extraordinary Item

	The Group		The Bank	
	1996	1995	1996	1995
	\$'000	\$'000	\$'000	\$'000
<b>Levy on profits</b>	-	<b>154,314</b>	-	<b>151,193</b>

The Provisional Collection of Tax (Specified Financial Institutions) (Levy on Profits) Order 1994 introduced a levy on specified financial institutions. The Order required that payments at the rate of 23% be made in equal instalments on 15 December 1994 and 15 March 1995 based on four times the average monthly pre-tax profits of relevant institutions, as reported to the Bank of Jamaica, for the period 1 January 1994 to 30 June 1994.

The Order was confirmed, with modifications, on 30 May 1995 by the House of Representatives. The Modified Order required that the levy be payable on the average monthly audited pre-tax profits of the specified financial

institution for the period from 1 December 1994 to 31 March 1995.

The amounts of \$154,314,000 for the Group and \$151,193,000 for the Bank reflected in these financial statements as levy on profits were calculated in accordance with the Modified Order, with the exception that it was based on four times the average monthly pre-tax profits for the twelve months ended 31 October 1995.

## 6. Dividends

	1996 \$'000	1995 \$'000
Dividends comprise:		
Interim dividends paid, \$0.45 (1995-\$0.45) per stock unit	329,314	329,314
Interim dividend payable \$0.45 (1995-\$0.30) per stock unit	329,314	219,542
	<b>658,628</b>	<b>548,856</b>

Tax of \$69,988,681 (1995:\$70,193,164) has been withheld from the interim dividends paid and the dividend payable is subject to the deduction of withholding tax.

## 7. Earnings Per Stock Unit

The earnings per stock unit calculations are based on the net profit before and after extraordinary item (note 5) and 731,808,000 ordinary stock units in issue at the end of both years.

## 8. Statutory Reserves and Deposits

Cash includes \$6,700,280,754 (1995:\$5,974,762,000) for the Group and \$6,480,298,431 (1995:\$5,905,725,000) for the Bank. This amount is held,

under section 14 (i) of the Banking Act, 1992, substantially on a non-interest-bearing basis at Bank of Jamaica as a cash reserve; accordingly, it is not available for investment or other use by the Bank.

Government securities of the Group and the Bank include \$572,727,253, held indefinitely by Bank of Jamaica as a Special Deposit under section 28A of the Bank of Jamaica Act. These securities may not be dealt with by the Bank and, on maturity, must be replaced by similar securities or cash.

#### 9. Provision for Loan Losses

	The Group		The Bank	
	1996 \$'000	1995 \$'000	1996 \$'000	1995 \$'000
At beginning of year	355,060	361,069	354,894	360,984
Charged against revenue during the year	50,000	81	50,000	-
Bad debts written off	( 32,930)	( 7,346)	( 32,930)	( 7,346)
Recoveries of bad debts	4,784	1,256	4,784	1,256
At end of year	376,914	355,060	376,748	354,894
This is represented by:				
Specific provisions	57,352	27,619	57,186	27,453
General provisions	319,562	327,441	319,562	327,441
	<b>376,914</b>	<b>355,060</b>	<b>376,748</b>	<b>354,894</b>

#### 10. Leased Assets



	1996 \$'000	1995 \$'000
Gross investment in finance leases	304,197	228,555
Unearned income	(133,845)	( 99,788)
Net investment in finance leases	<b>170,352</b>	<b>128,767</b>

#### 11. Fixed Assets

	The Group				
	Freehold Land and Buildings \$'000	Leasehold Improvements \$'000	Furniture, Fixtures and Equipment \$'000	Capital Work-In Progress \$'000	Total \$'000
At Cost or Valuation -					
1 November 1995	894,961	11,141	473,229	74,123	1,453,454
Additions	-	19,594	116,456	95,003	231,053
Disposals	-	( 51)	( 5,363)	-	( 5,414)
Revaluation adjustment	( 4,232)	-	-	-	( 4,232)
Transfers	109,935	-	-	( 109,935)	-
31 October 1996	<b>1,000,664</b>	<b>30,684</b>	<b>584,322</b>	<b>59,191</b>	<b>1,674,861</b>
Depreciation -					
1 November 1995	29,774	8,507	177,339	-	215,620
Charge for the year	19,627	2,090	69,140	-	90,857
On disposals	-	( 51)	( 4,658)	-	( 4,709)
31 October 1996	49,401	10,546	241,821	-	301,768

Net Book Value -

31 October 1996	951,263	20,138	342,501	59,191	1,373,093
31 October 1995	865,187	2,634	295,890	74,123	1,237,834

At Cost of Valuation -

1 November 1995	811,252	10,490	460,395	74,123	1,356,260
Additions	-	12,913	109,249	95,003	217,165
Disposals	-	( 5)	( 5,125)	-	( 5,130)
Tranfers	109,935	-	-	( 109,935)	-
31 October 1996	<b>921,187</b>	<b>23,398</b>	<b>564,519</b>	<b>59,191</b>	<b>1,568,295</b>

Depreciation -

1 November 1995	25,858	8,141	173,794	-	207,793
Charge for the year	17,538	2,015	67,797	-	87,350
On disposals	-	( 5)	( 4,532)	-	( 4,537)
31 October 1996	<b>43,396</b>	<b>10,151</b>	<b>237,059</b>	<b>-</b>	<b>290,606</b>

Net Book Value -

31 October 1996	877,791	13,247	327,460	59,191	1,277,689
31 October 1995	<b>785,394</b>	<b>2,349</b>	<b>286,601</b>	<b>74,123</b>	<b>1,148,467</b>

Land and buildings were professionally valued as at 31 March 1994 by Property Consultants Limited, Real Estate Brokers and Appraisers, of Kingston, Jamaica - land at fair market value and buildings at

depreciated replacement cost (note 15).

**12. Capital**

	<b>1996</b>	<b>1995</b>
	<b>\$'000</b>	<b>\$'000</b>
Authorised:		
Ordinary shares of \$1 each	750,000	750,000
Issued and fully paid:		
Ordinary stock units of \$1 each	731,808	731,808

**13. Reserve Fund**

	<b>The Group</b>		<b>The Bank</b>	
	<b>1996</b>	<b>1995</b>	<b>1996</b>	<b>1995</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
At beginning of year	531,030	406,230	507,000	387,000
Transfer for year	205,710	124,800	150,000	120,000
<b>At end of year</b>	<b>736,740</b>	<b>531,030</b>	<b>657,000</b>	<b>507,000</b>

As required by the Banking Act, the Group makes transfers of a minimum of 15% or 10% of net profits, depending on the circumstances, to the reserve fund.

**14. Retained Earnings Reserve**

	<b>The Group</b>		<b>The Bank</b>	
	<b>1996</b>	<b>1995</b>	<b>1996</b>	<b>1995</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
At beginning of year	941,192	445,192	887,192	407,192
Transfer for year	533,000	496,000	480,000	480,000

1,474,192      941,192   1,367,192    887,192

Transfers to the retained earnings reserve are made at the discretion of the Board, such transfers must be notified to the Bank of Jamaica.

**15. Capital Reserves**

	The Group		The Bank	
	1996	1995	1996	1995
At beginning of year:	\$'000	\$'000	\$'000	\$'000
Realised gain transferred from profit and loss account of associated company	11,801	9,023	-	-
Unrealised surplus on revaluation of fixed assets -				
Associated company	5,495	5,495	-	-
Bank	500,885	500,885	476,245	476,245
Goodwill arising on consolidation	( 606 )	( 606 )	-	-
Unrealised gain on revaluation of quoted investments of associated company	29,389	19,321	-	-
Reserves of subsidiary and associated company capitalised through bonus issues	30,441	9,000	-	-

Unrealised gain on revaluation of investments	135	135	-	-
	<b>577,540</b>	<b>543,253</b>	<b>476,245</b>	<b>476,245</b>

Movements during the year:

Realised gain transferred from profit and loss account of associated company	-	2,778	-	-
Bonus issue by associated company from revenue reserves	22,301	21,441	-	-
	<b>22,301</b>	<b>24,219</b>	<b>-</b>	<b>-</b>
Unrealised gain on revaluation of investments of associated company	35,526	10,068	-	-
	<b>57,827</b>	<b>34,287</b>	<b>-</b>	<b>-</b>
At end of year	<b>635,367</b>	<b>577,540</b>	<b>476,245</b>	<b>476,245</b>

The Group		The Bank	
1996	1995	1996	1995
\$'000	\$'000	\$'000	\$'000

These comprise:

Realised gain transferred from profit and loss account of associated company	11,801	11,801	-	-
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Unrealised surplus on revaluation  
of fixed assets-

Associated company	5,495	5,495	-	-
Bank and subsidiaries	500,885	500,885	476,245	476,245
Goodwill arising on consolidation (	606)	( 606)	-	-
Unrealised gain on revaluation of quoted investments of associated company	64,915	29,389	-	-
Reserves of subsidiary and associated company capitalised through bonus share issues	52,742	30,441	-	-
Unrealised gain on revaluation of investments	135	135	-	-
	<b>635,367</b>	<b>577,540</b>	<b>476,245</b>	<b>476,245</b>

## 16. Pension plan

A contributory pension plan is administered by Trustees for employees of the Group. Benefits to members are based on the highest 60 consecutive months' salary, subject to a maximum salary of \$1,250,000 per annum for service before 1 November 1987, and unrestricted thereafter.

An actuarial valuation of the fund as of 31 October 1994, as amended by adoption of improved benefits during 1996, disclosed a deficiency in respect of past services of \$91,800,000. This is being funded by special employers' contributions of \$11,800,000 per annum for ten years commencing 31 October 1996.

The directors have accepted the actuaries' recommendation for the employers to contribute at 11 1/4 % of salary effective 1 November 1995.

The employers' contributions for the year were as follows:

	The Group		The Bank	
	1996	1995	1996	1995
	\$'000	\$'000	\$'000	\$'000
Ordinary contributions	106,815	36,659	104,974	35,807
Special contributions	11,800	932	11,800	932
	<b>118,615</b>	<b>37,591</b>	<b>116,774</b>	<b>36,739</b>

#### 17. Capital Commitments

	The Group		The	Bank
	1996	1995	1996	1995
	\$'000	\$'000	\$'000	\$'000
Capital expenditure:				
Authorised and contracted for	52,547	456,110	52,547	456,110

#### 18. Subsequent Events

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