

MEDIA RELEASE

August 30, 2012



SCOTIA GROUP JAMAICA REPORTS THIRD QUARTER RESULTS

THIRD QUARTER 2012 HIGHLIGHTS (YEAR TO DATE)

- **Net Income of \$7.95 billion**
- **Net Income available to common shareholders of \$7.63 billion**
- **Earnings per share of \$2.45**
- **Return on Average Equity of 16.41%**
- **Productivity ratio of 52.78%**
- **Third quarter dividend of 37 cents per share**

Scotia Group Jamaica Limited (Scotia Group) today reported net income of \$2,590 million for the third quarter ended July 31, 2012. This is \$127 million below the previous quarter ended April 30, 2012 and \$66 million above the quarter ended July 31, 2011. For the nine months ended July 31, 2012, net income was \$7,953 million compared to \$7,963 million for the same period last year.

Earnings per share (EPS) for the nine months were \$2.45 compared to \$2.47 for the same period last year. The Return on Average Equity (ROE) was 16.41%, down from 18.22% last year.

The Board of Directors today approved a third interim dividend of 37 cents per stock unit payable on October 10, 2012, to stockholders on record at September 19, 2012.

Bruce Bowen, President and CEO said, "Over the past quarter all of our business lines produced solid results which translated to an increase in our pre-tax earnings compared to the previous quarter. Total loans in the Bank and Building Society grew by 15% year over year in keeping with our strategy to refocus our balance sheet to private sector lending, while Non-Performing Loans have been reduced to 3.58% of total loans, which is significantly below industry average. Scotia Investments and Scotia Insurance continue to expand their product offerings in order to provide a full range of financial services to assist our customers to become financially better off. All of this has been achieved while improving our Productivity Ratio through close management of Operating Expenses."



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The contribution (after consolidation), to net income attributable to common shareholders by major subsidiaries is outlined below:-

\$'Billion	2012	% Contribution
The Bank of Nova Scotia Jamaica Limited (BNSJ)	3.66	48%
Scotia Jamaica Life Insurance Company Limited (SJLIC)	2.30	30%
Scotia Investment Jamaica Limited (SIJL)*	1.04	14%
Scotia Jamaica Building Society (SJBS)	0.53	7%
Scotia Group Jamaica Limited (SGJ) and other subsidiaries	0.10	1%
* Excludes minority interest		
Net Income attributable to common shareholders	7.63	100%

REVENUES

Total operating income, comprising net interest income after impairment losses and other revenue, was \$23.3 billion, representing an increase of \$1,287 million or 5.85% relative to prior year.

NET INTEREST INCOME

Net interest income after impairment losses for the period was \$16.39 billion, up \$519 million or 3.27% when compared to prior year. While interest margins declined as the reduction in market interest rates year over year impacted asset yields, the growth in loan volumes has partially off-set the reduced margins. Further, there was a \$344 million (36%) reduction in impairment losses, due to lower net write-offs and provisions year/year.

OTHER REVENUE

Other revenue for the nine months period was \$6.9 billion, up \$768 million or 12.51% when compared with prior year. This was due primarily to fees earned on capital market and unit trust transactions, gains on sale of securities, as well as higher foreign exchange trading income.

OPERATING EXPENSES AND PRODUCTIVITY

Our productivity ratio (operating expense/total revenue) - a key measure of cost efficiency - was 52.78% an improvement when compared to 53.01% in 2011. Operating Expenses were \$12.01 billion for the nine months, representing an increase of \$789 million or 7% over prior year. This was mainly reflected in other operating expenses, which were impacted by inflationary increases, increased marketing activities associated with growing business lines, as well as, an increase in legal provisions relating to a judgment received in a long outstanding claim filed against Scotia Jamaica Trust and Merchant Bank Limited (SJTMB).



CREDIT QUALITY

Non-performing loans (NPLs) at July 31, 2012 totaled \$4.23 billion, reflecting an increase of \$187 million above prior year, and a reduction of \$1.24 billion from the previous quarter ended April 30, 2012. The reduction from the previous quarter was due primarily to the recovery on a large corporate loan that was classified as non-performing during Q4/11. Total NPLs now represent 3.58% of total gross loans compared to 3.95% last year and 4.83% as at April 30, 2012. The Group's aggregate loan loss provision as at July 31, 2012 was \$4.23 billion, which represents 100% of the total non-performing loans. For most of these NPLs, the Group holds meaningful collateral.

BALANCE SHEET

Total assets increased year over year by \$13.8 billion or 4.13% to \$348 billion as at July 31, 2012. The loan book grew by \$15.9 billion to close at \$116.3 billion, driven by solid growth in both the retail and commercial portfolios.

Total customer liabilities (deposits, repo liabilities and policyholder's funds) grew to \$265 billion, an increase of \$9.5 billion. This growth was mainly reflected in the deposit portfolio as we continued to acquire new customers and grow share of wallet. Repo liabilities marginally declined in keeping with our strategy of shifting the Investment Management business to an off-balance sheet fund management business model.

CAPITAL

Total shareholders equity grew to \$66.73 billion, \$4.66 billion above prior year. We continue to exceed the regulatory capital requirements in all our business lines. Our strong capital position also enables us to take advantage of future growth opportunities.

OUR COMMITMENT TO COMMUNITY

During the quarter, Scotiabank demonstrated its commitment to building Jamaica through donations totaling \$18 million supporting activities of the ScotiaFoundation and community outreach. In celebration of Jamaica's 50th Anniversary of Independence the Bank awarded 50 additional scholarships amounting to \$5 million to students at tertiary and secondary institutions island wide and organized the display of products from our micro and small business customers across our branch network.



Under Student Care and in addition to the 50 scholarships the ScotiaFoundation announced its 15 Scotia Shining Stars Scholarships for students with outstanding performance in the Grade Six Achievement Test. These scholarships went to the Top Boy and Top Girl in GSAT, top performer from each County and 10 top students from inner-city schools. The Foundation also donated \$6 million to the University of the West Indies to fund a research fellow in the International Center for Nuclear Sciences.

In the area of Health Care, the Foundation donated \$4.2 million for the maintenance of equipment at the Scotiabank Centennial Accident and Emergency Unit at the University Hospital of the West Indies, the Scotiabank Haemodialysis Unit at the Cornwall Regional Hospital, and the purchase of implants for Scoliosis surgeries for seven teenagers at the Kingston Public Hospital.

In Community Care, the ScotiaFoundation donated \$2.7 million in support to the National Golden Age Home in Kingston with the provision of meals for the 62 residents of Cluster F; funded operational costs at the Young Men's Christian Association, YMCA; and sponsored over 400 staff in the GraceKennedy Foundation Educational Fund run where the proceeds were in aid of student scholarships.

AWARDS: During the quarter, Scotiabank was named Best Bank in Jamaica 2012 by the Euromoney Magazine and received the award for the Best Mid-sized Contact Center in the Americas from Contact Center World.

Scotia Group Jamaica takes this opportunity to thank all of our stakeholders. To our customers, thank you for your loyalty and your business. To our shareholders, thank you for the commitment, trust and confidence you continue to show in us. Our continued success is as a result of the great execution by our team of skilled and dedicated employees and we thank them for their professionalism and commitment.

Scotiabank Group Media Release



Scotia Group Jamaica Limited
Consolidated Statement of Revenue and Expenses
Period ended July 31, 2012

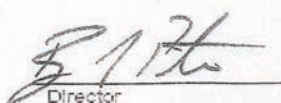
Unaudited (\$ thousands)	For the three months ended			For the nine months ended	
	July 2012	April 2012	July 2011	July 2012	July 2011
Interest Income	7,552,002	7,321,970	7,434,028	22,223,971	22,736,918
Interest Expense	(1,712,101)	(1,716,913)	(1,860,310)	(5,225,911)	(5,914,414)
Net Interest Income	5,839,901	5,605,057	5,573,718	16,998,060	16,822,504
Impairment losses on loans	(235,341)	(175,829)	(354,524)	(607,200)	(950,717)
Net interest income after impairment losses	5,604,560	5,429,228	5,219,194	16,390,860	15,871,787
Net fee and commission income	1,298,423	1,292,750	1,162,304	3,948,658	3,472,858
Insurance revenue	546,365	652,309	416,415	1,599,222	1,502,760
Net foreign exchange trading income	393,689	309,712	283,987	1,017,372	869,257
Net gain / (losses) on financial assets	4,072	40,533	88,680	84,784	110,086
Other revenue	56,095	70,342	59,879	259,543	186,248
	2,298,644	2,365,646	2,011,265	6,909,579	6,141,209
Total Operating Income	7,903,204	7,794,874	7,230,459	23,300,439	22,012,996
Operating Expenses					
Salaries and staff benefits	1,946,508	2,136,973	2,062,886	6,252,354	6,236,522
Property expenses, including depreciation	564,830	491,349	525,587	1,563,780	1,468,439
Amortisation of intangible assets	36,893	36,853	50,503	110,638	151,703
Other operating expenses	1,394,675	1,401,784	1,122,069	4,083,634	3,364,749
	3,942,906	4,066,959	3,761,045	12,010,406	11,221,413
Profit before taxation	3,960,298	3,727,915	3,469,414	11,290,033	10,791,583
Taxation	(1,370,669)	(1,011,132)	(945,754)	(3,336,591)	(2,828,339)
Profit for the period	2,589,629	2,716,783	2,523,660	7,953,442	7,963,244
Attributable to:-					
Stockholders of the Company	2,488,080	2,601,583	2,425,911	7,630,006	7,673,969
Non-Controlling Interest	101,549	115,200	97,749	323,436	289,275
Earnings per share (cents)	80	84	78	245	247
Return on average equity (annualized)	15.74%	16.79%	16.66%	16.41%	18.22%
Return on assets (annualized)	2.86%	2.98%	2.90%	2.92%	3.06%
Productivity ratio	51.34%	53.23%	54.26%	52.78%	53.01%

Scotia Group Jamaica Limited
Consolidated Statement of Comprehensive Income
Period ended July 31, 2012

Unaudited (\$ thousands)	For the three months ended			For the nine months ended	
	July 2012	April 2012	July 2011	July 2012	July 2011
Profit for the period	2,589,629	2,716,783	2,523,660	7,953,442	7,963,244
Other comprehensive income					
Unrealised (losses) / gains on available for sale financial assets	(216,127)	(47,187)	1,387,774	(763,433)	2,522,336
Realised gains on available for sale financial assets	(49,591)	(111,735)	(38,754)	(323,612)	(50,050)
Amortisation of fair value reserve on financial instruments reclassified to Loans and Receivable	15,275	15,411	16,380	49,184	26,330
	(250,443)	(143,511)	1,365,400	(1,037,861)	2,498,616
Taxation	53,943	53,906	(263,503)	341,776	(430,197)
Other comprehensive income, net of tax	(196,500)	(89,605)	1,101,897	(696,085)	2,068,419
Total comprehensive income for the period	2,393,129	2,627,178	3,625,557	7,257,357	10,031,663
Attributable to:-					
Stockholders of the Company	2,298,790	2,511,410	3,516,688	6,939,563	9,715,224
Non-Controlling Interest	94,339	115,768	108,869	317,794	316,439

Scotia Group Jamaica Ltd.
Consolidated Statement of Financial Position
July 31, 2012

	Unaudited Period ended July 31 2012	Audited Year ended October 31 2011	Unaudited Period ended July 31 2011
(\$ thousands)			
ASSETS			
CASH RESOURCES	48,841,950	53,073,501	58,667,535
INVESTMENTS			
Held to maturity	12,684,838	14,006,187	15,172,354
Financial assets at fair value through profit and loss	159,611	356,168	255,489
Available for sale	82,787,780	76,132,244	72,544,577
	<u>95,632,229</u>	<u>90,494,599</u>	<u>87,972,420</u>
PLEGDED ASSETS	64,911,355	65,371,048	66,191,829
GOVERNMENT SECURITIES UNDER REPURCHASE AGREEMENT	-	1,152,466	1,102,476
LOANS, AFTER MAKING PROVISIONS FOR LOSSES	116,321,869	99,976,439	100,372,718
OTHER ASSETS			
Customers' Liability under acceptances, guarantees and letters of credit	6,194,664	6,742,140	6,294,318
Property, plant, and equipment	4,599,636	3,790,870	3,690,068
Deferred Taxation	12,101	12,101	12,101
Taxation Recoverable	1,295,681	1,827,113	954,220
Retirement Benefit Asset	8,020,374	7,412,119	7,117,917
Other assets	806,092	378,959	423,335
Intangible Assets	1,724,992	1,809,904	1,743,167
	<u>22,653,540</u>	<u>21,973,206</u>	<u>20,235,126</u>
TOTAL ASSETS	348,360,943	332,041,259	334,542,104
LIABILITIES			
DEPOSITS			
Deposits by public	155,950,057	144,670,083	147,162,188
Other deposits	10,693,904	10,465,297	10,706,878
	<u>166,643,961</u>	<u>155,135,380</u>	<u>157,869,066</u>
OTHER LIABILITIES			
Acceptances, Guarantees and Letters of Credit	6,194,664	6,742,140	6,294,318
Liabilities under repurchase agreements	42,877,012	44,700,992	44,900,279
Promissory Notes	-	2,436	2,405
Capital Management and Government Securities Fund	14,589,198	14,241,114	14,348,103
Redeemable Preference Shares	-	-	100,000
Deferred Taxation	3,248,601	3,373,187	3,277,462
Retirement Benefit Obligation	2,231,456	1,904,277	1,814,628
Assets Held in Trust on behalf of Participants	44,183	44,140	44,608
Other liabilities	4,869,506	3,826,295	5,400,522
	<u>74,054,620</u>	<u>74,834,581</u>	<u>76,182,325</u>
POLICY HOLDERS' FUND	40,932,543	39,019,761	38,419,134
SHAREHOLDERS' EQUITY			
Capital and reserves attributable to the company's shareholders			
Capital- Issued and fully paid, 3,111,572,984			
Ordinary stock units, no par value	6,569,810	6,569,810	6,569,810
Reserve Fund	3,248,591	3,248,591	3,248,591
Retained Earnings Reserve	12,441,770	11,341,770	11,041,770
Capital Reserve	9,383	9,383	9,383
Loan Loss Reserve	2,289,010	2,251,257	2,219,535
Other Reserves	12,892	12,892	12,892
Investment Cumulative Remeasurement result from Available for Sale Financial Assets	1,264,672	1,955,115	2,429,372
Unappropriated Profits	37,960,186	34,921,801	33,885,391
	<u>63,796,314</u>	<u>60,310,619</u>	<u>59,416,744</u>
Non-controlling Interest	2,933,505	2,740,918	2,654,835
	<u>66,729,819</u>	<u>63,051,537</u>	<u>62,071,579</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	348,360,943	332,041,259	334,542,104


Director


Director

SCOTIA GROUP JAMAICA LIMITED

Consolidated Statement of Changes in Shareholders' Equity
July 31, 2012

(\$ thousands)	Share Capital	Reserve Fund	Retained Earnings Reserve	Capital Reserves	Other Reserves	Loan Loss Reserve	Cumulative Remeasurement result from Available for Sale financial assets	Unappropriated Profits	Total	Non-controlling Interest	Total Equity
Balance at 31 October 2010	6,569,810	3,248,591	10,741,770	9,383	12,892	2,093,499	388,117	30,091,319	53,155,381	2,437,432	55,592,813
Net Profit	-	-	-	-	-	-	-	7,673,969	7,673,969	289,275	7,963,244
Other Comprehensive Income											
Unrealised gains on available-for-sale securities, net of taxes	-	-	-	-	-	-	2,054,784	-	2,054,784	29,450	2,084,234
Realised gains on available-for-sale securities, net of taxes	-	-	-	-	-	-	(27,047)	-	(27,047)	(6,322)	(33,369)
Amortisation of fair value reserve on financial instruments reclassified to loans and receivables	-	-	-	-	-	-	13,518	-	13,518	4,036	17,554
Total Comprehensive Income	-	-	-	-	-	-	2,041,255	7,673,969	9,715,224	316,439	10,031,663
Transfer to Retained Earnings Reserve	-	-	300,000	-	-	-	-	(300,000)	-	-	-
Transfer to Loan Loss Reserve	-	-	-	-	-	128,038	-	(128,038)	-	-	-
Net movement in reserves for non-controlling interests	-	-	-	-	-	-	-	-	-	(2,716)	(2,716)
Dividends Paid	-	-	-	-	-	-	-	(3,453,861)	(3,453,861)	(98,320)	(3,550,181)
Balance at 31 July 2011	6,569,810	3,248,591	11,041,770	9,383	12,892	2,219,535	2,429,372	33,885,391	59,416,744	2,654,835	62,071,579
Balance at 31 October 2011	6,569,810	3,248,591	11,341,770	9,383	12,892	2,251,257	1,955,115	34,921,801	60,310,619	2,740,918	63,051,537
Net Profit	-	-	-	-	-	-	-	7,830,006	7,830,006	323,436	7,953,442
Other Comprehensive Income											
Unrealised losses on available-for-sale securities, net of taxes	-	-	-	-	-	-	(565,125)	-	(565,125)	(6,106)	(571,231)
Realised gains on available-for-sale securities, net of taxes	-	-	-	-	-	-	(226,687)	-	(226,687)	(29,797)	(256,484)
Amortisation of fair value reserve on financial instruments reclassified to loans and receivables	-	-	-	-	-	-	101,369	-	101,369	30,281	131,630
Total Comprehensive Income	-	-	-	-	-	-	(690,443)	7,630,006	6,939,563	317,794	7,257,357
Transfer to Retained Earnings Reserve	-	-	1,100,000	-	-	-	-	(1,100,000)	-	-	-
Transfer to Loan Loss Reserve	-	-	-	-	-	37,753	-	(37,753)	-	300	300
Dividends Paid	-	-	-	-	-	-	-	(3,453,868)	(3,453,868)	(125,507)	(3,579,375)
Balance at 31 July 2012	6,569,810	3,248,591	12,441,770	9,383	12,892	2,289,010	1,264,672	37,960,186	63,796,314	2,933,505	66,729,819

Scotia Group Jamaica Limited
Condensed Statement of Consolidated Cash Flows
July 31, 2012

Unaudited (\$ thousands)	2012	2011
Cash flows provided by / (used in) operating activities		
Profit for the year	7,953,442	7,963,244
Items not affecting cash:		
Depreciation	395,787	354,730
Impairment losses on loans	607,200	950,717
Amortisation of intangible assets	110,638	151,703
Taxation	3,336,591	2,828,339
Other, net	(17,104,857)	(16,820,550)
	<u>(4,701,199)</u>	<u>(4,571,817)</u>
Changes in operating assets and liabilities		
Loans	(16,895,048)	(5,521,569)
Deposits	11,608,556	683,600
Policyholders reserve	1,912,782	1,527,964
Securities sold under repurchase agreement	(1,778,977)	(371,499)
Financial Assets at fair value through profit and loss	195,266	(127,594)
Other, net	16,942,166	18,390,858
	<u>7,283,546</u>	<u>10,009,943</u>
Cash flows provided by / (used in) investing activities		
Investments	(5,422,151)	(1,266,996)
Repurchase Agreements, net	(789,320)	351,092
Proceeds from sale of shares	187,940	(23,068)
Property, plant and equipment, Intangibles, net	(1,228,751)	(466,696)
	<u>(7,252,282)</u>	<u>(1,405,668)</u>
Cash flows used in financing activities		
Dividends paid	(3,579,375)	(3,550,181)
	<u>(3,579,375)</u>	<u>(3,550,181)</u>
Effect of exchange rate on cash and cash equivalents	351,447	225,468
Net change in cash and cash equivalents	(3,196,664)	5,279,562
Cash and cash equivalents at beginning of period	35,208,174	34,794,864
Cash and cash equivalents at end of period	<u>32,011,510</u>	<u>40,074,426</u>
Represented by :		
Cash resources	48,841,950	58,667,535
Less statutory reserves at Bank of Jamaica	(16,965,533)	(15,884,657)
Less amounts due from other banks greater than ninety days	(1,279,714)	(5,501,873)
Less accrued interest on cash resources	(60,000)	(100,979)
Reverse repurchase agreements and bonds less than ninety days	2,547,418	5,007,744
Cheques and other instruments in transit, net	(1,072,611)	(2,113,344)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>32,011,510</u>	<u>40,074,426</u>

SCOTIA GROUP JAMAICA LIMITED

Segment Reporting Information

Consolidated Statement of Income

July 31, 2012

Unaudited

(\$ thousands)	Treasury	Retail Banking	Corporate Banking	Investment Management Services	Insurance Services	Other	Eliminations	Group Total
Net External Revenues	3,515,955	9,487,090	4,233,506	3,032,786	3,452,866	185,436	-	23,907,639
Revenues from other segments	(1,226,527)	142,361	1,109,670	44,074	(15,846)	(24,950)	(28,782)	-
Total Revenues	2,289,428	9,629,451	5,343,176	3,076,860	3,437,020	160,486	(28,782)	23,907,639
Expenses	(71,116)	(7,184,336)	(3,498,541)	(966,916)	(776,399)	(18,563)	(101,735)	(12,617,606)
Profit Before Tax	2,218,312	2,445,115	1,844,635	2,109,944	2,660,621	141,923	(130,517)	11,290,033
Taxation								(3,336,591)
Profit for the period								7,953,442

Consolidated Balance Sheet

(\$ thousands)	Treasury	Retail Banking	Corporate Banking	Investment Management Services	Insurance Services	Other	Eliminations	Group Total
Segment assets	72,549,724	73,963,103	58,869,782	72,116,432	49,689,210	25,035,568	(12,623,448)	339,600,371
Unallocated assets								8,760,572
Total Assets								348,360,943
Segment liabilities	200,000	93,115,718	82,482,836	60,878,735	41,486,477	115,870	(4,461,842)	273,817,794
Unallocated liabilities								7,813,330
Total liabilities								281,631,124
Other Segment items:								
Capital Expenditure	-	749,236	467,784	12,976	301	-		1,230,297
Impairment losses on loans	-	786,183	(161,759)	(17,224)	-	-		607,200
Depreciation and amortisation	-	248,324	138,198	115,095	4,403	405		506,425

Segment Reporting Information

Consolidated Statement of Income

July 31, 2011

Unaudited

<i>(\$ thousands)</i>	Treasury	Retail Banking	Corporate Banking	Investment Management Services	Insurance Services	Other	Eliminations	Group Total
Net External Revenues	3,404,324	8,669,057	3,919,062	2,927,565	4,034,724	8,981	-	22,963,713
Revenues from other segments	(1,599,960)	596,221	1,013,893	3,879	11,385	(1,972)	(23,446)	-
Total Revenues	1,804,364	9,265,278	4,932,955	2,931,444	4,046,109	7,009	(23,446)	22,963,713
Expenses	(52,275)	(6,954,534)	(3,429,178)	(928,940)	(664,619)	(16,541)	(126,043)	(12,172,130)
Profit Before Tax	1,752,089	2,310,744	1,503,777	2,002,504	3,381,490	(9,532)	(149,489)	10,791,583
Taxation								(2,828,339)
Profit for the period								7,963,244

Consolidated Balance Sheet

<i>(\$ thousands)</i>	Treasury	Retail Banking	Corporate Banking	Investment Management Services	Insurance Services	Other	Eliminations	Group Total
Segment assets	80,614,191	62,174,240	54,365,424	71,587,097	59,720,101	10,631,443	(12,382,706)	326,709,790
Unallocated assets								7,832,314
Total Assets								334,542,104
Segment liabilities	-	90,654,755	76,358,715	61,656,448	39,399,840	247,474	(3,680,995)	264,636,237
Unallocated liabilities								7,834,288
Total liabilities								272,470,525
Other Segment items:								
Capital Expenditure	-	293,907	187,675	27,010	1,764	-		510,356
Impairment losses on loans	-	916,962	64,240	(30,485)	-	-		950,717
Depreciation and amortisation	-	224,488	110,378	166,907	4,255	405		506,433

SCOTIA GROUP JAMAICA LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
July 31, 2012

1. Identification

Scotia Group Jamaica Limited (the Company) is a 71.78% subsidiary of The Bank of Nova Scotia, which is incorporated and domiciled in Canada and is the ultimate parent.

The Company is the parent of the Bank of Nova Scotia Jamaica Limited (100%), Scotia Investments Jamaica Limited (77.01%) and the recently incorporated subsidiary Scotia Jamaica Micro Financing Limited (100%).

2. Basis of presentation

These consolidated financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS). New and revised standards that are effective this year does not have a material impact on the interim financial statements, and the accounting policies are consistent with those applied in the audited financial statements for the year ended October 31, 2011. These financial statements are presented in Jamaican dollars, which is the Group's functional currency.

New and revised standards that became effective during the year:

IAS 24, Related Party Disclosures, has been amended, effective for annual reporting periods beginning on or after January 1, 2011, to clarify and simplify the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. It also expands the list of related party transactions to be disclosed.

IFRS 7, Financial Instruments, Disclosures, has been amended, effective for annual reporting periods beginning on or after January 1, 2011, to add an explicit statement that the interaction between qualitative and quantitative disclosures better enables users to evaluate an entity's exposure to risks arising from financial statements. Existing disclosures relating to maximum exposure to credit risk, financial effect of collateral held as security and other enhancements in respect of a financial instrument have been amended. Certain disclosures relating to the carrying amount of financial assets that are not past due or are not impaired as a result of their terms having been renegotiated and description of collateral held as security for financial assets that are past due have been removed.

IAS 1, Presentation of Financial Statements, has been amended, effective for annual reporting periods beginning on or after January 1, 2011, to state that for each component of equity a reconciliation from opening to closing balances is required to be presented in the statement of changes in equity, showing separately changes arising from items recognised in profit or loss, in other comprehensive income and from transactions with owners acting in their capacity as owners.

Basis of consolidation

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

3. Financial Assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit and loss; loans and receivables; held-to-maturity; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

Financial Assets at Fair Value through Profit and Loss

This category includes a financial asset acquired principally for the purpose of selling in the short term or if so designated by management.

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3. Financial Assets (continued)

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 or services directly to a debtor with no intention of trading the receivable.

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.

Available-for-sale

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

Available-for-sale investments and financial assets at fair value through profit and loss are carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of trading securities are included in the statement of revenue and expenses in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in the statement of comprehensive income. Interest calculated using the effective interest method is recognized in the statement of revenue and expenses.

4. Pledged Assets

Assets are pledged to other financial institutions, the clearing house and as collateral under repurchase agreements with counterparties.

(\$millions)	<u>Asset</u>		<u>Related</u>	<u>Liability</u>
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Securities sold under repurchase agreements	43,171	45,352	36,776	38,695
Securities with other financial institutions and clearing houses	<u>6,547</u>	<u>7,133</u>	<u>6,101</u>	<u>6,205</u>
	49,718	52,485	42,877	44,900
Capital management and government securities funds	<u>15,193</u>	<u>13,707</u>	<u>14,589</u>	<u>14,348</u>
	<u>64,911</u>	<u>66,192</u>	<u>57,466</u>	<u>59,248</u>

5. Insurance and investment contracts

Insurance contracts are those contracts that transfer significant insurance risks. Such contracts may also transfer financial risk. As a general guideline, the Group defines as significant insurance risk, the possibility of having to pay benefits at the occurrence of an insured event that is at least 10% more than the benefits payable if the insured event did not occur.

6. Loan loss provision

IFRS loan loss provision is established on the difference between the carrying amount and the recoverable amount of loans. The recoverable amount being the present value of expected future cash flows, discounted based on the interest rate at inception or last repriced date of the loan. Regulatory loan loss provisioning requirements that exceed these amounts are maintained within a loan loss reserve in the equity component of the statement of financial position.

7. Taxation

In May 2012, the Government of Jamaica introduced several new tax measures in its 2012/13 Budget presentations. One of the major tax measures is the revision to the Asset Tax Regime, which will have significant implications for regulated institutions in the 2012 financial year. We are awaiting the final legislation and will make the necessary provisions in the financial statements in the next quarter.

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8. Employee benefits

The Group operates both a defined benefit and a defined contribution pension plan, the assets of which are held in separate trustee-administered funds.

Defined benefit pension plan- the pension costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the statement of income in such a manner as to spread the regular cost over the service lives of the employees in accordance with the advice of the actuaries. The asset or liability is the difference between the present value of the defined benefit obligation at the reporting date and the fair value of plan assets, adjusted for unrecognised actuarial gains/losses and past service costs.

Other post-retirement obligations – The Group provides post retirement healthcare and group life insurance benefits to retirees. This is measured based on the present value of the estimated future cash outflow, using estimated discount rates based on market interest rates.

Defined contribution plan- contributions to this plan are charged to the statement of income in the period to which it relates.

9. Property, plant and equipment

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

10. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include notes and coins on hand, unrestricted balances held with Bank of Jamaica, amounts due from other banks, and highly liquid financial assets with original maturities of less than ninety days, which are readily convertible to known amounts of cash, and are subject to insignificant risk of changes in their fair value.

11. Litigation

Judgment was received in a long outstanding claim filed in April 1999 against Scotiabank Jamaica Trust and Merchant Bank Limited (SJTMB) for breach of contract and negligent performance of contract in connection with an alleged undertaking given by SJTMB in May 1997. The Courts found against SJTMB in the sum of US\$14,861,992.98 plus interest at the rate of 4% per annum from 1997 to the date of payment and costs. SJTMB has filed an appeal challenging the judgment on several grounds, and based on legal advice obtained, SJTMB will continue to vigorously appeal the judgment. On July 3, 2012, the Court of Appeal granted a stay of execution of the judgment pending determination of the appeal. While SJTMB is a wholly-owned subsidiary of Scotia Investments Jamaica Limited (SIJL), any liability arising from this claim will be assumed by The Bank of Nova Scotia Jamaica Limited (“BNSJ”), a subsidiary of Scotia Group Jamaica Limited. Notwithstanding the strong grounds for appeal, management has considered it prudent to make some provision in the accounts of BNSJ for the period ending July 31, 2012.

12. Segment reporting

The Group is organized into six main business segments:

- Retail Banking – incorporating personal banking services, personal deposit accounts, credit and debit cards, customer loans and mortgages;
- Corporate and Commercial Banking – incorporating non-personal direct debit facilities, current accounts, deposits, overdrafts, loans and other credit facilities and foreign currency transactions;
- Treasury – incorporating the Group’s liquidity and investment management function, management of correspondent bank relationships, as well as foreign currency trading;
- Investment Management Services- incorporating investments, unit trusts, pension and other fund management, brokerage and advisory services, and the administration of trust accounts.
- Insurance Services – incorporating the provision of life and medical insurance, individual pension administration and annuities;
- Other operations of the Group comprise the parent company and non trading subsidiaries.

Transactions between the business segments are on normal commercial terms and conditions. The Group’s operations are located mainly in Jamaica. The operations of subsidiaries located overseas represents less than 10% of the Group’s operating revenue and assets.