

# Bank of Nova Scotia Jamaica Limited 1998

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## NOTES TO THE FINANCIAL STATEMENTS

31 October 1998

### 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', 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

\* The company ceased merchant banking activities on 28 October 1998 and its licence was returned to the Bank of Jamaica.

\*\* The company was licensed as an insurance company on 22 January 1998 and life insurance business

commenced on 1 June 1998.

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

These financial statements have been 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 inter-group balances.

### (c) Actuarial valuation

The policy reserves have been calculated using the Policy Premium Method (PPM) of valuation. Under this method explicit allowance is made for all future benefits and expenses under the policies. The premiums, benefits and expenses for each policy are projected and the resultant future cash flows are discounted back to the valuation date to determine the reserves.

The process of calculating policy reserves necessarily involves the use of estimates concerning such factors as mortality and morbidity rates, future investment yields and future expense levels. Consequently, these liabilities include reasonable provisions for adverse deviations from the estimates.

An actuarial valuation is prepared annually. The actuarial surplus, net of taxation, is transferred from the life assurance fund to the profit and loss account.

### (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 90 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.

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 accrued interest.

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

(iii) Unquoted securities are stated at cost.

(g) Assets purchased/sold under resale/repurchase agreements

The purchase and sale of securities under resale and repurchase agreements are treated as collateralized lending and borrowing transactions. The related interest income and interest expense are recorded on the accrual basis.

(h) 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 consideration all factors, including collateral held and business and economic conditions.

General provisions for doubtful credits are established against the loan portfolio in respect of the Bank's core business lines where a prudent assessment by the Bank of adverse economic trends suggests that losses may occur, but where such losses cannot yet be determined on an item-by-item basis.

(i) 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	5 years
Motor vehicles	5 years
Leasehold improvements	Period of lease

(j) 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.

(k) 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.

(l) Finance leases

Income from finance leases is credited to the profit and loss account on the interest method. The gross investments in finance leases net of unearned income is recorded as a receivable balance.

(m) Premium income

Premiums are recognised as earned when due.

3. Other Revenue

	The Group		The Bank	
	1998 \$'000	1997 \$'000	1998 \$'000	1997 \$'000
Retail banking fees	108,397	78,250	107,814	78,202
Credit related fees	167,242	151,572	162,328	147,681
Commercial and depository fees	340,740	286,938	282,959	234,749
Gain on foreign exchange trading	256,286	224,842	256,201	224,842
Premium income	373,253	-	-	-
Total	<b><u>1,245,918</u></b>	<b><u>741,602</u></b>	<b><u>809,302</u></b>	<b><u>685,474</u></b>

4. Profit before Taxation

In arriving at the profit before taxation, the following have been charged/(credited):

	The Group		The Bank	
	1998 \$'000	1997 \$'000	1998 \$'000	1997 \$'000
Directors' Emoluments				
Fees	1,390	949	834	672
Other (salaries of full-time officers)	17,145	19,208	17,145	19,208
Auditors' remuneration -				
Current year	7,826	6,607	4,600	3,701
Prior year	156	(33)	151	-
Depreciation	<u>153,157</u>	<u>118,043</u>	<u>144,757</u>	<u>111,060</u>

5. Exceptional Item

	The Group		The Bank	
	1998 \$'000	1997 \$'000	1998 \$'000	1997 \$'000
Gains on sale of investments	<b><u>186,743</u></b>	<b><u>63,735</u></b>	<b><u>186,743</u></b>	<b><u>475,460</u></b>

These comprise gain on disposal of part of the Bank's investment in Sigma Unit Trust during the current year and the gain on the disposal of the Bank's 50% interest in Industrial Finance Holding Limited during 1997.

6. Taxation

Income tax is computed on the profit for the year as adjusted for tax purposes. The charge for taxation comprises:

	The Group		The Bank	
	1998	1997	1998	1997

	\$'000	\$'000	\$'000	\$'000
Current income tax -				
Charge for the current year	816,159	716,309	751,105	672,532
Adjustment for (over)/under provision of prior year's charge	-	(18,011)	-	(18,011)
Deferred income tax	<u>(3,324)</u>	<u>(20,729)</u>	<u>3,083</u>	<u>(15,043)</u>
	<b><u>812,835</u></b>	<b><u>677,569</u></b>	<b><u>754,188</u></b>	<b><u>639,478</u></b>

#### 7. Statutory Reserves

Cash includes \$10,639,226,000 (1997: \$10,442,294,000) for the Group and \$10,143,226,000 (1997: \$10,442,294,000) 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.

#### 8. Investments

	The Group						
	Within 3 Months \$'000	Remaining Term of Maturity				Carrying Value 1998	Carrying Value 1997
		3 to 12 Months \$'000	1 to 5 Years \$'000	Over 5 Years \$'000			
Government of Jamaica	2,203,496	5,360,230	5,435,928	770,934	13,770,588	7,290,525	
Foreign Government Debts	144,905	-	-	-	144,905	129,895	
Other	99,586	-	-	-	99,586	214,348	
	<b><u>2,447,987</u></b>	<b><u>5,360,230</u></b>	<b><u>5,435,928</u></b>	<b><u>770,934</u></b>	<b><u>14,015,079</u></b>	<b><u>7,634,768</u></b>	

	The Bank						
	Within 3 Months	Remaining Term of Maturity				Carrying Value	Carrying Value
		3 to 12 Months	1 to 5 Years	Over 5 Years			

	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
					1998	1997
Government of Jamaica	2,012,888	5,020,728	3,781,849	770,934	11,586,399	6,399,179
Foreign Government Debts	144,905	-	-	-	144,905	129,895
Other	99,586	-	-	-	99,586	214,343
Subsidiaries	-	-	-	264,238	264,238	264,238
	<b>2,257,379</b>	<b>5,020,728</b>	<b>3,781,849</b>	<b>1,035,172</b>	<b>12,095,128</b>	<b>7,007,655</b>

(i) Included in the Government of Jamaica balance, is a US\$20,000,000 Bond due in year 2005 @ 10.875%, fixed. The Bond, which was issued on the international capital market is currently trading at between 72% - 77%. No provision has been made in the financial statements to reflect the current market value of this investment as the Bond was acquired in June 1998 with the intention of holding to maturity.

(ii) The total market value of other investments amounted to \$267,223,568 (1997: \$472,435,829).

## 9. Loans

	The Group					
	Remaining Term of Maturity				Carrying Value	Carrying Value
	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Business and government	8,592,636	1,239,819	2,421,668	426,687	12,680,810	14,156,206
Personal and credit cards	891,387	783,183	3,210,700	745,112	5,630,382	5,630,545
Residential mortgages	-	-	11,766	672,858	684,624	503,501
Government securities purchased under resale agreements	6,974,766	933,754	-	-	7,908,520	7,507,894
	<b>16,458,789</b>	<b>2,956,756</b>	<b>5,644,134</b>	<b>1,844,657</b>	<b>26,904,336</b>	<b>27,798,146</b>
Less: Provision for loan losses					661,032	488,032
					<b>26,243,304</b>	<b>27,310,114</b>

The Bank

Remaining Term of Maturity

	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Carrying Value	Carrying Value
	\$'000	\$'000	\$'000	\$'000	1998 \$'000	1997 \$'000
Business and government	8,592,636	1,193,701	2,348,761	224,634	12,359,732	13,992,342
Personal and credit cards	782,985	783,183	3,210,635	745,112	5,521,915	5,630,368
Government securities purchased under resale agreement	2,583,010	318,875	-	-	2,901,885	2,074,265
	<u>11,958,631</u>	<u>2,295,759</u>	<u>5,559,396</u>	<u>969,746</u>	<u>20,783,532</u>	<u>21,696,975</u>
Less: Provision for loan losses					617,715	467,715
					<b><u>20,165,817</u></b>	<b><u>21,229,260</u></b>

10. Provisions for Loan Losses

	The Group		The Bank	
	1998 \$'000	1997 \$'000	1998 \$'000	1997 \$'000
Total Non-Performing Loans	<b><u>1,237,930</u></b>	<b><u>720,465</u></b>	<b><u>1,126,533</u></b>	<b><u>679,936</u></b>
Provision at beginning of year	488,032	376,914	467,715	376,748
Charged against revenue during the year	248,649	166,364	225,649	140,000
Bad debts written off	(94,004)	(62,291)	(94,004)	(56,078)
Recoveries of bad debts	18,355	7,045	18,355	7,045
At end of year	<b><u>661,032</u></b>	<b><u>488,032</u></b>	<b><u>617,715</u></b>	<b><u>467,715</u></b>
These comprise:				
Specific provisions	285,729	118,035	261,705	102,529
General provisions	375,303	369,997	356,010	365,186
	<b><u>661,032</u></b>	<b><u>488,032</u></b>	<b><u>617,715</u></b>	<b><u>467,715</u></b>



11. Leased Assets

	1998	1997
	\$'000	\$'000
Gross investment in finance leases	120,159	183,157
Less: Unearned income	<u>22,325</u>	<u>49,082</u>
Net investment in finance leases	97,834	134,075
Interest accrued	<u>1,490</u>	<u>1,803</u>
	<b><u>99,324</u></b>	<b><u>135,878</u></b>

12. Fixed Assets

	<b>The Group</b>				
	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 1997	1,040,448	40,386	712,925	112,424	1,906,183
Additions	9,926	4,706	178,145	38,718	231,495
Disposals					
Transfers	(1,355)	-	(6,269)	-	(7,624)
31 October 1998	<u>30,796</u>	<u>(8,416)</u>	<u>27,237</u>	<u>(49,617)</u>	<u>-</u>
	<u>1,079,815</u>	<u>36,676</u>	<u>912,038</u>	<u>101,525</u>	<u>2,130,054</u>
Depreciation -					
1 November 1997	68,811	15,343	323,776	-	407,930
Charge for the year	21,141	4,272	127,744	-	153,157
On disposals	-	-	(5,095)	-	(5,095)
Transfers	-	(925)	925	-	-
31 October 1998	<u>89,952</u>	<u>18,690</u>	<u>447,350</u>	<u>-</u>	<u>555,992</u>
Net Book Value					
31 October 1998	<b><u>989,863</u></b>	<b><u>17,986</u></b>	<b><u>464,688</u></b>	<b><u>101,525</u></b>	<b><u>1,574,062</u></b>
31 October 1997	<b><u>971,637</u></b>	<b><u>25,043</u></b>	<b><u>389,149</u></b>	<b><u>112,424</u></b>	<b><u>1,498,253</u></b>

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 1997	933,307	31,603	689,465	112,424	1,766,799
Additions	9,926	4,706	175,605	38,718	228,955
Disposals	(1,355)	-	(6,065)	-	(7,420)
Transfers	30,796	-	18,821	(49,617)	-
31 October 1998	<u>972,674</u>	<u>36,309</u>	<u>877,826</u>	<u>101,525</u>	<u>1,988,334</u>
Depreciation -					
1 November 1997	60,357	14,418	317,830	-	392,605
Charge for the year	18,586	4,196	121,975	-	144,757
On disposals	-	-	(5,062)	-	(5,062)
31 October 1998	<u>78,943</u>	<u>18,614</u>	<u>434,743</u>	<u>-</u>	<u>532,300</u>
Net Book Value					
31 October 1998	<b>893,731</b>	<b>17,695</b>	<b>443,083</b>	<b>101,525</b>	<b>1,456,034</b>
31 October 1997	<b>872,950</b>	<b>17,185</b>	<b>371,635</b>	<b>112,424</b>	<b>1,374,194</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 19).

### 13. Deposits

The Group						
Remaining Term of Maturity						
Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Carrying Value	Carrying Value	
\$'000	\$'000	\$'000	\$'000	1998 \$'000	1997 \$'000	

Personal	27,928,887	1,749,113	11,654	-	29,689,654	27,399,061
Banks	10,312	26,074	603,309	-	639,695	589,466
Due to parent	22,999	-	537,654	205,242	765,895	-
Other	16,246,738	286,411	-	-	16,533,149	14,278,609
	<b>44,208,936</b>	<b>2,061,598</b>	<b>1,152,617</b>	<b>205,242</b>	<b>47,628,393</b>	<b>42,267,136</b>

The Bank

	Remaining Term of Maturity				Carrying Value	Carrying Value
	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years		
	\$'000	\$'000	\$'000	\$'000	1998 \$'000	1997 \$'000
Personal	24,565,922	1,441,902	1,182	-	26,009,006	24,443,901
Banks	10,093	26,074	603,309	-	639,476	588,562
Due to parent	22,999	-	537,654	205,242	765,895	-
Other	16,222,715	167,490	-	-	16,390,205	13,992,435
	<b>40,821,729</b>	<b>1,635,466</b>	<b>1,142,145</b>	<b>205,242</b>	<b>43,804,582</b>	<b>39,024,898</b>

14. Due to Parent Company

This is a US\$ denominated ten year, non-revolving, term loan from the parent company for on-lending. The principal is payable in ten installments commencing 31 December 1998. Interest on the loan is at 30 day LIBOR + 1%. The Bank earns a margin of approximately 2-3% when these funds are on-lent.

15. Dividends

Dividends comprise:

	1998 \$'000	1997 \$'000
Capital distributions paid, Nil (1997 - \$0.65)	-	475,675
Interim dividends paid,		

\$0.30 (1997 -Nil)	439,084	-
Interim dividend payable, \$0.24 (1997 -\$0.175)	<u>351,268</u>	<u>256,133</u>
	<b><u>790,353</u></b>	<b><u>731,808</u></b>

Tax of \$91,890,552 (1997: \$Nil) has been withheld from the interim dividends paid and the dividend payable is subject to the deduction of withholding tax.

#### 16. Capital

	1998	1997
Authorised:		
Ordinary shares of \$1 each	<b><u>1,500,000</u></b>	<b><u>1,500,000</u></b>
Issued and fully paid:		
Ordinary stock units of \$1 each	<b><u>1,463,616</u></b>	<b><u>1,463,616</u></b>

During 1997 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 18).

#### 17. Reserve Fund

	1998	The Group	1998	The Bank
	\$'000	1997	\$'000	1997
		\$'000		\$'000
At beginning of year	1,621,140	736,740	1,467,000	657,000
Transfer for year	<u>108,950</u>	<u>884,400</u>	<u>-</u>	<u>810,000</u>
At end of year	<b><u>1,730,090</u></b>	<b><u>1,621,140</u></b>	<b><u>1,467,000</u></b>	<b><u>1,467,000</u></b>

As required by the relevant Acts, the Group makes transfers of a minimum of 15% or 10% of net profits, depending on the circumstances, to the reserve fund. Transfers made during the year were at the discretion of the Board, as all members of the Group have attained the required statutory levels.

#### 18. Retained Earnings Reserve

	The Group		The Bank	
	1998 \$'000	1997 \$'000	1998 \$'000	1997 \$'000
At beginning of year	1,146,384	1,474,192	995,384	1,367,192
Transfer from unappropriated profits	<u>724,000</u>	<u>404,000</u>	<u>674,000</u>	<u>360,000</u>
	1,870,384	1,878,192	1,669,384	1,727,192
Transfer to unappropriated profits for issue of bonus shares (note 16)	-	(731,808)	-	(731,808)
At end of year	<b><u>1,870,384</u></b>	<b><u>1,146,384</u></b>	<b><u>1,669,384</u></b>	<b><u>995,384</u></b>

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

#### 19. Capital Reserves

	The Group		The Bank	
	1998 \$'000	1997 \$'000	1998 \$'000	1997 \$'000
At beginning of year:				
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	500,885	500,885	476,245	476,245
Goodwill arising on consolidation	(606)	(606)	-	-
Capital reserve arising on consolidation	673	-	-	-
Unrealised gain on revaluation of Quoted investments of associated company	-	64,915	-	-
Reserves of subsidiary and associated company capitalised through bonus issues	8,998	52,742	-	-
Unrealised gain on revaluation of Investments	<u>135</u>	<u>135</u>	<u>-</u>	<u>-</u>

	<u>510,085</u>	<u>635,367</u>	<u>476,245</u>	<u>476,245</u>
Movements during the year:				
Realised from the sale of interest in associated company	-	(125,955)	-	-
Realised gain on sale of fixed assets transferred to unappropriated profits	(742)	-	(742)	-
Capital reserve arising on consolidation of subsidiary acquired during the year	-	673	-	-
Reserves of subsidiary capitalized through bonus issue of shares	<u>4,150</u>	<u>-</u>	<u>-</u>	<u>-</u>
At end of year	<b><u>513,493</u></b>	<b><u>510,085</u></b>	<b><u>475,503</u></b>	<b><u>476,245</u></b>

	The Group		The Bank	
	1998	1997	1998	1997
	\$'000	\$'000	\$'000	\$'000
These comprise:				
Unrealised surplus on revaluation of fixed assets -	500,143	500,885	475,503	476,245
Capital reserve arising on consolidation, net	67	67	-	-
Reserves of subsidiary capitalized through bonus issue of shares	13,148	8,998	-	-
Unrealised gain on revaluation of Investments	<u>135</u>	<u>135</u>	<u>-</u>	<u>-</u>
	<b><u>513,493</u></b>	<b><u>510,085</u></b>	<b><u>475,503</u></b>	<b><u>476,245</u></b>

20. 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.

21. 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	
	1998 \$'000	1997 \$'000	1998 \$'000	1997 \$'000
Ordinary contributions	77,180	93,976	72,090	89,382
Special contributions	<u>11,800</u>	<u>11,800</u>	<u>11,800</u>	<u>11,800</u>
	<b><u>88,980</u></b>	<b><u>105,776</u></b>	<b><u>83,890</u></b>	<b><u>101,182</u></b>

22. Commitments

i) Capital

	The Group		The Bank	
	1998 \$'000	1997 \$'000	1998 \$'000	1997 \$'000
Capital expenditure:				
Authorised and contracted for	<b><u>6,984</u></b>	<b><u>38,936</u></b>	<b><u>6,984</u></b>	<b><u>38,936</u></b>

ii) Other

On 26 October 1998, The Scotia Jamaica Building Society entered into an arrangement with Life of Jamaica Limited to acquire a block of 271 residential mortgages for approximately \$133,000,000, and paid a deposit of \$26,689,555.

The balance, which is payable on completion, is expected to be paid by 4 December 1998.

23. Assets held in Trust

At 31 October 1998, 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 \$5,739,068,000 (1997 - \$4,628,500,000).

#### 24. Related Party Transactions

In the ordinary course of business, the Bank provides to its connected persons normal banking services on terms similar to those offered to persons not connected to the Bank.

Balances and transactions with connected parties are as follows:

	The Group		The Bank	
	1998	1997	1998	1997
	\$'000	\$'000	\$'000	\$'000
Loans outstanding	1,138,306	1,106,131	1,122,686	1,106,131
Deposits	676,719	534,982	676,719	534,982
Leases	898	1,356	-	-
Interest and other income earned	193,691	79,712	190,252	79,213
Interest paid	<u>15,770</u>	<u>23,172</u>	<u>15,770</u>	<u>23,172]</u>

Certain loans to connected persons are secured by a guarantee from the parent company.

#### 25. Contingency

On 29 October 1998, a letter was received from National Commercial Bank Jamaica Limited ("NCB") in which they have set out a request for payment of the sum of US\$13,286,000 in connection with an alleged undertaking given to NOB by Scotiabank Jamaica Trust and Merchant Bank Limited. Legal Opinion has been obtained which states that there is no foundation for the request for payment. Consequently, no provision has been made for the amount requested in these financial statements.

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