AUDITED FINANCIAL STATEMENTS

SCOTIA GROUP JAMAICA LIMITED

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INDEPENDENT AUDITORS' REPORT

To the Members of
SCOTIA GROUP JAMAICA LIMITED

Report on the Financial Statements

We have audited the financial statements of Scotia Group Jamaica Limited ("the Company") and the consolidated financial statements of the Company and its subsidiaries ("the Group") set out on pages 63 to 132 which comprise the Company's and Group's balance sheets as at October 31, 2008, the Company's and Group's statements of income, changes in equity and cash flows for the period 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 and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the Companies Act. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and consistently applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility
Our responsibility is to express an opinion on the 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 as to whether or not 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 auditors' 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 auditors consider internal controls relevant to the entity's preparation and fair presentation of the financial statements 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 controls. 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 positions of the Group and the Company as at October 31, 2008, and of the Group's and the Company's financial performance, changes in equity and cash flows for the period then ended in accordance with International Financial Reporting Standards, and comply with the provisions of the Jamaican Companies Act.

Additional reporting requirements of 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 maintained and the financial statements are in agreement therewith and give the information required by the Jamaican Companies Act in the manner so required.

KPMG

November 27, 2008

Scotia Group Jamaica Limited

Statement of Consolidated Revenue and Expenses

Year ended 31 October 2008

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2008	2007
Net interest income and other revenue			
Interest from loans and deposits with banks		20,203,918	14,660,613
Interest from securities		12,581,572	11,742,408
Total interest income	6	32,785,490	26,403,021
Interest expense	6	(10,559,288)	(8,924,846)
Net interest income		22,226,202	17,478,175
Impairment losses on loans	25	(758,756)	(525,916)
Net interest income after impairment losses on loans		21,467,446	16,952,259
Fee and commission income		4,862,877	4,116,542
Fee and commission expense		(1,063,777)	(997,260)
	7	3,799,100	3,119,282
Net foreign exchange trading income	8	1,136,268	1,066,937
Net insurance premium income	9	754,538	617,212
Other revenue	10	644,089	482,986
		6,333,995	5,286,417
		27,801,441	22,238,676
Expenses			
Salaries, pension contributions and other staff benefits	11	6,407,894	5,403,100
Property expenses, including depreciation		2,145,665	1,508,406
Amortisation and impairment of intangible assets	31	240,699	135,364
Change in policyholders' benefits and reserves	13	2,838,416	2,452,192
Other operating expenses		3,049,672	2,572,393
	13	14,682,346	12,071,455
Profit before taxation	14	13,119,095	10,167,221
Taxation	15	(3,495,038)	(2,557,161)
Profit for the year		9,624,057	7,610,060
Attributable to:			
Stockholders' of the company		9,390,739	7,492,854
Minority interest		233,318	117,206
Profit for the year		9,624,057	7,610,060
EARNINGS PER STOCK UNIT (expressed in $ per share) **attributable to stockholders of the company**	16	3.02	2.48

Scotia Group Jamaica Limited

Consolidated Balance Sheet

31 October 2008

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2008	2007
ASSETS			
Cash resources			
Notes and coins of, deposit with, and money at call at, Bank of Jamaica	17	40,325,039	32,710,560
Government and bank notes other than Jamaica		384,440	409,228
Amounts due from other banks	18	13,683,803	18,125,277
Accounts with parent and fellow subsidiaries	19	1,655,080	3,859,376
		56,048,362	55,104,441
Financial assets at fair value through profit and loss	21	116,951	1,125,236
Capital management and government securities funds	22	13,216,544	14,059,606
Government securities purchased under resale agreements	23	407,920	1,155,832
Pledged assets	28	45,488,524	34,665,010
Loans, after allowance for impairment losses	24	89,559,349	76,581,285
Leases, after allowance for impairment losses	26	137,730	85,282
Investment securities	27		
Available-for-sale		19,559,213	21,645,763
Held-to-maturity		36,154,299	39,225,336
		55,713,512	60,871,099
Other assets			
Customers' liabilities under acceptances, guarantees and letters of credit		6,919,264	7,828,928
Taxation recoverable		1,011,717	1,292,931
Deferred taxation	39	241,969	-
Sundry assets	29	821,341	285,961
Property, plant and equipment	30	2,910,703	2,702,447
Intangible asset	31	2,288,141	2,527,660
Retirement benefit asset	32	5,402,224	4,839,913
		19,595,359	19,477,840
		280,284,251	263,125,631

Scotia Group Jamaica Limited

Consolidated Balance Sheet (continued)

31 October 2008

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2008	2007
LIABILITIES			
Deposits			
Deposits by the public	33	130,673,257	131,017,687
Amounts due to other banks and financial institutions	34	2,386,319	2,061,055
Amounts due to parent company	35	6,848,521	4,796,682
Amounts due to fellow subsidiaries	36	397	2,283
		139,908,494	137,877,707
Other liabilities			
Cheques and other instruments in transit		2,677,670	3,236,788
Acceptances, guarantees and letters of credit		6,919,264	7,828,928
Securities sold under repurchase agreements		39,897,407	31,530,287
Promissory notes		380,311	607,182
Capital management and government securities funds	22	14,991,522	14,059,606
Assets held in trust on behalf of participants		50,069	52,643
Redeemable preference shares	37	100,000	100,000
Other liabilities	38	1,381,348	1,174,786
Taxation payable		1,148,955	817,841
Deferred tax liabilities	39	1,581,188	1,793,803
Retirement benefit obligations	32	930,576	723,066
		70,058,310	61,924,930
Policyholders' fund	12	30,561,418	27,014,768
STOCKHOLDERS' EQUITY			
Share capital	40	6,569,810	6,569,810
Reserve fund	41	3,200,107	3,160,917
Retained earnings reserve	42	7,309,781	5,992,902
Capital reserve		9,383	-
Cumulative remeasurement result from available-for-sale financial assets	43	(2,105,365)	(211,809)
Loan loss reserve	44	1,301,215	1,045,600
Other reserves	45	12,892	26,714
Unappropriated profits		21,643,109	17,789,196
Total equity attributable to equity holders of the Company		37,940,932	34,373,330
Minority interest		1,815,097	1,934,896
Total equity		39,756,029	36,308,226
Total equity and liabilities		280,284,251	263,125,631

The financial statements on pages 63 to 132 were approved for issue by the Board of Directors on November 27, 2008 and signed on its behalf by:

Director
Robert H. Pitfield

Director
Bruce F. Bowen

Director
Stacie-Ann S. Wright

Secretary
Keri-Gaye Brown

Scotia Group Jamaica Limited
Statement of Changes in Consolidated Stockholders' Equity
Year ended 31 October 2008
(expressed in thousands of Jamaican dollars unless otherwise stated)

		Attributable to equity holders of the Company										
	Note	Share capital	Reserve fund	Retained earnings reserve	Capital reserve	Cumulative remeasurement result from available for sale financial assets	Loan loss reserve	Other reserve	Unappropriated profits	Total	Minority interest	Total equity
Balances at October 31, 2006		**2,927,232**	**3,158,481**	**5,242,902**	**-**	**275,107**	**806,524**	**26,714**	**14,952,595**	**27,389,555**	**-**	**27,389,555**
Unrealised loss on available-for-sale investments, net of taxes		-	-	-	-	(453,651)	-	-	-	(453,651)*	-	(453,651)*
Realised gains on available-for-sale securities transferred to statement of revenue and expenses		-	-	-	-	(33,265)	-	-	-	(33,265)*	-	(33,265)
Net profit for the year		-	-		-	-	-	-	7,492,854	7,492,854*	117,206*	7,610,060*
Transfer to reserve fund		-	2,436	-	-	-	-	-	(2,436)	-	-	-
Loan loss reserve transfer		-	-	-	-	-	239,076	-	(239,076)	-	-	-
Issue of preference shares		-	-	-	-	-	-	-	(100,000)	(100,000)	-	(100,000)
Issue of shares		3,642,578	-	-	-	-	-	-	-	3,642,578	-	3,642,578
Transfer to retained earnings reserve		-	-	750,000	-	-	-	-	(750,000)	-	-	-
Minority interest in net assets of acquired subsidiaries		-	-	-	-	-	-	-	-	-	1,912,073	1,912,073
Dividends paid	54	-	-	-	-	-	-	-	(3,564,741)	(3,564,741)	(94,383)	(3,659,124)
Movement for the year		3,642,578	2,436	750,000	-	(486,916)	239,076	-	2,836,601	6,983,775	1,934,896	8,918,671
Balances at October 31, 2007		**6,569,810**	**3,160,917**	**5,992,902**	**-**	**(211,809)**	**1,045,600**	**26,714**	**17,789,196**	**34,373,330**	**1,934,896**	**36,308,226**
Unrealised loss on available-for-sale investments, net of taxes		-	-	-	-	(1,850,776)	-	-	-	(1,850,776)*	(218,086)	(2,068,862)
Realised gains on available-for-sale securities transferred to statement of revenue and expenses		-	-	-	-	(42,780)	-	-	-	(42,780)*	(8,570)	(51,350)
Movement on reserves relating to subsidiary		-	-	-	-	-	-	(8,999)	-	(8,999)	-	(8,999)
Net profit for the year		-	-	-	-	-	-	-	9,390,739	9,390,739*	233,318*	9,624,057
Transfer of reserve relating to liquidation of subsidiary		-	-	-	9,383	-	-	(4,823)	(4,560)	-	-	-
Transfer to reserve fund		-	39,190	-	-	-	-	-	(39,190)	-	-	-
Loan loss reserve transfer		-	-	-	-	-	255,615	-	(255,615)	-	-	-
Transfer to retained earnings reserve		-	-	1,316,879	-	-	-	-	(1,316,879)	-	-	-
Net movement in reserves for minority interest		-	-	-	-	-	-	-	-	-	(24,790)	(24,790)
Dividends paid	54	-	-	-	-	-	-	-	(3,920,582)	(3,920,582)	(101,671)	(4,022,253)
Movement for the year		-	39,190	1,316,879	9,383	(1,893,556)	255,615	(13,822)	3,853,913	3,567,602	(119,799)	3,447,803
Balances at October 31, 2008		**6,569,810**	**3,200,107**	**7,309,781**	**9,383**	**(2,105,365)**	**1,301,215**	**12,892**	**21,643,109**	**37,940,932**	**1,815,097**	**39,756,029**

* Total recognised income and expenses for the year attributable to equity holders of the company $7,497,183 (2007: $7,005,938) and total recognised income and expenses for the year attributable to the minority interest $233,318 (2007: $117,206).

Statement of Consolidated Cash Flows

Year ended 31 October 2008

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2008	2007
Cash flows from operating activities			
Net profit for the year		9,624,057	7,610,060
Items not affecting cash:			
Interest income	6	(32,765,490)	(26,403,021)
Interest expense	6	10,559,288	8,924,846
Taxation charge		3,496,038	2,557,161
Depreciation	30	362,591	366,186
Amortisation of intangible asset		240,699	135,364
Impairment losses on loans	25	758,756	525,916
Gain on sale of property, plant and equipment		5,426	(13,093)
Gain on sale of subsidiary		-	(168,496)
Gain on sale of shares		-	(94,736)
Write-off of property, plant and equipment	30	1,793	-
Gain on Visa shares		(456,612)	-
		(8,194,454)	(6,579,813)
Changes in operating assets and liabilities			
Loans		(13,668,554)	(17,440,081)
Retirement benefits		(354,802)	(316,115)
Deposits by public		573,509	17,715,854
Policyholders' fund		3,546,650	3,265,376
Other assets, net		(535,377)	(1,812,511)
Other liabilities, net		203,986	539,517
Due to parent company and fellow subsidiaries		2,030,178	(532,419)
Amounts due from other banks		(3,878,244)	(1,743,754)
Accounts with parent and fellow subsidiaries		(892,275)	(3,266,023)
Financial assets at fair value through profit and loss		1,008,285	(890,287)
Taxation recoverable		281,214	(617,931)
Deposit with central bank greater than 90 days		(9,795,148)	6,185,950
Amounts due to other banks and financial institutions		325,264	188,202
Statutory reserves at Bank of Jamaica		(452,367)	(1,282,835)
Securities sold under repurchase agreements		8,079,461	13,247,974
		(21,722,674)	6,661,104
Interest received		31,156,688	26,554,894
Interest paid		(10,247,763)	(8,842,531)
Taxation paid		(2,569,323)	(1,873,834)
Net cash (used in)/provided by operating activities		(3,383,072)	22,499,633
Cash flows from investing activities			
Investment securities		4,432,358	(27,284,747)
Pledged assets		(9,560,769)	(14,882,753)
Government securities purchased under resale agreements		714,839	27,228,915
Proceeds from the sale of property, plant and equipment		12,968	13,210
Purchase of property, plant and equipment	30	(591,034)	(718,583)
Acquisition of subsidiary		-	(4,912,479)
Proceeds from liquidation of subsidiary		17,758	-
Proceeds from sale of shares		249,030	94,736
Promissory notes		(216,986)	592,326
Net cash used in investing activities		(4,941,836)	(19,869,375)
Cash flows from operating and investing activities		(8,324,908)	2,630,258

Statement of Consolidated Cash Flows (continued)

Year ended 31 October 2008

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2008	2007
Cash flows from operating and investing activities (page 67)		(8,324,908)	2,630,258
Cash flows from financing activities			
Issue of share capital		-	3,642,578
Dividends paid to stockholders		(3,920,582)	(3,564,741)
Dividends paid to minority interest		(101,671)	(94,383)
Net cash used in financing activities		(4,022,253)	(16,546)
Effect of exchange rate changes on cash and cash equivalents		272,315	2,197,768
Net (decrease)/increase in cash and cash equivalents		(12,074,846)	4,811,480
Cash and cash equivalents at beginning of year		30,434,344	25,622,864
CASH AND CASH EQUIVALENTS AT END OF YEAR	20	18,359,498	30,434,344

Scotia Group Jamaica Limited

Statement of Revenue and Expenses

Year ended 31 October 2008

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2008	2007
Net interest income and other revenue			
Dividend income		3,911,779	4,692,266
Expenses			
Operating expenses	13	(5,923)	(1,521)
Profit for the year	14	3,905,856	4,690,745

Balance Sheet

31 October 2008

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2008	2007
ASSETS			
Cash resources			
Accounts with subsidiary	19	47,642	61,203
Investment in subsidiaries		9,332,408	9,332,408
		9,380,050	9,393,611
LIABILITIES			
Accrued charges		1,165	-
STOCKHOLDERS' EQUITY			
Share capital		6,569,810	6,569,810
Unappropriated profits		2,809,075	2,823,801
Total stockholders equity		9,378,885	9,393,611
Total liabilities and stockholders equity		9,380,050	9,393,611

The financial statements on pages 63 to 132 were approved for issue by the Board of Directors on November 27, 2008 and signed on its behalf by:

Director
Robert H. Pitfield

Director
Bruce F. Bowen

Director
Stacie-Ann S. Wright

Secretary
Keri-Gaye Brown

Statement of Changes in Stockholders' Equity

Year ended 31 October 2008

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	Share Capital	Unappropriated Profits	Total
Issue of shares		6,569,810	-	6,569,810
Net profit for the period		-	4,690,745	4,690,745*
Dividends paid	54	-	(1,866,944)	(1,866,944)
Balances at October 31, 2007		6,569,810	2,823,801	9,393,611
Net profit for the year		-	3,905,856	3,905,856*
Dividends paid	54	-	(3,920,582)	(3,920,582)
Balances at October 31, 2008		6,569,810	2,809,075	9,378,885

* Total recognised income and expenses for the year $3,905,856 (2007: $4,690,745).

Statement of Cash Flows

Year 31 October 2008

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2008	2007
Cash flows from operating activities			
Net profit for the year, being net cash provided by operating activities		3,905,856	4,690,745
Changes in operating assets and liabilities			
Other liabilities		1,165	-
Net cash provided by operating activities		3,907,021	4,690,745
Cash flows from investing activities			
Investment in subsidiaries, being net cash used in investing activities		-	(9,332,408)
Cash flows from financing activities			
Issue of shares		-	6,569,810
Dividends paid		(3,920,582)	(1,866,944)
Net cash (used in) / provided by financing activities		(3,920,582)	4,702,866
Net (decrease)/increase in cash and cash equivalents		(13,561)	61,203
Cash equivalents at beginning of year		61,203	-
CASH EQUIVALENTS AT END OF YEAR	20	47,642	61,203

(expressed in thousands of Jamaican dollars unless otherwise stated)

1. Identification, Regulation and Licence

Scotia Group Jamaica Limited ("the Company") is incorporated and domiciled in Jamaica. It is a 71.78% subsidiary of The Bank of Nova Scotia, which is incorporated and domiciled in Canada and is the ultimate parent. The registered office of the Company is located at the Scotiabank Centre, Corner of Duke and Port Royal Streets, Kingston.

The Company is the parent of The Bank of Nova Scotia Jamaica Limited, which is licensed under the Banking Act, and Scotia DBG "(SDBG)" Investments Limited, which is licensed under the Securities Act. The Company and these two subsidiaries are listed on the Jamaica Stock Exchange.

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

Subsidiaries	Principal Activities	Holding by Company	Holding by Subsidiary	Financial Year End
The Bank of Nova Scotia Jamaica Limited and its subsidiaries:	Banking	100%		October 31
The Scotia Jamaica Building Society	Mortgage Financing		100%	October 31
Scotia Jamaica Life Insurance Company Limited	Life Insurance		100%	December 31
Scotia Jamaica General Insurance Brokers Limited*	Non-trading		100%	October 31
Scotia Jamaica Financial Services Limited	Non-trading		100%	October 31
Brighton Holdings Limited	Non-trading		100%	October 31
Scotia DBG Investments Limited and its subsidiaries:	Investment Banking	77.01%		October 31
Scotia DBG Merchant Bank Limited	Merchant Banking		100%	October 31
Scotia DBG Fund Managers Limited	Unit Trust and Fund Management		100%	October 31
Scotia Jamaica Investment Management Limited	Non-trading		100%	October 31
Asset Management Company Limited	Hire Purchase Financing		100%	October 31
DB&G Corporate Services Limited	Administrative and Management services		100%	October 31
Billy Craig Investments Limited	Non-trading		100%	October 31
Interlink Investments Limited	Non-trading		100%	October 31

* Scotia Jamaica General Insurance Brokers Limited was liquidated in a members voluntary winding up on October 31, 2008.

All of the company's subsidiaries, except for Interlink Investments Limited, are incorporated and domiciled in Jamaica. Interlink Investments Limited is incorporated in Grand Cayman.

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 by the Group for all the periods presented, unless otherwise stated.

(a) Basis of preparation

(i) Statement of compliance

These financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS) and the Jamaican Companies Act.

New standards and amendments to published standards and interpretations that became effective during the year.

Certain new standards, amendments to published standards and interpretations came into effect during the current financial year. The Group has assessed the relevance of all such amendments and interpretations and has adopted the following which are relevant to its operations.

IFRS 7, *Financial Instruments: Disclosures and the Complementary Amendment to IAS 1,Presentation of Financial Statements – Capital Disclosures* are effective for reporting periods beginning on or after January 1, 2007. IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure of risks arising from financial instruments including specified minimum disclosures about credit risk,liquidity risk and market risk including analysis of sensitivity to market risk. It replaces IAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, and some of the requirements in IAS 32, *Financial Instruments: Disclosure and Presentation*. The Amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The adoption of IFRS 7 and the amendments to IAS 1 resulted in additional disclosures as set out in notes 46 and 48.

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions, which became effective for annual reporing periods beginning on or after March 1, 2007,requires that a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments be accounted for as an equity settled share-based payment transaction, regardless of how the equity instruments are obtained. It also provides guidance on whether share-based payment arrangements, in which suppliers of goods or services of an entity are provided with equity instruments of the entity's parent should be accounted for as cash-settled or equity-settled in the entity's financial statements. This standard did not have a material impact on the financial statements.

Amendments to IAS 39 Financial Instruments:Recognition and Measurement and IFRS 7: Financial Instruments Disclosures came into effect October 2008. One of the company's subsidiaries, Scotia DBG Investments Limited, adopted the amendments. The amendments permit an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particular circumstances. The amendment also permits an entity to transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated

2. Summary of significant accounting policies

(a) Basis of preparation

(i) Statement of compliance (continued)

as available-for-sale), if the entity has the intention and ability to hold that financial asset for the foreseeable future.

The adoption of this amendment resulted in the reclassification of certain investments from available-for-sale to loans and receivables. The impact on the financial results and the financial position of The Group and The Company and the additional disclosures required by IFRS 7 in respect of these investments are set out in note 50.

New standards, and interpretations of and amendments to existing standards, that are not yet effective:

At the date of authorisation of these financial statements, certain new standards, and amendments to and interpretations of existing standards, have been issued which are not yet effective at balance sheet date and which the Group has not early-adopted. The Group has assessed the relevance of all such new standards, amendments and interpretations with respect to the Group's operations and has determined that the following are relevant to its operations:

IFRS 8, Operating Segments, which becomes effective for annual reporting periods beginning on or after January 1, 2009, replaces IAS 14 and sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates and its major customers. The Group is currently assessing the impact that IFRS 8 will have on the disclosures in the financial statements.

IFRIC 13 Accounting for Customer Loyalty Programmes, which becomes effective for financial periods beginning on or after July 1, 2008, creates consistency in accounting for customer loyalty plans. The interpretation is applicable to all entities that grant awards as part of a sales transaction (including awards that can be redeemed for goods or services not supplied by the entity). The Group is evaluating the impact IFRIC 13 will have on its financial statements.

IFRIC 14, IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, which becomes effective for annual reporting periods beginning on or after January 1, 2008, provides guidance on assessing the limit set in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation is not expected to have a material impact on the financial statements.

IAS 1 (Revised) Presentation of Financial Statements, which becomes effective for annual reporting periods beginning on or after January 1, 2009, requires the

2. Summary of significant accounting policies

(a) Basis of preparation (continued)

(i) Statement of compliance (continued)

presentation of all non-owners changes in equity in one or two statements: either in a single statement of comprehensive income, or in an income statement of comprehensive income. The Group is evaluating the impact that the revised standard will have on the financial statements.

IAS 23 (Revised) - Borrowing Costs, which becomes effective for annual reporting periods beginning on or after January 1, 2009, removes the option of either capitalising borrowing costs relating to qualifying assets or expensing the borrowing costs, and requires management to capitalise borrowing costs attributable to qualifying assets. Qualifying assets are assets that take a substantial time to get ready for their intended use or sale. The Group is evaluating the impact IAS 23 (Revised) will have on its financial statements.

(ii) Basis of measurement

The financial statements have been prepared on the historical cost basis as modified for the revaluation of available-for-sale financial assets and financial assets at fair value through statement of revenue and expenses.

(iii) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS and the Companies Act 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.

(iv) Functional and presentation currency

These financial statements are presented in Jamaican dollars, which is the Group's functional currency. Except where indicated to be otherwise, financial information presented is shown in thousands of Jamaican dollars.

(v) Comparative information

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

(b) 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 unrealised gains on transactions between group companies are eliminated.

2. Summary of significant accounting policies (continued)

(b) Basis of consolidation (continued)

Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more that one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are no longer consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the statement of consolidated revenue and expenses.

(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) Revenue recognition

(i) Interest income

Interest income is recognised in the statement of revenue and expenses for all interest earning instruments on the accrual basis using the effective interest method based on the actual purchase price. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset or

2. Summary of significant accounting policies (continued)

(e) Revenue recognition (continued)

(i) Interest income (continued)

liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset. The effective interest rate is established on initial recognition of the financial asset and is not revised subsequently. Interest income includes coupons earned on fixed income investments and accretion of discount on treasury bills and other discounted instruments, and amortization of premium on instruments bought at a premium.

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

Fee and commission income are recognised on the accrual basis when service has been provided. 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.

Fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

(iii) Dividend income

Dividend income is recognized when the right to receive payment is established.

(iv) Premium income

Premiums are recognised as earned when due.

(f) Interest expense

Interest expense is recognised in the statement of revenue and expenditures on the accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments through the expected life of the financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial liability.

2. Summary of significant accounting policies (continued)

(g) Claims

Death claims are recorded in the statement of revenue and expenses net of reinsurance recoverable.

(h) Reinsurance contracts held

The Group enters into contracts with reinsurers under which it is compensated for losses on contracts it issues and which meet the classification requirements for insurance contracts. The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. Reinsurance does not relieve the originating insurer of its liability.

(i) Taxation

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

(i) Current taxation

Current tax charges are based on the taxable profit for the period, which differs from the profit before tax reported because it excludes items that are taxable or deductible in other periods, and items that are never taxable or deductable. The current tax is calculated at tax rates that have been enacted at the balance sheet date.

(ii) Deferred tax

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 are reviewed at each reporting date to determine whether it is probable that the related tax benefit will be realised.

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 the legal right of set-off exists, and when they relate to income taxes levied by the same tax authority on either the same taxable entity, or different taxable entities which intend to settle current tax liabilities and assets on a net basis.

2. Summary of significant accounting policies (continued)

(j) Insurance contracts

(i) Classification

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

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. The Group defines insurance risk as significant if an insured event could cause an insurer to pay significant additional benefits in a scenario that has a discernible effect on the economics of the transactions. 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.

(ii) Recognition and measurement

Insurance contracts

These contracts insure human life events (for example death or permanent disability) over a long duration. The accounting treatment differs according to whether the contract bears investment options or not. Under contracts that do not bear investment options, premiums are recognised as income when they become payable by the contract holder and benefits are recorded as an expense when they are incurred.

Under contracts that bear an investment option, insurance premiums received are initially recognised directly as liabilities. These liabilities are increased by credited interest and are decreased by policy administration fees, mortality and surrender charges and any withdrawals; the resulting liability is the Life Assurance Fund. Income consists of fees deducted for mortality, policy administration and surrenders. Interest credited to the account and benefit claims in excess of the account balances incurred in the period are recorded as expenses in the statement of revenue and expenses.

Insurance contract liabilities are determined by an independent actuary using the Policy Premium Method of valuation as discussed in Note 3(iv). These liabilities are, on valuation, adjusted through the income statement to reflect the valuation determined under the Policy Premium Method.

(k) Policyholders' fund

The policyholders' fund has 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

2. Summary of significant accounting policies (continued)

(k) Policyholders' fund (continued)

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. Any adjustment to the reserves is reflected in the period to which it relates.

(l) Financial assets and liabilities

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

The fair values of the Group's financial instruments are discussed in note 47.

(i) Recognition

The Group initially recognises loans and advances and deposits on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated as at fair value through profit or loss) are initially recognized on the settlement date - the date at which the Group becomes a party to the contractual provisions of the instrument.

(ii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or have expired.

The Group enters into transactions whereby it transfers assets recognized on its balance sheet, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized from the balance sheet. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

(m) Financial assets

The Group classifies its financial assets into 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.

2. Summary of significant accounting policies (continued)

(m) Financial assets (continued)

(i) Financial assets at fair value through profit and loss

This category includes financial assets held for trading. A financial asset is classified in this category at inception if acquired principally for the purpose of selling in the short term or if so designated by management. These assets are carried at fair value and all related gains and losses are included in the statement of revenue and expenses.

(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 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 re classified as available-for-sale.

(iv) Available-for-sale

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified in the above three categories; they are 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, exchange rates or market prices. They are initially recognized at cost, and subsequently remeasured at fair value. Unrealised gains and losses arising from changes in fair value of available-for-sale investments are recognized in stockholders' equity. On disposal of these investments, the unrealized gains or losses included in stockholders' equity are transferred to the statement of revenue and expenses.

Purchases and sales of financial assets at fair value through profit or loss, 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.

Subsequent to initial recognition at cost, available-for-sale financial assets 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 the 'financial assets at fair value through profit or loss' category are included in the statement of revenue and expenses in the period in which they arise.

2. Summary of significant accounting policies (continued)

(m) Financial assets (continued)

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 are recognised in profit or loss. However, interest, which is 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. Impairment losses are recognised in the statement of revenue and expenses. 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. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

(n) Investment in subsidiaries

Investments by the Company in subsidiaries are stated at cost less impairment losses.

(o) 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.

Securities sold subject to repurchase agreements are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral.

(p) Loans and advances and allowance for impairment losses

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

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 fair value of the consideration given, which is the cash disbursed to originate the loan, including any transaction costs, and are subsequently measured at amortised cost using the effective interest rate method.

2. Summary of significant accounting policies (continued)

(p) Loans and advances and allowance for impairment losses (continued)

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 the impaired 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 amounts that exceed the amounts required under IFRS are included in a non-distributable loan loss reserve as an appropriation of profits.

(q) Acceptances and guarantees

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

(r) Intangible assets

(i) Intangible assets acquired separately

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

(ii) Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

2. Summary of significant accounting policies (continued)

(r) Intangible assets (continued)

(ii) Intangible assets acquired in a business combination (continued)

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

(iii) Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

2. Summary of significant accounting policies (continued)

(r) Intangible assets (continued)

(iv) Goodwill

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

(v) Customer relationships

This asset represents the present value of the benefit to the Group from customer lists, contracts, or customer relationships that can be identified separately and measured reliably. Customer relationships include those of SDBG, SDBG Merchant Bank and Stockbroking customer relationships with an estimated useful life of 15 years.

(vi) Contract-based intangible asset

Contract-based intangible assets represent the Group's right to benefit from SDBG's Unit Trust Management contracts and EasyOwn consumer financing contracts. This asset has an indefinite useful life and is therefore tested for impairment annually and whenever there is an indication that the asset may be impaired.

2. Summary of significant accounting policies (continued)

(r) Intangible assets (continued)

(vii) Licences

The asset represents the value of SDBG's Jamaica Stock Exchange seat, which has an indefinite useful life. The asset is tested for impairment annually, and whenever there is an indication that the asset may be impaired.

(viii) Tax Shield

The asset represents the present value of tax saving on tax-free bonds held by SDBG Investments Limited and SDBG Merchant Bank, recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefit. The carrying amount of the tax asset is reviewed at each balance sheet date and reduced to the extent that the benefit is already realised, or it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. The assets are measured at the tax rate that is expected to apply in the period in which the asset is realised, based on tax rates (and tax laws) that have been enacted by the balance sheet date.

(ix) Computer software

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 are expensed where they are considered to be immaterial.

(s) 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 and 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 as an expense and included in 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 the straight-line basis over the period of the lease.

2. Summary of significant accounting policies (continued)

(s) Leases (continued)

(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 the straight-line basis over the lease term.

(t) Property, plant and equipment

Land is stated at historical cost. All other property, plant and equipment are stated at historical cost less accumulated depreciation and, if any, impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Expenditure subsequent to acquisition 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 expenditure will flow to the Group and the cost of the item can be measured reliably. All other expenditure is classified as repairs and renewals and charged as expenses in the statement of revenue and expenses during the financial period in which it is incurred.

Depreciation and amortisation are calculated on the straight-line method at rates that will write off the depreciable amount of 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	Year of lease

The depreciation methods, useful lives and residual values are reassessed at the reporting dates.

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 the profit for the year.

2. Summary of significant accounting policies (continued)

(u) Employee Benefits

Employee benefits are all forms of consideration given by the Group in exchange for service rendered by employees. These include current or short-term benefits such as salaries, bonuses, NIS contributions, vacation leave; non-monetary benefits such as medical care; post-employments benefits such as pensions; and other long-term employee benefits such as termination benefits.

Employee benefits that are earned as a result of past or current service are recognised in the following manner: Short-term employee benefits are recognised as a liability, net of payments made, and charged as expense. The expected cost of vacation leave that accumulates is recognised when the employee becomes entitled to the leave. Post-employment benefits, termination benefits and equity compensation benefits are accounted for as described below. Other long-term benefits are not considered material and are charged off when incurred.

(i) Pension obligations

The Group operates both a defined benefit and a defined contribution pension plans. The assets of both plans are held in separate trustee-administered funds. The pension plans are funded by payments from employees and by the relevant group companies, after, in the case of the defined benefit plan, taking the recommendations of the actuary into account.

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 revenue and expenses 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 deferred and recognised in the statement of revenue and expenses over the average remaining service lives of the participating employees.

Contributions to defined contribution plans are charged to the statement of revenue and expenses in the period to which it relates.

2. Summary of significant accounting policies (continued)

(u) Employee Benefits

(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 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 completion of a minimum service period and the employee remaining in service up to retirement age. 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 Group has two Employee Share Ownership Plans (ESOPs) for eligible employees. In the case of the first, the Group 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.

The amount contributed to the ESOP trust (note 55) by the Group for acquiring shares and allocating them to employees is recognised as an employee expense at the time of making the contribution, as the effect of recognising it over the two-year period in which the employees become unconditionally entitled to the shares, is not considered material. Further, the effect of forfeitures is not considered material.

The special purpose entity that operates the Plan has not been consolidated as the effect of doing so is not considered material.

In the case of the second, the Group provides a fixed benefit to eligible employees, after one full year of service. This benefit is recorded in salaries and staff benefits expense in the statement of revenue and expenses.

The amount contributed to the ESOP trust (note 55) by the Group for acquiring shares and allocating them to employees is recognised as an employee expense at the time of making the contribution. The special purpose entity that operates the Plan has been consolidated.

2. Summary of significant accounting policies (continued)

(v) 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.

(w) Share capital

(i) Classification

Ordinary shares are classified as equity when there is no obligation to transfer cash or other assets.

Preference share capital is classified as equity except where it is redeemable on a specific or determinable date or at the option of the shareholders and/or if dividend payments are not discretionary, in which case it is classified as a liability. Dividend payments on preference shares classified as a liability are recognized in the statement of revenue and expenses as interest expense.

(ii) Share issue costs

Incremental costs directly attributable to the issue of new shares or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

(iii) Dividends

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

(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 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.

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.

3. Critical accounting estimates, and judgements in applying accounting policies (continued)

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 an estimated $110,134 (2007: $49,218) higher or $102,186 (2007: $49,224) 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 in the specific permissible 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 $436,298 (2007: decrease of $408,801) with a corresponding entry in the fair value reserve in stockholders' equity.

(iii) Income taxes

Estimates and judgements are required in determining the provision for income taxes. The tax liability or asset arising from certain transactions or events may be uncertain during the ordinary course of business. In cases of such uncertainty, the Group recognises liabilities for possible additional taxes based on its judgement. Where, on the basis of a subsequent determination, the final tax outcome in relation to such matters is different from the amount that was initially recognised, the difference will impact the current and deferred income tax provisions in the period in which such determination is made.

3. Critical accounting estimates, and judgements in applying accounting policies (continued)

(iii) Income taxes (continued)

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 $46,424 and the deferred tax liability by $19,928, if unfavourable; or
- decrease the income tax liability by $46,424 and the deferred tax liability by $19,928, if favourable.

(iv) Estimate of future payments and premiums arising from long-term insurance contracts

The liabilities under long-term insurance contracts have been determined using the Policy Premium Method 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. Any adjustment to the reserves is reflected in the year to which it relates.

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. 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.

These estimates are more fully described in note 12(c).

(v) Pension and other post-employment benefits

The cost of these benefits and the present value of the pension and the other post-employment liabilities depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net periodic cost (income) for pension and other post-employment 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- employment 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; such rate 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

3. Critical accounting estimates, and judgements in applying accounting policies (continued)

(v) Pension and other post-employment benefits (continued)

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 economies. 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 other post retirement benefits cost and credits are based, in part, on current market conditions.

Were the actual expected return on pension plan assets to differ by 1% from management's estimates, there would be no impact on the consolidated net income. Similarly, were the actual discount rate used at the beginning of the fiscal year, to differ by 1% from management's estimates there would be no impact on the consolidated net income. Were the assumed medical inflation rate on the health plan to differ by 1.50% from management estimates, the health expense would increase by $70,487 or decrease by $51,704.

(vi) Recognition and measurement of intangible assets

The recognition and measurement of intangible assets, other than goodwill, in a business combination, involve the utilization of valuation techniques. These intangibles may be market related, consumer related, contract based or technology based.

For significant amounts of intangibles arising from a business combination, the Group utilizes independent professional advisors to assist management in determining the recognition and measurement of these assets.

4. Responsibilities of the appointed actuary and external auditors

The Board of Directors, pursuant to the Insurance Act, appoints the Actuary whose 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 shareholders, 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 policyholders' liabilities.

(expressed in thousands of Jamaican dollars unless otherwise stated)

5. Segmental financial information

The Group is organised into five main business segments:

(a) Retail Banking - incorporating personal banking services, personal customer current, savings and deposits accounts, 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 Group's liquidity and investment management function, management of correspondent bank relationships, as well as foreign currency trading;

(d) Investment Management Services — incorporating investments, unit trusts, pension and other fund management, brokerage and advisory services, and the administration of trust accounts;

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

(f) Other operations of the Group – comprising non-trading subsidiaries

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 mainly in Jamaica.

	2008							
	Banking							
	Retail	Corporate and Commercial	Treasury	Investment Management Services	Insurance Services	Other	Eliminations	Group
Gross external revenues	12,366,899	6,657,908	7,173,805	6,980,480	5,898,243	42,150	-	39,119,485
Revenue/(expenses) from other segments	2,073,510	2,005,252	(4,030,398)	200,929	8,400	4,009,878	(4,267,571)	-
Total gross revenues	14,440,409	8,663,160	3,143,407	7,181,409	5,906,643	4,052,028	(4,267,571)	39,119,485
Total expenses	(10,475,710)	(6,304,710)	(78,673)	(5,758,609)	(3,328,298)	(169,479)	115,089	(26,000,390)
Profit before tax	3,964,699	2,358,450	3,064,734	1,422,800	2,578,345	3,882,549	(4,152,482)	13,119,095
Income tax expenses								(3,495,038)
Net profit								9,624,057
Segment assets	51,383,480	51,405,726	72,424,284	66,621,004	39,533,192	9,931,233	(17,598,859)	273,700,060
Unallocated assets								6,584,191
Total assets								280,284,251
Segment liabilities	81,995,398	69,429,170	1,504,015	59,856,858	30,758,781	303,817	(8,247,811)	235,600,228
Unallocated liabilities								4,927,994
Total liabilities								240,528,222
Other segment items:								
Capital expenditure	349,177	220,246	-	9,711	3,391	8,509	-	591,034
Impairment losses on loans	794,970	(40,780)	-	4,566	-	-	-	758,756
Depreciation	182,779	126,843	-	23,915	4,894	24,160	-	362,591

(expressed in thousands of Jamaican dollars unless otherwise stated)

5. Segmental financial information (continued)

	2007							
	Banking							
	Retail	Corporate and Commercial	Treasury	Investment Management Services	Insurance Services	Other	Eliminations	Group
Gross external revenues	9,470,409	6,065,667	6,780,556	4,582,741	4,539,213	37,599	213,253	31,689,438
Revenue/(expenses) from other segments	2,806,858	1,434,091	(4,236,727)	210,565	15,089	4,746,414	(4,976,290)	-
Total gross revenues	12,277,267	7,499,758	2,543,829	4,793,306	4,554,302	4,784,013	(4,763,037)	31,689,438
Total expenses	(8,929,342)	(5,545,726)	(107,726)	(4,141,880)	(2,870,463)	(87,263)	160,183	(21,522,217)
Profit before tax	3,347,925	1,954,032	2,436,103	651,426	1,683,839	4,696,750	(4,602,854)	10,167,221
Income tax expenses								(2,557,161)
Net profit								7,610,060
Segment assets	45,144,331	46,192,174	80,779,610	60,214,503	33,702,394	10,006,452	(18,383,346)	257,656,118
Unallocated assets								5,469,513
Total assets								263,125,631
Segment liabilities	78,956,828	71,524,680	236,512	51,692,629	27,128,507	302,465	(7,564,596)	222,277,025
Unallocated liabilities								4,540,380
Total liabilities								226,817,405
Other segment items:								
Capital expenditure	310,684	225,820	-	355,193	9,035	5,153	-	905,885
Impairment losses on loans	486,255	36,810	-	2,851	-	-	-	525,916
Depreciation	197,315	131,925	-	18,336	4,976	13,634	-	366,186

(expressed in thousands of Jamaican dollars unless otherwise stated)

6. Net Interest Income

	The Group	
	2008	2007
Interest income:		
Deposits with banks and other financial institutions	5,426,339	2,528,185
Investment securities	11,462,564	9,493,929
Income on financial assets at fair value through profit and loss	91,663	109,462
Reverse repurchase agreements	1,027,345	2,139,017
Loans and advances	14,764,039	12,125,187
Other	13,540	7,241
	32,785,490	26,403,021
Interest expense:		
Banks and customers	6,768,554	5,658,194
Repurchase agreements	3,741,991	2,774,186
Other	48,743	492,466
	10,559,288	8,924,846
Net interest income	22,226,202	17,478,175

7. Net fee and commission income

	The Group	
	2008	2007
Fee and commission income:		
Retail banking fees	2,465,578	2,016,588
Credit related fees	839,638	927,641
Commercial and depository fees	1,296,481	1,016,516
Trust and other fiduciary fees	191,186	80,741
Asset management and related fees	69,994	75,056
	4,862,877	4,116,542
Fee and commission expenses	(1,063,777)	(997,260)
	3,799,100	3,119,282

8. Net foreign exchange trading income

Net trading income includes gains and losses arising from foreign currency trading activities.

9. Net insurance premium income

	The Group	
	2008	2007
Gross written premium		
Individual life	339,012	297,714
Group	417,231	319,926
	756,243	617,640
Reinsurance ceded	(1,705)	(428)
	754,538	617,212

(expressed in thousands of Jamaican dollars unless otherwise stated)

10. Other revenue

Other revenue includes $456,611 which represents the 2008 gain on shares resulting from the exchange of the Bank's membership interest in Visa International for equity shares in Visa Inc. consequent to the reorganization of Visa International. The reorganization involved a series of transactions by which Visa International, Visa U.S.A. and Visa Canada became subsidiaries of a Delaware stock corporation, Visa Inc., and was completed on October 2, 2007. Upon completion of the restructuring, common shares were issued by Visa Inc. to each member of a class corresponding to the Visa region with which each member is associated. The Bank was advised of the restructuring in April 2008. At that time there was also a forced redemption of 52% of the shares received. The remaining shares (48%) are subject to a lock up period of three years ending March 2011, during which the shares cannot generally be sold or transferred.

11. Salaries, pension contributions and other staff benefits

	The Group	
	2008	2007
Wages and salaries	5,032,788	4,318,447
Payroll taxes	451,853	394,627
Pension costs, net defined benefit plan [note 32(a)]	(519,780)	(494,232)
Pension costs – defined contribution plan	18,183	9,942
Other post employment benefits [note 32(b)]	233,531	258,339
Other staff benefits	1,191,319	915,977
Total (note 13)	6,407,894	5,403,100

(expressed in thousands of Jamaican dollars unless otherwise stated)

12. Policyholders' benefits and reserves

(a) Composition of policyholders liabilities

	The Group 2008	The Group 2007
Policyholders' fund	32,222,016	28,585,195
Benefits and claims payable	52,513	28,559
Unprocessed premiums	18,592	12,003
Insurance risk reserve – Individual life	(1,892,953)	(1,734,707)
– Group life	161,250	123,718
	30,561,418	27,014,768

(b) Change in policyholders' liabilities:

	The Group 2008	The Group 2007
Policyholders fund:		
At beginning of the year	28,585,195	25,097,202
Gross premium	4,495,436	4,142,542
Benefits and claims	(3,730,948)	(3,274,060)
Interest credited	2,872,333	2,619,511
At end of year	32,222,016	28,585,195
Benefits and claims payable:		
At beginning of the year	28,559	35,698
Policyholders' claims and benefits	110,109	57,489
Benefits and claims paid	(86,155)	(64,628)
At end of year	52,513	28,559
Unprocessed premiums:		
At beginning of the year	12,003	18,389
Premiums received	4,984,611	4,521,713
Premiums applied	(4,978,022)	(4,528,099)
At end of year	18,592	12,003

	2008 Individual life	2008 Group life	2008 Total
Insurance risk reserve:			
At beginning of the year	(1,734,707)	123,718	(1,610,989)
Changes in assumptions	(68,151)	(635)	(68,786)
Normal changes	(90,095)	38,167	(51,928)
At end of year	(1,892,953)	161,250	(1,731,703)

	2007 Individual life	2007 Group life	2007 Total
Insurance risk reserve:			
At beginning of the year	(1,489,335)	100,963	(1,388,372)
Changes in assumptions	(37,412)	(2,100)	(39,512)
Normal changes	(207,960)	24,855	(183,105)
At end of year	(1,734,707)	123,718	(1,610,989)

12. Policyholders' benefits and reserves (continued)

(c) Policy assumptions

Policy liabilities have two major assumptions, best estimate assumptions and provisions for adverse deviation assumptions.

(1) Best estimate assumptions:

Best estimate assumptions cover the lifetime of the policies and are made for many variables including mortality, morbidity, investment yields, rates of policy termination, operating expenses and certain taxes.

(i) Mortality and morbidity

The assumptions are based on industry experience. See note 3(iv) for further details.

(ii) Investment yields

The Group matches assets and liabilities by line of business. The Group does not project asset and liability cash flows under reinvestment assumptions; instead it uses a projected portfolio rate with a conservative bias.

The Group has assumed a portfolio rate of 12.73% beginning November 2008, decreasing monthly to 8% in the year 2014, and then decreasing yearly to 6% in the year 2027 and later. Assumed interest rates are net of investment income tax and have been decreased by 0.50% as a margin for adverse deviation.

The main source of the uncertainty is the fluctuation in the economy, as lower yields would result in higher reserves and reduced income.

(iii) Persistency

Persistency assumptions are made in relation to the time since inception that a policy exists before it lapses or is surrendered. Lapses relate to termination of policies due to non-payment of premiums. Surrenders relate to voluntary termination of policies by the policyholders. Policy terminations are based on the Group's own experience adjusted for expected future conditions.

The expected lapse rates are 2% in the first year, 8% in the second year, 7% in the third year and 6% thereafter. A margin for adverse deviation is added by increasing or decreasing the lapse rates, whichever is adverse, by 20%.

The main source of uncertainty derives from changes in policyholder behaviour as it relates to changes in conditions.

12. Policyholders' benefits and reserves (continued)

(c) Policy assumptions (continued)

(1) Best estimate assumptions (continued):

(iv) Policy expenses and inflation

Policy maintenance expenses are derived from the Group's own internal cost studies projected into the future with an allowance for inflation.

Inflation is assumed to be 6.92% beginning November 2008, decreasing monthly to 5% in the year 2014, and then decreasing to 3% in year 2027 and later.

A margin for adverse deviation is added by increasing the maintenance expenses by 10% of the best estimate assumption.

(v) Partial withdrawal of policy funds

The Group's contracts allow policyholders to withdraw portion of the funds accumulated under the contract without surrendering the entire contract. Partial withdrawal rates are derived from the Group's own experience. A margin for adverse deviation is added by increasing the partial withdrawal rates by 10% of the best-estimate assumption.

(vi) Taxation

It is assumed that current tax legislation and rates continue unaltered.

(2) Provision for adverse deviation assumptions

The basic assumptions made in establishing policy liabilities are best estimates for a range of possible outcomes. To recognise the uncertainty in establishing these best estimates, to allow for possible deterioration in experience and to provide greater comfort that the reserves are adequate to pay future benefits, the appointed actuary is required to include a margin in each assumption.

The impact of these margins is to increase reserves and so decrease the income that would be recognised on inception of the policy. The Canadian Institute of Actuaries prescribes a range of allowable margins. The Group uses assumptions at the conservative end of the range, taking into account the risk profiles of the business.

(expressed in thousands of Jamaican dollars unless otherwise stated)

13. Expenses by nature

	The Group		The Company	
	2008	2007	2008	2007
Salaries, pension contributions and other staff benefits (note 11)	6,407,894	5,403,100	-	-
Property expenses, including depreciation	2,145,665	1,508,406	-	-
Changes in policyholders' reserves	2,838,416	2,452,192	-	-
Transportation and communication	880,818	632,387	-	-
Marketing and advertising	591,556	503,018	-	-
Management and consultancy fees	407,106	366,417	-	-
Deposit insurance	196,493	175,725	-	-
Stationery	284,990	230,903	-	-
Other operating expenses	688,709	663,943	5,923	1,521
Amortisation of intangibles	240,699	135,364	-	-
	14,682,346	12,071,455	5,923	1,521

14. Profit before taxation

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

	The Group		The Company	
	2008	2007	2008	2007
Auditors' remuneration	19,989	17,765	1,165	1,165
Depreciation	362,591	366,186	-	-
Directors' emoluments:				
Fees	35,574	22,791	-	-
Other	70,122	68,334	-	-
Gain on sale of shares and property, plant and equipment	(451,186)	(296,325)	-	-
Operating lease rentals	77,388	49,121	-	-

(expressed in thousands of Jamaican dollars unless otherwise stated)

15. Taxation

(a) Taxation charge

Income tax is computed on the profit for the year as adjusted for tax purposes; other taxes are computed at rates and on items shown below:

	The Group 2008	The Group 2007
Current income tax:		
Income tax at 33⅓ %	2,431,611	2,143,748
Income tax at 30%	192,037	164,227
Premium income tax at 3%	93,199	81,226
Investment income tax at 15%	183,590	122,874
Adjustment for (over)/under-provision of prior year's charges	-	113
Deferred income tax (note 39)	594,601	44,973
	3,495,038	2,557,161

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

	The Group 2008	The Group 2007
Profit before taxation	13,119,095	10,167,221
Tax calculated at 33⅓ %	4,373,032	3,389,074
Adjusted for the tax effects of:		
Different tax regimes applicable to the life insurance and mortgage financing subsidiaries	(527,691)	(276,700)
Income not subject to tax – tax free investments	(383,281)	(446,124)
Expenses not deductible for tax purposes	711,023	136,439
Capital gains	(156,463)	(35,326)
Other charges and allowances	213,576	(167,625)
Tax losses utilized	(735,158)	(42,577)
	3,495,038	2,557,161

(c) Taxation expense for life insurance business

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%.

(expressed in thousands of Jamaican dollars unless otherwise stated)

16. Earnings per stock unit

Basic earnings per stock unit is calculated by dividing the net profit attributable to stockholders of the company by the weighted average number of ordinary stock units in issue during the year.

	2008	2007
Net profit attributable to stockholders of the company	9,390,739	7,492,854
Weighted average number of ordinary stock units in issue (1000)	3,111,573	3,019,403
Basic earnings per stock unit (expressed in $ per share)	$ 3.02	2.48

17. Cash and balances at Bank of Jamaica

	The Group	
	2008	2007
Statutory reserves with Bank of Jamaica – interest-bearing	3,640,792	3,845,002
Statutory reserves – non interest bearing	7,412,899	6,756,322
Total statutory reserves (note 20)	11,053,691	10,601,324
Cash in hand and at bank (note 20)	29,271,348	22,109,236
	40,325,039	32,710,560

Statutory reserves with the Bank of Jamaica under Section 14 (i) of the Banking Act, 1992, Section 14 of the Financial Institution Act, and the Building Societies Regulations represent the required ratio of 9% (2007: 9%) of the Bank's and Scotia DBG Merchant Bank's and 1% (2007: 1%) of the Society's prescribed liabilities, respectively. They are not available for investment, lending or other use by the Group.

18. Amounts due from other banks

	The Group	
	2008	2007
Items in course of collection from other banks	729,506	1,181,967
Placements with other banks	12,954,297	16,943,310
	13,683,803	18,125,277

(expressed in thousands of Jamaican dollars unless otherwise stated)

19. Accounts with parent and fellow subsidiaries

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

20. Cash and cash equivalents

	The Group		The Company	
	2008	2007	2008	2007
Cash and balances with Bank of Jamaica	40,325,039	32,710,560	-	-
Less: statutory reserves (note 17)	(11,053,691)	(10,601,324)	-	-
	29,271,348	22,109,236	-	-
Less: balances at bank greater than 90 days	(20,742,795)	(11,009,048)	-	-
	8,528,553	11,100,188	-	-
Accounts with subsidiary	-	-	47,642	61,203
Government and bank notes other than Jamaica	384,440	409,227	-	-
Amounts due from other banks	5,714,802	14,123,298	-	-
Accounts with parent and fellow subsidiaries	126,822	2,890,764	-	-
Government of Jamaica treasury bills and bonds	7,647,824	5,541,029	-	-
Cheques and other instruments in transit	(2,677,670)	(3,236,788)	-	-
	19,724,771	30,827,718	47,642	61,203
Less accrued interest receivable on Bank of Jamaica Certificates of Deposit and Deposits with Banks	(1,365,273)	(393,374)	-	-
	18,359,498	30,434,344	47,642	61,203

21. Financial assets at fair value through profit and loss

	The Group	
	2008	2007
Government of Jamaica Securities	-	221,352
Corporate securities	-	84,909
Quoted shares	116,951	272,023
Unit trusts	-	541,766
Accrued interest	-	5,186
	116,951	1,125,236

22. Capital management and government securities fund

(a) Capital management fund

This fund represents the investment of contributions from third-party clients. Changes in the value of the fund at each valuation date are based on the net accretion in the value of the investments.

(b) Government securities fund

The Group manages funds, on a non-recourse basis, on behalf of investors. There is no legal or equitable right or interest in these funds.

(expressed in thousands of Jamaican dollars unless otherwise stated)

23. Government securities purchased under resale agreements

The Group enters 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 fulfil its contractual obligations.

The fair value of collateral held pursuant to reverse repurchase agreements is $349,686 (2007: $985,135) for the Group.

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

	The Group	
	2008 $'000	2007 $'000
Debt securities with an original maturity of less than 90 days.	405	1,150

24. Loans, after allowance for impairment losses

	The Group	
	2008	2007
Business and Government	45,109,427	38,894,951
Personal and credit cards	38,314,629	32,792,238
Residential mortgages	6,132,772	4,952,984
Leases	144,834	86,535
Interest receivable	879,731	796,401
Total	90,581,393	77,523,109
Less: allowance for impairment losses (note 25)	(884,314)	(856,542)
	89,697,079	76,666,567

(i) The aging of the loans at the reporting date was:

	2008	2007
Neither past due nor impaired	77,510,665	68,919,340
Past due but not impaired loans		
Past due 0-30 days	6,509,767	4,612,514
Past due 30-60 days	1,806,385	716,597
Past due 60-90 days	904,131	369,081
	9,220,283	5,698,192
Impaired loans more than 90 days past due	2,970,714	2,109,176
Interest receivable	879,731	796,401
Gross loan portfolio	90,581,393	77,523,109
Less: Allowance for impairment losses	(884,314)	(856,542)
	89,697,079	76,666,567

(expressed in thousands of Jamaican dollars unless otherwise stated)

24. Loans, after allowance for impairment losses (continued)

(i) The aging of the loans at the reporting date was (continued):

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of loans not past due by and up to 90 days.

There are no financial assets other than those listed above that were individually impaired.

(ii) Renegotiated loans and leases

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account may be reset to a normal status and managed together with other similar accounts after careful analysis and the demonstration to maintain the scheduled payments over a prolonged period.

Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review.

The Group's renegotiated loans that would otherwise be past due or impaired totalled $35,286 (2007: $5,943).

(iii) Repossessed collateral

During 2008, the Group obtained financial assets by taking possession of collateral it holds as security as follows:

	2008	2007
Quoted Shares	6,289	-

In general, the Group does not obtain financial or non financial assets by taking possession of collateral. In the normal course of business, the security documentation which governs the collateral charged in favour of the Group to secure the debt, gives the Group express authority to repossess the collateral in the event of default. Repossessed collateral are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness.

(iv) Collateral accepted as security for assets

The fair value of assets accepted as collateral that the Group is permitted to sell or repledge in the absence of default is Nil (2007: Nil). The fair value of any such collateral that has been sold or repledged was Nil (2007: Nil).

(expressed in thousands of Jamaican dollars unless otherwise stated)

25. Impairment losses on loans

	The Group	
	2008	2007
Total non-performing loans	2,970,714	2,109,177
Provision at beginning of year	856,542	478,260
Acquisitions and disposals	-	320,175
Charged against revenue during the year	758,756	525,916
Bad debts written off	(1,002,746)	(701,126)
Recoveries of bad debts	271,762	233,317
At end of year	884,314	856,542
This comprises:		
Specific provisions	612,086	666,720
General provisions	272,228	189,822
	884,314	856,542

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, and proceeds of 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 $228,521 as at October 31, 2008 (2007: $252,290) for the Group.

The total allowance for loan losses is made up as follows:

	The Group	
	2008	2007
Allowance based on accounting standard - IAS 39 [see (a) below]	884,314	856,542
Additional allowance based on BOJ regulations [see (b) below]	1,301,215	1,045,600
	2,185,529	1,902,142

(a) This is the allowance based on the requirements of *IAS 39, Financial Instruments: Recognition and Measurement*, and is the amount included in the table above.

(b) This is the allowance based on regulations issued by the banking regulator, Bank of Jamaica (BOJ). It represents the additional allowance required to meet the Bank of Jamaica loan loss provisioning requirement. A non-distributable loan loss reserve was established to represent the excess of the provision required by BOJ over the IAS 39 requirements.

(expressed in thousands of Jamaican dollars unless otherwise stated)

26. Lease receivables

	The Group	
	2008	2007
Gross investment in finance leases receivable in		
Not later than one year	130,668	76,003
Later than one year and not later than five years	49,263	50,672
	179,931	126,675
Less: unearned income	(42,201)	(41,393)
Net investment in finance leases	137,730	85,282
Net investment in finance leases may be classified as follows:		
Not later than one year	100,275	49,425
Later than one year and not later than five years	37,455	35,857
	137,730	85,282

The provision for uncollectible finance lease receivables amounted to $7,103 as at October 31, 2008 (2007: $1,253).

27. Investment Securities

	The Group	
	2008	2007
Available-for-sale		
Quoted shares	6,289	-
Unquoted shares	15,000	15,000
Government of Jamaica securities	18,774,277	20,705,910
Corporate securities	84,392	251,636
Promissory Notes	-	24,960
Interest receivable	679,255	648,257
	19,559,213	21,645,763
Held-to-Maturity		
Unquoted shares	212,822	5,240
Government of Jamaica securities	34,969,913	38,315,167
Interest receivable	971,564	904,929
	36,154,299	39,225,336

All debt securities are made up of fixed and variable coupons. The Group has not reclassified any financial asset measured at amortised cost to securites carried at fair value during the year.

Included in investment securities are Government of Jamaica Local Registered Stocks with a fair value of $90,000 (2007: $90,000) which have been deposited by one of the Group's subsidiaries, Scotia Jamaica Life Insurance Company Limited, with the insurance regulator, Financial Services Commission, pursuant to Section 8(1)(a) of the Insurance Regulations 2001.

(expressed in thousands of Jamaican dollars unless otherwise stated)

28. 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, viz:

	The Group			
	Asset		Related Liability	
	2008	2007	2008	2007
Securities with Bank of Jamaica	1,124,612	1,615,144	-	-
Securities sold under repurchase agreements	43,862,459	32,749,866	39,897,407	31,530,287
Securities with other financial institutions and clearing houses	501,453	300,000	-	-
	45,488,524	34,665,010	39,897,407	31,530,287

The Bank of Jamaica holds as security, Government of Jamaica Local Registered Stocks and Bank of Jamaica Certificates of Deposit with a carrying amount of $ 1,124,612 (2007: $1,615,144) for the Group against possible shortfalls in the operating account.

Other financial institutions hold as security Government of Jamaica Local Registered Stocks with a carrying amount of $501,453 (2007: $300,000) for the Bank in the normal course of inter-bank transactions. These transactions are conducted under terms that are usual and customary for standard securities lending and repurchase agreements.

29. Sundry assets

	The Group	
	2008	2007
Accounts receivable and prepayments	294,365	273,672
Other	526,976	12,289
	821,341	285,961

(expressed in thousands of Jamaican dollars unless otherwise stated)

30. Property, plant and equipment

	The Group				
	Freehold Land and Buildings	Leasehold Improvements	Furniture, Fixtures, Motor vehicles & Equipment	Capital Work-in Progress	Total
Cost:					
October 31, 2006	1,612,773	174,672	2,809,559	98,041	4,695,045
Acquisitions	111,472	-	237,018	-	348,490
Additions	5,605	253	147,551	403,986	557,395
Disposals	(3,157)	-	(19,331)	-	(22,488)
Transfers	52,045	28,792	219,849	(300,686)	-
October 31, 2007	1,778,738	203,717	3,394,646	201,341	5,578,442
Additions	8,886	5,124	91,425	485,599	591,034
Disposals	(19)	(22,599)	(97,763)	-	(120,381)
Transfers	108,562	13,781	195,315	(317,658)	-
Write-offs	-	-	-	(1,793)	(1,793)
October 31, 2008	1,896,167	200,023	3,583,623	367,489	6,047,302
Accumulated depreciation:					
October 31, 2006	229,409	98,804	2,017,114	-	2,345,327
Acquisitions	60,482	-	126,820	-	187,302
Charge for the year	41,537	22,224	302,425	-	366,186
On disposals	(1,051)	-	(21,769)	-	(22,820)
October 31, 2007	330,377	121,028	2,424,590	-	2,875,995
Charge for the year	33,773	38,121	290,697	-	362,591
On disposals	-	(12,616)	(89,371)	-	(101,987)
October 31, 2008	364,150	146,533	2,625,916	-	3,136,599
Net book values					
October 31, 2008	1,532,017	53,490	957,707	367,489	2,910,703
October 31, 2007	1,448,361	82,689	970,056	201,341	2,702,447
October 31, 2006	1,383,364	75,868	792,445	98,041	2,349,718

(expressed in thousands of Jamaican dollars unless otherwise stated)

31. Intangible assets

	Customer Relationships	Contract Based Intangibles	License	Tax Benefits	Goodwill	Computer Software	Total
Cost:							
Acquired on acquisition	-	-	-	-	61,723	118,275	179,998
Additions during year	-	-	-	-	-	8,759	8,759
Intangible assets identified on acquisition of Dehring, Bunting and Golding Limited	1,382,582	348,987	49,470	692,466	75,169	-	2,548,674
October 31, 2007	1,382,582	348,987	49,470	692,466	136,892	127,034	2,737,431
Additions during the year	-	-	-	-	-	1,180	1,180
October 31, 2008	1,382,582	348,987	49,470	692,466	136,892	128,214	2,738,611
Amortisation:							
Assumed on acquisition	-	-	-	-	-	74,407	74,407
Amortisation for the year	46,086	-	-	79,550	-	9,728	135,364
October 31, 2007	46,086	-	-	79,550	-	84,135	209,771
Amortisation for the year	89,911	-	-	114,061	-	16,087	220,059
Impairment charge	-	20,640	-	-	-	-	20,640
Movement for the year	89,911	20,640	-	114,061	-	16,087	240,699
October 31, 2008	135,997	20,640	-	193,611	-	100,222	450,470
Net book values							
October 31, 2008	1,246,585	328,347	49,470	498,855	136,892	27,992	2,288,141
October 31, 2007	1,336,496	348,987	49,470	612,916	136,892	42,899	2,527,660

(expressed in thousands of Jamaican dollars unless otherwise stated)

32. Retirement benefit asset/obligation

Amounts recognised in the balance sheet:

	The Group	
	2008	2007
Defined benefit pension plan	5,402,224	4,839,913
Other post retirement benefits	(930,576)	(723,066)
	4,471,648	4,116,847

(a) Defined benefit pension plan

The Group has established a pension plan covering all permanent employees. The pension plan 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 fund established under the plan is valued by independent actuaries annually using the Projected Unit Credit Method. The latest actuarial valuation was carried out as at October 31, 2008.

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

	The Group	
	2008	2007
Present value of funded obligations	9,087,313	6,911,961
Fair value of plan assets	(22,726,007)	(20,514,621)
Unrecognised actuarial gains	3,915,583	3,896,535
	(9,723,111)	(9,706,125)
Limitation on recognition of surplus due to uncertainty of obtaining future benefits	4,320,887	4,866,212
Asset in the balance sheet	(5,402,224)	(4,839,913)

(ii) The movement in the present value of funded obligations for the year is as follows:

	The Group	
	2008	2007
At beginning of year	6,911,961	5,872,871
Interest and service costs	1,401,802	993,386
Past service cost – vested benefits	1,128,199	(110,984)
Actuarial loss on obligation	102,382	363,316
Benefits paid	(457,031)	(206,628)
At end of year	9,087,313	6,911,961

(expressed in thousands of Jamaican dollars unless otherwise stated)

32. Retirement benefit asset/obligation (continued)

(a) Defined benefit pension plan (continued)

(iii) The movement in fair value of plan assets for the year is as follows:

	The Group	
	2008	2007
At beginning of year	(20,514,621)	(18,483,277)
Expected return on plan assets	(2,146,694)	(1,944,184)
Actuarial loss on plan assets	(204,530)	(21,643)
Contributions	(317,193)	(272,145)
Benefits paid	457,031	206,628
At end of year	(22,726,007)	(20,514,621)

(iv) Analysis of fair value of plan assets:

	The Group	
	2008	2007
Government stocks and bonds	15,423,191	15,165,390
Quoted investments	2,289,702	2,378,824
Repurchase agreements	2,918,306	1,344,425
Certificates of deposit	-	13,590
Real estate	812,822	757,907
Net current assets	1,281,986	854,485
	22,726,007	20,514,621

Plan assets include the following:

The Company's ordinary stock units	1,201,133	1,384,691

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

	The Group	
	2008	2007
Current service cost, net of employee contributions	128,552	66,802
Interest cost	1,023,716	712,710
Expected return on plan assets	(2,146,694)	(1,944,184)
Net actuarial gain recognised in year	(83,100)	(111,800)
Past service cost-vested benefits	1,128,199	(110,984)
Income not recognised due to limit	(570,453)	893,224
Included in staff costs (note 11)	(519,780)	(494,232)

The actual return on plan assets was $2,351,224 (2007: $1,965,826).

(expressed in thousands of Jamaican dollars unless otherwise stated)

32. Retirement benefit asset/obligation (continued)

(a) Defined benefit pension plan (continued)

(vi) The principal actuarial assumptions used were as follows:

	The Group	
	2008	2007
Discount rate	13.0%	12.5%
Expected return on plan assets	10.5%	10.5%
Future salary increases	10.5%	9.5%
Future pension increases	4.5%	4.5%
Average expected remaining working lives (years)	22.2	22.4

(b) Other post retirement benefits

In addition to pension benefits, the Group 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 plan.

In addition to the assumptions used for the pension plan, the main actuarial assumption is a long-term increase in health costs of 10.5% per year (2007: 10.5%).

(i) The amounts recognised in the balance sheet are as follows:

	The Group	
	2008	2007
Present value of unfunded obligations	1,209,160	1,141,333
Unrecognised actuarial losses	(278,584)	(418,267)
Liability in the balance sheet	930,576	723,066

(ii) The movement in the present value of unfunded obligations for the year is as follows:

	The Group	
	2008	2007
At beginning of year	1,141,333	1,195,379
Interest and service costs	222,131	235,531
Actuarial (gain)/loss on obligation	(128,228)	(267,626)
Benefits paid	(26,076)	(21,951)
Liability in the balance sheet	1,209,160	1,141,333

(expressed in thousands of Jamaican dollars unless otherwise stated)

32. Retirement benefit asset/obligation (continued)

(b) Other post retirement benefits (continued)

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

	The Group	
	2008	2007
Current service cost	72,083	83,395
Interest cost	150,048	152,136
Net actuarial losses recognised in year	11,400	22,808
Total included in staff costs (Note 11)	233,531	258,339

(c) Five year trend analysis

	Pension				
	2008	2007	2006	2005	2004
Fair value of plan assets	22,726,007	20,514,620	18,483,277	16,377,620	14,458,261
Present value of defined benefit obligation	9,087,313	6,911,961	5,872,871	5,124,428	3,916,362
Surplus in the plan	13,638,694	13,602,659	12,610,406	11,253,192	10,541,899
Experience adjustments to plan liabilities	427,376	474,870	(397,996)	225,179	1,265
Experience adjustments to plan assets	(102,140)	21,643	352,091	306,914	3,812,040

	Health and Group Life				
	2008	2007	2006	2005	2004
Present value of defined benefit obligation	1,209,160	1,141,333	1,195,379	877,965	394,895
Deficit in the plan	(1,209,160)	(1,141,333)	(1,195,379)	(877,965)	(394,895)
Experience adjustments to plan liabilities	(8,502)	(140,505)	56,384	422,921	13,487

33. Deposits by the public

	The Group	
	2008	2007
Personal	77,763,281	75,496,458
Other	52,613,647	55,184,119
Interest payable	296,329	337,110
	130,673,257	131,017,687

Deposits include $96,879 (2007: $152,241) held as collateral for irrevocable commitments under letters of credit.

(expressed in thousands of Jamaican dollars unless otherwise stated)

34. Amounts due to other banks and financial institutions

These represent deposits by other banks and financial institutions in the normal course of business.

35. Due to parent company

	The Group	
	2008	2007
Facility I	984,018	1,010,501
Facility II	2,785,447	2,759,576
Facility III	2,999,337	974,892
	6,768,802	4,744,969
Interest payable	71,488	51,713
	6,840,290	4,796,682
Deposits held with Bank	8,231	-
	6,848,521	4,796,682

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

(ii) Facility II is a US$ denominated twelve (12) year non-revolving loan from the parent company, for on-lending. The repayment of the principal will commence May 2012 and is subject to a fixed interest rate of 5.63% per annum.

(iii) Facility III is a US$ denominated fourteen (14) year non-revolving loan from the parent company, for on-lending. The repayment of the principal will commence May 2012 and is subject to a fixed rate of interest rate of 5.95%.

The above loan facilities are unsecured.

36 Amounts due to subsidiaries and fellow subsidiaries

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

37. Redeemable preference shares

The Bank of Nova Scotia Jamaica Limited's authorised capital includes 100,000 redeemable preference shares with no par value, all of which are issued and fully paid. Because they are redeemable at the option of the Bank (subject to the Companies Act 2004) and dividends are not discretionary, they are required by IFRS to be classified as liabilities.

The key terms and conditions of the redeemable preference shares are:

(1) the right to a cumulative preferential dividend payable semi-annually on June 30 and December 31 at the rate of the six month's weighted average Treasury Bill yield at the start of the dividend period.

(2) the right on winding to recover the amounts paid up on the preference shares and any arrears or accruals of the preference dividend.

(3) no right to vote except:

(i) if the preference dividend is in arrears for more than six months,

(ii) any resolution is proposed for the winding up of the company

(iii) there is a proposal submitted to the meeting to vary the special rights and privileges attached to the preference shares.

(expressed in thousands of Jamaican dollars unless otherwise stated)

38. Other liabilities

	The Group	
	2008	2007
Accrued liabilities	889,994	730,712
Prepaid letters of credit	30,316	203,184
Other	461,038	240,890
	1,381,348	1,174,786

39. Deferred tax assets and liabilities

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

33⅓% for the Company and its subsidiaries except for
The Scotia Jamaica Building Society at 30%;
Scotia Jamaica Life Insurance Company Limited at 15%
33⅓% for Scotia DBG and all its subsidiaries.

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

	The Group	
	2008	2007
Balance at beginning of year	(1,793,803)	(1,561,331)
Recognised in the statement of revenue and expenses (note 15)	(594,601)	(44,973)
Recognised in equity:		
Available-for-sale investments		
- fair value re-measurement	1,043,569	(207,167)
- transfer to net profit	5,616	12,412
Acquisition	-	7,256
Balances at end of year	(1,339,219)	(1,793,803)

(expressed in thousands of Jamaican dollars unless otherwise stated)

39. Deferred tax assets and liabilities (continued)

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

	The Group 2008	The Group 2007
Other post retirement benefits	310,192	240,616
Available-for-sale investments	699,437	(352,218)
Losses carry forward	30,044	269,265
Vacation accrued	20,523	19,283
Pension benefits	(1,800,742)	(1,613,304)
Accelerated tax depreciation	(144,020)	(83,825)
Acquisition	(16,000)	(16,000)
Impairment losses on loans	(262,927)	(160,491)
Interest receivable	(175,726)	(97,149)
Net deferred tax liability	(1,339,219)	(1,793,803)
This is comprised of :-		
Deferred tax asset	241,969	-
Deferred tax liability	(1,581,188)	(1,793,803)
	(1,339,219)	(1,793,803)

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

	The Group 2008	The Group 2007
Accelerated tax depreciation	53,267	8,094
Pensions and other post retirement benefits	117,875	105,777
Allowance for loan impairment	102,322	61,276
Vacation accrued	(1,829)	(5,881)
Losses carry forward	246,673	(220,903)
Interest receivable	76,293	96,610
	594,601	44,973

Deferred income tax liabilities exclude withholding tax and other taxes that would be payable on distribution of the unappropriated profits of subsidiaries as such amounts are permanently reinvested; such unappropriated profits totaled $13,117,434 at October 31, 2008 (2007: $8,871,063).

40. Share capital

	Number of Units '000 2008	Number of Units '000 2007	Total 2008	Total 2007
Authorised:				
Ordinary shares of no par value	10,000,000	10,000,000		
Issued and fully paid:				
Ordinary stock units	3,111,573	3,111,573	6,569,810	6,569,810

The holders of the ordinary stock units are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company.

(expressed in thousands of Jamaican dollars unless otherwise stated)

41. Reserve fund

	The Group	
	2008	2007
Opening balance	3,160,917	3,158,481
Acquisitions	-	2,436
Transfer from unappropriated profit	39,190	-
Closing balance	3,200,107	3,160,917

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.

42. 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.

43. Cumulative remeasurement result from available-for-sale financial assets

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

44. Loan loss reserve

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

45. Other reserves

	The Group	
	2008	2007
Capital reserve arising on consolidation, net	67	67
Reserves of subsidiary capitalised through issue of bonus shares	16,548	16,548
Transfer of reserves relating to liquidation of subsidiary	(4,823)	-
General reserve	1,100	10,099
	12,892	26,714

46. Financial risk management

(a) Overview and risk management framework

By their nature, the Group's activities are principally related to the use of financial instruments. Therefore this will involve analysis, evaluation and management of some degree of risk or combination of risks. The Group manages risk through a framework of risk principles, organizational structures and risk measurement and monitoring processes that are closely aligned with the activities of its business units. The Group'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 Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Board of Directors is ultimately responsible for the establishment and oversight of the Board's risk management framework. The Board has established committees for managing and monitoring risks.

Two key committees for managing and monitoring risks are as follows:

(i) Board Audit Committee

The Board Audit Committee is solely comprised of independent directors. The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Committee is assisted in its oversight role by the Internal Audit Department. The Internal Audit Department undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Board Audit Committee.

The Board Audit Committee also reviews the annual and quarterly financial statements, related policies and assumptions for recommendation of approval to the Board of Directors.

(ii) Asset and Liability Committee

The Asset and Liability Committee (ALCO) has the responsibility of ensuring that risks are managed within the limits established by the Board of Directors. The Committee meets at least once monthly to review risks, evaluate performance and provide strategic direction. The Committee reviews investment, loan and funding activities, and ensures that the existing policies comprehensively deal with the management and diversification of the Group's investment and loan portfolios and that appropriate limits are being adhered to.

The Investment and Loan Committee performs a similar role to ALCO for Scotia Jamaica Life Insurance, which provides a specialized focus due to the different nature of the insurance business.

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

46. Financial risk management

(b) Credit risk

(i) Credit Risk Management

The Group takes 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 made for losses that have been incurred at the balance sheet date. However, significant negative changes in the economy, industry segment that represent a concentration in the Group's loan portfolio, or positions in tradeable assets such as bonds could result in losses that are different from those provided for at the balance sheet date.

At a strategic level, the Group manages the levels of credit risk they undertake by placing limits on the amount of risk accepted in relation to any one borrower, or groups of borrowers, and industry segments. 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.

Operationally, 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 restructuring loans where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees. The principal collateral types for loans are:

- Cash
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities.

In addition, the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans.

Collateral held as security for financial assets other than loans is determined by the nature of the instrument. Debt securities are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

The Group's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance sheet date on a case-by-case basis, and are applied to all individually significant accounts.

The assessment normally encompasses collateral held and the anticipated receipts for that individual account. Collectively assessed impairment allowances are provided for:

(1) portfolios of homogenous assets

(expressed in thousands of Jamaican dollars unless otherwise stated)

46. Financial risk management (continued)

(b) Credit risk (continued)

(i) Credit Risk Management (continued)

(2) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques.

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis.

(ii) 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 issue 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 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.

(iii) Credit quality

In measuring credit risk of commercial loans at the counterparty level, the Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed internally and combine statistical analysis with credit officer judgment and are validated, where appropriate, by comparison with externally available data.

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46. Financial risk management (continued)

(b) Credit risk (continued)

(iii) Credit quality (continued)

The Group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class:

Group's internal ratings scale and mapping of external ratings

Group's rating	External rating : Standard & Poor's equivalent
Excellent	AAA to AA+
Very Good	AA to A+
Good	A to A-
Acceptable	BBB+ to BB+
Higher Risk	BB to B-

Retail loans are risk-rated based on an internal scoring system which combine statistical analysis with credit officer judgment, and fall within the following categories:

- Good
- Acceptable
- Higher risk

The table below shows the percentage of the Group's loan portfolio as at October 31, 2008 relating to loans and credit commitments for each of the Group's internal rating categories:

	Loans and credit commitments	
	The Group	
	2008	2007
Excellent	5.0	7.4
Very Good	0.2	0.6
Good	20.8	19.7
Acceptable	25.2	29.4
Higher Risk	48.8	42.9
	100.0	100.0

(expressed in thousands of Jamaican dollars unless otherwise stated)

46. Financial risk management (continued)

(b) Credit Risk (continued)

(iii) Credit quality (continued)

The following table presents an analysis by rating agency designation of debt and similar securities, other than loans, based on Standard & Poor's ratings or their equivalent as at October 31, 2008:

	The Group	
	2008	2007
AAA to AA+	-	-
AA to A+	-	-
A to A-	-	56,541
BBB+ to BB+	339,310	372,451
BB to B-	133,595,885	120,158,696
Lower than B-	472	33,296
Unrated	979,135	631,625
	134,914,802	121,252,609

	The Group	
	2008	2007
of which classified as:		
Deposits with Bank of Jamaica	27,465,275	19,927,708
Financial assets at fair value through profit and loss	-	311,446
Investment securities		
Held-to-maturity	35,941,477	39,220,095
Available-for-sale	19,537,924	21,624,003
Pledged assets and Capital Management Accounts		
Loans and Receivable	12,587,125	-
Held-to-maturity	1,301,453	536,512
Available-for-sale	38,081,548	39,632,845
	134,914,802	121,252,609

(expressed in thousands of Jamaican dollars unless otherwise stated)

46. Financial risk management (continued)

(b) Credit Risk (continued)

(iv) Maximum exposure to credit risk

The following represents the maximum exposure to credit risk, before taking account of any collateral held or other credit enhancements. For financial assets, the exposure to credit risk equals their carrying amount. For financial guarantees granted, the maximum exposure to credit risk is the maximum amount that would have to be paid if the guarantees were called upon. For loan commitments and other credit-related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

	Maximum Exposure			
	The Group		The Company	
	2008	2007	2008	2007
Deposits with the Bank of Jamaica	38,766,534	30,889,670	-	-
Cash and balances due from other banks	15,338,883	21,984,653	47,642	61,203
Financial assets at fair value through profit and loss	97,113	311,447	-	-
Capital management and government securities funds	13,216,544	14,059,606	-	-
Government securities purchased under resale agreements	407,920	1,155,832	-	-
Pledged assets	45,488,524	34,665,010	-	-
Loans, after allowance for impairment losses	89,559,349	76,581,285	-	-
Leases, after allowance for impairment losses	137,730	85,282	-	-
Investment securities				
Available-for-sale	19,599,213	21,645,763	-	-
Held-to-maturity	36,154,299	39,225,336	-	-
Customers' liabilities under acceptances, guarantees and letters of credit	6,919,264	7,828,928	-	-
Other assets	943,665	1,300,034	-	-
	266,629,038	249,732,846	47,462	61,203

(expressed in thousands of Jamaican dollars unless otherwise stated)

46. Financial risk management (continued)

(b) Credit Risk (continued)

(v) Concentration of exposure to credit risk

(1) Loans and Leases

The following table summarises credit exposure for loans and leases at their carrying amounts, as categorised by the industry sectors. Loans and leases are well diversified across industry sectors, and are primarily extended to customers within Jamaica.

	The Group			
	Loans and Leases	Acceptances, Guarantees and Letters of Credit	Total 2008	Total 2007
Agriculture, fishing and mining	1,027,859	44,954	1,072,813	1,132,731
Construction and real estate	2,678,717	109,395	2,788,112	2,616,702
Distribution	4,650,172	1,093,909	5,744,081	5,789,840
Financial institutions	25,096	3,209,956	3,235,052	3,813,816
Government and public entities	15,496,020	293,618	15,789,638	13,039,553
Manufacturing	6,052,956	1,085,797	7,138,753	4,567,828
Personal	44,924,414	773,532	45,697,946	38,991,390
Professional and other services	5,233,597	280,749	5,514,346	4,289,822
Tourism and entertainment	9,597,382	27,354	9,624,736	10,313,077
Interest receivable	894,489	-	894,489	797,279
Total	90,580,702	6,919,264	97,499,966	85,352,038
Total impairment allowance			(883,623)	(856,542)
			96,616,343	84,495,496

(2) Debt Securities and amounts due from other banks

The following table summarises credit exposure for debt securities and amounts due from other banks at their carrying amounts, as categorised by issuer:

	Maximum Exposure	
	The Group	
	2008	2007
Government	90,988,922	90,967,039
Bank of Jamaica	54,246,943	40,614,104
Financial institutions	19,781,896	27,488,144
Corporates and other	979,270	631,761
	165,997,031	159,701,048

Other than exposure on Government of Jamaica securities there is no significant concentration of liquid funds. For securities purchased under resale agreements, titles to securities are transferred to the company for the duration of the agreement.

46. Financial risk management (continued)

(c) Market risk

The Group manages market risk through risk limits approved by the Board of Directors. Risk limits are determined for each portfolio, and are set by product and risk type, with market liquidity being a principal factor in determining the level of limits set. Limits are set using a combination of risk measurement techniques, including position limits and stress testing to identify the potential net interest income and market value effects of the positions in different scenarios. The results of the stress tests are reviewed by senior management and by the Board of Directors.

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.

The management of the individual elements of market risks – interest rate, currency and other price risk – is as follows:

(i) 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.

The Group monitors interest rate risk using its Asset and Liability model. It calculates the interest rate risk gaps, economic value and annual income amounts which are compared with risk limits approved by the Board of Directors. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly.

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, but also guarantees and other commitments such as letters of credit.

The following tables summarise carrying amounts of balance sheet assets, liabilities and equity in order to arrive at the Group's and the Company's interest rate gap based on the earlier of contractual repricing and maturity dates.

(expressed in thousands of Jamaican dollars unless otherwise stated)

46. Financial risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

	The Group						
	2008						
	Immediately rate sensitive [1]	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-rate sensitive	Total
Cash resources	873,981	14,857,254	23,712,294	25,022	-	16,579,811	56,048,362
Securities purchased under resale agreements	-	405,000	-	-	-	2,920	407,920
Loans [3]	23,976,883	32,487,472	5,397,486	16,599,123	9,246,459	1,989,656	89,697,079
Capital management and government securities funds	-	5,216,306	1,775,409	1,405,614	4,244,245	574,970	13,216,544
Investment securities [2]							
- Available-for-sale	-	3,089,088	1,402,451	10,972,413	3,394,717	700,544	19,559,213
- Held to maturity	-	26,009,445	6,383,606	2,257,203	318,192	1,185,853	36,154,299
- Financial assets at fair value through profit and loss	-	-	-	-	-	116,951	116,951
Pledged assets	-	23,690,851	10,312,145	3,757,359	6,515,348	1,212,821	45,488,524
Other assets	-	-	-	-	-	19,595,359	19,595,359
Total assets	24,850,864	105,755,416	48,983,391	35,016,734	23,718,961	41,958,885	280,284,251
Deposits	107,763,376	12,570,668	8,465,403	4,657,237	6,083,994	367,816	139,908,494
Securities sold under repurchase agreements	38,819	29,312,993	9,703,192	7,454	-	834,949	39,897,407
Promissory notes	305,219	14,064	14,329	9,135	32,593	4,971	380,311
Other liabilities	-	-	-	-	-	14,789,070	14,789,070
Capital management and government securities funds	14,987,776	-	-	-	-	3,746	14,991,522
Policyholders' fund	18,270,981	2,342,644	11,608,391	-	-	(1,660,598)	30,561,418
Stockholders' equity	-	-	-	-	-	39,756,029	39,756,029
Total liabilities and stockholders' equity	141,366,171	44,240,369	29,791,315	4,673,826	6,116,587	54,095,983	280,284,251
Total interest rate sensitivity gap	(116,515,307)	61,515,047	19,192,076	30,342,908	17,602,374	(12,137,098)	-
Cumulative gap	(116,515,307)	(55,000,260)	(35,808,184)	(5,465,276)	12,137,098	-	-
	2007						
Total assets	43,792,585	91,017,110	28,905,353	43,823,323	16,373,997	39,213,263	263,125,631
Total liabilities and stockholders' equity	150,061,670	29,843,146	24,289,509	6,334,106	1,262,292	51,334,908	263,125,631
Total interest rate sensitivity gap	(106,269,085)	61,173,964	4,615,844	37,489,217	15,111,705	(12,121,645)	-
Cumulative gap	(106,269,085)	(45,095,121)	(40,479,277)	(2,990,060)	12,121,645	-	-

(expressed in thousands of Jamaican dollars unless otherwise stated)

46. Financial risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

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

The Group

2008

	Immediately rate sensitive %	Within 3 months %	3 to 12 months %	1 to 5 years %	Over 5 years %	Weighted average %
ASSETS						
Cash resources	1.43	8.62	13.04	14.90	-	10.72
Investment securities [1]						
Available-for-sale	-	16.35	15.59	7.69	7.67	9.65
Held to maturity	-	15.90	16.58	14.89	17.00	15.94
Securities purchased under resale agreements	-	15.51	-	-	-	15.51
Pledged assets	-	15.83	15.37	8.64	8.96	14.10
Loans [2]	19.64	24.11	17.21	16.14	8.92	19.36
Capital management and government securities funds	-	8.42	14.18	16.17	8.25	10.02
LIABILITIES						
Deposits [3]	4.26	7.52	7.85	7.28	5.92	5.00
Securities sold under repurchase agreements	5.11	11.16	11.26	12.99	-	11.18
Promissory notes	5.87	7.98	14.08	9.00	10.00	6.69
Capital management and government securities funds	6.37	-	-	-	-	6.37
Policyholders' fund	9.66	11.00	11.09	-	-	10.27

2007

	Immediately rate sensitive %	Within 3 months %	3 to 12 months %	1 to 5 years %	Over 5 years %	Weighted average %
ASSETS						
Cash resources	4.14	8.18	9.57	13.57	-	8.33
Investment securities: [1]						
Available-for-sale	-	14.39	13.18	7.67	7.65	9.18
Held to maturity	-	14.12	14.74	13.57	14.43	14.21
Financial assets at fair value through profit and loss	9.00	-	-	-	9.24	9.17
Securities purchased under resale agreements	19.63	11.65	11.76	-	-	17.36
Pledged assets	13.85	14.05	10.17	9.35	8.58	12.29
Loans [2]	16.46	24.41	17.90	16.99	11.35	19.16
Capital management and government securities funds	8.43	8.85	15.94	11.22	7.85	9.67
LIABILITIES						
Deposits [3]	4.18	7.41	7.87	6.91	6.71	4.94
Securities sold under repurchase agreements	10.10	10.05	9.92	7.48	-	10.04
Promissory notes	-	5.74	10.22	10.91	9.73	6.37
Capital management and government securities funds	7.10	-	-	-	-	7.10
Policyholders' fund	9.35	11.00	10.25	-	-	9.82

(expressed in thousands of Jamaican dollars unless otherwise stated)

46. Financial risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

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.

Sensitivity analysis

The changes in the interest rates as noted below are based on recently observed market movements. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

	2008	2007
Sensitivity of market risk variable		
JMD Interest rates	Increase/decrease by 100bps	increase/decrease by 100bps
USD Interest rates	Increase/decrease by 250bps	increase/decrease by 100bps
	2008	2007
Effect on Profit and Loss	659,569	436,854
Effect on Shareholders Equity	1,214,727	880,138

Sensitivity to interest rate risk for SJLIC, our insurance subsidiary is considered in note 46 (e) under the DCAT scenarios.

(expressed in thousands of Jamaican dollars unless otherwise stated)

46. Financial risk management (continued)

(c) Market risk (continued)

(ii) Foreign Exchange risk

The Group takes on exposure to the 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 USD, CAD, GBP, and EUR. 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 summarizes the Group's exposure to foreign currency exchange risk:

	2008						
JMD Equivalent	JMD	USD	CAD	GBP	EUR	Other	Total
ASSETS							
Cash Resources	37,088,696	13,076,723	1,184,694	4,412,643	246,730	38,876	56,048,362
Investments	42,900,766	12,761,905	-	-	50,841	-	55,713,512
Financial assets at fair value through profit and loss	116,951	-	-	-	-	-	116,951
Govt Securities purchased under resale agreements	407,920	-	-	-	-	-	407,920
Pledged Assets	35,326,852	9,213,537	218	625	947,292	-	45,488,524
Loans	65,019,426	24,181,929	204,066	173,978	117,680	-	89,697,079
Capital Management and Government Securities Funds	3,036,596	9,793,640	142,453	243,855	-	-	13,216,544
Other Assets	15,095,313	2,953,933	511,177	11,496	1,029,625	(6,185)	19,595,359
	198,992,520	71,981,667	2,042,608	4,842,597	2,392,168	32,691	280,284,251
LIABILITIES							
Deposits	85,338,841	48,556,313	1,319,938	4,248,085	445,056	261	139,908,494
Securities sold under resale agreements	29,000,668	10,794,600	-	-	102,139	-	39,897,407
Capital Management and Government Securities Funds	4,615,715	9,028,970	247,324	878,900	220,613	-	14,991,522
Other Liabilities	7,361,681	5,807,925	(22,335)	(364,027)	2,353,699	32,438	15,169,381
Policyholder's Liabilities	30,561,418	-	-	-	-	-	30,561,418
	156,878,323	74,187,808	1,544,927	4,762,958	3,121,507	32,699	240,528,222
NET BALANCE SHEET FINANCIAL POSITION	42,114,197	(2,206,141)	497,681	79,639	(729,339)	(8)	39,756,029

(expressed in thousands of Jamaican dollars unless otherwise stated)

46. Financial risk management (continued)

(c) Market risk (continued)

(ii) Foreign exchange risk (continued)

JMD Equivalent	2007						
	JMD	USD	CAD	GBP	EUR	Other	Total
ASSETS							
Cash Resources	29,412,315	18,779,235	1,330,579	5,339,622	192,809	49,881	55,104,441
Investments	45,640,064	15,179,755	-	-	40,300	10,980	60,871,099
Financial assets at fair value through profit and loss	674,391	450,845	-	-	-	-	1,125,236
Government securities purchased under resale agreements	1,155,832	-	-	-	-	-	1,155,832
Pledged assets	25,901,343	8,763,667	-	-	-	-	34,665,010
Loans	54,851,564	21,121,942	286,916	268,998	132,304	4,843	76,666,567
Capital Management and Government Securities Fund	5,983,961	6,842,605	6,449	7,396	899,059	320,136	14,059,606
Other assets	17,012,908	616,814	(82,362)	363,246	1,566,333	901	19,477,840
	180,632,378	71,754,863	1,541,582	5,979,262	2,830,805	386,741	263,125,631
LIABILITIES							
Deposits	83,067,596	48,248,710	1,283,542	5,037,916	159,375	80,568	137,877,707
Securities sold under resale agreements	22,328,915	8,871,879	-	-	-	329,493	31,530,287
Capital Management and Government Securities Fund	4,717,370	8,275,390	156,287	758,365	152,194	-	14,059,606
Other liabilities	8,189,884	5,139,371	85,104	161,389	2,648,620	110,669	16,335,037
Policyholder's liabilities	27,014,768	-	-	-	-	-	27,014,768
	145,318,533	70,535,350	1,524,933	5,957,670	2,960,189	520,730	226,817,405
NET BALANCE SHEET FINANCIAL POSITION	35,313,845	1,219,513	16,649	21,592	(129,384)	(133,989)	36,308,226

The following significant exchange rates were applied during the period:

	Average Rate for the Period		Reporting Date Spot Rate	
	2008	2007	2008	2007
USD	71.8371	71.4473	76.1253	71.0493
CAD	69.5487	70.2689	61.6269	73.6303
GBP	137.8254	137.2707	121.9273	146.4254
EUR	106.8925	107.8125	96.7723	102.3971

(expressed in thousands of Jamaican dollars unless otherwise stated)

46. Financial risk management (continued)

(c) Market risk (continued)

(ii) Foreign exchange risk (continued)

Sensitivity to foreign exchange risk

A weakening of the JMD against the currencies indicated above at October 31, would have increased/(decreased) equity and profit and loss by the amounts shown below. This analysis is performed on the same basis as for 2007. The strengthening of the JMD against the same currencies at October 31 would have had the equal but opposite effect on the amounts shown, on the basis that all other variables remain constant.

Sensitivity to foreign exchange:

	2008	2007
USD	Increase/decrease by 7%	Increase/decrease by 7%
CAD	Increase/decrease by 25%	Increase/decrease by 25%
GBP	Increase/decrease by 20%	Increase/decrease by 20%
EUR	Increase/decrease by 20%	Increase/decrease by 20%

	2008	2007
Effect on profit and stockholders equity	273,025	214,144

(iii) Equity price risks

Equity price risk arises out of price fluctuations in equity prices. The risk arises out of holding positions in either individual stocks (idiosyncratic risk) or in the market as a whole (systemic risk). The goal is to earn dividend income and realise capital gains sufficient to offset the interest foregone in holding such long-term positions.

The Board sets limits on the level of exposure, and diversification is a key strategy employed to reduce the impact on the portfolio which may result from the non-performance of a specific class of assets. Given the potential volatility in the value of equities and the non-interest bearing characteristic of these instruments, the Group limits the amount invested in them.

At the reporting date the size of the Group's equity trading portfolio was:

	2008	2007
Financial assets at fair value through profit or loss	19,793	192,020
Available-for-sale	6,289	-

(expressed in thousands of Jamaican dollars unless otherwise stated)

46. Financial risk management (continued)

(c) Market risk (continued)

(iii) Equity price risks (continued)

Sensitivity analysis

Maximum changes observed in running 10 day periods during the financial year for the equity portfolio as at October 31, 2008 would have increased or decreased equity and the profit and loss by the amounts shown below:

This analysis is performed on the same basis as for 2007. Prices used are the bid prices for the equities. A 10 day period is used to account for the liquidity of the local market equities.

	Profit and loss		Equity	
	Maximum increase	Maximum decrease	Maximum increase	Maximum decrease
31 October 2008	1,838	4,264	5,907	6,769
31 October 2007	26,614	14,958	30,602	14,490

(d) Liquidity risk

The Group is exposed to daily calls on its available cash resources from overnight and maturing deposits, loan drawdowns 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 matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for companies 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. Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash and central bank balances; government and corporate bonds, treasury bills and loans.

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.

(expressed in thousands of Jamaican dollars unless otherwise stated)

46. Financial risk management (continued)

(d) Liquidity risk (continued)

Financial liabilities and cash flow

The tables below present the undiscounted cash flows (both interest and principal cash flows) to settle financial liabilities based on contractual repayment obligations. The Group expects that many policyholders/depositors/customers will not request repayment on the earliest date the Group could be required to pay. The expected maturity dates of financial assets and liabilities are based on estimates made by management as determined by retention history.

	The Group					
	2008					
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Total
Financial liabilities						
Deposits	122,891,644	8,510,545	6,252,325	7,107,833	-	144,762,347
Promissory Notes	324,730	16,343	-	-	-	341,073
Securities sold under repurchase agreement	32,195,823	13,063,603	18,965	-	-	45,278,391
Capital management and Government securities funds	14,991,522	-	-	-	-	14,991,522
Policyholders fund	20,219,526	12,904,742	-	-	-	33,124,268
Other liabilities	6,177,147	1,163,993	2,036,907	1,470,679	3,940,344	14,789,070
Total Liabilities (contractual maturity dates)	196,800,392	35,659,226	8,308,197	8,578,512	3,940,344	253,286,671

	2007					
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Total
Financial liabilities						
Deposits	120,774,680	8,283,504	10,183,563	1,289,549	-	140,531,296
Promissory notes	530,825	26,184	-	-	-	557,009
Securities sold under repurchase agreement	24,089,677	8,340,129	30,793	-	-	32,460,599
Capital management and Government securities funds	14,059,606	-	-	-	-	14,059,606
Policyholder's Fund	14,513,541	13,922,215	-	-	-	28,435,756
Other liabilities	5,318,783	2,346,103	3,257,604	1,321,436	3,483,929	15,727,855
Total Liabilities (contractual maturity dates)	179,287,112	32,918,135	13,471,960	2,610,985	3,483,929	231,772,121

(expressed in thousands of Jamaican dollars unless otherwise stated)

46. Financial risk management (continued)

(d) Liquidity risk (continued)

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

	The Group					
	2008					
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Total
Cash resources	30,850,409	25,085,446	26,625	-	85,882	56,048,362
Securities purchased under resale agreements	407,920	-	-	-	-	407,920
Loans	23,779,634	10,705,867	34,089,549	21,085,029	37,000	89,697,079
Capital management and government securities funds	2,942,262	1,257,706	2,115,358	6,653,802	247,416	13,216,544
Investment securities						
- Held to maturity	2,332,673	3,861,675	21,341,360	8,618,591	-	36,154,299
- Available-for-sale	635,900	1,060,260	10,958,576	6,883,187	21,290	19,559,213
- Financial assets at fair value through profit and loss	-	-	-	-	116,951	116,951
Pledged assets	12,434,458	9,550,021	8,977,676	14,526,369	-	45,488,524
Other assets	3,836,641	994,123	1,971,788	1,470,679	11,322,128	19,595,359
Total assets	77,219,897	52,515,098	79,480,932	59,237,657	11,830,667	280,284,251
Deposits	122,476,242	7,888,959	3,430,408	6,112,885	-	139,908,494
Securities sold under repurchase agreements	30,456,054	9,433,899	7,454	-	-	39,897,407
Other liabilities	6,177,147	1,163,993	2,036,907	1,470,679	3,940,344	14,789,070
Promissory notes	324,255	14,329	9,135	32,592	-	380,311
Policyholders' fund	18,953,027	11,608,391	-	-	-	30,561,418
Capital management and government securities funds	14,991,522	-	-	-	-	14,991,522
Stockholders' equity	-	-	-	-	39,756,029	39,756,029
Total liabilities and stockholders' equity	193,378,247	30,109,571	5,483,904	7,616,156	43,696,373	280,284,251
Total liquidity gap	(116,158,350)	22,405,527	73,997,028	51,621,501	(31,865,706)	-
Cumulative gap	(116,158,350)	(93,752,823)	(19,755,795)	31,865,706	-	-
	2007					
Total assets	85,534,527	31,355,072	86,125,035	46,375,133	13,735,864	263,125,631
Total liabilities and stockholders' equity	190,947,046	16,018,231	13,011,054	2,583,728	40,565,572	263,125,631
Total liquidity gap	(105,412,519)	15,336,841	73,113,981	43,791,405	(26,829,708)	-
Cumulative gap	(105,412,519)	(90,075,678)	(16,961,697)	26,829,708	-	-

(expressed in thousands of Jamaican dollars unless otherwise stated)

46. Financial risk management (continued)

(e) Insurance risk

The Group issues long term 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 company 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 is 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.

Two key matters affecting insurance risk are discussed below:

(i) Long-term insurance contracts

Long-term contracts are typically for a minimum period of 5 years and a maximum period which is determined by the remaining life of the insured. In addition to the estimated benefits which may be payable under the contract, the insurer has to assess the cash flows which may be attributable to the contract.

The Group has developed its insurance underwriting strategy and reinsurance arrangements 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. The Group's underwriting strategy includes the use of a medical questionnaire with benefits limited to reflect the health condition of applications and retention limits on any single life insured.

(1) Frequency and severity of claims

For contracts where death is the insured risk the most significant factors that could increase the overall frequency and severity of claims are epidemics and wide-ranging lifestyle changes such as in eating, smoking and exercise habits resulting in earlier or more claims than expected.

The Group charges for mortality risks on a monthly basis for all insurance contracts and has the right to alter these charges to a certain extent based on mortality experience and hence minimize its exposure to mortality risk. Delays in implementing increases in charges and market or regulatory restraints over the extent of the increases may reduce its mitigating effect.

The tables below indicate the concentration of insured benefits across bands of insured benefits per individual and group life assured. The benefit insured figures are shown gross and net of reinsurance.

	Total benefits assured			
	Before and After Reinsurance 2008	%	Before and After Reinsurance 2007	%
Individual Life Benefits assured per life				
0 to 250,000	4,811,064	21	5,447,068	27
250,001 to 500,000	2,059,880	9	1,836,203	9
500,001 to 750,000	3,277,803	14	2,557,767	13
750,001 to 1,000,000	1,889,547	8	1,372,858	7
1,000,001 to 1,500,000	4,432,037	19	4,082,769	21
1,500,001 to 2,000,000	2,224,426	10	824,015	4
Over 2,000,000	4,681,826	19	3,736,759	19
Total	23,376,583	100	19,857,439	100

(expressed in thousands of Jamaican dollars unless otherwise stated)

46. Financial risk management (continued)

(e) Insurance risk (continued)

(i) Long-term insurance contracts (continued)

(1) Frequency and severity of claims (continued)

	2008 Total benefits assured			
	Before Reinsurance	%	After Reinsurance	%
Group Life Benefits assured per life				
0 to 250,000	3,799,558	11	3,799,558	11
250,001 to 500,000	12,306,135	35	12,306,135	35
500,001 to 750,000	2,323,808	7	2,323,808	7
750,001 to 1,000,000	1,497,586	4	1,497,586	4
1,000,001 to 1,500,000	3,048,623	9	3,048,623	9
1,500,001 to 2,000,000	2,220,599	6	2,220,599	6
Over 2,000,000	10,145,547	28	10,046,227	28
Total	35,341,856	100	35,242,536	100

	2007 Total benefits assured			
	Before Reinsurance	%	After Reinsurance	%
Group Life Benefits assured per life				
0 to 250,000	646,388	4	646,388	4
250,001 to 500,000	3,825,247	23	3,825,247	23
500,001 to 750,000	1,498,890	9	1,498,890	9
750,001 to 1,000,000	1,383,479	8	1,383,479	8
1,000,001 to 1,500,000	1,887,128	11	1,887,128	11
1,500,001 to 2,000,000	1,550,413	9	1,550,413	9
Over 2,000,000	5,908,316	36	5,781,889	36
Total	16,699,861	100	16,573,434	100

Insurance risk for contracts disclosed in this note is also affected by the policyholders' right to pay reduced or no future premiums and to terminate the contract completely. As a result, the amount of insurance risk is also subject to the policyholders' behaviour. The Group has factored the impact of policyholders' behaviour into the assumptions used to measure these liabilities.

46. Financial risk management (continued)

(e) Insurance risk (continued)

(i) Long term insurance contracts (continued)

(2) Sources of uncertainty in the estimation of future benefit payments and premiums

Uncertainty in the estimation of future benefit payments and premium receipts for long term insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality and the variability in policyholder behaviour.

Estimates are made as to the expected number of deaths for each of the years in which the company 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.

(3) Process used in deriving assumptions

The assumptions for long term insurance contracts and the process used in deriving these assumptions have remained substantially unchanged since the previous year.

For long-term contracts with fixed and guaranteed terms, estimates are made in two stages. Estimates of future deaths, voluntary terminations and partial withdrawal of policy funds, investment returns, crediting rates, inflation and administration expenses are made and form the assumptions used for calculating the liabilities at the inception of the contract. A margin for risk and uncertainty is added to these assumptions.

(4) Process used in deriving assumptions

New estimates are made each year based on updated Group experience studies and economic forecasts. The valuation assumptions are altered to reflect these revised best estimates. The margins for risk and uncertainty may also be altered if the underlying level of uncertainty in the updated assumptions has changed. The financial impact of revisions to the valuation assumption or the related margins is recognised in the accounting period in which the change is made.

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.

See note 12 (c) for detailed policy assumptions.

(ii) Reinsurance Risk

Reinsurance risk is the risk that a reinsurer will default and not honour obligations arising from claims. To limit its exposure of potential loss on an insurance policy, the

46. Financial risk management (continued)

(e) Insurance risk (continued)

(ii) Reinsurance Risk (continued)

Group cedes certain levels of risk to a reinsurer. Reinsurance ceded does not discharge the Group's liability as primary issuer. The Group also limits the probable loss in the event of a single catastrophic occurrence by reinsuring this type of risk with reinsurers. The Group manages reinsurance risk by selecting reinsurers which have established capability to meet their contractual obligations and which generally have favourable credit ratings as determined by a reputable rating agency.

Retention limits represent the level of risk retained by the insurer. Coverage in excess of these limits is ceded to reinsurers up to the treaty limit. The retention programs used by the Group are summarized below:

Type of insurance contract	**Retention**
Individual, group and creditor life catastrophe	maximum retention of $420 for a single event; treaty limits apply
Group creditor life contracts	maximum retention of $7,500 per insured

(1) Sensitivity analysis of actuarial liabilities and capital adequacy

The determination of actuarial liabilities is sensitive to a number of assumptions, and changes in these assumptions could have a significant effect on the valuation results. These factors are discussed in detail in note 12(c).

In summary, the valuation of actuarial liabilities of life insurance contracts is sensitive to:
- the economic scenario used in the Policy Premium Method (PPM)
- the investments allocated to back the liabilities
- the underlying assumptions used, and
- the margins for adverse deviations.

Under the PPM methodology, the Appointed Actuary is required to test the actuarial liability under several economic scenarios. The tests have been done and the results of the valuation provide adequately for liabilities derived from the worst of these different scenarios.

The assumption for future investment yields has a significant impact on actuarial liabilities. The different scenarios tested under Policy Premium Method (PPM) reflect the impact of different yields.

The other assumptions which are most sensitive in determining the actuarial liabilities of the Group, are in descending order of impact:

- operating expenses and taxes
- lapse
- mortality and morbidity

(expressed in thousands of Jamaican dollars unless otherwise stated)

46. Financial risk management (continued)

(e) Insurance risk (continued)

(ii) Reinsurance Risk (continued)

(1) Sensitivity analysis of actuarial liabilities and capital adequacy (continued)

The following table presents the sensitivity of the liabilities to a change in assumptions:

	2008	2007
Interest rates decrease by 1%	38,912	21,308
Interest rates increase by 1%	(85,107)	(73,054)
Mortality increases by 10%	100,434	79,428
Mortality decreases by 10%	(103,007)	(81,446)
Expenses increase by 10%	106,417	89,906
Expenses decrease by 10%	(105,102)	(88,752)
Lapses and withdrawals increase by 10%	111,865	89,115
Lapses and withdrawals decrease by 10%	(124,206)	(99,444)

(2) Dynamic capital adequacy testing (DCAT)

DCAT is a technique used by the Group to assess the adequacy of its financial position and financial condition in the light of different future economic and policy experience scenarios. DCAT assesses the impact of the Group's financial position and condition over the next 5 years under specific scenarios as required by the Insurance Regulations.

The financial position of the Group is reflected by the amount of assets, liabilities and equity in the balance sheet at a given date.

The financial condition of the Group at a given date is its prospective ability to meet its future obligations, especially obligations to policyholders, those to whom it owes benefits and to its shareholders.

The purpose of the DCAT is:

- to develop an understanding of the sensitivity of the total equity of the Group and future financial condition to changes in various experience factors and management policies
- to alert management to material, plausible and imminent threats to the Group's solvency
- and to describe possible courses of action to address these threats.

46. Financial risk management (continued)

(e) Insurance risk (continued)

(ii) Reinsurance Risk (continued)

(2) Dynamic capital adequacy testing (DCAT) (continued)

A full DCAT report was completed for the Group during 2008, and the results were as follows:

- Mortality risks
  To test this scenario, existing mortality rates were increased by 3% starting in 2008, for five years. The accumulated deterioration would be 15% by the end of the five-year DCAT period. The results for this scenario show relative insensitivity to the change in assumptions.

- Low lapse rates
  The business was tested by applying a factor of 0.5 to existing lapse and surrender rates. Overall this scenario produces lower reserves and a lower Minimum Continuing Capital and Surplus Requirement (MCCSR) ratio over the 5-year period.

- Higher lapse rates
  The business was tested by doubling existing lapses and surrenders. Overall this scenario produces adverse results for the next five years.

- Expense risks
  Higher unit maintenance expenses were tested by setting the annual inflation at 5% greater than current expenses, starting in 2008, for five years. Overall, this scenario produces a lower MCCSR ratio over the 5-year period.

- Low interest rate
  An assumed decrease in the portfolio rate of 1% per year over 5 years was tested in this scenario. Overall, this scenario produces adverse results for the five years.

- High sales growth
  New business was projected to grow at 10% higher than existing sales per year over five years. The increased sales result in increased profits but will produce net higher liabilities over the next five years.

- Flat sales
  This scenario assumed sales were 10% less than existing sales starting in 2008 and staying at that level for 5 years. Overall this scenario produces adverse results for the next five years.

(expressed in thousands of Jamaican dollars unless otherwise stated)

46. Financial risk management (continued)

(e) Insurance risk (continued)

(ii) Reinsurance Risk (continued)

(2) Dynamic capital adequacy testing (DCAT) (continued)

The DCAT conducted has not tested any correlation that may exist between assumptions. The following table represents the estimated sensitivity of each of the above scenarios over the next five years to net actuarial liabilities at the end of the projection period which is 5 years after the relevant balance sheet date.

	The Group		
		2008	2007
Variable	**Change in Variable**	**Change in liability**	**Change in Liability**
Mortality risks	+3% for 5 years	231,892	181,236
Low lapse rates	x0.5	3,702,116	3,425,632
Higher lapse rates	x2	(16,272,514)	(14,710,636)
Expense risks	+3% for 5 years	594,660	406,740
Low interest rate	+1% for 5 years	(485,940)	(717,560)
High sales growth	10% for 5 years	5,580,680	5,211,036
Flat sales	x0	(2,666,060)	(3,091,108)

47. 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 arms 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 for financial instruments for which 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 the 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 instruments classified as available-for-sale and held-to-maturity: measured fair value is estimated 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) financial instruments classified as at fair value through the statement of revenue and expenses: fair value is estimated 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. Fair value is equal to the carrying amount of these investments;

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

(iv) the fair value of demand deposits and savings accounts with no specific maturity is considered to be the amount payable on demand at the balance sheet date; the fair value of fixed-term interest-bearing deposits is based on discounted cash flows using interest rates for new deposits.

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

(vi) 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.

(vii) The fair values of quoted equity investments are based on quoted market bid prices. Equity securities for which fair values cannot be measured reliably are recognized at cost less impairment.

(expressed in thousands of Jamaican dollars unless otherwise stated)

47. Fair value of financial instruments (continued)

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

	The Group			
	Carrying Value 2008	Fair Value 2008	Carrying Value 2007	Fair Value 2007
Financial assets				
Loans	89,697,079	89,020,389	76,686,567	76,433,089
Investment securities:				
Held-to-maturity	36,154,299	36,590,597	39,225,336	38,816,535
Financial liability				
Deposits	139,908,494	139,944,309	137,877,707	137,888,106

48. Capital Risk Management

Capital risk is the risk that the Group fails to comply with mandated regulatory requirements, resulting in a breach of its minimum capital ratios and the possible suspension or loss of its licences.

Regulators are primarily interested in protecting the rights of the depositors and policyholders and monitor them closely to ensure that the Group is satisfactorily managing affairs for the benefit of depositors and policyholders. At the same time, the regulators are also interested in ensuring that the Group maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters.

The Group manages its capital resources according to the following objectives:

- To comply with the capital requirements established by banking, insurance and other financial intermediaries regulatory authority;
- To safeguard its ability to continue as a going concern, and meet future obligations to depositors, policyholders and stockholders
- To provide adequate returns to stockholders by pricing investment, insurance and other contracts commensurately with the level of risk; and
- To maintain a strong capital base to support the future development of the Group's operations.

Individual banking and insurance subsidiaries are directly regulated by their respective regulator, who sets and monitors their capital adequacy requirements. Required capital adequacy information is filed with the regulators at least on an annual basis.

Banking and investment management

Capital adequacy is reviewed by executive management, the audit committee and the Board of Directors. Based on the guidelines developed by the Bank of Jamaica and the Financial Services Commission, each regulated entity is required to:

- Hold the minimum level of regulatory capital; and
- Maintain a minimum ratio of total regulatory capital to risk weighted assets.

Regulatory capital is divided into two tiers:

1. Tier 1 capital comprises share capital, reserve fund and reserves created by appropriations of retained earnings. The book value of goodwill is deducted in arriving at Tier 1 capital; and
2. Tier 2 capital comprises qualifying subordinated loan capital, collective impairment allowances and revaluation surplus on fixed assets

Investment in subsidiaries are deducted from Tier 1 and Tier 2 capital to arrive at the regulatory capital.

The risk weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

(expressed in thousands of Jamaican dollars unless otherwise stated)

48. Capital Risk Management (continued)

Banking and investment management (continued)

The table below summarises the composition of regulatory capital and the ratios for each subsidiary based on the similarity of the regulator. During the year, the individual entities complied with all of the externally imposed capital requirements to which they are subject.

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	Regulated by the BOJ [1]		Regulated by the FSC [2]	
	2008	2007	2008	2007
Tier 1 Capital	15,546,038	12,711,759	5,139,158	4,820,130
Tier 2 Capital	540,626	551,026	26,591	24,615
	16,086,664	13,262,785	5,165,749	4,844,745
Less prescribed adjustment	(242,093)	(254,738)	(494,198)	(412,770)
Total regulatory capital	15,844,571	13,008,047	4,671,551	4,431,975
Risk weighted assets				
On-balance sheet	84,973,397	74,198,016	2,617,387	4,797,534
Off-balance sheet	94,157	188,860	-	-
Foreign exchange exposure	903,034	2,736,349	230,790	102,110
Total risk weighted assets	85,970,588	77,123,225	2,848,177	4,899,644
Actual regulatory capital to risk weighted assets	18.4%	16.9%	164.0%	90.5%
Regulatory requirement	10.0%	10.0%	10.0%	10.0%

[1] This relates to The Bank of Nova Scotia Jamaica Limited, Scotia Jamaica Building Society, and Scotia DBG Merchant Bank

[2] This relates to Scotia DBG Investments Limited.

Life insurance business

Capital adequacy is calculated by the Appointed Actuary and reviewed by executive management, the audit committee and the Board of Directors. To assist in evaluating the current business and strategic opportunities, a risk-based approach is one of the core measures of financial performance. The risk-based assessment measure which has been adopted is the MCCSR standard as defined by the Financial Services Commission and required by the Insurance Regulations 2001. Under Jamaican regulations, the minimum standard recommended for companies is an MCCSR of 120% in 2006 and 2007, and up to 150% in 2010 and later. The MCCSR for the insurance subsidiary as of September 30, 2008 and 2007 is set out below:

	2008	2007
Regulatory capital held	7,664,426	5,573,780
Minimum regulatory capital	977,882	843,995
MCCSR Ratio	784%	660%

(expressed in thousands of Jamaican dollars unless otherwise stated)

49. Commitments

		The Group	
		2008	2007
(a)	Capital expenditure: Authorised and contracted	406,465	69,099
(b)	Commitments to extend credit: Originated term to maturity of more than one year	11,005,385	19,409,091

(c) Operating lease commitments:

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

	The Group	
	2008	2007
Not later than one year	125,714	174,315
Later than one year and not later than five years	499,342	899,488
Later than five years	3,354,218	2,669,456
	3,979,274	3,743,259

50. Reclassification of financial assets

Consequent on the melt-down in the financial sector worldwide and the demise of certain broker/dealers which were significantly involved in the marketing of Global Bonds issued by The Government of Jamaica (GOJ), one of the company's subsidiaries, Scotia DBG Investments Limited, reclassified certain investments that are included in pledged and Capital Management and Government Securities Fund assets from available-for-sale to loans and receivables in accordance with paragraph 50E of IAS 39 [see note 2(a)(i)], as follows:

	The Group			
	2008		2007	
	Carrying value	Fair value	Carrying value	Fair value
Securities:				
US$ GOJ Global Bonds	11,907,367	10,184,253	9,955,511	9,955,511
EURO GOJ Global Bonds	927,539	825,893	984,966	984,966

(a) Fair value gains/(losses) exclusive of deferred taxation of ($266,886) (2007: $847,350) were recognized in equity in relation to the above investments reclassified during the year, using the fair value as at September 30, 2008.

(b) Fair value losses of $2,091,655, exclusive of deferred taxation, would have been included in equity at the end of the year had the investments not been reclassified. This amount was estimated on the basis of the mid-price of the securities as at October 31, 2008. Management does not believe that this price is necessarily indicative of the amount that would have been valued if an active market for the securities actually existed at that date.

(c) The weighted average effective interest rate of the investments at the date of reclassification was 8.42%. The undiscounted cash flows to be recovered from the investment reclassified is $21,680,044.

51. Fiduciary activities

The Group provides custody, trustee, corporate administration, investment management and advisory services to third parties; this involves 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, there were investment custody accounts amounting to approximately $48,461,151 (2007: $34,820,967) for the Group.

(expressed in thousands of Jamaican dollars unless otherwise stated)

52. Related party transactions and balances

The Group is controlled by The Bank of Nova Scotia, a bank incorporated and domiciled in Canada, which owns 71.78% of the ordinary stock units. The remaining 28.22% of the stock units is widely held.

Parties are considered to be related if one party has the ability to control or exercise significant influence over, or be controlled and significantly influenced by, the other party. 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.

There were no related party transactions with the parent company other than the payment of dividends, management fees, guarantee fees, and the amount due to parent company (Note 35).

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

Pursuant to Section 13(1), (d) and (i) of the Banking Act, 1992, connected companies include companies that have directors in common with the Company and/or 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.

The volumes of related party transactions, outstanding balances at the year end, and related expenses and income for the year are as follows:

	The Group					
	Parent	Fellow subsidiaries	Directors and Key Management Personnel	Connected companies	Total 2008	Total 2007
Loans						
Loans outstanding at beginning of year	-	-	285,057	6,507,826	6,792,883	6,149,471
Acquisitions	-	-	-	-	-	13,878
Net loans issued/(repaid) during the year	-	-	(10,210)	2,859,240	2,849,030	629,534
Loans outstanding at end of year	-	-	274,847	9,367,066	9,641,913	6,792,883
Interest income earned	-	-	19,200	1,115,045	1,134,245	734,993
Average repayment term (Years)	-	-	8.10	4.19	4.30	5.17
Average interest rate (%)	-	-	8.19	9.75	9.71	12.63
Deposits						
Deposits outstanding at beginning of year	4,795,682	-	132,913	4,998,870	9,928,465	10,045,710
Net deposits received/(repaid) during the year	1,972,120	-	(12,693)	(1,884,164)	75,263	(117,245)
Deposits outstanding at end of year	6,768,802	-	120,220	3,114,706	10,003,728	9,928,465
Interest expense on deposits	291,530	-	3,849	118,611	413,990	531,396
Other						
Fees and commission earned	-	-	5,466	94,317	99,783	149,134
Insurance products	-	-	22,938	-	22,938	22,343
Securities sold under repurchase agreements	-	-	(160,321)	-	(160,321)	(418,317)
Interest paid on repurchase agreements	-	-	(9,723)	-	(9,723)	(19,851)
Other investment	-	-	(370,310)	-	(370,310)	-
Interest earned/paid on other investments	-	-	(23,538)	-	(23,538)	-
Due from banks and other financial institutions	103,016	1,546,312	-	-	1,649,328	3,814,402
Due to banks and other financial institutions	8,231	-	-	-	8,231	1,729
Interest earned from banks and other financial institutions	1,345	91,582	-	-	92,927	148,254
Management fees paid to parent company	391,195	-	-	-	391,195	340,590
Guarantee fees paid to parent company	7,905	-	-	-	7,905	7,661

	The Group	
	2008	2007
Key management compensation		
Salaries and other short term benefits	475,652	313,741
Post-employment benefits	621,004	519,123

(expressed in thousands of Jamaican dollars unless otherwise stated)

53. Litigation and contingent liabilities

(a) The Group is 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 the financial position and results of operations.

(b) On April 7, 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.

54. Dividends

(a) Paid

	The Group		The Company	
	2008	2007	2008	2007
The Bank of Nova Scotia Jamaica Limited				
Paid to stockholders:				
In respect of 2006	-	848,897	-	-
In respect of 2007	-	848,900	-	-
Scotia Group Jamaica Limited				
Paid to stockholders:				
In respect of 2007	933,472	1,866,944	933,472	1,866,944
In respect of 2008	2,987,110	-	2,987,110	-
	3,920,582	3,564,741	3,920,582	1,866,944
Paid to minority interest in a subsidiary	101,671	94,383	-	-
	4,022,253	3,659,124	3,920,582	1,866,944

(b) Proposed

At the Board of Directors meeting on November 27, 2008, a dividend in respect of 2008 of $0.34 per share (2007: $0.30 per share) amounting to a total of $1,057,935 (2007: $933,472) was proposed. The financial statements for the year ended October 31, 2008 do not reflect this resolution, which will be accounted for in stockholders' equity as an appropriation of retained profits in the year ending October 31, 2009.

(expressed in thousands of Jamaican dollars unless otherwise stated)

55. Employee Share Ownership Plan

(i) Scotia Group Jamaica Limited

Scotia Group Jamaica Limited has an Employee Share Ownership Plan ("ESOP" or "Plan"), the purpose of which is to encourage eligible employees of The Bank of Nova Scotia Jamaica Limited to steadily increase their ownership of the company's shares. Participation in the Plan is voluntary; any employee who has completed at least one year's service with any Group entity is eligible to participate.

The operation of the ESOP is facilitated by a Trust. The employer and employees make contributions to the trust fund and these contributions are used to fund the acquisition of shares for the employees. Employees' contributions are determined by reference to the length of their employment and their basic annual remuneration. The employer contributions are as prescribed by a formula in the rules of the Plan.

The contributions are used by the trustees to acquire the company's shares, at market value. The shares purchased with the employees contributions vest immediately, although they are subject to the restriction that they may not be sold within two years of acquisition. Out of shares purchased with the company's contributions, allocations are made to participating employees, but are held by the trust for a two-year period, at the end of which they vest with the employees; if an employee leaves the employer within the two-year period, the right to these shares are forfeited; such shares then become available to be granted by the employer to other participants in accordance with the formula referred to previously.

The amount contributed by the Group to employee share purchase during the year, included in employee compensation amounted to $35,296 (2007: $37,916).

At the balance sheet date, the shares acquired with the employer's contributions and held in trust pending allocation to employees and/or vesting were:

	2008	2007
Number of shares	2,213,073	2,634,885
Fair value of shares	44,759	55,978

55. Employee Share Ownership Plan (continued)

(ii) Scotia DBG Investments Limited

Scotia DBG Investment Limited has an Employee Share Ownership Plan ("ESOP"), the purpose of which is to encourage eligible employees of SDBG and it's subsidiaries to steadily increase their ownership of the company's shares. Participation in the Plan is voluntary; any employee who has completed at least one year's service with any entity is eligible to participate.

The operation of the ESOP is facilitated by a Trust. Grants are issued by the company to the Plan to facilitate the issue of loans to employees to acquire the company's shares, at a discounted value. Allocations are made to participating employees on repayment of the outstanding loans. Allocated shares must be held for a two-year period, at the end of which they vest with the employees.

At the balance sheet date, the shares acquired with the employer's contributions and held in trust pending allocation to employees and/or vesting were:

	2008	2007
Number of shares	2,829,481	3,855,191
Fair value of shares	68,615	82,299

56. Liquidation of subsidiary

Effective October 31, 2008, the 100% owned subsidiary, Scotia Jamaica General Insurance Brokers Limited, was liquidated. The details of the assets and liabilities liquidated and the proceeds on liquidation were as follows:

	The Group 2008
Bank balance	4,271
Government securities purchased under resale agreement	17,758
Net assets	22,029
Proceeds from liquidation	22,029

AUDITED FINANCIAL STATEMENTS

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

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INDEPENDENT AUDITORS' REPORT

To the Members of
THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Report on the Financial Statements

We have audited the financial statements of The Bank of Nova Scotia Jamaica Limited ("the Bank") and the consolidated financial statements of the Bank and its subsidiaries ("the Group") set out on pages 135 to 198, which comprise the Group's and Bank's balance sheets as at October 31, 2008, the Group's and Bank's statements of 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 and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the Jamaican Companies Act. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and consistently applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility
Our responsibility is to express an opinion on the 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 as to whether or not 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 auditors' 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 auditors consider internal controls relevant to the entity's preparation and fair presentation of the financial statements 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 controls. 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 positions of the Group and the Bank as at October 31, 2008, and of the Group's and the Bank's financial performance, changes in equity and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other matters 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 maintained, proper returns have been received for branches not visited by us and the financial statements are in agreement with the accounting records and returns, and give the information required by the Jamaican Companies Act in the manner required.

KPMG

November 27, 2008

Statement of Consolidated Revenue and Expenses

Year ended 31 October 2008

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2008	2007
Net interest income and other revenue			
Interest from loans and deposits with banks		18,293,646	14,340,965
Interest from securities		7,563,615	9,235,377
Total interest income	6	25,857,261	23,576,342
Interest expense	6	(5,591,074)	(6,809,834)
Net interest income		20,266,187	16,766,508
Impairment losses on loans	23	(756,220)	(522,447)
Net interest income after impairment losses on loans		19,509,967	16,244,061
Fee and commission income	7	4,584,301	3,975,316
Fee and commission expense	7	(1,061,258)	(997,260)
Net fee and commission income		3,523,043	2,978,056
Net foreign exchange trading income	8	966,712	951,002
Net insurance premium income	9	754,538	617,212
Other revenue	10	461,369	186,949
		1,215,907	804,161
		25,215,629	20,977,280
Expenses			
Salaries, pension contributions and other staff benefits	11	5,811,506	5,089,401
Property expenses, including depreciation		1,969,718	1,406,070
Change in policyholders'benefits and reserves	13	2,838,416	2,452,192
Other operating expenses		2,779,523	2,417,797
	13	13,399,163	11,365,460
Profit before taxation	14	11,816,466	9,611,820
Taxation	15	(3,196,882)	(2,761,203)
Profit for the year		8,619,584	6,850,617

Consolidated Balance Sheet

31 October 2008

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2008	2007
ASSETS			
Cash resources			
Notes and coins of, deposit with, and money at call at, Bank of Jamaica	17	40,082,448	32,530,836
Government and bank notes other than Jamaica		343,493	407,307
Amounts due from other banks	18	13,339,371	17,617,587
Accounts with parent and fellow subsidiaries	19	1,655,080	3,859,376
		55,420,392	54,415,106
Government securities purchased under resale agreements	21	523,392	1,483,598
Pledged assets	45	1,301,453	1,340,985
Loans, after allowance for impairment losses	22	86,152,384	73,105,673
Investment securities	24		
Available-for-sale		18,939,274	19,498,089
Held-to-maturity		36,154,299	39,225,336
		55,093,573	58,723,425
Other assets			
Customers' liabilities under acceptances, guarantees and letters of credit		6,228,186	7,354,754
Taxation recoverable		892,451	1,252,511
Deferred taxation	33	178	-
Sundry assets	25	639,162	137,696
Property, plant and equipment	26	2,807,769	2,553,841
Retirement benefit asset	27	5,402,224	4,839,913
		15,969,970	16,138,715
		214,461,164	205,207,502

Consolidated Balance Sheet (continued)

31 October 2008

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2008	2007
LIABILITIES			
Deposits			
Deposits by the public	28	126,917,903	127,874,460
Amounts due to other banks and financial institutions	29	2,386,319	2,061,055
Amounts due to ultimate parent company	30	7,003,706	4,857,885
Amounts due to fellow subsidiaries	31	2,302,225	417,007
		138,610,153	135,210,407
Other liabilities			
Cheques and other instruments in transit		2,524,687	3,114,974
Acceptances, guarantees and letters of credit		6,228,186	7,354,754
Securities sold under repurchase agreements		-	236,512
Redeemable preference shares	34	100,000	100,000
Other liabilities	32	1,142,071	1,088,523
Taxation payable		1,078,951	795,129
Deferred tax liabilities	33	1,567,918	1,767,044
Retirement benefit obligations	27	930,576	723,066
		13,572,389	15,180,002
Policyholders' fund	12	30,561,418	27,014,768
STOCKHOLDERS' EQUITY			
Share capital	34	2,927,232	2,927,232
Reserve fund	35	3,158,481	3,158,481
Retained earnings reserve	36	8,702,091	5,992,902
Cumulative remeasurement result from available-for-sale financial assets	37	(1,023,193)	110,289
Capital reserve	38	9,383	1,659,189
Loan loss reserve	39	1,295,232	1,017,136
Other reserve	40	2,928	16,751
Unappropriated profits		16,645,050	12,920,345
		31,717,204	27,802,325
		214,461,164	205,207,502

The financial statements on pages 135 to 198 were approved for issue by the Board of Directors on November 27, 2008 and signed on its behalf by:

Robert H. Pitfield, Director

Bruce F. Bowen, Director

Stacie-Ann S. Wright, Director

Keri-Gaye Brown, Secretary

Statement of Changes in Consolidated Stockholders' Equity

Year ended 31 October 2008

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	Share capital	Reserve fund	Retained earnings reserve	Capital reserves	Cumulative remeasurement result from available for sale financial assets	Loan loss reserve	Other reserve	Unappropriated profits	Total
Balances at October 31, 2006		2,927,232	3,158,481	5,242,902	-	275,107	806,524	26,714	14,952,595	27,389,555
Unrealised loss on available-for-sale investments, net of taxes		-	-	-	-	(133,024)	-	-	-	(133,024)*
Realised gains on available-for-sale securities transferred to statement of revenue and expenses			-	-	-	-	(32,890)	-	-	(32,890)
Net profit for the year		-	-	-	-	-	-	-	6,850,617	6,850,617*
Transfer of reserve relating to sale of subsidiary		-	-	-	-	1,096	(7,514)	(9,963)	16,381	-
Loan loss reserve transfer		-	-	-	-	-	218,126	-	(218,126)	-
Transfer of gain relating to sale of subsidiary					1,659,189				(1,659,189)	-
Issue of preference shares		-	-	-		-	-	-	(100,000)	(100,000)
Transfer to retained earnings reserve		-	-	750,000	-	-	-	-	(750,000)	-
Dividends paid	48	-	-	-	-	-	-	-	(6,171,933)	(6,171,933)
Movement for the year		-	-	750,000	1,659,189	(164,818)	210,612	(9,963)	(2,032,250)	412,770
Balances at October 31, 2007		2,927,232	3,158,481	5,992,902	1,659,189	110,289	1,017,136	16,751	12,920,345	27,802,325
Unrealised loss on available-for-sale investments, net of taxes		-	-	-	-	(1,127,978)	-	-	-	(1,127,978)*
Realised gains on available-for-sale securities transferred to statement of revenue and expenses			-	-	-	-	(5,504)	-	-	(5,504)
Net profit for the year		-	-	-	-	-	-	-	8,619,584	8,619,584*
Transfer of reserve relating to liquidation of subsidiary		-	-	-	9,383	-	-	(4,823)	(4,560)	-
Loan loss reserve transfer		-	-	-	-	-	278,096	-	(278,096)	-
Transfer of reserve relating to subsidiary			-	-	-	-	-	(9,000)	9,000	-
Transfer to retained earnings reserve		-	-	2,709,189	(1,659,189)	-	-	-	(1,050,000)	-
Dividends paid	48	-	-	-		-	-	-	(3,571,223)	(3,571,223)
Movement of the year		-	-	2,709,189	(1,649,806)	(1,133,482)	278,096	(13,823)	3,724,705	3,914,879
Balances at October 31, 2008		2,927,232	3,158,481	8,702,091	9,383	(1,023,193)	1,296,232	2,928	16,645,050	31,717,204

* Total recognised income and expenses for the year $7,491,606 (2007: $6,717,593)

Statement of Consolidated Cash Flows

Year ended 31 October 2008

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2008	2007
Cash flows from operating activities			
Profit for the year		8,619,584	6,850,617
Items not affecting cash:			
Interest income	6	(25,857,261)	(23,576,342)
Interest expense	6	5,591,074	6,809,834
Taxation charge	15	3,196,882	2,761,203
Depreciation	26	313,339	334,887
Impairment losses on loans	23	756,220	522,447
Gain on sale of property, plant and equipment		(3,398)	(12,785)
Write-offs of property, plant and equipment	26	1,793	-
Gain on sale of shares in associated company		-	(30,338)
Gain on sale of shares		-	(94,736)
Gain on Visa shares		(456,612)	-
		(7,838,377)	(6,435,213)
Changes in operating assets and liabilities			
Loans		(13,707,178)	(13,889,668)
Retirement benefits		(354,802)	(316,115)
Deposits by the public		(884,314)	14,572,626
Policyholders' fund		3,546,850	3,265,376
Other assets, net		(501,465)	484,302
Other liabilities, net		53,550	405,806
Due to parent company and fellow subsidiaries		4,009,484	(56,492)
Amounts due from other banks		(4,073,394)	(1,688,087)
Accounts with parent and fellow subsidiaries		(885,822)	(1,129,065)
Taxation recoverable		380,060	(577,511)
Amounts due to other banks and financial institutions		325,204	188,202
Deposits with Central Bank greater than 90 days		(9,623,337)	6,614,042
Statutory reserves at Bank of Jamaica		(432,537)	(1,167,150)
Securities sold under repurchase agreements		(234,310)	3,038,676
		(30,240,528)	3,309,819
Interest received		24,717,520	24,840,427
Interest paid		(5,643,962)	(7,290,731)
Taxation paid		(2,556,093)	(2,045,418)
Net cash (used in) / provided by operating activities		(13,723,063)	18,814,097
Cash flows from investing activities			
Investment securities		(62,836)	(13,617,449)
Government securities purchased under resale agreements		927,043	(863,062)
Pledged assets		39,532	-
Proceeds from the sale of property, plant and equipment		7,071	13,210
Net proceeds on liquidation of subsidiary		17,758	-
Purchase of shares in associated company		-	(1,044,813)
Net proceeds from sale of shares in associated company		-	1,075,152
Purchase of property, plant and equipment	26	(572,735)	(545,484)
Net proceeds from sale of shares		240,030	94,736
Disposal of subsidiary, net of cash disposal		-	1,651,684
Net cash provided by / (used in) investing activities		604,863	(13,236,026)
Cash flows from operating and investing activities		(13,118,200)	5,578,071
Cash flows from financing activities			
Dividends paid	48	(3,571,223)	(6,171,933)
Effect of exchange rate changes on cash and cash equivalents		286,957	2,197,779
Net (decrease) / increase in cash and cash equivalents		(16,402,466)	1,603,917
Cash and cash equivalents at beginning of year		27,226,781	25,622,864
CASH AND CASH EQUIVALENTS AT END OF YEAR	20	10,824,315	27,226,781

Statement of Revenue and Expenses

Year ended 31 October 2008

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2008	2007
Net interest income and other revenue			
Interest from loans and deposits with banks		16,347,484	13,622,060
Income from securities		3,217,375	3,445,605
Total interest income	6	19,564,859	17,067,665
Interest expense	6	(5,173,528)	(5,105,458)
Net interest income		14,391,331	11,962,207
Impairment losses on loans	23	(746,555)	(511,804)
Net interest income after impairment losses on loans		13,644,776	11,450,403
Fee and commission income	7	4,539,314	3,856,811
Fee and commission expense	7	(1,061,258)	(997,260)
Net fee and commission income		3,478,056	2,859,551
Net foreign exchange trading income	8	966,336	946,124
Other revenue	10	477,717	1,770,018
		1,444,053	2,716,142
		18,566,885	17,026,096
Expenses			
Salaries, pension contributions and other staff benefits	11	5,451,940	4,679,084
Property expenses, including depreciation		1,933,506	1,368,505
Other operating expenses		2,579,945	2,169,111
	13	9,965,391	8,216,700
Profit before taxation	14	8,601,494	8,809,396
Taxation	15	(2,646,278)	(2,207,481
Profit for the year		5,955,216	6,601,915

The Bank of Nova Scotia Jamaica Limited

Balance Sheet

31 October 2008

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2008	2007
ASSETS			
Cash resources			
Notes and coins of, deposit with, and money at call at, Bank of Jamaica	17	30,319,327	25,646,239
Government and bank notes other than Jamaica		343,493	407,307
Amounts due from other banks	18	13,283,820	17,530,519
Accounts with parent and fellow subsidiaries	19	1,655,080	3,859,376
		45,601,720	47,443,441
Government securities purchased under resale agreements	21	407,920	1,256,311
Pledged assets	45	1,301,453	1,340,985
Loans, after allowance for impairment losses	22	79,996,715	68,126,067
Investment securities	24		
Available-for-sale		13,886,187	15,068,016
Held-to-maturity		10,309,032	15,665,541
		24,195,219	30,733,557
Investment in subsidiaries		242,093	254,738
Other assets			
Customers' liabilities under acceptances, guarantees and letters of credit		5,835,740	6,689,127
Sundry assets	25	638,734	138,649
Property, plant and equipment	26	2,750,330	2,493,320
Retirement benefit asset	27	5,402,224	4,839,913
		14,627,028	14,161,009
		166,372,148	163,316,108

Balance Sheet (continued)

31 October 2008

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2008	2007
LIABILITIES			
Deposits			
Deposits by the public	28	122,331,269	123,374,522
Amounts due to other banks and financial institutions	29	1,504,015	1,593,271
Amounts due to ultimate parent company	30	7,003,706	4,857,885
Amounts due to subsidiaries	31	228,129	164,127
Amounts due to fellow subsidiaries	31	2,302,225	417,007
		133,369,344	130,406,812
Other liabilities			
Cheques and other instruments in transit		2,872,257	3,195,073
Acceptances, guarantees and letters of credit		5,835,740	6,689,127
Securities sold under repurchase agreements		-	236,512
Redeemable preference shares	34	100,000	100,000
Other liabilities	32	1,095,376	1,055,117
Taxation payable		1,013,877	759,836
Deferred tax liabilities	33	1,395,154	1,666,896
Retirement benefit obligations	27	930,576	723,066
		13,242,980	14,425,627
STOCKHOLDERS' EQUITY			
Share capital	34	2,927,232	2,927,232
Reserve fund	35	2,930,616	2,930,616
Retained earnings reserve	36	8,301,341	5,592,152
Cumulative remeasurement result from available-for-sale financial assets	37	(970,396)	137,442
Capital reserve	38	9,383	1,659,189
Loan loss reserve	39	1,248,712	983,418
Unappropriated profits		5,312,936	4,253,620
		19,759,824	18,483,669
		166,372,148	163,316,108

The financial statements on pages 135 to 198 were approved for issue by the Board of Directors on November 27, 2008 and signed on its behalf by:

Robert H. Pitfield — Director

Bruce F. Bowen — Director

Stacie-Ann S. Wright — Director

Keri-Gaye Brown — Secretary

Statement of Changes in Stockholders' Equity

31 October 2008

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	Share capital	Reserve fund	Retained earnings reserve	Capital reserve	Cumulative remeasurement result from available for sale financial assets	Loan loss reserve	Unappropriated profits	Total
Balances at October 31, 2006		2,927,232	2,930,616	4,842,152	-	242,253	765,292	6,550,952	18,258,497
Unrealised loss on available-for-sale investments, net of taxes		-	-	-	-	(75,105)	-	-	(75,105)*
Realised gains on available-for-sale securities, transferred to statement of revenue and expenses		-	-	-	-	(29,706)	-	-	(29,706)
Net profit for the year		-	-	-	-	-	-	6,601,915	6,601,915*
Gain on sale of subsidiary		-	-	-	1,659,189	-	-	(1,659,189)	-
Issue of preference shares		-	-	-	-	-	-	(100,000)	(100,000)
Dividends paid	48	-	-	-	-	-	-	(6,171,932)	(6,171,932)
Retained earnings transfer		-	-	750,000	-	-	-	(750,000)	-
Loan loss reserve transfer		-	-	-	-	-	218,126	(218,126)	-
Movement for the year		-	-	750,000	1,659,189	(104,811)	218,126	(2,297,332)	225,172
Balances at October 31, 2007		2,927,232	2,930,616	5,592,152	1,659,189	137,442	983,418	4,253,620	18,483,669
Unrealised loss on available-for-sale investments, net of taxes		-	-	-	-	(1,102,222)	-	-	(1,102,222)*
Realised gains on available-for-sale securities, transferred to statement of revenue and expenses		-	-	-	-	(5,616)	-	-	(5,616)
Net profit for the year		-	-	-	-	-	-	5,965,216	5,965,216*
Transfer of reserves relating to liquidation of subsidiary		-	-	-	9,383	-	-	(9,383)	-
Dividends paid	48	-	-	-	-	-	-	(3,571,223)	(3,571,223)
Retained earnings transfer		-	-	2,709,189	(1,659,189)	-	-	(1,050,000)	-
Loan loss reserve transfer		-	-	-	-	-	265,294	(265,294)	-
Movement for the year		-	-	2,709,189	(1,649,806)	(1,107,838)	265,294	1,059,316	1,276,155
Balances at October 31, 2008		2,927,232	2,930,616	8,301,341	9,383	(970,396)	1,248,712	5,312,936	19,759,824

* Total recognised income and expenses for the year $4,852,994 (2007: $6,526,810)

Statement of Cash Flows

31 October 2008

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2008	2007
Cash flows from operating activities			
Profit for the year		5,955,216	6,601,915
Items not affecting cash:			
Interest income	6	(19,564,859)	(17,067,665)
Interest expense	6	5,173,528	5,105,458
Taxation charge	15	2,646,278	2,207,481
Depreciation	26	306,253	326,015
Impairment losses on loans	23	746,555	511,804
Gain on sale of property, plant and equipment		(3,396)	(12,230)
Gain on disposal of subsidiary		-	(1,659,189)
Gain on liquidation of subsidiary		(9,383)	-
Gain on sale of shares		-	(94,736)
Gain on sale of Visa shares		(456,611)	-
Write off of property, plant and equipment		1,063	-
		(5,205,356)	(4,081,147)
Changes in operating assets and liabilities			
Loans		(12,528,307)	(12,846,072)
Retirement benefits		(354,801)	(316,115)
Deposits by public		(967,209)	14,611,888
Statutory reserves at Bank of Jamaica		(431,343)	(1,166,261)
Deposits with Central Bank greater than ninety days		(7,398,793)	(95,000)
Other liabilities, net		40,259	395,277
Due to parent company and fellow subsidiaries		4,073,485	(13,328)
Amounts due from other banks		(4,029,401)	(1,688,087)
Amounts with parents and fellow subsidiaries		(885,066)	(1,124,391)
Amounts due to other banks and financial institutions		(89,256)	(21,759)
Other assets, net		(500,082)	479,508
Securities sold under repurchase agreements		(234,310)	(685,534)
		(28,510,180)	(6,551,021)
Interest received		18,941,640	17,306,073
Interest paid		(5,230,218)	(5,082,768)
Taxation paid		(2,110,061)	(1,582,362)
Net cash (used in) / provided by operating activities		(16,908,819)	4,089,922
Cash flows from investing activities			
Investment securities		3,087,089	1,046,194
Government securities purchased under resale agreements		845,000	(650,000)
Pledged assets		39,532	-
Purchase of property, plant and equipment	26	(567,300)	(534,422)
Purchase of shares in associated company		-	(1,044,813)
Sale of shares in associated company		-	1,075,152
Proceeds from sale of shares in subsidiary		-	1,632,350
Proceeds form liquidation of subsidiary		22,029	-
Proceeds from the sale of property, plant and equipment		6,368	13,210
Net proceeds from sale of shares		249,030	94,736
Net cash provided by investing activities		3,681,748	1,632,407
Cash flows from operating and investing activities		(13,227,071)	5,722,329
Cash flows from financing activities			
Dividends paid	48	(3,571,223)	(6,171,933)
Effect of exchange rate changes on cash and cash equivalents		286,198	2,193,108
Net (decrease)/ increase in cash and cash equivalents		(16,512,096)	1,743,504
Cash and cash equivalents at beginning of year		25,909,301	24,165,797
CASH AND CASH EQUIVALENTS AT END OF YEAR	20	9,397,205	25,909,301

(expressed in thousands of Jamaican dollars unless otherwise stated)

1. Identification, Regulation and Licence

(a) The Bank of Nova Scotia Jamaica Limited ("the Bank") is incorporated and domiciled in Jamaica. It is a 100% subsidiary of Scotia Group Jamaica Limited, which is incorporated and domiciled in Jamaica. Scotia Group Jamaica Limited is a 71.78% subsidiary of The Bank of Nova Scotia, which is incorporated and domiciled in Canada and is the ultimate parent. The registered office of the Bank is located at the Scotiabank Centre, Corner of Duke and Port Royal Streets, Kingston.

The Bank is licensed under the Banking Act, 1992 and is listed on the Jamaica Stock Exchange.

(b) 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
The Scotia Jamaica Building Society	Mortgage financing	100%	October 31
Scotia Jamaica Life Insurance Company Limited	Life insurance	100%	December 31
Scotia Jamaica General Insurance Brokers Limited*	Non-trading	100%	October 31
Scotia Jamaica Financial Services Limited	Non-trading	100%	October 31
Brighton Holdings Limited	Non-trading	100%	October 31

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

* This subsidiary was liquidated as at October 31, 2008 (note 50).

(c) During 2007, a Scheme of Arrangement was undertaken which resulted in the reorganization of the Group, as follows:

(i) Effective May 1, 2007, The Bank of Nova Scotia Jamaica Limited ("the Bank") became a wholly owned subsidiary of the newly-formed group holding company, Scotia Group Jamaica Limited ("the company"), which is listed on the Jamaica Stock Exchange. As a consequence, the 2,927,232,000 issued ordinary stock units of the Bank are now owned by Scotia Group Jamaica Limited, and the former shareholders of the Bank were issued 2,927,232,000 ordinary shares of the company in exchange for their shares in the Bank.

(ii) The Bank also made a bonus issue of 100,000,000 variable rate redeemable cumulative preference shares to existing holders of the Bank's ordinary shares at the rate of one preference share for every thirty ordinary shares.

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 by the Group entities for all the years presented, unless otherwise stated.

2. Summary of significant accounting policies

(a) Basis of preparation

(i) Statement of compliance

These financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS), the Jamaican Companies Act and the Banking Act.

New standards, amendments to standards and interpretations that became effective during the year

Certain new standards, amendments to published standards and interpretations came into effect during the current financial year. The Group has assessed the relevance of all such standards, amendments and interpretations and has adopted the following which are relevant to its operations.

IFRS 7, Financial Instruments: Disclosures and the Complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures are effective for annual reporting periods beginning on or after January 1, 2007. IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure of risks arising from financial instruments including specified minimum disclosures about credit risk, liquidity risk and market risk including analysis of sensitivity to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital.

The adoption of IFRS 7 and the amendments to IAS 1 resulted in additional disclosures, as set out in notes 41 to 43.

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions, which is effective for annual reporting periods beginning on or after March 1, 2007, requires that a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. It also provides guidance on whether share-based payment arrangements, in which suppliers of goods or services of an entity are provided with equity instruments of the entity's parent should be accounted for as cash-settled or equity-settled in the entity's financial statements. This standard did not have any impact on the financial statements.

New standards, and interpretations of and amendments to existing standards, that are not yet effective:

At the date of authorization of these financial statements, certain new standards, and amendments to and interpretations of existing standards, have been issued which are not yet effective at balance sheet date and which the Group has not early-adopted. The Group has assessed the relevance of all such new standards, amendments and interpretations with respect to the Group's operations and has determined that the following are relevant to its operations.

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(i) Statement of compliance (continued)

IFRS 8, Operating Segments, which becomes effective for annual reporting periods beginning on or after January 1, 2009, replaces IAS 14 and sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates and its major customers. The Group is currently assessing the impact that IFRS 8 will have on the disclosures in the financial statements.

IFRIC 13 Accounting for Customer Loyalty Programmes, which becomes effective for financial periods beginning on or after July 1, 2008, creates consistency in accounting for customer loyalty plans. The interpretation is applicable to all entities that grant awards as part of a sales transaction (including awards that can be redeemed for goods or services not supplied by the entity). The Group is evaluating the impact IFRIC 13 will have on its financial statements.

IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, which becomes effective for annual reporting periods beginning on or after January 1, 2008, provides guidance on assessing the limit set in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This standard is not expected to have a material impact on the financial statements.

IAS 1 (Revised) Presentation of Financial Statements, which becomes effective for annual reporting periods beginning on or after January 1, 2009, requires the presentation of all non-owners changes in equity in one or two statements: either in a single statement of comprehensive income, or in an income statement of comprehensive income. The Group is evaluating the impact that the revised standard will have on the financial statements.

IAS 23 (Revised) - Borrowing Costs, which becomes effective for annual reporting periods beginning on or after January 1, 2009, removes the option of either capitalizing borrowing costs relating to qualifying assets or expensing the borrowing costs, and requires management to capitalize borrowing costs attributable to qualifying assets. Qualifying assets are assets that take a substantial time to get ready for their intended use or sale. The Group is evaluating the impact IAS 23 (Revised) will have on its financial statements.

(ii) Basis of measurement

The financial statements have been prepared on the historical cost basis as modified for the revaluation of available-for-sale financial assets and financial assets at fair value through statement of revenue and expenses.

(iii) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS and the Companies Act 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.

(iv) Functional and presentation currency

These financial statements are presented in Jamaican dollars, which is the Group's functional currency. Except where indicated to be otherwise, financial information presented is shown in thousands of Jamaican dollars.

(v) Comparative information

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

(b) Basis of consolidation

The consolidated financial statements include the assets, liabilities and results of operations of the Bank and its subsidiaries presented as a single economic entity.

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 rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are no longer consolidated from the date that control ceases.

Intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(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.

2. Summary of significant accounting policies (continued)

(e) Revenue recognition

(i) Interest income

Interest income is recognised in the statement of revenue and expenses for all interest earning instruments on the accrual basis using the effective interest method based on the actual purchase price. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset (or, where appropriate, a shorter period) to the carrying amount of the financial asset. The effective interest rate is established on initial recognition of the financial asset and is not revised subsequently. Interest income includes coupons earned on fixed income investments, accretion of discount on treasury bills and other discounted instruments, and amortization of premium on instruments bought at a premium.

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

Fee and commission income are recognised on the accrual basis when service has been provided. 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.

Fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

(iii) Premium income

Premiums are recognised as earned when due.

(f) Interest expense

Interest expense is recognised in the statement of revenue and expenses on the accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments through the expected life of the financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial liability.

(g) Claims

Death claims are recorded in the statement of revenue and expenses, net of reinsurance recoverable.

2. Summary of significant accounting policies (continued)

(h) Reinsurance contracts held

The Group enters into contracts with reinsurers under which it is compensated for losses on contracts it issues and which meet the classification requirements for insurance contracts. The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. 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 taxes. Current and deferred taxes are recognised as tax expense or benefit in the statement of revenue and expenses except where they relate to items recorded in stockholders' equity, in which case they are charged or credited to stockholders' equity.

(i) Current taxation

Current tax charges are based on the taxable profit for the year, which differs from the profit before tax reported because it excludes items that are taxable or deductible in other years, and items that are never taxable or deductible. The current tax is calculated at tax rates that have been enacted at the balance sheet date.

(ii) Deferred tax

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 are reviewed at each reporting date to determine whether it is probable that the related tax benefit will be realised.

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 the legal right of set-off exists, and when they relate to income taxes levied by the same tax authority on either the same taxable entity, or different taxable entities which intend to settle current tax liabilities and assets on a net basis.

(j) Insurance contracts – recognition and measurement

(i) Classification

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

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. The Group defines insurance risk as significant if an insured event could cause an insurer to pay significant additional benefits in a scenario that has a discernible effect on the economics of the transactions. 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.

2. Summary of significant accounting policies (continued)

(j) Insurance contracts – recognition and measurement (continued)

(ii) Recognition and measurement

Insurance contracts

These contracts insure human life events (for example death or permanent disability) over a long duration. The accounting treatment differs according to whether the contract bears investment options or not. Under contracts that do not bear investment options, premiums are recognised as income when they become payable by the contract holder and benefits are recorded as an expense when they are incurred.

Under contracts that bear an investment option, insurance premiums received are initially recognised directly as liabilities. These liabilities are increased by credited interest and are decreased by policy administration fees, mortality and surrender charges and any withdrawals; the resulting liability is called the Life Assurance Fund. Income consists of fees deducted for mortality, policy administration and surrenders. Interest credited to the account and benefit claims in excess of the account balances incurred in the period are recorded as expenses in the statement of revenue and expenses.

Insurance contract liabilities are determined by an independent actuary using the Policy Premium Method of valuation as discussed in Note 3(iv). These liabilities are, on valuation, adjusted through the income statement to reflect the valuation determined under the Policy Premium Method.

(k) Policyholders' fund

The policyholders' fund has 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. Any adjustment to the reserves is reflected in the year to which it relates.

(l) Financial assets and liabilities

(i) Recognition

The Group initially recognises loans and advances and deposits on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated as at fair value through profit or loss) are initially recognized on the settlement date – the date at which the Group becomes a party to the contractual provisions of the instrument.

2. Summary of significant accounting policies (continued)

(l) Financial assets and liabilities (continued)

(ii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or have expired.

The Group enters into transactions whereby it transfers assets recognized on its balance sheet, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized from the balance sheet. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

(m) Financial assets

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss; 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 and loss

This category includes financial assets held for trading. A financial asset is classified in this category at inception if acquired principally for the purpose of selling in the short term or if so designated by management. These assets are carried at fair value and all related gains and losses are included in the statement of revenue and expenses.

(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 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.

2. Summary of significant accounting policies (continued)

(m) Financial assets (continued)

(iv) Available-for-sale

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as the above three categories; they are 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, exchange rates or market prices. Unrealized gains and losses arising from changes in fair value of available-for-sale investments are recognized in stockholders' equity. On disposal of these investments, the unrealized gains or losses included in stockholders' equity are transferred to the statement of revenue and expenses.

Purchases and sales of financial assets at 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.

Subsequent to initial recognition at cost, available-for-sale financial assets and financial assets at fair value through profit or 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 the 'financial assets at fair value through profit or loss' category 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 recognised directly in equity, until the financial assets are derecognised or impaired, at which time the cumulative gains or losses previously recognised in equity are recognised in profit or loss. However, interest, which is 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. Impairment losses are recognised in the statement of revenue and expenses. 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. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

(n) Investment in subsidiaries

Investments by the Bank in subsidiaries are stated at cost less impairment losses.

(o) 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.

2. Summary of significant accounting policies (continued)

(o) Repurchase and reverse repurchase agreements (continued)

Securities sold subject to repurchase agreements are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral.

(p) Loans and advances and allowance for impairment losses

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

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 the fair value of the consideration given, which is the cash disbursed 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 the impaired 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 amounts that exceed the amounts required under IFRS are included in a non-distributable loan loss reserve as an appropriation of profits.

(q) 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.

(r) 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 are been expensed where they are considered to be immaterial.

2. Summary of significant accounting policies (continued)

(s) Leases

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 and 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 as an expense and included in 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 the straight-line basis over the period of the lease.

(t) Property, plant and equipment

Land is stated at historical cost. All other property, plant and equipment are stated at historical cost less accumulated depreciation and, if any, impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

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

Depreciation and amortisation are calculated on the straight-line method at rates estimated to write off the depreciable amount of 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

The depreciation methods, useful lives and residual values are reassessed at the reporting date.

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 the profit for the year.

(u) Employee benefits

Employee benefits are all forms of consideration given by the Group in exchange for service rendered by employees. These include current or short-term benefits such as salaries, bonuses, NIS contributions, vacation leave; non-monetary benefits such as medical care; post-employment benefits such as pensions; and other long-term employee benefits such as termination benefits.

2. Summary of significant accounting policies (continued)

(u) Employee benefits (continued)

Employee benefits that are earned as a result of past or current service are recognised in the following manner: Short-term employee benefits are recognised as a liability, net of payments made, and charged as expense. The expected cost of vacation leave that accumulates is recognised when the employee becomes entitled to the leave. Post-employment benefits, termination benefits and equity compensation benefits are accounted for as described below. Other long-term benefits are not considered material and are charged off when incurred.

(i) Pension obligations

The Group operates a defined benefit plan, the assets of which are held in a separate trustee-administered fund. The pension plan is funded by payments from employees and the Bank, taking the recommendations of the actuary into account.

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 revenue and expenses 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 deferred and 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.

2. Summary of significant accounting policies (continued)

(u) Employee benefits (continued)

(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 completion of a minimum service period and the employee remaining in service up to retirement age. 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 Group has an Employee Share Ownership Plan (ESOP) for eligible employees. The Group 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 in the statement of revenue and expenses.

The amount contributed to the ESOP trust (note 49) by the Group for acquiring shares and allocating them to employees is recognised as an employee expense at the time of making the contribution, as the effect of recognising it over the two-year period in which the employees become unconditionally entitled to the shares is not considered material. Further, the effect of forfeitures is not considered material.

The special purpose entity that operates the Plan has not been consolidated as the effect of doing so is not considered material.

(v) 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 amount is recognised in the statement of revenue and expenses immediately, as they are not considered material for deferral.

(w) Share capital

(i) Ordinary shares are classified as equity when there is no obligation to transfer cash or other assets.

Preference share capital is classified as equity except where it is redeemable on a specific or determinable date or at the option of the shareholders and/or if dividend payments are not discretionary, in which case it is classified as a liability. Dividend payments on preference shares classified as a liability are recognized in the statement of revenue and expenses as interest expense.

2. Summary of significant accounting policies (continued)

(w) Share capital (continued)

(ii) Dividends

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

(x) Financial instruments

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

The fair values of the Group's financial instruments are discussed in note 42.

(y) 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.

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 an estimated $86,970 (2007: $45,457) higher or $76,939 (2007: $45,457) lower.

3. Critical accounting estimates, and judgements in applying accounting policies (continued)

(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 in the specific permissible 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 of investments would increase by $ 436,298 (2007: decrease by $408,801) with a corresponding entry in the fair value reserve in stockholders' equity.

(iii) Income taxes

Estimates and judgements are required in determining the provision for income taxes. The tax liability or asset arising from certain transactions or events may be uncertain during the ordinary course of business. In cases of such uncertainty, the Group recognises liabilities for possible additional taxes based on its judgement. Where the final tax outcome in relation to such matters is different from the amount that was initially recognised, the difference will impact the current and deferred income 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 $46,424 and the deferred tax liability by $20,292, if unfavourable; or
- decrease the income tax liability by $46,424 and the deferred tax liability by $20,292, if favourable.

(iv) Estimate of future payments and premiums arising from long-term insurance contracts

The liabilities under long-term insurance contracts have been determined using the Policy Premium Method 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. Any adjustment to the reserves is reflected in the year to which it relates.

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. 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.

These estimates are more fully described in note 12(c).

3. Critical accounting estimates, and judgements in applying accounting policies (continued)

(v) Pension and other post-employment benefits (continued)

The cost of these benefits and the present value of the pension and the other post-employment liabilities depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net periodic cost (income) for pension and other post-employment 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 change in these assumptions will impact the net periodic cost (income) recorded for pension and post-employment 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 investment returns. The Group determines the appropriate discount rate at the end of each year; such rate 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-employment 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 economies.

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 other post retirement benefits cost and credits are based, in part, on current market conditions.

Were the actual expected return on pension plan assets to differ by 1% from management's estimates, there would be no impact on the consolidated net income. Similarly, were the actual discount rate used at the beginning of the fiscal year to differ by 1% from management's estimates there would be no impact on consolidated net income. Were the assumed medical inflation rate on the health plan to differ by 1.50% from management estimates, the health expense would increase by $70,487 or decrease by $51,704.

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 shareholders, 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 policyholders' liabilities.

(expressed in thousands of Jamaican dollars unless otherwise stated)

5. Segmental financial information

The Group is organised into five main business segments:

(a) Retail Banking - incorporating personal banking services, personal customer current, savings and deposits accounts, 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, unit trust and pension fund management, brokerage and advisory services, and the administration of trust accounts. This segment is now being reported in Scotia Group Jamaica Limited consolidated results for 2008;

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

(f) Other operations of the Group – comprising non-trading subsidiaries.

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.

	2008						
	Banking						
	Retail	Corporate and Commercial	Treasury	Insurance services	Other	Eliminations	Group
Gross external revenues	12,226,466	6,410,926	7,007,045	5,900,615	17,871	-	31,562,923
Revenue/(expenses) from other segments	2,002,494	1,991,270	(3,967,930)	6,028	-	(31,862)	-
Total gross revenues	14,228,960	8,402,196	3,039,115	5,906,643	17,871	(31,862)	31,562,923
Total expenses	(10,332,057)	(6,022,811)	(78,673)	(3,328,298)	(4,861)	20,243	(19,746,457)
Profit before tax	3,896,903	2,379,385	2,960,442	2,578,345	13,010	(11,619)	11,816,466
Income tax expenses							(3,196,882)
Net profit							**8,619,584**
Segment assets	50,509,554	49,154,554	69,894,167	39,533,192	147,699	(818,961)	208,420,205
Unallocated assets							6,040,959
Total assets							**214,461,164**
Segment liabilities	80,144,200	66,377,593	1,504,015	30,758,781	55,805	(631,415)	178,208,979
Unallocated liabilities							4,534,981
Total liabilities							**182,743,960**
Other segment items:							
Capital expenditure	349,156	220,188	-	3,391	-	-	572,735
Impairment losses on loans	793,015	(36,795)	-	-	-	-	756,220
Depreciation	182,301	125,604	-	4,894	540	-	313,339

(expressed in thousands of Jamaican dollars unless otherwise stated)

5. Segmental financial information (continued)

	2007							
	Banking							
	Retail	Corporate and Commercial	Treasury	Investment Management Services	Insurance Services	Other	Eliminations	Group
Gross external revenues	9,402,208	5,916,641	6,732,626	1,713,274	4,539,213	5,599	-	28,309,561
Revenue/(expenses) from other segments	2,777,842	1,456,809	(4,254,302)	63,598	15,089	11,948	(70,984)	-
Total gross revenues	12,180,050	7,373,450	2,478,324	1,776,872	4,554,302	17,547	(70,984)	28,309,561
Total expenses	(8,862,231)	(5,390,296)	(107,726)	(1,528,613)	(2,870,463)	(9,396)	70,984	(18,697,741)
Profit before tax	3,317,819	1,983,154	2,370,598	248,259	1,683,839	8,151	-	9,611,820
Income tax expenses								(2,761,203)
Net profit								6,850,617
Segment assets	44,346,569	43,711,417	78,802,142	-	33,702,394	166,549	(500,132)	200,228,939
Unallocated assets								4,978,563
Total assets								205,207,502
Segment liabilities	76,913,730	69,065,909	236,512	-	27,128,507	55,545	(299,941)	173,100,262
Unallocated liabilities								4,304,915
Total liabilities								177,405,177
Other segment items:								
Capital expenditure	310,671	225,778	-	-	9,035	-		545,484
Impairment losses on loans	486,255	36,810	-	(618)	-	-		522,447
Depreciation	197,022	131,037	-	1,312	4,976	540	-	334,887

6. Net interest income

	The Group		The Bank	
	2008	2007	2008	2007
Interest income:				
Deposits with banks and other financial institutions	4,125,253	2,499,372	3,009,191	2,498,380
Investment securities	7,334,340	7,551,945	3,104,348	3,333,463
Reverse repurchase agreements	229,275	1,683,432	113,027	112,142
Loans and advances	14,158,332	11,834,536	13,335,668	11,121,106
Other	10,061	7,057	2,625	2,574
	25,857,261	23,576,342	19,564,859	17,067,665
Interest expense:				
Banks and customers	5,548,798	5,418,476	5,136,285	5,032,729
Repurchase agreements	17,890	1,376,984	12,857	60,791
Other	24,386	14,374	24,386	11,938
	5,591,074	6,809,834	5,173,528	5,105,458
Net interest income	20,266,187	16,766,508	14,391,331	11,962,207

(expressed in thousands of Jamaican dollars unless otherwise stated)

7. Net fee and commission income

	The Group		The Bank	
	2008	2007	2008	2007
Fee and commission income:				
Retail banking fees	2,465,578	2,001,259	2,465,578	2,000,652
Credit related fees	822,242	886,841	811,120	879,284
Commercial and depository fees	1,296,481	1,087,216	1,262,616	976,875
	4,584,301	3,975,316	4,539,314	3,856,811
Fee and commission expenses	(1,061,258)	(997,260)	(1,061,258)	(997,260)
	3,523,043	2,978,056	3,478,056	2,859,551

8. Net foreign exchange trading income

Net foreign exchange trading income includes gains and losses arising primarily from foreign currency trading activities.

9. Net insurance premium income

	The Group	
	2008	2007
Gross written premium		
Individual life	339,012	297,714
Group	417,231	319,926
	756,243	617,640
Reinsurance ceded	(1,705)	(428)
	754,538	617,212

10. Other revenue

	The Group		The Bank	
	2008	2007	2008	2007
Gain on disposal of subsidiary	-	-	-	1,659,189
Capital gain on liquidation of subsidiary	-	-	9,383	-
Gain on sale of property, plant and equipment	3,396	12,785	3,396	12,230
Gain on shares	456,612	94,473	456,612	93,746
Other	1,361	79,691	8,326	4,853
	461,369	186,949	477,717	1,770,018

The 2008 gain on shares represents a gain on exchange of the Bank's membership interest in Visa International for equity shares in Visa Inc. consequent on the reorganization of Visa International. The reorganization involved a series of transactions by which Visa International, Visa U.S.A. and Visa Canada became subsidiaries of a Delaware stock corporation, Visa Inc., and was completed on October 2, 2007. Upon completion of the restructuring, common shares, of a class corresponding to the Visa region with which each member is associated, were issued by VISA Inc. to each member. The Bank was advised of the restructuring in April 2008. At that time there was also a forced redemption of 52% of the shares received. The remaining shares (48%) are subject to a lock up period of three years ending March 2011, during which the shares cannot generally be sold or transferred.

11. Salaries, pension contributions and other staff benefits

	The Group		The Bank	
	2008	2007	2008	2007
Wages and salaries	4,574,451	4,085,841	4,281,406	3,750,739
Payroll taxes	410,224	373,802	388,807	332,191
Pension costs, net [note 27(a)]	(519,780)	(494,232)	(519,780)	(494,232)
Other post-employment benefits [note 27(b)]	233,531	258,339	233,531	258,339
Other staff benefits	1,113,080	865,651	1,067,976	832,047
Total (note 13)	5,811,506	5,089,401	5,451,940	4,679,084

(expressed in thousands of Jamaican dollars unless otherwise stated)

12. Change in policyholders' liabilities

(a) Composition of policyholders' liabilities

	The Group	
	2008	2007
Policyholders' fund	32,222,016	28,585,195
Benefits and claims payable	52,513	28,559
Unprocessed premiums	18,592	12,003
Insurance risk reserve - Individual life	(1,892,953)	(1,734,707)
- Group life	161,250	123,718
	30,561,418	27,014,768

(b) Change in policyholders' liabilities

	The Group	
	2008	2007
Policyholders' fund:		
At beginning of the year	28,585,195	25,097,202
Gross premiums	4,495,436	4,142,542
Benefits and claims	(3,730,948)	(3,274,060)
Interest credit	2,872,333	2,619,511
At end of year	32,222,016	28,585,195
Benefits and claims payable:		
At beginning of the year	28,559	35,698
Policyholders' claims and benefits	110,109	57,489
Benefits and claims paid	(86,155)	(64,628)
At end of year	52,513	28,559
Unprocessed premiums:		
At beginning of the year	12,003	18,389
Premiums received	4,984,611	4,521,713
Premiums applied	(4,978,022)	(4,528,099)
At end of year	18,592	12,003

	2008		
	Individual life	Group life	Total
Insurance risk reserve:			
At beginning of the year	(1,734,707)	123,718	(1,610,989)
Changes in assumptions	(68,151)	(635)	(68,786)
Normal changes	(90,095)	38,167	(51,928)
At end of year	(1,892,953)	161,250	(1,731,703)

	2007		
	Individual life	Group life	Total
Insurance risk reserve:			
At beginning of the year	(1,489,335)	100,963	(1,388,372)
Changes in assumptions	(37,412)	(2,100)	(39,512)
Normal changes	(207,960)	24,855	(183,105)
At end of year	(1,734,707)	123,718	(1,610,989)

(expressed in thousands of Jamaican dollars unless otherwise stated)

12. Change in policyholders' fund (continued)

(c) Policy assumptions

Policy liabilities have two major assumptions, namely, best estimate assumptions and provisions for adverse deviation assumptions.

(1) Best estimate assumptions:

Best estimate assumptions cover the lifetime of the policies and are made for many variables including mortality, morbidity, investment yields, rates of policy termination, operating expenses and certain taxes.

(i) Mortality and morbidity

The assumptions are based on industry experience. See note 3(iv) for further details.

(ii) Investment yields

The Group matches assets and liabilities by line of business. The Group does not project asset and liability cash flows under reinvestment assumptions; instead it uses a projected portfolio rate with a conservative bias.

The Group has assumed a portfolio of 12.73% beginning November 2008, decreasing monthly to 8% in the year 2014, and then decreasing yearly to 6% in the year 2027 and later.

The above interest rates have been reduced by 0.50% as a margin for adverse deviation.

Assumed interest rates are net of Investment Income Tax.

The main source of the uncertainty is the fluctuation in the economy; lower yields would result in higher reserves and reduced income.

(iii) Persistency

Persistency assumptions are made in relation to the time since inception that a policy exists before it lapses or is surrendered. Lapses relate to termination of policies due to non-payment of premiums. Surrenders relate to voluntary termination of policies by the policyholders. Policy terminations are based on the Group's own experience adjusted for expected future conditions. The main source of uncertainty derives from changes in policyholder behaviour as it relates to changes in conditions. The expected lapse rates are 2% in the first year, 8% in the second year, 7% in the third year and 6% thereafter. A margin for adverse deviation is added by increasing or decreasing the lapse rates, whichever is adverse, by 20%.

The main source of uncertainty derives from changes in policyholder behaviour as it relates to changes in conditions.

12. Change in policyholders' fund (continued)

(c) Policy assumptions (continued)

(1) Best estimate assumptions (continued)

(iv) Policy expenses and inflation

Policy maintenance expenses are derived from the Group's own internal cost studies projected into the future with an allowance for inflation. Inflation is assumed to be 6.92% beginning November 2008, decreasing monthly to 5% in the year 2014, and then decreasing to 3% in year 2027 and later.

A margin for adverse deviation is added by increasing the maintenance expenses by 10% of the best estimate assumption.

(v) Partial withdrawal of policy funds

The Group's contracts allow policyholders to withdraw a portion of the funds accumulated under the contract without surrendering the entire contract. Partial withdrawal rates are derived from the Group's own experience. A margin for adverse deviation is added by increasing the partial withdrawal rates by 10% of the best-estimate assumption.

(vi) Taxation

It is assumed that current tax legislation and rates continue unaltered.

(2) Provision for adverse deviation assumptions

The basic assumptions made in establishing policy liabilities are best estimates for a range of possible outcomes. To recognise the uncertainty in establishing these best estimates, to allow for possible deterioration in experience and to provide greater comfort that the reserves are adequate to pay future benefits, the appointed actuary is required to include a margin in each assumption.

The impact of these margins is to increase reserves and so decrease the income that would be recognised on inception of the policy. The Canadian Institute of Actuaries prescribes a range of allowable margins. The Group uses assumptions at the conservative end of the range, taking into account the risk profiles of the business.

13. Expenses by nature

	The Group		The Bank	
	2008	2007	2008	2007
Salaries, pension contributions and other staff benefits (note 11)	5,811,506	5,089,401	5,451,940	4,679,084
Property expenses, including depreciation	1,969,718	1,406,070	1,933,506	1,368,505
Changes in policyholders' reserves	2,838,416	2,452,192	-	-
Transportation and communication	872,264	622,279	849,767	596,839
Marketing and advertising	523,561	474,040	472,643	423,560
Management and consultancy fees	375,936	365,273	309,375	310,399
Deposit insurance	190,504	175,725	182,553	168,115
Stationery	259,064	224,213	252,835	213,864
Other operating expenses	558,194	556,267	512,772	456,334
	13,399,163	11,365,460	9,965,391	8,216,700

(expressed in thousands of Jamaican dollars unless otherwise stated)

14. Profit before taxation

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

	The Group		The Bank	
	2008	2007	2008	2007
Auditors' remuneration	10,441	10,854	7,168	6,391
Depreciation	313,339	334,887	306,253	326,015
Directors' emoluments:				
Fees	25,358	15,422	18,502	10,204
Other	56,231	47,609	56,231	47,609
Gains on sale of shares and property, plant and equipment	(469,390)	(107,258)	(460,007)	(1,765,165)
Operating lease rentals	54,061	48,801	52,647	46,975

15. Taxation

(a) Taxation charge

Income tax is computed on the profit for the year as adjusted for tax purposes; other taxes are computed at rates and on items shown below:

	The Group		The Bank	
	2008	2007	2008	2007
Current income tax:				
Income tax at 33⅓%	2,371,089	2,116,133	2,364,101	2,030,457
Income tax at 30%	192,037	164,227	-	-
Premium income tax at 3%	93,199	81,226	-	-
Investment income tax at 15%	183,590	122,874	-	-
Adjustment for (over)/under-provision of prior year's charges	-	113	-	74
Deferred income tax (note 33)	356,967	276,630	282,177	176,950
	3,196,882	2,761,203	2,646,278	2,207,481

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

	The Group		The Bank	
	2008	2007	2008	2007
Profit before taxation	11,816,466	9,611,820	8,601,494	8,809,396
Tax calculated at 33⅓%	3,938,822	3,203,940	2,867,165	2,936,465
Adjusted for the tax effects of:				
Different tax regime applicable to life insurance and mortgage financing subsidiaries	(527,691)	(276,700)	-	-
Income not subject to tax – tax free investments	(191,904)	(216,586)	(191,904)	(212,442)
Expenses not deductible for tax purposes	3,330	6,733	3,330	6,733
Capital gains	(156,463)	(45,438)	(156,463)	(588,719)
Other charges and allowances	130,788	89,254	124,150	65,444
Taxation expense	3,196,882	2,761,203	2,646,278	2,207,481

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%.

(expressed in thousands of Jamaican dollars unless otherwise stated)

16. 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.

	2008	2007
Net profit attributable to stockholders	8,619,584	6,850,617
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)	2.94	2.34

17. Cash and balances at Bank of Jamaica

	The Group		The Bank	
	2008	2007	2008	2007
Statutory reserves with Bank of Jamaica – interest-bearing	3,564,323	3,777,770	3,563,931	3,777,016
Statutory reserves with Bank of Jamaica – non interest-bearing	7,353,852	6,707,869	7,308,663	6,664,235
Total statutory reserve (note 20)	10,918,175	10,485,639	10,872,594	10,441,251
Cash in hand and at bank (note 20)	29,164,273	22,045,197	19,446,733	15,204,988
	40,082,448	32,530,836	30,319,327	25,646,239

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% (2007: 9%) of the Bank's and 1% (2007: 1%) of the Society's prescribed liabilities, respectively. They are not available for investment, lending or other use by the Group and the Bank.

18. Amounts due from other banks

	The Group		The Bank	
	2008	2007	2008	2007
Items in course of collection from other banks	729,506	1,181,967	729,506	1,181,967
Placements with other banks	12,609,865	16,435,620	12,554,314	16,348,552
	13,339,371	17,617,587	13,283,820	17,530,519

19. Accounts with parent and fellow subsidiaries

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

(expressed in thousands of Jamaican dollars unless otherwise stated)

20. Cash and cash equivalents

	The Group		The Bank	
	2008	2007	2008	2007
Cash and balances with Bank of Jamaica	40,082,448	32,530,836	30,319,327	25,646,239
Less: statutory reserves (note 17)	(10,918,175)	(10,485,639)	(10,872,594)	(10,441,251)
	29,164,273	22,045,197	19,446,733	15,204,988
Less balances at bank greater than 90 days	(20,702,770)	(10,950,411)	(12,563,793)	(5,165,000)
	8,461,503	11,094,786	6,882,940	10,039,988
Government and bank notes other than Jamaica	343,493	407,307	343,493	407,307
Amounts due from other banks	5,370,372	13,729,278	5,358,952	13,643,586
Accounts with parent and fellow subsidiaries	126,822	2,890,764	126,822	2,890,763
Government of Jamaica Treasury bills and bonds	410,085	2,611,603	405,000	2,385,691
Cheques and other instruments in transit	(2,524,687)	(3,114,974)	(2,872,258)	(3,195,073)
	12,187,588	27,618,764	10,244,949	26,172,262
Less accrued interest receivable on Bank of Jamaica Certificates of Deposit.	(1,363,273)	(391,983)	(847,744)	(262,961)
	10,824,315	27,226,781	9,397,205	25,909,301

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 result in credit exposure in that the counterparty to the transaction may be unable to fulfil its contractual obligations.

The fair value of collateral held pursuant to reverse repurchase agreements is $463,507 (2007: $1,291,595) for the Group and $349,686 (2007: $1,082,043) for the Bank.

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

	The Group		The Bank	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Debt securities with an original maturity of less than 90 days	405	1,476	410	1,250

(expressed in thousands of Jamaican dollars unless otherwise stated)

22. Loans, after allowance for impairment losses

	The Group 2008	The Group 2007	The Bank 2008	The Bank 2007
Business and Government	42,329,376	36,016,732	42,321,947	36,007,508
Personal and credit cards	37,441,267	31,905,220	37,441,267	31,905,220
Residential mortgages	6,132,772	4,952,983	-	-
Interest receivable	857,735	761,106	801,010	712,115
Total	86,761,150	73,636,041	80,564,224	68,624,843
Less: allowance for impairment losses (note 23)	(608,766)	(530,368)	(567,509)	(498,776)
	86,152,384	73,105,673	79,996,715	68,126,067

(i) The aging of the loans at the reporting date was:

	The Group 2008	The Group 2007	The Bank 2008	The Bank 2007
Neither past due nor impaired	74,659,595	66,167,682	70,000,675	62,092,398
Past due but not impaired loans				
Past due 0-30 days	6,379,595	4,321,991	5,388,823	3,614,192
Past due 30-60 days	1,773,939	705,529	1,522,178	635,997
Past due 60-90 days	892,311	364,034	809,288	356,227
	9,045,845	5,391,554	7,720,289	4,606,416
Carried forward	83,705,440	71,559,236	77,720,964	66,698,814

	The Group 2008	The Group 2007	The Bank 2008	The Bank 2007
Balance brought forward	83,705,440	71,559,236	77,720,964	66,698,814
Impaired loans more than 90 days past due	2,197,975	1,315,699	2,042,250	1,213,914
Interest receivable	857,735	761,106	801,010	712,115
Gross loan portfolio	86,761,150	73,636,041	80,564,224	68,624,843
Less: Allowance for impairment losses	(608,766)	(530,368)	(567,509)	(498,776)
	86,152,384	73,105,673	79,996,715	68,126,067

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of loans not past due by and up to 90 days.

(ii) Renegotiated loans

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account may be reset to a normal status and managed together with other similar accounts after careful analysis and the demonstration to maintain the scheduled payments over a prolonged period.

Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review.

The Group's and Bank's renegotiated loans that would otherwise be past due or impaired totalled $35,286 (2007: $5,943).

(iii) Repossessed collateral

In general, the Group does not obtain financial or non-financial assets by taking possession of collateral. In the normal course of business, the security documentation which governs the collateral charged in favour of the Group to secure the debt, gives the Group express authority to repossess the collateral in the event of default. Repossessed collateral are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness.

The Group has no repossessed collateral.

(iv) Collateral accepted as security for assets

The fair value of assets accepted as collateral that the Group is permitted to sell or repledge in the absence of default is Nil (2007: Nil). The fair value of any such collateral that has been sold or repledged was Nil (2007: Nil).

(expressed in thousands of Jamaican dollars unless otherwise stated)

23. Impairment losses on loans

	The Group		The Bank	
	2008	2007	2008	2007
Total non-performing loans	2,197,975	1,315,699	2,042,250	1,213,914
Allowance at beginning of year	530,368	478,260	498,776	443,478
Acquisitions and disposals	-	(2,530)	-	-
Charged against revenue during the year	756,220	522,447	746,555	511,804
Bad debts written off	(932,752)	(701,126)	(932,752)	(688,795)
Recoveries of bad debts	254,930	233,317	254,930	232,289
Allowance at end of year	608,766	530,368	567,509	498,776
This comprises:				
Specific provisions	346,248	341,800	305,810	312,337
General provisions	262,518	188,568	261,699	186,439
	608,766	530,368	567,509	498,776

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 from interest payments, principal repayments, and proceeds of liquidation of collateral. Provisions for credit losses are made on all impaired loans. Uncollected interest on impaired loans not accrued in these financial statements was estimated at $132,168 as at October 31, 2008 (2007: $90,972) for the Bank and $ 144,766 as at October 31, 2008 (2007: $102,518) for the Group.

The total allowance for loan losses is made up as follows:

	The Group		The Bank	
	2008	2007	2008	2007
Allowance based on accounting standard - IAS 39 [see (a) below]	608,766	530,368	567,509	498,776
Additional allowance based on BOJ regulations [see (b) below]	1,295,232	1,017,136	1,248,712	983,418
	1,903,998	1,547,504	1,816,221	1,482,194

(a) This is the allowance based on the requirements of IAS 39, Financial Instruments: Recognition and Measurement, and is the amount included in the table above.

(b) This is the allowance based on regulations issued by the banking regulator, Bank of Jamaica (BOJ). It represents the additional allowance required to meet the Bank of Jamaica loan loss provisioning requirement. A non-distributable loan loss reserve was established to represent the excess of the Bank's provision over the IAS 39 requirements (note 39).

(expressed in thousands of Jamaican dollars unless otherwise stated)

24. Investment securities

	The Group		The Bank	
	2008	2007	2008	2007
Available-for-sale				
Government of Jamaica securities	18,197,603	18,631,921	13,307,690	14,539,094
Corporate bonds	84,392	251,636	-	-
Interest receivable	657,279	614,532	578,497	528,922
	18,939,274	19,498,089	13,886,187	15,068,016

	The Group		The Bank	
	2008	2007	2008	2007
Held-to-Maturity				
Government of Jamaica securities	34,969,913	38,315,167	9,736,607	15,236,942
Unquoted shares	212,822	5,240	212,687	5,105
Interest receivable	971,564	904,929	359,738	423,494
	36,154,299	39,225,336	10,309,032	15,665,541

Included in investment securities are Government of Jamaica Local Registered Stocks with a fair value of $90,000 (2007 - $90,000) which have been deposited by one of the Bank's subsidiaries, Scotia Jamaica Life Insurance Company Limited, with the insurance regulator, Financial Services Commission, pursuant to Section 8(1)(a) of the Insurance Regulations 2001.

The Group has not reclassified any financial asset measured at amortized cost to securities carried at fair value during the year.

25. Sundry assets

	The Group		The Bank	
	2008	2007	2008	2007
Accounts receivable and prepayments	156,085	133,422	155,658	134,376
Other	483,077	4,274	483,076	4,273
	639,162	137,696	638,734	138,649

(expressed in thousands of Jamaican dollars unless otherwise stated)

26. Property, plant and equipment

	The Group				
	Freehold Land and Buildings	Leasehold Improvements	Furniture, Fixtures, Motor vehicles & Equipment	Capital Work-in-Progress	Total
Cost:					
October 31, 2006	1,612,773	174,672	2,809,559	98,041	4,695,045
Additions	3,891	253	137,354	403,986	545,484
Disposals	(3,157)	-	(53,165)	-	(56,322)
Transfers	52,045	28,792	219,849	(300,686)	-
October 31, 2007	1,665,552	203,717	3,113,597	201,341	5,184,207
Additions	8,886	1,832	76,418	485,599	572,735
Disposals	(19)	-	(91,067)	-	(91,086)
Transfers	108,562	13,781	195,315	(317,658)	-
Write offs	-	-	-	(1,793)	(1,793)
October 31, 2008	1,782,981	219,330	3,294,263	367,489	5,664,063
Accumulated depreciation:					
October 31, 2006	229,409	98,804	2,017,114	-	2,345,327
Charge for the year	30,877	22,224	281,786	-	334,887
On disposals	(1,051)	-	(48,797)	-	(49,848)
October 31, 2007	259,235	121,028	2,250,103	-	2,630,366
Charge for the year	33,699	21,864	257,776	-	313,339
On disposals	-	-	(87,411)	-	(87,411)
October 31, 2008	292,934	142,892	2,420,468	-	2,856,294
Net book values					
October 31, 2008	1,490,047	76,438	873,795	367,489	2,807,769
October 31, 2007	1,406,317	82,689	863,494	201,341	2,553,841
October 31, 2006	1,383,364	75,868	792,445	98,041	2,349,718

(expressed in thousands of Jamaican dollars unless otherwise stated)

26. Property, plant and equipment (continued)

	The Bank				
	Freehold Land and Buildings	Leasehold Improvements	Furniture, Fixtures, Motor vehicles & Equipment	Capital Work-in Progress	Total
Cost:					
October 31, 2006	1,559,808	173,249	2,726,929	94,972	4,554,958
Additions	2,966	253	132,695	398,508	534,422
Disposals	(11)	-	(22,103)	-	(22,114)
Transfers	52,045	26,403	214,976	(293,424)	-
October 31, 2007	1,614,808	199,905	3,052,497	200,056	5,067,266
Additions	8,886	1,832	71,165	485,417	567,300
Disposals	(19)	-	(90,338)	-	(90,357)
Transfers	108,562	13,781	195,315	(317,658)	-
Write offs	-	-	-	(1,063)	(1,063)
October 31, 2008	1,732,237	215,518	3,228,639	366,752	5,543,146
Accumulated depreciation:					
October 31, 2006	215,794	97,419	1,955,852	-	2,269,065
Charge for the year	30,133	21,672	274,210	-	326,015
On disposals	-	-	(21,134)	-	(21,134)
October 31, 2007	245,927	119,091	2,208,928	-	2,573,946
Charge for the year	33,069	21,864	251,320	-	306,253
On disposals	-	-	(87,383)	-	(87,383)
October 31, 2008	278,996	140,955	2,372,865	-	2,792,816
Net book values					
October 31, 2008	1,453,241	74,563	855,774	366,752	2,750,330
October 31, 2007	1,368,881	80,814	843,569	200,056	2,493,320
October 31, 2006	1,344,014	75,830	771,077	94,972	2,285,893

(expressed in thousands of Jamaican dollars unless otherwise stated)

27. Retirement benefit asset/obligation

Amounts recognised in the balance sheet:

	The Group and The Bank	
	2008	2007
Defined benefit pension plan	5,402,224	4,839,913
Other post retirement benefits	(930,576)	(723,066)
	4,471,648	4,116,847

(a) Defined benefit pension plan

The Group has established a pension plan covering all permanent employees. The pension plan 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 fund established under the plan is valued by independent actuaries annually using the Projected Unit Credit Method. The latest actuarial valuation was carried out as at October 31, 2008.

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

	The Group and The Bank	
	2008	2007
Present value of funded obligations	9,087,313	6,911,961
Fair value of plan assets	(22,726,007)	(20,514,621)
Unrecognised actuarial gains	3,915,583	3,896,535
	(9,723,111)	(9,706,125)
Limitation on recognition of surplus due to uncertainty of obtaining future benefits	4,320,887	4,866,212
Asset in the balance sheet	(5,402,224)	(4,839,913)
Pension plan assets include the following:		
The parent company's ordinary stock units	1,201,133	1,384,691

(expressed in thousands of Jamaican dollars unless otherwise stated)

27. Retirement benefit asset/obligation (continued)

(a) Defined benefit pension plan (continued)

(ii) The movement in the present value of funded obligations for the year is as follows:

	The Group	
	2008	2007
At beginning of year	6,911,961	5,872,871
Interest and service costs	1,401,802	993,386
Past service cost – vested benefits	1,128,199	(110,984)
Actuarial loss on obligation	102,382	363,316
Benefits paid	(457,031)	(206,628)
At end of year	9,087,313	6,911,961

(iii) The movement in fair value of plan assets for the year is as follows:

	The Group and The Bank	
	2008	2007
At beginning of year	(20,514,621)	(18,483,277)
Expected return on plan assets	(2,146,694)	(1,944,184)
Actuarial loss on plan assets	(204,530)	(21,643)
Contributions	(317,193)	(272,145)
Benefits paid	457,031	206,628
At end of year	(22,726,007)	(20,514,621)

(iv) Analysis of fair value of plan assets:

	The Group and The Bank	
	2008	2007
Government stocks and bonds	15,423,191	15,165,390
Quoted investments	2,289,702	2,378,824
Repurchase agreements	2,918,306	1,344,425
Certificates of deposit	-	13,590
Real estate	812,822	757,907
Net current assets	1,281,986	854,485
	22,726,007	20,514,621

(expressed in thousands of Jamaican dollars unless otherwise stated)

27. Retirement benefit asset/obligation (continued)

(a) Defined benefit pension plan (continued)

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

	The Group and The Bank 2008	2007
Current service cost, net of employee contributions	128,552	66,802
Interest cost	1,023,716	712,710
Expected return on plan assets	(2,146,694)	(1,944,184)
Net actuarial gain recognised in year	(83,100)	(111,800)
Past service cost-vested benefits	1,128,199	(110,984)
Income not recognised due to limit	(570,453)	893,224
Included in staff costs (note 11)	(519,780)	(494,232)

The actual return on plan assets was $2,351,224 (2007: $1,965,826).

(vi) The principal actuarial assumptions used were as follows:

	The Group and The Bank 2008	2007
Discount rate	12.5%	12.5%
Expected return on plan assets	10.5%	10.5%
Future salary increases	10.5%	9.5%
Future pension increases	4.5%	4.5%
Average expected remaining working lives (years)	22.2	22.4

(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 plan.

In addition to the assumptions used for the pension plan, the main actuarial assumption is a long-term increase in health costs of 10.5% per year (2007: 10.5%).

(i) The amounts recognised in the balance sheet are as follows:

	The Group and The Bank 2008	2007
Present value of unfunded obligations	1,209,160	1,141,333
Unrecognised actuarial losses	(278,584)	(418,267)
Liability in the balance sheet	930,576	723,066

(expressed in thousands of Jamaican dollars unless otherwise stated)

27. Retirement benefit asset/obligation (continued)

(b) Other post retirement benefits (continued)

(ii) The movement in the present value of unfunded obligations for the year is as follows:

	The Group and The Bank 2008	The Group and The Bank 2007
At beginning of year	1,141,333	1,195,379
Interest and service costs	222,131	235,531
Actuarial (gain)/loss on obligation	(128,228)	(267,626)
Benefits paid	(26,076)	(21,951)
Liability in the balance sheet	1,209,160	1,141,333

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

	The Group and The Bank 2008	The Group and The Bank 2007
Current service cost	72,083	83,395
Interest cost	150,048	152,136
Net actuarial losses recognised in year	11,400	22,808
Total included in staff costs (Note 11)	233,531	258,339

(c) Five-year trend analysis

	Pension 2008	2007	2006	2005	2004
Fair value of plan assets	22,726,007	20,514,620	18,483,277	16,377,620	14,458,261
Present value of defined benefit obligation	9,087,313	6,911,961	5,872,871	5,124,428	3,916,362
Surplus in the plan	13,638,694	13,602,659	12,610,406	11,253,192	10,541,899
Experience adjustments to plan liabilities	427,376	474,870	(397,996)	225,179	1,265
Experience adjustments to plan assets	(102,140)	21,643	352,091	306,914	3,812,040

	Health and Group Life 2008	2007	2006	2005	2004
Present value of defined benefit obligation	1,209,160	1,141,333	1,195,379	877,965	394,895
Deficit in the plan	(1,209,160)	(1,141,333)	(1,195,379)	(877,965)	(394,895)
Experience adjustments to plan liabilities	(8,502)	(140,505)	56,384	422,921	13,487

(d) The estimated pension contributions expected to be paid into the plan during the next financial year is $69,714.

28. Deposits by the public

	The Group 2008	The Group 2007	The Bank 2008	The Bank 2007
Personal	75,980,234	73,426,038	72,194,221	69,566,282
Other	50,723,813	54,164,107	49,973,408	53,570,339
Interest payable	213,856	284,315	163,640	237,901
	126,917,903	127,874,460	122,331,269	123,374,522

Deposits include $96,879 (2007: $152,241) held as collateral for irrevocable commitments under letters of credit.

(expressed in thousands of Jamaican dollars unless otherwise stated)

29. Amounts due to other banks and financial institutions

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

30. Due to ultimate parent company

	The Group and Bank	
	2008	2007
Bank of Nova Scotia:		
Facility I	984,018	1,010,501
Facility II	2,785,447	2,759,576
Facility III	2,999,337	974,892
	6,768,802	4,744,969
Interest payable	71,488	51,713
	6,840,290	4,796,682
Deposits held with the Bank :		
Scotia Group Jamaica Limited.	155,185	61,203
Bank of Nova Scotia	8,231	-
	7,003,706	4,857,885

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

(ii) Facility II is a US$ denominated twelve (12) year non-revolving loan from the parent company, for on-lending. The repayment of the principal commenced May 2012 and is subject to a fixed interest rate of 5.63% per annum.

(iii) Facility III is a US$ denominated fourteen (14) year non-revolving loan from the parent company, for on-lending. The repayment of the principal commenced on May 2012 and is subject to a fixed interest rate of 5.95%.

The above loan facilities are unsecured.

31. Amounts due to other banks and financial institutions

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

32. Other liabilities

	The Group		The Bank	
	2008	2007	2008	2007
Accrued vacation and redundancy	59,314	101,009	55,158	97,340
Other accrued liabilities	812,583	560,208	789,818	546,338
Prepaid letters of credit	30,316	203,184	30,316	203,184
Other	239,858	224,122	220,084	208,255
	1,142,071	1,088,523	1,095,376	1,055,117

(expressed in thousands of Jamaican dollars unless otherwise stated)

33. Deferred tax asset and liabilities

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 its other subsidiaries.

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

	The Group		The Bank	
	2008	2007	2008	2007
Balances at beginning of year	(1,767,044)	(1,561,331)	(1,666,896)	(1,542,351)
Recognised in the statement of revenue and expenses (note 15)	(356,967)	(276,630)	(282,177)	(176,950)
Recognised in equity on available-for-sale investments:				
- fair value re-measurement	550,655	48,032	548,303	42,503
- transfer to net profit	5,616	10,963	5,616	9,902
Disposal of subsidiary	-	11,922	-	-
Net Deferred Tax Asset and Liability	(1,567,740)	(1,767,044)	(1,395,154)	(1,666,896)

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

	The Group		The Bank	
	2008	2007	2008	2007
Deferred income tax assets:				
Other post retirement benefits	310,192	240,616	310,192	240,616
Available-for-sale investments	495,053	(63,636)	495,198	(68,721)
Vacation accrued	19,107	18,268	18,386	17,647
Pension benefits	(1,800,742)	(1,613,304)	(1,800,742)	(1,613,304)
Accelerated tax depreciation	(155,007)	(90,300)	(153,944)	(89,252)
Impairment losses on loans	(260,618)	(161,673)	(254,244)	(153,882)
Interest receivable other	(175,725)	(97,015)	-	-
Net deferred tax liability	(1,567,740)	(1,767,044)	(1,395,154)	(1,666,896)

This is comprised of:

	The Group		The Bank	
	2008	2007	2008	2007
Deferred tax asset	178	-	-	-
Deferred tax liability	(1,567,918)	(1,767,044)	(1,395,154)	(1,666,896)
	(1,567,740)	(1,767,044)	(1,395,154)	(1,666,896)

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

	The Group		The Bank	
	2008	2007	2008	2007
Accelerated tax depreciation	64,694	15,801	64,692	15,722
Pensions and other post retirement benefits	117,875	105,777	117,863	105,777
Allowance for loan impairment	98,945	62,458	100,362	59,759
Vacation accrued	(839)	(4,394)	(740)	(4,308)
Interest receivable	76,292	96,988	-	-
Total [note 15(a)]	356,967	276,630	282,177	176,950

Deferred income tax liabilities excludes withholding tax and other taxes that would be payable on distribution of the unappropriated profits of subsidiaries as such amounts are permanently reinvested; such unappropriated profits totaled $11,332,114 at October 31, 2008 (2007: $8,666,725).

(expressed in thousands of Jamaican dollars unless otherwise stated)

34. Share capital

	Number of Units '000	
	2008	2007
Authorised:		
Ordinary shares of no par value	3,000,000	3,000,000
Preference shares of no par value	100,000	100,000
	3,100,000	3,100,000

	Number of Units '000		Amount	
	2008	2007	2008	2007
Issued and fully paid:				
Ordinary stock units	2,927,232	2,927,232	2,927,232	2,927,232
Preference shares	100,000	100,000	100,000	100,000
Total stated capital	3,027,232	3,027,232	3,027,232	3,027,232
Less: Redeemable preference shares required by IFRS to be accounted for as a liability			(100,000)	(100,000)
			2,927,232	2,927,232

Effective May 1, 2007, the bank made a bonus issue of 100,000,000 variable rate redeemable cumulative preference shares to holders of the Bank's ordinary shares at that date, at the rate of one preference share for every thirty ordinary shares.

Stated capital comprises both the ordinary and preference shares in accordance with the Companies Act, however, in accordance with IFRS the preference shares are presented as a liability.

Under the provisions of the Companies Act 2004, the shares have no par value.

35. Reserve fund

	The Group		The Bank	
	2008	2007	2008	2007
As at October 31	3,158,481	3,158,481	2,930,616	2,930,616

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 the required statutory levels are attained.

36. 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 transfer out of the retained earnings reserve must be approved by the Bank of Jamaica.

37. Cumulative remeasurement result from available-for-sale financial assets

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

38. Capital reserve

This represents the gain on liquidation of Scotia Jamaica General Insurance Brokers Limited. The 2007 amount represents the gain on sale of shares held in Scotia Jamaica Investment Management Limited and Dehring, Bunting and Golding Limited.

39. Loan loss reserve

This is a non-distributable loan loss reserve which represents the excess of the loan loss provision over IAS 39 requirements (note 23).

(expressed in thousands of Jamaican dollars unless otherwise stated)

40. Other reserves

	The Group	
	2008	2007
Capital reserve arising on consolidation, net	67	67
Reserves of subsidiary capitalised through issue of bonus shares	7,548	16,548
General reserve	136	136
Transfer of reserves relating to the liquidation of a subsidiary	(4,823)	-
	2,928	16,751

41. Financial risk management

(a) Overview and risk management framework

By their nature, the Group's activities are principally related to the use of financial instruments. Therefore this will involve analysis, evaluation and management of some degree of risk or combination of risks. The Group'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 Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Board of Directors is ultimately responsible for the establishment and oversight of the Group's risk management framework. The Board has established committees for managing and monitoring risks.

Two key committees for managing and monitoring risks are as follows:

(i) Board Audit Committee

The Board Audit Committee is comprised solely of independent directors. The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Committee is assisted in its oversight role by the Internal Audit Department. The Internal Audit Department undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Board Audit Committee.

The Board Audit Committee also reviews the annual and quarterly financial statements, related policies and assumptions for recommendation of approval to the Board of Directors.

(ii) Asset and Liability Committee

The Asset and Liability Committee (ALCO) has the responsibility of ensuring that risks are managed within the limits established by the Board of Directors. The Committee meets at least once monthly to review risks, evaluate performance and provide strategic direction. The Committee reviews investment, loan and funding activities, and ensures that the existing policies comprehensively deal with the management and diversification of the Group's investment and loan portfolios and that appropriate limits are being adhered to.

The Investment and Loan Committee performs a similar role to ALCO for Scotia Jamaica Life Insurance, which provides a specialized focus due to the different nature of the insurance business.

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

(b) Credit risk

(i) Credit risk management

The Group takes 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 made for losses that have been incurred at the balance sheet date. However significant negative changes in the economy, or industry segment that represents a concentration in the Group's loan portfolio, or positions in tradeable assets such as bonds could result in losses that are different from those provided for at the balance sheet date.

At a strategic level, the Group manages the levels of credit risk they undertake by placing limits on the amount of risk accepted in relation to any one borrower, or groups of borrowers, and industry segments. 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.

Operationally, 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 restructuring loans where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees. The principal collateral types for loans are:

- Cash
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities.

In addition, the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans.

Collateral held as security for financial assets other than loans is determined by the nature of the instrument. Debt securities are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

The Group's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance-sheet date on a case-by-case basis, and are applied to all individually significant accounts.

41. Financial risk management

(b) Credit risk (continued)

(i) Credit risk management (continued)

The assessment normally encompasses collateral held and the anticipated receipts for that individual account. Collectively assessed impairment allowances are provided for:

(1) portfolios of homogenous assets

(2) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques.

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis.

(ii) 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 parities, 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 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.

41. Financial risk management

(b) Credit risk (continued)

(ii) Credit related commitments (continued)

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.

(iii) Credit quality

In measuring credit risk of commercial loans at the counterparty level, the Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed internally and combine statistical analysis with credit officer judgment and are validated, where appropriate, by comparison with externally available data. The Group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class:

Group's internal ratings scale and mapping of external ratings

Group's rating	External rating : Standard & Poor's equivalent
Excellent	AAA to AA+
Very Good	AA to A+
Good	A to A-
Acceptable	BBB+ to BB+
Higher Risk	BB to B-

Retail loans are risk-rated based on an internal scoring system which combine statistical analysis with credit officer judgment, and fall within the following categories:

- Good
- Acceptable
- Higher risk

(expressed in thousands of Jamaican dollars unless otherwise stated)

41. Financial risk management (continued)

(b) Credit risk (continued)

(iii) Credit quality (continued)

The table below shows the percentage of the Group's loan portfolio as at October 31, 2008 relating to loans and credit commitments for each of the Group's internal rating categories:

	Loans and credit commitments			
	The Group		The Bank	
	2008 (%)	2007 (%)	2008 (%)	2007 (%)
Excellent	5.2	7.7	5.6	8.3
Very Good	0.3	0.6	0.3	0.7
Good	21.6	19.4	18.7	17.2
Acceptable	26.0	29.1	25.4	28.2
Higher Risk	46.9	43.2	50.0	45.6
	100.0	100.0	100.0	100.0

The following table presents an analysis by rating agency designation of debt and similar securities, other than loans, based on Standard & Poor's ratings or their equivalent as at October 31, 2008:

	The Group		The Bank	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
BB to B-	83,504,841	79,675,213	42,973,466	45,097,399
Unrated	83,462	251,636	-	-
	83,588,303	79,926,849	42,973,466	45,097,399

	The Group		The Bank	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Of which classified as:				
Deposits with the Bank of Jamaica	27,406,099	19,667,680	17,689,480	13,027,961
Investment securities				
Held-to-maturity	35,941,477	39,220,095	10,096,345	15,660,437
Available-for-sale	18,939,274	19,498,089	13,886,188	15,068,016
Pledged assets				
Held-to-maturity	1,301,453	536,512	1,301,453	536,512
Available-for-sale	-	804,473	-	804,473
	83,588,303	79,926,849	42,973,466	45,097,399

(expressed in thousands of Jamaican dollars unless otherwise stated)

41. Financial risk management (continued)

(b) Credit risk (continued)

(iv) Maximum exposure to credit risk

The following represents the maximum exposure to credit risk, before taking account of any collateral held or other credit enhancements. For financial assets, the exposure to credit risk equals their carrying amount. For financial guarantees granted, the maximum exposure to credit risk is the maximum amount that would have to be paid, if the guarantees were called upon. For loan commitments and other credit-related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

	Maximum Exposure			
	The Group		The Bank	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Deposits with the Bank of Jamaica	38,570,781	30,710,763	28,808,582	23,826,656
Cash and balances due from other banks	14,944,451	21,476,963	14,938,900	21,389,895
Government securities purchased under resale agreements	523,392	1,483,598	407,920	1,256,311
Pledged assets	1,301,453	1,340,985	1,301,453	1,340,985
Loans, after allowance for impairment losses	86,152,384	73,105,673	79,996,715	68,126,067
Investment securities				
Available-for-sale	18,939,274	19,498,089	13,886,187	15,068,016
Held-to-maturity	36,154,299	39,225,336	10,309,032	15,665,541
Customers' liabilities under acceptances, guarantees and letters of credit	6,228,186	7,354,754	5,835,740	6,689,127
Other assets	891,436	1,251,342	-	-
	203,705,656	195,447,503	155,484,529	153,362,598

(expressed in thousands of Jamaican dollars unless otherwise stated)

41. Financial risk management (continued)

(b) Credit risk (continued)

(v) Concentration of exposure to credit risk

(1) Loans and leases

The following table summarises credit exposure for loans and leases at their carrying amounts, as categorised by the industry sectors. Loans and leases are well diversified across industry sectors, and are primarily extended to customers within Jamaica.

	The Group			
	Loans and Leases	Acceptances, Guarantees and Letters of Credit	Total 2008	Total 2007
Agriculture, fishing and mining	964,638	44,954	1,009,592	1,117,593
Construction and real estate	2,070,483	106,101	2,176,584	2,015,796
Distribution	4,327,472	1,093,909	5,421,381	5,356,395
Financial institutions	6	3,110,993	3,110,999	3,793,816
Government and public entities	15,490,927	293,618	15,784,545	13,032,996
Manufacturing	5,996,606	844,449	6,841,055	3,873,189
Personal	44,243,935	534,831	44,778,766	38,295,071
Professional and other services	4,030,581	171,977	4,202,558	3,260,999
Tourism and entertainment	8,777,817	27,354	8,805,171	9,482,958
Interest receivable	858,685	-	858,685	761,982
Total	86,761,150	6,228,186	92,989,336	80,990,795
Total impairment allowance			(608,766)	(530,368)
			92,380,570	80,460,427

	The Bank			
	Loans and Leases	Acceptances, Guarantees and Letters of Credit	Total 2008	Total 2007
Agriculture, fishing and mining	964,638	44,954	1,009,592	1,117,593
Construction and real estate	2,070,483	106,101	2,176,584	2,015,796
Distribution	4,327,472	1,093,909	5,421,381	5,356,395
Financial institutions	6	3,110,993	3,110,999	3,793,816
Government and public entities	15,489,836	293,618	15,783,454	13,031,018
Manufacturing	5,996,606	844,449	6,841,055	3,873,189
Personal	38,112,254	142,385	38,254,639	32,678,438
Professional and other services	4,023,152	171,977	4,195,129	3,251,776
Tourism and entertainment	8,777,817	27,354	8,805,171	9,482,958
Interest receivable	801,960	-	801,960	712,991
Total	80,564,224	5,835,740	86,399,964	75,313,970
Total impairment allowance			(567,509)	(498,776)
			85,832,455	74,815,194

(expressed in thousands of Jamaican dollars unless otherwise stated)

41. Financial risk management (continued)

(b) Credit risk (continued)

(v) Concentration of exposure to credit risk (continued)

(2) Debt securities and amounts due from other banks

The following table summarises credit exposure for debt securities and amounts due from other banks at their carrying amounts, as categorised by issuer:

	Maximum Exposure			
	The Group		The Bank	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Government	56,098,742	59,807,533	25,283,986	32,069,438
Bank of Jamaica	38,570,781	30,710,763	28,808,582	23,826,656
Financial institutions	15,352,548	22,960,560	15,181,522	22,646,205
Corporate and other	83,597	251,772	-	-
	110,105,668	113,730,628	69,274,090	78,542,299

Other than exposure on Government of Jamaica securities there is no significant concentration of liquid funds. For securities purchased under resale agreements, titles to securities are transferred to the company for the duration of the agreement.

(c) Market risk

The Group manages market risk through risk limits approved by the Board of Directors. Risk limits are determined for each portfolio, and are set by product and risk type, with market liquidity being a principal factor in determining the level of limits set. Limits are set using a combination of risk measurement techniques, including position limits and stress testing to identify the potential net interest income and market value effects of the positions in different scenarios. The results of the stress tests are reviewed by senior management and by the Board of Directors.

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.

The management of the individual elements of market risks – interest rate and currency risk – is as follows:

(i) 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.

(expressed in thousands of Jamaican dollars unless otherwise stated)

41. Financial risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

The Group monitors interest rate risk using its Asset and Liability model. It calculates the interest rate risk gaps, economic value and annual income amounts which are compared with risk limits approved by the Board of Directors. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly.

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, but also guarantees and other commitments such as letters of credit.

The following tables summarize 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 the earlier of contractual repricing and maturity dates.

	The Group						
	2008						
	Immediately rate sensitive [3]	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-rate sensitive	Total
Cash resources	1,354,274	14,857,254	23,565,553	-	-	15,643,311	55,420,392
Securities purchased under resale agreements	-	410,085	108,735	-	-	4,572	523,392
Pledged assets	-	-	1,301,453	-	-	-	1,301,453
Loans [1]	23,976,883	29,638,408	5,309,145	16,501,657	8,809,439	1,916,852	86,152,384
Investment securities [2]							
- Available-for-sale	-	3,064,075	1,317,417	10,617,768	3,282,735	657,279	18,939,274
- Held to maturity	-	26,009,445	6,383,607	2,257,203	318,192	1,185,852	36,154,299
Other assets	-	-	-	-	-	15,969,970	15,969,970
Total assets	25,331,157	73,979,267	37,985,910	29,376,628	12,410,366	35,377,836	214,461,164
Deposits	107,792,730	14,171,552	6,039,625	4,236,908	6,083,994	285,344	138,610,153
Other liabilities	-	-	-	-	-	13,572,389	13,572,389
Policyholders' fund	18,270,981	2,342,644	11,608,391	-	-	(1,660,598)	30,561,418
Stockholders' equity	-	-	-	-	-	31,717,204	31,717,204
Total liabilities and stockholders' equity	126,063,711	16,514,196	17,648,016	4,236,908	6,083,994	43,914,339	214,461,164
Total interest rate sensitivity gap	(100,732,554)	57,465,071	20,337,894	25,139,720	6,326,372	(8,536,503)	-
Cumulative gap	(100,732,554)	(43,267,483)	(22,929,589)	2,210,131	8,536,503	-	-
	2007						
Total assets	28,429,007	75,313,256	26,134,403	35,190,684	7,027,745	33,112,407	205,207,502
Total liabilities and stockholders' equity	121,216,687	19,355,898	15,999,348	5,912,032	1,212,120	41,511,417	205,207,502
Total interest rate sensitivity gap	(92,787,680)	55,957,358	10,135,055	29,278,652	5,815,625	(8,399,010)	-
Cumulative gap	(92,787,680)	(36,830,322)	(26,695,267)	2,583,385	8,399,010	-	-

(expressed in thousands of Jamaican dollars unless otherwise stated)

41. Financial risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

	The Bank						
	2008						
	Immediately rate sensitive [1]	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-rate sensitive	Total
Cash resources	1,400,791	12,520,458	16,645,954	-	-	15,094,517	45,601,720
Securities purchased under resale agreement	-	405,000	-	-	-	2,920	407,920
Pledged assets	-	-	1,301,453	-	-	-	1,301,453
Loans [3]	23,976,883	24,501,597	5,172,034	15,924,207	8,561,867	1,860,127	79,996,715
Investment securities [2]							
- Available-for-sale	-	-	47,176	10,078,549	3,181,964	578,498	13,886,187
- Held to maturity	-	8,937,092	699,516	100,000	-	572,424	10,309,032
Investment in subsidiaries	-	-	-	-	-	242,093	242,093
Other assets	-	-	-	-	-	14,627,028	14,627,028
Total assets	25,377,674	46,364,147	23,866,133	26,102,756	11,743,831	32,917,607	166,372,148
Deposits	105,331,440	12,212,580	5,325,849	4,209,662	6,054,685	235,128	133,369,344
Other liabilities	-	-	-	-	-	13,242,980	13,242,980
Stockholders' equity	-	-	-	-	-	19,759,824	19,759,824
Total liabilities and stockholders' equity	105,331,440	12,212,580	5,325,849	4,209,662	6,054,685	33,237,932	166,372,148
Total interest rate sensitivity gap	(79,953,766)	34,151,567	18,540,284	21,893,094	5,689,146	(320,325)	-
Cumulative gap	(79,953,766)	(45,802,199)	(27,261,915)	(5,368,821)	320,325	-	-
	2007						
Total assets	28,429,007	51,415,818	16,544,340	29,956,039	6,527,876	30,443,028	163,316,108
Total liabilities and stockholders' equity	104,113,397	15,165,785	4,519,371	5,912,032	640,922	32,964,601	163,316,108
Total interest rate sensitivity gap	(75,684,390)	36,250,033	12,024,969	24,044,007	5,886,954	(2,521,573)	-
Cumulative gap	(75,684,390)	(39,434,357)	(27,409,388)	(3,365,381)	2,521,573	-	-

(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.

Notes to the Financial Statements (continued)

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(expressed in thousands of Jamaican dollars unless otherwise stated)

41. Financial risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

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

	The Group 2008					
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Weighted Average
	%	%	%	%	%	%
Cash resources	1.44	8.62	13.09	-	-	10.71
Investment securities [1]						
Available-for-sale	-	16.35	16.11	7.60	5.76	9.63
Held to maturity	-	15.90	16.58	14.49	17.00	15.94
Securities purchased under resale agreements	-	15.47	13.81	-	-	15.12
Pledged assets	-	-	16.51	-	-	16.51
Loans [2]	19.64	25.31	16.91	16.12	8.96	19.66
Deposits [3]	4.26	7.63	7.95	7.40	5.92	4.93
Securities sold under repurchase agreements	-	-	-	-	-	-
Policyholders' fund	9.66	11.00	11.09	-	-	10.27

	The Group 2007					
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Weighted Average
	%	%	%	%	%	%
Cash resources	4.12	8.30	9.56	13.57	-	8.35
Investment securities [1]						
Available-for-sale	-	14.57	13.66	7.54	7.56	9.14
Held to maturity	-	14.12	14.74	13.57	14.43	14.21
Securities purchased under resale agreements	19.63	11.99	11.76	-	-	13.53
Pledged assets	-	15.34	15.84	-	-	15.45
Loans [2]	16.41	25.85	17.58	17.05	10.77	19.40
Deposits [3]	4.18	7.41	7.92	6.83	6.71	4.86
Securities sold under repurchase agreements	-	12.25	-	-	-	12.25
Policyholders' fund	9.35	11.00	10.25	-	-	9.82

(expressed in thousands of Jamaican dollars unless otherwise stated)

41. Financial risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

The Bank 2008

	Immediately rate sensitive %	Within 3 months %	3 to 12 months %	1 to 5 years %	Over 5 years %	Weighted average %
Cash resources	1.56	7.44	12.11	-	-	9.71
Investment securities [1]						
Available-for-sale	-	-	14.52	7.32	7.82	7.46
Held to maturity	-	16.07	16.51	13.88	-	16.08
Securities purchased under resale agreements	-	15.51	-	-	-	15.51
Pledged assets	-	-	16.51	-	-	16.51
Loans [2]	19.64	27.72	16.98	16.30	8.89	20.14
Deposits [3]	4.17	7.38	7.72	7.40	5.91	4.79

The Bank 2007

	Immediately rate sensitive %	Within 3 months %	3 to 12 months %	1 to 5 years %	Over 5 years %	Weighted average %
Cash resources	4.12	7.66	8.50	14.00	-	7.68
Investment securities [1]						
Available-for-sale	-	14.44	11.75	7.15	7.41	7.64
Held to maturity	-	14.35	13.66	-	14.01	14.23
Securities purchased under resale agreements	19.63	12.76	-	-	-	14.40
Pledged assets	-	15.34	15.84	-	-	15.45
Loans [2]	16.41	28.03	17.67	17.13	10.73	19.72
Deposits [3]	4.11	7.23	7.68	6.83	7.34	4.73
Securities sold under repurchase agreements	-	12.25	-	-	-	12.25

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.

(expressed in thousands of Jamaican dollars unless otherwise stated)

41. Financial risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

Sensitivity analysis

The changes in the interest rates as noted below are based on recently observed market movements. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

Sensitivity of market risk variable	2008	2007
JMD Interest rates	increase/decrease by 100bps	increase/decrease by 100bps
USD Interest rates	increase/decrease by 250bps	increase/decrease by 100bps

	The Group		The Bank	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Effect on Profit or loss	283,535	276,604	276,539	273,165
Effect on Shareholders equity	414,308	385,987	410,119	381,403

Sensitivity to interest rate risk for SJLIC, our insurance subsidiary is considered in note 41(e) under the DCAT scenarios.

(ii) Foreign exchange risk

The Group takes on exposure to the 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 USD, CAD, GBP, and EUR. 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 summarizes the exposure to foreign currency exchange risk:

	The Group						
	2008						
JMD Equivalent	JMD $'000	USD $'000	CAD $'000	GBP $'000	EUR $'000	OTHER $'000	TOTAL $'000
ASSETS							
Cash Resources	37,339,475	12,495,549	1,151,604	4,225,935	170,291	37,538	55,420,392
Investments	42,853,665	12,189,067	-	-	50,841	-	55,093,573
Govt securities purchased under resale agreements	523,392	-	-	-	-	-	523,392
Pledged assets	1,301,453	-	-	-	-	-	1,301,453
Loans	64,064,137	21,592,522	204,066	173,978	117,681	-	86,152,384
Other assets	11,761,325	2,751,936	14,240	(56,618)	1,526,465	(27,378)	15,969,970
	157,843,447	49,029,074	1,369,910	4,343,295	1,865,278	10,160	214,461,164
LIABILITIES							
Deposits	87,121,604	45,577,114	1,319,938	4,248,085	343,150	262	138,610,153
Other liabilities	7,170,681	4,725,289	49,668	92,048	1,524,794	9,909	13,572,389
Policyholders' liabilities	30,561,418	-	-	-	-	-	30,561,418
	124,853,703	50,302,403	1,369,606	4,340,133	1,867,944	10,171	182,743,960
NET BALANCE SHEET FINANCIAL POSITION	32,989,744	(1,273,329)	304	3,162	(2,666)	(11)	31,717,204

(expressed in thousands of Jamaican dollars unless otherwise stated)

41. Financial risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

	The Group						
	2007						
JMD Equivalent	JMD	USD	CAD	GBP	EUR	OTHER	TOTAL
ASSETS							
Cash resources	29,547,516	18,268,496	1,251,437	5,184,098	131,160	32,399	54,415,106
Investments	45,399,944	13,323,481	-	-	-	-	58,723,425
Govt securities purchased under resale agreements	1,483,598	-	-	-	-	-	1,483,598
Pledged assets	1,340,985	-	-	-	-	-	1,340,985
Loans	53,778,822	18,638,633	286,916	268,998	132,304	-	73,105,673
Other assets	13,767,614	676,342	(169,515)	(250,263)	2,116,132	(1,595)	16,138,715
	145,318,479	50,906,952	1,368,838	5,202,833	2,379,596	30,804	205,207,502
LIABILITIES							
Deposits	83,062,232	45,666,785	1,283,542	5,037,916	159,375	557	135,210,407
Securities sold under resale agreements	236,512	-	-	-	-		236,512
Other liabilities	7,528,395	4,908,173	85,026	160,055	2,231,552	30,289	14,943,490
Policyholders' liabilities	27,014,768	-	-	-	-	-	27,014,768
	117,841,907	50,574,958	1,368,568	5,197,971	2,390,927	30,846	177,405,177
NET BALANCE SHEET FINANCIAL POSITION	27,476,572	331,994	270	4,862	(11,331)	(42)	27,802,325

(expressed in thousands of Jamaican dollars unless otherwise stated)

41. Financial risk management (continued)

(c) Market risk (continued)

(i) Foreign exchange risk (continued)

The table below summarizes exposure to foreign currency exchange risk:

	The Bank						
	2008						
JMD Equivalent	JMD	USD	CAD	GBP	EUR	OTHER	TOTAL
ASSETS							
Cash resources	27,603,260	12,424,801	1,151,604	4,214,226	170,291	37,538	45,601,720
Investments	11,955,311	12,189,067	-	-	50,841	-	24,195,219
Investment in subsidiary	242,093	-	-	-	-	-	242,093
Govt securities purchased under resale agreements	407,920	-	-	-	-	-	407,920
Pledged assets	1,301,453	-	-	-	-	-	1,301,453
Loans	57,908,459	21,592,522	204,066	173,978	117,690	-	79,996,715
Other assets	10,418,383	2,751,936	14,240	(56,618)	1,526,465	(27,378)	14,627,028
	109,836,889	48,958,326	1,369,910	4,331,586	1,865,277	10,160	166,372,148
LIABILITIES							
Deposits	81,920,083	45,547,952	1,319,938	4,237,959	343,150	262	133,369,344
Other liabilities	6,841,282	4,725,287	49,668	92,040	1,524,794	9,909	13,242,980
Policyholders' liabilities	88,761,365	50,273,239	1,369,606	4,329,999	1,867,944	10,171	146,612,324
NET BALANCE SHEET FINANCIAL POSITION	21,075,524	(1,314,913)	304	1,587	(2,667)	(11)	19,759,824

	The Bank						
	2007						
JMD Equivalent	JMD	USD	CAD	GBP	EUR	OTHER	TOTAL
ASSETS							
Cash resources	22,676,081	18,193,299	1,251,437	5,159,064	131,161	32,399	47,443,441
Investments	17,410,077	13,323,480	-	-	-	-	30,733,557
Investments in subsidiary	254,738	-	-	-	-	-	254,738
Govt securities purchased under resale agreements	1,256,311	-	-	-	-	-	1,256,311
Pledged assets	1,340,985	-	-	-	-	-	1,340,985
Loans	48,799,216	18,638,633	286,916	268,998	132,304	-	68,126,067
Other assets	11,789,908	676,342	(169,515)	(250,263)	2,116,132	(1,595)	14,161,009
	103,527,316	50,831,754	1,368,838	5,177,799	2,379,597	30,804	163,316,108
LIABILITIES							
Deposits	78,320,951	45,626,656	1,283,542	5,015,732	159,374	557	130,406,812
Securities sold under resale agreements	236,512	-	-	-	-	-	236,512
Other liabilities	6,774,045	4,908,154	85,026	160,050	2,231,551	30,289	14,189,115
	85,331,508	50,534,810	1,368,568	5,175,782	2,390,925	30,846	144,832,439
NET BALANCE SHEET FINANCIAL POSITION	18,195,808	296,944	270	2017	(11,328)	(42)	18,483,669

(expressed in thousands of Jamaican dollars unless otherwise stated)

41. Financial risk management (continued)

(c) Market risk (continued)

(i) Foreign exchange risk (continued)

The following significant exchange rates were applied during the period:

	Average rate for the period		Reporting date spot rate	
	2008	2007	2008	2007
USD	71.8371	71.4473	76.1253	71.0493
CAD	69.5487	70.2689	61.6269	73.6303
GBP	137.8254	139.2707	121.9273	146.4254
EUR	106.8925	107.8125	96.7723	102.3971

Sensitivity to foreign exchange risk

A weakening of the JMD against the currencies indicated at October 31 would have increased/(decreased) equity and profit by the amounts shown below. This analysis is performed on the same basis for 2007. The strengthening of the JMD against the same currencies at October 31 would have had the equal but opposite effect on the amounts shown, on the basis that all other variables remain constant.

	2008	2007
USD	Increase/decrease by 7%	Increase/decrease by 7%
CAD	Increase/decrease by 25%	Increase/decrease by 25%
GBP	Increase/decrease by 20%	Increase/decrease by 15%
EUR	Increase/decrease by 20%	Increase/decrease by 20%

	The Group		The Bank	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Effect on profit and loss and Shareholders' equity	236,865	201,315	236,631	195,948

(expressed in thousands of Jamaican dollars unless otherwise stated)

41. Financial risk management (continued)

(d) Liquidity Risk

The Group is exposed to daily calls on its available cash resources from overnight and maturing deposits, loan drawdowns 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 matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for companies 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. Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash and central bank balances; government and corporate bonds, treasury bills and loans.

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.

Financial liabilities cash flows

The tables below present the undiscounted cash flows (both interest and principal cash flows) to settle financial liabilities, based on contractual repayment obligations. The Group expects that many policyholders/depositors/customers will not request repayment on the earliest date the Group could be required to pay. The expected maturity dates of financial assets and liabilities are based on estimates made by management as determined by retention history.

The Group

	The Group 2008					
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Total
Financial liabilities						
Deposits	123,591,406	6,766,132	5,737,492	7,107,833	-	143,202,863
Policyholders' Fund	20,219,525	12,904,742	-	-	-	33,124,267
Amounts due to subsidiaries						
Other liabilities	5,433,777	1,063,301	2,006,251	1,470,258	3,599,802	13,572,389
Total Liabilities (contractual maturity dates)	149,244,708	20,734,175	7,742,743	8,578,091	3,599,802	189,899,519

	2007					
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Total
Financial liabilities						
Deposits	119,839,090	6,694,224	9,777,148	1,289,549	-	137,600,011
Securities sold under repurchase agreement	236,984	-	-	-	-	236,984
Policyholders' Fund	14,513,541	13,922,215	-	-	-	28,435,756
Other liabilities	5,360,670	2,346,103	3,257,604	1,321,436	2,657,677	14,943,490
Total Liabilities (contractual maturity dates)	139,950,285	22,962,542	13,034,752	2,610,985	2,657,677	181,216,241

(expressed in thousands of Jamaican dollars unless otherwise stated)

41. Financial risk management (continued)

(d) Liquidity Risk (continued)

The Bank

	The Bank 2008					
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Total
Financial liabilities						
Deposits	119,909,217	5,998,310	5,737,492	6,170,496	-	137,815,515
Other liabilities	5,345,759	893,430	1,940,132	1,470,258	3,593,401	13,242,980
Total Liabilities (contractual maturity dates)	125,254,976	6,891,740	7,677,624	7,640,754	3,593,401	151,058,495

	2007					
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Total
Financial liabilities						
Deposits	116,168,045	6,030,177	9,777,148	718,351		132,693,721
Securities sold under repurchase agreement	236,984	-	-	-	-	236,984
Capital management and Other liabilities	4,748,034	2,248,293	3,223,127	1,321,436	2,648,225	14,189,115
Total Liabilities (contractual maturity dates)	121,153,063	8,278,470	13,000,275	2,039,787	2,648,225	147,119,820

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

	The Group 2008					
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Total
Cash resources	30,482,083	24,938,309	-	-	-	55,420,392
Securities purchased under resale agreements	413,042	110,350	-	-	-	523,392
Pledged assets	-	-	-	1,301,453	-	1,301,453
Loans	22,368,739	10,238,486	32,997,416	20,547,743	-	86,152,384
Investment securities						
- Available-for-sale	635,900	948,925	10,958,576	6,395,873	-	18,939,274
- Held to maturity	2,332,673	3,861,675	21,341,360	8,618,591	-	36,154,299
Other assets	3,159,066	893,431	1,940,132	1,470,258	8,507,083	15,969,970
Total assets	59,391,503	40,991,176	67,237,484	38,333,918	8,507,083	214,461,164
Deposits	123,233,696	6,257,086	3,006,486	6,112,885	-	138,610,153
Other liabilities	5,433,777	1,063,301	2,006,251	1,470,258	3,599,802	13,572,389
Policyholders' fund	18,953,027	11,608,391	-	-	-	30,561,418
Stockholders' equity	-	-	-	-	31,717,204	31,717,204
Total liabilities and stockholders' equity	147,620,500	18,928,778	5,011,737	7,583,143	35,317,006	214,461,164
Total liquidity gap	(88,228,997)	22,062,398	62,225,747	30,750,775	(26,809,923)	-
Cumulative gap	(88,228,997)	(66,166,599)	(3,940,852)	26,809,923	-	-
	2007					
Total assets	67,505,404	28,577,056	70,864,540	30,627,698	7,632,804	205,207,502
Total liabilities and stockholders' equity	151,896,403	7,728,070	12,588,980	2,533,556	30,460,493	205,207,502
Total liquidity gap	(84,390,999)	20,848,986	58,275,560	28,094,142	(22,827,689)	-
Cumulative gap	(84,390,999)	(63,542,013)	(5,266,453)	22,827,689	-	-

(expressed in thousands of Jamaican dollars unless otherwise stated)

41. Financial risk management (continued)

(d) Liquidity Risk (continued)

	The Bank					
	2008					
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Total
Cash resources	28,158,259	17,443,461	-	-	-	45,601,720
Securities purchased under resale agreements	407,920	-	-	-	-	407,920
Pledged assets	-	-	-	1,301,453	-	1,301,453
Loans	22,234,688	9,975,917	31,845,638	15,940,472	-	79,996,715
Investment securities						
- Available-for-sale	568,252	57,422	10,091,234	3,169,279	-	13,886,187
- Held to maturity	941,702	256,096	8,200,000	911,234	-	10,309,032
Subsidiary companies	-	-	-	-	242,093	242,093
Other assets	1,874,081	893,430	1,940,132	1,470,258	8,449,127	14,627,028
Total assets	54,184,902	28,626,326	52,077,004	22,792,696	8,691,220	166,372,148
Deposits	119,597,904	5,589,406	3,006,486	5,175,548	-	133,369,344
Other liabilities	5,345,759	893,430	1,940,132	1,470,258	3,593,401	13,242,980
Stockholders' equity	-	-	-	-	19,759,824	19,759,824
Total liabilities and stockholders' equity	124,943,663	6,482,836	4,946,618	6,645,806	23,353,225	166,372,148
Total liquidity gap	(70,758,761)	22,143,490	47,130,386	16,146,890	(14,662,005)	-
Cumulative gap	(70,758,761)	(48,615,271)	(1,484,885)	14,662,005	-	-
	2007					
Total assets	61,241,519	23,832,762	52,250,237	18,172,213	7,819,377	163,316,108
Total liabilities and stockholders' equity	120,630,355	7,036,999	12,554,503	1,962,357	21,131,894	163,316,108
Total liquidity gap	(59,388,836)	16,795,763	39,695,734	16,209,856	(13,312,517)	-
Cumulative gap	(59,388,836)	(42,593,073)	(2,897,339)	13,312,517	-	-

(expressed in thousands of Jamaican dollars unless otherwise stated)

41. Financial risk management (continued)

(e) Insurance risk

The group issues long term 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 company 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 is 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.

Two key matters affecting insurance risk are discussed below:

(i) Long term insurance contracts

Long-term contracts are typically for a minimum period of 5 years and a maximum period which is determined by the remaining life of the insured. In addition to the estimated benefits which may be payable under the contract, the insurer has to assess the cash flows which may be attributable to the contract.

41. Financial risk management (continued)

(e) Insurance risk (continued)

The Group has developed its insurance underwriting strategy and reinsurance arrangements 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. The Group's underwriting strategy includes the use of a medical questionnaire with benefits limited to reflect the health condition of applications and retention limits on any single life insured.

(1) Frequency and severity of claims

For contracts where death is the insured risk the most significant factors that could increase the overall frequency and severity of claims are epidemics and wide-ranging lifestyle changes such as in eating, smoking and exercise habits resulting in earlier or more claims than expected.

The Group charges for mortality risks on a monthly basis for all insurance contracts and has the right to alter these charges to a certain extent based on mortality experience and hence minimize its exposure to mortality risk. Delays in implementing increases in charges and market or regulatory restraints over the extent of the increases may reduce its mitigating effect.

The tables below indicate the concentration of insured benefits across bands of insured benefits per individual life assured and group life insured benefits. The benefit insured figures are shown gross and net of reinsurance.

	Total benefits assured			
	Before and After Reinsurance 2008	%	Before and After Reinsurance 2007	%
Individual Life Benefits assured per life				
0 to 250,000	4,811,064	21	5,447,068	27
250,001 to 500,000	2,059,880	9	1,836,203	9
500,001 to 750,000	3,277,803	14	2,557,767	13
750,001 to 1,000,000	1,889,547	8	1,372,858	7
1,000,001 to 1,500,000	4,432,037	19	4,082,769	21
1,500,001 to 2,000,000	2,224,426	10	824,015	4
Over 2,000,000	4,681,827	19	3,736,759	19
Total	23,376,584	100	19,857,439	100

	2008 Total benefits assured			
	Before Reinsurance	%	After Reinsurance	%
Group Life Benefits assured per life				
0 to 250,000	3,799,558	11	3,799,558	11
250,001 to 500,000	12,306,135	35	12,306,135	35
500,001 to 750,000	2,323,808	7	2,323,808	7
750,001 to 1,000,000	1,497,586	4	1,497,586	4
1,000,001 to 1,500,000	3,048,623	9	3,048,623	9
1,500,001 to 2,000,000	2,220,599	6	2,220,599	6
Over 2,000,000	10,145,547	28	10,046,227	28
Total	35,341,856	100	35,242,536	100

(expressed in thousands of Jamaican dollars unless otherwise stated)

41. Financial risk management (continued)

(e) Insurance risk (continued)

(i) Long-term insurance contracts (continued)

(1) Frequency and severity of claims (continued)

	2007 Total benefits assured			
	Before Reinsurance	%	After Reinsurance	%
Group Life Benefits assured per life				
0 to 250,000	646,388	4	646,388	4
250,001 to 500,000	3,825,247	23	3,825,247	23
500,001 to 750,000	1,498,890	9	1,498,890	9
750,001 to 1,000,000	1,383,479	8	1,383,479	8
1,000,001 to 1,500,000	1,887,128	11	1,887,128	11
1,500,001 to 2,000,000	1,550,413	9	1,550,413	9
Over 2,000,000	5,908,316	36	5,781,889	36
Total	16,699,861	100	16,573,434	100

Insurance risk for contracts disclosed in this note is also affected by the policyholders' right to pay reduced or no future premiums and to terminate the contract completely. As a result, the amount of insurance risk is also subject to the policyholders' behaviour. The Group has factored the impact of policyholders' behaviour into the assumptions used to measure these liabilities.

(2) Sources of uncertainty in the estimation of future benefit payments and premiums

Uncertainty in the estimation of future benefit payments and premium receipts for long term insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality and the variability in policyholder behaviour.

Estimates are made as to the expected number of deaths for each of the years in which the company 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.

(3) Process used in deriving assumptions

The assumptions for long term insurance contracts and the process used in deriving these assumptions have remained substantially unchanged since the previous year.

For long-term contracts with fixed and guaranteed terms, estimates are made in two stages. Estimates of future deaths, voluntary terminations and partial withdrawal of policy funds, investment returns, crediting rates, inflation and administration expenses are made and form the assumptions used for calculating the liabilities at the inception of the contract. A margin for risk and uncertainty is added to these assumptions.

(4) Process used in deriving assumptions

New estimates are made each year based on updated Group experience studies and economic forecasts.

The valuation assumptions are altered to reflect these revised best estimates. The margins for risk and uncertainty may also be altered if the underlying level of uncertainty in the updated assumptions has changed. The financial impact of revisions to the valuation assumption or the related margins is recognised in the accounting period in which the change is made.

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.

See note 12 (c) for detailed policy assumptions.

(ii) Reinsurance risk

Reinsurance risk is the risk that a reinsurer will default and not honour obligations arising from claims. To limit its exposure of potential loss on an insurance policy, the Group cedes certain levels of risk to a reinsurer. Reinsurance ceded does not discharge the Group's liability as primary issuer. The Group also limits the probable loss in the event of a single catastrophic occurrence by reinsuring this type of risk with reinsurers. The Group manages reinsurance risk by selecting reinsurers which have established capability to meet their contractual obligations and which generally have favourable credit ratings as determined by a reputable rating agency.

Retention limits represent the level of risk retained by the insurer. Coverage in excess of these limits is ceded to reinsurers up to the treaty limit. The retention programs used by the Group are summarized below:

Type of insurance contract	**Retention**
Individual, group & creditor life catastrophe	maximum retention of $420 for a single event; treaty limits apply
Group creditor life contracts	maximum retention of $7,500 per insured

(expressed in thousands of Jamaican dollars unless otherwise stated)

41. Financial risk management (continued)

(e) Insurance risk (continued)

(ii) Reinsurance risk (continued)

Sensitivity arising from the valuation of life insurance contracts

The determination of actuarial liabilities is sensitive to a number of assumptions, and changes in these assumptions could have a significant effect on the valuation results. These factors are discussed in detail in note 12 (c).

In summary, the valuation of actuarial liabilities of life insurance contracts is sensitive to:

- the economic scenario used in the Policy Premium Method (PPM)
- the investments allocated to back the liabilities
- the underlying assumptions used, and
- the margins for adverse deviations.

Under the PPM methodology, the Appointed Actuary is required to test the actuarial liability under several economic scenarios. The tests have been done and the results of the valuation provide adequately for liabilities derived from the worst of these different scenarios.

The assumption for future investment yields has a significant impact on actuarial liabilities. The different scenarios tested under Policy Premium Method (PPM) reflect the impact of different yields.

The other assumptions which are most sensitive in determining the actuarial liabilities of the Group, are in descending order of impact:

- operating expenses and taxes
- lapse
- mortality and morbidity

The following table presents the sensitivity of the liabilities to a change in assumptions:

	2008	2007
Interest rates decrease by 1%	38,912	21,308
Interest rates increase by 1%	(85,107)	(73,054)
Mortality increases by 10%	100,434	79,428
Mortality decreases by 10%	(103,007)	(81,446)
Expenses increase by 10%	106,417	89,906
Expenses decrease by 10%	(105,102)	(88,752)
Lapses and withdrawals increase by 10%	111,865	89,115
Lapses and withdrawals decrease by 10%	(124,206)	(99,444)

Dynamic capital adequacy testing (DCAT)

DCAT is a technique used by the Group to assess the adequacy of its financial position and financial condition in the light of different future economic and policy experience scenarios. DCAT assesses the impact of the Group's financial position and condition over the next 5 years under specific scenarios as required by the Insurance Regulations.

The financial position of the Group is reflected by the amount of assets, liabilities and equity in the balance sheet at a given date.

The financial condition of the Group at a given date is its prospective ability to meet its future obligations, especially obligations to policyholders, those to whom it owes benefits and to its shareholders.

The purpose of the DCAT is:

- to develop an understanding of the sensitivity of the total equity of the Group and future financial condition to changes in various experience factors and management policies
- to alert management to material, plausible and imminent threats to the Group's solvency
- and to describe possible courses of action to address these threats.

A full DCAT report was completed for the Group during 2008, and the results were as follows:

- Mortality risks
  To test this scenario, existing mortality rates were increased by 3% starting in 2007, for five years. The accumulated deterioration would be 15% by the end of the five-year DCAT period. The results for this scenario show relative insensitivity to the change in assumptions.

- Low lapse rates
  The business was tested by applying a factor of 0.5 to existing lapse and surrender rates. Overall this scenario produces lower reserves and a lower MCCSR ratio over the 5-year period.

- Higher lapse rates
  The business was tested by doubling existing lapses and surrenders. Overall this scenario produces adverse results for the next five years.

- Expense risks
  Higher unit maintenance expenses were tested by setting the annual inflation at 5% greater than current expenses, starting in 2008, for five years. Overall, this scenario produces a lower MCCSR ratio over the 5-year period.

- Low interest rate
  An assumed decrease in the portfolio rate of 1% per year over 5 years was tested in this scenario. Overall, this scenario produces adverse results for the five years.

- High sales growth
  New business was projected to grow at 10% higher than existing sales per year over five years. The increased sales result in increased profits but the MCCSR ratio falls.

- Flat sales
  This scenario assumed sales were 10% less than existing sales starting in 2007 and staying at that level for 5 years. Overall this scenario produces adverse results for the next five years.

The DCAT conducted has not tested any correlation that may exist between assumptions. The following table represents the estimated sensitivity of each of the above scenarios to the value of policyholders' liabilities under insurance contracts.

	The Group		
		2008	2007
Variable	Change in Variable	Change in liability	Change in Liability
Mortality risks	+3% for 5 years	231,892	181,236
Low lapse rates	x0.5	3,702,116	3,425,632
Higher lapse rates	x2	(16,272,514)	(14,710,636)
Expense risks	+3% for 5 years	594,660	406,740
Low interest rate	-1% for 5 years	(485,940)	(717,590)
High sales growth	10% for 5 years	5,580,680	5,211,036
Flat sales	x0	(2,666,060)	(3,091,108)

(expressed in thousands of Jamaican dollars unless otherwise stated)

42. 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. For financial instruments for which 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 the 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 instruments classified as available-for-sale and held-to-maturity: fair value is estimated 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) financial instruments classified as at fair value through the statement of revenue and expenses: fair value is estimated 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 recognized valuation techniques. Fair value is equal to the carrying amount of these investments.

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

(iv) the fair value of demand deposits and savings accounts with no specific maturity is considered to be the amount payable on demand at the balance sheet date; the fair value of fixed-term interest bearing deposits is based on discounted cash flows using interest rates for new deposits;

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

(vi) 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 that are not carried at fair value, based on the above-mentioned valuation methods and assumptions.

	The Group			
	Carrying Value 2008	Fair Value 2008	Carrying Value 2007	Fair Value 2007
Financial assets				
Loans	86,152,384	85,484,446	73,105,673	72,884,876
Investment securities:				
Held-to-maturity	36,154,299	36,590,597	39,225,336	38,816,535
Financial liability				
Deposits	138,610,153	138,603,436	135,210,407	135,214,606

	The Bank			
	Carrying Value 2008	Fair Value 2008	Carrying Value 2007	Fair Value 2007
Financial assets				
Loans	79,996,715	79,510,544	68,126,067	68,007,112
Investment securities:				
Held-to-maturity	10,309,032	10,287,291	15,665,541	15,273,010
Financial liability				
Deposits	133,369,344	133,394,466	130,406,812	130,433,809

43. Capital Risk Management

Capital risk is the risk that the Group fails to comply with mandated regulatory requirements, resulting in a breach of its minimum capital ratios and the possible suspension or loss of its licences.

Regulators are primarily interested in protecting the rights of depositors and policyholders, and monitor the Group closely to ensure that it is satisfactorily managing fiduciary responsibility to the depositors and policyholders. At the same time, the regulators are also interested in ensuring that the Group maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters.

The Group manages its capital resources according to the following objectives:

- To comply with the capital requirements established by banking, insurance and other financial intermediaries regulatory authority;
- To safeguard its ability to continue as a going concern, and meet future obligations to depositors, policyholders and stockholders;
- To provide adequate returns to stockholders by pricing investment, insurance and other contracts commensurately with the level of risk; and
- To maintain a strong capital base to support the future development of the Group's operations.

Individual banking and insurance subsidiaries are directly regulated by their respective regulator, who set and monitor their capital adequacy requirements. Required capital adequacy information is filed with the regulators at least on an annual basis.

(expressed in thousands of Jamaican dollars unless otherwise stated)

43. Capital Risk Management (continued)

Banking and Mortgages

Capital adequacy is reviewed by Executive Management, the Audit Committee and the Board of Directors. Based on the guidelines developed by the Bank of Jamaica, each regulated entity is required to:

- Hold the minimum level of regulatory capital; and
- Maintain a minimum ratio of total regulatory capital to risk weighted assets.

Regulatory capital is divided into two tiers:

(1) Tier 1 capital comprises share capital and reserves created by appropriations of retained earnings. The book value of goodwill is deducted in arriving at Tier 1 capital; and

(2) Tier 2 capital comprises qualifying subordinated loan capital, collective impairment allowances and revaluation surplus on fixed assets.

Investment in subsidiaries is deducted from Tier 1 and Tier 2 capital to arrive at the regulatory capital.

The risk weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the composition of regulatory capital and the ratios for each subsidiary based on the similarity of the regulator. During the year, the individual entities complied with all of the externally imposed capital requirements to which they are subject.

	The Group [1]		The Bank	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Tier 1 Capital	14,859,189	12,150,000	14,159,189	11,450,000
Tier 2 Capital	512,071	531,651	485,979	521,772
Total regulatory capital	15,371,260	12,681,651	14,645,168	11,971,772
Less prescribed adjustment	(242,093)	(254,738)	(242,093)	(254,738)
	15,129,167	12,426,913	14,403,075	11,717,034
Risk weighted assets				
On-balance sheet	83,524,166	72,647,854	79,910,215	69,368,576
Foreign exchange exposure	738,805	2,585,107	731,674	2,579,861
Total risk weighted assets	84,262,971	75,232,961	80,641,889	71,948,437
Actual regulatory capital to risk weighted assets	18.0%	16.5%	17.9%	16.3%
Regulatory requirement	10.0%	10.0%	10.0%	10.0%

[1] This relates to The Bank of Nova Scotia Jamaica Limited, and Scotia Jamaica Building Society.

Life Insurance

Capital adequacy is calculated by the Appointed Actuary and reviewed by Executive Management, the Audit Committee and the Board of Directors. To assist in evaluating the current business and strategic opportunities, a risk-based approach is one of the core measures of financial performance. The risk-based assessment measure which has been adopted is the MCCSR standard as defined by the Financial Services Commission, and required by the Insurance Regulations 2001. Under the regulations, the minimum standard recommended for companies is an MCCSR of 120% in 2006 and 2007, and up to 150% in 2010 and later. The MCCSR for the insurance subsidiary as of September 30, 2008 and 2007 is set out below:

	2008	2007
Regulatory capital held	7,664,426	5,573,780
Minimum regulatory capital	977,882	843,995
MCCSR Ratio	784%	660%

(expressed in thousands of Jamaican dollars unless otherwise stated)

44. Commitments

	The Group		The Bank	
	2008	2007	2008	2007
(a) Capital expenditure: Authorised and contracted	406,465	69,099	406,465	69,099
(b) Commitments to extend credit: Originated term to maturity of more than one year	11,005,385	19,409,091	10,612,939	18,743,494

(c) Operating lease commitments:

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

	The Group	
	2008	2007
Not later than one year	125,714	138,736
Later than one year and not later than five years	482,014	523,204
Later than five years	3,354,218	2,557,205
	3,961,946	3,219,145

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, viz.:

	The Group and Bank			
	Asset		Related Liability	
	2008	2007	2008	2007
Securities with regulators	800,000	804,473	-	-
Securities with other financial institutions and clearing house	501,453	300,000	-	-
Securities sold under repurchase agreements	-	236,512	-	236,512
	1,301,453	1,340,985	-	236,512

The Bank of Jamaica holds as security, Government of Jamaica Local Registered Stocks and Bank of Jamaica Certificates of Deposit with a carrying amount of $800,000 (2007: $804,473) for the Group and the Bank against possible shortfalls in the operating account.

Other financial institutions hold as security, Government of Jamaica Local Registered Stocks with a carrying amount of $501,453 (2007: $300,000) for the Bank in the normal course of inter bank transactions. These transactions are conducted under terms that are usual and customary for standard securities lending and repurchase agreements.

46. Related party transactions and balances

The Group is controlled by Scotia Group Jamaica Limited which is incorporated and domiciled in Jamaica. Scotia Group Jamaica Limited is a 71.78% subsidiary of The Bank of Nova Scotia, which is incorporated and domiciled in Canada, and is the ultimate parent company. The remaining 28.22% of the stock units are widely held.

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party. 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.

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 that have directors in common with the Bank and/or 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.

There were no related party transactions with the ultimate parent company other than the payment of dividends, management fees, guarantee fees, and the amount due to the ultimate parent company (note 30).

(expressed in thousands of Jamaican dollars unless otherwise stated)

46. Related party transactions and balances (continued)

The volumes of related party transactions, outstanding balances at the year end, and related expenses and income for the year are as follows:

	The Group					
			Directors and Key		Total	
	Ultimate parent	Fellow subsidiaries	Management Personnel	Connected companies	2008	2007
Loans						
Loans outstanding at beginning of year	-	-	269,153	6,507,826	6,776,979	6,149,471
Net loans issued/(repaid) during the year	-	-	(31,429)	2,859,240	2,827,811	627,508
Loans outstanding at end of year	-	-	237,724	9,367,066	9,604,790	6,776,979
Interest income earned	-	-	17,235	1,115,045	1,132,280	734,654
Average repayment term (Years)			8.96	4.19	4.31	5.17
Average interest rate (%)	-	-	8.21	9.75	9.71	12.65
Deposits						
Deposits outstanding at beginning of year	4,796,682	-	132,913	4,998,870	9,928,465	10,045,710
Net deposits received/(repaid) during the year	1,972,120	-	(15,899)	(1,884,164)	72,057	(117,245)
Deposits outstanding at end of year	6,768,802	-	117,014	3,114,706	10,000,522	9,928,465
Interest expense on deposits	291,530	-	3,849	118,611	413,990	531,395
Other						
Fees and commission earned	-	-	305	94,317	94,622	149,134
Insurance products	-	-	22,938	-	22,938	22,343
Securities purchased/(sold) under repurchase agreements	-	113,821	-	-	113,821	193,457
Interest earned/(paid) on repurchase agreements	-	20,559	-	-	20,559	(14,945)
Due from banks and other financial institutions	103,016	1,546,312	-	-	1,649,328	3,814,402
Interest earned from banks and other financial institutions	1,345	91,582	-	-	92,927	148,254
Due to banks and other financial institutions	164,406	2,254,606	-	-	2,419,012	382,894
Interest paid to banks and other financial institutions	-	11,305	-	-	11,305	8,105
Management fees paid to parent company	391,195	(33,582)	-	-	357,613	340,590
Guarantee fees paid to parent company	7,905	-	-	-	7,905	7,691
Other operating (expense)/income	-	(15,471)	-	-	(15,471)	(8,922)

(expressed in thousands of Jamaican dollars unless otherwise stated)

46. Related party transactions and balances (continued)

	The Bank					
	Ultimate Parent	Fellow subsidiaries	Directors and Key Management Personnel	Connected companies	Total 2008	Total 2007
Loans						
Loans outstanding at beginning of year	-	-	235,450	6,507,826	6,743,276	6,123,928
Net loans issued/(repaid) during the year	-	-	(21,989)	2,859,240	2,837,251	619,348
Loans outstanding at end of year	-	-	213,461	9,367,066	9,580,527	6,743,276
Interest income earned	-	-	13,814	1,115,045	1,128,859	730,985
Average repayment term (Years)	-	-	8.20	4.19	4.28	5.11
Average interest rate (%)	-	-	7.80	9.75	9.71	12.64
Deposits						
Deposits outstanding at beginning of year	4,796,682	-	127,546	4,998,870	9,923,098	10,040,029
Net deposits received/(repaid) during the year	1,972,120	-	(14,208)	(1,884,164)	73,748	(116,931)
Deposits outstanding at end of year	6,768,802	-	113,338	3,114,706	9,996,846	9,923,098
Interest expense on deposits	291,530	-	3,253	118,611	413,394	531,078
Other						
Fees and commission earned	-	-	305	94,317	94,622	149,134
Securities sold under repurchase agreements	-	-	-	-	-	(134,310)
Interest paid on repurchase agreements	-	8,028	-	-	8,028	(24,721)
Due from banks and other financial institutions	103,016	1,546,312	-	-	1,649,328	3,914,402
Interest earned from banks and other financial institutions	1,345	91,582	-	-	92,927	148,254
Due to banks and other financial institutions	164,406	2,782,352	-	-	2,946,758	546,655
Interest paid to banks and other financial institutions	-	22,373	-	-	22,373	29,225
Management fees paid to parent company	337,800	(33,582)	-	-	304,218	298,042
Guarantee fees paid to parent company	7,905	-	-	-	7,905	7,661
Other operating (expense)/income	-	(4,158)	-	-	(4,158)	(2,112)

	The Group		The Bank	
	2008	2007	2008	2007
Key management compensation				
Salaries and other short term benefits	310,981	275,586	256,243	226,054
Post-employment benefits	615,400	517,219	535,506	456,760

(expressed in thousands of Jamaican dollars unless otherwise stated)

47. Litigation and contingent liabilities

(a) The Group is 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 the financial position and results of operations.

(b) On April 7, 1999, a writ was filed by National Commercial Bank Jamaica Limited ("NCB") in which they set out a claim for the sum of US$13,286,000 in connection with an alleged undertaking given to NCB by Scotia Jamaica Investment Management Limited (formerly Scotia bank 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.

48. Dividends

(a) Paid

	The Group and the Bank	
	2008	2007
In respect of 2006	-	848,897
In respect of 2007	848,897	5,323,036
In respect of 2008	2,722,326	-
	3,571,223	6,171,933

(b) Proposed

At the Board of Directors meeting on November 27, 2008, a dividend in respect of 2008 of $0.33 per share (2007 - actual dividend $0.29 per share) amounting to a total of $965,987 (2007: $848,897) is to be proposed. The financial statements for the year ended October 31, 2008 do not reflect this resolution, which will be accounted for in stockholders' equity as an appropriation of retained profits in the year ended October 31, 2009.

49. Employee Share Ownership Plan

The Bank has an Employee Share Ownership Plan ("ESOP" or "Plan"), the purpose of which is to encourage eligible employees of the Group to steadily increase their ownership of the parent company's shares. Participation in the Plan is voluntary; any employee who has completed at least one year's service with any Group entity is eligible to participate.

The operation of the ESOP is facilitated by a Trust. The employer and employees make contributions to the trust fund and these contributions are used to fund the acquisition of shares for the employees. Employees' contributions are determined by reference to the length of their employment and their basic annual remuneration. The employer contributions are as prescribed by a formula in the rules of the Plan.

49. Employee Share Ownership Plan (continued)

The contributions are used by the trustees to acquire the parent company's shares, at market value. The shares purchased with the employees contributions vest immediately, although they are subject to the restriction that they may not be sold within two years of acquisition. Out of shares purchased with the Bank's contributions, allocations are made to participating employees, but are held by the trust for a two-year period, at the end of which they vest with the employees; if an employee leaves the employer within the two-year period, the right to these shares is forfeited; such shares then become available to be granted by the employer to other participants in accordance with the formula referred to previously.

The amount contributed by the Group to employee share purchase during the year, included in employee compensation, amounted to $35,296 (2007: $37,916).

At the balance sheet date, the shares acquired with the employer's contributions and held in trust pending allocation to employees and/or vesting were:

	2008	2007
Number of shares	2,213,073	2,634,885
Fair value of shares $'000	44,759	55,978

50. Liquidation of subsidiary

Effective October 31, 2008, the 100% owned subsidiary Scotia Jamaica General Insurance Brokers Limited was liquidated. The details of the assets and liabilities liquidated and the proceeds on liquidation were as follows:

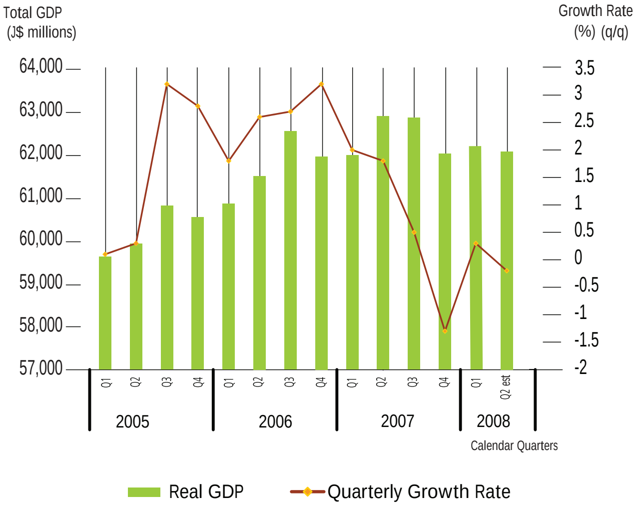
	2008	
	The Group	The Bank
Bank balance	4,271	4,271
Government securities purchased under resale agreement	17,758	17,758
Net assets	22,029	22,029
Proceeds from liquidation	22,029	22,029
Carrying value of investment in subsidiary		12,646
Gain on liquidation of subsidiary		9,383

Economic Review

Scotia Group operated in an economic environment that was seriously challenged by a series of external shocks, which negatively impacted key macroeconomic indicators during the financial year under review.

In the twelve months to October 2008, point–to–point inflation stood at 24%, real GDP was estimated to have shown zero growth, the country's net international reserves declined by 6.3% and the Jamaican dollar depreciated by approximately 7% against the US dollar. Notwithstanding this, some bright spots in the economic picture remained; tourist arrivals for the first ten months of 2008 increased by 5% over the same period in 2007, average savings and lending rates were fairly stable in the period under review and the Jamaican financial sector to date weathered the effects of the unfolding global financial crisis.

GDP Trends



Source: Statin (to 2008Q1), Estimates: PIOJ

The passage of Hurricane Dean in the third quarter of 2007 negatively impacted both the agricultural and mining output well into the first half of 2008. At that time, unprecedented increases in oil and grain prices began to fuel local inflation due to its impact on four major inputs in the country's consumption basket: food and non-alcoholic beverages, electricity, transport, gas and other fuels. These global inflationary shocks continued into the first half of the 2008 calendar year, and coupled with the effects of the slowdown of the US and the world economy, have led to a downturn in consumption and production, and has forced the planning authorities to revise their forecast of growth for the country's 2008-09 fiscal year to between 1.2 – 2.2%*.

*Source: Quarterly Press Briefing, Hon. Derick Latibeaudiere, Governor, Bank of Jamaica 19 November, 2008

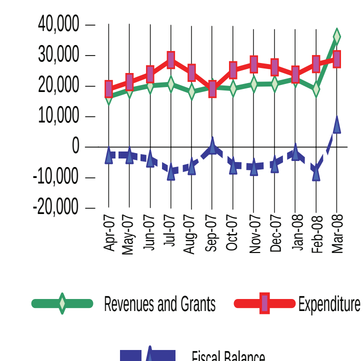
Sector Performance

For the first two quarters of the 2008 calendar year, Real GDP did not grow. The Services sector recorded a 0.8% increase, while the output for the Goods Producing Sector fell by 1.5%. The Construction and Tourism Sectors recorded the highest growth rates due largely to infra-structural related projects at the airports and highway as well as ongoing marketing investments in major tourist markets. Economic growth was however dampened by lower agricultural and mining output, reduced electricity generation and declines in Transportation and Storage output.

Fiscal Accounts

For Jamaica's fiscal year April 2007 - March 2008, the country operated a total fiscal deficit of $42.2 billion, which was $7.1 billion more than budgeted. However, for the five months of the country's fiscal 2008-9 year, our fiscal deficit was $19.14 billion, or $6 billion less than budgeted for, to date. An examination of the 2008 year-to-date figures show that the reduction in deficit was primarily due to the decreased spending on Capital Expenditure and to a lesser extent, greater than expected non-tax revenues. The tightening of the fiscal belt is, however, expected to be pressured by the contraction of the credit markets and the revision of the country's outlook by rating agencies, all of which would serve to make it more expensive to raise debt on the international capital market.

Central Government Operations FY 2007/2008 (J$ millions)



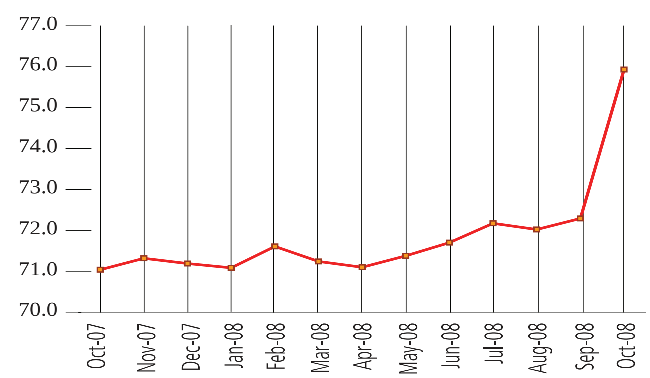
Source: Ministry of Finance

Foreign Exchange Market

For the period November 2007 to September 2008, the Jamaican dollar experienced nominal depreciation of approximately 1.8% against the US dollar as relative stability was achieved via early intervention in the market by the Central Bank. However, by the end of October 2008, the dollar depreciated by approximately 5%, reflecting the impact of the current global credit crisis as US dollar demand sharply increased to meet margin calls on international lending arrangements. As a result, the Central Bank by mid-October, opened a temporary lending window for domestic financial institutions specifically to meet short-term US dollar liquidity needs. This helped to ensure the stability of Government of Jamaica (GOJ) global bond prices and to minimize pressures in the domestic foreign exchange market.

On the other hand, over the same period November 2007 – September 2008, the Jamaican dollar experienced nominal appreciation of 5.7% and 10.3% against the Canadian dollar and the British pound respectively, reflecting a weakening of those currencies in the major global currency markets.

Weighted Average Selling Rates ($JMD : $USD)



Source: Bank of Jamaica

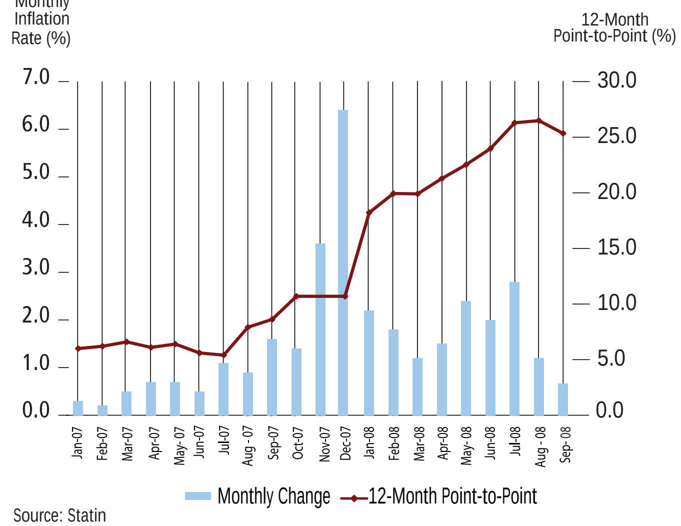
Inflation

Inflation for the 2007 calendar year stood at 16.8%, given the impact on agricultural commodities following the passage of Hurricane Dean, the sharp increases in oil and grain prices on the international market, and the depreciation in the Jamaican dollar in the last half of the 2007 calendar year.

This inflationary trend continued unabated well into the first six months of the 2008 calendar year. Inflation for the first half of the year stood at 11.6% and has caused the Central Bank to tighten its monetary policy stance by increasing interest rates on its Certificates of Deposit in June, 2008.

The inflation outlook for the second half of the calendar year is however more promising as shown by its downward trend since August, and reflects the series of sharp declines in the world commodity prices as expectations of a global recession heighten.

Inflation Rate

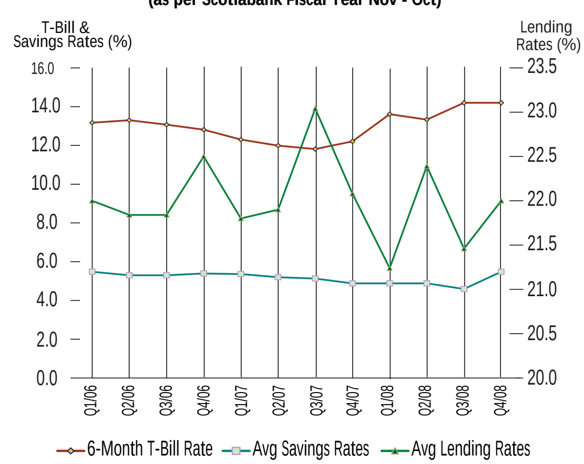


Source: Statin

Interest Rates

Average savings and lending rates have remained fairly stable over the year in review despite the variability in Treasury Bill rates over the same period and were due to long term expectations of the Government's commitment to a low interest rate environment.

Start of Quarter Interest Rates
(as per Scotiabank Fiscal Year Nov - Oct)



Source: Bank of Jamaica

Outlook

The world economy is entering a major downturn in the face of the most threatening shock to mature financial markets in more than half a century. In light of this, the economic growth of Jamaica in the near to medium term will most definitely be moderated by the inevitable slowing of demand from our major trading partners. The expected depression of the prices of our exports and diminishing foreign exchange inflows through projected reductions in visitor arrivals and remittances, will further add to the challenges that the economy will face.

Notwithstanding, the immediate priorities of the Government will be to tame inflation (which is being aided by the lowering of global commodity and grain prices), maintain fiscal discipline and begin to seriously tackle the spectre of crime, which is a major concern of Jamaicans in general, the business sector and external investors in particular.

In the long run, the country's economic objective is to achieve sufficient debt reduction in order to focus more resources on the social services and on infrastructure projects. In the near term, however, the Government must focus on stabilising the economy and encouraging production. The degree to which the Government succeeds in this endeavour will certainly influence the long-term outlook and will require the full cooperation of not just the public, but the private sector as well.

Glossary

ALLOWANCE FOR IMPAIRMENT LOSSES: An allowance set aside which, in management's opinion, is adequate to absorb all credit-related losses. It is decreased by write-offs, realized losses and recoveries; and increased by new provisions. It includes specific and general allowances, and is deducted from the related asset category on the Group's consolidated balance sheet.

ASSETS UNDER ADMINISTRATION AND MANAGEMENT: The total market value of assets owned by customers, for whom the Group and its subsidiaries provides custody, trustee, corporate administration, investment management and advisory services, and are not reported on the Group's consolidated balance sheet.

ASSETS HELD IN TRUST: Consists of custodial and non-discretionary trust assets administered by the Group and its subsidiaries, which are beneficially owned by customers and are therefore not reported on the Group's consolidated balance sheet. Services provided in respect of these assets are administrative in nature, such as security custody; trusteeship, stock transfer and personal trust services.

BOJ: The Bank of Jamaica, the regulator for Commercial Banks, Merchant Banks, and Building Societies in Jamaica.

BASIS POINT: A unit of measure defined as one-hundredth of one per cent; 100bp equals 1%.

CAPITAL: Consists of common shareholders' equity. Capital supports asset growth, provides against loan losses and protects the Group and its subsidiaries' depositors.

FAIR VALUE: The amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

FOREIGN EXCHANGE CONTRACTS: Commitments to buy or sell a specified amount of foreign currency on a set date and at a predetermined rate of exchange.

FSC: The Financial Services Commission, the regulator for securities dealers, insurance companies, and pension funds in Jamaica.

GENERAL PROVISIONS: Established against the loan portfolio in the Group and its subsidiaries when management's assessment of economic trends suggests that losses may occur, but such losses cannot yet be specifically identified on an individual item-by-item basis.

IFRS: International Financial Reporting Standards issued by the International Accounting Standards Board, the global accounting standards setting body, which have been adopted by the Institute of Chartered Accountants of Jamaica.

MARKED-TO-MARKET: The valuation of certain financial instruments at market prices as of the balance sheet date.

NET INTEREST MARGIN: Net interest income, expressed as a percentage of average total assets.

NON-PERFORMING (IMPAIRED) LOANS: Loans on which the Group and its subsidiaries no longer have reasonable assurance as to the timely collection of interest and principal, or where a contractual payment is past due for a prescribed period. Interest is not accrued on non-performing loans.

OPERATING LEVERAGE: Operating Leverage is defined internally as the difference between the rate of revenue growth and the rate of expense growth.

PRODUCTIVITY RATIO: Measures the efficiency with which the Group and its subsidiaries incur expenses to generate revenue. It expresses non-interest expenses as a percentage of the sum of net interest income and other income. A lower ratio indicates improved productivity.

REPOS: Repos is short for 'obligations related to assets sold under repurchase agreements' – a short-term transaction where the Group and its subsidiaries sells assets, normally government bonds, to a client and simultaneously agrees to repurchase them on a specified date and at a specified price. It is a form of short-term funding.

RETURN ON EQUITY: Net income available to common shareholders, expressed as a percentage of average common shareholders' equity.

REVERSE REPOS: Short for 'assets purchased under resale agreements' – a short-term transaction where the Group and its subsidiaries purchase assets, normally government bonds, from a client and simultaneously agrees to resell them on a specified date and at a specified price. It is a form of short-term collateralized lending.

RISK-WEIGHTED ASSETS: Calculated using weights based on the degree of credit risk for each class of counterparty. Off-balance sheet instruments are converted to balance sheet equivalents, using specified conversion factors, before the appropriate risk weights are applied.

STANDBY LETTERS OF CREDIT AND LETTERS OF GUARANTEE: Assurances given by the Group and its subsidiaries that it will make payments on behalf of clients to third parties in the event that the customer defaults. The Group and its subsidiaries have recourse against its customers for any such advanced funds.

STRESS TESTING: A scenario that measures market risk under unlikely but plausible events in abnormal markets.

TIER 1, TIER 2 CAPITAL RATIOS: These are ratios of capital to risk-weighted assets, as stipulated by the Bank of Jamaica and the Financial Services Commission, based on guidelines developed under the auspices of the Bank for International Settlements (BIS). Tier 1 capital is more permanent and based on the regulator. It is defined as follows:

(a) For entities regulated by the BOJ: Tier 1 capital consists primarily of common shareholders' equity, and certain designated retained earnings which by statute may not be distributed or reduced without permission from the Bank of Jamaica.

(b) For entities regulated by the FSC: Tier 1 capital consists primarily of common shareholders' equity and certain reserves designated by the Commission such as retained earnings and investment reserves. Deductions may also be applied for net investments in associates/subsidiaries, goodwill and other intangibles assets, among other things.

Tier 2 capital consists mainly of eligible general allowances. Together, Tier 1 and Tier 2 capital less certain deductions comprise total regulatory capital.

YIELD CURVE: A graph showing the term structure of interest rates, plotting the yields of similar quality bonds by term to maturity.

Subsidiaries, Board Members and Senior Officers

At October 31, 2008

Wholly-Owned Subsidiaries and Scotiabank Jamaica Foundation

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Head Office, Scotiabank Centre
Cnr. Duke & Port Royal Streets
P.O. Box 709
Kingston, Jamaica

Board of Directors
R. H. Pitfield – Chairman
Hon. M. M. Matalon, OJ
- Deputy Chairman
A. V. Chang
Miss B. A. Alexander
Hon. W. E. Clarke, OJ, CD
Dr. J. A. Dixon, CD
M. J. Golding
J. M. Hall
Miss M. M. Issa
C. H. Johnston, CD
W. A. McDonald
P. Minicucci
Dr. H. J. Thompson, CD
Prof. S. C. Vasciannie
R. E. Waugh
Miss S. A. Wright

SCOTIA JAMAICA INVESTMENT MANAGEMENT LIMITED

Scotiabank Centre
Cnr. Duke & Port Royal Streets
P.O. Box 627
Kingston, Jamaica

Board of Directors
Hon. W. E. Clarke, OJ , CD
H. W. Powell
Miss S. A. Wright

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

5th Floor, Scotiabank Centre
Cnr. Duke & Port Royal Streets
Kingston, Jamaica

Board of Directors
Miss M. M. Issa - Chairperson
A. V. Chang
Hon. W. E. Clarke, OJ, CD
A. Mijares Ricci
H. W. Powell
Dr. A. E. Samuels
Prof. S. C. Vasciannie
Miss S. A. Wright

Senior Officers
Mrs. J. T. Sharp
Vice President & General Manager

Mrs. M. Ramgeet Williams
Senior Manager,
Finance & Investments

Ms. L. S. Heslop
Manager, Operations
& Customer Service

THE SCOTIA JAMAICA BUILDING SOCIETY

95 Harbour Street
P.O. Box 8463
Kingston, Jamaica

Board of Directors
Dr. J. A. Dixon, CD - Chairperson
Dr. H. J. Thompson CD
- Deputy Chairman
Ms. B. A. Alexander
Dr. C. D. Archer
Hon. W. E. Clarke, OJ, CD
W. P. S. Hewitt
Miss M. M. Issa
Dr. A. Law
H. W. Powell
Miss S. A. Wright

Senior Officers
G. F. Whitelocke
Vice President & General Manager

Mrs. M. D. Scott
Manager, Finance & Operations

P. F. Williams
Manager, Mortgage Services

SCOTIA JAMAICA FINANCIAL SERVICES LIMITED

Scotiabank Centre
Cnr. Duke & Port Royal Streets
P.O. Box 709
Kingston, Jamaica

Board of Directors
Hon. W. E. Clarke, OJ, CD - Chairman
H. W. Powell
Miss S. A. Wright

SCOTIABANK JAMAICA FOUNDATION

Scotiabank Centre
Cnr. Duke & Port Royal Streets
P.O. Box 709
Kingston, Jamaica

Board of Directors
Dr. J. A. Dixon, CD - Chairperson
Hon. W. E. Clarke, OJ, CD
- Deputy Chairman
Mrs. J. A. Griffiths Irving
Mrs. H. D. M. Goldson
M. D. Jones
Mrs. R. A. Pilliner
H. W. Powell
Mrs. R. Voordouw
Miss S. A. Wright

Senior Officer
Mrs. J. A. Griffiths Irving
Executive Director

SCOTIA JAMAICA GENERAL INSURANCE BROKERS LIMITED

Scotiabank Centre
Cnr. Duke & Port Royal Streets
P.O. Box 709
Kingston, Jamaica

Board of Directors
Hon. W.E. Clarke, OJ, CD - Chairman
Mrs. R. A. Pilliner
H. W. Powell

BRIGHTON HOLDINGS LIMITED

Scotiabank Centre
Cnr. Duke & Port Royal Streets
Kingston, Jamaica

Board of Directors
Hon. W. E. Clarke, OJ, CD - Chairman
H. W. Powell
Miss S. A. Wright

SCOTIA DBG INVESTMENTS LIMITED

Head Office, 7 Holborn Road
Kingston 10, Jamaica

Board of Directors
Prof. S. C. Vasciannie, Chairman
Ms. B. A. Alexander
A. V. Chang
Hon. W. E. Clarke, OJ, CD
Mrs. A. M. Fowler
Miss M. M. Issa
Dr. A. Law
P. P. Martin
Miss A. M. Schnoor
J. A. Woodward
Miss S. A. Wright

Senior Officers
Miss A. M. Schnoor
Chief Executive Officer

L. Mitchell
Senior Vice President, Treasury
& Capital Markets

Miss A. Tinker
Vice President & Chief Financial Officer

SCOTIA DBG FUND MANAGERS LIMITED

1B Holborn Road, Kingston 10, Jamaica

Board of Directors
Ms. B. A. Alexander, Chairperson
Dr. J. A. Dixon, CD
J. Heaven
Miss M. M. Issa
Ms. A. Richards
Miss A. M. Schnoor
Mrs. J. T. Sharp

Senior Officers
B. O. Frazer
Assistant Vice President, Pensions
and General Manager

SCOTIA DBG MERCHANT BANK LIMITED

1B Holborn Road, Kingston 10, Jamaica

Board of Directors
A. V. Chang, Chairman
W. P. S. Hewitt
C. H. Johnston
Dr. A. Law
Miss A. M. Schnoor
P. B. Scott
Miss S. A. Wright

Senior Officers
Ms. T. Hoshue
General Manager

D. Dacres
Senior Manager, Finance & Operations

SECRETARY

Miss Keri-Gaye Brown
Senior Vice President/General Counsel
& Corporate Secretary

The Bank of Nova Scotia Jamaica Limited
Executive Offices
Scotiabank Centre
Cnr. Duke & Port Royal Streets
P.O. Box 709
Kingston, Jamaica

AUDITORS

KPMG
6 Duke Street
Kingston, Jamaica

Telephone: (876) 922.6640
Fax: (876) 922.7198
922.4500

REGISTRAR & TRANSFER AGENT

Duke Corporation
Scotiabank Centre
Cnr. Duke & Port Royal Streets
P.O. Box 372
Kingston, Jamaica

Telephone: (876) 922.6230
Fax: (876) 922.8435

REGISTERED OFFICE

Scotiabank Centre
Cnr. Duke & Port Royal Streets
P.O. Box 709
Kingston, Jamaica

Telephone: (876) 922.1000
Fax: (876) 922.6548
Website: www.jamaica.scotiabank.com
Telex: 2297
SWIFT Bic Code: NOSCJMKN

Senior Management Officers

At October 31, 2008

EXECUTIVE OFFICERS

William E. Clarke, OJ, CD
President & Chief Executive Officer
(Retired October 31, 2008)

Miss Stacie Ann Wright
Executive Vice President
& Chief Financial Officer

Mrs. Rosemarie A. Pilliner
Executive Vice President
Operations & Shared Services

H. Wayne Powell
Executive Vice President
Branch Banking

Michael D. Jones
Senior Vice President
Human Resources

Miss Keri-Gaye Brown
Senior Vice President
Senior Legal Counsel & Corporate Secretary

Miss Monique French
Senior Vice President
Risk Management

Miss Anya M. Schnoor
Senior Vice President, Wealth Management

Miss Maya Walrond
Senior Vice President
Customer Experience,Technology Innovation
& Projects

Mrs. Heather D. M. Goldson
Senior Vice President
Marketing and Products

SENIOR MANAGEMENT OFFICERS

Audit

Miss Yvonne M. Pandohie
Vice President & Chief Auditor

Branch Banking

Dudley E. Walters, District Vice President - Metro West

Courtney A. Sylvester, District Vice President - Metro East

Michael A. Thompson, District Vice President - Metro North

Corporate & Commercial Banking Centre

Wayne P. Hewitt
Vice President
Corporate & Commercial Banking

Miss Marcette McLeggon
Assistant General Manager,
Credit Solutions

Credit Risk Management

Ronald Bourdeau
Vice President, Risk Management

Bevan A. Callam
Vice President, Credit Risk Management

Employee Consultations & Ombuds Services

Mrs. Rosemarie A. Voordouw
Director

Finance

Miss Shirley K. Ramsaran
Vice President
Finance & Comptroller

Hugh G. Miller
Assistant General Manager
Treasury & Foreign Exchange

Frederick A. Williams
Assistant General Manager
Market and Operational Risk

Systems Support Centre

Miss Sharon A. Colquhoun
Director

Legal & Compliance

Mrs. Julie Thompson-James
Director/Legal Counsel & Assistant Secretary

Marketing

Mrs. Joan Forrest Henry
Director, Marketing Services

Mrs. Monique Todd
Director, Wealth Management

Operations and Shared Services

Mrs. Suzette A. M. McLeod
Vice President, Shared Services

David M. Williams
Assistant General Manager
Operations & Sales Support

Public, Corporate & Government Affairs

Mrs. Joylene A. Griffiths Irving
Director & Executive Director,
Scotiabank Jamaica Foundation

Electronic Financial Services and Retail Banking

Mrs. Maroya E. Villafana Sylvester
Vice President

Scotia Private Client Group

Miss Bridget A. Lewis
General Manager

Small & Medium Enterprises

Mrs. Patsy Latchman-Atterbury
Vice President

SUBSIDIARIES

The Bank of Nova Scotia Jamaica Limited

William E. Clarke, OJ, CD
President & Chief Executive Officer

The Scotia Jamaica Building Society

Gladstone Whitelocke
Vice President & General Manager

Scotia Jamaica Life Insurance Company Limited

Mrs. Jacqueline Sharp
Vice President & General Manager

Scotia DBG Investments Limited

Miss Anya M. Schnoor
Chief Executive Officer

Branches & Team Leaders

At October 31, 2008

BLACK RIVER
6 High Street
P. O. Box 27
Black River
St. Elizabeth

Mrs. A. N. Barrett, Manager

BROWN'S TOWN
Main Street
P. O. Box 35
Brown's Town
St. Ann

D. A. James, Manager

CHRISTIANA
Main Street
P. O. Box 11
Christiana, Manchester

Mrs. J. D. Billings-Frith, Manager

CORPORATE & COMMERCIAL BANKING CENTRE
Miss D. R. Coubry, Snr. Relationship Manager
Miss M. A. Flake, Snr. Relationship Manager
Miss C. A. Lyn, Snr. Relationship Manager
H. C. Mair, Snr. Relationship Manager
Miss T. M. Palmer, Snr. Manager,
Trade Services & Business Development
D. M. Brown, Relationship Manager
Mrs. A. M. Buckley, Relationship Manager
H. P. Ebanks, Relationship Manager
Mrs. D. A. Mighty, Relationship Manager
H. D. Stephens, Relationship Manager
G. A. Hogarth, Portfolio Manager

CROSS ROADS
86 Slipe Road
P. O. Box 2
Kingston 5

J. A. Clarke, Manager

FALMOUTH
Trelawny Wharf
P. O. Box 27
Falmouth,
Trelawny

F. O. Wright, Manager

HAGLEY PARK ROAD
128 Hagley Park Road
P. O. Box 5
Kingston 11

Miss V. I. Omess, Manager

Mrs. Y. T. Leslie, Asst. Manager, Commercial Credit

HALF-WAY-TREE
80 Half-Way-Tree Road
P. O. Box 5
Kingston 10

Mrs K. A. Tomlinson, Manager

Mrs G. Morrison, Asst. Manager, Commercial Credit

A. D. Johnson, Relationship Manager

Mrs. D. M. Lounges, Asst. Manager,
Operations & Service

H. R. Lewis, Asst Manager, Personal Banking

HIGHGATE
Main Street
P. O. Box 9
Highgate
St. Mary

Mrs. M. V. Davidson, Manager

IRONSHORE SERVICE CENTRE
Shops 2 & 3, Golden Triangle
Shopping Centre
Ironshore
Montego Bay

R. W. Bennett, Manager

JUNCTION
Junction P. O.
St. Elizabeth

Mrs. C. A. Sanderson, Manager

KING STREET
35-45 King Street
P. O. Box 511, Kingston

M. E. Shaw, Manager

L. S. Estick, Asst. Manager, Commercial Credit

Mrs. J. M. Badson-Mignott,
Asst. Manager, Operations & Service

LIGUANEA
125-127 Old Hope Road
P. O. Box 45
Kingston 6

S. A. Distant, Manager

LINSTEAD
42 King Street
P. O. Box 19
Linstead
St. Catherine

Mrs L. A. Hemmings, Manager

Miss. A. A. Jones, Asst. Manager,
Commercial Credit

LUCEA
Willie Delisser Boulevard
P. O. Box 63
Lucea
Hanover

A. R. Jervis, Manager

MANDEVILLE
1A Caledonia Road
P. O. Box 106
Mandeville, Manchester

A. C. Bright, Manager

Miss A. E. Senior,
Asst. Manager, Commercial Credit

A. O. Harvey, Manager, Personal Banking

Mrs. L. M. Vickers,
Asst. Manager, Operations & Service

MAY PEN
36 Main Street
P.O. Box 32
May Pen
Clarendon

D. E. Webb, Manager

MONTEGO BAY
6-7 Sam Sharpe Square
P.O. Box 311
Montego Bay
St. James

L. M. Reynolds, Manager

Mrs. M. A. Senior-White, Asst. Manager
Commercial Credit

Mrs. A. M. Walters,
Asst. Manager, Operations & Service

D. Bryan, Asst. Manager, Personal Banking

MORANT BAY
23 Queen Street
P. O. Box 30
Morant Bay
St. Thomas

P. G. Mohan, Manager

NEGRIL
Negril Square
Negril P. O.
Westmoreland

G. E. Gray, Manager

NEW KINGSTON
2 Knutsford Boulevard
P. O. Box 307
Kingston 5

Miss A. Leonce, Manager

S. Thompson, Asst. Manager, Commercial Credit

C. A. Allen, Asst. Manager, Personal Banking

Mrs. J. M. Thompson,
Asst. Manager, Operations & Service

OCHO RIOS
Main Street
P. O. Box 150
Ocho Rios
St. Ann

Miss T. E. Buddo, Manager

Mrs C. A. Senior, Asst. Manager,
Commercial Credit

OLD HARBOUR
4 South Street
P. O. Box 43
Old Harbour
St. Catherine

Mrs. A. E. Bell-Grant, Manager

OXFORD ROAD
6 Oxford Road
P. O. Box 109
Kingston 5

Miss J. A. Sutherland, Manager

PORT ANTONIO
3 Harbour Street
P. O. Box 79
Port Antonio
Portland

R. R. Reid, Manager

PORT MARIA
57 Warner Street
P. O. Box 6
Port Maria
St. Mary

Miss. O. A. Whittaker, Manager

PORTMORE
Lot 2 Cookson Pen, Bushy Park
P.O. Box 14.
Greater Portmore,
St Catherine.

C. A. Wright, Manager

PREMIER
10 Constant Spring Road
P. O. Box 509
Kingston 10

Mrs. A. Y. Howard, Manager

ST. ANN'S BAY
18 Bravo Street
P. O. Box 2
St. Ann's Bay
St. Ann

Miss D. M. Mortimer, Manager

SANTA CRUZ
77 Main Street
P. O. Box 20
Santa Cruz
St. Elizabeth

Miss D. A. Hyman, Manager

SAVANNA-LA-MAR
19 Great George's Street
P.O. Box 14
Savanna-la-Mar
Westmoreland

C. A. Dawes, Manager

Mrs A. A. Rhule-Hudson, Asst. Manager
Commercial Credit

SCOTIABANK CENTRE
Cnr. Duke & Port Royal Streets
P. O. Box 59
Kingston

D. A. Hanson, Manager

C. C. Wiggan, Asst. Manager, Commercial Credit

Mrs. K. Y. Hosang-Bancroft, Operations Manager

SPANISH TOWN
Shops 25 & 26
Oasis Shopping Plaza
6 March Pen Road.
Spanish Town

Mrs. J. J. Carter-James, Manager

Mrs. I. C. Tucker, Asst. Manager,
Commercial Credit

UWI, MONA CAMPUS
Cnr. Ring Road & Shed Lane
Kingston 7

Miss P. N. Buchanan, Manager

VICTORIA & BLAKE
29 Victoria Avenue
P.O. Box 625
Kingston

Mrs. D. A. Maxwell, Manager

WESTGATE
Westgate Shopping Centre
P.O. Box 11
Montego Bay
St. James

G. C. Graham, Manager

SUB-BRANCHES

BARNETT STREET
(Sub to Montego Bay)
51 Barnett Street
Montego Bay
St. James

CLAREMONT
(Sub to St. Ann's Bay)
Claremont P.O.
Claremont
St. Ann

FRANKFIELD
(Sub to Christiana)
Frankfield
Clarendon

PARK CRESCENT
(Sub to Mandeville)
17 Park Crescent
Mandeville
Manchester

Notes

Notice of Annual General Meeting

Scotia Group Jamaica Limited

NOTICE IS HEREBY GIVEN that the Second Annual General Meeting of **SCOTIA GROUP JAMAICA LIMITED** will be held on Tuesday the 24th day of February, 2009 at 10:00 a.m. at the Jamaica Pegasus Hotel, 81 Knutsford Boulevard, Kingston 5, Jamaica for the following purposes, namely:-

1. To consider the Company's Accounts and the Reports of the Directors and the Auditors for year ended October 31, 2008 and to consider and (if thought fit) pass the following resolution:

   Resolution No. 1
   "That the Directors' Report, the Auditors' Report and the Statements of Account of the Company for the year ended October 31, 2008 be approved and adopted."

2. To approve and ratify interim dividends: -

   To consider and (if thought fit) pass the following resolution:

   Resolution No. 2
   "That the interim dividends paid of 32 cents on March 28, 2008, 32 cents on July 3, 2008, 32 cents on October 2, 2008 and 34 cents on January 12, 2009 be and are hereby ratified."

3. **Resolution No. 3**
   As special business, to consider and if thought fit, pass the following resolution to amend the Company's Articles of Incorporation to provide for the retirement of all directors annually and that Articles 107, 108, 109, 110 and 126 be amended to read:

   "Retirement of Directors"

   "Article 107 At each annual general meeting all the directors for the time being shall retire from office. Directors shall be elected at each annual general meeting and shall hold office until the completion of the election of the directors at the next annual general meeting of shareholders. If an election of directors is not held at an annual general meeting of shareholders at which such election is required, the incumbent directors shall continue in office until their successors are elected."

   "Article 108 A retiring director upon the recommendation of the Board of Directors shall be eligible for re-election or election to the Board of Directors of the Company."

   "Article 109 A retiring director shall be eligible for re-election or election in accordance with the provisions of Article 108."

   "Article 110 "The Company at the meeting at which a director retires or ceases to hold office in the manner aforesaid may by ordinary resolution fill the vacated office by electing a person thereto."

   Managing Director

   "Article 126 "The directors may from time to time appoint one or more of their body to the office of Managing Director for such period and on such terms as they think fit, and, subject to the terms of any agreement entered into in any particular case, may revoke such appointment."

Notice of Annual General Meeting *(continued)*

4. To consider and (if thought fit) pass the following resolutions:

   All directors retire from office pursuant to Article 107 of the Articles of Incorporation (as amended); Robert Pitfield, Mayer Matalon, Barbara Alexander, Anthony Chang, William Clarke, Jean Dixon, Mark Golding, Muna Issa, Jeffrey Hall, Charles Johnston, Warren McDonald, Pasquale Minicucci, Herbert Thompson, Stephen Vasciannie, Richard Waugh, Stacie Wright and Bruce Bowen.

   Resolution No. 4
   To approve the re-election/election of directors recommended for appointment to the Board of Directors of the Company. To consider and (if thought fit) pass the following resolution:

   a) "That retiring Director Robert Pitfield be and is hereby re-elected a Director of the Company."
   b) "That retiring Director Mayer Matalon be and is hereby re-elected a Director of the Company."
   c) "That retiring Director Barbara Alexander be and is hereby re-elected a Director of the Company."
   d) "That retiring Director Anthony Chang be and is hereby re-elected a Director of the Company."
   e) "That retiring Director Jean Dixon be and is hereby re-elected a Director of the Company."
   f) "That retiring Director Mark Golding be and is hereby re-elected a Director of the Company."
   g) "That retiring Director Muna Issa be and is hereby re-elected a Director of the Company."
   h) "That retiring Director Jeffrey Hall be and is hereby re-elected a Director of the Company."
   i) "That retiring Director Charles Johnston be and is hereby re-elected a Director of the Company."
   j) "That retiring Director Warren McDonald be and is hereby re-elected a Director of the Company."
   k) "That retiring Director Pasquale Miniccuci be and is hereby re-elected a Director of the Company."
   l) "That retiring Director Herbert Thompson be and is hereby re-elected a Director of the Company."
   m) "That retiring Director Stephen Vasciannie be and is hereby re-elected a Director of the Company."
   n) "That retiring Director Richard Waugh be and is hereby re-elected a Director of the Company."
   o) "That retiring Director Bruce Bowen be and is hereby elected a Director of the Company."

5. To fix the remuneration of the directors or to determine the manner in which such remuneration is to be fixed.

   Resolution No. 5
   To consider and (if thought fit) pass the following resolution:

   "That the directors be and are hereby authorised to fix their remuneration for the ensuing year."

6. To appoint auditors and authorise the directors to fix the remuneration of the auditors.

   Resolution No. 6
   To consider and (if thought fit) pass the following resolution:

   "That KPMG, Chartered Accountants, having agreed to continue in office as Auditors, be and are hereby appointed Auditors of the Company to hold office until the next Annual General Meeting at a remuneration to be fixed by the directors of the Company."

7. Any other business for which due notice has been given.

BY ORDER OF THE BOARD

Keri-Gaye Brown
Secretary
January 8, 2009

REGISTERED OFFICE
Scotiabank Centre
Duke & Port Royal Streets
Kingston

A member entitled to attend and vote at this meeting may appoint a Proxy to attend and vote in his/her stead. A Proxy need not also be a Member of the Company. Enclosed is a Proxy Form for your convenience, which must be lodged at the Company's Registered Office at least forty-eight hours before the time appointed for holding the meeting. The Proxy Form shall bear the stamp duty of $100.00 before being signed. The stamp duty may be paid by adhesive stamp(s) to be cancelled by the person executing the Proxy.

Directors' Report

Scotia Group Jamaica Limited

The Directors submit herewith the Statement of Consolidated Revenue, Expenses, Unappropriated Profits, Assets and Liabilities of the Group for the year ended October 31, 2008.

The Consolidated Statement of Revenue and Expenses shows pre-tax profit for the year of $13,119 Million from which there has been provided $3,495 Million for corporate income tax, leaving a balance of $9,624 Million.

The appropriation of earnings detailed in the financial statements includes:

An interim dividend of 34 cents per stock unit payable to stockholders on record as at December 17, 2008 payable on January 12, 2009. This brings the total distribution for the year to $1.30 per stock unit compared with $1.19 per stock unit for the previous year.

In view of the interim dividends paid, and to be paid, as mentioned above, the Directors do not recommend the declaration of a final dividend at the Annual General Meeting to be held on February 24, 2009.

Hon. William Clarke retired from the Company in his capacity as President & CEO effective October 31, 2008 and Professor Celia Christie resigned as a Director of the Company with effect from July 28, 2008. The Board wishes to express its sincere appreciation to Mr. Clarke and Professor Christie for their contributions to the Company.

Mr. Bruce Bowen, President & CEO, was appointed to the Board on November 27, 2008.

The Auditors, KPMG, have signified their willingness to continue in office.

Your Directors wish to thank the Management and Staff of the Company for their performance during the year under review.

On behalf of the Board

R.H. Pitfield
Chairman, Kingston, Jamaica
January 8, 2009

Proxy Form

Scotia Group Jamaica Limited

The Directors submit herewith the Statement of Consolidated Revenue, Expenses, Unappropriated Profits, Assets and I/We.....................................
.... of...
in the parish of...being a Member of the above Company, hereby appoint
the Chairman of the Meeting or failing him (see Note 1)...of
.... or failing them ....of
....as my/our Proxy to
vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on the 24th day of February 2009 and at any adjournment thereof.

Please indicate by inserting a cross in the appropriate square how you wish your votes to be cast. Unless otherwise instructed, the Proxy will vote or abstain from voting, at his discretion.

RESOLUTION	FOR	AGAINST
NO. 1		
NO. 2		
NO. 3		
NO. 4 (a)		
NO. 4 (b)		
NO. 4 (c)		
NO. 4 (d)		
NO. 4 (e)		
NO. 4 (f)		
NO. 4 (g)		
NO. 4 (h)		
NO. 4 (i)		
NO. 4 (j)		
NO. 4 (k)		
NO. 4 (l)		
NO. 4 (m)		
NO. 4 (n)		
NO. 4 (o)		
NO. 5		
NO. 6		

As witness my hand this..day of...................................200....

....

Signature

1 If you wish to appoint a proxy other than the Chairman of the Meeting, please insert the person's name and address and delete (initialing the deletion) "the Chairman of the Meeting".

2. To be valid, this form of proxy and the power of attorney or other authority (if any) under which it is signed must be lodged at the office of the Secretary of the Company, 9th Floor, Scotiabank Centre, Cnr. Duke & Port Royal Streets, Kingston, at least 48 hours before the time appointed for the holding of the meeting.

3. To this form must be affixed a $100.00 stamp in payment of stamp duty.

4. In the case of joint shareholders, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holder(s) and for this purpose seniority shall be determined by the order in which the names stand in the register of members.

5. To be effective, this form of proxy must be signed by the appointer or his attorney, duly authorised in writing or, if the appointer is a corporation, must be under its common seal or be signed by some officer or attorney duly authorised in that behalf.

Best Bank in Jamaica

Scotiabank was named the Best Bank in Jamaica in 2006 and 2008 in the Euromoney Award for Excellence

Winner of the Banker's
Bank of the Year Award
for 3 consecutive years

2006
LATIN FINANCE
BANKER OF THE YEAR AWARD

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Scotiabank Group

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