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 94 to 147, which comprise the Group's and Bank's statements of financial position as at October 31, 2010, 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, 2010, 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 and the Jamaican Companies Act.

Report on additional 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 25, 2010

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Consolidated Statement of Revenue and Expenses

Year ended October 31, 2010

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2010	2009
Net interest income and other revenue			
Interest from loans and deposits with banks		17,987,237	20,826,337
Interest from securities		9,883,377	11,305,653
Total interest income	6	27,870,614	32,131,990
Interest expense	6	(7,807,746)	(10,194,578)
Net interest income		20,062,868	21,937,412
Impairment losses on loans	23	(1,551,011)	(1,800,819)
Net interest income after impairment losses on loans		18,511,857	20,136,593
Fee and commission income	7	4,998,724	4,686,577
Fee and commission expense	7	(1,398,481)	(1,283,962)
Net fee and commission income		3,600,243	3,402,615
Net foreign exchange trading income	8	992,820	979,008
Insurance revenue	9	1,864,985	752,077
Other revenue	10	179,480	56,597
		6,637,528	5,190,297
		25,149,385	25,326,890
Expenses			
Salaries, pension contributions and other staff benefits	11	6,975,485	6,890,264
Property expenses, including depreciation		1,738,218	1,525,798
Other operating expenses		4,244,614	3,940,233
	12	12,958,317	12,356,295
Profit before taxation	13	12,191,068	12,970,595
Taxation	14	(2,758,118)	(3,318,814)
Profit for the year		9,432,950	9,651,781

Consolidated Statement of Comprehensive Income

Year ended October 31, 2010

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2010	2009
Profit for the year		9,432,950	9,651,781
Other comprehensive income:			
Unrealised gains on available-for-sale financial assets		2,075,045	1,002,056
Realised gains on available-for-sale financial assets		(77,941)	(43,609)
		1,997,104	958,447
Taxation		(530,031)	(293,365)
Other comprehensive income, net of tax		1,467,073	665,082
Total comprehensive income		10,900,023	10,316,863

Consolidated Statement of Financial Position

October 31, 2010

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2010	2009
ASSETS			
Cash resources			
Notes and coins of, deposits with, and money at call at, Bank of Jamaica	16	39,667,416	47,733,280
Government and bank notes other than Jamaican		436,505	301,934
Amounts due from other banks	17	8,676,621	8,318,663
Accounts with parent and fellow subsidiaries	18	7,033,260	2,058,103
		55,813,802	58,411,980
Government securities purchased under resale agreements	20	200,116	692,401
Pledged assets	21	578,561	2,701,541
Loans, after allowance for impairment losses	22	95,402,701	89,340,846
Investment securities	24		
Available-for-sale		71,199,051	25,843,184
Held-to-maturity		14,469,614	46,576,957
		85,668,665	72,420,141
Other assets			
Customers' liabilities under acceptances, guarantees and letters of credit		5,320,358	8,641,071
Taxation recoverable		1,078,488	702,909
Sundry assets	25	884,865	353,021
Property, plant and equipment	26	3,521,924	3,357,222
Retirement benefit asset	27	6,641,659	5,827,140
		17,447,294	18,881,363
		255,111,139	242,448,272

Consolidated Statement of Financial Position (continued)

October 31, 2010

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2010	2009
LIABILITIES			
Deposits			
Deposits by the public	28	145,669,819	139,233,073
Amounts due to other banks and financial institutions	29	3,611,781	2,842,839
Amounts due to parent and ultimate parent company	30	7,853,664	8,316,825
Amounts due to fellow subsidiaries	31	2,109,130	2,331,931
		159,244,394	152,724,668
Other liabilities			
Cheques and other instruments in transit		2,570,366	2,378,969
Acceptances, guarantees and letters of credit		5,320,358	8,641,071
Securities sold under repurchase agreements	21	-	267,356
Redeemable preference shares	35	100,000	100,000
Other liabilities	32	1,883,114	2,076,751
Taxation payable		43,722	338,903
Deferred tax liabilities	33	2,665,835	2,210,068
Retirement benefit obligations	27	1,502,123	1,132,488
		14,085,518	17,145,606
Policyholders' liabilities	34	36,891,170	34,407,877
STOCKHOLDERS' EQUITY			
Share capital	35	2,927,232	2,927,232
Reserve fund	36	3,158,481	3,158,481
Retained earnings reserve	37	11,902,091	10,902,091
Cumulative remeasurement result from available-for-sale financial assets	38	1,108,962	(358,111)
Capital reserve	39	9,383	9,383
Loan loss reserve	40	2,082,465	1,709,767
Other reserves	41	2,928	2,928
Unappropriated profits		23,698,515	19,818,350
		44,890,057	38,170,121
		255,111,139	242,448,272

The financial statements on pages 94 to 147 were approved for issue by the Board of Directors on November 25, 2010 and signed on its behalf by:

Robert H. Pitfield Director

Bruce F. Bowen Director

Charles H. Johnston Director

Julie Thompson James Secretary

Consolidated Statement of Changes in Stockholders' Equity

Year ended October 31, 2010

(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 reserves	Unappropriated profits	Total
Balances at October 31, 2008		2,927,232	3,158,481	8,702,091	9,383	(1,023,193)	1,295,232	2,928	16,645,050	31,717,204
Profit for the year		-	-	-	-	-	-	-	9,651,781	9,651,781
Other comprehensive income:										
Unrealised gains on available-for-sale investments, net of taxes		-	-	-	-	616,691	-	-	-	616,691
Realised losses on available-for-sale securities transferred to statement of comprehensive income		-	-	-	-	48,391	-	-	-	48,391
Other comprehensive income		-	-	-	-	665,082	-	-	-	665,082
Total comprehensive income		-	-	-	-	665,082	-	-	9,651,781	10,316,863
Loan loss reserve transfer		-	-	-	-	-	414,535		(414,535)	-
Transfer to retained earnings reserve		-	-	2,200,000	-	-	-	-	(2,200,000)	-
Dividends paid	48	-	-	-	-	-	-	-	(3,863,946)	(3,863,946)
Movement for the year		-	-	2,200,000	-	665,082	414,535	-	3,173,300	6,452,917
Balances at October 31, 2009		2,927,232	3,158,481	10,902,091	9,383	(358,111)	1,709,767	2,928	19,818,350	38,170,121
Profit for the year		-	-	-	-	-	-	-	9,432,950	9,432,950
Other comprehensive income:										
Unrealised gains on available-for-sale investments, net of taxes		-	-	-	-	1,543,342	-	-	-	1,543,342
Realised gains on available-for-sale securities transferred to statement of comprehensive income		-	-	-	-	(76,269)	-	-	-	(76,269)
Other comprehensive income		-	-	-	-	1,467,073	-	-	-	1,467,073
Total comprehensive income		-	-	-	-	1,467,073	-	-	9,432,950	10,900,023
Loan loss reserve transfer		-	-	-	-	-	372,698		(372,698)	-
Transfer to retained earnings reserve		-	-	1,000,000	-	-	-	-	(1,000,000)	-
Dividends paid	48	-	-	-	-	-	-	-	(4,180,087)	(4,180,087)
Movement for the year		-	-	1,000,000	-	1,467,073	372,698	-	3,880,165	6,719,936
Balances at October 31, 2010		2,927,232	3,158,481	11,902,091	9,383	1,108,962	2,082,465	2,928	23,698,515	44,890,057

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Consolidated Statement of Cash Flows

Year ended October 31, 2010

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2010	2009
Cash flows from operating activities			
Profit for the year		9,432,950	9,651,781
Adjustments for:			
Interest income	6	(27,870,614)	(32,131,990)
Interest expense	6	7,807,746	10,194,578
Taxation charge	14	2,758,118	3,318,814
Depreciation	26	386,332	345,707
Impairment losses on loans	23	1,551,011	1,800,819
Loss on sale of property, plant and equipment		3,459	338
Write-offs of property, plant and equipment	26	601	-
Gain on Visa shares	10	(96,798)	(53,308)
Gain on acquisition of subsidiary		(9,102)	-
		(6,036,297)	(6,873,261)
Changes in operating assets and liabilities			
Loans		(7,523,140)	(4,964,332)
Deposits by the public		6,495,097	12,277,170
Policyholders' liabilities		2,483,293	3,846,457
Other assets, net		(531,844)	286,139
Other liabilities, net		(154,846)	934,690
Due to parent company and fellow subsidiaries		(690,682)	1,328,961
Amounts due from other banks		(1,897,477)	7,038,073
Accounts with parent and fellow subsidiaries		(4,581,511)	(2,051,498)
Taxation recoverable		(375,578)	189,543
Amounts due to other banks and financial institutions		768,942	456,520
Deposits with Bank of Jamaica maturing after 90 days		20,495,489	207,281
Statutory reserves at Bank of Jamaica		2,210,085	(6,759,038)
Securities sold under repurchase agreements		(267,311)	267,311
Retirement benefits		(444,884)	(223,003)
		9,949,336	5,961,003
Interest received		30,524,438	30,257,882
Interest paid		(7,861,425)	(10,142,670)
Taxation paid		(3,122,301)	(3,709,899)
Net cash provided by operating activities		29,490,048	22,366,316
Cash flows from investing activities			
Investment securities		(12,196,354)	(14,985,052)
Government securities purchased under resale agreements		130,932	(166,621)
Pledged assets		2,122,980	(1,400,088)
Proceeds from the sale of property, plant and equipment		117	322
Acquisition of subsidiary	51	(30,553)	-
Purchase of property, plant and equipment	26	(554,346)	(895,819)
Net proceeds from sale of shares		181,678	126,197
Net cash used in investing activities		(10,345,546)	(17,321,061)
Net cash flows from operating and investing activities		19,144,502	5,045,255

Consolidated Statement of Cash Flows (continued)

Year ended October 31, 2010

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2010	2009
Cash flows from operating and investing activities		19,144,502	5,045,255
Cash flows from financing activity			
Dividends paid	48	(4,180,087)	(3,863,946)
Effect of exchange rate changes on cash and cash equivalents		(467,015)	1,791,930
Net increase in cash and cash equivalents		14,497,400	2,973,239
Cash and cash equivalents at beginning of year		13,797,554	10,824,315
Cash and cash equivalents at end of year	19	28,294,954	13,797,554

Statement of Revenue and Expenses

Year ended October 31, 2010

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2010	2009
Net interest income and other revenue			
Interest from loans and deposits with banks		16,254,728	18,443,831
Income from securities		3,547,831	4,151,504
Total interest income	6	19,802,559	22,595,335
Interest expense	6	(4,161,407)	(5,748,064)
Net interest income		15,641,152	16,847,271
Impairment losses on loans	23	(1,505,773)	(1,799,143)
Net interest income after impairment losses on loans		14,135,379	15,048,128
Fee and commission income	7	4,908,405	4,632,094
Fee and commission expense	7	(1,398,481)	(1,283,962)
Net fee and commission income		3,509,924	3,348,132
Net foreign exchange trading income	8	992,429	978,992
Other revenue	10	185,353	56,380
		1,177,782	1,035,372
		18,823,085	19,431,632
Expenses			
Salaries, pension contributions and other staff benefits	11	6,471,712	6,452,728
Property expenses, including depreciation		1,670,495	1,485,652
Other operating expenses		3,725,550	3,456,896
	12	11,867,757	11,395,276
Profit before taxation	13	6,955,328	8,036,356
Taxation	14	(1,951,884)	(2,411,952)
Profit for the year		5,003,444	5,624,404

Statement of Comprehensive Income

Year ended October 31, 2010

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2010	2009
Profit for the year		5,003,444	5,624,404
Other comprehensive income:			
Unrealised gains on available-for-sale financial assets		1,343,769	813,109
Realised (gains)/losses on available-for-sale financial assets		(94,175)	2,391
		1,249,594	815,500
Taxation		(416,531)	(271,833)
Other comprehensive income, net of tax		833,063	543,667
Total comprehensive income		5,836,507	6,168,071

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

Statement of Financial Position

October 31, 2010

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2010	2009
ASSETS			
Cash resources			
Notes and coins of, deposit with, and money at call at, Bank of Jamaica	16	36,612,917	39,552,911
Government and bank notes other than Jamaica		436,504	301,935
Amounts due from other banks	17	8,635,891	8,287,378
Accounts with parent and fellow subsidiaries	18	7,059,528	2,058,103
		52,744,840	50,200,327
Government securities purchased under resale agreements	20	200,155	1,557,259
Pledged assets	21	1,106,618	2,701,541
Loans, after allowance for impairment losses	22	87,815,176	82,554,936
Investment securities	24		
Available-for-sale		32,685,704	19,416,832
Held-to-maturity		-	11,669,863
		32,685,704	31,086,695
Investment in subsidiaries		1,121,093	242,093
Other assets			
Customers' liabilities under acceptances, guarantees and letters of credit		4,946,779	8,259,126
Sundry assets	25	1,110,996	351,861
Property, plant and equipment	26	3,458,166	3,299,800
Retirement benefit asset	27	6,641,659	5,827,140
		16,157,600	17,737,927
		191,831,186	186,080,778

Statement of Financial Position (continued)

October 31, 2010

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2010	2009
LIABILITIES			
Deposits			
Deposits by the public	28	140,201,174	134,960,101
Amounts due to other banks and financial institutions	29	2,202,442	1,739,661
Amounts due to parent and ultimate parent company	30	7,853,664	8,316,825
Amounts due to subsidiaries	31	1,119,754	387,359
Amounts due to fellow subsidiaries	31	2,109,130	2,331,931
		153,486,164	147,735,877
Other liabilities			
Cheques and other instruments in transit		2,558,759	2,383,509
Acceptances, guarantees and letters of credit		4,946,779	8,259,126
Securities sold under repurchase agreements	21	480,513	267,356
Redeemable preference shares	35	100,000	100,000
Other liabilities	32	2,669,267	1,989,768
Taxation payable		-	309,767
Deferred tax liabilities	33	2,345,245	1,838,938
Retirement benefit obligations	27	1,502,123	1,132,488
		14,602,686	16,280,952
STOCKHOLDERS' EQUITY			
Share capital	35	2,927,232	2,927,232
Reserve fund	36	2,930,616	2,930,616
Retained earnings reserve	37	10,101,341	9,501,341
Cumulative remeasurement result from available-for-sale financial assets	38	406,334	(426,729)
Capital reserve	39	9,383	9,383
Loan loss reserve	40	1,946,949	1,596,943
Unappropriated profits		5,420,481	5,525,163
		23,742,336	22,063,949
		191,831,186	186,080,778

The financial statements on pages 94 to 147 were approved for issue by the Board of Directors on November 25, 2010 and signed on its behalf by:

Robert H. Pitfield — Director

Bruce F. Bowen — Director

Charles H. Johnston — Director

Julie Thompson James — Secretary

THE BANK OF NOVA SCOTIA JAMAICA LIMITED
Statement of Changes in Stockholders' Equity
Year ended October 31, 2010
(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, 2008		2,927,232	2,930,616	8,301,341	9,383	(970,396)	1,248,712	5,312,936	19,759,824
Profit for the year		-	-	-	-	-	-	5,624,404	5,624,404
Other comprehensive income:									
Unrealised gains on available-for-sale investments, net of taxes		-	-	-	-	541,276	-	-	541,276
Realised losses on available-for-sale securities, transferred to statement of comprehensive income		-	-	-	-	2,391	-	-	2,391
Other comprehensive income		-	-	-	-	543,667	-	-	543,667
Total comprehensive income		-	-	-	-	543,667	-	5,624,404	6,168,071
Dividends paid	48	-	-	-	-	-	-	(3,863,946)	(3,863,946)
Retained earnings transfer		-	-	1,200,000	-	-	-	(1,200,000)	-
Loan loss reserve transfer		-	-	-	-	-	348,231	(348,231)	-
Movement for the year		-	-	1,200,000	-	543,667	348,231	212,227	2,304,125
Balances at October 31, 2009		2,927,232	2,930,616	9,501,341	9,383	(426,729)	1,596,943	5,525,163	22,063,949
Profit for the year		-	-	-	-	-	-	5,003,444	5,003,444
Other comprehensive income									
Unrealised gains on available-for-sale investments, net of taxes		-	-	-	-	924,898	-	-	924,898
Realised gains on available-for-sale securities, transferred to statement of comprehensive income		-	-	-	-	(91,835)	-	-	(91,835)
Other comprehensive income		-	-	-	-	833,063	-	-	833,063
Total comprehensive income		-	-	-	-	833,063	-	5,003,444	5,836,507
Dividends paid	48	-	-	-	-	-	-	(4,180,087)	(4,180,087)
Retained earnings transfer		-	-	600,000	-	-	-	(600,000)	-
Loan loss reserve transfer		-	-	-	-	-	328,039	(328,039)	-
On acquisition of subsidiary		-	-	-	-	-	21,967	-	21,967
Movement for the year		-	-	600,000	-	833,063	350,006	(104,682)	1,678,387
Balances at October 31, 2010		2,927,232	2,930,616	10,101,341	9,383	406,334	1,946,949	5,420,481	23,742,336

Statement of Cash Flows

Year ended October 31, 2010

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2010	2009
Cash flows from operating activities			
Profit for the year		5,003,444	5,624,404
Adjustments for:			
Interest income	6	(19,802,559)	(22,595,335)
Interest expense	6	4,161,407	5,748,064
Taxation charge	14	1,951,884	2,411,952
Depreciation	26	376,403	337,421
Impairment losses on loans	23	1,505,773	1,799,143
Loss on sale of property, plant and equipment		1,512	554
Gain on Visa shares	10	(96,798)	(53,308)
Write off of property, plant and equipment	26	601	-
		(6,898,333)	(6,727,105)
Changes in operating assets and liabilities			
Loans		(6,691,638)	(4,334,419)
Deposits by the public		5,288,732	12,588,781
Statutory reserves at Bank of Jamaica		2,218,199	(6,763,226)
Deposits with Bank of Jamaica maturing after ninety days		15,054,341	(2,490,548)
Other liabilities, net		(153,106)	964,078
Due to parent company and fellow subsidiaries		41,713	1,418,504
Amounts due from other banks		(1,917,070)	7,013,673
Amounts with parents and fellow subsidiaries		(4,583,692)	(2,051,423)
Amounts due to other banks and financial institutions		462,781	235,646
Other assets, net		(465,187)	286,874
Securities sold under repurchase agreements		212,689	267,311
Taxation recoverable		(293,947)	-
Retirement benefits		(444,884)	(223,004)
		1,830,598	185,142
Interest received		21,315,780	21,771,762
Interest paid		(4,203,878)	(5,694,104)
Taxation paid		(2,166,614)	(2,944,109)
Net cash provided by operating activities		16,775,886	13,318,691
Cash flows from investing activities			
Investment securities		(903,553)	(4,473,179)
Government securities purchased under resale agreements		-	(1,150,000)
Pledged assets		1,594,923	(1,400,088)
Purchase of property, plant and equipment	26	(536,017)	(887,445)
Acquisition of subsidiary	51	(30,553)	-
Net proceeds from sale of investment in shares		181,678	126,197
Net cash provided/(used) by investing activities		306,478	(7,784,515)
Net cash flows from operating and investing activities		17,082,364	5,534,176

Statement of Cash Flows (continued)

Year ended October 31, 2010

(expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2010	2009
Cash flows from operating and investing activities		17,082,364	5,534,176
Cash flows from financing activity			
Dividends paid	48	(4,180,087)	(3,863,946)
Effect of exchange rate changes on cash and cash equivalents		(464,834)	1,791,855
Net increase in cash and cash equivalents		12,437,443	3,462,085
Cash and cash equivalents at beginning of year		12,859,290	9,397,205
Cash and cash equivalents at end of year	19	25,296,733	12,859,290

(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, Jamaica.

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	Deposit taking and mortgage financing	100%	October 31
Scotia Jamaica Life Insurance Company Limited	Life insurance	100%	December 31*
Scotia Jamaica Financial Services Limited	Non-trading	100%	October 31
Brighton Holdings Limited	Non-trading	100%	October 31
Scotia DBG Merchant Bank Limited	Non-trading	100%	October 31

Effective June 1, 2010, The Bank of Nova Scotia Jamaica Limited acquired 100% interest in Scotia DBG Merchant Bank Limited, previously a wholly-owned subsidiary of Scotia DBG Investments Limited.

All of the Bank's subsidiaries are incorporated and domiciled in Jamaica.
* The statements included in the consolidation are audited financial statements as at and for the year ended October 31, 2010.

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.

(a) Basis of preparation

(i) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board, and comply with the Jamaican Companies Act ("the Act").

New and revised standards and interpretations that became effective during the year:

Certain new and revised standards and interpretations came into effect during the current financial year. The Group has assessed the relevance of all new and revised standards and interpretations and has adopted those which are relevant to its operations, viz:

IAS 1 (Revised), *Presentation of Financial Statements,* became effective for annual reporting periods beginning on or after January 1, 2009. The revised standard prohibits the presentation of income and expenses (that is, non-owner changes in equity) in the statement of changes in equity, and requires non-owner changes in equity to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Group presents all owner changes in the consolidated statement of changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it is also in conformity with the revised standard.

IAS 27 (Revised), *Consolidated and Separate Financial Statements*, became effective for annual reporting periods beginning on or after July 1, 2009. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost; in such a case any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. This standard did not have any material impact on the financial statements.

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(i) Statement of compliance (continued)

New and revised standards and interpretations that became effective during the year (continued):

Amendments to *IAS 32 Financial Instruments: Presentation* and IAS 1, *Presentation of Financial Statements* became effective for annual reporting periods beginning on or after January 1, 2009. The amendments allow certain instruments that would normally be classified as liabilities to be classified as equity if certain conditions are met. Where such instruments are reclassified, the entity is required to disclose the amount, the timing and the reason for the reclassification. The Group did not reclassify any financial liabilities to equity during the current financial year.

Revised IFRS 3, *Business Combinations* and amended IAS 27, *Consolidated and Separate Financial Statements*, became effective for annual reporting periods beginning on or after July 1, 2009. The definition of a business combination has been revised and focuses on control. All items of consideration transferred by the acquirer are measured and recognised at fair value as of the acquisition date, including contingent consideration. An acquirer can elect to measure non-controlling interest at fair value at the acquisition date or on a transaction by transaction basis. New disclosure requirements have been introduced. The revisions did not have any significant impact on the financial statements.

Amendments to IFRS 7 *Financial Instruments: Disclosures*, which became effective for annual reporting periods beginning on or after January 1, 2009, require enhanced disclosures of:

(i) fair value measurement relating to financial instruments, specifically in relation to disclosures over the inputs used in valuation techniques and the uncertainty associated with such valuations; and

(ii) liquidity risk, to address current diversity in practice.

The Group has presented these additional disclosures in these financial statements.

IFRS 8*, Operating Segments,* which became 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 has presented information on segments in accordance with this standard.

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(i) Statement of compliance (continued)

New and revised standards and interpretations that became effective during the year (continued):

IAS 36 (Amendment)*, Impairment of Assets* which became effective for annual reporting periods beginning on or after January 1, 2009, provides that where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The adoption of the amendment did not have any effect on the financial statements.

IAS 39 (Amendment)*, Financial Instruments: Recognition and Measurement,* became effective for annual reporting periods which began on or after July 1, 2009. The amendment provides clarification that it is possible for there to be movements into and out of the fair value through profit or loss category where:

- A derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge;

- Financial assets are reclassified following a change in policy by an insurance company in accordance with IFRS 4.

The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition. There is also the removal of a segment as an example of what may be considered a party external to the reporting entity. When re-measuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used. The amendment did not have any effect on the financial statements.

IFRIC 17, *Distribution of Non-Cash Assets to Owners* is effective for annual reporting periods beginning on or after July 1, 2009. It provides that a dividend payable should be recognized when appropriately authorized and no longer at the entity's discretion. Where an owner has a choice of a dividend of a non-cash asset or cash, the dividend payable is estimated considering both the fair value and probability of the owners selecting each option. The dividend payable is measured at the fair value of the net assets to be distributed. The difference between fair value of the dividend paid and the carrying amount of the net assets distributed is recognized in profit or loss. This interpretation did not have any impact on the financial statements.

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(i) Statement of compliance (continued)

New and revised standards and interpretations 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 the financial year end 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 9, *Financial Instruments,* is effective for annual reporting periods beginning on or after January 1, 2013. The standard retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The Group is assessing the impact that the standard will have on the 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.

(iii) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS and the Act requires the use of certain assumptions and 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.

2. Summary of significant accounting policies (continued)

(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 entities are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries are consistent with those of the Group.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to, and assesses the performance of, the operating segments of an entity. The Group has determined the Board of Directors as its chief operating decision maker. All transactions between business segments are conducted on an arm´s length basis, with intra-segment revenue and costs being eliminated. Income and expenses directly associated with each segment are included in determining business segment performance.

(d) Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Jamaican dollars at the exchange rates prevailing at the reporting date, being the mid-point between the weighted average buying and selling rates of Bank of Jamaica (the Central Bank) 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, the difference between the amounts recognized under the banking regulations and such amounts as would have been determined under IFRS is 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.

2. **Summary of significant accounting policies (continued)**

(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 recognised in the statement of revenue and expenses, net of reinsurance recoveries.

(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. Reinsurance does not relieve the originating insurer of its liability and is recorded when received.

(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 profit or loss except where they relate to a business combination, or items recognized directly in stockholders' equity or in other comprehensive income.

(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 financial year end.

(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.

2. **Summary of significant accounting policies (continued)**

(i) Taxation (continued)

(ii) Deferred tax (continued)

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

(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 are at least 10% more than the benefits payable if the insured event did not occur.

(ii) Recognition and measurement

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, the investment portion of insurance premiums received are initially recognised directly as liabilities. These liabilities are increased by interest credited and are decreased by policy administration fees, mortality charges and any withdrawals or surrenders; the resulting liability is called the Life Assurance Fund. Income consists of fees deducted for mortality, policy administration, withdrawals and surrenders. Interest credited to the policy and benefit claims in excess of the cash surrender values 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 adjusted through the statement of revenue and expenses to reflect the changes on the valuation.

2. **Summary of significant accounting policies (continued)**

(k) Policyholders' liabilities

The policyholders' liabilities 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

Financial assets comprise cash resources, investment securities, securities purchased under resale agreements, pledged assets, loans and leases, and sundry assets. Financial liabilities comprise deposits, securities purchased under resale agreements, redeemable preference shares, other liabilities and policyholders' liabilities.

(i) Recognition

The Group initially recognises loans and advances and deposits on the date at which the Group becomes a party to the contractual provisions of the instrument i.e., 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 on which the asset is delivered to or by the Group.

(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 but retains either all or a portion of the risks and rewards of the transferred assets. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

2. Summary of significant accounting policies (continued)

(l) Financial assets and liabilities (continued)

(iii) Measurement

Initial measurement: On initial recognition, financial assets and liabilities are measured at fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement of financial assets: The measurement of financial assets subsequent to initial recognition depends upon their classification as set out in note 2(m) below, namely: loans and receivables are measured at amortised cost using the effective interest method; held-to-maturity investments are measured at amortised cost using the effective interest method; investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably determined are measured at amortised cost.

Other financial assets are measured at their fair values without any deduction for transaction costs that may be incurred on sale or other disposal.

Subsequent measurement of financial liabilities: After initial recognition, financial liabilities are measured at amortised cost.

(m) Financial assets

(i) Classification

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.

(1) Financial assets at fair value through profit or loss

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

(2) Loans and receivables

See details at note 2(p).

2. Summary of significant accounting policies (continued)

(m) Financial assets (continued)

(i) Classification (continued)

(3) 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 and which are not designated as at fair value through profit or loss or as available-for-sale. 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 and the Group would be prohibited from classifying investment securities as held-to-maturity for the current and the following two financial years. Held-to-maturity investments are measured at amortised cost.

(4) Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified in any of the other three categories of financial assets. 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. Available-for-sale investments are measured at fair value except for any unquoted equity securities whose fair value cannot be reliably measured, which are carried at cost. Interest income is recognized in profit or loss using the effective interest method. Dividend income is recognized in profit or loss when the Group becomes entitled to the dividend. Other unrealized gains and losses arising from changes in fair value of available-for-sale investments are recognized in other comprehensive income. On disposal or impairment of these investments, the unrealized gains or losses included in stockholders' equity are transferred to profit or loss.

(ii) Identification and measurement of impairment

At each financial year end, the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Group, or economic conditions that correlate with defaults in the Group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

2. Summary of significant accounting policies (continued)

(m) Financial assets (continued)

(ii) Identification and measurement of impairment (continued)

The Group considers evidence of impairment for loans and receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment, management makes judgements as to current economic and credit conditions and their effect on default rates, loss rates and the expected timing of future recoveries, ensuring that assumptions remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised directly in equity to profit or loss. The cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

2. Summary of significant accounting policies (continued)

(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 the asset at a fixed price on a future date (repurchase agreements) and securities purchased under agreements to resell the asset at a fixed price on a future date (reverse repurchase agreements) are treated as collateralised financing transactions. In the case of reverse repurchase agreements, the underlying asset is not recognized in the Group's financial statements; in the case of repurchase agreements the underlying collateral is not derecognized from the Group's financial statements but is segregated as pledged assets. 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.

(p) Loans and receivables and allowance for impairment losses

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group intends to sell immediately or in the near term, and that, upon initial recognition, the Group designates as at fair value through profit or loss, or as available-for-sale.

Loans and receivables 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.

Loans are stated net of unearned income and allowance for impairment.

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.

2. Summary of significant accounting policies (continued)

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

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. This differs from IFRS which requires that interest on the impaired asset continues to be recognised through the unwinding of the discount that was applied to the estimated future cash flows. However, the difference 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 statement of financial position. 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 expensed where they are considered to be immaterial.

(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.

2. Summary of significant accounting policies (continued)

(t) Property, plant and equipment (continued)

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 expense 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 each 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 or loss 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 and 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.

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.

2. Summary of significant accounting policies (continued)

(u) Employee benefits (continued)

(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 contributions from employees and the Bank, taking into account the recommendations of qualified actuaries.

The asset or liability in respect of defined benefit plan is the difference between the present value of the defined benefit obligation at the reporting date and the fair value of plan assets, adjusted for unrecognised actuarial gains/losses and past service 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 as an expense in such a manner 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 financial year end 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.

(ii) Dividends

Dividends on ordinary shares are recognized in the stockholder's equity in the period in which they are approved by the Board of Directors, thereby becoming irrevocably payable.

2. Summary of significant accounting policies (continued)

(x) Financial instruments

Financial instruments carried in the statement of financial position include cash resources, investments, securities purchased under resale agreements, pledged assets, loans and leases, other assets, deposits, other liabilities and policyholders' liabilities.

The fair values of the Group's financial instruments are discussed in note 44.

(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.

(z) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. The recoverable amount of goodwill is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent of other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (or group of units) on a *pro rata* basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3. Critical accounting estimates, and judgements made in applying accounting policies

The Group makes estimates, assumptions and judgements that affect the reported amounts of, and disclosures relating to, assets, liabilities, income and expenses reported in these financial statements. Amounts and disclosures based on these estimates, assumptions and judgements may be different from actual outcomes, and these differences may be reported in the financial statements of the next financial year. Estimates and judgements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances, and are continually evaluated.

(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 recognised, 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 impairment charge would be an estimated $109,854 (2009: $112,215) lower or $113,669 (2009: $112,215) higher.

(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 $759,552 (2009: increase by $1,931,476) with a corresponding entry in the fair value reserve in stockholders' equity.

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

(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 $74,381 and the deferred tax liability by $38,627, if unfavourable; or
- Decrease the income tax liability by $74,381 and the deferred tax liability by $38,627, 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, which is outlined in note 2 (k).

The process of calculating policy liabilities 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 34.

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

(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 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 considers 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 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 material impact on the consolidated profit for the year. 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 material impact on consolidated profit for the year. Were the assumed medical inflation rate on the health plan to differ by 1% from management estimates, the health expense would increase by $115,413 or decrease by $85,485.

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 insurance policyholders 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. An actuarial valuation is prepared annually.

4. Responsibilities of the appointed actuary and external auditors (continued)

The shareholders, pursuant to the Companies Act, appoint the external auditors. Their responsibility is to conduct an independent 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.

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) Insurance Services - incorporating the provision of life and medical insurance, individual pension, administration and investment management;

(e) 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.

(expressed in thousands of Jamaican dollars unless otherwise stated)

5. Segmental financial information (continued)

	2010						
	Retail	Banking Corporate and Commercial	Treasury	Insurance services	Other	Eliminations	Group
Net external revenues	9,936,184	5,283,934	6,002,807	5,393,495	83,976	-	26,700,396
Revenue/(expenses) from other segments	1,528,982	1,477,456	(2,993,755)	(552)	(760)	(11,371)	-
Total revenues	11,465,166	6,761,390	3,009,052	5,392,943	83,216	(11,371)	26,700,396
Total expenses	(9,130,448)	(4,385,087)	(63,512)	(925,032)	(16,620)	11,371	(14,509,328)
Profit before tax	2,334,718	2,376,303	2,945,540	4,467,911	66,596	-	12,191,068
Taxation							(2,758,118)
Profit for the year							9,432,950
Segment assets	55,621,095	55,357,656	84,727,717	54,188,604	1,086,772	(3,623,360)	247,358,484
Unallocated assets							7,752,655
Total assets							**255,111,139**
Segment liabilities	89,113,502	79,240,653	480,513	37,268,649	57,947	(2,556,817)	203,604,447
Unallocated liabilities							6,616,635
Total liabilities							**210,221,082**
Other segment items:							
Capital expenditure	290,841	247,428	-	16,077	-	-	554,346
Impairment losses on loans	1,482,693	66,534	-	-	1,784	-	1,551,011
Depreciation	253,780	124,627	-	7,385	540	-	386,332

(expressed in thousands of Jamaican dollars unless otherwise stated)

5. Segmental financial information (continued)

	2009						
	Retail	Banking Corporate and Commercial	Treasury	Insurance services	Other	Eliminations	Group
Net external revenues	8,702,358	5,399,437	7,945,499	5,056,914	23,501	-	27,127,709
Revenue/(expenses) from other segments	1,895,777	2,273,972	(4,101,020)	(65,041)	(1,963)	(1,725)	-
Total revenues	10,598,135	7,673,409	3,844,479	4,991,873	21,538	(1,725)	27,127,709
Total expenses	(8,969,005)	(4,340,035)	(58,485)	(790,094)	(1,220)	1,725	(14,157,114)
Profit before tax	1,629,130	3,333,374	3,785,994	4,201,779	20,318	-	12,970,595
Taxation							(3,318,814)
Profit for the year							9,651,781
Segment assets	49,896,187	55,986,981	83,634,180	48,217,499	162,812	(1,628,387)	236,269,272
Unallocated assets							6,179,000
Total assets							**242,448,272**
Segment liabilities	87,125,539	76,821,736	467,356	35,806,374	57,341	(1,440,842)	198,837,504
Unallocated liabilities							5,440,647
Total liabilities							**204,278,151**
Other segment items:							
Capital expenditure	479,884	408,023	-	7,912	-	-	895,819
Impairment losses on loans	1,704,651	96,168	-	-	-	-	1,800,819
Depreciation	195,188	143,868	-	6,111	540	-	345,707

Capital expenditure comprises additions to property, plant and equipment (note 26).

(expressed in thousands of Jamaican dollars unless otherwise stated)

6. Net interest income

	The Group 2010	The Group 2009	The Bank 2010	The Bank 2009
Interest income:				
Deposits with banks and other financial institutions	2,329,956	4,711,685	1,623,134	3,212,369
Investment securities	9,810,719	11,221,480	3,497,886	4,064,371
Reverse repurchase agreements	72,643	84,174	49,945	87,133
Loans and advances	15,656,925	16,106,197	14,631,223	15,228,349
Other	371	8,454	371	3,113
	27,870,614	32,131,990	19,802,559	22,595,335
Interest expense:				
Banks and customers	4,529,580	6,045,645	4,134,208	5,632,262
Repurchase agreements	1,380	79,039	1,893	83,031
Interest credited to policyholders	3,251,480	4,035,143	-	-
Other	25,306	34,751	25,306	32,771
	7,807,746	10,194,578	4,161,407	5,748,064
Net interest income	20,062,868	21,937,412	15,641,152	16,847,271

7. Net fee and commission income

	The Group 2010	The Group 2009	The Bank 2010	The Bank 2009
Fee and commission income:				
Retail banking fees	3,317,278	2,684,883	3,317,278	2,684,883
Credit related fees	821,627	807,511	801,671	795,800
Commercial and depository fees	859,819	1,194,183	789,456	1,151,411
	4,998,724	4,686,577	4,908,405	4,632,094
Fee and commission expenses	(1,398,481)	(1,283,962)	(1,398,481)	(1,283,962)
	3,600,243	3,402,615	3,509,924	3,348,132

8. Net foreign exchange trading income

Net foreign exchange trading income is comprised primarily of gains and losses arising primarily from foreign currency trading activities.

9. Insurance revenue

	The Group 2010	The Group 2009
Gross premiums		
Individual life	490,142	380,860
Group life	516,487	386,079
	1,006,629	766,939
Reinsurance ceded	(833)	(1,319)
	1,005,796	765,620
Changes in actuarial reserves	859,189	(13,543)
	1,864,985	752,077

10. Other revenue

	The Group 2010	The Group 2009	The Bank 2010	The Bank 2009
Gain on securities disposed of in Jamaica Debt Exchange	77,039	-	78,696	-
Loss on sale of property, plant and equipment	(3,459)	(338)	(1,512)	(554)
Gain on sale of shares	96,798	53,308	96,798	53,308
Gain on acquisition of subsidiary	9,102	-	-	-
Other	-	3,627	11,371	3,626
	179,480	56,597	185,353	56,380

11. Salaries, pension contributions and other staff benefits

	The Group 2010	The Group 2009	The Bank 2010	The Bank 2009
Wages and salaries	5,490,346	5,455,195	5,077,799	5,085,826
Payroll taxes	487,000	471,398	456,738	446,734
Pension costs, net [note 27(a)]	(762,294)	(387,218)	(762,294)	(387,218)
Other post retirement benefits [note 27(b)]	408,835	237,898	408,835	237,898
Other staff benefits	1,351,598	1,112,991	1,290,634	1,069,488
Total (note 12)	6,975,485	6,890,264	6,471,712	6,452,728

Notes to the Financial Statements (continued)
October 31, 2010
(expressed in thousands of Jamaican dollars unless otherwise stated)

12. Expenses by nature

	The Group		The Bank	
	2010	2009	2010	2009
Salaries, pension contributions and other staff benefits (note 11)	6,975,485	6,890,264	6,471,712	6,452,728
Property expenses, including depreciation	1,738,218	1,525,798	1,670,495	1,485,652
System related expenses	1,030,008	1,069,463	1,008,311	1,057,771
Insurance claims and benefits	177,085	185,088	-	-
Transportation and communication	822,555	741,246	803,208	710,707
Marketing and advertising	453,788	560,490	401,975	467,243
Management and consultancy fees	507,902	372,458	386,959	312,517
Deposit insurance	226,826	212,704	218,971	204,731
Stationery	274,272	305,082	265,963	295,981
Other operating expenses	752,178	493,702	640,163	407,946
	12,958,317	12,356,295	11,867,757	11,395,276

13. 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	
	2010	2009	2010	2009
Auditors' remuneration:				
- Current year	25,410	22,250	16,800	16,000
- Prior years	-	12,102	-	8,076
Depreciation	386,332	345,707	376,403	337,421
Directors' emoluments:				
Fees	22,885	29,202	14,169	23,065
Other	22,237	31,186	22,237	31,186
Gains on sale of shares and property, plant and equipment	(93,339)	(52,970)	(95,286)	(52,754)
Operating lease rentals	298,497	214,640	265,296	195,806

14. 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	
	2010	2009	2010	2009
Current income tax:				
Income tax at 33 ⅓%	1,868,774	2,246,621	1,856,846	2,240,001
Income tax at 30%	197,563	194,427	-	-
Premium income tax at 3%	96,444	81,383	-	-
Investment income tax at 15%	664,339	447,420	-	-
	2,827,120	2,969,851	1,856,846	2,240,001
Deferred income tax (note 33)	(69,002)	348,963	95,038	171,951
	2,758,118	3,318,814	1,951,884	2,411,952

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

	The Group		The Bank	
	2010	2009	2010	2009
Profit before taxation	12,191,068	12,970,595	6,955,328	8,036,356
Tax calculated at 33 ⅓%	4,063,689	4,323,532	2,318,443	2,678,785
Adjusted for the tax effects of:				
Different tax regime applicable to life insurance and mortgage financing subsidiaries	(924,993)	(738,176)	-	-
Income not subject to tax – tax free investments	(357,866)	(280,065)	(357,866)	(280,065)
Expenses not deductible for tax purposes	129,089	5,784	129,089	5,784
Capital gains	(32,266)	(17,585)	(32,266)	(17,585)
Other charges and allowances	(119,535)	25,324	(105,516)	25,033
Taxation expense	2,758,118	3,318,814	1,951,884	2,411,952

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%.

15. Earnings per stock unit

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

	The Group	
	2010	2009
Net profit attributable to stockholders	9,432,950	9,651,781
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)	3.22	3.30

16. Cash and balances at Bank of Jamaica

	The Group		The Bank	
	2010	2009	2010	2009
Statutory reserves with Bank of Jamaica – interest-bearing	4,222,979	5,282,175	4,222,444	5,281,720
Statutory reserves with Bank of Jamaica – non interest-bearing	11,244,149	12,395,038	11,195,177	12,354,100
Total statutory reserve (note 19)	15,467,128	17,677,213	15,417,621	17,635,820
Cash in hand and at bank (note 19)	24,200,288	30,056,067	21,195,296	21,917,091
	39,667,416	47,733,280	36,612,917	39,552,911

Statutory reserves with the Bank of Jamaica under Section 14 (i) of the Banking Act and the Building Societies Regulations represent the required primary reserve ratio of 12% (2009: 14%) for Jamaican dollar reserves, and 9% (2009: 11%) for foreign currency reserves of the Bank's and Scotia DBG Merchant Bank's, and 1% (2009: 1%) of the Society's prescribed liabilities, respectively. These balances are not available for investment, lending or other use by the Group.

17. Amounts due from other banks

	The Group		The Bank	
	2010	2009	2010	2009
Items in course of collection from other banks	211,789	437,736	211,789	437,736
Placements with other banks	8,464,832	7,880,927	8,424,102	7,849,642
	8,676,621	8,318,663	8,635,891	8,287,378

18. 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.

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

19. Cash and cash equivalents

	The Group		The Bank	
	2010	2009	2010	2009
Cash and balances with Bank of Jamaica	39,667,416	47,733,280	36,612,917	39,552,911
Less: statutory reserves (note 16)	(15,467,128)	(17,677,213)	(15,417,621)	(17,635,820)
Cash in hand and at bank (note 16)	24,200,288	30,056,067	21,195,296	21,917,091
Less balances at bank with tenures greater than 90 days	-	(20,495,489)	-	(15,054,341)
	24,200,288	9,560,578	21,195,296	6,862,750
Government and bank notes other than Jamaican	436,505	301,934	436,505	301,934
Amounts due from other banks	5,943,636	7,488,734	5,902,909	7,477,054
Accounts with parent and fellow subsidiaries	142,232	224,152	168,510	224,152
Government of Jamaica Treasury bills and bonds	200,000	556,200	200,000	1,555,000
Cheques and other instruments in transit	(2,570,366)	(2,378,969)	(2,558,760)	(2,383,509)
	28,352,295	15,752,629	25,344,460	14,037,381
Less accrued interest receivable on Bank of Jamaica Certificates of Deposit	(57,341)	(1,955,075)	(47,727)	(1,178,091)
	28,294,954	13,797,554	25,296,733	12,859,290

20. Government securities purchased under resale agreements

The Group and the Bank enter into reverse repurchase agreements collateralised by Government of Jamaica securities.

Included in Government securities purchased under resale agreements are the following amounts which are regarded as cash equivalents for the purposes of the statement of cash flows:

	The Group		The Bank	
	2010	2009	2010	2009
Reverse repurchase agreements with an original maturity of less than 90 days	200,000	556,200	200,000	1,555,000
Accrued interest	116	136,201	155	2,259
	200,116	692,401	200,155	1,557,259

The fair value of collateral held pursuant to reverse repurchase agreements is $205,248 (2009: $557,939) for the Group and $205,248 (2009: $1,557,702) for the Bank.

(expressed in thousands of Jamaican dollars unless otherwise stated)

21. Pledged assets

Assets are pledged as collateral under repurchase agreements with counterparties. These transactions are conducted under terms that are usual and customary for standard repurchase agreements.

	The Group			
	Asset		Related Liability	
	2010	2009	2010	2009
Securities with regulators	-	800,000	-	-
Securities with other financial institutions and clearing house	578,561	701,541	-	-
Securities sold under repurchase agreements	-	1,200,000	-	267,356
	578,561	2,701,541	-	267,356

	The Bank			
	Asset		Related Liability	
	2010	2009	2010	2009
Securities with regulators	-	800,000	-	-
Securities with other financial institutions and clearing house	578,561	701,541	-	-
Securities sold under repurchase agreements	528,057	1,200,000	480,513	267,356
	1,106,618	2,701,541	480,513	267,356

During 2010, the Central Bank implemented the Central Securities Depository and the Real Time Gross Settlement system, as a result the Group is no longer required to pledge assets to the Central Bank to cover possible shortfalls in the operating account.

22. Loans, after allowance for impairment losses

	The Group		The Bank	
	2010	2009	2010	2009
Business and Government	48,919,498	45,319,016	48,917,184	45,313,861
Personal and credit cards	39,158,463	37,095,883	39,158,463	37,095,883
Residential mortgages	7,581,435	6,763,978	-	-
Interest receivable	972,409	882,683	898,330	823,955
Total	96,631,805	90,061,560	88,973,977	83,233,699
Less: allowance for impairment losses (note 23)	(1,229,104)	(720,714)	(1,158,801)	(678,763)
	95,402,701	89,340,846	87,815,176	82,554,936

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

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

	The Group		The Bank	
	2010	2009	2010	2009
Neither past due nor impaired	80,876,046	76,918,670	75,003,618	71,506,940
Past due but not impaired loans				
Past due 0-30 days	5,205,871	5,804,675	4,296,191	4,999,602
Past due 31-60 days	3,296,010	2,488,130	3,002,930	2,233,480
Past due 61-90 days	2,771,022	1,266,345	2,616,420	1,241,410
	11,272,903	9,559,150	9,915,541	8,474,492
Past due and impaired loans more than 90 days	3,510,446	2,701,057	3,156,488	2,428,312
Interest receivable	972,410	882,683	898,330	823,955
Gross loan portfolio	96,631,805	90,061,560	88,973,977	83,233,699
Less: Allowance for impairment losses	(1,229,104)	(720,714)	(1,158,801)	(678,763)
	95,402,701	89,340,846	87,815,176	82,554,936

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of loans less than 90 days past due.

(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 demonstrated ability 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 continual review.

The Group's and Bank's renegotiated loans that would otherwise be past due or impaired totalled $4,437,548 (2009: $59,199).

(iii) Repossessed 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. Re-possessed collateral is not recognised on the Group's statement of financial position.

The Group has no repossessed collateral.

(expressed in thousands of Jamaican dollars unless otherwise stated)

23. Impairment losses on loans

	The Group		The Bank	
	2010	2009	2010	2009
Total impaired loans	3,510,446	2,701,057	3,156,488	2,428,312
Allowance at beginning of year	720,714	608,766	678,763	567,509
Provided during the year	2,298,151	2,245,495	2,252,913	2,243,819
Bad debts written off	(1,814,370)	(2,133,547)	(1,799,268)	(2,132,565)
Acquisition of subsidiary	27,280	-	28,884	-
Translation difference on foreign currency provision	(2,671)	-	(2,491)	-
Allowance at end of year	1,229,104	720,714	1,158,801	678,763
Provided during the year	2,298,151	2,245,495	2,252,913	2,243,819
Recoveries of bad debts	747,140	444,676	747,140	444,676
Impaired losses reported in statement of revenue and expenses	1,551,011	1,800,819	1,505,773	1,799,143

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 $213,088 as at October 31, 2010 (2009: $212,815) for the Group and $186,134 as at October 31, 2010 (2009: $191,296) for the Bank.

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

	The Group		The Bank	
	2010	2009	2010	2009
Allowance based on accounting standard - IAS 39 [see (a) below]	1,229,104	720,714	1,158,801	678,763
Additional allowance based on BOJ regulations [see (b) below]	2,082,465	1,709,767	1,946,949	1,596,943
	3,311,569	2,430,481	3,105,750	2,275,706

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

(b) This 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 40).

24. Investment securities

	The Group		The Bank	
	2010	2009	2010	2009
Available-for-sale (AFS)				
Government of Jamaica securities	68,906,308	24,700,596	31,187,655	18,449,125
Unquoted shares	86,730	175,188	86,595	175,188
Treasury bills	416,788	-	416,788	-
Interest receivable	1,789,225	967,400	994,666	792,519
	71,199,051	25,843,184	32,685,704	19,416,832

	The Group		The Bank	
	2010	2009	2010	2009
Held-to-Maturity (HTM)				
Government of Jamaica securities	14,174,945	44,605,759	-	10,998,547
Interest receivable	294,669	1,971,198	-	671,316
	14,469,614	46,576,957	-	11,669,863

Included in investment securities are Government of Jamaica Local Registered Stocks with a fair value of $90,000 (2009 : $110,000) 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 HTM securities (measured at amortized cost) to AFS securities (measured at fair value) during the year. However, as a result of the Jamaica Debt Exchange in February 2010, all domestic Government of Jamaica securities held were effectively 'matured' and most of the new securities purchased were classified as AFS on the date of acquisition.

25. Sundry assets

	The Group		The Bank	
	2010	2009	2010	2009
Accounts receivable and prepayments	796,099	181,401	1,020,910	179,012
Other	88,766	171,620	90,086	172,849
	884,865	353,021	1,110,996	351,861

(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, 2008	1,782,981	219,330	3,294,263	367,489	5,664,063
Additions	28,071	4,102	95,341	768,305	895,819
Disposals	-	-	(22,920)	-	(22,920)
Transfers	391,628	21,839	319,126	(732,593)	-
October 31, 2009	2,202,680	245,271	3,685,810	403,201	6,536,962
Additions	167,704	2,559	80,134	303,949	554,346
Disposals	-	-	(68,815)	-	(68,815)
Transfers	77,872	13,808	322,352	(414,032)	-
Write-offs	-	-	-	(601)	(601)
On acquisition of subsidiary	-	1,394	4,746	-	6,140
October 31, 2010	2,448,256	263,032	4,024,227	292,517	7,028,032
Accumulated depreciation:					
October 31, 2008	292,934	142,892	2,420,468	-	2,856,294
Charge for the year	43,014	22,777	279,916	-	345,707
Eliminated on disposals	-	-	(22,261)	-	(22,261)
October 31, 2009	335,948	165,669	2,678,123	-	3,179,740
Charge for the year	45,037	26,874	314,421	-	386,332
Eliminated on disposals	-	-	(65,239)	-	(65,239)
On acquisition of subsidiary	-	1,394	3,881	-	5,275
October 31, 2010	380,985	193,937	2,931,186	-	3,506,108
Net book values					
October 31, 2010	2,067,271	69,095	1,093,041	292,517	3,521,924
October 31, 2009	1,866,732	79,602	1,007,687	403,201	3,357,222
October 31, 2008	1,490,047	76,438	873,795	367,489	2,807,769

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, 2008	1,732,237	215,518	3,228,639	366,752	5,543,146
Additions	28,071	3,876	87,838	767,660	887,445
Disposals	-	-	(22,603)	-	(22,603)
Transfers	391,628	21,839	318,481	(731,948)	-
October 31, 2009	2,151,936	241,233	3,612,355	402,464	6,407,988
Additions	167,704	2,324	70,543	295,446	536,017
Disposals	-	-	(49,670)	-	(49,670)
Transfers	77,872	13,808	322,352	(414,032)	-
Write offs	-	-	-	(601)	(601)
On acquisition of subsidiary	-	1,394	4,746	-	6,140
October 31, 2010	2,397,512	258,759	3,960,326	283,277	6,899,874
Accumulated depreciation:					
October 31, 2008	278,996	140,955	2,372,865	-	2,792,816
Charge for the year	41,844	22,107	273,470	-	337,421
On disposals	-	-	(22,049)	-	(22,049)
October 31, 2009	320,840	163,062	2,624,286	-	3,108,188
Charge for the year	43,867	26,091	306,445	-	376,403
On disposals	-	-	(48,158)	-	(48,158)
On acquisition of subsidiary	-	1,394	3,881	-	5,275
October 31, 2010	364,707	190,547	2,886,454	-	3,441,708
Net book values					
October 31, 2010	2,032,805	68,212	1,073,872	283,277	3,458,166
October 31, 2009	1,831,096	78,171	988,069	402,464	3,299,800
October 31, 2008	1,453,241	74,563	855,774	366,752	2,750,330

(expressed in thousands of Jamaican dollars unless otherwise stated)

27. Retirement benefit asset/obligation

Amounts recognised in the statement of financial position:

	The Group and The Bank 2010	2009
Defined benefit pension plan	6,641,659	5,827,140
Other post retirement benefits	(1,502,123)	(1,132,488)
	5,139,536	4,694,652

(a) Defined benefit pension plan

The Group has established a defined benefit pension plan, covering all permanent employees of The Bank of Nova Scotia Jamaica Limited and its subsidiaries. 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, 2010.

(i) The amounts recognised in the statement of financial position are determined as follows:

	The Group and The Bank 2010	2009
Present value of funded obligations	(13,384,602)	(10,948,143)
Fair value of plan assets	30,457,536	26,446,396
Unrecognised actuarial gains	(5,290,370)	(4,388,599)
	11,782,564	11,109,654
Unrecognised amount of plan assets due to limitation on economic benefit	(5,140,905)	(5,282,514)
Asset in the statement of financial position	6,641,659	5,827,140

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 2010	2009
At beginning of year	(10,948,143)	(9,087,313)
Interest and service costs	(2,510,844)	(1,738,688)
Actuarial loss on obligation	(516,830)	(706,720)
Benefits paid	591,215	584,578
At end of year	(13,384,602)	(10,948,143)

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

	The Group and The Bank 2010	2009
At beginning of year	26,446,396	22,726,007
Expected return on plan assets	2,637,883	2,712,372
Actuarial gain on plan assets	1,508,399	1,253,835
Contributions	456,073	338,760
Benefits paid	(591,215)	(584,578)
At end of year	30,457,536	26,446,396

(iv) Composition of plan assets:

	The Group and The Bank 2010	2009
Government stocks and bonds	24,917,929	20,992,497
Quoted equities	2,499,547	1,751,417
Reverse repurchase agreements	1,485,061	1,255,934
Real estate	994,265	982,822
Net current assets	560,734	1,463,726
	30,457,536	26,446,396
Pension plan assets include the following:		
The parent company's ordinary stock units	1,126,211	989,684

Notes to the Financial Statements (continued)
October 31, 2010
(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 2010	2009
Current service cost, net of employee contributions	99,025	225,782
Interest cost	2,007,973	1,211,843
Expected return on plan assets	(2,637,883)	(2,712,372)
Net actuarial gain recognised in year	(89,800)	(74,100)
Income (recognised)/not recognised due to limit	(141,609)	961,629
Included in staff costs (note 11)	(762,294)	(387,218)

The actual return on plan assets was $4,146,281 (2009: $3,966,207).

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

	The Group and The Bank 2010	2009
Discount rate	11.5%	18.0%
Expected return on plan assets	10.0%	12.0%
Future salary increases	8.5%	14.5%
Future pension increases	5.5%	11.5%
Average expected remaining working lives (years)	19.4	22.2

(b) Other post-employment benefits

In addition to pension benefits, the Bank offers post-employment medical and group life insurance benefits to retirees and their beneficiaries. 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 that are relevant to group health plan, the estimate assumes a long-term increase in health costs of 10% per year (2009: 13.5%).

(i) The liability recognised in the statement of financial position is as follows:

	The Group and The Bank 2010	2009
Present value of unfunded obligations	(2,485,118)	(1,569,756)
Unrecognised actuarial losses	982,995	437,268
Liability in the statement of financial position	(1,502,123)	(1,132,488)

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 2010	2009
At beginning of year	(1,569,756)	(1,209,160)
Interest and service costs	(398,392)	(232,043)
Actuarial gain on obligation	(556,170)	(164,539)
Benefits paid	39,200	35,986
Liability in the statement of financial position	(2,485,118)	(1,569,756)

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

	The Group and The Bank 2010	2009
Current service cost	101,156	68,311
Interest cost	297,236	163,732
Net actuarial losses recognised in year	10,443	5,855
Included in staff costs (note 11)	408,835	237,898

(c) Five year trend analysis

	Pension				
	2010	2009	2008	2007	2006
Fair value of plan assets	30,457,536	26,446,396	22,726,007	20,514,620	18,483,277
Present value of defined benefit obligation	(13,384,602)	(10,948,143)	(9,087,313)	(6,911,961)	(5,872,871)
Surplus in the plan	17,072,934	15,498,253	13,638,694	13,602,659	12,610,406
Experience adjustments to plan liabilities - (gain)/ loss	(762,749)	793,979	427,376	474,870	(397,996)
Experience adjustments to plan assets - gain	1,508,399	1,253,835	204,530	21,643	352,091

	Health and Group Life				
	2010	2009	2008	2007	2006
Present value of defined benefit obligation	1,610,792	1,569,756	1,209,160	1,141,333	1,195,379
Deficit in the plan	(1,610,792)	(1,569,756)	(1,209,160)	(1,141,333)	(1,195,379)
Experience adjustments to plan liabilities - (gain)/ loss	(318,837)	184,950	(8,502)	(140,505)	56,384

28. Deposits by the public

	The Group 2010	The Group 2009	The Bank 2010	The Bank 2009
Personal	85,251,095	83,636,974	80,370,562	79,925,360
Other	60,227,207	55,346,251	59,676,362	54,832,832
Interest payable	191,517	249,848	154,250	201,909
	145,669,819	139,233,073	140,201,174	134,960,101

Deposits include $35,844 (2009: $92,072) held as collateral for irrevocable commitments under letters of credit.

29. Amounts due to other banks and financial institutions

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

30. Amounts due to parent and ultimate parent company

	The Group and The Bank 2010	The Group and The Bank 2009
Bank of Nova Scotia:		
Facility I	999,943	1,065,158
Facility II	3,124,171	3,260,331
Facility III	3,364,071	3,510,686
	7,488,185	7,836,175
Interest payable	87,734	85,305
	7,575,919	7,921,480
Deposits held with the Bank :		
Scotia Group Jamaica Limited	250,905	388,940
Bank of Nova Scotia	26,840	6,405
	7,853,664	8,316,825

(i) Facility I is a US$ denominated fifteen (15) year non-revolving loan from the ultimate parent company, for on-lending. The repayment of the principal commenced June 30, 2003. The facility bears interest at the 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 interest rate of 5.95%.

The above loan facilities are insured by the Multilateral Investment Guarantee Agency.

(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

31. Amounts due to subsidiaries and fellow subsidiaries

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

32. Other liabilities

	The Group 2010	The Group 2009	The Bank 2010	The Bank 2009
Accrued vacation and redundancy	216,737	77,149	200,547	72,511
Other accrued liabilities	1,262,455	1,322,586	1,184,972	1,276,517
Prepaid letters of credit	93,098	139,179	93,098	139,179
Other	310,824	537,837	1,190,650	501,561
	1,883,114	2,076,751	2,669,267	1,989,768

33. Deferred tax assets and liabilities

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

- 30% for The Scotia Jamaica Building Society;
- 15% for Scotia Jamaica Life Insurance Company Limited, and
- 33 ⅓% for the Bank and all its other subsidiaries.

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

	The Group 2010	The Group 2009	The Bank 2010	The Bank 2009
Balances at beginning of year	(2,210,068)	(1,567,740)	(1,838,938)	(1,395,154)
Recognised in profit (note 14)	69,002	(348,963)	(95,038)	(171,951)
Recognised in other Comprehensive income				
Available-for-sale investments:				
- fair value re-measurement	(495,838)	(244,974)	(385,139)	(269,442)
- transfer to net profit	(34,193)	(48,391)	(31,392)	(2,391)
On acquisition of subsidiary	5,262	-	5,262	-
Net deferred tax liability	(2,665,835)	(2,210,068)	(2,345,245)	(1,838,938)

33. Deferred tax assets and liabilities (continued)

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

	The Group		The Bank	
	2010	2009	2010	2009
Pension benefits	(2,213,886)	(1,942,380)	(2,213,886)	(1,942,380)
Other post retirement benefits	500,708	377,496	500,708	377,496
Available-for-sale investments	(328,446)	201,687	(203,167)	213,365
Vacation accrued	69,679	24,942	66,849	24,170
Accelerated tax depreciation	(139,331)	(153,831)	(138,283)	(152,714)
Impairment losses on loans	(393,877)	(384,475)	(357,543)	(358,875)
Interest receivable other	(160,682)	(333,507)	-	-
Net deferred tax liability	(2,665,835)	(2,210,068)	(2,345,245)	(1,838,938)

(c) The deferred tax charge comprises tax arising from the following temporary differences:

	The Group		The Bank	
	2010	2009	2010	2009
Accelerated tax depreciation	(14,000)	(1,176)	(13,971)	(1,230)
Pensions and other post retirement benefits	148,294	74,334	148,294	74,334
Allowance for loan impairment	14,127	123,858	3,394	104,631
Vacation accrued	(44,737)	(5,835)	(42,679)	(5,784)
Interest receivable	(172,686)	157,782	-	-
Total	(69,002)	348,963	95,038	171,951

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 $18,278,034 at October 31, 2010 (2009: $14,293,187).

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October 31, 2010
(expressed in thousands of Jamaican dollars unless otherwise stated)

34. Policyholders' liabilities

(a) Composition of policyholders' liabilities

	The Group	
	2010	2009
Policyholders' fund	39,390,270	36,048,630
Benefits and claims payable	69,525	60,645
Unprocessed premiums	9,436	17,159
Insurance risk reserve – Individual life	(2,754,413)	(1,855,902)
- Individual A&S	(6,228)	(5,896)
- Group life	182,580	143,241
	36,891,170	34,407,877

(b) Movement in policyholders' liabilities:

	The Group	
	2010	2009
Policyholders fund:		
At beginning of year	36,048,630	32,222,016
Gross premiums	4,882,812	4,729,862
Disbursements	(4,792,652)	(4,938,391)
Interest credited	3,251,480	4,035,143
At end of year	39,390,270	36,048,630
Benefits and claims payable:		
At beginning of year	60,645	52,513
Claims charged during the year	185,964	179,677
Benefits and claims paid	(177,084)	(171,545)
At end of year	69,525	60,645
Unprocessed premiums:		
At beginning of year	17,159	18,592
Premiums received	5,944,186	5,171,240
Premiums applied	(5,951,909)	(5,172,673)
At end of year	9,436	17,159

	2010		
	Individual life	Group life	Total
Insurance risk reserve:			
At beginning of year	(1,861,798)	143,241	(1,718,557)
Changes in assumptions	(395,253)	(3,709)	(398,962)
Normal changes	(503,590)	43,048	(460,542)
At end of year	(2,760,641)	182,580	(2,578,061)

(expressed in thousands of Jamaican dollars unless otherwise stated)

34. Policyholders' liabilities (continued)

	2009		
	Individual life	Group life	Total
Insurance risk reserve:			
At beginning of year	(1,892,953)	161,250	(1,731,703)
Changes in assumptions	217,779	(652)	217,127
Normal changes	(186,624)	(17,357)	(203,981)
At end of year	(1,861,798)	143,241	(1,718,557)

(c) Policy assumptions

Policy liabilities are valued using two major classes of assumptions, namely, best estimate assumptions and provisions for adverse deviation assumptions.

(1) Best estimate assumptions:

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.

(ii) Investment yields

The Group has assumed a portfolio yield of 11% beginning January 2010, decreasing monthly to 8% in the year 2015, and then decreasing yearly to 6% in the year 2028 and later. Assumed portfolio yields are net of Investment Income Tax.

A margin for adverse deviation is added to account for 0.50% reduction in the yield.

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

34. Policyholders' liabilities (continued)

(c) Policy assumptions (continued)

(1) Best estimate assumptions (continued):

(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 economic 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%.

(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 8% beginning January 2010, decreasing to 5% in the year 2015, and then decreasing to 3% in year 2028 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.

(expressed in thousands of Jamaican dollars unless otherwise stated)

34. Policyholders' liabilities (continued)

(c) Policy assumptions (continued)

(2) Provision for adverse deviation assumptions (continued)

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.

35. Share capital

	Number of Units '000	
	2010	2009
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	
	2010	2009	2010	2009
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)	(100,000)	(100,000)
	2,927,232	2,927,232	2,927,232	2,927,232

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.

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 up to recover the amounts paid up on the preference shares and any arrears or accruals of the preference dividend; and

35. Share capital (continued)

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

36. Reserve fund

	The Group		The Bank	
	2010	2009	2010	2009
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. As the required levels have been attained, no further transfers are being made.

37. 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.

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

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

39. Capital reserve

This represents the gain on liquidation of Scotia Jamaica General Insurance Brokers Limited.

40. Loan loss reserve

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

41. Other reserves

This represents reserves arising on consolidation of subsidiaries, net.

(expressed in thousands of Jamaican dollars unless otherwise stated)

42. 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 or both parties are subject to common control or significant influence. A number of banking transactions are entered into with related parties, including companies connected by virtue of common directorships, in the normal course of business. These include loans, deposits, investment management services and foreign currency transactions.

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

Pursuant to Section 13(1), (d) and (i) of the Banking Act, 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, centralized computing service fees and the amount due to the ultimate parent company (note 30).

42. Related party transactions and balances (continued)

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

	The Group					
	Ultimate parent	Fellow subsidiaries	Directors and Key Management Personnel	Connected companies	Total 2010	Total 2009
Loans						
Loans outstanding at beginning of year	-	-	368,021	10,978,460	11,346,481	9,604,790
Net loans issued/(repaid) during the year	-	-	38,696	(933,899)	(895,203)	1,741,691
Loans outstanding at end of year	-	-	406,717	10,044,561	10,451,278	11,346,481
Interest income earned	-	-	29,962	761,585	791,547	1,133,458
Average repayment term (Years)	-	-	11.49	3.59	3.90	4.83
Average interest rate (%)	-	-	8.57	9.34	9.31	9.71
Deposits						
Deposits outstanding at beginning of year	7,836,174	-	103,065	2,969,492	10,908,731	10,000,522
Net deposits received/(repaid) during the year	(347,989)	-	27,114	(187,139)	(508,014)	908,209
Deposits outstanding at end of year	7,488,185	-	130,179	2,782,353	10,400,717	10,908,731
Interest expense on deposits	396,203	-	4,082	118,611	518,896	554,555
Other						
Fees and commission earned	-	-	182	71,449	71,631	135,395
Insurance products	-	-	20,446	-	20,446	35,396
Securities (sold)/purchased under repurchase agreements	-	-	-	-	-	(133,830)
Interest earned/(paid) on repurchase agreements	-	27,916	-	-	27,916	(60,413)
Due from banks and other financial institutions	101,990	6,871,388	-	-	6,973,378	2,006,224
Interest earned from banks and other financial institutions	24	146,950	-	-	146,975	143,146
Due to banks and other financial institutions	247,985	2,030,267	-	-	2,278,253	2,787,954
Interest paid to banks and other financial institutions	-	29,574	-	-	29,574	43,806
Management fees (paid)/received	(493,590)	49,616	-	-	(443,973)	(354,335)
Guarantee fees paid to parent company	(16,310)	-	-	-	(16,310)	(4,671)
Other operating (expense)/income	(348,999)	3,576	-	-	(345,423)	(439,815)

(expressed in thousands of Jamaican dollars unless otherwise stated)

42. Related party transactions and balances (continued)

	The Bank					
	Ultimate Parent	Fellow subsidiaries	Directors and Key Management Personnel	Connected companies	Total 2010	Total 2009
Loans						
Loans outstanding at beginning of year	-	-	303,218	10,978,460	11,281,678	9,580,527
Net loans issued/(repaid) during the year	-	-	39,131	(933,899)	(894,768)	1,701,151
Loans outstanding at end of year	-	-	342,349	10,044,561	10,386,910	11,281,678
Interest income earned	-	-	23,017	761,585	784,602	1,129,851
Average repayment term (Years)	-	-	9.58	3.59	3.79	4.74
Average interest rate (%)	-	-	8.23	9.34	9.31	9.71
Deposits						
Deposits outstanding at beginning of year	7,836,174	-	94,944	2,969,492	10,900,610	9,996,846
Net deposits received/(repaid) during the year	(347,989)	-	31,075	(187,139)	(504,053)	903,764
Deposits outstanding at end of year	7,488,185	-	126,019	2,782,353	10,396,557	10,900,610
Interest expense on deposits	396,203	-	3,705	118,611	518,519	553,981
Other						
Fees and commission earned	-	-	182	71,449	71,631	135,395
Securities (sold)/purchased under repurchase agreements	-	(480,000)	-	-	(480,000)	732,689
Interest (paid)/received on repurchase agreements	-	(25,550)	-	-	(25,550)	29,638
Due from banks and other financial institutions	101,990	6,872,912	-	-	6,974,901	2,006,224
Interest earned from banks and other financial institutions	24	146,950	-	-	146,975	143,146
Due to banks and other financial institutions	247,985	4,044,747	-	-	4,292,732	3,110,129
Interest paid to banks and other financial institutions	-	42,937	-	-	42,937	62,428
Management fees (paid)/received	(401,850)	45,706	-	-	(356,144)	(307,829)
Guarantee fees paid to parent company	(16,310)	-	-	-	(16,310)	(4,671)
Other operating (expense)/income	(348,999)	50,846	-	-	(298,153)	(381,042)

	The Group 2010	The Group 2009	The Bank 2010	The Bank 2009
Key management compensation				
Salaries and other short term benefits	409,333	395,197	363,601	331,702
Post-employment benefits	(62,278)	(35,472)	(62,278)	(35,472)

43. 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, which involves 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 quarterly and annual financial statements, related policies and assumptions for recommendation to the Board of Directors for approval.

(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 Advisory Committee performs a similar role to ALCO for Scotia Jamaica Life Insurance, where it provides a specialized focus due to the different nature of the insurance business.

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

43. Financial risk management (continued)

(b) Credit risk

(i) Credit risk management

At a strategic level, the Group manages the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to any one borrower, or groups of borrowers, and industry segments. Credit risk limits 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 personal and business assets such as property, vehicles, equipment, inventory and accounts receivable; and
- 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.

The Group's policy requires the review of individual financial assets that are above materiality thresholds annually or more regularly when individual circumstances require. Impairment allowances are consistent with policies outlined in note 2(p).

43. Financial risk management (continued)

(b) Credit risk (continued)

(i) Credit risk management (continued)

The Group further manages 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 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 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. 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.

(expressed in thousands of Jamaican dollars unless otherwise stated)

43. Financial risk management (continued)

(b) Credit risk (continued)

(iii) Credit quality

Commercial loans: 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. 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:

Mapping of the Group's internal ratings to external ratings of international rating agency, Standards and Poor's.

The 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: 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:

- Excellent
- Good
- Higher risk

The table below shows the percentage of the loan portfolio as at the reporting date relating to loans and credit commitments for each of the internal rating categories:

43. Financial risk management (continued)

(b) Credit risk (continued)

(iii) Credit quality (continued)

	Loans and credit commitments			
	The Group		The Bank	
	2010 (%)	2009 (%)	2010 (%)	2009 (%)
Excellent	18.6	17.6	15.0	14.4
Very Good	0.1	0.3	0.1	0.4
Good	18.4	15.9	17.2	14.4
Acceptable	5.4	5.1	5.9	5.5
Higher Risk	57.5	61.1	61.8	65.3
	100.0	100.0	100.0	100.0

Under the *Bank of Jamaica Credit Classification, Provisioning and Non Accrual Requirements*, the following classifications are used:

Standard – loans where the financial condition of the borrower is in no way impaired, and appropriate levels of cash flows or income flows are available to meet debt payments.

Special Mention – loans where credit is currently up to date and collateral values protect the Group's exposure. However, there exists evidence to suggest that certain factors could, in future, affect the borrower's ability to service the credit properly or impair the collateral.

Sub-standard – loans with well-defined credit weakness or weakness in the sector of the borrower such that cash flows are insufficient to service debt as arranged.

Doubtful – loans where collection of the debt in full is highly questionable or improbable.

Loss – loans considered uncollectible due to insolvency of the borrower. The borrower's financial position is insufficient to service or retire outstanding debt.

(expressed in thousands of Jamaican dollars unless otherwise stated)

43. Financial risk management (continued)

(b) Credit risk (continued)

(iii) Credit quality (continued)

Using these classifications to rate credit quality, the credit profile of the Group's and Bank's loan portfolios would be as set out in the following table:

	The Group		The Bank	
	2010	2009	2010	2009
Standard	70.3%	63.2%	68.3%	60.8%
Special Mention	21.0%	32.8%	22.7%	35.2%
Sub-Standard	5.6%	2.3%	5.9%	2.3%
Doubtful	1.2%	1.0%	1.2%	1.0%
Loss	1.9%	0.7%	1.9%	0.7%
	100.0%	100.0%	100.0%	100.0%

Debt securities: 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, 2010:

	The Group		The Bank	
	2010	2009	2010	2009
AAA to AA+	416,789	-	416,789	-
BB to B-	106,465,310	-	51,005,550	-
Lower than B-	-	102,898,159	-	53,426,462
Unrated	-	-	-	-
	106,882,099	102,898,159	51,422,339	53,426,462

	The Group		The Bank	
	2010	2009	2010	2009
Classified as follows:				
Deposits with the Bank of Jamaica	21,078,873	27,951,800	18,073,880	19,813,414
Investment securities				
Held-to-maturity	14,469,614	46,576,822	-	11,669,863
Available-for-sale	70,755,051	25,667,996	32,241,841	19,241,644
Pledged assets				
Held-to-maturity	578,561	2,701,541	1,106,618	2,701,541
	106,882,099	102,898,159	51,422,339	53,426,462

43. 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	
	2010	2009	2010	2009
Deposits with the Bank of Jamaica	36,973,228	45,880,891	33,918,728	37,701,111
Due from other banks	15,709,881	10,376,766	15,695,419	10,345,481
Government securities purchased under resale agreements	200,116	692,401	200,155	1,557,259
Pledged assets	578,561	2,701,541	1,106,618	2,701,541
Loans, after allowance for impairment losses	95,402,701	89,340,846	87,815,176	82,554,936
Investment securities				
Available-for-sale	71,112,456	25,667,996	32,599,110	19,241,644
Held-to-maturity	14,469,614	46,576,957	-	11,669,863
Customers' liabilities under acceptances, guarantees and letters of credit	5,320,358	8,641,071	4,946,779	8,259,126
Other assets	64,060	68,458	-	-
	239,830,975	229,946,927	176,281,985	174,030,961

43. 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 2010	Total 2009
Agriculture, fishing and mining	1,147,965	33,621	1,181,587	1,543,934
Construction and real estate	1,152,018	193,951	1,345,969	1,721,081
Distribution	7,761,271	410,835	8,172,106	4,789,629
Financial institutions	1,429	2,508,341	2,509,770	1,938,378
Government and public entities	24,036,982	807,136	24,844,118	23,301,855
Manufacturing	2,533,237	267,153	2,800,390	7,001,765
Personal	47,749,091	619,331	48,368,421	45,126,769
Professional and other services	6,304,702	422,790	6,727,492	4,647,977
Tourism and entertainment	4,972,235	57,200	5,029,435	7,747,299
Interest receivable	972,875	-	972,875	883,944
Total	96,631,805	5,320,358	101,952,163	98,702,631
Total impairment allowance)			(1,229,104)	(720,714)
			100,723,059	97,981,917

	The Bank			
	Loans and Leases	Acceptances, Guarantees and Letters of Credit	Total 2010	Total 2009
Agriculture, fishing and mining	1,147,965	33,621	1,181,587	1,543,934
Construction and real estate	1,152,018	193,951	1,345,969	1,721,081
Distribution	7,761,271	410,835	8,172,106	4,789,629
Financial institutions	1,429	2,508,341	2,509,770	1,938,378
Government and public entities	24,036,982	807,136	24,844,118	23,301,673
Manufacturing	2,533,237	267,153	2,800,390	7,001,765
Personal	40,167,657	245,752	40,413,408	37,981,029
Professional and other services	6,302,389	422,790	6,725,179	4,642,822
Tourism and entertainment	4,972,235	57,200	5,029,435	7,747,299
Interest receivable	898,794	-	898,794	825,215
Total	88,973,977	4,946,779	93,920,756	91,492,825
Total impairment allowance			(1,158,801)	(678,763)
			92,761,955	90,814,062

Notes to the Financial Statements (continued)
October 31, 2010
(expressed in thousands of Jamaican dollars unless otherwise stated)

43. 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	
	2010	2009	2010	2009
Government of Jamaica	85,053,878	74,946,358	32,599,110	33,613,048
Bank of Jamaica	36,973,228	45,880,891	33,918,729	37,701,110
Financial institutions	14,791,085	11,069,166	15,695,417	11,902,740
Corporate and other	136	135	-	-
	136,818,327	131,896,550	82,213,256	83,216,898

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 limits set. Limits are set using a combination of risk measurement techniques, including 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 security 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)

43. Financial risk management (continued)

(c) Market Risk (continued)

(i) Interest rate risk (continued)

The Group monitors interest rate risk using its Asset and Liability management 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 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						
	2010						
	Immediately rate sensitive (1)	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-rate sensitive	Total
Cash resources	8,940,109	19,890,532	7,427,208	1,707,650	-	17,848,303	55,813,802
Securities purchased under resale agreements	-	200,000	-	-	-	116	200,116
Pledged assets	-	-	-	-	578,561	-	578,561
Loans (3)	19,547,399	36,398,133	4,877,141	23,772,878	8,766,824	2,040,326	95,402,701
Investment securities (2)							
- Available-for-sale	-	12,713,590	32,294,164	12,487,749	11,822,062	1,881,486	71,199,051
- Held-to-maturity	-	3,390,000	1,258,400	9,526,545	-	294,669	14,469,614
Other assets	-	-	-	-	-	17,447,294	17,447,294
Total assets	28,487,508	72,592,255	45,856,913	47,494,822	21,167,447	39,512,194	255,111,139
Deposits	127,462,594	17,133,540	6,835,349	3,577,557	3,951,770	283,584	159,244,394
Other liabilities	-	-	-	-	-	14,085,518	14,085,518
Policyholders' liabilities	23,195,457	3,547,887	12,646,925	-	-	(2,499,099)	36,891,170
Stockholders' equity	-	-	-	-	-	44,890,057	44,890,057
Total liabilities and stockholders' equity	150,658,051	20,681,427	19,482,274	3,577,557	3,951,770	56,760,060	255,111,139
Total interest rate sensitivity gap	(122,170,543)	51,910,828	26,374,639	43,917,265	17,215,677	(17,247,866)	-
Cumulative gap	(122,170,543)	(70,259,715)	(43,885,076)	32,189	17,247,866	-	-
	2009						
Total assets	21,975,620	80,548,537	39,736,667	37,868,655	16,125,088	46,193,705	242,448,272
Total liabilities and stockholders' equity	140,025,576	18,797,817	19,262,090	5,197,329	5,088,126	54,077,334	242,448,272
Total interest rate sensitivity gap	(118,049,956)	61,750,720	20,474,577	32,671,326	11,036,962	(7,883,629)	-
Cumulative gap	(118,049,956)	(56,299,236)	(35,824,659)	(3,153,333)	7,883,629	-	-

43. Financial risk management (continued)

(c) Market Risk (continued)

(i) Interest rate risk (continued)

	The Bank						
	2010						
	Immediately rate sensitive (1)	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-rate sensitive	Total
Cash resources	8,966,378	16,854,429	7,427,208	1,707,650	-	17,789,175	52,744,840
Securities purchased under resale agreements	-	200,000	-	-	-	155	200,155
Pledged assets	-	-	-	528,057	578,561	-	1,106,618
Loans (3)	19,547,399	29,725,453	4,763,300	23,140,767	8,672,011	1,966,246	87,815,176
Investment securities (2)							
- Available-for-sale	-	8,032,009	11,574,969	10,127,542	1,869,924	1,081,260	32,685,704
Investment in subsidiaries	-	-	-	-	-	1,121,093	1,121,093
Other assets	-	-	-	-	-	16,157,600	16,157,600
Total assets	28,513,777	54,811,891	23,765,477	35,504,016	11,120,496	38,115,529	191,831,186
Deposits	125,076,529	14,564,049	6,114,118	3,545,446	3,939,920	246,102	153,486,164
Other liabilities	-	-	-	-	-	14,122,173	14,122,173
Securities sold under repurchase agreements	-	480,000	-	-	-	513	480,513
Stockholders' equity	-	-	-	-	-	23,742,336	23,742,336
Total liabilities and stockholders' equity	125,076,529	15,044,049	6,114,118	3,545,446	3,939,920	38,111,124	191,831,186
Total interest rate sensitivity gap	(96,562,752)	39,767,842	17,651,359	31,958,570	7,180,576	4,405	-
Cumulative gap	(96,562,752)	(56,794,910)	(39,143,551)	(7,184,981)	(4,405)	-	-
	2009						
Total assets	21,964,996	51,079,180	24,924,187	32,433,960	12,729,729	42,948,726	186,080,778
Total liabilities and stockholders' equity	117,009,584	13,640,533	6,417,694	5,167,687	5,067,034	38,778,246	186,080,778
Total interest rate sensitivity gap	(95,044,588)	37,438,647	18,506,493	27,266,273	7,662,695	4,170,480	-
Cumulative gap	(95,044,588)	(57,605,941)	(39,099,448)	(11,833,175)	(4,170,480)	-	-

(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.

(expressed in thousands of Jamaican dollars unless otherwise stated)

43. 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 2010	Immediately rate sensitive %	Within 3 months %	3 to 12 months %	1 to 5 years %	Over 5 years %	Weighted Average %
ASSETS:						
Cash resources	0.49	6.16	0.94	8.00	-	3.78
Investment securities (1)						
Available-for-sale	-	9.76	9.91	10.67	11.53	10.29
Held to maturity	-	9.09	11.75	12.06	-	11.32
Securities purchased under resale agreements	-	8.10	-	-	-	8.10
Pledged assets	-	-	-	-	12.88	12.88
Loans (2)	16.94	21.49	17.55	14.39	10.11	17.46
LIABILITIES:						
Deposits (3)	2.03	3.76	5.17	6.65	5.79	2.55
Policyholders' liabilities	5.50	10.00	6.60	-	-	6.26

The Group 2009	Immediately rate sensitive %	Within 3 months %	3 to 12 months %	1 to 5 years %	Over 5 years %	Weighted Average %
ASSETS:						
Cash resources	0.32	10.22	22.98	8.00	-	14.99
Investment securities (1)						
Available-for-sale	-	19.47	19.81	7.85	10.24	11.36
Held to maturity	-	19.79	22.02	17.87	20.76	20.11
Securities purchased under resale agreements	-	12.69	17.21	-	-	13.58
Pledged assets	-	22.17	21.41	-	-	21.80
Loans (2)	20.70	24.24	15.04	16.17	9.07	19.54
LIABILITIES:						
Deposits (3)	4.37	7.53	7.48	7.12	5.97	4.98
Securities sold under repurchase agreements	-	1.03	-	-	-	1.03
Policyholders' liabilities	12.45	12.18	14.73	-	-	13.19

43. Financial risk management (continued)

(c) Market Risk (continued)

(i) Interest rate risk (continued)

The Bank 2010	Immediately rate sensitive %	Within 3 months %	3 to 12 months %	1 to 5 years %	Over 5 years %	Weighted average %
ASSETS:						
Cash resources	0.49	5.85	0.94	8.00	-	3.54
Investment securities (1)						
Available-for-sale	-	9.82	6.83	10.53	9.99	8.96
Securities purchased under resale agreements	-	8.10	-	-	-	8.10
Pledged assets	-	-	-	12.25	12.88	12.58
Loans (2)	16.94	23.35	17.63	14.48	10.09	17.84
LIABILITIES:						
Deposits (3)	1.94	3.43	5.07	6.65	5.79	2.41
Securities sold under resale agreements	-	3.00	-	-	-	3.00

The Bank 2009	Immediately rate sensitive %	Within 3 months %	3 to 12 months %	1 to 5 years %	Over 5 years %	Weighted average %
ASSETS:						
Cash resources	0.30	8.46	22.89	8.00	-	14.12
Investment securities (1)						
Available-for-sale	-	20.90	-	7.49	9.43	8.83
Held to maturity	-	20.08	22.10	19.57	-	20.27
Securities purchased under resale agreements	-	11.41	-	-	-	11.41
Pledged assets	-	22.17	21.41	-	-	21.80
Loans (2)	20.70	26.42	15.05	16.38	9.02	20.03
LIABILITIES:						
Deposits (3)	4.29	7.33	7.22	7.12	5.96	4.85
Securities sold under resale agreements	-	1.03	-	-	-	1.03

Average effective yields by the earlier of the contractual repricing and 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.

43. Financial risk management (continued)

(c) Market Risk (continued)

(i) Interest rate risk (continued)

Sensitivity to interest rates

The following shows the sensitivity to interest rate movements using scenarios that are based on recently observed market movements. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

	2010	2009
JMD Interest rates	Increase/decrease by 450bps	Increase/decrease by 600bps
USD Interest rates	Increase/decrease by 200bps	Increase/decrease by 400bps

	The Group		The Bank	
	2010	2009	2010	2009
Effect on profit or loss	1,330,615	1,950,085	1,276,577	1,910,785
Effect on Stockholders' equity	1,478,515	2,060,828	1,429,813	2,041,714

Sensitivity to interest rate risk for SJLIC, the insurance subsidiary, is considered in note 43(e) under the DCAT scenarios.

(ii) Foreign exchange risk

The Group takes on exposure to the effects of fluctuations in the 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.

Notes to the Financial Statements (continued)
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43. Financial risk management (continued)

(c) Market risk (continued)

(ii) Foreign exchange risk (continued)

The table below summarizes the exposure to foreign currency exchange risk:

	The Group						
	2010						
JMD Equivalent	JMD	USD	CAD	GBP	EUR	OTHER	TOTAL
ASSETS							
Cash resources	35,563,113	13,572,712	1,547,221	4,930,405	140,714	59,637	55,813,802
Investments	70,623,493	14,565,081	416,789	-	63,302	-	85,668,665
Govt securities purchased under resale agreements	200,116	-	-	-	-	-	200,116
Pledged assets	578,561	-	-	-	-	-	578,561
Loans	70,580,717	24,544,270	88,808	68,516	120,390	-	95,402,701
Other assets	15,940,008	834,086	333,559	(38,571)	405,793	(27,581)	17,447,294
	193,486,008	53,516,149	2,386,377	4,960,350	730,199	32,056	255,111,139
LIABILITIES							
Deposits	102,234,113	49,840,995	1,987,066	4,872,023	309,871	326	159,244,394
Other liabilities	9,642,161	3,502,348	399,672	87,999	421,607	31,731	14,085,518
Policyholders liabilities	36,891,170	-	-	-	-	-	36,891,170
	148,767,444	53,343,343	2,386,738	4,960,022	731,478	32,057	210,221,082
NET POSITION	**44,718,564**	**172,806**	**(361)**	**328**	**(1,279)**	**(1)**	**44,890,057**

43. Financial risk management (continued)

(c) Market Risk (continued)

(ii) Foreign exchange risk (continued)

	The Group						
	2009						
JMD Equivalent	JMD	USD	CAD	GBP	EUR	OTHER	TOTAL
ASSETS							
Cash resources	36,538,217	14,471,926	1,843,682	5,361,705	170,692	25,758	58,411,980
Investments	57,780,572	14,572,086	-	-	67,483	-	72,420,141
Govt securities purchased under resale agreements	692,401	-	-	-	-	-	692,401
Pledged assets	2,701,541	-	-	-	-	-	2,701,541
Loans	62,933,218	25,844,417	291,146	132,201	139,864	-	89,340,846
Other assets	13,517,595	3,792,077	2,710	(68,148)	1,650,455	(13,326)	18,881,363
	174,163,544	58,680,506	2,137,538	5,425,758	2,028,494	12,432	242,448,272
LIABILITIES							
Deposits	91,886,747	53,187,493	2,030,125	5,317,176	302,771	356	152,724,668
Securites sold under repurchase agreements	267,356	-	-	-	-	-	267,356
Other liabilities	9,016,123	5,890,749	107,552	126,854	1,724,896	12,076	16,878,250
Policyholders liabilities	34,407,877	-	-	-	-	-	34,407,877
	135,578,103	59,078,242	2,137,677	5,444,030	2,027,667	12,432	204,278,151
NET POSITION	**38,585,441**	**(397,736)**	**(139)**	**(18,272)**	**827**	**-**	**38,170,121**

Notes to the Financial Statements (continued)
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43. Financial risk management (continued)

(c) Market Risk (continued)

(ii) Foreign exchange risk (continued)

The table below summarizes exposure to foreign currency exchange risk:

	The Bank						
	2010						
JMD Equivalent	JMD	USD	CAD	GBP	EUR	OTHER	TOTAL
ASSETS							
Cash resources	32,535,072	13,542,740	1,547,221	4,919,456	140,714	59,637	52,744,840
Investments	18,761,625	14,565,081	416,789	-	63,302	-	33,806,797
Govt securities purchased under resale agreements	200,155	-	-	-	-	-	200,155
Pledged assets	1,106,618	-	-	-	-	-	1,106,618
Loans	62,993,191	24,544,270	88,808	68,516	120,391		87,815,176
Other assets	14,638,222	842,133	333,558	(34,525)	405,793	(27,581)	16,157,600
	130,234,883	53,494,224	2,386,376	4,953,447	730,200	32,056	191,831,186
LIABILITIES							
Deposits	96,504,774	49,819,000	1,987,066	4,865,127	309,871	326	153,486,164
Securities sold under repurchase agreements	480,513	-	-	-	-	-	480,513
Other liabilities	9,666,096	3,515,076	399,672	87,992	421,607	31,730	14,122,173
	106,651,383	53,334,076	2,386,738	4,953,119	731,478	32,056	168,088,850
NET POSITION	**23,583,500**	**160,148**	**(362)**	**328**	**(1,278)**	**-**	**23,742,336**

	The Bank						
	2009						
JMD Equivalent	JMD	USD	CAD	GBP	EUR	OTHER	TOTAL
ASSETS							
Cash resources	28,400,740	14,426,820	1,843,682	5,332,635	170,692	25,758	50,200,327
Investments	16,689,219	14,572,086	-	-	67,483	-	31,328,788
Govt securities purchased under resale agreements	1,557,259	-	-	-	-	-	1,557,259
Pledged assets	2,701,541	-	-	-	-	-	2,701,541
Loans	56,147,308	25,844,417	291,146	132,201	139,864	-	82,554,936
Other assets	12,361,882	3,800,672	2,710	(64,465)	1,650,454	(13,326)	17,737,927
	117,857,949	58,643,995	2,137,538	5,400,371	2,028,493	12,432	186,080,778
LIABILITIES							
Deposits	86,959,701	53,151,127	2,030,125	5,291,797	302,771	356	147,735,877
Securities sold under repurchase agreements	267,356	-	-	-	-	-	267,356
Other liabilities	8,151,622	5,890,604	107,552	126,846	1,724,896	12,076	16,013,596
	95,378,679	59,041,731	2,137,677	5,418,643	2,027,667	12,432	164,016,829
NET POSITION	**22,479,270**	**(397,736)**	**(139)**	**(18,272)**	**826**	**-**	**22,063,949**

43. Financial risk management (continued)

(c) Market Risk (continued)

(ii) Foreign exchange risk (continued)

The following significant exchange rates were applied during the period:

	Average rate for the period		Reporting date spot rate	
	2010	2009	2010	2009
USD	87.7303	86.8489	85.3825	89.1037
CAD	83.3297	74.1712	83.1572	81.8778
GBP	135.8581	133.4279	135.5446	145.9954
EUR	117.1296	118.4444	116.8623	129.8712

Sensitivity to foreign exchange rates

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 as 2009. 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 variable remain constant.

	2010	2009
USD	Increase/decrease by 15%	Increase/decrease by 20%
CAD	Increase/decrease by 30%	Increase/decrease by 30%
GBP	Increase/decrease by 25%	Increase/decrease by 25%
EUR	Increase/decrease by 30%	Increase/decrease by 30%

	The Group		The Bank	
	2010	2009	2010	2009
Effect on profit and stockholders' equity	472,672	608,343	468,951	608,033

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43. Financial risk management (continued)

(d) Liquidity Risk

Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows. 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 Group's liquidity management process includes:

(i) Monitoring future cash flows and liquidity on a daily basis;
(ii) Maintaining a portfolio of highly marketable assets that can be liquidated quickly as protection against any unforeseen interruption to cash flow;
(iii) Monitoring the liquidity ratios of the Group against internal and regulatory requirements;
(iv) Managing the concentration and profile of debt maturities, as well as undrawn lending commitments.

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 and 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)

43. Financial risk management (continued)

(d) Liquidity risk (continued)

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. However, the Group expects that many policyholders/depositors/customers will not request repayment on the earliest date the Group could be required to pay.

	The Group 2010					
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Total
Financial liabilities						
Deposits	145,081,144	7,064,662	3,594,134	3,951,770	-	159,691,710
Policyholders' fund	24,669,708	13,985,745	-	-	-	38,655,453
Other liabilities	6,398,306	826,086	2,669,840	23,083	1,502,367	11,419,682
Total liabilities (contractual maturity dates)	176,149,158	21,876,493	6,263,974	3,974,853	1,502,367	209,766,845

	2009					
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Total
Financial liabilities						
Deposits	133,634,266	7,918,279	8,077,920	9,387,916	-	159,018,381
Policyholders' fund	22,385,776	13,853,584	-	-	-	36,239,360
Securities sold under repurchase agreements	267,394	-	-	-	-	267,394
Other liabilities	5,240,970	2,929,138	2,563,535	1,582,773	2,331,767	14,648,183
Total liabilities (contractual maturity dates)	161,528,406	24,701,001	10,641,455	10,970,689	2,331,767	210,173,318

43. Financial risk management (continued)

(d) Liquidity risk (continued)

	The Bank 2010					
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Total
Financial liabilities						
Deposits	140,050,020	6,306,766	3,562,018	3,939,920	-	153,858,724
Securities sold under repurchase agreements	480,552	-	-	-	-	480,552
Other liabilities	6,819,519	762,364	2,669,840	23,083	1,502,123	11,776,929
Total liabilities (contractual maturity dates)	147,350,091	7,069,130	6,231,858	3,963,003	1,502,123	166,116,205

	2009					
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Total
Financial liabilities						
Deposits	130,408,296	7,105,950	8,077,920	8,212,029	-	153,804,195
Securities sold under repurchase agreements	267,394	-	-	-	-	267,394
Other liabilities	4,846,501	2,948,468	2,534,836	1,582,773	2,331,767	14,244,345
Total liabilities (contractual maturity dates)	135,522,191	10,054,418	10,612,756	9,794,802	2,331,767	168,315,934

(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 by a change in any subset of the portfolio.

(expressed in thousands of Jamaican dollars unless otherwise stated)

43. Financial risk management (continued)

(e) Insurance risk (continued)

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 applicants 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 insured benefits. The benefit insured figures are shown gross and net of reinsurance.

	Total benefits assured			
	Before and After Reinsurance 2010	%	Before and After Reinsurance 2009	%
Individual Life Benefits assured per life				
0 to 250,000	5,973,352	17	5,456,387	18
250,001 to 500,000	2,476,377	7	2,254,603	8
500,001 to 750,000	3,790,762	11	3,335,587	11
750,001 to 1,000,000	3,281,931	9	2,703,548	9
1,000,001 to 1,500,000	6,761,636	19	5,377,502	18
1,500,001 to 2,000,000	4,132,194	10	3,799,674	13
Over 2,000,000	9,580,286	27	6,939,243	23
Total	35,996,538	100	29,866,544	100

43. Financial risk management (continued)

(e) Insurance risk (continued)

(i) Long-term insurance contracts (continued)

(1) Frequency and severity of claims (continued)

	Total benefits assured			
	Before and After Reinsurance 2010	%	Before and After Reinsurance 2009	%
Group Life Benefits assured per life				
0 to 250,000	3,827,102	13	4,194,129	16
250,001 to 500,000	4,048,314	14	3,528,165	13
500,001 to 750,000	2,438,511	8	2,119,369	9
750,001 to 1,000,000	1,551,586	5	1,396,788	5
1,000,001 to 1,500,000	3,774,876	13	3,106,280	12
1,500,001 to 2,000,000	2,483,296	10	2,223,832	8
Over 2,000,000	10,810,677	37	9,798,448	37
Total	28,934,362	100	26,367,011	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 Group is exposed to risk. The Group bases these estimates on standard industry and international mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the Group's own experience.

43. Financial risk management (continued)

(e) Insurance risk (continued)

(i) Long-term insurance contracts (continued)

(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.

New estimates are made each subsequent 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.

See note 34 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.

43. Financial risk management (continued)

(e) Insurance risk (continued)

(ii) Reinsurance risk (continued)

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 $15,000 per insured

(iii) Sensitivity analysis of actuarial liabilities

(1) 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.

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.

(expressed in thousands of Jamaican dollars unless otherwise stated)

43. Financial risk management (continued)

(e) Insurance risk (continued)

(iii) Sensitivity analysis of actuarial liabilities (continued)

(1) Sensitivity arising from the valuation of life insurance contracts (continued)

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:

	2010	2009
Interest rates decrease by 1%	132,764	29,902
Interest rates increase by 1%	(131,167)	(101,607)
Mortality increases by 10%	163,677	127,563
Mortality decreases by 10%	(167,399)	(130,488)
Expenses increase by 10%	174,144	156,819
Expenses decrease by 10%	(171,642)	(154,785)
Lapses and withdrawals increase by 10%	129,712	108,748
Lapses and withdrawals decrease by 10%	(143,642)	(120,807)

(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 reported in the statement of financial position 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.

43. Financial risk management (continued)

(e) Insurance risk (continued)

(iii) Sensitivity analysis of actuarial liabilities (continued)

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

A full DCAT report was completed for the Group during 2010, and the results were as follows:

- Mortality and morbidity risks
  To test this scenario, existing mortality and morbidity rates were increased by 3% starting in 2010, 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 a higher surplus and a lower MCCSR ratio over the 5-year period.

- Higher lapse rates
  The business was tested by doubling existing lapses, surrenders and partial withdrawal rates. Under this scenario, the surplus decreases while the MCCSR increases.

- Expense risks
  Higher unit maintenance expenses were tested by setting the annual inflation at 5% greater than current expenses, starting in 2010, 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 5% over a 5 year period was tested in this scenario. Overall, this scenario produces a lower MCCSR over the five year period.

- 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 20% less than existing sales starting in 2009 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)

43. Financial risk management (continued)

(e) Insurance risk (continued)

(iii) Sensitivity analysis of actuarial liabilities (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 for the next five years to net actuarial liabilities at the end of the projection period, which is 5 years after the relevant financial year end.

	2010		2009	
	Surplus	MCCSR	Surplus	MCCSR
Base	15,200,252	1,898%	10,354,310	1,075%
Variable				
Mortality risks	15,154,972	1,899%	10,316,168	1,075%
Low lapse rates	15,431,427	1,855%	10,567,151	1,057%
Higher lapse rates	14,174,767	2,102%	9,435,190	1,167%
Expense risks	15,074,957	1,889%	10,258,632	1,069%
Low interest rate	15,424,367	1,865%	10,372,885	1,073%
High sales growth	15,195,824	1,875%	10,341,133	1,059%
Flat sales	15,028,865	1,927%	10,258,394	1,100%

44. 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 fair value through profit or loss: 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.

44. Fair value of financial instruments (continued)

(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 financial year end; 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 2010	Fair Value 2010	Carrying Value 2009	Fair Value 2009
Financial assets				
Loans	95,402,701	95,678,950	89,340,846	88,277,470
Pledged assets	578,561	578,561	2,701,541	2,730,442
Investment securities:				
Held-to-maturity	14,469,614	15,229,166	46,576,957	48,508,433
Financial liability				
Deposits	159,244,394	159,347,352	152,724,668	152,753,642

	The Bank			
	Carrying Value 2010	Fair Value 2010	Carrying Value 2009	Fair Value 2009
Financial assets				
Loans	87,815,176	88,232,228	82,554,936	81,725,746
Pledged assets	1,106,618	1,106,618	2,701,541	2,730,442
Investment securities:				
Held-to-maturity	-	-	11,669,863	11,820,612
Financial liability				
Deposits	153,486,164	153,599,282	147,735,877	147,724,070

(expressed in thousands of Jamaican dollars unless otherwise stated)

44. Fair value of financial instruments (continued)

Fair value hierarchy

IFRS 7, *Financial Instruments: Disclosures*, specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Group's market assumptions.

The table below provides a summary of financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

(i) Level 1 – fair value measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

(ii) Level 2 – fair value measured based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

(iii) Level 3 – fair value measured based on inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	The Group 2010			
	Level 1	Level 2	Level 3	Total
Available-for-sale financial instruments - debt securities	416,789	70,695,532	-	71,112,321
Pledged assets - debt securities	-	578,561	-	578,561

	The Group 2009			
	Level 1	Level 2	Level 3	Total
Available-for-sale financial instruments - debt securities	-	25,667,996	-	25,667,996

44. Fair value of financial instruments (continued)

	The Bank 2010			
	Level 1	Level 2	Level 3	Total
Available-for-sale financial instruments - debt securities	416,789	32,182,320	-	32,599,109
Pledged assets - debt securities	-	1,106,618	-	1,106,618

	The Bank 2009			
	Level 1	Level 2	Level 3	Total
Available-for-sale financial instruments - debt securities	-	19,241,644	-	19,241,644

45. 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 the regulatory authorities responsible for banking, insurance and other financial intermediaries;
- 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 commensurate 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)

45. Capital Risk Management (continued)

Banking and Mortgage lending

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 and identifies the applicable 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	
	2010	2009	2010	2009
Tier 1 Capital	17,989,189	16,562,460	15,959,189	14,932,460
Tier 2 Capital	967,372	592,484	809,889	479,660
Total regulatory capital	18,956,561	17,154,944	16,769,078	15,412,120
Less prescribed adjustment	(1,121,093)	(242,093)	(1,121,093)	(242,093)
	17,835,468	16,912,851	15,647,985	15,170,027
Risk weighted assets				
On-balance sheet	95,666,016	80,490,692	91,221,619	76,520,108
Off balance sheet	7,633,239	7,543,919	7,633,239	7,543,919
Foreign exchange exposure	1,349,589	978,829	1,335,076	963,879
Total risk weighted assets	104,648,844	89,013,440	100,189,934	85,027,906
Actual regulatory capital to risk weighted assets	18.1%	19.0%	15.6%	17.8%
Regulatory requirement	10.0%	10.0%	10.0%	10.0%

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

45. Capital Risk Management (continued)

Life Insurance

Capital adequacy is calculated by the Appointed Actuary and reviewed by Executive Management, the Audit Committee and the Board of Directors. In addition, the Group seeks to maintain internal capital adequacy levels higher than the regulatory requirement. 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 Minimum Continuing Capital and Surplus Requirement (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 a MCCSR of 135% in 2008 and 2009, and up to 150% in 2010 and later. The MCCSR for the insurance subsidiary as of October 31, 2010 and 2009 is set out below:

	2010	2009
Regulatory capital held	15,136,372	11,312,242
Minimum regulatory capital	757,395	662,184
Minimum Continuing Capital and Surplus Requirement Ratio	1,998%	1,708%

46. Commitments

	The Group		The Bank	
	2010	2009	2010	2009
(a) Capital expenditure:				
Authorised and contracted	45,860	160,788	45,860	160,788
(b) Commitments to extend credit:				
Originated term to maturity of more than one year	20,370,357	25,362,399	19,996,778	24,980,454

(c) Operating lease commitments:

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

	The Group	
	2010	2009
Not later than one year	180,277	183,718
Later than one year and not later than five years	657,819	711,615
Later than five years	3,146,886	3,391,237
	3,984,982	4,286,570

(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 its financial position and financial performance.

(b) On April 7, 1999, a writ was filed by National Commercial Bank Jamaica Limited ("NCB") in which it 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 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.

48. Dividends

(a) Paid

	The Group and The Bank	
	2010	2009
In respect of 2008	-	965,987
In respect of 2009	1,045,022	2,897,959
In respect of 2010	3,135,065	-
	4,180,087	3,863,946

(b) Proposed

At the Board of Directors meeting on November 25, 2010, a dividend in respect of 2010 of $0.357 per share (2009 - actual dividend $0.357 per share) amounting to $1,045,022 (2009: $1,045,022) was proposed. Stockholders' equity for the current financial year does not reflect this resolution, which will be accounted for in stockholders' equity as an appropriation of retained profits in the ensuing financial year.

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 annual basic remuneration. The employer contributions are as prescribed by the formula set out in the rules of the Plan.

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 $35,606 (2009: $34,185).

At the financial year end, the shares acquired with the employer's contributions and held in trust pending allocation to employees and/or vesting were:

	2010	2009
Number of shares	5,342,216	3,284,867
Fair value of shares $'000	108,714	60,376

50. Fiduciary activities

The Group provides administration and investment management services to an approved retirement scheme. This involves the Group making allocation and purchase and sale decisions in relation to fixed income securities. Those assets that are held in a fiduciary capacity are not included in these financial statements. At the financial year end, the Group had assets under administration amounting to approximately $726,812 (2009: $219,498).

(expressed in thousands of Jamaican dollars unless otherwise stated)

51. Acquisition and disposal

(a) On June 1, 2010, The Bank of Nova Scotia Jamaica Limited acquired 100% interest in Scotia DBG Merchant Bank Limited, previously a wholly-owned subsidiary of Scotia DBG Investments Limited.

The assets and liabilities of Scotia DBG Merchant Bank Limited were as follows

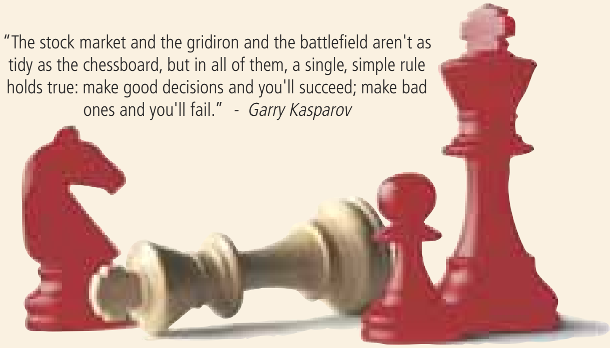
	2010
Cash and cash equivalents	848,447
Statutory reserves	132,313
Investments	291,713
Government securities purchased under resale agreements	537,118
Loans	1,859,984
Property, plant & equipment	935
Intangible assets	559
Other assets	111,240
Deposits	(2,746,718)
Other liabilities	(139,173)
Net assets	896,418
Net cash outflow:	
Costs of acquisition	879,000
Less: cash and cash equivalents on acquisition of subsidiary	(848,447)
	30,553

(b) Effective October 1, 2010, the assets and liabilities of Scotia DBG Merchant Bank Limited were vested in The Bank of Nova Scotia Jamaica Limited, pursuant to a Vesting Order issued by the Minister of Finance and Public Service. As a consequence, all loans, other assets, deposits, other liabilities were transferred to and became vested in the bank. This transaction was undertaken by way of a scheme of transfer under the Financial Institutions Act, which was approved as provided under the statute.

The assets and liabilities vested as at October 1, 2010 were as follows:-

	2010
Cash resources	217,663
Investments	588,877
Government securities purchased under resale agreements	336,066
Loans	1,519,452
Other assets	61,924
Deposits	(1,741,388)
Other liabilities	(56,925)
Net assets	925,669

"The stock market and the gridiron and the battlefield aren't as tidy as the chessboard, but in all of them, a single, simple rule holds true: make good decisions and you'll succeed; make bad ones and you'll fail." - *Garry Kasparov*



ECONOMIC REVIEW

SUMMARY

Global recovery seems to be truly on its way but there are important headwinds to overcome. Credit is flowing again and stock markets across the world are up from the lows recorded in 2009. There are however, structural obstacles (soft labour market and high unemployment) within the US economy that will impede growth in the near-term. The markets in the Euro zone have also shown signs of recovery but are still fairly unstable. Greece's solvency fears earlier in the year and the spillovers to Portugal, Spain, and Ireland continue to underscore these fragilities.

Locally, the Jamaican Government has taken its first stride on its path to fiscal sustainability. Faced with anaemic growth in taxation income and a high debt burden, the nation restructured the local portion of its debt in February 2010. Having made this transformation, the country is now slated to reap benefits from its pruned budget given the sharp reduction in domestic interest rates and an improved maturity profile. Coupled with the approval of the US$1.27b IMF Stand-By Arrangement, this triggered an upgrade in the country's long-term foreign and local currency rating which has boosted confidence levels.

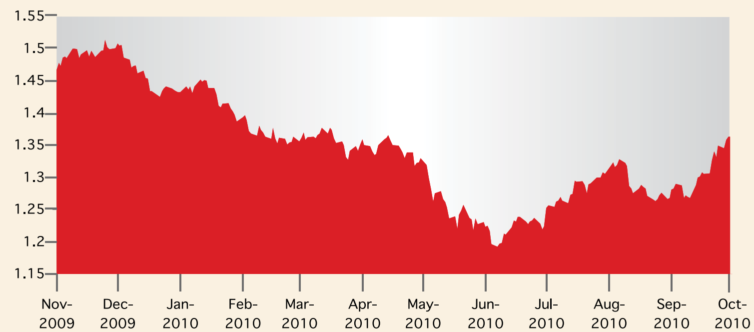
INTERNATIONAL MARKET

For the year in review, there were a number of challenges which faced the global economy. Slow US recovery, a European debt crisis and fading monetary/fiscal stimulus were some of the major themes which impacted global markets. As the two collectively largest economies (the US and Europe) struggled to grow due to systemic debt and banking sector problems, significant volatility was generated in the currency markets. Overall, the Euro lost 6.7% to USD from an open of $1.49/€1 to a close of $1.39/€1.

United States

As the Federal Reserve and Government stimulus faded after the financial crisis, it quickly became apparent that the pace of the US recovery was in jeopardy. Key indicators of the US economy showed signs of deceleration, with the weakening of factory orders, high unemployment levels and soft housing demand.

EUR/USD



With the worst of the financial crisis seemingly behind, the DOW Industrial Index recovered 14% for the period under review from 9,712.73 points to 11,118.49 points. Similarly, the S&P 500 appreciated 14% from 1,036.19 points to 1,183.26 points.

Europe

The sovereign debt crisis in Europe escalated in the second half of the year as the weaker nations making up the Euro zone seemed likely of defaulting on their sovereign debt in the medium term. The PIIGS (Portugal, Ireland, Italy, Greece and Spain) were faced with contraction in their economies, rising unemployment, soaring fiscal deficits and spiraling debt. The deterioration in fundamentals triggered significant levels of volatility across the globe as all asset classes wavered with fragments of data on a daily basis.

An EU bailout took place in early May 2010 and amounted to EUR 750 billion, referred to as the "EU bazooka" by some market participants for indebted nations and banks. This package was aimed at reinforcing the unity of the Euro zone and the strength of its nations as a union. The most indebted of them all, Greece, received EUR 60 billion through the aid program which was jointly financed by the EU and the IMF. In exchange for the bailout, they were forced to implement austerity measures to restore the country to a sustainable path. The long-term benefit of the bailout is yet to be determined.

On the European equity markets, the DJ Stoxx 50 Index fell 2% in the review period from 2,794.25 points to 2,844.99. The FTSE 100 which specifically represents the UK improved 9% to close at 5,675.16 points.

JAMAICAN MARKET

BANK OF JAMAICA Interest Rates	30 days	*60 days	*90 days	*120 days	*180 days
Previous Rate (November 2009)	12.50%	13.00%	15.50%	15.70%	17.00%
Current Rate (October 2010)	8.00%	N/A	N/A	N/A	N/A
Change (basis points)	-450	N/A	N/A	N/A	N/A

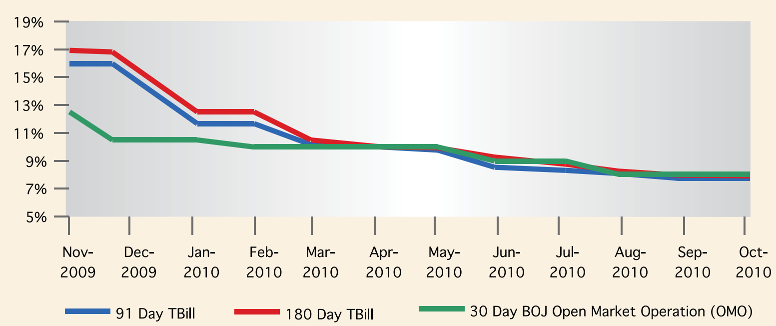
** On January 12, 2010, the BOJ removed from the market Certificates of Deposit with tenors for 60 days to 180 days.*

Interest Rates

The Jamaican Dollar Fixed Income market has been largely characterized by the persistent downtrend in interest rates combined with increased levels of liquidity throughout the fiscal year. At the start of 2010, the Bank of Jamaica (BOJ) removed from the market all tenors beyond thirty days for its Open Market Instruments. This signaled to the market that the BOJ would be on an aggressive interest rate cutting path.

In February 2010, the Ministry of Finance (MOF) embarked on steep measures to reduce the country's huge debt burden through the Jamaica Debt Exchange Programme (JDX). This resulted in the yields on Government of Jamaica (GOJ) securities declining from an average of 19.00% to approximately 12.00% and a significant reduction in the number of securities available on the market when the JDX settled.

Interest Rate



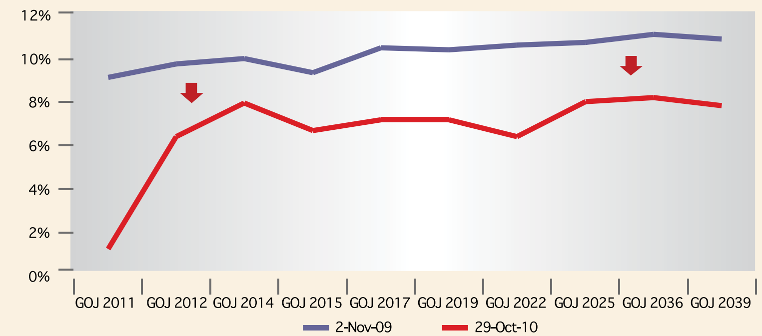
The Bank of Jamaica's policy rate offered on its 30-day Certificate of Deposit fell by 450 basis points over the period to close at 8.00% from 12.50% in November 2009. Similarly, the average yields for both the 90 day and 180 day Treasury bills fell to 7.73% and 7.92% as at October 2010. This represents a decline for the 90-day and 180-day Treasury bills of 848 basis points and 912 basis points from the 16.21% and 17.04% respectively in November 2009.

Global Bonds

Over the past year, the GOJ bonds continued to demonstrate resilience despite the sluggish recovery in the global financial markets. This was due largely to the improvement in the country's debt dynamics following the JDX earlier in the year. Further, the bond market has been bolstered by the overall improvement in several key macroeconomic indicators given Jamaica's Stand-by Agreement with the International Monetary Fund (IMF). As a result, there were strong increases in prices across the spectrum of the curve, and particularly for the long-term bonds.

The recovery in Jamaican global bonds was also driven by strong demand for Emerging Market (EM) bonds. The market saw an uptick in the demand for EM bonds predominantly from overseas traders and investors given high levels of global liquidity and the deleveraging taking place in some developed countries.

GOJ Global Bond Yields



Stock Market

For the year ended October 31, 2010, the Jamaican Stock Market saw increases across the board, following on the heels of the dramatic fall off in interest rates over the period. The JSE Market Index rose by 3.73% from 80,723.53 points, hitting high of 87,732.51 before closing the period at 83,352.14 points.

The JSE Select and All Jamaica Composite indices reflected similar movements with increases of 17.11% and 19.25% respectively. The JSE Select Index moved from 1,807.81 points to 2,098.40 points while the All Jamaica Composite Index from 65,720.75 points to 77,745.11 points.

Jamaica Stock Exchange (JSE) Junior Market

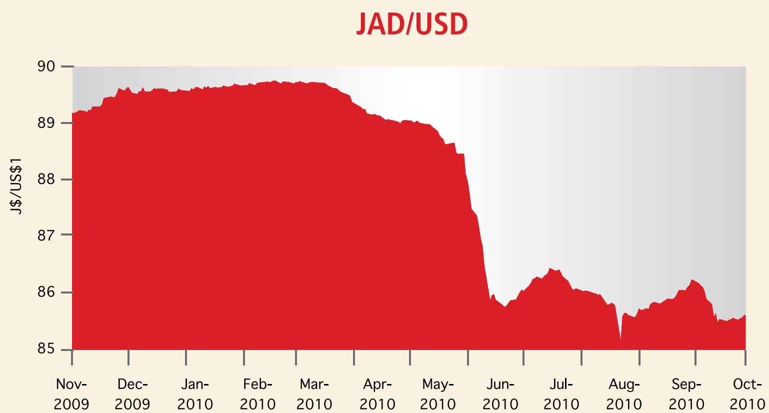
The first listing on the Junior Market took place on October 30, 2009 in the form of Access Financial Services (AFS). The JSE Junior market index opened the year at 103.6 points and ended at 252.54 after the addition of 2 companies to the index. Blue Power Group Limited and Jamaica Teas Limited were both listed during the period and have seen their values rise by 22.11% and 5.34% respectively.

The IPO's of both companies were oversubscribed and closed within minutes of their openings, speaking to the high level of interest the market has in the potential for the junior exchange.

Foreign Exchange

For the period November 2009 to October 2010, the local currency gained J$3.62 or 4.05% against its US dollar counterpart. The Jamaican dollar closed the period at an average selling rate of J$85.62/US$1. Most of the appreciation occurred during the April to June quarter, with that period registering a 3.90% gain of the Jamaican dollar.

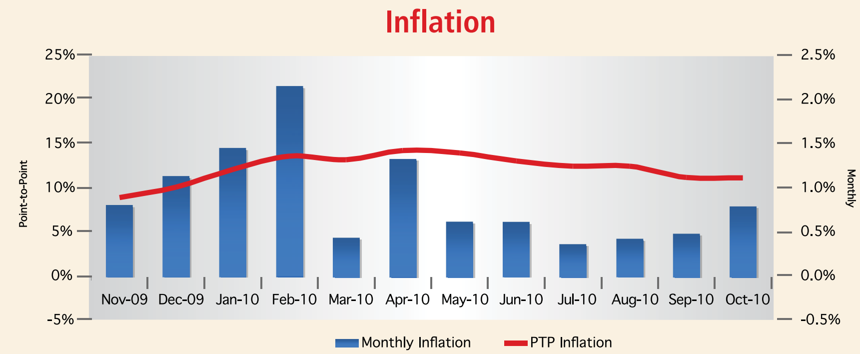
For the period the Jamaican dollar also gained against the British Pound, rising by 7.34% to J$136.18/£1 from J$146.97/£1 at the beginning of the year. The dollar lost 1.5% to the Canadian dollar as the exchange rate moved from J$82.76 at November 1st to J$84.16 at the end of the year.



Inflation

Inflation trends over the past financial year, for the most part, were sporadic, fuelled mostly by a combination of increased taxes, volatile oil prices, and upward adjustments in public transportation costs. February's outturn was the pinnacle, climbing to 2.2% on the back of increases in rural bus fares, and represented the highest monthly movement since July 2008 when oil prices reached record highs.

In the absence of the abovementioned impulses, inflation for the subsequent months decelerated with the rate for both July and August emerging at 0.4%. However, monthly inflation regained strength in October (0.8%) consequent to the adverse weather conditions that prevailed during the period. As at October 2010, calendar year-to-date inflation stood at 9.0%, 12 month point-to-point inflation - 11.2% and fiscal year-to-date - 4.7%.



Gross Domestic Product (GDP)

During the financial year, the contraction in the Jamaican economy persisted albeit at a slower pace, extending the nonexistence of positive growth since the final quarter of 2007. The lagging effects of unfavorable weather conditions and the global downturn continued to hurt both the productive and service sectors.

Though some improvements in the local landscape became evident, growth remained sluggish due to the challenges faced by key industries. The performance of the Agricultural segment was disrupted first by drought conditions and then the heavy rainfall experienced in the latter part of 2010. Similarly, tourism was impacted by the violence that followed the unrest in May and the other segments by the weak local and global backdrops. More positively, the Mining segment buffered growth levels recording consecutive quarterly improvements throughout the year and emerged to positive territory in April to June quarter.

Real GDP

Fiscal Performance

The Central Government's deficit for the FY2009/10, surpassed the initial budgeted deficit by over J$42 billion, amounting to J$121 billion or -10.9% of GDP. This underperformance resulted mainly from the shortfall in revenue inflows for the period and higher than programmed interest payments.

For the FY2010/11 however, there have been notable improvements in the fiscal accounts, evidence that the Government of Jamaica (GOJ) is committed to their strategy in placing the county's finances on a sustainable path. This turnaround stemmed largely from the Jamaica Debt Exchange (JDX) and the resultant implementation of the IMF loan program. For the period April to October 2010, interest costs were slashed by J$4.2 billion and non-interest spending levels cut by J$9.4 billion.

Precipitated by a lackluster economy, lower-than-anticipated revenue flows to GOJ coffers partly offset this over-performance in spending. Revenue and Grants for the seven months totaled J$169 billion, trailing forecast by J$3.9 billion. Non-Tax surfaced the only revenue category that outpaced budget, reflecting a surplus of J$0.36 billion. All other revenue categories fell below budget in particular, Grants and Tax revenues which registered shortfalls of J$3.57 billion and J$0.4 billion respectively for the period.

SHAREHOLDINGS

Scotia Group Jamaica Limited Shareholdings of Directors and Connected Parties as at October 31, 2010

	Units
Alexander, Barbara	108,000
Bowen, Bruce	NIL
Chang, Anthony	3,274
Chrominska, Sylvia	NIL
Hall, Jeffrey	NIL
Johnston, Charles	2,328
Marine Management Services	64,472
McDonald, Warren	10,000
Matalon, Hon. Mayer M.	100,000
Pitfield, Robert	9,270
Norfolk, Claude	NIL
Thompson, Dr. Herbert	NIL
Thompson, Dr. Herbert/Thompson, Avery	29,640
Vasciannie, Prof. Stephen	43,079

*Inclusive of shares in Jamaica Central Securities Depository

Scotia Group Jamaica Limited List of Top Ten (10) Largest Shareholders as at October 31, 2010

	Units
1. The Bank of Nova Scotia	2,233,403,384
2. Life of Jamaica PIF Equity Fund	58,857,292
3. Scotia Jamaica Investment Management Limited -A/C 3119	55,725,439
4. National Insurance Fund	35,815,552
5. Investment Nominees Ltd -A/C Lascelles Henriques ET AL S/F	31,234,937
6. SDBG A/C 560-01	25,165,472
7. Capital and Credit Merchant Bank Limited	19,494,763
8. Grace Kennedy Limited Pension Scheme	13,319,767
9. NCB Insurance Co. Ltd. A/C WT089	12,983,520
10. UTC Growth & Income Fund	11,750,000

Scotia Group Jamaica Limited Shareholdings of Senior Management Officers and Connected Parties as at October 31, 2010

	Units
Bowen, Bruce	NIL
Callam, Bevan	499,834
Callam, Bevan/Callam, Lilieth	673,180
Colquhoun, Sharon	NIL
French, Monique	244,500
Griffiths Irving, Joylene	89,078
Hanson, Donovan	89,795
Hewitt, Wayne	NIL
Hewitt, Wayne/Hewitt, Geraldine	2,000
Jones, Michael	277,930
Jones, Michael/Jones, Joan	40,542
Johnston, Maya	NIL
Latchman Atterbury, Patsy	175,000
Lopez-Spence, Debra	NIL
Mair, Horace Craig	NIL
McLeggon, Marcette	155,718
McLeod, Suzette	50,000
Miller, Hugh	37,412
McDonald, Sheila	5,172
Pandohie, Yvonne	18,452
Pandohie, Yvonne/Pandohie, Leonard	220,640
Pilliner, Rosemarie	74,216
Pilliner, Rosemarie/Pilliner, Gordon St. Elmo	72,458
Powell, H. Wayne	1,315,542
Powell, H. Wayne/Powell, Jennifer	7,453
Yanissa Investments	144,448
Ramsaran, Shirley	49,372
Ramsaran, Shirley/Ramsaran, Nellie/Ramsaran, Clive	60,229

	Units
Reid, Hugh	NIL
Roper, George	NIL
Schnoor, Anya	237,000
Sharp, Jacqueline	79,000
Sharp, Jacqueline/Sharp, Jason	59,000
Sylvester, Courtney	173,214
Sylvester, Courtney/Sylvester, Fay	37,496
Sylvester, Courtney/Sylvester, Corah-Ann	87,268
Thompson, Michael	108,640
Thompson James, Julie	NIL
Thompson James, Julie/James, Marcus	6,300
Thompson James, Julie/James, Marcus /James, Mathew/James, Eric	1,000
Thompson James, Julie/James, Marcus/James, Alyssa	500
Todd, Monique	NIL
Voordouw, Rosemarie	1,320
Voordouw, Rosemarie/Chung, Gabrielle	12,200
Walters, Dudley	1,787
Whitelocke, Gladstone	54,000
Whitelocke, Gladstone/Campbell, Ruth	10,000
Whitelocke, Gladston/Whitelocke, Elaine	65,000
Whitelocke, Gladstone/Whitelocke, Justin	3,000
Whitelocke, Gladstone/Whitelocke, Renee	3,000
Williams, David M.	118,663
Williams, David M./Williams, Fay	112,616
Williams, Frederick	49,372
Williams, Frederick/Williams, Colleen	46,153

*Inclusive of shares in Jamaica Central Securities Depository

Metro East

(From left to right standing) **Junior Clarke** - Manager, Cross Roads Branch, **Junior Carter James** - Manager, Spanish Town Branch, **Lenworth Sutherland** - Manager, Highgate Branch, **Audrey Barrett** - Manager Sales and Service Support, **Avril Leonce** - Manager, New Kingston Branch, **Peter Mohan -** Manager, UWI Mona Branch, **Yvett Anderson** - Manager, Oxford Road Branch, **Paul Wallace** - Manager, Morant Bay Branch, *(from left to right seated)* **Conrad Wright** - Manager, Portmore Branch, **Karen Tomlinson** - Manager, Half-Way-Tree Branch, **Michelle Lee Rutland** - Manager, Linstead, **Heather John Keith** - Manager, Port Maria Branch, and **Courtney Sylvester** - District Vice President.

Metro West

(From left to right standing) **Michael Lee** - Manager, Liguanea Branch, **Denise Hyman** - Manager, Santa Cruz Branch, **Dean Webb** - Manager, May Pen Branch, **June Thompson** - Manager, Junction Branch, **Peter Walters** - District Vice President, **Althea Howard** - Manager, Premier Branch, **Althea Bell Grant** - Manager, Old Harbour Branch, **Michael Shaw** - Manager, King Street Branch, **Valerie Omess** - Manager, Hagley Park Road Branch, **Andrica Senior** - Manager, Christiana Branch, **Carl Bright** - Manager, Mandeville Branch, (from left to right seated) **Claudia Sanderson** - Manager, Sales and Service Support, **Phoebe Buchannan** - Manager, Constant Spring Branch, **Steve Distant** - Manager, Scotia Centre Branch, **Donna Maxwell** - Manager, Victoria and Blake Branch, and **Nyesa Ebanks** - Manager, Black River Branch.

Metro North

(From left to right standing) **Rhoan Bennett** - Manager, Ironshore Branch, **Michael Thompson** - District Vice President, **Fitzaudy Wright** - Manager, Ocho Rios Branch, **Michelle Senior,** Manager, St. Ann's Bay Branch, **Garth Graham** - Manager, Westgate Branch, **Dwight Bryan** - Manager, Lucea Branch, **Marlene Davidson** - Manager, Falmouth Branch, **David James** - Manager, Brown's Town Branch, *(from left to right seated)* **Milton Elliot** - Manager, Sales and Service Support, **Doreen Mortimer** - Manager, Negril Branch, **Caswell Dawes** - Manager, Savanna-la-Mar Branch, and **Linley Reynolds** - Manager, Montego Bay Branch

BLACK RIVER
6 High Street
P. O. Box 27
Black River
St. Elizabeth

Mrs. N. A. Ebanks, 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

Miss A. E. Senior, Manager

CONSTANT SPRING
(Scotiabank Group Financial Centre)
132-132A Constant Spring Road
Kingston 8

Miss P. N. Buchanan, Manager

CORPORATE & COMMERCIAL BANKING CENTRE

D. M. Brown, Manager,
Corporate Client Relationships

E. Blake, Manager, Credit Solutions

Miss T. E. Buddo,
Senior Manager, Credit Solutions

Mrs. D. R. Brown, Senior Manager
Corporate Client Relationships

Miss V. M. Chambers,
Assistant Manager,
Commercial Client Relationships

Miss M. A. Flake, Senior Manager
Commercial Client Relationships

Miss A. M. Fong, Assistant Manager
Electronic Services

Mrs. N. G. Heywood, Senior Manager,
Corporate & Government Relationships

G. A. Hogarth, Portfolio Manager

Miss A. M. Jones, Manager
Corporate Client Relationships

Miss C. A. Lyn,
Senior Manager, Credit Solutions

H. C. Mair, Assistant General Manager
Commercial Client Relationships,
Business Development

Mrs. G. A. Morrison, Manager
Corporate Client Relationships

M. S .A. Nelson,
Manager, Credit Solutions

K. E. Reese, Manager, Commercial
Client Relationships

Miss. C. A. Rochester, Commercial
Client Relationships

H. D. Stephens, Manager, Commercial
Client Relationships

Mrs. T. A. Peyrefitte, Product Manager
Trade Financing & Other Products

CROSS ROADS
86 Slipe Road
P. O. Box 2
Kingston 5

J. A. Clarke, Manager

FALMOUTH
Trelawny Wharf
P. O. Box 27
Falmouth,
Trelawny

Mrs. M. V Davidson, 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

HALF-WAY-TREE
80 Half-Way-Tree Road
P. O. Box 5
Kingston 10

Mrs K. A. Tomlinson, Manager

H. R. Lewis
Asst. Manager, Personal Banking

Miss V. J. Williams
Asst. Manager, Business Banking

Mrs. D. M. Monroe
Asst. Manager, Operations & Service

HIGHGATE
Main Street
P. O. Box 9
Highgate
St. Mary

L. V. Sutherland

IRONSHORE SERVICE CENTRE
Shops 2 & 3, Golden Triangle
Shopping Centre
Ironshore
Montego Bay

R. W. Bennett, Manager

JUNCTION
Junction P. O.
St. Elizabeth

Miss J. D. Thompson, Manager

KING STREET
35-45 King Street
P. O. Box 511, Kingston

M. E. Shaw, Manager

M. St. A. Scott
Asst. Manager, Personal Banking

Mrs. I. C Tucker
Asst. Manager, Business Banking

Mrs. J. M. Badson-Mignott
Asst. Manager, Operations & Service

LIGUANEA
125-127 Old Hope Road
P. O. Box 45
Kingston 6

M. O. Lee, Manager

LINSTEAD
42 King Street
P. O. Box 19
Linstead
St. Catherine

Mrs. M. Lee - Rutland, Manager

LUCEA
Willie Delisser Boulevard
P. O. Box 63
Lucea
Hanover

D. Bryan, Manager

MANDEVILLE
1A Caledonia Road
P. O. Box 106
Mandeville, Manchester

A. C. Bright, Manager

Mrs. J. D. Billings - Frith
Asst. Manager, Business Banking

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

A. Jervis
Asst. Manager, Business Banking

Mrs. A. M. Walters
Asst. Manager, Operations & Service

M. D. Greg,
Asst. Manager, Personal Banking

MORANT BAY
23 Queen Street
P. O. Box 30
Morant Bay
St. Thomas

P. A. Wallace, Manager

NEGRIL
Negril Square
Negril P. O.
Westmoreland

Miss D. M. Mortimer

NEW KINGSTON
2 Knutsford Boulevard
P. O. Box 307
Kingston 5

Miss A. Leonce, Manager

A. D. T. Thompson
Asst. Manager, Business Banking

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

F. O. Wright, Manager

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 Y. Anderson, 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

Mrs. H. J. John Keith, 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 M. A. Senior, 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, Business Banking

SCOTIABANK CENTRE
Cnr. Duke & Port Royal Streets
P. O. Box 59
Kingston

S. A. Distant, Manager

C. C. Wiggan
Asst. Manager, Business Banking

Mrs. K. Y. Hosang Bancroft
Manager, Operations

SPANISH TOWN
Shops 25 & 26
Oasis Shopping Plaza
6 March Pen Road
Spanish Town

Mrs. J. Carter-James, Manager

UWI, MONA CAMPUS
Cnr. Ring Road & Shed Lane
Kingston 7

P. G. Mohan, 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

Subsidiary, Board Members and Senior Officers

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

Ms. B.A. Alexander

B. F. Bowen

Ms. S. D. Chrominska

J. M. Hall

C. H. Johnston, CD

W. A. McDonald, JP

C. S. Norfolk

Dr. H. J. Thompson, CD

Prof. S. C. Vasciannie

SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED

5th Floor, Scotiabank Centre
Cnr. Duke & Port Royal Streets
Kingston, Jamaica

Board of Directors

A. V. Chang - Chairman

B. F. Bowen

N. A. Foster

H. W. Powell

Dr. A. E. Samuels-Harris

A. Mijares Ricci

P. B. Scott

Prof. S. C. Vasciannie

O. Zimmerman

Senior Officers

Mr. H. A. Reid
General Manager

Mrs. M. Williams
Finance Manager
& Complaince Officer

Ms. L. S. Freeman
Assistant General Manager,
Operations & Service
& Customer Service

THE SCOTIA JAMAICA BUILDING SOCIETY

95 Harbour Street
P.O. Box 8463
Kingston, Jamaica

Board of Directors

Dr. H. J. Thompson, CD - Chairman

Ms. B. A. Alexander,
Deputy Chairperson

Dr. C. D. Archer

B. F. Bowen

W. P. S. Hewitt

Dr. A. N. Law

H. W. Powell

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

B. F. Bowen Chairman

H. W. Powell

SCOTIABANK JAMAICA FOUNDATION

Scotiabank Centre
Cnr. Duke & Port Royal Streets
P.O. Box 709
Kingston, Jamaica

Board of Directors

H.W. Powell - Chairman

B. F. Bowen

Mrs. J. A. Griffiths Irving

M. D. Jones

Mrs. R. A. Pilliner

H. W. Powell

Mrs. M. Todd

Mrs. R. Voordouw

Senior Officer

Mrs. J. A. Griffiths-Irving
Executive Director

BRIGHTON HOLDINGS LIMITED

Scotiabank Centre
Cnr. Duke & Port Royal Streets
Kingston, Jamaica

Board of Directors

B. F. Bowen - Chairman

H. W. Powell

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

Mrs. A. M. Fowler

Dr. A. N. Law

P. P. Martin

Miss A. M. Schnoor

J. A. Woodward

Senior Officers

Miss A. Schnoor
Chief Executive Officer

Miss A. Tinker
Vice President &
Chief Financial Officer

Lissant Mitchell
Chief Operating Officer

SCOTIA DBG FUND MANAGERS LIMITED

1B Holborn Road, Kingston 10
Jamaica

Board of Directors

Ms. B. A. Alexander, Chairperson

Ms. K. Bilyk

Miss A. M. Schnoor

Mrs. J. T. Sharp

Ms. A. Richards

Mr. L. Mitchell

Senior Officers

B. O. Frazer
Vice President, Asset Management
& 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, CD

Dr. A. N. Law

Miss A. Schnoor

Senior Officers

Ms. G. Crawford
Acting General Manager

D. Dacres
Senior Manager
Finance & Operations

SCOTIA JAMAICA INVESTMENT MANAGEMENT LIMITED

Scotiabank Centre
Cnr. Duke & Port Royal Streets
P.O. Box 627
Kingston, Jamaica

Board of Directors

B. F. Bowen

H. W. Powell

Corporate Data

SECRETARY

Julie Thompson-James
Vice President/Senior Legal 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
(876) 922.4500

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

Management Officers

EXECUTIVE OFFICERS

Mr. Bruce Bowen
President & Chief Executive Officer

Mrs. Rosemarie A. Pilliner
Executive Vice President, Operations & Shared Services

Mr. H. Wayne Powell
Executive Vice President, Retail Banking

Miss Anya M. Schnoor
Executive Vice President, Wealth Management & Insurance

Miss Monique French
Senior Vice President, Credit Risk Management

Mr. Wayne P. Hewitt
Senior Vice President, Corporate & Commercial Banking

Mr. Michael D. Jones
Senior Vice President, Human Resources

Mrs. Suzette A. M. McLeod
Senior Vice President, Business Support

Mr. Hugh Reid
Senior Vice President & General Manager
Scotia Jamaica Life Insurance Company Ltd.

Mrs. Jacqueline Sharp
Senior Vice President & Chief Financial Officer

Mrs. Maya Walrond-Johnston
Senior Vice President, Non-Branch Sales and Service

SENIOR MANAGEMENT OFFICERS

Audit

Miss Yvonne M. Pandohie
Vice President & Chief Auditor

Retail Banking

Mrs. Patsy Latchman Atterbury,
Vice President, Small & Medium Enterprises

Mr. Courtney A. Sylvester, District Vice President - Metro East

Mr. Michael A. Thompson, District Vice President - Metro North

Mr. Dudley E. Walters, District Vice President - Metro West

Centralized Retail Collection Unit

Mr. Vincent Harvey, Director

Compliance

George Roper
Vice President, Compliance

Contact Centre

Mrs Sheila Segree-White, General Manager

Corporate & Commercial Banking

Miss Marcette McLeggon,
Vice President, Credit Solutions

Corporate Human Resources

Miss Suzanne Donalds, Director
HR Planning, Staffing & Capability Development

Mrs. Hopelin Hines
Director, Total Rewards and Evaluations

Credit Risk Management

Mr. Bevan A. Callam
Vice President

Miss Carol Logan
Assistant General Manager

Miss Tamiko Sadler
Director, Retail Risk

Customer Experience, Technology, Innovation & Projects

Mrs. Rosemarie Voordouw
Director, Customer Experience

Miss Tricia Davies
Director, Business Development and Partnership

Miss Pamela Douglas
Director, Non-Branch Sales and Service

Employee Consultations & Ombuds Services

Mrs. Claudine McCalla, Director

Finance

Miss Shirley K. Ramsaran
Vice President, Finance & Comptroller

Miss Carolyn Kean
Director, Strategic Planning

Mr. Frederick A. Williams
Assistant General Manager
Market & Operational Risk Management

SENIOR MANAGEMENT OFFICERS *(continued)*

Legal

Mrs. Julie Thompson James
Vice President/Senior Legal Counsel
& Corporate Secretary

Marketing, Public & Corporate Affairs

Mrs.Monique Todd
Vice President
Marketing, Public & Corporate Affairs

Mrs. Joan Forrest Henry
Director, Marketing Programmes

Mrs. Joylene A. Griffiths Irving,
Director, Public & Corporate Affairs
& Executive Director
Scotiabank Jamaica Foundation

Shared Services

Mr. David M. Williams
Vice President, Operations, Shared Services

Mr. Donovan Hanson
Vice President, Lending Services

Mrs. Dorette M. Barrett,
Director, Processing Support Centre

Mrs. Marcia Parker Robinson,
Director, Procurement and Logistic

Mr. Cecil Rhoden,
Director, Retail Risk Assessment

Scotia Private Client Group

Mrs Debra Lopez-Spence
Centre Director

Systems Support Centre

Mr. Roger Stanton
Vice President, Technology Delivery

Treasury

Mr. Hugh G. Miller
Vice President, Treasury

Mr. Gary-Vaughn White
Director, Treasury & Foreign Exchange Trading

SUBSIDIARIES

The Bank of Nova Scotia Jamaica Limited

Mr. Bruce Bowen
President & Chief Executive Officer

The Scotia Jamaica Building Society

Mr. Gladstone Whitelocke
Vice President & General Manager

Scotia Jamaica Life Insurance Company Limited

Mr. Hugh Reid
Senior Vice President & General Manager

Scotia DBG Investments Limited

Miss Anya M. Schnoor
Chief Executive Officer

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.

Notes

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