The Bank of Nova Scotia Jamaica Limited

Financial Statements
31 October 2005

The Bank of Nova Scotia Jamaica Limited
Index
31 October 2005

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
Scotiabank Centre
Duke Street
Box 372
Kingston Jamaica
Telephone (876) 922 6230
Facsimile (876) 922 7581

24 November 2005

To the Members of
The Bank of Nova Scotia Jamaica Limited
Kingston

Auditors' Report

We have audited the financial statements set out on pages 37 to 107, and have received all the information and explanations which we considered necessary. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, proper accounting records have been kept and the financial statements, which are in agreement therewith, give a true and fair view of the state of affairs of the Group and the Bank as at 31 October 2005 and of the results of operations, changes in stockholders' equity and cash flows of the Group and the Bank for the year then ended in accordance with International Financial Reporting Standards and comply with the provisions of the Jamaican Companies Act applicable to banking companies.

PricewaterhouseCoopers

Chartered Accountants
Kingston, Jamaica

The Bank of Nova Scotia Jamaica Limited

Statement of Consolidated Revenue and Expenses

Year ended 31 October 2005

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2005	Restated 2004
Net Interest Income and Other Revenue			
Interest from loans and deposits with banks		12,419,622	13,439,520
Income from securities		9,125,456	9,278,088
Total interest income	6	21,545,078	22,717,608
Interest expense	6	(7,481,246)	(8,606,990)
Net interest income		14,063,832	14,110,618
Impairment losses on loans	23	(272,575)	(45,878)
Net interest income after impairment losses on loans		13,791,257	14,064,740
Net foreign exchange trading income	7	793,919	586,277
Fee and commission income	8	2,803,498	2,105,495
Fee and commission expense	8	(475,033)	(378,829)
Net fee and commission income		2,328,465	1,726,666
Insurance premium income		333,963	273,962
Other revenue		6,276	8,272
		17,253,880	16,659,917
Expenses			
Salaries, pension contributions and other staff benefits	9	4,003,588	3,772,527
Property expenses, including depreciation		1,029,859	984,628
Change in policyholders' reserves	10	2,092,742	2,242,099
Other operating expenses		1,797,879	1,488,030
		8,924,068	8,487,284
Profit before Taxation	12	8,329,812	8,172,633
Taxation	13	(2,444,226)	(2,316,576)
NET PROFIT	14	5,885,586	5,856,057
EARNINGS PER STOCK UNIT (expressed in $ per share)	15	$2.01	$2.00

The Bank of Nova Scotia Jamaica Limited

Consolidated Balance Sheet

31 October 2005

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2005	Restated 2004
ASSETS			
Cash Resources			
Notes and coins of, deposit with, and money at call at, Bank of Jamaica	16	25,443,331	23,636,648
Government and bank notes other than Jamaica		240,438	307,744
Amounts due from other banks	17	18,235,430	15,394,487
Accounts with parent and fellow subsidiaries	18	489,135	1,111,543
		44,408,334	40,450,422
Trading Securities	20	21,990	-
Government Securities Purchased under Resale Agreements	21	27,227,255	25,046,360
Loans, after Allowance for Impairment Losses	22	57,648,163	53,454,402
Lease Receivables	24	433	5,100
Investment Securities	25		
Available-for-sale		9,703,139	8,807,167
Held-to-maturity		30,007,225	26,280,091
		39,710,364	35,087,258
Other Assets			
Customers' liabilities under acceptances, guarantees and letters of credit		3,486,501	2,458,854
Taxation recoverable		522,694	1,016,105
Sundry assets	26	4,543,745	5,186,532
Property, plant and equipment	27	2,017,153	2,036,541
Deferred tax assets	28	109,939	87,248
Retirement benefit asset	29	3,764,372	3,338,827
		14,444,404	14,124,107
		183,460,943	168,167,649

The Bank of Nova Scotia Jamaica Limited

Consolidated Balance Sheet (Continued)

31 October 2005

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2005	Restated 2004
LIABILITIES			
Deposits			
Deposits by the public	30	107,280,146	98,810,819
Amounts due to other banks and financial institutions	31	1,655,908	1,773,436
Amounts due to parent company	33	4,608,443	3,069,486
Amounts due to fellow subsidiaries		3,989	561
		113,548,486	103,654,302
Other Liabilities			
Cheques and other instruments in transit		1,906,302	2,884,129
Acceptances, guarantees and letters of credit		3,486,501	2,458,854
Securities sold under repurchase agreements		16,705,889	18,546,429
Other liabilities	34	1,605,158	1,880,842
Taxation payable		905,542	364,284
Deferred tax liabilities	28	1,497,437	1,408,452
Retirement benefit obligations	29	326,062	264,634
		26,432,891	27,807,624
Policyholders' Fund	10	19,954,613	16,100,706
STOCKHOLDERS' EQUITY			
Share capital	36	2,927,232	1,463,616
Reserve fund	37	3,158,480	1,694,864
Retained earnings reserve	38	4,492,902	6,670,134
Cumulative remeasurement result from available-for-sale financial assets	39	194,364	232,783
Loan loss reserve	40	806,524	806,524
Other reserves	41	26,714	26,714
Unappropriated profits		11,918,737	9,710,382
		23,524,953	20,605,017
		183,460,943	168,167,649

Approved for issue by the Board of Directors on 24 November 2005 and signed on its behalf by:

Robert H. Pitfield	Director	Stacie-Ann S. Wright	Director
William E. Clarke	Director	David A. Noël	Secretary

The Bank of Nova Scotia Jamaica Limited

Statement of Consolidated Changes in Stockholders' Equity

Year ended 31 October 2005

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	Share Capital	Reserve Fund	Retained Earnings Reserve	Cumulative Remeasure-ment Result From Available For-Sale Financial Assets	Loan Loss Reserve	Other Reserves	Unappropriated Profits	Total
Balance at 31 October 2003 as previously stated		1,463,616	1,694,864	5,920,134	22,697	806,524	26,714	7,721,827	17,656,376
Effects of early adopting revised IFRS	50	-	-	-	(5,179)	-	-	-	(5,179)
As restated		1,463,616	1,694,864	5,920,134	17,518	806,524	26,714	7,721,827	17,651,197
Unrealised gains on available-for-sale investments, net of taxes		-	-	-	209,640	-	-	-	209,640
Net gains not recognised in Consolidated Statement of Revenue and Expenses		-	-	-	209,640	-	-	-	209,640
Net profit		-	-	-	-	-	-	5,856,057	5,856,057
Dividends paid		-	-	-	-	-	-	(3,117,502)	(3,117,502)
Transfer to retained earnings reserve		-	-	750,000	-	-	-	(750,000)	-
Effects of early adopting revised IFRS	50	-	-	-	5,625	-	-	-	5,625
Balance at 31 October 2004		1,463,616	1,694,864	6,670,134	232,783	806,524	26,714	9,710,382	20,605,017
Unrealised losses on available-for-sale investments, net of taxes		-	-	-	(38,419)	-	-	-	(38,419)
Net losses not recognised in Consolidated Statement of Revenue and Expenses		-	-	-	(38,419)	-	-	-	(38,419)
Net profit		-	-	-	-	-	-	5,885,586	5,885,586
Dividends paid		-	-	-	-	-	-	(2,927,231)	(2,927,231)
Bonus issue of ordinary shares	36	1,463,616	-	(1,463,616)	-	-	-	-	-
Transfer to reserve fund	37	-	1,463,616	(1,463,616)	-	-	-	-	-
Transfer to retained earnings reserve		-	-	750,000	-	-	-	(750,000)	-
Balance at 31 October 2005		2,927,232	3,158,480	4,492,902	194,364	806,524	26,714	11,918,737	23,524,953

The Bank of Nova Scotia Jamaica Limited

Statement of Consolidated Cash Flows

Year ended 31 October 2005

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2005	Restated 2004
Cash Flows from Operating Activities			
Net profit from operations		5,885,586	5,856,057
Items not affecting cash			
Interest income	6	(21,545,078)	(22,717,608)
Interest expense	6	7,481,246	8,606,990
Income tax charge		2,367,543	2,109,358
Deferred tax expense		76,683	207,218
Depreciation	27	309,165	319,027
Impairment losses on loans	23	272,575	45,878
Gain on sale of property, plant and equipment		(1,847)	(245)
Write offs of property, plant and equipment	27	4,075	3,617
		(5,150,052)	(5,569,708)
Changes in operating assets and liabilities			
Loans		(4,461,669)	(5,430,666)
Retirement benefits		(364,117)	(331,571)
Customer deposits		8,469,327	11,499,206
Policyholders' reserves		3,853,907	4,626,123
Statutory reserves at Bank of Jamaica		2,331,647	(1,506,535)
		4,679,043	3,286,849
Interest received		21,363,087	23,287,452
Interest paid		(7,890,991)	(8,909,994)
Income tax paid		(1,146,290)	(2,614,324)
Net cash provided by operating activities		17,004,849	15,049,983
Cash Flows from Investing Activities			
Investment securities		(4,429,082)	(1,420,756)
Government securities purchased under resale agreements		(2,180,895)	(7,452,916)
Proceeds from the sale of property, plant and equipment		8,340	1,527
Purchase of property, plant and equipment	27	(300,345)	(366,866)
Taxation recoverable		(186,584)	(632,137)
Other assets, net		814,388	330,507
Securities sold under repurchase agreements		(1,840,540)	3,253,433
Net cash used in investing activities		(8,114,718)	(6,287,208)
Cash Flows from Operating and Investing Activities		8,890,131	8,762,775

The Bank of Nova Scotia Jamaica Limited

Statement of Consolidated Cash Flows (Continued)

Year ended 31 October 2005

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2005	Restated 2004
Cash Flows from Operating and Investing Activities (Page 5)		8,890,131	8,762,775
Cash Flows from Financing Activities			
Due to parent company and fellow subsidiaries		1,542,385	596,212
Dividends paid		(2,927,231)	(3,117,502)
Other liabilities, net		134,061	(335,302)
Net cash used in financing activities		(1,250,785)	(2,856,592)
Effect of exchange rate changes on cash and amounts due to banks and other financial institutions		562,673	(19,336)
Net increase in cash and amounts due to banks and other financial institutions		8,202,019	5,886,847
Cash and amounts due to banks and other financial institutions at beginning of year		29,919,809	24,032,962
CASH AND AMOUNTS DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS AT END OF YEAR	19	38,121,828	29,919,809

The Bank of Nova Scotia Jamaica Limited

Statement of Revenue and Expenses

Year ended 31 October 2005

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2005	Restated 2004
Net Interest Income and Other Revenue			
Interest from loans and deposits with banks		11,859,945	11,415,879
Income from securities		2,774,181	3,740,932
Total interest income	6	14,634,126	15,156,811
Interest expense	6	(4,804,170)	(5,338,770)
Net interest income		9,829,956	9,818,041
Impairment losses on loans	23	(272,426)	(56,209)
Net interest income after impairment losses on loans		9,557,530	9,761,832
Fee and commission income	8	2,637,548	1,927,172
Fee and commission expense	8	(475,033)	(378,829)
Net fee and commission income		2,162,515	1,548,343
Net foreign exchange trading income	7	794,422	578,502
Other revenue		6,818	4,397
		12,521,285	11,893,074
Expenses			
Salaries, pension contributions and other staff benefits	9	3,631,696	3,381,887
Property expenses, including depreciation		994,557	951,390
Other operating expenses		1,595,182	1,329,747
		6,221,435	5,663,024
Profit before Taxation	12	6,299,850	6,230,050
Taxation	13	(2,001,575)	(1,856,480)
NET PROFIT	14	4,298,275	4,373,570

The Bank of Nova Scotia Jamaica Limited

Balance Sheet

31 October 2005

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2005	Restated 2004
ASSETS			
Cash Resources			
Notes and coins of, deposit with, and money at call at,			
Bank of Jamaica	16	25,401,582	23,600,356
Government and bank notes other than Jamaica		240,438	307,744
Amounts due from other banks	17	18,201,056	15,370,384
Accounts with parent and fellow subsidiaries	18	489,135	1,111,543
		44,332,211	40,390,027
Government Securities Purchased under Resale Agreements	21	98,600	69,000
Loans, after Allowance for Impairment Losses	22	53,992,250	50,288,921
Investment Securities	25		
Available-for-sale		6,796,117	5,445,605
Held-to-maturity		17,096,745	16,912,645
		23,892,862	22,358,250
Investment in Subsidiaries		258,238	258,238
Other Assets			
Customers' liabilities under acceptances, guarantees and			
letters of credit		3,127,349	2,118,976
Taxation recoverable		-	16,862
Sundry assets	26	2,700,039	3,133,378
Property, plant and equipment	27	1,950,830	1,967,982
Deferred tax assets	28	108,687	85,666
Retirement benefit asset	29	3,764,372	3,338,827
		11,651,277	10,661,691
		134,225,438	124,026,127

The Bank of Nova Scotia Jamaica Limited

Balance Sheet (Continued)

31 October 2005

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2005	Restated 2004
LIABILITIES			
Deposits			
Deposits by the public	30	103,139,697	95,141,204
Amounts due to other banks and financial institutions	31	1,577,800	1,671,537
Amounts due to subsidiaries	32	148,026	226,144
Amounts due to parent company	33	4,608,443	3,069,486
Amounts due to fellow subsidiaries		3,989	561
		109,477,955	100,108,932
Other Liabilities			
Cheques and other instruments in transit		1,856,866	2,772,536
Acceptances, guarantees and letters of credit		3,127,349	2,118,976
Securities sold under repurchase agreements		-	1,471,653
Other liabilities	34	835,743	838,342
Taxation payable		891,293	195,078
Deferred tax liabilities	28	1,470,903	1,376,601
Retirement benefit obligations	29	326,062	264,634
		8,508,216	9,037,820
STOCKHOLDERS' EQUITY			
Share capital	36	2,927,232	1,463,616
Reserve fund	37	2,930,616	1,467,000
Retained earnings reserve	38	4,092,152	6,269,384
Cumulative remeasurement result from available-for-sale financial assets	39	142,272	153,424
Loan loss reserve	40	765,292	765,292
Unappropriated profits		5,381,703	4,760,659
		16,239,267	14,879,375
		134,225,438	124,026,127

Approved for issue by the Board of Directors on 24 November 2005 and signed on its behalf by:

Robert H. Pitfield Director	Stacie-Ann S. Wright Director
William E. Clarke Director	David A. Noël Secretary

The Bank of Nova Scotia Jamaica Limited

Statement of Changes in Stockholders' Equity

Year ended 31 October 2005

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	Share Capital	Reserve Fund	Retained Earnings Reserve	Cumulative Remeasure-ment Result From Available For-Sale Financial Assets	Loan Loss Reserve	Unappropriated Profits	Total
Balance at 31 October 2003		1,463,616	1,467,000	5,519,384	(54,518)	765,292	4,254,591	13,415,365
Unrealised gains on available-for-sale investments, net of taxes		-	-	-	207,942	-	-	207,942
Net gains not recognised in the Statement of Revenue and Expenses		-	-	-	207,942	-	-	207,942
Net profit		-	-	-	-	-	4,373,570	4,373,570
Dividends paid		-	-	-	-	-	(3,117,502)	(3,117,502)
Transfer to retained earnings reserve		-	-	750,000	-	-	(750,000)	-
Balance at 31 October 2004		1,463,616	1,467,000	6,269,384	153,424	765,292	4,760,659	14,879,375
Unrealised gains on available-for-sale investments, net of taxes		-	-	-	(11,152)	-	-	(11,152)
Net losses not recognised in the Statement of Revenue and Expenses		-	-	-	(11,152)	-	-	(11,152)
Net profit		-	-	-	-	-	4,298,275	4,298,275
Dividends paid		-	-	-	-	-	(2,927,231)	(2,927,231)
Bonus issue of ordinary shares	36	1,463,616	-	(1,463,616)	-	-	-	-
Transfer to reserve fund	37	-	1,463,616	(1,463,616)	-	-	-	-
Transfer to retained earnings reserve		-	-	750,000	-	-	(750,000)	-
Balance at 31 October 2005		2,927,232	2,930,616	4,092,152	142,272	765,292	5,381,703	16,239,267

The Bank of Nova Scotia Jamaica Limited

Statement of Cash Flows

Year ended 31 October 2005

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2005	Restated 2004
Cash Flows from Operating Activities			
Net profit from operations		4,298,275	4,373,570
Items not affecting cash			
Interest income	6	(14,634,126)	(15,156,811)
Interest expense	6	4,804,170	5,338,770
Deferred tax expense		76,857	197,284
Income tax charge		1,924,718	1,659,196
Depreciation	27	297,617	307,637
Impairment losses on loans	23	272,425	56,209
Gain on sale of property, plant and equipment		(4,486)	(365)
Write offs of property, plant and equipment	27	4,075	3,617
		(2,960,475)	(3,220,893)
Changes in operating assets and liabilities			
Loans		(3,975,754)	(5,019,165)
Retirement benefits		(364,117)	(331,571)
Customer deposits		7,998,493	11,013,729
Statutory reserves at Bank of Jamaica		2,337,045	(1,493,430)
		3,035,192	948,670
Interest received		14,234,748	15,117,130
Interest paid		(4,797,648)	(5,366,487)
Income tax paid		(1,228,503)	(861,277)
Net cash provided by operating activities		11,243,789	9,838,036
Cash Flows from Investing Activities			
Investment securities		(2,462,664)	197,711
Government securities purchased under resale agreements		(29,600)	(26,534)
Purchase of property, plant and equipment	27	(285,863)	(356,050)
Proceeds from the sale of property, plant and equipment		5,809	400
Withholding tax recoverable		16,862	-
Other assets, net		827,141	(986,769)
Securities sold under repurchase agreements		(1,471,653)	(1,629,092)
Net cash provided by/(used in) investing activities		(3,399,968)	(2,800,334)
Cash Flows from Operating and Investing Activities		7,843,821	7,037,702

The Bank of Nova Scotia Jamaica Limited

Statement of Cash Flows (Continued)

Year ended 31 October 2005

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2005	Restated 2004
Cash Flows from Operating and Investing Activities (Page 11)		7,843,821	7,037,702
Cash Flows from Financing Activities			
Due to parent company and fellow subsidiaries		1,464,267	444,914
Dividends paid		(2,927,231)	(3,117,502)
Other liabilities, net		(9,121)	110,300
Net cash used in financing activities		(1,472,085)	(2,562,288)
Effect of exchange rate changes on cash and amounts due to banks and other financial institutions		544,145	(22,275)
Net increase in cash and amounts due to banks and other financial institutions		6,915,881	4,453,139
Cash and amounts due to banks and other financial institutions at beginning of year		28,572,071	24,118,932
CASH AND AMOUNTS DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS	19	35,487,952	28,572,071

The Bank of Nova Scotia Jamaica Limited

Notes to the Financial Statements
31 October 2005
(expressed in thousands of Jamaican dollars unless otherwise stated)

1. Identification, Regulation and Licence

The Bank of Nova Scotia Jamaica Limited ("the Bank") is incorporated and domiciled in Jamaica. It is a 70% subsidiary of The Bank of Nova Scotia, which is incorporated and domiciled in Canada. The registered office of the Bank is located at the Scotiabank Centre, Corner of Duke and Port Royal Streets, Kingston.

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

The Bank is listed on the Jamaica Stock Exchange.

The Bank's subsidiaries, which together with the Bank are referred to as "the Group" are as follows:

Subsidiaries	Principal Activities	Holding	Financial Year End
Scotia Jamaica Investment Management Limited	Investment and Pension Fund Management and Trustee Services	100%	31 October
The Scotia Jamaica Building Society	Mortgage financing	100%	31 October
Scotia Jamaica Life Insurance Company Limited	Life Insurance	100%	31 December
Scotia Jamaica General Insurance Brokers Limited	Insurance Brokers	100%	31 October
Scotia Jamaica Financial Services Limited	Non-trading	100%	31 October
Brighton Holdings Limited	Non-trading	100%	31 October

All of the Bank's subsidiaries are incorporated and domiciled in Jamaica.

During the year, one of the Bank's subsidiaries, Scotia Jamaica General Insurance Brokers Limited ceased trading and is in the process of surrendering the insurance brokers licence to the Regulator.

These financial statements have been approved for issue by the Board of Directors on 24 November 2005.

(expressed in thousands of Jamaican dollars unless otherwise stated)

2. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied for all the years presented, unless otherwise stated.

(a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and have been prepared under the historical cost convention, as modified for the revaluation of available-for-sale financial assets and financial assets held for trading.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Early adoption of revised standards -
In 2005, the Group early adopted the following IFRS, which are relevant to its operations. The 2004 accounts have been amended as required, in accordance with the relevant requirements. The effects of early adopting IFRS on equity previously reported for the Group are detailed in Note 50.

IAS 1 (revised 2003)	Presentation of Financial Statements
IAS 8 (revised 2003)	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 (revised 2003)	Events after the Balance Sheet Date
IAS 16 (revised 2003)	Property, Plant and Equipment
IAS 17 (revised 2003)	Leases
IAS 24 (revised 2003)	Related Party Disclosures
IAS 32 (revised 2003	Financial Instruments: Disclosure and Presentation
IAS 36 (revised 2003)	Impairment of Assets
IAS 38 (revised 2003)	Intangible Assets
IAS 39 (revised 2003 & 2004)	Financial Instruments: Recognition and Measurement

The early adoption of IAS 1, 8, 10, 16, 17, 24, 32, 36, 38 and 39 (all revised 2003) and IAS 39 (revised 2004) did not result in substantial changes to the Group's accounting policies. In summary:

(i) IAS 1 (revised 2003) has affected disclosures.
(ii) IAS 8, 10, 16, 17, 32, 38 and 39 (all revised 2003) and IAS 39 (revised 2004) had no material effect on the Group's policies.
(iii) IAS 24 (revised 2003) has extended the identification of related parties and some other related-party disclosures.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than IAS 39 – the de-recognition of financial assets is applied prospectively.

There was no impact on opening retained earnings as at 1 November 2004 from the adoption of any of the above-mentioned standards.

2. Summary of Significant Accounting Policies (Continued)

(b) Basis of consolidation

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting shares rights.

The consolidated financial statements include the assets, liabilities and results of operations of the Bank and its subsidiaries presented as a single economic entity. Intra-group transactions, balances and unrealised gains and losses are eliminated in preparing the consolidated financial statements.

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

(d) 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, being the mid-point between the Bank of Jamaica's (the Central Bank) weighted average 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.

(e) Interest and fees

(i) Income and expense

Interest income and expense are recognised in the statement of revenue and expenses for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. Interest income includes coupons earned on fixed income investments and accrued discount or on treasury bills and other discounted instruments.

Where collection of interest income is considered doubtful, or payment is outstanding for more than 90 days, the banking regulations stipulate that interest should be taken into account on the cash basis. IFRS requires that when loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount. However, such amounts as would have been determined under IFRS are considered to be immaterial.

(ii) Fee and commission income

Fee and commission income is recognised on an accrual basis when service has been provided. Loan origination fees, for loans which are probable of being drawn down, are recognised in the statement of revenue and expenses immediately, as they are not considered material for deferral.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees are apportioned over the period the service is provided. The same principle is applied for financial planning and custody services that are continuously provided over an extended period of time.

2. Summary of Significant Accounting Policies (Continued)

(f) Premium income
Premiums are recognised as earned when due.

(g) Claims
Death claims are recorded in the statement of operations net of reinsurance recoverable.

(h) Reinsurance ceded
The Group cedes insurance premiums and risk in the normal course of business in order to limit the potential for losses arising from large exposures. Reinsurance does not relieve the originating insurer of its liability.

(i) Taxation
Taxation on the profit or loss for the year comprises current and deferred tax. Current and deferred taxes are recognised as income tax expense or benefit in the statement of revenue and expenses except, where they relate to items recorded in stockholders' equity, they are also charged or credited to stockholders' equity.

(i) Current taxation
Current tax is the expected taxation payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable and tax losses in respect of previous years.

(ii) Deferred income taxes
Deferred tax liabilities are recognised for temporary differences between the carrying amounts of assets and liabilities and their amounts as measured for tax purposes, which will result in taxable amounts in future periods. Deferred tax assets are recognised for temporary differences which will result in deductible amounts in future periods, but only to the extent it is probable that sufficient taxable profits will be available against which these differences can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset will be realised or the liability will be settled based on enacted rates.

Current and deferred tax assets and liabilities are offset when they arise from the same taxable entity, relate to the same Tax Authority and when the legal right of offset exists.

(j) Policyholders' fund
The policyholders' funds 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 policyholders' fund to the statement of revenue and expenses.

2. Summary of Significant Accounting Policies (Continued)

(k) Financial assets

The Group classifies its financial assets into the following categories: financial assets held for trading; loans and receivables; held-to-maturity; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

(i) Financial assets at fair value through profit or loss
This category includes financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

(ii) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

(iii) Held-to-maturity
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Were the Group to sell other than an insignificant amount of held-to-maturity assets, the entire category would be compromised and reclassified as available-for-sale.

(v) Available-for-sale
Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Purchases and sales of financial assets held for trading, held-to-maturity and available-for-sale are recognised at the settlement date – the date on which an asset is delivered to or by the Group. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets held for trading are subsequently carried at fair value. Loans and receivables investment is carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial assets are derecognised or impaired at which time the cumulative gains or losses previously recognised in equity should be recognised in profit or loss. However, interest calculated using the effective interest method is recognised in the statement of revenue and expenses.

A financial asset is considered impaired if its carrying amount exceeds its estimated recoverable amount. The amount of the impairment loss for an asset carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the original effective interest rate. The recoverable amount of a financial asset carried at fair value is the present value of expected future cash flows discounted at the current market interest rate for a similar financial asset.

2. Summary of Significant Accounting Policies (Continued)

(l) Investment in subsidiaries
Investments by the Bank in subsidiaries are stated at cost.

(m) Repurchase and reverse repurchase agreements
Securities sold under agreements to repurchase (repurchase agreements) and securities purchased under agreements to resell (reverse repurchase agreements) are treated as collateralised financing transactions. The difference between the sale/purchase and repurchase/resale price is treated as interest and accrued over the life of the agreements using the effective yield method.

(n) Loans and allowance for impairment losses
Loans are stated net of unearned income and allowance for credit losses.

Loans are recognised when cash is advanced to borrowers. They are initially recorded at cost, which is the cash given to originate the loan including any transaction costs, and are subsequently measured at amortised cost using the effective interest rate method.

An allowance for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms of loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

A loan is classified as impaired when, in management's opinion, there has been a deterioration in credit quality to the extent that there is no longer reasonable assurance of timely collection of the full amount of principal and interest. As required by statutory regulations, if a payment on a loan is contractually 90 days in arrears, the loan will be classified as impaired, if not already classified as such. Any credit card loan that has a payment that is contractually 90 days in arrears is written-off.

When a loan is classified as impaired, recognition of interest in accordance with the terms of the original loan ceases, and interest is taken into account on the cash basis. Interest income on impaired loans has not been recognised, as it is not considered material.

Statutory and other regulatory loan loss reserve requirements that exceed the amounts required under IFRS are dealt with in a non-distributable loan loss reserve as an appropriation of profits.

(o) Acceptances and guarantees
The Bank's potential liability under acceptances and guarantees is reported as a liability in the balance sheet. The Bank has equal and offsetting claims against its customers in the event of a call on these commitments, which are reported as an asset.

(p) Intangible assets
Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with acquiring identifiable and unique software products which are expected to generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. However, such costs have been expensed as they are considered to be immaterial.

2. Summary of Significant Accounting Policies (Continued)

(q) Leases

(i) As lessee

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are recognised at the inception of the lease at the lower of the fair value of the leased asset or the present value of minimum lease payments. Each lease payment is allocated between the liability and interest charges so as to produce a constant rate of charge on the lease obligation. The interest element of the lease payments is charged to the statement of revenue and expenses over the lease period.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under operating leases are charged to the statement of revenue and expenses on a straight-line basis over the period of the lease.

(ii) As lessor

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease in a manner which reflects a constant periodic rate of return on the net investment in the lease.

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned assets. Rental income is recognised on a straight-line basis over the lease term.

(r) Property, plant and equipment

Land is stated at historical cost. All other property, plant and equipment are stated at historical cost less accumulated depreciation.

Subsequent costs are included in the asset’s carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and renewals are charged to the statement of revenue and expenses during the financial period in which they are incurred.

Depreciation and amortisation are calculated on 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	4 years
Motor vehicles	5 years
Leasehold improvements	Period of lease

Property, plant and equipment are reviewed periodically for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

2. Summary of Significant Accounting Policies (Continued)

(s) Employee benefits

(i) Pension obligations

The Group has established a defined benefit pension plan.

The asset or liability in respect of defined benefit plans is the difference between the present value of the defined benefit obligation at the balance sheet date and the fair value of plan assets, adjusted for unrecognised actuarial gains/losses and past service cost. Where a pension asset arises, the amount recognised is limited to the net total of any cumulative unrecognised net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reduction in future contributions to the plan. The pension costs are assessed using the Projected Unit Credit Method. Under this method, the cost of providing pensions is charged to the statement of operations so as to spread the regular cost over the service lives of the employees in accordance with the advice of the actuaries, who carry out a full valuation of the plan every year in accordance with IAS 19. The pension obligation is measured at the present value of the estimated future cash outflows using estimated discount rates based on market yields on Government securities which have terms to maturity approximating the terms of the related liability.

A portion of actuarial gains and losses is recognised in the statement of revenue and expenses if the net cumulative unrecognised actuarial gains or losses at the end of the previous reporting period exceeded 10 percent of the greater of the present value of the gross defined benefit obligation and the fair value of plan assets at that date. Any excess actuarial gains or losses are recognised in the statement of revenue and expenses over the average remaining service lives of the participating employees.

(ii) Termination obligations

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without the possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve (12) months after the balance sheet date are discounted to present value.

(iii) Other post-retirement obligations

The Group also provides supplementary health, dental and life insurance benefits to qualifying employees upon retirement. The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using an accounting methodology similar to that for defined benefit pension plans. These obligations are valued annually by qualified independent actuaries.

(iv) Equity compensation benefits

The Bank has an Employee Share Ownership Plan (ESOP) for eligible employees. The Bank currently pays all the administrative and other expenses of the Plan. The Bank provides a fixed benefit to each participant, which is linked to the number of years of service. This benefit is recorded in salaries and staff benefits expense in the statement of revenue and expenses.

2. Summary of Significant Accounting Policies (Continued)

(t) Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between proceeds net of transaction costs and the redemption value, is recognised in the statement of revenue and expenses immediately, as they are not considered material for deferral.

(u) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Employee entitlements to annual leave and long-service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

(v) Dividends

Dividends are recorded in the financial statements in the period in which they have been approved by the Board of Directors.

(w) Financial instruments

Financial instruments carried on the balance sheet include cash resources, investments, securities purchased under resale agreements, loans and leases and other assets, deposits, other liabilities and policyholders' funds.

The fair values of the Group's and the Bank's financial instruments are discussed in Note 43.

(x) Fiduciary activities

The Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

(y) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise balances which mature within 90 days from the date of acquisition including cash and balances at Bank of Jamaica (excluding statutory cash reserves), amounts due from other banks, investment securities and amounts due to other banks.

(z) Comparative information

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year.

3. Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Impairment losses on loans and advances
The Group reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of revenue and expenses, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the net present value of estimated cash flows differs by +/-5 percent, the provision would be estimated $525,514 higher or $475,465 lower.

(ii) Held-to-maturity investments
The Group follows the guidance of IAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances – for example, selling other than an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value, not amortised cost. If the entire class of held-to-maturity investments is compromised, the fair value would increase by $433,520 with a corresponding entry in the fair value reserve in stockholders' equity.

(iii) Income taxes
Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for possible tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Were the actual final outcome (on the judgement areas) to differ by 10% from management's estimates, the Group would need to:

- increase the income tax liability by $8,779 and the deferred tax liability by $7,338, if unfavourable; or
- decrease the income tax liability by $8,779 and the deferred tax liability by $7,338, if favourable.

3. Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

(iv) Estimate of future payments and premiums arising from long-term insurance contracts
The determination of the liabilities under long-term insurance contracts is dependent on estimates made by the Group. Estimates are made as to the expected number of deaths for each of the years in which the Group is exposed to risk. The Group bases these estimates on standard industry and international mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the Group's own experience. For contracts that insure the risk of longevity, appropriate but not excessively prudent allowance is made for expected mortality improvements. The estimated number of deaths determines the value of the benefit payments and the value of the valuation premiums. The main source of uncertainty is that epidemics such as AIDS, and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits, could result in future mortality being significantly worse than in the past for the age groups in which the Group has significant exposure to mortality risk. However, continuing improvements in medical care and social conditions could result in improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where the Group is exposed to longevity risk.

Were the numbers of deaths in future years to differ by 10% from management's estimate, the liability would increase by $23,536 or decrease by $23,466.

For contracts without fixed terms, it is assumed that the Group will be able to increase mortality risk charges in future years in line with emerging mortality experience.

Estimates are also made as to future investment income arising from the assets backing long-term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments. The average estimated rate of investment return is 13.5%. Were the average future investment returns to differ by 1% from management's estimates, the insurance liability would increase by $161,110 or decrease by $195,986.

For long-term contracts with fixed and guaranteed terms, estimates are made in two stages. Estimates of future deaths, voluntary terminations, investment returns and administration expenses are made at the inception of the contract and form the assumptions used for calculating the liabilities during the life of the contract. A margin of risk and uncertainty is added to these assumptions. These assumptions are 'locked in' for the duration of the contract. New estimates are made each subsequent year in order to determine whether the previous liabilities are adequate in the light of these estimates. If the liabilities are considered adequate, the assumptions are not altered. If they are not adequate, the assumptions are altered ('unlocked') to reflect the best estimates assumptions. A key feature of the adequacy testing for these contracts is that the effects of changes in the assumptions on the measurement of the liabilities and related assets are not symmetrical. Any significant improvements or deteriorations in estimates are immediately recognised to make the liabilities adequate.

3. Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

(v) Pension and post-retirement benefits
The cost of these benefits and the present value of the pension and the other post-retirement liabilities depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumption used in determining the net periodic cost (income) for pension and post-retirement benefits include the expected long-term rate of return on the relevant plan assets, the discount rate and, in the case of the post-employment medical benefits, the expected rate of increase in medical costs. Any changes in these assumptions will impact the net periodic cost (income) recorded for pension and post-retirement benefits and may affect planned funding of the pension plans. The expected return on plan assets assumption is determined on a uniform basis, considering long-term historical returns, asset allocation and future estimates of long-term investments returns. The Group determines the appropriate discount rate at the end of each year, which represents the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension and post-retirement benefit obligations. In determining the appropriate discount rate, the Group considered interest rate of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. The expected rate of increase of medical costs has been determined by comparing the historical relationship of the actual medical cost increases with the rate of inflation in the respective economy. Past experience has shown that the actual medical costs have increased on average by one time the rate of inflation. Other key assumptions for the pension and post retirement benefits cost and credits are based in part on current market conditions.

Were the actual expected return on plan assets to differ by 1% from management's estimates, the consolidated net income would be an estimated $145,030 higher or $145,031 lower. Were the actual discount rate used to differ by 1% from management's estimates, the consolidated net income would be an estimated $271,846 higher or $551,209 lower.

4. Responsibilities of the Appointed Actuary and External Auditors

The Board of Directors pursuant to the Insurance Act appoints the Actuary. His responsibility is to carry out an annual valuation of the Group's policy liabilities in accordance with accepted actuarial practice and regulatory requirements and report thereon to the policyholders and stockholders. In performing the valuation, the Actuary makes assumptions as to the future rates of interest, asset defaults, mortality, morbidity, claims experience, policy termination, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Group and the insurance policies in force.

The stockholders pursuant to the Companies Act appoint the external auditors. Their responsibility is to conduct an independent and objective audit of the financial statements in accordance with International Standards on Auditing and report thereon to the stockholders. In carrying out their audit, the auditors also make use of the work of the appointed Actuary and his report on the policy liabilities.

5. Segmental Financial Information

The Group is organised into five main business segments:

(a) Retail Banking – incorporating personal banking services, personal customer current accounts, savings, deposits, custody, credit and debit cards, consumer loans and mortgages;

(b) Corporate and Commercial Banking - incorporating non-personal direct debit facilities, current accounts, deposits, overdrafts, loans and other credit facilities and foreign currency transactions;

(c) Treasury – incorporating the Bank's liquidity and investment management function, management of correspondent bank relationships, as well as foreign currency trading;

(d) Investment Management Services – incorporating investments and pension fund management and the administration of trust accounts;

(e) Insurance Services - incorporating the provision of life insurance and

(f) Other operations of the Group comprise General Insurance Brokerage and property rental.

Transactions between the business segments are on normal commercial terms and conditions.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet, but exclude items such as taxation, retirement benefit assets and obligations and borrowings.

The Group's operations are located solely in Jamaica.

The Bank of Nova Scotia Jamaica Limited

Notes to the Financial Statements

31 October 2005

(expressed in thousands of Jamaican dollars unless otherwise stated)

5. Segmental Financial Information (Continued)

	2005							
	\------------------Banking------------------\							
	Retail	Corporate and Commercial	Treasury	Investment Management Services	Insurance Services	Other	Eliminations	Group
Gross external revenues	6,348,931	6,265,129	5,818,784	2,796,198	3,771,192	7,467	-	25,007,701
Revenue/(expenses) from other segments	2,916,016	329,743	(3,155,740)	51,937	11,622	19,161	(172,739)	-
Total gross revenues	9,264,947	6,594,872	2,663,044	2,848,135	3,782,814	26,628	(172,739)	25,007,701
Total expenses	(7,021,005)	(4,625,008)	(154,119)	(2,552,221)	(2,466,811)	(31,464)	172,739	(16,677,889)
Profit before tax	2,243,942	1,969,864	2,508,925	295,914	1,316,003	(4,836)	-	8,329,812
Income tax expense								(2,444,226)
Net profit								5,885,586
Segment assets	29,370,490	39,815,151	67,660,200	18,891,769	24,029,675	166,285	(596,326)	179,337,244
Unallocated assets								4,123,699
Total assets								183,460,943
Segment liabilities	62,560,765	54,970,353	1,790,534	17,581,765	20,052,579	64,764	(396,036)	156,624,724
Unallocated liabilities								3,311,266
Total liabilities								159,935,990
Other segment items:								
Capital expenditure	191,636	73,676	22,291	4,359	8,383	-	-	300,345
Impairment losses on loans	194,334	79,990	-	(1,749)	-	-	-	272,575
Depreciation	239,960	47,445	12,774	3,571	4,325	1,090	-	309,165

The Bank of Nova Scotia Jamaica Limited

Notes to the Financial Statements

31 October 2005

(expressed in thousands of Jamaican dollars unless otherwise stated)

5. Segmental Financial Information (Continued)

	2004							
	\--------------------Banking------------------\							
	Retail	Corporate and Commercial	Treasury	Investment Management Services	Insurance Services	Other	Eliminations	Group
Gross external revenues	5,201,442	6,405,636	6,318,869	4,231,827	3,070,483	84,528	-	25,312,785
Revenue/(expenses) from other segments	4,911,362	278,864	(4,929,797)	217,334	647,064	1,817	(1,126,644)	-
Total gross revenues	10,112,804	6,684,500	1,389,072	4,449,161	3,717,547	86,345	(1,126,644)	25,312,785
Total expenses	(6,923,877)	(4,267,366)	(329,880)	(4,101,809)	(2,564,600)	(79,264)	1,126,644	(17,140,152)
Profit before tax	3,188,927	2,417,134	1,059,192	347,352	1,152,947	7,081	-	8,172,633
Income tax expense								(2,316,576)
Net profit								5,856,057
Segment assets	23,742,118	38,242,201	63,488,434	20,740,949	19,245,601	210,718	(2,027,085)	163,642,936
Unallocated assets								4,524,713
Total assets								168,167,649
Segment liabilities	60,647,010	46,853,047	3,349,403	19,634,340	16,335,139	102,046	(1,826,794)	145,094,191
Unallocated liabilities								2,468,441
Total liabilities								147,562,632
Other segment items:								
Capital expenditure	221,081	109,968	27,346	2,508	4,019	1,944	-	366,866
Impairment losses on loans	67,283	(12,756)	-	(8,649)	-	-	-	45,878
Depreciation	246,493	50,395	13,237	3,406	3,575	1,921	-	319,027

Capital expenditure comprises additions to property, plant and equipment (Note 27).

The Bank of Nova Scotia Jamaica Limited
Notes to the Financial Statements
31 October 2005
(expressed in thousands of Jamaican dollars unless otherwise stated)

6. Net Interest Income

	The Group		The Bank	
	2005	**2004**	**2005**	**2004**
Interest income -				
Deposits with banks and other financial institutions	2,488,944	2,206,398	2,517,941	2,204,174
Investment securities	5,209,959	6,346,355	2,757,160	3,725,601
Reverse repurchase agreements	3,915,497	4,417,970	17,020	15,361
Loans and advances	9,911,251	9,724,733	9,339,586	9,208,980
Other	19,427	22,152	2,419	2,695
	21,545,078	22,717,608	14,634,126	15,156,811
Interest expense -				
Banks and customers	5,086,362	5,333,662	4,675,374	4,922,719
Repurchase agreements	2,378,453	3,260,222	122,209	412,416
Other	16,431	13,106	6,587	3,635
	7,481,246	8,606,990	4,804,170	5,338,770

7. Net Foreign Exchange Trading Income

Foreign exchange net trading income includes gains and losses arising from foreign currency trading activities.

8. Net Fee and Commission Income

	The Group		The Bank	
	2005	**2004**	**2005**	**2004**
Fee and commission income -				
Retail banking fees	1,023,536	683,019	1,023,398	681,763
Credit related fees	469,629	455,405	467,259	455,505
Commercial and depository fees	1,310,333	967,071	1,146,891	789,904
	2,803,498	2,105,495	2,637,548	1,927,172
Fee and commission expenses	(475,033)	(378,829)	(475,033)	(378,829)
	2,328,465	1,726,666	2,162,515	1,548,343

(expressed in thousands of Jamaican dollars unless otherwise stated)

9. Salaries, Pension Contributions and Other Staff Benefits

	The Group		The Bank	
	2005	2004	2005	2004
Wages and salaries	3,186,949	2,994,931	2,880,024	2,694,060
Payroll taxes	286,154	264,322	261,596	217,743
Pension costs (Note 29)	(331,768)	(278,668)	(331,768)	(278,668)
Other post retirement benefits (Note 29)	80,004	40,342	80,004	40,342
Other staff benefits	782,249	751,600	741,840	708,410
	4,003,588	3,772,527	3,631,696	3,381,887

The number of persons employed at the year end:

	The Group		The Bank	
	2005	2004	2005	2004
	No.	No.	No.	No.
Full - time	1,183	1,225	1,050	1,076
Part - time	660	639	652	630
	1,843	1,864	1,702	1,706

10. Change in Policyholders' Reserves

(a) Reserve for future benefits

	The Group	
	2005	2004
Composition by line of business:		
Ordinary life	19,869,816	16,025,935
Creditor life	84,797	74,771
	19,954,613	16,100,706

(b) Change in policyholders' reserves

	The Group	
	2005	2004
Policyholders' benefit payments	20,851	6,803
Interest expense	2,360,941	2,373,944
Transfer from actuarial reserves	(289,050)	(138,648)
	2,092,742	2,242,099

(expressed in thousands of Jamaican dollars unless otherwise stated)

11. Expenses by Nature

	The Group		The Bank	
	2005	2004	2005	2004
Salaries, pension contributions and other staff benefits (Note 9)	4,003,588	3,772,527	3,631,696	3,381,887
Property expenses, including depreciation	1,029,859	984,628	994,557	951,390
Changes in policyholders' reserves	2,092,742	2,242,099	-	-
Transportation and communication	548,653	460,196	518,647	435,428
Marketing and advertising	316,548	245,201	268,352	200,472
Management and consultant fees	204,541	211,332	196,711	202,349
Deposit insurance	145,637	121,997	139,872	115,088
Stationery	182,075	193,805	175,066	187,188
Other operating expenses	400,425	255,499	296,534	189,222
	8,924,068	8,487,284	6,221,435	5,663,024

12. Profit before Taxation

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

	The Group		The Bank	
	2005	2004	2005	2004
Auditors' remuneration-	12,430	11,400	7,600	6,767
Depreciation	309,165	319,027	297,617	307,637
Directors' emoluments -				
Fees	13,657	13,292	7,586	6,764
Other	45,221	49,889	34,684	39,352
(Gains)\losses on sale of property, plant and equipment	(1,847)	245	(4,486)	365
Operating lease rentals	36,873	34,501	35,469	32,675

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13. Taxation

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

	The Group		The Bank	
	2005	**2004**	**2005**	**2004**
Current income tax -				
Income tax at 33⅓%	2,015,107	1,757,686	1,924,682	1,648,329
Income tax at 30%	119,396	124,766	-	-
Premium income tax at 3%	76,434	83,688	-	-
Investment income tax at 15%	148,293	132,351	-	-
Adjustment for under-provision of prior year's charge	8,313	10,867	36	10,867
Deferred income tax (Note 28)	76,683	207,218	76,857	197,284
	2,444,226	2,316,576	2,001,575	1,856,480

(b) Reconciliation of applicable tax charge to effective tax charge:

	The Group		The Bank	
	2005	**2004**	**2005**	**2004**
Profit before taxation	8,329,812	8,172,633	6,299,850	6,230,050
Tax calculated at 33⅓%	2,776,604	2,724,211	2,099,950	2,076,683
Adjusted for the effects of:				
Effect of different tax regime applicable to life insurance and mortgage financing subsidiaries	(213,990)	(168,081)	-	-
Income not subject to tax – tax free investments	(163,358)	(266,238)	(154,583)	(246,588)
Expenses not deductible for tax purposes	2,048	1,206	1,358	1,206
Other charges and allowances	42,922	25,478	54,850	25,179
Income tax expense	2,444,226	2,316,576	2,001,575	1,856,480

Tax on the life insurance business is charged on investment income, less expenses allowable in earning that income, at the rate of 15% and on premium income less reinsurance premiums at 3%.

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14. Net Profit and Unappropriated Profits Attributable to Stockholders

	2005	2004
(a) The net profit is dealt with as follows in the financial statements of:		
The Bank	4,298,275	4,373,570
The Subsidiaries	1,587,311	1,482,487
	5,885,586	5,856,057
(b) The unappropriated profits are dealt with as follows in the financial statements of:		
The Bank	5,381,703	4,760,659
The Subsidiaries	6,537,034	4,949,723
	11,918,737	9,710,382

15. Earnings per Stock Unit

Basic earnings per stock unit is calculated by dividing the net profit attributable to stockholders by the weighted average number of ordinary stock units in issue during the year. The average number of stock units for the previous year has been adjusted accordingly to take into account the issue of 1,463,616,000 bonus ordinary shares.

	2005	2004
Net profit attributable to stockholders ($'000)	5,885,586	5,856,057
Weighted average number of ordinary stock units in issue ('000)	2,927,232	2,927,232
Basic earnings per stock unit (expressed in $ per share)	$2.01	$2.00

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16. Cash and Balances at Bank of Jamaica

	The Group		The Bank	
	2005	**2004**	**2005**	**2004**
Special reserves held with the Bank of Jamaica	582,060	2,863,830	582,060	2,863,830
Statutory reserves with Bank of Jamaica - interest-bearing	2,926,528	3,065,541	2,926,123	3,065,042
Statutory reserves with Bank of Jamaica - non-interest-bearing	5,279,597	5,190,461	5,238,539	5,154,895
	8,788,185	11,119,832	8,746,722	11,083,767
Cash in hand and at bank (Note 19)	16,655,146	12,516,816	16,654,860	12,516,589
	25,443,331	23,636,648	25,401,582	23,600,356

Statutory reserves with the Bank of Jamaica under Section 14 (i) of the Banking Act, 1992, and the Building Societies Regulations represent the required ratio of 9% (9% - 2004) of the Bank's and 1% (1% - 2004) of the Society's prescribed liabilities respectively. They are not available for investment, lending or other use by the Group and the Bank.

Effective 15 January 2003, the Bank is required by the Bank of Jamaica (BOJ) under Section 28A of the Bank of Jamaica Act, to maintain with the BOJ, a special deposit wholly in the form of cash, representing 1% (2004 - 5%) of the prescribed liabilities. This special deposit earns interest at a rate of 6% per annum.

17. Amounts due from Other Banks

	The Group		The Bank	
	2005	**2004**	**2005**	**2004**
Items in course of collection from other banks	978,589	1,838,658	978,589	1,838,658
Placements with other banks	16,798,841	13,555,829	16,764,467	13,531,726
	17,777,430	15,394,487	17,743,056	15,370,384
Loans and advances to other banks	458,000	-	458,000	-
	18,235,430	15,394,487	18,201,056	15,370,384

18. Accounts with Parent and Fellow Subsidiaries

These represent intercompany accounts held with the parent company and fellow subsidiaries in the normal course of business.

(expressed in thousands of Jamaican dollars unless otherwise stated)

19. Cash and Cash Equivalents

	The Group		The Bank	
	2005	**2004**	**2005**	**2004**
Cash and balances with Bank of Jamaica	25,443,331	23,636,648	25,401,582	23,600,356
Less: statutory reserves (Note 16)	(8,788,185)	(11,119,832)	(8,746,722)	(11,083,767)
	16,655,146	12,516,816	16,654,860	12,516,589
Government and bank notes other than Jamaica	240,438	307,744	240,438	307,744
Trading securities (Note 20)	21,990	-	-	-
Investment securities (Note 25)	6,041,899	5,246,784	3,337,129	3,709,884
Amounts due from other banks (Note 17)	18,235,430	15,394,487	18,201,056	15,370,384
Accounts with parent and fellow subsidiaries	489,135	1,111,543	489,135	1,111,543
Cheques and other instruments in transit	(1,906,302)	(2,884,129)	(1,856,866)	(2,772,536)
	39,777,736	31,693,245	37,065,752	30,243,608

Cash and amounts due to banks and other financial institutions include the following for the purposes of the cash flow statement:

	The Group		The Bank	
	2005	**2004**	**2005**	**2004**
Cash and cash equivalents	39,777,736	31,693,245	37,065,752	30,243,608
Amounts due to other banks and financial institutions	(1,655,908)	(1,773,436)	(1,577,800)	(1,671,537)
	38,121,828	29,919,809	35,487,952	28,572,071

20. Trading securities

These represent investments in Government of Jamaica securities.

Trading securities at fair value through profit and loss that were designated at initial recognition amounted to $21,990 (2004 – nil)

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21. Government Securities Purchased under Resale Agreements

The Group and the Bank enter into reverse repurchase agreements collateralised by Government of Jamaica securities. These agreements may result in credit exposure in the event that the counterparty to the transaction is unable to fulfill its contractual obligations.

22. Loans, after Allowance for Impairment Losses

	The Group		The Bank	
	2005	**2004**	**2005**	**2004**
Business and Government	36,506,862	35,408,095	36,348,820	35,394,218
Personal and credit cards	18,103,489	15,359,851	18,103,489	15,359,851
Residential mortgages	3,532,846	3,186,577	-	-
	58,143,197	53,954,523	54,452,309	50,754,069
Less: allowance for impairment losses (Note 23)	(495,034)	(500,121)	(460,059)	(465,148)
	57,648,163	53,454,402	53,992,250	50,288,921

(expressed in thousands of Jamaican dollars unless otherwise stated)

23. Impairment Losses on Loans

	The Group		The Bank	
	2005	**2004**	**2005**	**2004**
Total non-performing loans	918,164	1,039,396	818,491	941,490
Provision at beginning of year	500,121	655,350	465,148	612,525
Charged against revenue during the year	272,575	45,878	272,426	56,209
Bad debts written off	(461,583)	(323,469)	(461,435)	(323,315)
Recoveries of bad debts	183,921	122,362	183,920	119,729
At end of year	495,034	500,121	460,059	465,148
This comprises:				
Specific provisions	347,255	357,045	317,079	324,402
General provisions	147,779	143,076	142,980	140,746
	495,034	500,121	460,059	465,148

Allowance for impairment losses

A loan is classified as impaired if its book value exceeds the present value of the cash flows actually expected in future periods – interest payments, principal repayments as well as liquidation of collateral. Provisions for credit losses are made on all impaired loans. Uncollected interest not accrued in these financial statements on impaired loans was estimated at $79,571 as at 31 October 2005 (2004 – $71,955) for the Bank and $84,103 as at 31 October 2005 (2004 - $77,318) for the Group.

The Group's and Bank's loan loss provisioning requirements amounted to $1,301,558 (2004 - $1,306,645) and $1,225,351 (2004 - $1,230,440) respectively. This includes the amounts required to meet the Bank of Jamaica loan loss provisioning requirement. The provisions shown in the table above represent provisions based on IAS 39 (Financial Instruments: Recognition and Measurement) requirements. A non-distributable loan loss reserve was established to represent the excess of the Bank's provision over the IAS 39 requirements.

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24. Lease Receivables

	The Group	
	2005	**2004**
Gross investment in finance leases		
Not later than one year	495	5,177
Later than one year and not later than five years	-	535
	495	5,712
Less: Unearned income	(62)	(612)
Net investment in finance leases	433	5,100
Net investment in finance leases may be classified as follows:		
Not later than one year	433	4,636
Later than one year and not later than five years	-	464
	433	5,100

The provision for uncollectible finance lease receivables amounted to nil as at 31 October 2005 (2004 - $17,000).

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25. Investment Securities

	The Group		The Bank	
	2005	**2004**	**2005**	**2004**
Available-for-sale -				
Government of Jamaica	9,698,034	8,381,105	6,791,012	5,019,543
Other foreign Government	-	420,957	-	420,957
Other	5,105	5,105	5,105	5,105
	9,703,139	8,807,167	6,796,117	5,445,605
Held-to-maturity				
Government of Jamaica	30,007,089	26,279,955	17,096,745	16,912,645
Other	136	136	-	-
	30,007,225	26,280,091	17,096,745	16,912,645
Total investment securities	39,710,364	35,087,258	23,892,862	22,358,250

The Bank of Jamaica holds as security, Government of Jamaica Local Registered Stocks and Bank of Jamaica Certificates of Deposits valued at $981,463 (2004 - $952,000) for the Group and $900,000 (2004 - $900,000) for the Bank against possible shortfalls in the operating account.

Included in investment securities are Government of Jamaica Local Registered Stocks valued at $90,000 (2004 - $90,000) which have been deposited, by one of the Bank's subsidiaries, Scotia Jamaica Life Insurance Company Limited, with the insurance regulators, the Financial Services Commission, pursuant to Section 8 (1) (a) of the Insurance Regulations 2001.

Other financial institutions hold as security, Government of Jamaica Local Registered Stocks valued at $1,170,000 (2004 - $170,000) for the Bank in the normal course of inter bank transactions.

The Group has not reclassified any financial asset measured at amortised cost rather than fair value during the year.

Gains and losses previously recognised in equity:

The Group		The Bank	
2005	**2004**	**2005**	**2004**
(39,095)	561	(35,368)	2,065

Included in investment securities are the following amounts which are regarded as cash equivalents for purposes of the statement of cash flows:

	The Group		The Bank	
	2005	**2004**	**2005**	**2004**
Debt securities with an original maturity of less than 90 days (Note 19)	6,041,899	5,246,784	3,337,129	3,709,884

(expressed in thousands of Jamaican dollars unless otherwise stated)

26. Other Assets

	The Group		The Bank	
	2005	**2004**	**2005**	**2004**
Accounts receivable and prepayments	73,603	52,118	51,755	15,955
Interest receivable	4,241,992	4,060,001	2,449,397	2,050,019
Other	228,150	1,074,413	198,887	1,067,404
	4,543,745	5,186,532	2,700,039	3,133,378

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27. Property, Plant and Equipment

	The Group				
	Freehold Land and Buildings	**Leasehold Improvements**	**Furniture, Fixtures, Motor Vehicles & Equipment**	**Capital Work-In-Progress**	**Total**
Cost -					
At 1 November 2003	1,183,868	95,025	2,010,511	148,126	3,437,530
Additions	5,321	486	103,256	257,803	366,866
Disposals	-	-	(4,103)	(71)	(4,174)
Transfers	89,105	2,924	256,919	(348,948)	-
Write-offs	-	-	-	(3,617)	(3,617)
At 31 October 2004	1,278,294	98,435	2,366,583	53,293	3,796,605
Additions	7,944	6,351	80,840	205,210	300,345
Disposals	(27)	(172)	(23,862)	(942)	(25,003)
Transfers	51,494	16,469	111,478	(179,441)	-
Write-offs	-	-	-	(4,075)	(4,075)
At 31 October 2005	1,337,705	121,083	2,535,039	74,045	4,067,872
Accumulated Depreciation -					
At 1 November 2003	145,798	58,251	1,239,880	-	1,443,929
Charge for the year	26,090	7,932	285,005	-	319,027
On disposals	-	-	(2,892)	-	(2,892)
At 31 October 2004	171,888	66,183	1,521,993	-	1,760,064
Charge for the year	27,558	11,956	269,651	-	309,165
On disposals	-	(90)	(18,420)	-	(18,510)
At 31 October 2005	199,446	78,049	1,773,224	-	2,050,719
Net Book Value -					
31 October 2004	1,106,406	32,252	844,590	53,293	2,036,541
31 October 2005	1,138,259	43,034	761,815	74,045	2,017,153

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27. Property, Plant and Equipment (Continued)

	The Bank				
	Freehold Land and Buildings	**Leasehold Improvements**	**Furniture, Fixtures, Motor Vehicles & Equipment**	**Capital Work-In-Progress**	**Total**
Cost -					
At 1 November 2003	1,130,903	94,640	1,939,343	147,317	3,312,203
Additions	5,321	314	92,613	257,802	356,050
Disposals	-	-	(2,016)	-	(2,016)
Transfers	89,105	2,924	256,919	(348,948)	-
Write-offs	-	-	-	(3,617)	(3,617)
At 31 October 2004	1,225,329	97,878	2,286,859	52,554	3,662,620
Additions	7,944	5,313	71,309	201,297	285,863
Disposals	(27)	-	(10,661)	-	(10,688)
Transfers	51,494	16,469	111,478	(179,441)	-
Write-offs	-	-	-	(4,075)	(4,075)
At 31 October 2005	1,284,740	119,660	2,458,985	70,335	3,933,720
Accumulated Depreciation -					
At 1 November 2003	135,800	58,017	1,195,165	-	1,388,982
Charge for the year	24,885	7,804	274,948	-	307,637
On disposals	-	-	(1,981)	-	(1,981)
At 31 October 2004	160,685	65,821	1,468,132	-	1,694,638
Charge for the year	26,352	11,109	260,156	-	297,617
On disposals	-	-	(9,365)	-	(9,365)
At 31 October 2005	187,037	76,930	1,718,923	-	1,982,890
Net Book Value -					
31 October 2004	1,064,644	32,057	818,727	52,554	1,967,982
31 October 2005	1,097,703	42,730	740,062	70,335	1,950,830

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28. Deferred Income Taxes

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of:

- 30% for The Scotia Jamaica Building Society;
- 15% for Scotia Jamaica Life Insurance Company Limited and
- 33⅓% for the Bank and all other subsidiaries.

The movement on the deferred income tax account is as follows:

	The Group		The Bank	
	2005	**2004**	**2005**	**2004**
Balance as at 1 November	(1,318,392)	(991,463)	(1,290,935)	(989,680)
Charged to statement of revenue and expenses (Note 13)	(76,683)	(207,218)	(76,857)	(197,284)
Available-for-sale investments				
- fair value re-measurement	18,922	(107,631)	5,493	(104,659)
- transfer to net profit	-	(14,892)	-	688
Other differences	(11,345)	-	83	-
Balance as at 31 October	(1,387,498)	(1,321,204)	(1,362,216)	(1,290,935)

Deferred income tax assets and liabilities are attributable to the following items:

	The Group		The Bank	
	2005	**2004**	**2005**	**2004**
Deferred income tax assets -				
Other post retirement benefits	108,687	85,666	108,687	85,666
Interest receivable	1,252	1,582	-	-
	109,939	87,248	108,687	85,666
Deferred income tax liabilities -				
Pension benefits	1,254,791	1,112,419	1,254,791	1,112,419
Accelerated tax depreciation	79,734	82,999	71,599	76,562
Available-for-sale investments	78,589	92,712	71,136	76,712
Impairment losses on loans	84,323	116,163	73,377	110,908
Other temporary differences	-	4,159	-	-
	1,497,437	1,408,452	1,470,903	1,376,601

(expressed in thousands of Jamaican dollars unless otherwise stated)

28. Deferred Income Taxes (Continued)

The deferred tax charge in the statement of revenue and expenses comprises the following temporary differences:

	The Group		The Bank	
	2005	**2004**	**2005**	**2004**
Accelerated tax depreciation	(9,810)	569	(4,963)	3,318
Pensions and other post retirement benefits	119,350	110,524	119,350	110,524
Allowance for loan impairment	(31,670)	96,125	(37,530)	83,442
Interest receivable	(1,187)	-	-	-
	76,683	207,218	76,857	197,284

Deferred income tax liabilities have not been established for the withholding tax and other taxes that would be payable on the unappropriated profits of subsidiaries as such amounts are permanently reinvested; such unappropriated profits totalled $6,537,034 at 31 October 2005 (2004 - $4,949,723).

29. Retirement Benefit Asset

Amounts recognised in the balance sheet:

	The Group and The Bank	
	2005	**2004**
Pension scheme	3,764,372	3,338,827
Other post retirement benefits	(326,062)	(264,634)
	3,438,310	3,074,193

(a) Pension Scheme

The Group has established a pension scheme covering all permanent employees. The pension scheme is a final salary (the average of the best three consecutive years' remuneration, with no salary cap) defined benefit plan and is fully funded. The assets of the plan are held independently of the Group's assets in a separate trustee administered fund. The scheme is valued by independent actuaries annually using the Projected Unit Credit Method. The latest actuarial valuation was carried out as at 31 October 2005.

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29. Retirement Benefit Asset (Continued)

(a) Pension Scheme (Continued)

The amounts recognised in the balance sheet are determined as follows:

	The Group and The Bank	
	2005	**2004**
Present value of funded obligations	5,124,428	3,916,362
Fair value of plan assets	(14,458,261)	(14,458,261)
Unrecognised actuarial gains	4,165,675	4,206,539
	(5,168,158)	(6,335,360)
Limitation on recognition of surplus due to uncertainty of obtaining future benefits	1,403,786	2,996,533
Asset in the balance sheet	(3,764,372)	(3,338,827)

Pension plan assets include:

(i) The Bank's ordinary stock units with a fair value of $1,616,530 (2004 - $2,026,728).

(ii) Bank of Jamaica repurchase agreements valued at $261,107 (2004 - $2,948,609) with a related company, Scotia Jamaica Investment Management Limited.

The amounts recognised in the statement of revenue and expenses are as follows:

	The Group and The Bank	
	2005	**2004**
Current service cost, net of employee contributions	59,317	(9,117)
Interest cost	553,757	393,402
Expected return on plan assets	(1,522,823)	(1,006,402)
Net actuarial gain recognised in year	(122,600)	(26,400)
Losses on curtailment	395,838	369,849
Income not recognised due to limit	304,743	-
Included in staff costs (Note 9)	(331,768)	(278,668)

The actual return on plan assets was $1,829,737 (2004: $4,818,442).

(expressed in thousands of Jamaican dollars unless otherwise stated)

29. Retirement Benefit Asset (Continued)

(a) Pension scheme (continued)

Movement in the asset recognised in the balance sheet:

	The Group and The Bank	
	2005	**2004**
At 1 November	(3,338,827)	(2,977,805)
Total income	(331,768)	(278,668)
Contributions paid	(93,777)	(82,354)
At 31 October	(3,764,372)	(3,338,827)

The principal actuarial assumptions used were as follows:

	The Group and The Bank	
	2005	**2004**
Discount rate	12.5%	12.5%
Expected return on plan assets	10.5%	10.5%
Future salary increases	9.5%	9.5%
Future pension increases	3.5%	3.5%
Average expected remaining working lives (Years)	22.5	22.2

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29. Retirement Benefit Asset (Continued)

(b) Other Post Retirement Benefits

In addition to pension benefits, the Bank offers retiree medical and group life insurance benefits that contribute to the health care and life insurance coverage of employees and beneficiaries after retirement. The method of accounting and frequency of valuations are similar to those used for the defined benefit pension scheme.

In addition to the assumptions used for the pension scheme, the main actuarial assumption is a long-term increase in health costs of 10% per year (2004 – 10%).

The amounts recognised in the balance sheet are as follows:

	The Group and The Bank	
	2005	**2004**
Present value of unfunded obligations	877,965	394,895
Unrecognised actuarial losses	(551,903)	(130,261)
Liability in the balance sheet	326,062	264,634

The amounts recognised in the statement of revenue and expenses are as follows:

	The Group and The Bank	
	2005	**2004**
Current service cost	25,374	17,316
Interest cost	51,489	25,744
Net actuarial losses/(gains) recognised in year	3,141	(2,718)
Total included in staff costs (Note 9)	80,004	40,342

Movements in the amounts recognised in the balance sheet:

Liability at beginning of year	264,634	235,183
Total expense, as above	80,004	40,342
Contributions paid	(18,576)	(10,891)
Liability at end of year	326,062	264,634

(expressed in thousands of Jamaican dollars unless otherwise stated)

30. Deposits by the Public

	The Group		The Bank	
	2005	2004	2005	2004
Personal	59,812,474	57,117,963	56,057,151	53,703,324
Other	47,467,672	41,692,856	47,082,546	41,437,880
	107,280,146	98,810,819	103,139,697	95,141,204

Deposits include $7,857,259 (2004 - $5,600,849) held as collateral for cash secured credit facilities.

31. Amounts due to Other Banks and Financial Institutions

These represent deposits by other banks and financial institutions in the normal course of business. Included in amounts due to other banks and financial institutions is $1,655,908 (2004 - $1,773,436) and $1,577,800 (2004 - $1,671,537) for the Group and the Bank respectively representing cash and cash equivalents (Note 19).

32. Amounts due to Subsidiaries

These represent accounts held by subsidiaries in the normal course of business.

33. Due to Parent Company

	The Group and The Bank	
	2005	2004
Facility I	12,055	469,361
Facility II	2,678,443	2,600,125
Facility III	1,917,945	-
	4,608,443	3,069,486

(i) Facility I is a US$ denominated ten year non-revolving term loan from the parent company, for on-lending. The principal is repayable in ten installments which commenced 31 December 1998. Interest on the loan is at 30 day LIBOR + 1% per annum.

(ii) Facility II is a US$ denominated fifteen (15) year non-revolving loan from the parent company, for on-lending. The repayment of the principal commenced 30 June 2003 and is subject to an interest rate of LIBOR + 1% per annum.

(iii) Facility III is a US$ denominated five (5) year non-revolving loan from the parent company, for on-lending. The repayment of the principal is to commence 1 June 2006 and is subject to an interest rate of LIBOR + 1% per annum.

The above loan facilities are unsecured.

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34. Other Liabilities

	The Group		The Bank	
	2005	**2004**	**2005**	**2004**
Interest payable	893,021	1,302,766	212,735	206,213
Provisions (Note 35)	60,044	69,482	54,009	64,975
Accrued liabilities	364,649	230,449	399,070	378,669
Prepaid letters of credit	28,170	76,152	28,644	76,152
Other	259,274	201,993	141,285	112,333
	1,605,158	1,880,842	835,743	838,342

35. Provisions

	The Group		The Bank	
	2005	**2004**	**2005**	**2004**
At beginning of year	69,482	103,245	64,975	100,565
Provided during the year	60,044	88,420	54,009	79,045
Utilised during the year	(69,482)	(122,183)	(64,975)	(114,635)
At end of year	60,044	69,482	54,009	64,975

The above provisions mainly relate to redundancy.

(expressed in thousands of Jamaican dollars unless otherwise stated)

36. Share Capital

	Number of Units		Total	
	2005	2004	2005	2004
Authorised -				
Ordinary shares of $1 each	3,000,000,000	1,500,000,000	3,000,000	1,500,000
Issued and fully paid -				
At beginning of year:				
Ordinary stock units of $1 each	1,463,616,000	1,463,616,000	1,463,616	1,463,616
Movement during the year:				
Bonus issue of ordinary stock units/shares of $1 each	1,463,616,000	-	1,463,616	-
At end of year:				
Ordinary stock units of $1 each	2,927,232,000	1,463,616,000	2,927,232	1,463,616

The total authorised number of ordinary shares at year end was 3,000,000,000 shares (2004- 1,500,000,000 shares) with a par value of $1 per share (2004 - $1 per share). All issued shares are fully paid.

In February 2005, the authorised ordinary share capital of the Bank was increased to $3,000,000 by the creation of an additional 1,500,000,000 ordinary shares of $1 each to rank pari passu in all respects with the existing ordinary stocks in the capital of the Bank. Shares totalling 1,463,616,000 units were then issued as fully paid up at par bonus shares by the capitalisation of profits of $1,463,616 on the basis of one ordinary share for every one ordinary stock unit held.

37. Reserve Fund

	The Group		The Bank	
	2005	2004	2005	2004
Opening balance	1,694,864	1,694,864	1,467,000	1,467,000
Transfer from retained earnings reserve	1,463,616	-	1,463,616	-
Closing balance	3,158,480	1,694,864	2,930,616	1,467,000

In accordance with the regulations under which they operate, certain companies in the Group are required to make transfers of a minimum of 15% or 10% of net profit, depending on the circumstances, to the reserve fund until required statutory levels are attained.

(expressed in thousands of Jamaican dollars unless otherwise stated)

38. Retained Earnings Reserve

Transfers to the retained earnings reserve are made at the discretion of the Board of Directors. Such transfers must be notified to the Bank of Jamaica and any re-transfer must be approved by the Bank of Jamaica.

39. Cumulative Remeasurement Result from Available-For-Sale Financial Assets

This represents the unrealised surplus or deficit on the revaluation of available-for-sale investments.

40. Loan Loss Reserve

This is a non-distributable loan loss reserve which represents the excess of the loan loss provision over IAS 39 requirements.

41. Other Reserves

	The Group	
	2005	**2004**
Opening and closing balance:		
Capital reserve arising on consolidation, net	67	67
Reserves of subsidiary capitalised		
through bonus issue of shares	16,548	16,548
General reserve	10,099	10,099
	26,714	26,714

42. Financial Risk Management

By their nature, the Group's activities are principally related to the use of financial instruments. The Group accepts deposits from customers at both fixed and floating rates and for various periods, and actively manages its interest rate exposures with the objective of enhancing net interest income within prudent risk tolerances.

The Group also seeks to raise its interest margins by obtaining competitive margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just loans and advances; the Group also enters into guarantees and other commitments such as letters of credit.

The Group also trades in financial instruments where it takes positions to take advantage of short-term market movements in securities prices and in foreign exchange and interest rates. The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions.

(a) Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The following tables summarise carrying amounts of balance sheet assets, liabilities and equity in order to arrive at the Group's and the Bank's interest rate gap based on earlier of contractual repricing or maturity dates.

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42. Financial Risk Management (Continued)

(a) Cash flow and fair value interest rate risk (continued)

	The Group						
	2005						
	Immediately rate sensitive	**Within 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Over 5 Years**	**Non rate sensitive**	**Total**
Cash resources	9,630,353	13,572,819	8,460,371	-	-	12,744,791	44,408,334
Trading securities	-	21,990	-	-	-	-	21,990
Securities purchased under resale agreements	-	10,621,481	16,605,774	-	-	-	27,227,255
Loans [3]	15,164,373	20,677,611	6,936,804	11,548,230	2,923,956	397,189	57,648,163
Lease receivable [4]	433	-	-	-	-	-	433
Investment securities [2]							
- Available-for-sale	-	1,140,210	2,615,801	2,421,642	3,525,486	-	9,703,139
- Held to maturity	-	15,634,747	10,127,727	4,190,486	49,025	5,240	30,007,225
Other assets	-	-	-	-	-	14,444,404	14,444,404
Total assets	24,795,159	61,668,858	44,746,477	18,160,358	6,498,467	27,591,624	183,460,943
Deposits	86,598,066	15,042,761	4,593,131	5,770,995	1,543,533	-	113,548,486
Securities sold under repurchase agreements	-	9,080,181	7,625,708	-	-	-	16,705,889
Other liabilities	-	-	-	-	-	9,727,002	9,727,002
Policyholders' fund	9,902,921	1,814,971	9,270,364	-	-	(1,033,643)	19,954,613
Stockholders' equity	-	-	-	-	-	23,524,953	23,524,953
Total liabilities and stockholders' equity	96,500,987	25,937,913	21,489,203	5,770,995	1,543,533	32,218,312	183,460,943
Total interest rate sensitivity gap	(71,705,828)	35,730,945	23,257,274	12,389,363	4,954,934	(4,626,688)	-
Cumulative gap	(71,705,828)	(35,974,883)	(12,717,609)	(328,246)	4,626,688	-	-
	2004						
Total assets	20,017,988	57,761,241	35,076,015	24,184,111	3,512,868	27,615,426	168,167,649
Total liabilities and stockholders' equity	93,703,820	19,295,079	20,279,616	3,459,644	2,276,303	29,153,187	168,167,649
Total interest rate sensitivity gap	(73,685,832)	38,466,162	14,796,399	20,724,467	1,236,565	(1,537,761)	-
Cumulative gap	(73,685,832)	(35,219,670)	(20,423,271)	301,196	1,537,761	-	-

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42. Financial Risk Management (Continued)

(a) Cash flow and fair value interest rate risk (continued)

	The Bank						
	2005						
	Immediately rate sensitive (1)	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non rate sensitive	Total
Cash resources	9,629,780	13,548,035	8,450,782	-	-	12,703,614	44,332,211
Securities purchased under resale agreements	-	55,000	43,600	-	-	-	98,600
Loans (3)	15,152,421	18,043,081	6,690,651	11,282,470	2,479,185	344,442	53,992,250
Investment securities (2)							
- Available-for-sale	-	451,063	951,595	1,867,974	3,525,485	-	6,796,117
- Held to maturity	-	11,248,502	3,351,317	2,485,679	6,142	5,105	17,096,745
Investment in subsidiaries	-	-	-	-	-	258,238	258,238
Other assets (4)	-	-	-	-	-	11,651,277	11,651,277
Total assets	24,782,201	43,345,681	19,487,945	15,636,123	6,010,812	24,962,676	134,225,438
Deposits	85,434,596	12,827,332	3,974,503	5,749,605	1,491,919	-	109,477,955
Securities sold under repurchase agreements	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	8,508,216	8,508,216
Stockholders' equity	-	-	-	-	-	16,239,267	16,239,267
Total liabilities and stockholders' equity	85,434,596	12,827,332	3,974,503	5,749,605	1,491,919	24,747,483	134,225,438
Total interest rate sensitivity gap	(60,652,395)	30,518,349	15,513,442	9,886,518	4,518,893	215,193	-
Cumulative gap	(60,652,395)	(30,134,046)	(14,620,604)	(4,734,086)	(215,193)	-	-
	2004						
Total assets	19,374,389	43,755,008	15,118,459	18,506,003	2,976,069	24,296,199	124,026,127
Total liabilities and stockholders' equity	84,789,584	8,251,259	2,886,265	3,434,944	2,218,533	22,445,542	124,026,127
Total interest rate sensitivity gap	(65,415,195)	35,503,749	12,232,194	15,071,059	757,536	1,850,657	-
Cumulative gap	(65,415,195)	(29,911,446)	(17,679,252)	(2,608,193)	(1,850,657)	-	-

(1) This represents those financial instruments whose interest rates change concurrently with a change in the underlying interest rate basis, for example, base rate loans.

(2) This includes financial instruments such as equity investments.

(3) This includes impaired loans.

(4) This includes non-financial instruments.

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42. Financial Risk Management (Continued)

(a) Cash flow and fair value interest rate risk (continued)

Average effective yields by the earlier of the contractual repricing or maturity dates:

The Group

2005

	Immediately rate sensitive	Within 3 Months	3 to12 Months	1 to 5 Years	Over 5 Years	Average
	%	%	%	%	%	%
Cash resources [4]	3.97	9.67	11.88	-	-	6.08
Trading securities	-	8.76	-	-	-	8.76
Investment securities [1]						
Available-for-sale	-	13.96	15.53	10.51	-	10.85
Held to maturity	-	13.46	15.01	13.36	18.20	13.97
Securities purchased under resale agreements	-	13.33	14.04	-	-	13.76
Loans [2]	17.29	22.50	13.99	19.06	9.03	18.58
Lease receivable	28.26	-	-	-	-	28.26
Deposits [3]	4.54	7.38	8.52	6.46	7.33	5.21
Securities sold under repurchase agreements [2]	-	12.32	13.35	-	-	12.79
Policyholders' reserve	11.45	14.00	12.30	-	-	12.67

2004

	Immediately rate sensitive	Within 3 Months	3 to12 Months	1 to 5 Years	Over 5 Years	Average
	%	%	%	%	%	%
Cash resources [4]	1.30	6.83	11.63	-	-	4.21
Investment securities [1]						
Available-for-sale	-	23.88	13.14	14.96	-	16.18
Originated debts	-	17.73	16.38	14.42	18.20	16.18
Securities purchased under resale agreements	15.35	15.08	16.84	-	-	16.29
Loans [2]	17.99	20.71	19.49	18.21	8.76	18.62
Lease receivable	27.63	-	-	-	-	27.63
Deposits [3]	5.54	9.86	9.42	7.50	7.17	6.17
Securities sold under repurchase agreements [2]	14.46	14.30	16.22	-	-	15.23
Policyholders' reserve	14.45	20.07	15.67	-	-	16.21

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42. Financial Risk Management (Continued)

(a) Cash flow and fair value interest rate risk (continued)

	The Bank					
	2005					
	%	%	%	%	%	%
Cash resources [4]	3.97	9.68	11.89	-	-	6.09
Investment securities [1]						
Available-for-sale	-	7.72	11.06	9.30	6.60	8.04
Held to maturity	-	13.02	12.93	10.97	18.00	12.70
Securities purchased under resale agreements	-	14.06	13,02	-	-	13.60
Loans [2]	17.29	23.19	13.90	19.18	8.64	18.73
Deposits [3]	4.47	6.96	8.07	6.45	7.28	5.04

	2004					
	%	%	%	%	%	%
Cash resources [4]	1.32	6.84	11.63	-	-	4.21
Investment securities [1]						
Available-for-sale	-	15.86	12.13	12.11	-	12.66
Originated debts	-	17.21	10.87	11.88	18.00	14.12
Securities purchased under resale agreements	-	14.80	16.09	-	-	15.86
Loans [2]	18.00	21.02	19.59	18.26	8.30	18.76
Deposits [3]	5.48	9.50	8.69	7.48	7.12	6.00
Securities sold under repurchase agreements [2]	14.10	13.99	-	-	-	14.05

Average effective yields by the earlier of the contractual repricing or maturity dates:

(1) Yields are based on book values and contractual interest adjusted for amortisation of premiums and discounts. Yields on tax-exempt investments have not been computed on a taxable equivalent basis.

(2) Yields are based on book values, net of allowance for credit losses and contractual interest rates.

(3) Yields are based on contractual interest rates.

(4) The calculation of the average yields includes statutory reserves at Bank of Jamaica at 0%.

42. Financial Risk Management (Continued)

(b) Credit risk

The Group and the Bank take on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the balance sheet date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Group's portfolio, could result in losses that are different from those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risk. Positions in tradeable assets such as bonds also carry credit risk.

The Group and the Bank structure the levels of credit risk they undertake by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product and industry sector are approved quarterly by the Board of Directors.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees, but a significant portion is personal lending where no such facilities can be obtained. Other than exposure on Government of Jamaica securities, there is no significant concentration of liquid funds.

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

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42. Financial Risk Management (Continued)

(b) Credit risk (continued)

The following tables summarise the credit exposure of the Group and the Bank to individuals, businesses and Government by sector:

	The Group			
	Loans and Leases	Acceptances, Guarantees and Letters of Credit	Total	Total
			2005	2004
Agriculture, fishing and mining	962,296	98,234	1,060,530	916,018
Construction and real estate	965,455	263,109	1,228,564	2,149,619
Distribution	2,257,952	789,413	3,047,365	2,197,921
Financial institutions	55	62,964	63,019	19,471
Government and public entities	16,423,749	838,628	17,262,377	20,775,352
Manufacturing	3,400,246	539,941	3,940,187	1,912,750
Personal	21,604,191	653,419	22,257,610	18,983,243
Professional and other services	2,655,592	180,894	2,836,486	1,927,324
Tourism and entertainment	9,874,094	59,899	9,933,993	7,536,779
Total	58,143,630	3,486,501	61,630,131	56,418,477
Total impairment provision			(495,034)	(500,121)
			61,135,097	55,918,356

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42. Financial Risk Management (Continued)

(b) Credit risk (continued)

	The Bank			
	Loans	**Acceptances, Guarantees and Letters of Credit**	**Total**	**Total**
			2005	**2004**
Agriculture, fishing and mining	962,295	98,234	1,060,529	916,018
Construction and real estate	953,503	263,109	1,216,612	2,133,908
Distribution	2,257,519	789,413	3,046,932	2,197,921
Financial institutions	10,989	62,964	73,953	19,471
Government and public entities	16,420,537	838,628	17,259,165	20,771,647
Manufacturing and other activities	3,255,246	539,941	3,795,187	1,908,999
Personal	18,074,557	294,267	18,368,824	15,460,470
Professional and other services	2,643,569	180,894	2,824,463	1,913,137
Tourism and entertainment	9,874,094	59,899	9,933,993	7,551,474
Total	54,452,309	3,127,349	57,579,658	52,873,045
Total impairment provision			(460,059)	(465,148)
			57,119,599	52,407,897

(c) Currency risk

The Group and the Bank take on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The main currencies giving rise to this risk are the United States dollar, Canadian dollar and the British pound. The Group ensures that the net exposure is kept to an acceptable level by matching foreign assets with liabilities as far as possible.

The table below summaries the Group's and the Bank's exposure to foreign currency exchange risk at 31 October.

	The Group		The Bank	
	2005	**2004**	**2005**	**2004**
United States dollar ($ thousands)	11,627	13,386	10,503	12,004
Canadian dollar ($ thousands)	484	296	484	296
Pound Sterling (£ thousands)	539	2,242	537	2,240

42. Financial Risk Management (Continued)

(d) Liquidity risk

The Group and the Bank are exposed to daily calls on their available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs and guarantees. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The tables below analyse assets and liabilities of the Group and the Bank into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity dates.

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42. Financial Risk Management (Continued)

(d) Liquidity risk (continued)

	The Group					
	2005					
	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	No specific maturity	Total
Cash resources	35,943,212	8,465,122	-	-	-	44,408,334
Trading securities	-	-	21,990	-	-	21,990
Securities purchased under resale agreements	10,621,481	16,605,774	-	-	-	27,227,255
Loans	15,152,084	10,788,196	25,821,155	5,886,728	-	57,648,163
Lease receivables	110	323	-	-	-	433
Investment securities						
Available-for-sale	969,291	2,575,785	2,577,589	3,580,474	-	9,703,139
Held-to-maturity	7,217,297	10,731,669	9,003,995	3,049,024	5,240	30,007,225
Other assets	4,895,299	2,551,012	774,931	354,243	5,868,919	14,444,404
Total assets	74,798,774	51,717,881	38,199,660	12,870,469	5,874,159	183,460,943
Deposits	97,102,531	7,334,956	7,567,466	1,543,533	-	113,548,486
Securities sold under repurchase agreements	9,080,091	7,625,798	-	-	-	16,705,889
Other liabilities	4,172,900	1,383,357	1,996,796	350,451	1,823,498	9,727,002
Policyholders' reserve	19,954,613	-	-	-	-	19,954,613
Stockholders' equity	-	-	-	-	23,524,953	23,524,953
Total liabilities and stockholders' equity	130,310,135	16,344,111	9,564,262	1,893,984	25,348,451	183,460,943
Total liquidity gap	(55,511,361)	35,373,770	28,635,398	10,976,485	(19,474,292)	-
Cumulative gap	(55,511,361)	(20,137,591)	8,497,807	19,474,292	-	-
	2004					
Total assets	66,270,296	44,665,703	45,680,055	6,071,702	5,479,893	168,167,649
Total liabilities and stockholders' equity	121,733,691	15,298,378	6,172,939	2,755,817	22,206,824	168,167,649
Total liquidity gap	(55,463,395)	29,367,325	39,507,116	3,315,885	(16,726,931)	-
Cumulative gap	(55,463,395)	(26,096,070)	13,411,046	16,726,931	-	-

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42. Financial Risk Management (Continued)

(d) Liquidity risk (continued)

	2005					
	The Bank					
	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	No specific maturity	Total
Cash resources	35,881,429	8,450,782	-	-	-	44,332,211
Securities purchased under resale agreements	55,000	43,600	-	-	-	98,600
Loans	15,044,054	10,634,625	24,926,067	3,387,504	-	53,992,250
Investment securities -						
Available-for-sale	451,063	951,595	1,867,974	3,525,485	-	6,796,117
Held-to-maturity	2,831,051	3,955,259	7,299,188	3,006,142	5,105	17,096,745
Subsidiary companies	-	-	-	-	258,238	258,238
Other assets	3,333,598	1,437,935	711,657	350,451	5,817,636	11,651,277
Total assets	57,596,195	25,473,796	34,804,886	10,269,582	6,080,979	134,225,438
Deposits	93,723,670	6,716,290	7,546,076	1,491,919	-	109,477,955
Other liabilities	3,376,611	987,452	1,996,737	350,451	1,796,965	8,508,216
Stockholders' equity	-	-	-	-	16,239,267	16,239,267
Total liabilities and stockholders' equity	97,100,281	7,703,742	9,542,813	1,842,370	18,036,232	134,225,438
Total liquidity gap	(39,504,086)	17,770,054	25,262,073	8,427,212	(11,955,253)	-
Cumulative gap	(39,504,086)	(21,734,032)	3,528,041	11,955,253	-	-

	2004					
Total assets	54,122,892	23,075,707	37,567,232	3,601,683	5,658,613	124,026,127
Total liabilities and stockholders' equity	93,671,821	5,058,690	6,148,238	2,698,047	16,449,331	124,026,127
Total liquidity gap	(39,548,929)	18,017,017	31,418,994	903,636	(10,790,718)	-
Cumulative gap	(39,548,929)	(21,531,912)	9,887,082	10,790,718	-	-

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group and the Bank. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of loss.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

42. Financial Risk Management (Continued)

(e) Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security, its issuer or factors affecting all securities traded in the market. The Group manages its risk through the Assets and Liabilities Committee which carries out extensive research and monitors the price movement of securities on the local and international markets.

(f) Insurance risk

The Group issues contracts that transfer insurance risk or financial risk or both.

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk and type of industry covered.

43. Fair Value of Financial Instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Market price is used to determine fair value where an active market exists as it is the best evidence of the fair value of a financial instrument. However, market prices are not available for a significant number of the financial assets and liabilities held and issued by the Group. Therefore, for financial instruments where no market price is available, the fair values presented have been estimated using present value or other estimation and valuation techniques based on market conditions existing at balance sheet dates.

The values derived from applying these techniques are significantly affected by the underlying assumptions used concerning both the amounts and timing of future cash flows and the discount rates. The following methods and assumptions have been used:

(i) financial investments classified as available-for-sale are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques;

(ii) the fair value of liquid assets and other assets maturing within one year is assumed to approximate their carrying amount. This assumption is applied to liquid assets and the short-term elements of all other financial assets and liabilities;

(iii) the fair value of demand deposits and savings accounts with no specific maturity is assumed to be the amount payable on demand at the balance sheet date;

(iv) the fair value of variable rate financial instruments is assumed to approximate their carrying amounts; and

(v) the fair value of fixed rate loans is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. For match-funded loans the fair value is assumed to be equal to their carrying value, as gains and losses offset each other. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values as the impact of credit risk is recognised separately by deducting the amount of the provisions for credit losses from both book and fair values.

The following tables present the fair value of financial instruments based on the above-mentioned valuation methods and assumptions. The following financial assets and liabilities are not carried at fair value.

(expressed in thousands of Jamaican dollars unless otherwise stated)

43. Fair Value of Financial Instruments (Continued)

	The Group			
	Carrying Value	Fair Value	Carrying Value	Fair Value
	2005	2005	2004	2004
Financial Assets				
Loans	57,648,163	57,242,459	53,454,402	53,243,982
Investment securities : held-to-maturity	30,007,225	30,440,745	26,280,091	26,659,764
Financial Liability				
Deposits by the public	113,548,486	107,339,613	103,654,302	103,607,316

	The Bank			
	Carrying Value	Fair Value	Carrying Value	Fair Value
	2005	2005	2004	2004
Financial Assets				
Loans	53,992,250	53,621,076	50,288,921	50,118,481
Investment securities : held-to-maturity	17,096,745	17,353,515	16,912,645	17,498,628
Investment in subsidiaries	258,238	49,831,862	258,238	46,155,069
Financial Liability				
Deposits by the public	109,477,955	103,274,637	100,108,932	100,084,482

44. Commitments

	The Group		The Bank	
	2005	2004	2005	2004
(a) Capital expenditure:				
Authorised and not contracted for	-	90,000	-	40,320
Authorised and contracted for	60,792	-	60,792	-
(b) Commitments to extend credit:				
Originated term to maturity of more than one year	10,373,099	7,597,696	9,735,199	7,042,896

(expressed in thousands of Jamaican dollars unless otherwise stated)

44. Commitments (Continued)

(c) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	The Group	
	2005	**2004**
Not later than one year	112,021	90,051
Later than one year and not later than five years	342,336	393,179
Later than five years	843,231	904,411
	1,297,588	1,387,641

45. Pledged Assets

Assets are pledged as collateral under repurchase agreements with counterparties. Mandatory reserve deposits are also held with The Bank of Jamaica under Section 14 (i) of the Banking Act, 1992,

	The Group			
	Asset		**Related Liability**	
	2005	**2004**	**2005**	**2004**
Balances with regulators	990,000	990,000	-	-
Securities sold under repurchase agreements	17,861,165	20,557,114	16,705,889	18,546,429
Investment securities (Note 25)	1,170,000	170,000	-	-
	20,021,165	21,717,114	16,705,889	18,546,429

	The Bank			
	Asset		**Related Liability**	
	2005	**2004**	**2005**	**2004**
Balances with Bank of Jamaica	900,000	900,000	-	-
Securities sold under repurchase agreements	-	1,773,000	-	1,471,653
Investment securities (Note 25)	1,170,000	170,000	-	-
	2,070,000	2,843,000	-	1,471,653

(expressed in thousands of Jamaican dollars unless otherwise stated)

46. Fiduciary Activities

The Group provides custody, trustee, corporate administration, investment management and advisory services to third parties which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. At the balance sheet date, the Group had investment custody accounts amounting to approximately $34,163,056 (2004 - $26,506,433).

47. Related Party Transactions and Balances

The Group is controlled by The Bank of Nova Scotia, a company incorporated and domiciled in Canada, which owns 70% of the ordinary stock units. The remaining 30% of the stock units are widely held.

A number of banking transactions are entered into with related parties. These include loans, deposits, investment management and foreign currency transactions. The volumes of related party transactions, outstanding balances at the year end, and relating expenses and income for the year are as follows:

	Directors and key management personnel	
	2005	**2004**
Loans		
Loans outstanding at 1 November	146,311	103,337
Net loans issued/(repaid) during the year	62,898	42,974
Loans outstanding at 31 October	209,209	146,311
Interest income earned	18,846	8,408
Average repayment term (Years)	13	13
Average interest rate (%)	8.84	8.89
Deposits		
Deposits outstanding at 1 November	116,030	60,792
Net deposits received/(repaid) during the year	(27,977)	55,238
Deposits outstanding at 31 October	88,053	116,030
Interest expense on deposits	6,236	9,199

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47. Related Party Transactions and Balances (Continued)

	Directors and key management personnel		Associated companies	
	2005	**2004**	**2005**	**2004**
Insurance products	7,296	5,133	-	-
Securities sold under repurchase agreements	83,586	73,452	-	-
Interest on repurchase agreements	12,658	14,924	-	-
Due from banks and other financial institutions	-	-	489,135	1,111,543
Due to banks and other financial institutions	-	-	3,990	560
Interest earned from banks and other financial institutions	-	-	51,099	11,265

	The Group		The Bank	
	2005	**2004**	**2005**	**2004**
Key management compensation				
Salaries and other short term benefits	236,874	209,065	177,895	157,734
Termination costs	597	-	-	-
Post-employment benefits	295,816	224,204	263,490	199,694
Other -				
Management fees paid to parent company	227,753	196,051	178,422	172,429
Guarantees fees paid to parent company	18,289	30,311	18,289	30,311
Current accounts	-	-	147,954	222,558
Interest paid on current accounts	-	-	13,152	15,780
Securities purchased under resale agreements	-	-	98,600	69,000
Interest earned on resale agreements	-	-	11,875	10,272

There were no related party transactions with the parent company other than the payment of dividends, management fees and amount due to parent company (Note 33).

(expressed in thousands of Jamaican dollars unless otherwise stated)

47. Related Party Transactions and Balances (Continued)

A number of banking transactions are entered into with related parties including companies connected by virtue of common directorship in the normal course of business. These include loans, deposits, investment management and foreign currency transactions. The volumes of related party transactions, outstanding balances at the year end, and relating expenses and income for the year are as follows:

	Connected companies	
	2005	**2004**
Loans		
Loans outstanding at 1 November	5,376,149	5,808,120
Net loans issued/(repaid) during the year	(483,551)	(431,971)
Loans outstanding at 31 October	4,892,598	5,376,149
Interest income earned	490,333	655,575
Average repayment term (Years)	5	5
Average interest rate (%)	10.26	11.84
Deposits		
Deposits outstanding at 1 November	5,566,310	5,766,378
Net deposits received/(repaid) during the year	(154,642)	(200,068)
Deposits outstanding at 31 October	5,411,668	5,566,310
Interest expense on deposits	260,793	247,595

No provisions have been recognised in respect of loans given to related parties.

Pursuant to Section 13 (1), (d) and (i) of the Banking Act, 1992, connected companies include companies with common directors of the Bank and its subsidiaries.

Related credit facilities in excess of the limits of Section 13(1), (d) and (i), subject to the maximum of the limits in Section 13 (1) (e) of the Banking Act are supported by guarantees issued by the parent company.

48. Litigation and Contingent Liabilities

(a) The Bank and its subsidiaries are subject to various claims, disputes and legal proceedings, in the normal course of business. Provision is made for such matters when, in the opinion of management and its legal counsel, it is probable that a payment will be made by the Group, and the amount can be reasonably estimated.

In respect of claims asserted against the Group which have not been provided for, management is of the opinion that such claims are either without merit, can be successfully defended or will result in exposure to the Group which is immaterial to both financial position and results of operations.

(b) On 7 April 1999, a writ was filed by National Commercial Bank Jamaica Limited ("NCB") in which they set out a claim for payment of the sum of US$13,286,000 in connection with an alleged undertaking given to NCB by Scotia Jamaica Investment Management Limited (formerly Scotiabank Jamaica Trust and Merchant Bank Limited). Legal opinion has been obtained which states that the subsidiary has a strong defence to the claim. Consequently, no provision has been made for this amount in these financial statements.

49. Dividends

At the Board of Directors meeting on 24 November 2005, a dividend in respect of 2005 of $0.25 per share (2004 - actual dividend $0.50 per share) amounting to a total of $731,808 (2004 - $731,808) is to be proposed. The financial statements for the year ended 31 October 2005 do not reflect this resolution, which will be accounted for in stockholders' equity as an appropriation of retained profits in the year ending 31 October 2006.

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50. Effects of Early Adoption of Revised IFRS

The Group early adopted revised IFRS. The financial statements for the years ended 31 October 2003 and 31 October 2004 (the immediately preceding comparative period) have been restated to reflect the financial position under the revised IFRS. The financial effects of early adoption are set out as follows:

(i) Effect on stockholders' equity as at 31 October 2003:

	Previously stated 2003	Effect of early adoption	Restated 2003
ASSETS			
Cash resources	35,343,233	-	35,343,233
Government securities purchased under resale agreements	17,593,444	-	17,593,444
Loans, after allowance for impairment losses	48,052,569	-	48,052,569
Investment securities	30,785,980	(7,768)	30,778,212
Other assets	15,863,574	-	15,863,574
Lease receivables	22,145	-	22,145
Total assets	147,660,945	(7,768)	147,653,177
LIABILITIES AND STOCKHOLDERS' EQUITY			
Deposits	91,314,603	-	91,314,603
Other liabilities	27,215,383	(2,589)	27,212,794
Policyholders' fund	11,474,583	-	11,474,583
Stockholders' equity	17,656,376	(5,179)	17,651,197
	147,660,945	(7,768)	147,653,177

(expressed in thousands of Jamaican dollars unless otherwise stated)

50. Effects of Early Adoption of Revised IFRS (Continued)

(ii) Effect on stockholders' equity as at 31 October 2004:

	Previously stated 2004	Effect of early adoption	Restated 2004
ASSETS			
Cash resources	40,450,422	-	40,450,422
Government securities purchased under resale agreements	25,046,360	-	25,046,360
Loans, after allowance for impairment losses	53,454,402	-	53,454,402
Investment securities	35,078,821	8,437	35,087,258
Other assets	14,124,107	-	14,124,107
Lease receivables	5,100	-	5,100
Total assets	168,159,212	8,437	168,167,649
LIABILITIES AND STOCKHOLDERS' EQUITY			
Deposits	103,654,302	-	103,654,302
Other liabilities	27,804,812	2,812	27,807,624
Policyholders' fund	16,100,706	-	16,100,706
Stockholders' equity	20,599,392	5,625	20,605,017
	168,159,212	8,437	168,167,649

Financial assets previously classified as originated debts in the two preceding years were reclassified to the available-for-sale category. The fair value measurement, as a result of the reclassification, was recognised in the cumulative re-measurement result from available-for-sale financial assets, net of deferred taxation.