Scotiabank Jamaica Foundation

Financial Statements
31 December 2011

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31 December 2011

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Independent Auditors' Report

To the Members of
Scotiabank Jamaica Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of Scotiabank Jamaica Foundation, set out on pages 1 to 15, which comprise the statement of financial position as of 31 December 2011 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and with the requirements of the Jamaican Companies Act, and for such internal control relevant as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Scotiabank Jamaica Foundation as at 31 December 2011, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Jamaican Companies Act.

Report on Additional Requirements of the Jamaican Companies Act

As required by the Jamaican Companies Act, we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

In our opinion, proper accounting records have been kept, so far as appears from our examination of those records, and the accompanying financial statements are in agreement therewith and give the information required by the Jamaican Companies Act, in the manner so required.

PricewaterhouseCoopers

Chartered Accountants
26 April 2012
Kingston, Jamaica

Scotiabank Jamaica Foundation

Statement of Comprehensive Income

Year ended 31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2011 $'000	2010 $'000
Income			
Contributions		50,825	35,927
Investment income		32,868	37,383
Other income		14	1,711
		83,707	75,021
Expenditure			
Grants	7	94,524	64,546
Auditors' remuneration		203	160
Miscellaneous expenses		35	75
		94,762	64,781
(Deficit)/Surplus, being Total Comprehensive Income for the year		(11,055)	10,240

Scotiabank Jamaica Foundation

Statement of Financial Position

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2011 $'000	2010 $'000
NET ASSETS			
Assets			
Taxation recoverable	3(ii)	1,860	3,280
Investment securities – held-to-maturity	8	324,462	324,369
Government securities purchased under resale agreements	9	3,005	-
Cash and bank		5,719	13,452
		335,046	341,101
Liability			
Accrued expense		188	188
		334,858	340,913
REPRESENTED BY			
Accumulated surplus		21,547	32,602
Endowment fund	10	313,311	308,311
		334,858	340,913

Approved for issue by the Board of Directors on 26 April 2012 and signed on its behalf by:

Joylene Griffiths-Irving Director

Hugh Wayne Powell Chairman

Scotiabank Jamaica Foundation

Statement of Changes in Equity

Year ended 31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

	Note	Endowment Fund $'000	Accumulated Surplus $'000	Total $'000
Balance at 31 December 2009		308,311	22,362	330,673
Surplus, being Total comprehensive income for the year		-	10,240	10,240
Balance at 31 December 2010		308,311	32,602	340,913
Contribution to Endowment Fund	11(b)	5,000	-	5,000
Deficit, being Total comprehensive income for the year		-	(11,055)	(11,055)
Balance at 31 December 2011		313,311	21,547	334,858

Scotiabank Jamaica Foundation

Statement of Cash Flows

Year ended 31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

	2011 $'000	2010 $'000
CASH RESOURCES WERE PROVIDED BY/(USED IN):		
Operating Activities		
(Deficit)/Surplus	(11,055)	10,240
Items not affecting cash:		
Interest income	(32,868)	(37,383)
	(43,923)	(27,143)
Change in non-cash working capital components:		
Taxation recoverable	1,420	17,338
Accrued expense	-	33
	(42,503)	(9,772)
Interest received	30,782	38,569
Cash (used in)/provided by operating activities	(11,721)	28,797
Investing Activities		
Purchase of investment securities, net	1,988	(36,465)
Government securities purchased under resale agreements	(3,000)	10,500
Cash used in investing activities	(1,012)	(25,965)
Financing Activity		
Contribution to Endowment Fund	5,000	-
Cash provided by financing activity	5,000	-
(Decrease)/increase in cash balance	(7,733)	2,832
Cash at beginning of year	13,452	10,620
CASH AT END OF THE YEAR	5,719	13,452

Scotiabank Jamaica Foundation

Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

1. Incorporation and Main Objects

The company was incorporated in Jamaica on 13 February 1996 as a company limited by guarantee not having a share capital. The company is operated and funded by The Bank of Nova Scotia Jamaica Limited (BNSJ), which is incorporated and domiciled in Jamaica. BNSJ's ultimate holding company is The Bank of Nova Scotia, which is incorporated and domiciled in Canada.

The main objects for which the company is established are:

(a) The relief of poverty, deprivation and distress among economically and socially disadvantaged persons resident in Jamaica by whatever means deemed necessary by the company.

(b) The provision of financial assistance for dependents of economically or socially disadvantaged persons resident in Jamaica.

(c) To undertake research into the special problems arising from poverty and social deprivation and into methods of alleviating them and publish the results of such.

2. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to 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.

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 company's accounting policies. Although these estimates are based on management's best knowledge of current events and action, actual results could differ from those estimates. 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 6.

Interpretations and amendments to published standards effective in the current year

Certain interpretations and amendments to existing standards have been published that became effective during the current year. The company has assessed the relevance of all such interpretations and amendments to existing published standards, and has put into effect the following IFRS, which is immediately relevant to its operations.

IFRS 7 (Amendment), 'Financial instruments'. This amendment clarifies the disclosure requirement by emphasising the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments. Amendments were also made to quantitative and credit risk disclosures. The adoption of this amendment resulted in changes in the presentation of credit risk disclosures in Note 4.

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, interpretations and amendments to published standards that are not yet effective
At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued which were not effective at the year end date, and which the company has not early adopted. The company has assessed the relevance of all such new standards, interpretations and amendments, and has determined that the following may be immediately relevant to its operations, and has concluded as follows:

- **IFRS 9, 'Financial instruments'** (effective for annual periods beginning on or after 1 January 2015). IFRS 9 addresses classification and measurement of financial assets and is available for early adoption immediately. IFRS 9 replaces the multiple classification and measurement models in IAS 39 'Financial instruments: Recognition and Measurement' with a single model that has only two classification categories: amortised cost and fair value. IFRS 9 represents the first milestone in the IASB's planned replacement of IAS 39. Management is currently considering the implications of the standard, the impact on the company and the timing of its adoption by the company.
- **IFRS 13, 'Fair Value Measurement'**, (effective for annual periods beginning on or after 1 January 2013). IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The requirements are similar to those in *IFRS 7, 'Financial instruments: Disclosures'*, but apply to all assets and liabilities measured at fair value, not just financial assets and liabilities. The company is assessing the impact of future adoption of this standard on its financial statements.

(b) Revenue Recognition
Interest income
Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income includes coupons earned on fixed income investments and accrued discount and premium on local registered stocks and other discounted instruments.

Contributions and other income
Contributions received, with the exception of contributions directly to the Endowment Fund, are recorded as income on the cash basis. Other income is recorded on the accrual basis.

(c) Deferred taxation
Deferred tax assets and liabilities are not recognised, as the company's income is exempt from income tax. See Note 3(i) for further details.

2. Summary of Significant Accounting Policies (Continued)

(d) Financial instruments
A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity of another entity.

Financial assets
The company classifies its financial assets as held to maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

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

Held-to-maturity investments are initially recognised at fair value plus transaction costs and subsequently carried at amortised cost using the effective interest method.

The company assesses at each year end date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset is considered impaired if its carrying amount exceeds its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the assets' carrying amounts and the present value of expected future cash flows discounted at the original effective interest rate.

Financial liability
The company's financial liability comprises accrued expense.

(e) Cash and cash equivalents
For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash and bank balances and deposits.

3. Taxation

(i) By order of the Minister of Finance, the company was declared an approved charitable organisation. Its income is also exempt from income tax under Section 12(h) of the Income Tax Act.

(ii) Taxation recoverable represents withholding tax receivable on investment income.

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Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

4. Financial Risk Management

The company's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The company's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the company's financial performance.

The company's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The company regularly reviews its risk management policies and systems to reflect changes in markets and emerging best practice.

In the prior year, the company participated in the Jamaica Debt Exchange (JDX) transaction under which the company exchanged its holdings of domestic debt instruments issued by the Government of Jamaica for new, longer-dated debt instruments available to the company under the election options contained in the agreement. The JDX transaction resulted in a reduction in yields and an increase in the tenor of locally issued Government of Jamaica securities and, therefore, had a significant impact on financial risks.

The Board of Directors is ultimately responsible for the establishment and oversight of the company's risk management framework. The company's sponsor, The Bank of Nova Scotia Jamaica Limited, monitors all the various risks and has monthly department meetings.

The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

(a) Credit risk

The company takes on exposure to credit risk, which is the risk that its customers, clients or counterparties will cause a financial loss for the company by failing to discharge their contractual obligations. Credit exposure arises principally in investment activities. The company manages its credit risk by maintaining its investments mainly in various forms of Government of Jamaica securities.

Credit review process

The company has established a credit quality review process involving regular analysis of the ability of borrowers and other counterparties to meet interest payments.

Investments and other receivable

The company limits its exposure to credit risk by investing mainly in liquid securities, with counterparties that have high credit quality and Government of Jamaica securities. Accordingly, management does not expect any counterparty to fail to meet its obligations.

4. Financial Risk Management (Continued)

(a) Credit risk (continued)

The following table summarises the company's credit exposure for debt securities at their carrying amounts:

	2011	2010
	$'000	$'000
Government of Jamaica	316,142	318,130
Other	3,000	-
	319,142	318,130
Interest receivable	8,325	6,239
	327,467	324,369

(b) Liquidity risk

Liquidity risk is the risk that the company is unable to meet its payment obligations associated with financial liabilities when they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

Liquidity risk management process

The company's liquidity management process includes:

(i) An established line of credit with The Bank of Nova Scotia Jamaica Limited;

(ii) Monitoring future cash flows and liquidity on a daily basis;

(iii) Maintaining a portfolio of highly marketable and diverse assets that can easily be liquidated as protection against any unforeseen interruption to cash flow; and

(iv) Optimising cash returns on investments.

Undiscounted cash flows of financial liabilities cash flows

The company has no significant outflows in respect of financial liabilities. Accrued expense at year end is due within three months and the company has adequate cash resources to cover these, along with payments in respect of grants authorised and contracted for.

Assets available to meet the liability include cash and bank. The company is also able to meet unexpected net cash outflows by having an established line of credit with its sponsor.

4. Financial Risk Management (Continued)

(c) Market risk

The company takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks mainly arise from changes in foreign currency exchange rates and interest rates. Market risk is monitored by the company's sponsor.

There has been no change to the company's exposure to market risks or the manner in which it manages and measures the risk.

(i) *Currency risk*

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Foreign exchange risk occurs from investment transactions. The company's sponsor monitors its exposure to foreign exchange risk.

Concentrations of currency risk

The table below summarises the company exposure to foreign currency exchange rate risk at 31 December.

	Jamaican$	US$	Total
	J$'000	J$'000	J$'000
		2011	
Financial Assets			
Investment securities – held to maturity	317,455	7,007	324,462
Government securities purchased under resale agreements	3,005	-	3,005
Cash and bank	5,719	-	5,719
Total financial assets	326,179	7,007	333,186
Financial Liability	188	-	188
Net financial position	325,991	7,007	332,998
Credit commitments	32,786	-	32,786

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4. Financial Risk Management (Continued)

(c) Market risk (continued)

(i) Currency risk (continued)

Concentrations of currency risk (continued)

	Jamaican$	US$	Total
	J$'000	J$'000	J$'000
		2010	
Financial Assets			
Investment securities – held to maturity	317,344	7,025	324,369
Cash and bank	13,452	-	13,452
Total financial assets	330,796	7,025	337,821
Financial Liability	188	-	188
Net financial position	330,608	7,025	337,633
Credit commitments	43,154	-	43,154

(ii) Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Floating rate instruments expose the company to cash flow interest risk, whereas fixed interest rate instruments expose the company to fair value interest risk.

The company's exposure to interest rate risk is monitored by its sponsor and is managed by maintaining an appropriate mix of fixed and variable instruments. The policy also requires it to manage the maturities of interest bearing financial assets.

The following table summarises the company's exposure to interest rate risk. It includes the company's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

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(expressed in Jamaican dollars unless otherwise indicated)

4. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

	Within 3 Months	4 to 12 Months	2 to 5 Years	Over 5 Years	Non-Interest Bearing	Total
	$'000	$'000	$'000	$'000	$'000	$'000
			2011			
Financial Assets						
Investment securities held-to-maturity	206,509	-	102,133	7,500	8,320	324,462
Government securities purchased under resale agreements	3,000	-	-	-	5	3,005
Cash and bank	5,719	-	-	-	-	5,719
Total financial assets	215,228	-	102,133	7,500	8,325	333,186
Financial Liability	-	-	-	-	188	188
Total interest repricing gap	215,228	-	102,133	7,500	8,137	332,998
			2010			
Financial Assets						
Investment securities held-to-maturity	180,912	-	108,265	28,953	6,239	324,369
Cash and bank	13,452	-	-	-	-	13,452
Total financial assets	194,364	-	108,265	28,953	6,239	337,821
Financial Liability	-	-	-	-	188	188
Total interest repricing gap	194,364	-	108,265	28,953	6,051	337,633

Interest rate sensitivity

Interest rate sensitivity aims to analyse the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, on the company's income and expenditure account and accumulated surplus.

The sensitivity of the surplus or deficit is the effect of the assumed changes in interest rates on net income based on the floating rate non-trading financial assets and financial liabilities. The correlation of variables will not have a significant effect in determining the ultimate impact on market risk.

5. Fair Value Estimation

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. The fair value of financial instruments traded in active markets is based on quoted market prices at the year end date. 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 year end 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) 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;

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

The table below summarises the carrying value and fair value of financial assets not presented on the company's statement of financial position at their value:

	Carrying Value	Fair Value	Carrying Value	Fair Value
	2011 $'000	2011 $'000	2010 $'000	2010 $'000
Financial assets				
Investment securities – held-to- maturity	324,462	335,890	324,369	331,442

6. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

Judgements and estimates 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.

Critical judgements in applying the company's accounting policies
In the process of applying the company's accounting policies, management has made the following judgement that has the most significant impact on the amounts recognised in the financial statements.

Held-to-maturity financial assets
The company follows the guidance of IAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity financial assets. This classification requires judgement. In making this judgement, the company evaluates its intention and ability to hold such investments to maturity. If the company 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 investment securities would therefore be measured at fair value, not amortised cost. If the entire class of held-to-maturity investment securities is compromised, the carrying amount of investment securities would increase by $11,428,000 (2010 – $7,073,000) with a corresponding entry in other comprehensive income.

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(expressed in Jamaican dollars unless otherwise indicated)

7. Grants

Details of grants made during the year are as follows:

	2011 $'000	2010 $'000
Education		
Grade Six Achievement Test (GSAT)	11,049	9,785
Mayer Matalon/SJF Scholarship (UWI)	-	166
Breakfast Feeding Programme	1,995	648
Scholarships for Tertiary Education	4,629	2,524
High School Bursaries	964	1,018
Caribbean School for the Deaf	-	637
Northern Caribbean University – Agriculture Unit	6,368	-
Scotiabank Chair in Entrepreneurship & Development	6,500	6,500
	31,505	21,278
Health Care		
Cornwall Regional Hospital – Haemodialysis Unit	7,437	8,168
Jamaica Cancer Society – Mammography Unit	1,549	1,442
Scoliosis and Spine Care - Surgeries	3,407	3,180
Port Antonio Hospital – Accident and Emergency Unit	-	1,425
Bustamante Hospital for Children	-	4,072
University Hospital of the West Indies – Accident & Emergency Unit - Maintenance	1,399	717
Kingston Public Hospital – Orthopaedic Theatre	945	630
Other	480	-
	15,217	19,634
Community Outreach		
Golden Age Home	3,252	2,727
Family Life Ministries	1,000	-
International Police Officers	5,000	-
	9,252	2,727
Other	38,550	20,907
	94,524	64,546

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(expressed in Jamaican dollars unless otherwise indicated)

8. Investment Securities – held-to-maturity

	Remaining Term to Maturity					
	Within 3 Months $'000	4 to 12 Months $'000	2 to 5 Years $'000	Over 5 Years $'000	Carrying Value 2011 $'000	Carrying Value 2010 $'000
Government of Jamaica bonds	22,689	12,797	111,060	169,596	316,142	318,130
Interest receivable	5,777	-	-	2,543	8,320	6,239
	28,466	12,797	111,060	172,139	324,462	324,369

9. Government Securities Purchased under Resale Agreements

	2011 $'000	2010 $'000
Principal	3,000	-
Interest receivable	5	-
	3,005	-

10. Endowment Fund

This consists of contributions received by the company. The income generated by investing these contributions is used primarily to build the Endowment Fund and make charitable donations to various organisations.

11. Related Party Transactions

A related party is one which controls or exercises significant influence over, or is controlled or significantly influenced by, the company in making financial and operating decisions or, along with the company, is subject to common control or significant influence.

(a) The company's bank account is held with The Bank of Nova Scotia Jamaica Limited.

(b) During the year, contributions to the endowment fund of $5,000,000 (2010 - $Nil) was received from The Bank of Nova Scotia Jamaica Limited.

12. Grant Commitments

	2011 $'000	2010 $'000
Grants authorised and contracted for	32,786	43,154