

Bank of Nova Scotia Jamaica Limited 1997

NOTES TO FINANCIAL STATEMENTS

31 October, 1997

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:

Subsidiaries	Holding	Financial Year End
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*
Scotia Jamaica Insurance Agency Limited	100%	31 October
Brighton Holdings Limited	100%	31 October

Associated Company

Industrial Finance Holdings Limited (note 4)	50%	31 December
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* This subsidiary was incorporated during 1996 and has not yet received permission from the Superintendent of Insurance to commence Life Insurance activities.

The principal activities of the Group are banking and other financial services.

These financial statements are presented in Jamaican dollars.

2. Significant Accounting Policies

(a) Accounting convention

The financial statements are prepared under the historical cost convention, modified for the inclusion of certain fixed assets and investments at valuation.

(b) Basis of consolidation

The consolidated financial statements combine the financial position and results of operations of the Bank and its subsidiaries, after eliminating intergroup balances and, on the basis set out below, include the Bank's interest in its associated company.

(c) Associated company

The Bank accounts for its interest in its associated company by the equity

method. An associated company is a company, other than a subsidiary, over which the Group exercises a significant measure of influence, including representation on the board of directors, and in which it owns 20% or more of the issued capital.

As indicated in note 1, the financial year end of the associated company, Industrial Finance Holdings Limited (IFH), was not coterminous with the rest of the Group. The Group's share of IFH's profits for 1996 was based on four months' apportionment of profits as 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. The Group disposed of its interest in IFH on 4 November 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 consist 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 consideration 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 contributions are charged as an expense when paid.

(k) Finance lease

The gross investments 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	
	1997	1996	1997	1996
	\$'000	\$'000	\$'000	\$'000
Directors' Emoluments				
Fees	949	1,025	672	633
Other (salaries of full-time officers)	19,208	14,372	19,208	14,372
Auditors' remuneration -				
Current year	6,607	4,917	3,701	3,150
Prior year	(33)	123	-	-
Depreciation	<u>118,043</u>	<u>90,857</u>	<u>111,060</u>	<u>87,350</u>

4. Exceptional Item

	The Group		The Bank	
	1997	1996	1997	1996

\$'000	\$'000	\$'000	\$'000
<u>63,735</u>	<u>-</u>	<u>475,460</u>	<u>-</u>

This represents gain on disposal of the bank's 50% interest in its associated company, Industrial Finance Holding Limited, on 4 November 1996.

5. 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	
	1997	1996	1997	1996
	\$'000	\$'000	\$'000	\$'000
Current income tax-				
Charge for the current year	716,309	716,561	672,532	687,742
Adjustment for (over)/under provision of prior year's charge	(18,011)	15,962	(18,011)	16,667
Deferred income tax	<u>(20,729)</u>	<u>26,377</u>	<u>(15,043)</u>	<u>20,363</u>
	677,569	758,900	639,478	724,772
Share of associated company's change	<u>-</u>	<u>54,987</u>	<u>-</u>	<u>-</u>
	<u>677,569</u>	<u>813,887</u>	<u>639,478</u>	<u>724,772</u>

6. Statutory Reserves and Deposits

Cash includes \$9,867,859,543 (1996 \$6,700,280,754) for the Group and \$9,475,714,892 (1996 \$6,480,298,431) 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

7. Investments

The Group
Remaining Term of Maturity

	Within 3 months	Three to 12 months	One to 5 Years	Over 5 Years	Carrying Value	Carrying Value
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Government of Jamaica	852,577	3,227,842	3,145,543	24,795	7,250,757	5,732,253
Foreign Government Debts	129,895	-	-	-	129,895	102,805
Other	214,348	-	-	-	214,348	209,200
Associated Companies	-	-	-	-	-	437,265
	1,196,820	3,227,842	3,145,543	24,795	7,595,000	6,481,523

The Bank
Remaining Term to maturity

	Within 3 Months	Three to 12 months	One to 5 Years	Over 5 Years	Carrying Value	Carlying Value
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Government of Jamaica	559,848	2,858,596	2,916,172	24,794	6,359,410	4,786,427
Foreign Government Debts	129,895	-	-	-	129,895	102,805
Other	214,343	-	-	-	214,343	209,200
Subsidiaries	-	-	-	264,238	264,238	101,843
Associated Companies	-	-	-	-	-	25,540
	904,086	2,858,596	2,916,172	289,032	6,967,886	5,225,815

(i) 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.

(ii) The total market value of other investments amounted to \$472,435,829 (1996 \$371,121,636).

8. Loans

	The Group		The Bank	
	1997 \$'000	1996 \$'000	1997 \$'000	1996 \$'000
Business and Government	14,156,206	11,782,200	13,992,342	11,662,505
Personal and credit cards	5,630,545	5,266,283	5,630,368	5,266,020
Residential mortgages	503,501	297,510	-	-
Assets purchased under resale agreements	-	443,985	-	443,985
Government securities purchased under resale agreements	7,547,662	4,571,338	2,114,034	1,428,016
	27,837,914	22,361,316	21,736,744	18,800,526
Less: Provision for loan losses	488,032	376,914	467,715	376,748
	<u>27,349,882</u>	<u>21,984,402</u>	<u>21,269,029</u>	<u>18,423,778</u>

9. Provisions for Loan Losses

	The Group		The Bank	
	1997 \$'000	1996 \$'000	1997 \$'000	1996 \$'000
At the beginning of year	376,914	355,060	376,748	354,894
Charged against revenue during the year	166,364	50,000	140,000	50,000
Bad debts written off	(62,291)	(32,930)	(56,078)	(32,930)
Recoveries of bad debts	7,045	4,784	7,045	4,784
At end of year	<u>488,032</u>	<u>376,914</u>	<u>467,715</u>	<u>376,748</u>
This is represented by:				
Specific provisions	118,035	57,352	102,529	57,186

General provisions	369,997	319,562	365,186	319,562
	<u>488,032</u>	<u>376,914</u>	<u>476,715</u>	<u>376,748</u>

10. Leased Assets

	1997 \$'000	1996 \$'000
Gross investment in finance leases	183,157	304,197
Less: Unearned income	49,082	133,845
Net investment in finance leases	134,075	170,352
Interest accrued	1,803	3,424
	<u>135,878</u>	<u>173,776</u>

11. Fixed Assets

	The Group				Total
	Freehold Land and Buildings	Leasehold Improvements	Furniture Fixtures & Equipment	Capital Work-In Progress	
	\$'000	\$'000	\$'000	\$'000	\$'000
At Cost or Valuation-					
1 November 1996	1,000,664	30,684	584,322	59,191	1,674,861
Additions	38,866	10,542	140,155	81,511	271,074
Disposals	(27,360)	(840)	(11,552)	-	(39,752)
Transfers	28,278	-	-	(28,278)	-
31-Oct-97	<u>1,040,448</u>	<u>40,386</u>	<u>712,925</u>	<u>112,424</u>	<u>1,906,183</u>
Depreciation-					
1 November 1996	49,401	10,546	241,821	-	301,768
Charge for the year	20,433	5,640	91,970	-	118,043
On disposals	(1,023)	(843)	(10,015)	-	(11,881)
31 October 97	<u>68,811</u>	<u>15,343</u>	<u>323,776</u>	<u>-</u>	<u>407,930</u>

Net Book Value -

31 October 1997	971,637	25,043	389,149	112,424	1,498,253
31 October 1996	951,263	20,138	342,501	59,191	1,373,093

The Bank

	Freehold Land and Buildings \$'000	Leasehold Improvements \$'000	Furniture, Fixtures & Equipment \$'000	Capital Work-in Progress \$'000	Total \$'000
At Cost or Valuation -					
1 November 1996	921,187	23,398	564,519	59,191	1,568,295
Additions	11,202	8,849	133,421	81,511	234,983
Disposals	(27,360)	(644)	(8,475)	-	(36,479)
Transfers	28,278	-	-	(28,278)	-
31 October 1997	933,307	31,603	689,465	112,424	1,766,799
Depreciation -					
1 November 1996	43,396	10,151	237,059	-	290,606
Charge for the year	17,984	4,911	88,165	-	111,060
On disposals	(1,023)	(644)	(7,394)	-	(9,061)
31 October 1997	60,357	14,418	317,830	-	392,605
Net Book Value -					
31 October 1997	872,950	17,185	371,635	112,424	1,374,194
31 October 1996	877,791	13,247	327,460	59,191	1,277,689

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 17).

12. Deposits

The Group

	Payable on demand	Payable after notice	Payable at a fixed date	1997	1996
	\$'000	\$'000	\$'000	\$'000	\$'000
Personal	757,914	22,387,190	4,253,957	27,399,061	19,332,527
Banks	184,943	4,340	589,466	778,749	695,666
Others	7,993,331	3,925,165	2,130,015	14,048,511	11,139,793
	8,936,188	26,316,695	6,973,438	42,226,321	31,167,986

The Bank

	Payable on demand	Payable after notice	Payable at a fixed date	1997	1996
	\$'000	\$'000	\$'000	\$'000	\$'000
Personal	757,914	21,490,034	2,195,953	24,443,901	17,326,086
Banks	184,943	4,340	574,717	764,000	693,766
Others	8,183,928	3,874,815	1,758,254	13,816,997	10,723,521
	9,126,785	25,369,189	4,528,924	39,024,898	28,743,373

13. Dividends

Dividends comprise:

	1997 \$'000	1996 \$'000
Capital distributions paid, \$0.65 on 731,808,000 ordinary stock units (1996 -\$Nil)	475,675	-

Interim dividends paid, \$Nil (1996 -\$0.45 on 731,808,000 ordinary stock units)	-	329,314
Interim dividend payable, \$0.175 on 1,463,616,000 ordinary stock units (1996 -\$0.45 on 731,808,000 ordinary stock units)	<u>256,133</u> <u>731,808</u>	<u>329,314</u> <u>658,628</u>

Tax of \$Nil (1996 \$69,988,681) has been withheld from the interim dividends paid and the dividend payable is subject to the deduction of withholding tax.

14. Capital

	1997 \$'000	1996 \$'000
Authorised		
Ordinary shares of \$1 each	<u>1,500,000</u>	<u>750,000</u>
Issued and fully paid:		
Ordinary stock units of \$1 each	<u>1,463,616</u>	<u>731,808</u>

During the year the Bank increased its authorised capital to \$1,500,000,000 by the creation of 750,000,000 ordinary shares of \$1 each ranking pari passu in all respects with the existing ordinary shares and made a bonus issue of one ordinary share for each stock unit issued. The issue was made by utilising \$731,808,000 of the retained earnings reserve (note 16).

15. Reserve Fund

	The Group		The Bank	
	1997 \$'000	1996 \$'000	1997 \$'000	1996 \$'000
At beginning of year	736,740	531,030	657,000	507,000
Transfer for year	<u>884,400</u>	<u>205,710</u>	<u>810,000</u>	<u>150,000</u>
At end of year	<u>1,621,140</u>	<u>736,740</u>	<u>1,467,000</u>	<u>657,000</u>

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.

16. Retained Earnings Reserve

	The Group		The Bank	
	1997 \$'000	1996 \$'000	1997 \$'000	1996 \$'000
At beginning of year	1,474,192	941,192	1,367,192	887,192
Transfer from unappropriated profits	<u>404,000</u>	<u>533,000</u>	<u>360,000</u>	<u>480,000</u>
	1,878,192	1,474,192	1,727,192	1,367,192
Transfer to unappropriated profits for issue of bonus shares	<u>(731,808)</u>	<u>-</u>	<u>(731,808)</u>	<u>-</u>
At end of year	<u>1,146,384</u>	<u>1,474,192</u>	<u>995,384</u>	<u>1,367,192</u>

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

17. Capital Reserves

	The Group		The Bank	
	1997 \$'000	1996 \$'000	1997 \$'000	1996 \$'000
At beginning of year:				
Realised gain transferred from profit and loss account of associated company	11,801	11,801	-	-
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	64,915	29,389	-	-
Reserves of subsidiary and associated Company capitalised				
Through bonus issues	52,742	30,441	-	-
Unrealised gain on revaluation of Investments	<u>135</u>	<u>135</u>	<u>-</u>	<u>-</u>
	<u>635,367</u>	<u>577,540</u>	<u>476,245</u>	<u>476,245</u>
Movements during the year:				
Realised from the sale of interest in associated company	(125,955)	-	-	-
Bonus issue by associated company from revenue reserves	-	22,301	-	-
Capital reserves arising on consolidation of subsidiary acquired during the year	673	-	-	-
Unrealised gain on revaluation of Investments of associated company	-	35,526	-	-
At end of year	<u>510,085</u>	<u>635,367</u>	<u>476,245</u>	<u>476,245</u>

	The Group		The Bank	
	1997	1996	1997	1996
	\$'000	\$'000	\$'000	\$'000
These comprise:				
Realised gain transferred from profit and loss account of associated company	-	11,801	-	-
Unrealised surplus on revaluation of fixed assets				
Associated company	-	5,495	-	-
Bank and subsidiaries	500,885	500,885	476,245	476,245
Goodwill arising on consolidation	(606)	(606)	-	-
Capital reserve arising on consolidation of subsidiary acquired during the year	673	-	-	-
Unrealised gain on revaluation of quoted investments of associated company	-	64,915	-	-
Reserves of subsidiary and associated company capitalised through bonus share issues	8,998	52,742	-	-
Unrealised gain on revaluation of Investments	135	135	-	-
	<u>510,085</u>	<u>635,367</u>	<u>476,245</u>	<u>476,245</u>

18. Earnings per Stock Unit

The earnings per stock unit calculation is based on the profit after taxation and 1,463,616,000 ordinary stock units in issue at the end of the year. The comparative figure for the previous year has been adjusted

to reflect the issue of 731,808,000 bonus shares during the year (note 14).

19. Pension Plan

Trustees administer a contributory pension plan 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 2/3 of final salary for service thereafter.

An actuarial valuation of the fund as of 31 October 1996 disclosed a surplus in respect of past services. The employers contribute at 11 1/4% of salary plus a special contribution of \$11,800,000 per annum for ten years commencing 31 October 1996.

The employers' contributions for the year were as follows

	The Group		The Bank	
	1997 \$'000	1996 \$'000	1997 \$'000	1996 \$'000
Ordinary contributions	93,976	95,180	89,382	93,340
Special contributions	<u>11,800</u>	<u>11,800</u>	<u>11,368</u>	<u>11,800</u>
	<u>105,776</u>	<u>106,980</u>	<u>100,750</u>	<u>105,140</u>

	The Group		The Bank	
	1997 \$'000	1996 \$'000	1997 \$'000	1996 \$'000
Capital expenditure:				
Authorised and contracted for	<u>38,936</u>	<u>52,547</u>	<u>38,936</u>	<u>52,547</u>

21. Assets held in Trust

At 31 October 1997, assets held in trust, which are not beneficially owned by the Group, but for which the Group has responsibility in accordance with trust agreements amounted to \$4,628,500,000 (1996 - \$2,183,100,000).
