

# Bank of Nova Scotia Jamaica Limited

unaudited results for the fourth quarter

ended October 31, 2004

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We write with reference to our letter dated October 20, 2004 and now advise that the Board of Directors of The Bank of Nova Scotia Jamaica Limited today passed the following Resolutions: -

## Interim Dividend

"That an interim dividend of 50 cents be paid on each stock unit of the paid up capital stock of the Bank to the shareholders on record as at the close of business on December 16, 2004 and that the same be paid on January 13, 2005."

## Bonus Issue Recommended

1. That it is desirable to increase the Authorised Capital of the Company to \$3,000,000,000 by the creation of an additional 1,500,000,000 ordinary shares of \$1.00 each to rank pari passu in all respects with the existing ordinary stock in the capital of the Company.

2. That pursuant to Article 123 of the Articles of Association of the Company it is desirable to capitalise the sum of \$1,463,616,000 being part of the Retained Earnings Reserve of the Company and accordingly that such sum be set free for distribution amongst the shareholders on record as at March 10, 2005, in the proportions in which they would have been entitled thereto if distributed by way of dividend and on condition that the same be not paid in cash but be applied in paying up in full at par 1,463,616,000 Ordinary Shares of \$1.00 each to be allotted, distributed and credited as fully paid up to and amongst the said members in the proportions aforesaid;

That the capitalization of the said sum of \$1,463,616,000 as aforesaid be and is

hereby recommended by the Board to the members of the Company.  
That, upon the passing of the resolution by the members of the Company, the shares so issued shall rank for all dividends declared subsequently.

**SCOTIABANK DELIVERS RECORD RESULTS FOR FISCAL 2004 AN  
RECOMMENDS ONE FOR ONE BONUS SHARE ISSUE FOR AUTHORIZATION AT  
THE NEXT ANNUAL GENERAL MEETING**

FISCAL 2004 HIGHLIGHTS (Year over Year)

- Net Profit of \$5,856 million, up \$399 million or 7.3%
- Earnings per share of \$4.00, up from \$3.73
- ROE 30%, compared to 34%
- Productivity ratio of 51%
- Fourth quarter dividend of 50 cents per share, taking the full year distribution to \$1.85 per share

Scotiabank reported record results in 2004 despite continued challenges in the economy and the continued low interest rate environment. Net income for the year was \$5,856 million, \$399 million higher than last year and Earnings per share rose to \$4.00 from \$3.73. The Bank's industry leading productivity ratio was 51% and continues to be significantly better than the international standard of 60%.

This marked the eighth consecutive year of increased profits for Scotiabank said William E. Clarke, President and CEO. "Scotiabank's performance reflects the diversity and strength of our business lines. We continue to execute our customer focused strategy and this has contributed to volume growth primarily in the retail area. We also continued our focus on stringent risk management and expense control."

The Board of Directors at its meeting held today, recommended for approval at the Annual General meeting to be held on February 18, 2005, a one for one Bonus Share issue to stockholders on record as at March 10, 2005. The Board also approved an interim dividend of 50 cents per stock unit, payable on January 13, 2005 to stockholders on record at December 16, 2004. This dividend will take the year to date distribution to \$1.85 compared to \$1.75 cents paid last year.

3. That it be recommended to the Members of the Company that the 1,463,616,000 fully paid up bonus shares, when issued, be converted into ordinary stock

transferable in units of \$1.00 each and that the directors be authorised to carry the said conversion into effect.

4. That resolutions for the capitalization of profits, issue of bonus shares and conversion of shares in stock be presented to the shareholders at the Annual General Meeting of the Company scheduled to be held on Friday, February 18, 2005 at the Jamaica Pegasus Hotel.

5. That, in keeping with the requirements of the Jamaica Stock Exchange, the members of the Board hereby undertake that, if the proposed increase of \$1,500,000,000 in the authorized capital of the Bank is made, the same will not be issued so as to change the control or nature of the Bank's business without the prior approval of the members in General Meeting."

Yours faithfully,

David Noel  
Snr. Legal Counsel and Corporate Secretary

#### **REVENUES**

This year's results were driven by strong revenue growth, total revenue (comprising net interest income and other revenue) grew by 15.5% over last year to \$16,706 million.

#### **NET INTEREST INCOME**

Net interest income was \$14,111 million, up \$2,084 million or 17.33% from last year. The increase was primarily due to growth in average total earning assets year over year.

#### **OTHER REVENUE**

Other revenue, excluding Insurance Premium Income, was \$2,321 million, up \$112 million when compared with last year. Insurance Premium is attributable to ScotiaMINT, the interest sensitive life insurance policy, marketed by Scotia Jamaica Life Insurance Company Limited. Net premium income increased by \$49 million (an increase of 22%) when compared with the same period last year. ScotiaMINT continues to enjoy the largest share of the local interest sensitive insurance market reporting gross premium income totaling

\$4.1 billion for the year.

#### **NON-INTEREST EXPENSES**

Scotiabank's productivity ratio continues to lead the banking industry and is a significant factor in our Bank's strong performance. The productivity ratio (non-interest expense as a percentage of total revenue) - a key measure of cost effectiveness - was 51.08%. If insurance premium and related actuarial expenses were excluded to recognize the significant dissimilarities between the revenue/expense pattern of the insurance business and the other financial services offered by the Scotiabank group, the productivity ratio for the period was 38.29%, which is significantly better than the international benchmark of 60%.

Non-interest Expenses excluding Change in Policyholders' Reserve and Loan Loss Provisions, were \$6,246 million, an increase of \$621 million over last year, which is primarily due to increases in staff related costs. Actuarial Reserves for ScotiaMINT's life insurance fund is directly attributed to the business in force.

#### **CREDIT QUALITY**

Non-performing Loans increased from \$964 million a year ago to \$1,039 million, an increase of \$75 million due to continued weak economic conditions adversely impacting some of our borrowing customers. This was also \$31 million above the \$1,008 million outstanding as at July 31, 2004. The Group's non-performing loans now represent 1.93% of total loans and 0.62% of total assets compared to 1.98% and 0.65% respectively in prior year.

The IFRS Loan Loss Provisioning requirements are computed using a different methodology from the Regulatory requirement. The difference in the amount computed under the two methodologies is reported as Loan Loss Reserve in the equity component of the Balance Sheet. The loan loss provision as determined by IFRS is \$500 million, of which \$357 million is specific and \$143 million is general. The loan loss provision as determined by Regulatory Requirement is \$1,307 million of which \$864 million is specific and \$443 million is general. The total provision of \$1,307 million exceeds total non-performing loans by \$268 million; hence these loans are more than fully provided for.

#### **BALANCE SHEET**

Total assets as at October 31, 2004, were \$168 billion, an increase of \$20 billion (14%)

from the previous year and \$3.4 billion above July 31, 2004. Performing Loans as at October 31, 2004 were \$52.9 billion, up \$5.2 billion over the previous year. Mr. W. E. Clarke highlighted that "with the exception of Foreign Direct Investments (FDI), the real sector of the Jamaican economy continues to be apprehensive regarding new investments thus impacting the demand for commercial credit, as a consequence, growth in loans has been primarily driven by a favorable retail lending cycle".

Cash Resources increased by \$5.1 billion due mainly to continued growth in deposits, while Investments, and Repurchase Agreements increased by \$11.7 billion, which was the highest growth among all asset categories. Retirement Benefit Asset represents the net of the present value of pension obligation and the fair value of the pension plan assets as determined by independent actuaries.

Deposits grew to \$103.7 billion, up 13.51 % from the previous year, reflecting continued confidence in Scotiabank.

#### **CAPITAL**

Scotiabank continued to strengthen its capital through solid growth in earnings. Total stockholders' equity grew to \$20.6 billion, \$529 million more than the previous quarter and \$2.9 billion or 16.67% higher than last year.

#### **SCOTIABANK'S COMMITMENT TO THE COMMUNITY**

Scotiabank over its 115 years in Jamaica has always shown our unconditional commitment to the development of this country. During this fiscal year Scotiabank continued to make tangible contributions to the communities in which we do business, through Scotiabank Jamaica Foundation, and other public relations activities. The corporate responsibility that is consistently demonstrated by Scotiabank is, in our judgment, unparalleled in the Jamaican Business community.

Scotiabank provided support to Jamaicans in the aftermath of Hurricane Ivan by providing US\$250,000 for rehabilitation of Effortville Primary in Clarendon, Harmons Primary in Manchester, Rose Hall All-Age in St. Elizabeth, Aenon Town Primary and Clarksonville Primary in St. Ann. We also provided \$300 Million to the Development Bank of Jamaica for on-lending to Farmers through the People's Cooperative Banks, at a fixed interest rate of 9.5% for seven years for resuscitation of the agricultural sector.

The Scotiabank Jamaica Foundation has donated \$282.5 Million to education, health and community projects in Jamaica, since its inception in 1996. During the fourth quarter, the Foundation donated \$15.5 Million to various projects, while the Bank committed \$25 million over five years to the University of the West Indies to conduct research on potentially harmful substances in the Jamaican diet and investigate possible links between the high levels of heavy metals in Jamaican soils and the high incidences in Jamaica of diabetes, renal disease and prostate cancer. Mr. W. E. Clarke, said, "Scotiabank will always respond to the needs of our community in a tangible way, as an educated and healthy population will make a greater contribution to the economic and social development of our society."

Scholarships were awarded to students at The University of the West Indies, University of Technology, College of Agriculture, Science and Education, Montego Bay Community College and the Montpelier College. One hundred bursaries were awarded to high school students sitting the CXC exams; and two organizations Hillel Academy and the Point Hill Diagnostic Center received donations of \$2.5 Million each.

The Foundation supported the restoration of the May Pen Cemetery by contributing \$1.5 million to this project.

Scotiabank Jamaica takes this opportunity to thank all of our stakeholders. To our customers, thank you for your loyalty and your business. To our shareholders, thank you for the commitment, trust and confidence you continue to show in Scotiabank. Our continued success is as a result of great execution by our team of over 1,800 skilled and dedicated Scotiabankers and their consistent focus on customer satisfaction. We thank them for their professionalism, commitment and for being a great team.

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## CONSOLIDATED FINANCIAL STATEMENTS

### Consolidated Statement of Income

(\$ millions)	For the three months ended			For the year ended	
	October 2004	July 2004	October 2003	October 2004	October 2003
<b>GROSS OPERATING INCOME</b>	<b>5,334</b>	<b>5,432</b>	<b>5,738</b>	<b>22,254</b>	<b>19,690</b>
<b>INTEREST INCOME</b>					
Loans and deposits with banks	3,144	3,417	3,390	13,270	11,918
Securities	1,529	1,387	1,703	6,389	5,338
	4,673	4,804	5,093	19,659	0
<b>INTEREST EXPENSE</b>					
Deposits	1,417	1,411	1,342	5,548	5,229
Net interest income	3,256	3,393	3,751	14,111	12,027
Provision for credit losses	121	(97)	(70)	(46)	(87)
Net interest income after provision for credit losses	3,377	3,296	3,681	14,065	11,940
Net fee and commission income	420	405	428	1,727	1,463
Insurance premium income	76	61	65	274	225
Gains less losses from foreign currencies	167	161	131	586	694
Other operating income	(2)	1	21	8	52
	661	628	645	2,595	2,434

<b>TOTAL OPERATING INCOME</b>	<b>4,038</b>	<b>3,924</b>	<b>4,326</b>	<b>16,660</b>	<b>14,374</b>
OPERATING EXPENSES					
Staff costs	893	951	1,035	3,773	3,536
Premises and equipment, including depreciation	261	252	237	985	842
Changes in policyholders' reserves	659	552	478	2,242	1,442
Other operating expenses	407	352	333	1,487	1,246
	<u>2,220</u>	<u>2,107</u>	<u>2,083</u>	<u>8,487</u>	<u>7,066</u>
<b>PROFIT BEFORE TAXATION</b>	<b>1,818</b>	<b>1,817</b>	<b>2,243</b>	<b>8,173</b>	<b>7,308</b>
Taxation	(556)	(533)	(442)	2,317	1,851
<b>NET PROFIT</b>	<b>1,262</b>	<b>1,284</b>	<b>1,801</b>	<b>5,856</b>	<b>5,457</b>
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Earnings per share based on 1,463,616,000 shares	86	88	123	400	373
Dividend per share (cents)	50.00	50.00	78.00	185.00	175.00
Dividend payout ratio	58.01%	56.98%	63.38%	46.24%	46.92%
Return on average equity	24.82%	25.97%	42.30%	29.85%	34.22%
Return on assets	3.00%	3.12%	4.86%	3.48%	3.68%
Book value per common shares	14.07	12.90	12.06	14.07	12.06
P/E Multiple	14.65	13.46	3.64	12.62	4.80
Productivity ratio	53.59%	54.81%	48.97%	51.08%	49.46%
Productivity ratio (excluding Life Insurance Business)	37.49%	41.71%	38.68%	38.29%	40.12%

**Note:**

These consolidated financial statements have been prepared in accordance with and comply with standards issued by the International Accounting Standards Board. Where necessary, certain comparative amounts have been restated to conform to current year's presentation based on International Financial Reporting Standards (IFRS).

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## Consolidated Balance Sheet

(\$ millions)	Year ended October 31 2004	Year ended October 31 2003
<b>ASSETS</b>		
<b>CASH RESOURCES</b>	40,450	35,343
<b>INVESTMENTS</b>		
Originated Securities	26,280	25,566
Securities available for sale	8,799	5,220
	<u>35,079</u>	<u>30,786</u>
<b>GOVERNMENT SECURITIES UNDER REPURCHASE AGREEMENT</b>	25,046	17,593
<b>LOANS, AFTER MAKING PROVISIONS FOR LOSSES</b>	53,460	48,075
<b>OTHER ASSETS</b>		
Customers' Liability under acceptances, guarantees and letters of credit	2,459	4,721
Real estate & equipment at cost, less depreciation	2,037	1,994
Deferred Taxation	87	116
Retirement Benefit Asset	3,339	2,978
Other assets	6,202	6,055
	<u>14,124</u>	<u>15,864</u>
<b>TOTAL ASSETS</b>	<b>168,159</b>	<b>147,661</b>
=====		
<b>LIABILITIES</b>		
<b>DEPOSITS</b>		
Deposits by public	98,811	87,067
Other deposits	4,843	4,248
	<u>103,654</u>	<u>91,315</u>
<b>OTHER LIABILITIES</b>		
Acceptances, guarantees & Letters of Credit	2,459	4,721

Liabilities under repurchase agreement	18,546	15,293
Deferred Taxation	1,406	1,110
Retirement Benefit Obligation	265	235
Other liabilities	5,128	5,856
	<u>27,804</u>	<u>27,215</u>

<b>POLICY HOLDER'S FUND</b>	16,101	11,475
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**SHAREHOLDERS' EQUITY**

Capital- Authorized, 1,500,000,000 ordinary shares		
Issued and fully paid, 1,463,616,000		
Ordinary stock units of \$1 each	1,464	1,464
Reserve Fund	1,695	1,695
Retained Earnings Reserve	6,670	5,920
Loan Loss Reserve	807	807
Other Reserves	27	27
Investment Cumulative Remeasurement result from		
Available for Sale Financial Assets	227	23
Dividends Proposed	732	1,142
Unappropriated Profits	8,978	6,578
	<u>20,600</u>	<u>17,656</u>

<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>168,159</b>	<b>147,661</b>
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Director

Director



## Consolidated Statement of Cash Flows

(\$ millions)	Year ended October 31 2004	Yearended October 31 2003
<b>Cash flows provided by operating activities</b>		
Net Income	5,856	5,457
Adjustments to net income to determine Net Cash Flows:		
Depreciation	319	277
Policyholders reserve	4,626	3,141
Other, net	(250)	(88)
	<u>10,551</u>	<u>8,787</u>
<b>Cash flows provided by/ (used in) investing activities</b>		
Investment securities (net purchases and proceeds)	(4,088)	(3,472)
Loans	(5,402)	(8,674)
Government Securities Purchased Under	(7,453)	(3,473)
Other, net	(1,057)	(1,507)
	<u>(18,000)</u>	<u>(17,126)</u>
<b>Cash flows provided by/ (used in) financing activities</b>		
Deposits	11,744	10,120
Dividends paid	(3,118)	(1,866)
Other, net	3,721	2,743
	<u>12,347</u>	<u>10,997</u>
Net change in cash	4,898	2,658
Cash at beginning of period	32,668	30,010
Cash at end of period	37,566	32,668
=====		
Represented by :		
Cash Resources	40,450	35,343
Cheques and other instruments in transit, net	(2,884)	(2,675)
<b>CASH AT END OF PERIOD</b>	<u><b>37,566</b></u>	<u><b>32,668</b></u>
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## Consolidated Statement of Changes in Shareholders' Equity

(\$ millions)	Share Capital	Reserve Fund	Retained Earnings reserve	Other Reserves	Loan Reserve	Loss Reserve	Cumulative Remeasure- ment from AFS assets	Paid and Proposed Dividends	Unappropriated Profits	Total
<b>Balance at 31 October 2002</b>	1,464	1,735	5,299	27	807		23	446	4,264	14,065
Net profit	-	-	-	-	-	-	-	-	5,457	5,457
Retained earnings transfer	-	-	850	-	-	-	-	-	(850)	-
Transfers	-	(40)	(229)	-	-	-	-	-	269	-
Dividends paid	-	-	-	-	-	-	-	(446)	(1,420)	(1,866)
Dividends proposed	-	-	-	-	-	-	-	1,142	(1,142)	-
<b>Balance at 31 October 2003</b>	1,464	1,695	5,920	27	807		23	1,142	6,578	17,656
Net profit	-	-	-	-	-	-	-	-	5,856	5,856
Retained earnings transfer	-	-	750	-	-	-	-	-	(750)	-
Dividends paid	-	-	-	-	-	-	-	(1,142)	(1,974)	(3,116)
Dividends proposed	-	-	-	-	-	-	-	732	(732)	-
Gains/(losses) from changes in fair value, net of tax	-	-	-	-	-	-	204	-	-	204
<b>Balance at 31 October 2004</b>	1,464	1,695	6,670	27	807		227	732	8,978	20,600

## Segment Reporting Information

### Consolidated Statement of Income

For the year ended  
October 31, 2004

(\$'millions)	Financial Services	Investment Management Services	Insurance Services	Other	Consol. adj.	Group Total
External Revenues	12,384	475	3,718	84		16,660
Revenues from other segments	31	11			(42)	0
	<u>12,415</u>	<u>485</u>	<u>3,718</u>	<u>84</u>	<u>(42)</u>	<u>16,660</u>
Operating expenses	(5,750)	(138)	(2,565)	(77)	42	(8,487)
Profit before taxation	<u>6,665</u>	<u>347</u>	<u>1,153</u>	<u>7</u>	<u>0</u>	<u>8,173</u>
	=====					
Taxation						<u>(2,317)</u>
Net profit						<u>5,856</u>
						=====

For the year ended  
October 31, 2003

(\$'millions)	Financial Services	Management Services	Insurance Services	Other	Consol. adj.	Group Total
External Revenues	11,294	408	2,578	94		14,374
Revenues from other segments	8	7			(15)	-
	<u>11,302</u>	<u>415</u>	<u>2,578</u>	<u>94</u>	<u>(15)</u>	<u>14,374</u>
Operating expenses	(5,193)	(119)	(1,698)	(71)	15	(7,066)
Profit before taxation	<u>6,109</u>	<u>296</u>	<u>880</u>	<u>23</u>	<u>-</u>	<u>7,308</u>
	=====					
Taxation						(1,851)
Net profit						<u>5,457</u>
						=====

For the three months ended  
October 31, 2004

(\$'millions)	Financial Services	Investment Management Services	Insurance Services	Other	Consol. adj.	Group Total
External Revenues	3,010	98	915	15		4,038
Revenues from other segments	8	8			(16)	-
	<u>3,018</u>	<u>106</u>	<u>915</u>	<u>15</u>	<u>(16)</u>	<u>4,038</u>
Operating expenses	(1,435)	(41)	(743)	(17)	16	(2,220)
Profit before taxation	<u>1,583</u>	<u>65</u>	<u>172</u>	<u>(2)</u>	<u>-</u>	<u>1,818</u>
	=====					
Taxation						(556)
Net profit						<u>1,262</u>
						=====

For the three months ended  
October 31, 2003

(\$'millions)	Financial Services	Investment Management Services	Insurance Services	Other	Consol. adj.	Group Total
External Revenues	3,307	122	869	28		4,326
Revenues from other segments	2	2			(4)	-
	<u>3,309</u>	<u>124</u>	<u>869</u>	<u>28</u>	<u>(4)</u>	<u>4,326</u>
Operating expenses	(1,506)	(39)	(525)	(17)	4	(2,083)
Profit before taxation	<u>1,803</u>	<u>85</u>	<u>344</u>	<u>11</u>	<u>-</u>	<u>2,243</u>
	=====					
Taxation						(442)
Net profit						<u>1,801</u>
	=====					

For the three months ended  
July 31, 2004

	Financial Services	Investment Management Services	Insurance Services	Other	Consol. adj.	Group Total
External Revenues	2,879	111	910	24		3,924
Revenues from other segments	23				(23)	-
	<u>2,902</u>	<u>111</u>	<u>910</u>	<u>24</u>	<u>(23)</u>	<u>3,924</u>
Operating expenses	(1,444)	(35)	(630)	(21)	23	(2,107)
Profit before taxation	<u>1,458</u>	<u>76</u>	<u>280</u>	<u>3</u>	<u>-</u>	<u>1,817</u>
	=====					
Taxation						(533)
Net profit						<u>1,284</u>
	=====					

## Consolidated Balance Sheet

As at October 31, 2004

	Financial Services	Investment Management Services	Insurance Services	Other	Consol. adj.	Group Total
Segment assets	129,997	20,733	19,246	211	(2,028)	168,159
Segment liabilities	113,318	19,632	16,335	102	(1,828)	147,559

As at October 31, 2003

	Financial Services	Investment Management Services	Insurance Services	Other	Consol. adj.	Group Total
Segment assets	119,887	21,569	13,562	249	(7,606)	147,661
Segment liabilities	104,971	20,729	11,599	142	(7,405)	130,005

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## Notes to the Consolidated Financial Statements

### 1. Basis of presentation

These consolidated financial statements have been prepared in accordance with and comply with International Financial Reporting Standards.

### 2. Investment Securities

Investment securities are classified as originated or available for sale, and are initially recognised at cost. Management determines an appropriate classification at the time of purchase.

Originated investment securities are subsequently re-measured at amortised cost.

Available for sale investment securities are subsequently re-measured at fair value. On adoption, the difference between the original carrying amount and the fair value of these investments was credited to the Cumulative Re-measurement from AFS assets (see Consolidated Statement of Changes in Shareholders Equity). Gains and losses arising from the change in the fair value of these securities are recognised as changes in the Cumulative Re-measurement from AFS assets.

### 3. Loan loss provision

A provision is established on the difference between the carrying amount and the recoverable amount of loans. The recoverable amount being the present value of expected future cash flows, discounted based on the interest rate at inception or last reprice date of the loan.

Regulatory loan loss reserve requirements that exceed these amounts are maintained within a loan loss reserve in the equity component of the Balance Sheet.

### 4. Employee benefits

Pension asset - The group participates in a defined benefit pension plan. The pension costs are assessed using the projected unit credit method. Under this method, the cost of providing

pensions is charged to the income statement, and the net of the present value of the pension obligation and the fair value of the plan assets, is reflected as an asset on the balance sheet.

Other post-retirement obligations - The Group provides post-retirement healthcare and group life insurance benefits to retirees. The method of accounting used to recognise the liability is similar to that for the defined benefit pension plan.

**5. Deferred taxation**

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts.

**6. Property, plant and equipment**

All property, plant and equipment are stated at cost less accumulated depreciation.

**7. Provisions**

A provision is made for the estimated liability for annual vacation leave as a result of services rendered by employees up to the balance sheet date.

**8. Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash resources and cheques in transit.

**9. Segment reporting**

The Group is organised into three main business segments:

Financial services - This incorporates retail and corporate banking services

Investment Management Services - This includes investment and pension management and administration of accounts

Insurance services - This incorporates the provision of life insurance.

Other operations of the Group comprise general insurance brokering.

