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**INDEPENDENT AUDITORS' REPORT**

To the Members of  
SCOTIA GROUP JAMAICA LIMITED

**Report on the Financial Statements**

We have audited the financial statements, comprising the separate financial statements of Scotia Group Jamaica Limited ("the Company") and the consolidated financial statements of the Company and its subsidiaries ("the Group"), set out on pages 45 to 144, which comprise the Group's and Company's statements of financial position as at October 31, 2012, the Group's and Company's statements of revenue and expenses, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Financial Statements**

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

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

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

**Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of the Group and the Company as at October 31, 2012, and of the Group's and Company'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, so far as appears from our examination of those records, and the financial statements, which are in agreement therewith, give the information required by the Jamaican Companies Act in the manner required.



Chartered Accountants  
Kingston, Jamaica

November 29, 2012

KPMG, a Jamaican partnership and a member firm of KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Elizabeth A. Jones  
R. Tarun Handa  
Patrick A. Chin  
Patricia O. Dailey-Smith  
Linroy J. Marshall

Cynthia L. Lawrence  
Rajan Trehan  
Norman O. Rainford  
Nigel R. Chambers

**SCOTIA GROUP JAMAICA LIMITED**

## Consolidated Statement of Revenue and Expenses

Year ended October 31, 2012

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

	Note	2012	2011
<b>Net interest income and other revenue</b>			
Interest from loans and deposits with banks		17,392,211	17,119,714
Interest from securities		<u>12,538,017</u>	<u>13,045,667</u>
Total interest income	6	29,930,228	30,165,381
Interest expense	6	( 6,975,588)	( 7,736,277)
Net interest income		22,954,640	22,429,104
Impairment losses on loans	24	( 845,452)	( 1,385,070)
Net interest income after impairment losses on loans		<u>22,109,188</u>	<u>21,044,034</u>
Fee and commission income	7	7,467,311	6,357,627
Fee and commission expense	7	( 2,219,563)	( 1,708,560)
		5,247,748	4,649,067
Net foreign exchange trading income	8	1,389,203	1,150,663
Net gains on financial assets		259,025	328,995
Insurance revenue	9	2,026,331	1,898,764
Other revenue	10	<u>188,085</u>	<u>10,483</u>
		<u>9,110,392</u>	<u>8,037,972</u>
		<u>31,219,580</u>	<u>29,082,006</u>
<b>Expenses</b>			
Salaries, pension contributions and other staff benefits	11	8,543,646	8,294,082
Property expenses, including depreciation		2,054,274	1,970,291
Amortisation and impairment of intangible assets	28	121,503	147,229
Other operating expenses		<u>5,649,880</u>	<u>4,425,784</u>
	12	<u>16,369,303</u>	<u>14,837,386</u>
<b>Profit before taxation</b>	13	14,850,277	14,244,620
<b>Taxation</b>	14	( 4,275,186)	( 3,626,965)
<b>Profit for the year</b>		<u>10,575,091</u>	<u>10,617,655</u>
<b>Attributable to:</b>			
<b>Stockholders' of the company</b>		10,159,045	10,193,390
<b>Non-controlling interest</b>		<u>416,046</u>	<u>424,265</u>
<b>Profit for the year</b>		<u>10,575,091</u>	<u>10,617,655</u>
<b>EARNINGS PER STOCK UNIT (expressed in \$ per share)</b>			
<b>attributable to stockholders of the company</b>	15	<u>3.26</u>	<u>3.28</u>

**SCOTIA GROUP JAMAICA LIMITED**

## Consolidated Statement of Comprehensive Income

Year ended October 31, 2012

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

	<b>Note</b>	<b>2012</b>	<b>2011</b>
Profit for the year		<u>10,575,091</u>	<u>10,617,655</u>
Other comprehensive income:			
Unrealised (loss)/gains on available-for-sale financial assets		( 1,641,154)	1,950,579
Realised gains on available-for-sale financial assets		( 324,609)	( 70,612)
Amortization of fair value reserve on financial instruments on reclassification to loans and receivable		<u>56,692</u>	<u>65,589</u>
Taxation	36	( 1,909,071) <u>567,346</u>	1,945,556 <u>( 368,685)</u>
Other comprehensive income, net of tax		<u>( 1,341,725)</u>	<u>1,576,871</u>
Total comprehensive income		<u>9,233,366</u>	<u>12,194,526</u>
Attributable to:			
Stockholders' of the company		8,846,751	11,760,388
Non-controlling interest		<u>386,615</u>	<u>434,138</u>
Total comprehensive income		<u>9,233,366</u>	<u>12,194,526</u>


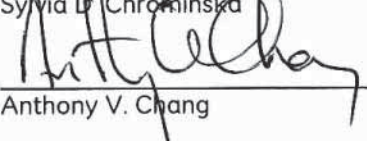
**SCOTIA GROUP JAMAICA LIMITED**  
**Consolidated Statement of Financial Position**  
**October 31, 2012**  
*(Expressed in thousands of Jamaican dollars unless otherwise stated)*


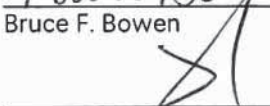
	Note	2012	2011
<b>ASSETS</b>			
<b>Cash resources</b>			
Notes and coins of, deposits with, and money at call at, Bank of Jamaica	16	33,256,154	37,419,234
Government and bank notes other than Jamaican		439,316	415,607
Amounts due from other banks	18	8,916,536	12,500,570
Accounts with parent and fellow subsidiaries	19	<u>10,256,701</u>	<u>2,738,090</u>
		<u>52,868,707</u>	<u>53,073,501</u>
<b>Financial assets at fair value through profit or loss</b>	20	<u>477,941</u>	<u>356,168</u>
<b>Government securities purchased under resale agreements</b>	21	<u>-</u>	<u>1,152,466</u>
<b>Pledged assets</b>	22	<u>63,057,493</u>	<u>65,371,048</u>
<b>Loans, after allowance for impairment losses</b>	23	<u>122,524,668</u>	<u>99,976,439</u>
<b>Investment securities</b>			
Available-for-sale	25	84,480,935	76,132,244
Held-to-maturity	25	<u>11,323,782</u>	<u>14,006,187</u>
		<u>95,804,717</u>	<u>90,138,431</u>
<b>Other assets</b>			
Customers' liabilities under acceptances, guarantees and letters of credit		6,333,327	6,742,140
Taxation recoverable		1,692,436	1,827,113
Deferred taxation	36	-	12,101
Sundry assets	26	879,953	378,959
Property, plant and equipment	27	4,738,704	3,790,870
Intangible assets	28	1,717,705	1,809,904
Retirement benefit asset	29	<u>8,113,770</u>	<u>7,412,119</u>
		<u>23,475,895</u>	<u>21,973,206</u>
		<u>358,209,421</u>	<u>332,041,259</u>

**SCOTIA GROUP JAMAICA LIMITED**
**Consolidated Statement of Financial Position (continued)**
**October 31, 2012**
*(Expressed in thousands of Jamaican dollars unless otherwise stated)*

	Note	2012	2011
<b>LIABILITIES</b>			
<b>Deposits</b>			
Deposits by the public	30	160,994,182	144,670,083
Amounts due to other banks and financial institutions	31	2,983,656	2,804,556
Amounts due to parent company	32	7,682,871	7,660,416
Amounts due to fellow subsidiaries	33	259	325
		<u>171,660,968</u>	<u>155,135,380</u>
<b>Other liabilities</b>			
Cheques and other instruments in transit		1,409,206	1,320,363
Acceptances, guarantees and letters of credit		6,333,327	6,742,140
Securities sold under repurchase agreements		45,384,758	44,700,992
Promissory notes		-	2,436
Capital management and government securities funds	34	14,174,566	14,241,114
Assets held in trust on behalf of participants		41,905	44,140
Other liabilities	35	2,714,471	1,942,462
Taxation payable		2,015,770	563,470
Deferred tax liabilities	36	2,938,163	3,373,187
Retirement benefit obligations	29	2,341,321	1,904,277
		<u>77,353,487</u>	<u>74,834,581</u>
<b>Policyholders' liabilities</b>	37	<u>41,679,958</u>	<u>39,019,761</u>
<b>STOCKHOLDERS' EQUITY</b>			
Share capital	38	6,569,810	6,569,810
Reserve fund	39	3,248,591	3,248,591
Retained earnings reserve	40	12,441,770	11,341,770
Capital reserve		9,383	9,383
Cumulative remeasurement result from available-for-sale securities	41	642,821	1,955,115
Loan loss reserve	42	2,299,390	2,251,257
Other reserves	43	12,892	12,892
Unappropriated profits		<u>39,327,555</u>	<u>34,921,801</u>
<b>Total equity attributable to equity holders of the Company</b>		64,552,212	60,310,619
Non-controlling interest		<u>2,962,796</u>	<u>2,740,918</u>
<b>Total equity</b>		<u>67,515,008</u>	<u>63,051,537</u>
<b>Total equity and liabilities</b>		<u>358,209,421</u>	<u>332,041,259</u>

The financial statements on pages 45 to 144 were approved for issue by the Board of Directors on November 29, 2012 and signed on its behalf by:

 Director  
 Sylvia D. Chrominska  
 Director  
 Anthony V. Chang

 Director  
 Bruce F. Bowen  
 Secretary  
 Julie Thompson-James

**SCOTIA GROUP JAMAICA LIMITED**
**Consolidated Statement of Changes in Stockholders' Equity**
**Year ended October 31, 2012**
*(Expressed in thousands of Jamaican dollars unless otherwise stated)*

	Attributable to equity holders of the Company										
	Share capital	Reserve fund	Retained earnings reserve	Capital reserve	Cumulative remeasurement result from available financial assets	Loan loss reserve	Other reserves	Unappropriated profits	Total	Minority interest	Total equity
<b>Balances at October 31, 2010</b>	<b>6,569,810</b>	<b>3,248,591</b>	<b>10,741,770</b>	<b>9,383</b>	<b>388,117</b>	<b>2,093,499</b>	<b>12,892</b>	<b>30,091,319</b>	<b>53,155,381</b>	<b>2,437,432</b>	<b>55,592,813</b>
Profit for the year	-	-	-	-	-	-	-	10,193,390	10,193,390	424,265	10,617,655
Other comprehensive income:											
Unrealised gains on available-for-sale securities, net of taxes	-	-	-	-	1,591,684	-	-	-	1,591,684	9,633	1,601,317
Realised gains on available-for-sale securities transferred to profit or loss	-	-	-	-	( 47,135)	-	-	-	( 47,135)	( 6,462)	( 53,597)
Amortisation of fair value reserve on financial instruments reclassified to loans and receivables	-	-	-	-	22,449	-	-	-	22,449	6,702	29,151
Total other comprehensive income	-	-	-	-	1,566,998	-	-	-	1,566,998	9,873	1,576,871
Total comprehensive income	-	-	-	-	1,566,998	-	-	10,193,390	11,760,388	434,138	12,194,526
Transfer to loan loss reserve	-	-	-	-	-	157,758	-	( 157,758)	-	-	-
Transfer to retained earnings reserve	-	-	600,000	-	-	-	-	( 600,000)	-	-	-
Net movement in reserves for non-controlling interest	-	-	-	-	-	-	-	( 2,227)	( 2,227)	( 128,425)	( 130,652)
Dividends paid	-	-	-	-	-	-	-	( 4,830,482)	( 4,830,482)	( 303,486)	( 5,133,968)
Net movement for the year	-	-	600,000	-	1,566,998	157,758	-	( 4,605,150)	( 2,470,884)	( 128,425)	( 4,733,575)
<b>Balances at October 31, 2011</b>	<b>6,569,810</b>	<b>3,248,591</b>	<b>11,341,770</b>	<b>9,383</b>	<b>1,955,115</b>	<b>2,251,257</b>	<b>12,892</b>	<b>34,921,801</b>	<b>60,310,619</b>	<b>2,740,918</b>	<b>63,051,537</b>
Profit for the year	-	-	-	-	-	-	-	10,159,045	10,159,045	416,046	10,575,091
Other comprehensive income:											
Unrealised losses on available-for-sale securities, net of taxes	-	-	-	-	(1,189,912)	-	-	-	(1,189,912)	( 30,825)	( 1,220,737)
Realised gains on available-for-sale securities transferred to profit or loss	-	-	-	-	( 227,238)	-	-	-	( 227,238)	( 29,909)	( 257,147)
Amortisation of fair value reserve on financial instruments reclassified to loans and receivables	-	-	-	-	104,856	-	-	-	104,856	31,303	136,159
Total other comprehensive income	-	-	-	-	(1,312,294)	-	-	-	(1,312,294)	( 29,431)	( 1,341,725)
Total comprehensive income	-	-	-	-	(1,312,294)	-	-	10,159,045	8,846,751	386,615	9,233,366
Transfer to loan loss reserve	-	-	-	-	-	48,133	-	( 48,133)	-	-	-
Transfer to retained earnings reserve	-	-	1,100,000	-	-	-	-	( 1,100,000)	-	-	-
Net movement in reserves for non-controlling interest	-	-	-	-	-	-	-	( 4,605,158)	( 4,605,158)	( 167,343)	( 4,772,501)
Dividends paid	-	-	-	-	(1,312,294)	48,133	-	4,405,754	( 4,241,593)	( 221,878)	( 4,463,471)
Net movement for the year	-	-	1,100,000	-	(1,312,294)	48,133	-	( 4,605,158)	( 4,605,158)	( 167,343)	( 4,772,501)
<b>Balances at October 31, 2012</b>	<b>6,569,810</b>	<b>3,248,591</b>	<b>12,441,770</b>	<b>9,383</b>	<b>642,821</b>	<b>2,299,390</b>	<b>12,892</b>	<b>39,327,555</b>	<b>64,552,212</b>	<b>2,962,796</b>	<b>67,515,008</b>

**SCOTIA GROUP JAMAICA LIMITED****Consolidated Statement of Cash Flows****Year ended October 31, 2012***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

	Note	2012	2011
<b>Cash flows from operating activities</b>			
Profit for the year		10,575,091	10,617,655
Adjustments for:			
Taxation charge		4,275,186	3,626,965
Depreciation	27	466,745	423,152
Amortisation of intangible asset	28	121,503	147,229
Impairment losses on loans	24	845,452	1,385,070
Loss on sale of subsidiary	54	-	7,761
(Gain)/loss on sale of property, plant and equipment and intangible assets	10	( 1,525)	( 3,172)
Write-off of property, plant and equipment	27	201	-
Gain on sale of shares	10	( 105,272)	-
		16,177,381	16,204,660
Interest income	6	(29,930,228)	(30,165,381)
Interest expense	6	<u>6,975,588</u>	<u>7,736,277</u>
		( 6,777,259)	( 6,224,444)
<b>Changes in operating assets and liabilities</b>			
Loans		(23,295,010)	( 5,653,242)
Deposits by the public		16,277,857	( 1,810,747)
Policyholders' liabilities		2,660,197	2,128,590
Other assets, net		( 527,783)	534,887
Other liabilities, net		769,774	( 391,978)
Due to parent company and fellow subsidiaries		27,960	56,675
Amounts due from other banks		2,230,246	( 807,225)
Accounts with parent and fellow subsidiaries		( 1,712,518)	2,375,637
Financial assets at fair value through profit or loss		( 123,221)	( 226,776)
Assets classified as held for sale		-	49,966
Taxation recoverable		134,677	( 354,879)
Retirement benefits		( 264,607)	( 368,306)
Amounts due to other banks and financial institutions		179,058	36,460
Statutory reserves at Bank of Jamaica		( 1,839,689)	( 236,181)
Securities sold under repurchase agreements		<u>692,209</u>	<u>( 202,370)</u>
		( 11,568,109)	(11,093,933)
Interest received		29,741,574	30,756,001
Interest paid		( 7,009,925)	( 7,956,362)
Taxation paid		<u>( 2,678,464)</u>	<u>( 3,460,914)</u>
Net cash provided by operating activities (carried forward to page 51)		<u>8,485,076</u>	<u>8,244,792</u>

**SCOTIA GROUP JAMAICA LIMITED****Consolidated Statement of Cash Flows (continued)****Year ended October 31, 2012***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

	Note	2012	2011
<b>Cash flows from operating activities</b> <b>(brought forward from page 50)</b>		<u>8,485,076</u>	<u>8,244,792</u>
<b>Cash flows from investing activities</b>			
Investment securities		( 7,474,388)	( 968,065)
Pledged assets		2,299,246	( 1,471,415)
Government securities purchased under resale agreements		( 1,772,947)	204
Disposal of subsidiary, net of cash	54	-	8,173
Proceeds from the sale of property, plant and equipment		1,545	43,742
Purchase of property, plant and equipment	27	( 1,414,800)	( 679,925)
Intangible assets	28	( 29,304)	( 84,089)
Proceeds from sale of shares		187,940	-
Promissory notes		( 2,376)	( 5,510)
Net cash used in investing activities		<u>( 8,205,084)</u>	<u>( 3,156,885)</u>
<b>Cash flows from financing activities</b>			
Redemption of preference shares		-	( 100,000)
Dividends paid to stockholders	52	( 4,605,158)	( 4,605,150)
Dividends paid to non-controlling interest	52	( 167,343)	( 128,425)
Net cash used in financing activities		<u>( 4,772,501)</u>	<u>( 4,833,575)</u>
Effect of exchange rate changes on cash and cash equivalents		<u>668,652</u>	<u>158,978</u>
Net (decrease)/increase in cash and cash equivalents		( 3,823,857)	413,310
Cash and cash equivalents at beginning of year		<u>35,208,174</u>	<u>34,794,864</u>
<b>Cash and cash equivalents at end of year</b>	17	<u>31,384,317</u>	<u>35,208,174</u>




**SCOTIA GROUP JAMAICA LIMITED****Statement of Comprehensive Income****Year ended October 31, 2012***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

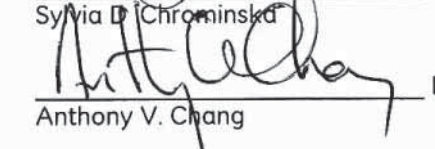
	Note	2012	2011
<b>Net interest income and other revenue</b>			
Interest from deposit with banks		2,801	-
Interest from securities		<u>414,420</u>	<u>-</u>
	6	<u>417,221</u>	<u>-</u>
Net foreign exchange gains		35,456	-
Dividend income		<u>19,894,900</u>	<u>4,710,375</u>
		<u>19,930,356</u>	<u>4,710,375</u>
Total income		20,347,577	4,710,375
<b>Expenses</b>			
Operating expenses	12	<u>( 21,919)</u>	<u>( 18,886)</u>
Profit before taxation	13	20,325,658	4,691,489
Taxation	14	<u>( 143,745)</u>	<u>-</u>
<b>Profit for the year</b>		20,181,913	4,691,489
<b>Other comprehensive income</b>			
Unrealised gains on available for sale financial assets		8,933	-
Taxation		<u>( 2,978)</u>	<u>-</u>
<b>Other comprehensive income, net of tax</b>		<u>5,955</u>	<u>-</u>
<b>Total comprehensive income for the year</b>		<u>20,187,868</u>	<u>4,691,489</u>
<b>Attributable to stockholders of the parent company</b>		<u>20,187,868</u>	<u>4,691,489</u>

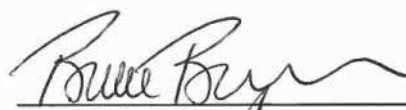
**SCOTIA GROUP JAMAICA LIMITED****Statement of Financial Position****October 31, 2012***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

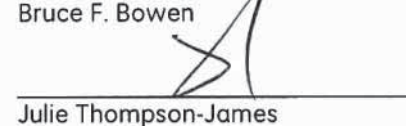
	Note	2012	2011
<b>ASSETS</b>			
<b>Cash resources</b>			
Accounts with fellow subsidiaries	19	<u>3,875,613</u>	<u>19,681</u>
<b>Investment securities</b>			
Available-for-sale	25	<u>11,691,767</u>	<u>-</u>
<b>Investment in subsidiaries</b>		<u>9,532,408</u>	<u>9,432,408</u>
<b>Other assets</b>			
Taxation recoverable		71,229	-
Sundry assets		<u>11,456</u>	<u>-</u>
		<u>82,685</u>	<u>-</u>
		<u>25,182,473</u>	<u>9,452,089</u>
<b>LIABILITES</b>			
Other liabilities		4,673	3,722
Taxation payable	14	143,745	-
Deferred tax liabilities		<u>2,978</u>	<u>-</u>
		<u>151,396</u>	<u>3,722</u>
<b>STOCKHOLDERS' EQUITY</b>			
Share capital	38	6,569,810	6,569,810
Unappropriated profits		18,455,312	2,878,557
Cumulative remeasurement resulting from available for sale securities		<u>5,955</u>	<u>-</u>
Total stockholders' equity		<u>25,031,077</u>	<u>9,448,367</u>
<b>Total liabilities and stockholders' equity</b>		<u>25,182,473</u>	<u>9,452,089</u>

The financial statements on pages 45 to 144 were approved for issue by the Board of Directors on November 29, 2012 and signed on its behalf by:

 Director  
Sylvia D. Chrominska

 Director  
Anthony V. Chang

 Director  
Bruce F. Bowen

 Secretary  
Julie Thompson-James

**SCOTIA GROUP JAMAICA LIMITED****Statement of Changes in Stockholders' Equity****Year ended October 31, 2012***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

	<u>Note</u>	<u>Share Capital</u>	<u>Cumulative Remeasurement result from available for sale financial assets</u>	<u>Unappropriated Profits</u>	<u>Total</u>
<b>Balances at October 31, 2010</b>		6,569,810	-	2,792,218	9,362,028
Profit, being total comprehensive income for the year		-	-	4,691,489	4,691,489
Dividends paid	52	<u>-</u>	<u>-</u>	<u>( 4,605,150)</u>	<u>( 4,605,150)</u>
<b>Balances at October 31, 2011</b>		<u>6,569,810</u>	<u>-</u>	<u>2,878,557</u>	<u>9,448,367</u>
Unrealised gains on available for sale securities, net		-	5,955	-	5,955
Profit for the year		<u>-</u>	<u>-</u>	<u>20,181,913</u>	<u>20,181,913</u>
Total comprehensive income		<u>-</u>	<u>5,955</u>	<u>20,181,913</u>	<u>20,187,868</u>
Dividends paid	52	<u>-</u>	<u>-</u>	<u>( 4,605,158)</u>	<u>( 4,605,158)</u>
<b>Balances at October 31, 2012</b>		<u>6,569,810</u>	<u>5,955</u>	<u>18,455,312</u>	<u>25,031,077</u>

**SCOTIA GROUP JAMAICA LIMITED**

## Statement of Cash Flows

Year ended October 31, 2012

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

	Note	2012	2011
<b>Cash flows from operating activities</b>			
Profit for the year		20,181,913	4,691,489
Changes in operating assets and liabilities			
Other assets, net		( 82,685)	-
Other liabilities		<u>147,673</u>	<u>( 187,803)</u>
Net cash provided by operating activities		<u>20,246,901</u>	<u>4,503,686</u>
<b>Cash flow from investing activities</b>			
Investment in subsidiary, being net cash used in investing activities		( 100,000)	( 100,000)
Investment securities		<u>(11,685,811)</u>	<u>-</u>
Net cash used by investing activities		<u>(11,785,811)</u>	<u>( 100,000)</u>
<b>Cash flows from financing activities</b>			
Dividends paid, being net cash used in financing activities	52	<u>( 4,605,158)</u>	<u>(4,605,150)</u>
Net increase /(decrease) in cash and cash equivalents		3,855,932	( 201,464)
Cash and cash equivalents at beginning of year		<u>19,681</u>	<u>221,145</u>
<b>Cash and cash equivalents at end of year</b>	17	<u><u>3,875,613</u></u>	<u><u>19,681</u></u>

**SCOTIA GROUP JAMAICA LIMITED****Notes to the Financial Statements****October 31, 2012***(Expressed in thousands of Jamaican dollars unless otherwise stated)***1. Identification, Regulation and Licence**

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

The Company is the parent of The Bank of Nova Scotia Jamaica Limited, ("the Bank") which is licensed under the Banking Act, Scotia Investments Jamaica Limited ("SIJL"), which is licensed under the Securities Act, and Scotia Jamaica Microfinance Company Limited. The Company and SIJL are listed on the Jamaica Stock Exchange. The preference shares of the Bank, which were also listed on the Jamaica Stock Exchange were cancelled effective August 24, 2011.

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

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

\* The statements included in the consolidation are audited financial statements as at and for the year ended October 31, 2012.

**1. Identification, Regulation and Licence (continued)**

Subsidiaries	Principal Activities	Holding by		Financial Year End
		Company	Subsidiary	
Scotia Asset Management St Lucia Inc	Funds Management		100%	October 31
Scotia Jamaica Microfinance Company Limited	Micro-financing	100%		October 31

All subsidiaries are incorporated in Jamaica except for Scotia Asset Management St Lucia Inc.

During the 2011 financial year, the following transactions were effected:

1. On May 2, 2011, Scotia Investments Jamaica Limited sold its 100% interest in its wholly-owned subsidiary, Asset Management Company Limited.
2. On August 26, 2011, Scotia DBG Merchant Bank Limited, a wholly-owned subsidiary of The Bank of Nova Scotia Jamaica Limited, was dissolved and is no longer listed on the Register of Companies.
3. On October 14, 2011, Scotia Jamaica Microfinance Company Limited was incorporated, and is a wholly owned subsidiary of Scotia Group Jamaica Limited.

**2. Summary of significant accounting policies**

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

**(a) Basis of preparation**

- (i) Statement of compliance

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

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

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

IFRS 7, *Financial Instruments: Disclosures* - This adoption led to some changes in the qualitative and quantitative disclosures relating to credit risk. The changes are reflected in note 45 to these financial statements:

- (i) Disclosure of the amount of the group's 'maximum exposure to credit risk without considering any collateral held' is now made only if the carrying amount of the financial asset does not already reflect such exposure.

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

**(a) Basis of preparation (continued)**

**(i) Statement of compliance (continued)**

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

- (ii) Where the terms of a financial asset that was not past due and not impaired were renegotiated, the carrying amount was disclosed; this is no longer required.
- (iii) The disclosure of the description of collateral held as security and other credit enhancements in respect of financial assets that are past due or impaired, including an estimate of their fair value, is no longer required. Instead, the financial effect of the collateral for all financial assets held is disclosed.

IAS 34 (Amendment), 'Interim financial reporting'. The amendment provides guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements around: the circumstances likely to affect fair values of financial instruments and their classification; transfers of financial instruments between different levels of the fair value hierarchy; changes in classification of financial assets; and changes in contingent liabilities and assets. The Group is compliant with this standard.

**New, revised and amended standards and interpretations that are not yet effective:**

At the date of authorisation of these financial statements, certain new, revised and amended standards and interpretations which were in issue were not effective at the reporting date and have not been early-adopted by the Group. The Group is assessing them and has determined that the following are relevant to its financial statements:

IAS 1, Presentation of Financial Statements, has been amended, effective for annual reporting periods beginning on or after July 1, 2012, to require a reporting entity to present separately the items of other comprehensive income (OCI) that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. Consequently an entity that presents items of OCI before related tax effects will also have to allocate the aggregated tax amount between these sections. The existing option to present the profit or loss and other comprehensive income in two statements has not changed. The title of the statement has changed from 'Statement of Comprehensive Income' to 'Statement of Profit or Loss and Other Comprehensive Income'. However, an entity is still allowed to use other titles.

**2. Summary of significant accounting policies (continued)****(a) Basis of preparation (continued)****(i) Statement of compliance (continued)****New, revised and amended standards and interpretations that are not yet effective (continued):**

IAS 12, *Income Taxes*, has been amended, effective for annual reporting periods beginning on or after January 1, 2012, to require an entity to measure deferred taxes relating to an asset based on whether the entity expects to recover the carrying amount of the asset through use or sale.

IAS 19, *Employee benefits*, effective for annual periods beginning on or after January 1, 2013, requires the elimination of the corridor approach and recognition of all actuarial gains and losses in OCI as they occur. It also immediately recognise all past service costs and replaces interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability.

IFRS 9, *Financial Instruments*, is effective for annual reporting periods beginning on or after January 1, 2015 (previously 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. It eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivables. For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, to present all fair value changes from the investment in other comprehensive income. The standard includes guidance on classification and measurement of financial liabilities designated as fair value through profit or loss and incorporates certain existing requirements of IAS 39 *Financial Instruments: Recognition and Measurement* on the recognition and de-recognition of financial assets and financial liabilities.

IFRS 10, *Consolidated Financial Statements*, which is effective for annual reporting periods beginning on or after 1 January 2013, introduces a new approach to determining which investees should be consolidated. It was issued as part of a suite of consolidation and related standards, also replacing existing requirements for joint ventures (now 'joint arrangements') and making limited amendments in relation to associates. IFRS 10 supersedes IAS 27 *Consolidated and Separate Financial Statements*, and SIC-12, *Consolidation – Special Purpose Entities*, and provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. An investor controls an investee when (i) it is exposed, or has rights, to variable returns from its involvement with the investee, (ii) has the ability to affect those returns through its power over the investee and (iii) there is a link between power and returns.



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

**(a) Basis of preparation (continued)**

(i) Statement of compliance (continued)

**New, revised and amended standards and interpretations that are not yet effective (continued):**

IFRS 11, *Joint Arrangements*, which is effective for annual reporting periods beginning on or after January 1, 2013, identifies two main types of joint arrangements – joint operations and joint ventures:

- (i) *Joint operations* refers to those cases in which although there is a separate vehicle created by the venturers, that separation is ineffective in certain ways. These joint arrangements are treated similarly to jointly controlled assets/operations under IAS 31.
- (ii) *Joint ventures* refers to all other joint arrangements. They are required to be accounted for using the equity method (thus prohibiting the use of proportionate consolidation). The application of the equity method is subject to two exemptions carried forward from IAS 28 (2008) and IAS 31.

IFRS 12, *Disclosure of Interest in Other Entities*, which is effective for annual reporting periods beginning on or after from January 1, 2013, contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities. The disclosure requirements encompass risk exposures for the sponsor of such an entity even if it no longer has any contractual involvement. These required disclosures aim to provide information to enable users to evaluate the nature of, and risks associated with, an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows.

The Group is required to: understand what a structured entity is in the context of its operations; apply judgement in assessing whether it is 'involved' with a structured entity, which has the potential to broaden the transactions and relationships to which the disclosures may apply, particularly for those who sponsor, or perhaps even transact business with, but do not consolidate, structured entities; and assess the level of disclosure that it believes will be meaningful to users of the financial statements.

IFRS 13, *Fair Value Measurement*, which is effective for annual reporting periods beginning on or after January 1, 2013, defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value and is applicable to assets, liabilities and an entity's own equity instruments that, under other IFRSs, are required or permitted to be measured at fair value, or when disclosure of fair values is provided. It does not introduce new fair value measurements, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

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

**(a) Basis of preparation (continued)**

(i) Statement of compliance (continued)

**New, revised and amended standards and interpretations that are not yet effective (continued):**

*Improvements to IFRS 2009-2010* cycle contains amendments to certain standards and interpretations and are effective for accounting periods beginning on or after January 1, 2013. The main amendments applicable to the group are as follows:

- *IAS 1, Presentation of Financial Statements*, has been amended to clarify that only one comparative period, which is the preceding period, is required for a complete set of financial statements. IAS 1 requires the presentation of an opening statement of financial position when an entity applies an accounting policy retrospectively or makes a retrospective restatement or reclassification. IAS 1 has been amended to clarify that (a) the opening statement of financial position is required only if a change in accounting policy, a retrospective restatement or a reclassification has a material effect upon the information in that state of financial position; (b) except for the disclosures required under IAS 8, notes related to the opening statement of financial position are no longer required; and (c) the appropriate date for the opening statement of financial position is the beginning of the preceding period, rather than the beginning of the earliest comparative period presented.
- *IAS 16, Property, Plant and Equipment*, has been amended to clarify that the definition of 'property, plant and equipment' in IAS 16 is now considered in determining whether spare parts, standby-by equipment and servicing equipment should be accounted for under the standard. If these items do not meet the definition, then they are accounted for using *IAS 2, Inventories*.
- *IAS 32, Financial Instruments: Presentation*, has been amended to clarify that *IAS 12 Income Taxes* applies to the accounting for income taxes relating to distributions to holders of an equity instrument and transaction costs of an equity transaction.
- *IAS 34, Interim Financial Reporting*, has been amended to require the disclosure of a measure of total assets and liabilities for a particular reporting segment. In addition, such disclosure is only required when the amount is regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment.

The Group is assessing the impact the new, revised and amended standards and interpretations will have on its financial statements when they become effective.

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

**(a) Basis of preparation (continued)**

(ii) Basis of measurement

The financial statements have been prepared on the historical cost basis, as modified for the revaluation of available-for-sale financial assets and financial assets at fair value through profit or loss.

(iii) Use of estimates and judgements

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

(iv) Functional and presentation currency

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

(v) Comparative information

Where necessary, comparative amounts have been reclassified to conform with changes in the presentation in the current year. The changes made to the comparative amounts are not considered material.

**(b) Basis of consolidation**

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

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 unrealised gains on transactions between Group companies are eliminated. Unrealised 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.

**2. Summary of significant accounting policies (continued)****(b) Basis of consolidation (continued)**

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

**(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 arms length basis, with inter-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.

**(e) Revenue recognition****(i) Interest income**

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

**2. Summary of significant accounting policies (continued)****(e) Revenue recognition (continued)****(i) Interest income (continued)**

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 are considered to be immaterial.

**(ii) Fee and commission**

Fee and commission income are recognised on the accrual basis when service has been provided. Origination fees for loans are recognised in profit or loss immediately, as they are not considered material for deferral.

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

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

**(iii) Dividend income**

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

**(f) Interest expense**

Interest expense is recognised in profit or loss 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 net of reinsurance recoveries, are recorded in the profit or loss.

**2. Summary of significant accounting policies (continued)****(h) Reinsurance contracts held**

The Group enters into contracts with reinsurers under which it is compensated for losses on contracts it issues and which meet the classification requirements for insurance contracts. 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 income taxes. Current and deferred income 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 income tax**

Current income 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 income tax**

Deferred tax liabilities are recognised for temporary differences between the carrying amounts of assets and liabilities and their amounts as measured for tax purposes, which will result in taxable amounts in future periods. Deferred tax assets are recognised for temporary differences which will result in deductible amounts in future periods, but only to the extent it is probable that sufficient taxable profits will be available against which these differences can be utilised. Deferred tax assets are reviewed at each reporting date to determine whether it is probable that the related tax benefit will be realised.

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

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

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

**(j) Insurance contracts**

**(i) Classification**

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

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. The Group defines insurance risk as significant if an insured event could cause an insurer to pay significant additional benefits in a scenario that has a discernible effect on the economics of the transactions. As a general guideline, the Group defines as significant insurance risk the possibility of having to pay benefits, at the occurrence of an insured event, that 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 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 value 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 summarised in note 2(k). These liabilities are adjusted through profit or loss to reflect any changes in the valuation.

**(k) Policyholders' liabilities**

The policyholders' liabilities have been calculated using the Policy Premium Method (PPM) of valuation. Under this method explicit allowance is made for all future benefits and expenses under the policies. The premiums, benefits and expenses for each policy are projected and the resultant future cash flows are discounted back to the valuation date to determine the reserves.

**2. Summary of significant accounting policies (continued)****(k) Policyholders' liabilities (continued)**

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, financial assets at fair value through profit or loss, securities purchased under resale agreements, pledged assets, loans, investment securities, and leases, and other assets. Financial liabilities comprise deposits, securities sold under repurchase agreements, promissory notes, capital management and government securities funds, assets held in trust on behalf of participants, certain other liabilities and policyholders' liabilities.

**(i) Recognition**

The Group initially recognises loans and receivables 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 the transferred financial assets that is created or retained by the Group is recognised 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 derecognised. 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; held-to-maturity investments are measured at amortised cost; 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 profit or loss.

**(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.

**2. Summary of significant accounting policies (continued)****(m) Financial assets (continued)****(ii) Identification and measurement of impairment (continued)**

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.

The Group considers evidence of impairment for loans and receivables and held-to-maturity investment securities at both a specific asset level and collectively. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and advances 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 advances. 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 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.

**2. Summary of significant accounting policies (continued)****(m) Financial assets (continued)****(ii) Identification and measurement of impairment (continued)**

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 directly in other comprehensive income.

**(n) Investment in subsidiaries**

Investments by the Group 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 balance sheet 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 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.

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

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

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

When a loan is classified as impaired, recognition of interest in accordance with the terms of the original loan ceases, and interest is taken into account on the cash basis. 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 Group's potential liability under acceptances and guarantees is reported as a liability in the balance sheet. The Group has equal and offsetting claims against its customers in the event of a call on these commitments, which are reported as an asset.

**(r) Intangible assets**

**(i) Intangible assets acquired separately**

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

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

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

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

**2. Summary of significant accounting policies (continued)****(r) Intangible assets (continued)****(iii) Impairment of tangible and intangible assets excluding goodwill**

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

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

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

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

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

**(iv) Goodwill**

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

**2. Summary of significant accounting policies (continued)****(r) Intangible assets (continued)****(iv) Goodwill (continued)**

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

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

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

**(v) Customer relationships**

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

**(vi) Contract-based intangible asset**

Contract-based intangible assets represent the Group's right to benefit from SIJL's unit trust management contracts. This asset has an indefinite useful life and is therefore tested for impairment annually and whenever there is an indication that the asset may be impaired.

**(vii) Licences**

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

**2. Summary of significant accounting policies (continued)****(r) Intangible assets (continued)****(viii) Tax Shield**

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

**(ix) Computer software**

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

**(s) Leases****(i) As lessee**

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are recognised at the inception of the lease at the lower of the fair value of the leased asset and the present value of future 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 profit or loss 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 profit or loss on the straight-line basis over the period of the lease.

**(ii) As lessor**

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



**2. Summary of significant accounting policies (continued)****(s) Leases (continued)****(ii) As lessor (continued)**

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

**(t) Property, plant and equipment**

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

Expenditure subsequent to acquisition 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 profit or loss during the financial period in which it is incurred.

Depreciation and amortisation are calculated on the straight-line method at rates that will write off the depreciable amount of the assets over their expected useful lives, as follows:

Buildings	40 Years
Furniture, fixtures and equipment	10 Years
Computer equipment	4 Years
Motor vehicles	5 Years
Leasehold improvements	Period of lease

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

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

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

**2. Summary of significant accounting policies (continued)****(u) Employee benefits (continued)**

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

**(i) Pension obligations**

The Group operates both a defined benefit and a defined contribution pension plan. The assets of both plans are held in separate trustee-administered funds. The pension plans are funded by contributions from employees and by the relevant group companies, after, in the case of the defined benefit plan, 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 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 profit or loss 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 profit or loss over the average remaining service lives of the participating employees.

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

**2. Summary of significant accounting policies (continued)****(u) Employee benefits (continued)****(ii) Termination benefits**

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

**(iii) Other post-retirement obligations**

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

**(iv) Equity compensation benefits**

The Group has two Employee Share Ownership Plans (ESOPs) for eligible employees. In the case of the first, the Group provides a fixed benefit to each participant, which is linked to the number of years of service. This benefit is recorded in salaries and staff benefits in profit or loss.

The amount contributed to the ESOP trust (note 53) by the Group for acquiring shares and allocating them to employees is recognised as an employee expense at the time of making the contribution, as the effect of recognising it over the two-year period in which the employees become unconditionally entitled to the shares, is not considered material. Further, the effect of forfeitures is not considered material.

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

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

The amount contributed to the ESOP trust (note 53) by the Group for acquiring shares and allocating them to employees is recognised as an employee expense at the time of making the contribution. The special purpose entity that operates the Plan has been consolidated.

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

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

**(w) Share capital****(i) Classification**

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

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

**(ii) Share issue costs**

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

**(iii) Dividends**

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

**(x) Fiduciary activities**

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

**(y) Cash and cash equivalents**

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

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

### **(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 from 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 (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.

**3. Critical accounting estimates, and judgements made in applying accounting policies (continued)****(i) Impairment losses on loans and advances**

The Group reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded, 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 \$135,801 (2011: \$176,947) lower or \$135,801 (2011: \$176,947) higher.

**(ii) Income taxes**

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

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 \$94,229 and the deferred tax liability by \$54,265, if unfavourable; or
- decrease the income tax liability by \$94,229 and the deferred tax liability by \$54,265, if favourable.

**3. Critical accounting estimates, and judgements made in applying accounting policies (continued)****(iii) 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 37(c).

**(iv) Pension and other post-employment benefits**

The cost of these benefits and the present value of the pension and the other post-employment liabilities depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net periodic cost (income) for pension and other post-employment benefits include the expected long-term rate of return on the relevant plan assets, the discount rate and, in the case of the post-employment medical benefits, the expected rate of increase in medical costs. Any changes in these assumptions will impact the net periodic cost (income) recorded for pension and post-employment benefits and may affect planned funding of the pension plans. The expected return on plan assets assumption is determined on a uniform basis, considering long-term historical returns, asset allocation and future estimates of long-term investments returns. The Group determines the appropriate discount rate at the end of each year; such rate represents the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension and post-retirement benefit 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-employment benefit cost and credit are based, in part, on current market conditions.

**3. Critical accounting estimates, and judgements made in applying accounting policies (continued)****(iv) Pension and other post-employment benefits (continued)**

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 the 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 \$146,000 or decrease by \$109,000.

**(v) Recognition and measurement of intangible assets**

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

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

**4. Responsibilities of the appointed actuary and external auditors**

The Board of Directors, pursuant to the Insurance Act, appoints the Actuary whose responsibility is to carry out an annual valuation of the Group's 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.

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 six main business segments:

- (a) Retail Banking - incorporating personal banking services, personal deposit accounts, credit and debit cards, consumer loans, mortgages and microfinance;
- (b) Corporate and Commercial Banking - incorporating non-personal direct debit facilities, current accounts, deposits, overdrafts, loans and other credit facilities, and foreign currency transactions;
- (c) Treasury - incorporating the Group's liquidity and investment management function, management of correspondent bank relationships, as well as foreign currency trading;
- (d) Investment Management Services – incorporating investments, unit trusts, pension and other fund management, brokerage and advisory services, and the administration of trust accounts;
- (e) Insurance Services - incorporating the provision of life and medical insurance, individual pension administration and annuities;
- (f) Other operations of the Group – comprising the parent company and 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 items on the statement of financial position, but exclude items such as taxation, retirement benefit assets and obligations and borrowings.

The Group's operations are located mainly in Jamaica. The operations of subsidiaries located overseas represents less than 10% of the Group's operating revenue and assets.

**5. Segmental financial information (continued)**

	2012							
	Retail	Banking Corporate and Commercial	Treasury	Investment Management Services	Insurance Services	Other	Eliminations	Group
Net external revenues	13,105,437	5,514,560	4,500,018	4,042,557	4,448,436	454,024		32,065,032
Revenue from other segments	64,370	1,479,391	(1,624,924)	63,605	8,169	8,004	1,385	-
<b>Total revenues</b>	13,169,807	6,993,951	2,875,094	4,106,162	4,456,605	462,028	1,385	32,065,032
Total expenses and losses	(9,581,725)	(4,916,190)	(95,090)	(1,346,939)	(1,131,893)	(33,253)	(109,665)	(17,214,755)
Profit before tax	3,588,082	2,077,761	2,780,004	2,759,223	3,324,712	428,775	(108,280)	14,850,277
Taxation								(4,275,186)
<b>Profit for the year</b>								<u>10,575,091</u>
Segment assets	75,234,212	62,740,117	76,189,249	73,871,395	50,637,238	25,358,259	(14,941,244)	349,089,226
Unallocated assets								9,120,195
<b>Total assets</b>	93,201,605	89,586,359	1,414,457	62,497,336	42,216,124	209,666	(6,794,154)	<u>358,209,421</u>
Segment liabilities								282,331,393
Unallocated liabilities								8,363,020
<b>Total liabilities</b>								<u>290,694,413</u>
Other segment items:								
Capital expenditure	901,750	493,683	-	40,765	7,906	-	-	1,444,104
Impairment losses on loans	916,572	(49,700)	-	(21,420)	-	-	-	845,452
Depreciation and amortization	283,553	156,756	-	127,708	9,851	10,380	-	588,248

**5. Segmental financial information (continued)**

	2011							
	Banking Corporate and Commercial		Treasury	Investment Management Services	Insurance Services	Other	Eliminations	Group
	Retail	Commercial	Treasury	Investment Management Services	Insurance Services	Other	Eliminations	Group
Net external revenues	11,728,178	5,123,079	4,468,315	3,871,383	5,264,377	11,744	-	30,467,076
Revenue from other segments	696,987	1,400,955	(2,076,281)	2,372	21,596	(1,911)	(43,718)	-
<b>Total revenues</b>	<b>12,425,165</b>	<b>6,524,034</b>	<b>2,392,034</b>	<b>3,873,755</b>	<b>5,285,973</b>	<b>9,833</b>	<b>(43,718)</b>	<b>30,467,076</b>
Total expenses and losses	(9,082,745)	(4,757,785)	(68,705)	(1,226,579)	(956,666)	(20,052)	(109,924)	(16,222,456)
Profit before tax	<u>3,342,420</u>	<u>1,766,249</u>	<u>2,323,329</u>	<u>2,647,176</u>	<u>4,329,307</u>	<u>(10,219)</u>	<u>(153,642)</u>	14,244,620
Taxation								(3,626,965)
<b>Profit for the year</b>								<b><u>10,617,655</u></b>
Segment assets	<u>63,595,634</u>	<u>52,248,785</u>	<u>88,701,739</u>	<u>72,854,001</u>	<u>49,733,776</u>	<u>9,633,290</u>	<u>(12,440,881)</u>	324,326,344
Unallocated assets								7,714,915
<b>Total assets</b>								<b><u>332,041,259</u></b>
Segment liabilities	<u>89,448,682</u>	<u>75,328,955</u>	<u>2,000</u>	<u>62,558,746</u>	<u>39,634,989</u>	<u>61,717</u>	<u>(4,512,759)</u>	262,522,330
Unallocated liabilities								6,467,392
<b>Total liabilities</b>								<b><u>268,989,722</u></b>
Other segment items:								
Capital expenditure	410,857	312,433	-	33,637	7,087	-	-	764,014
Impairment losses on loans	1,096,008	322,930	-	(33,868)	-	-	-	1,385,070
Depreciation and amortization	<u>269,319</u>	<u>132,116</u>	<u>-</u>	<u>161,097</u>	<u>7,309</u>	<u>540</u>	<u>-</u>	<u>570,381</u>

**SCOTIA GROUP JAMAICA LIMITED**

## Notes to the Financial Statements (Continued)

October 31, 2012

*(Expressed in thousands of Jamaican dollars unless otherwise stated)***6. Net interest income**

	The Group		The Company	
	2012	2011	2012	2011
Interest income:				
Deposits with banks and other financial institutions	917,758	1,563,981	2,801	-
Investment securities	12,460,063	12,935,167	414,420	
Financial assets at fair value through profit or loss	21,776	32,538	-	-
Reverse repurchase agreements	56,176	77,963	-	-
Loans and advances	16,468,900	15,554,235	-	-
Other	5,555	1,497	-	-
	<u>29,930,228</u>	<u>30,165,381</u>	<u>417,221</u>	<u>-</u>
Interest expense:				
Banks and customers	2,879,453	3,298,339	-	-
Repurchase agreements	2,035,210	2,250,863	-	-
Policyholders' liabilities	2,052,099	2,151,298	-	-
Other	8,826	35,777	-	-
	<u>6,975,588</u>	<u>7,736,277</u>	<u>-</u>	<u>-</u>
Net interest income	<u>22,954,640</u>	<u>22,429,104</u>	<u>417,221</u>	<u>-</u>

**7. Net fee and commission income**

	The Group	
	2012	2011
Fee and commission income:		
Retail banking fees	3,983,245	3,580,838
Credit related fees	1,112,764	783,910
Commercial and depository fees	1,611,273	1,362,816
Trust and other fiduciary fees	31,324	23,515
Asset management and related fees	<u>728,705</u>	<u>606,548</u>
	7,467,311	6,357,627
Fee and commission expenses	<u>(2,219,563)</u>	<u>(1,708,560)</u>
	<u>5,247,748</u>	<u>4,649,067</u>

**8. Net foreign exchange trading income**

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

**SCOTIA GROUP JAMAICA LIMITED**

## Notes to the Financial Statements (Continued)

October 31, 2012

*(Expressed in thousands of Jamaican dollars unless otherwise stated)***9. Insurance revenue**

	The Group	
	<u>2012</u>	<u>2011</u>
Gross premiums		
Individual life	697,567	600,557
Group	<u>990,213</u>	<u>719,296</u>
	1,687,780	1,319,853
Reinsurance ceded	<u>( 270)</u>	<u>( 1,124)</u>
	1,687,510	1,318,729
Changes in actuarial reserves	<u>338,821</u>	<u>580,035</u>
	<u>2,026,331</u>	<u>1,898,764</u>

**10. Other revenue**

	The Group	
	<u>2012</u>	<u>2011</u>
Gain on sale of shares	105,272	-
Gain on sale of property, plant and equipment and intangible assets	1,525	3,172
Loss on disposal of subsidiary	-	( 7,761)
Other	<u>81,288</u>	<u>15,072</u>
	<u>188,085</u>	<u>10,483</u>

**11. Salaries, pension contributions and other staff benefits**

	The Group	
	<u>2012</u>	<u>2011</u>
Wages and salaries	7,010,897	6,630,716
Statutory payroll contributions	619,405	575,528
Pension costs, net defined benefit plan [note 29(a)]	<u>( 653,937)</u>	<u>( 725,018)</u>
Other post employment benefits [note 29(b)]	484,848	450,762
Other staff benefits	<u>1,082,433</u>	<u>1,362,094</u>
Total (note 12)	<u>8,543,646</u>	<u>8,294,082</u>

**SCOTIA GROUP JAMAICA LIMITED****Notes to the Financial Statements (Continued)****October 31, 2012***(Expressed in thousands of Jamaican dollars unless otherwise stated)***12. Expenses by nature**

	<u>The Group</u>		<u>The Company</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Salaries, pension contributions and other staff benefits (note 11)	8,543,646	8,294,082	-	-
Property expenses, including depreciation	2,061,467	1,975,166	-	-
Systems related expenses	910,309	1,011,126	-	-
Insurance claims and benefits	178,785	125,897	-	-
Transportation and communication	887,651	828,023	4,879	-
Marketing and advertising	704,257	628,655	-	-
Management and consultancy fees	888,064	654,840	-	-
Deposit insurance	242,348	245,315	-	-
Stationery	312,101	254,589	1,059	-
Other operating expenses	1,519,172	672,464	15,981	18,886
Amortisation of intangibles	121,503	147,229	-	-
	<u>16,369,303</u>	<u>14,837,386</u>	<u>21,919</u>	<u>18,886</u>

**13. Profit before taxation**

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

	<u>The Group</u>		<u>The Company</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Auditors' remuneration	43,413	40,262	3,925	3,668
Depreciation	466,745	423,152	-	-
Directors' emoluments:				
Fees	28,190	28,344	947	947
Other	34,333	35,306	-	-
Operating lease rentals	<u>369,802</u>	<u>375,445</u>	<u>-</u>	<u>-</u>

**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 Company	
	2012	2011	2012	2011
Current income tax:				
Income tax at 33¼%	3,350,706	2,615,111	143,745	-
Income tax at 30%	303,438	237,560	-	-
Premium income tax at 3%	141,886	112,800	-	-
Investment income tax at 15%	337,505	501,632	-	-
Adjustment for over provision of prior year's charge	( 2,772)	-	-	-
Deferred income tax (note 36)	144,423	159,862	-	-
	<u>4,275,186</u>	<u>3,626,965</u>	<u>143,745</u>	<u>-</u>

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

	The Group		The Company	
	2012	2011	2012	2011
Profit before taxation	<u>14,850,277</u>	<u>14,244,620</u>	<u>20,325,658</u>	<u>4,691,489</u>
Tax calculated at 33¼%	4,950,092	4,748,207	6,775,219	1,563,830
Adjusted for the tax effects of:				
Different tax regimes applicable to the life insurance and mortgage financing subsidiaries	( 675,756)	( 898,344)	-	-
Interest / dividend from tax free investments	( 250,883)	( 474,186)	( 6,631,633)	(1,570,125)
Expenses not deductible for tax purposes	391,471	180,588	159	-
Capital gains	( 35,091)	-	-	-
Other charges and allowances	( 115,554)	70,700	-	6,295
Prior period overprovision	10,907	-	-	-
	<u>4,275,186</u>	<u>3,626,965</u>	<u>143,745</u>	<u>-</u>
Effective tax rate	<u>28.79%</u>	<u>25.46%</u>	<u>0.71%</u>	<u>-</u>

**14. Taxation (continued)**

(c) Taxation expense for life insurance business

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

**15. Earnings per stock unit**

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

	<u>2012</u>	<u>2011</u>
Profit for the year attributable to stockholders of the Company	10,159,045	10,193,390
Weighted average number of ordinary stock units in issue ('000)	<u>3,111,573</u>	<u>3,111,573</u>
Basic earnings per stock unit (expressed in \$ per share)	<u>3.26</u>	<u>3.28</u>

**16. Cash and balances at Bank of Jamaica**

	<u>The Group</u>	
	<u>2012</u>	<u>2011</u>
Statutory reserves – interest-bearing	4,879,732	4,057,162
Statutory reserves – non interest bearing	<u>12,663,265</u>	<u>11,646,147</u>
Total statutory reserves (note 17)	17,542,997	15,703,309
Cash in hand and other balances at Bank of Jamaica (note 17)	<u>15,713,157</u>	<u>21,715,925</u>
	<u>33,256,154</u>	<u>37,419,234</u>

Statutory reserves with the Bank of Jamaica represent the required primary reserve ratios as follows:

<u>Relevant legislation</u>	<u>Entity</u>	<u>Reserve percentage</u>			
		<u>Jamaican</u>		<u>Foreign currency</u>	
		<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Banking Act, Section 14(i)	BNSJ	12%	12%	9%	9%
Building Society Regulations, Section 31	SJBS	<u>1%</u>	<u>1%</u>	<u>1%</u>	<u>1%</u>

These balances are not available for investment, lending or other use by the Group.



**17. Cash and cash equivalents**

	The Group		The Company	
	2012	2011	2012	2011
Cash and balances with Bank of Jamaica	33,256,154	37,419,234	-	-
Less: statutory reserves (note 16)	(17,542,997)	(15,703,309)	-	-
Amounts other than statutory reserve (note 16)	15,713,157	21,715,925	-	-
Accounts with subsidiary Government and bank notes other than Jamaican	-	-	3,875,613	19,681
Amounts due from other banks	439,316	415,606	-	-
Accounts with parent and fellow subsidiaries	8,461,528	9,803,094	-	-
Government of Jamaica securities	6,622,290	148,338	-	-
Cheques and other instruments in transit	1,563,791	4,486,494	-	-
	( 1,409,206)	( 1,320,363)	-	-
	31,390,876	35,249,094	3,875,613	19,681
Less interest receivable on Bank of Jamaica Certificates of Deposit	( 6,559)	( 40,920)	-	-
	<u>31,384,317</u>	<u>35,208,174</u>	<u>3,875,613</u>	<u>19,681</u>

**18. Amounts due from other banks**

	The Group	
	2012	2011
Items in course of collection from other banks	507,258	720,179
Placements with other banks	8,409,278	11,780,391
	<u>8,916,536</u>	<u>12,500,570</u>

**19. Accounts with parent and fellow subsidiaries**

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

**20. Financial assets at fair value through profit or loss**

	The Group	
	<u>2012</u>	<u>2011</u>
Government of Jamaica Securities	310,877	191,499
Quoted shares	14,351	25,221
Unit trusts	152,664	137,951
Accrued interest	<u>49</u>	<u>1,497</u>
	<u>477,941</u>	<u>356,168</u>

**21. Government securities purchased under resale agreements**

The Group enters 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	
	<u>2012</u>	<u>2011</u>
Reverse repurchase agreements with an original maturity of less than 90 days	-	1,150,000
Interest receivable	<u>-</u>	<u>2,466</u>
	<u>-</u>	<u>1,152,466</u>

The fair value of collateral held pursuant to reverse repurchase agreements is \$Nil (2011: \$1,186,882) for the Group.

**22. Pledged assets**

Assets are pledged to other financial institutions, the clearing house and as collateral under repurchase agreements with counterparties. These latter transactions are conducted under terms that are usual and customary for standard repurchase agreements.

	The Group			
	Asset		Related Liability	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Securities sold under repurchase agreements	50,923,444	51,371,868	45,384,758	44,700,992
Capital Management and Government Securities funds	11,277,881	13,204,540	14,174,566	14,241,114
Securities with other financial institutions and clearing houses	<u>856,168</u>	<u>794,640</u>	<u>-</u>	<u>-</u>
	<u>63,057,493</u>	<u>65,371,048</u>	<u>59,559,324</u>	<u>58,942,106</u>

**22. Pledged assets (continued)**

Included in pledged assets are the following categories of assets:

	The Group	
	<u>2012</u>	<u>2011</u>
Deposits with financial institutions	1,159,748	778,637
Government issued securities:		
Fair value through profit or loss	331,610	2,137
Available-for-sale	38,819,555	39,904,035
Loans and receivables	11,778,869	11,900,753
Held-to-maturity	9,207,494	10,989,928
Loans	127,633	136,502
Unitised funds:		
Available-for-sale	774,211	845,826
Other:		
Available-for-sale	858,373	813,230
	<u>63,057,493</u>	<u>65,371,048</u>

**23. Loans, after allowance for impairment losses**

	The Group	
	<u>2012</u>	<u>2011</u>
Business and Government	58,243,202	47,258,969
Personal and credit cards	51,467,830	43,565,524
Residential mortgages	13,849,845	10,301,749
Interest receivable	965,273	866,602
Total	124,526,150	101,992,844
Less: allowance for impairment losses (note 24)	( 2,001,482)	( 2,016,405)
	<u>122,524,668</u>	<u>99,976,439</u>

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

	The Group	
	<u>2012</u>	<u>2011</u>
Neither past due nor impaired	106,382,117	86,599,465
Past due but not impaired		
Past due 1-30 days	5,142,082	4,593,336
Past due 31-60 days	5,502,526	2,773,732
Past due 61-90 days	1,983,126	1,902,493
	<u>12,627,734</u>	<u>9,269,561</u>
Balance carried forward to page 95	119,009,851	95,869,026

**23. Loans, after allowance for impairment losses (continued)**

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

	<u>The Group</u>	
	<u>2012</u>	<u>2011</u>
Balance brought forward from page 94	119,009,851	95,869,026
Impaired:		
Past due more than 90 days	4,551,026	5,257,217
Interest receivable	<u>965,273</u>	<u>866,601</u>
Gross loan portfolio	124,526,150	101,992,844
Less: Allowance for impairment losses	<u>( 2,001,482)</u>	<u>( 2,016,405)</u>
	<u>122,524,668</u>	<u>99,976,439</u>

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

(ii) 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 recognized on the Group's statement of financial position.

The Group had no repossessed collateral at the reporting date (2011: None).

**24. Impairment losses on loans**

	<u>The Group</u>	
	<u>2012</u>	<u>2011</u>
Total impaired loans	<u>4,551,026</u>	<u>5,257,217</u>
Allowance at beginning of year	2,016,405	1,594,659
Provided during the year	1,783,741	2,284,158
Bad debts written off	(1,816,858)	(1,866,061)
Translation difference on foreign currency provision	18,194	3,594
Elimination on reclassification of securities held for sale	<u>-</u>	<u>55</u>
Allowance at end of year (note 23)	<u>2,001,482</u>	<u>2,016,405</u>
Provided during the year	1,783,741	2,284,158
Recoveries of bad debts	<u>( 938,289)</u>	<u>( 899,088)</u>
Impairment losses reported in profit or loss	<u>845,452</u>	<u>1,385,070</u>

**24. Impairment losses on loans (cont'd)**

Allowance for impairment losses

A loan is classified as impaired if its book value exceeds the present value of the cash flows expected in future periods from interest payments, principal repayments, guarantees, and proceeds of liquidation of collateral. Provisions for credit losses are made on all impaired loans. Uncollected interest not accrued in these financial statements on impaired loans was estimated at \$1,636,592 as at October 31, 2012 (2011: \$1,753,993) for the Group.

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

	<u>The Group</u>	
	<u>2012</u>	<u>2011</u>
Allowance based on accounting standard - IAS 39 [see (a) below]	2,001,482	2,016,405
Additional allowance based on BOJ regulations [see (b) below]	<u>2,299,390</u>	<u>2,251,257</u>
	<u>4,300,872</u>	<u>4,267,662</u>

(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 provision required by BOJ over the IAS 39 requirements (note 42).

**25. Investment securities**

	<u>The Group</u>		<u>The Company</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Available-for-sale (AFS)				
Quoted shares	-	179,560	-	-
Unquoted shares	14,022	21,018	-	-
Government of Jamaica securities	81,250,049	73,344,024	11,521,210	-
Treasury bills	295,929	-	-	-
Other	1,520,685	1,203,961	-	-
Interest receivable	<u>1,400,250</u>	<u>1,383,681</u>	<u>170,557</u>	-
	<u>84,480,935</u>	<u>76,132,244</u>	<u>11,691,767</u>	-
Held-to-Maturity (HTM)				
Government of Jamaica securities	9,220,787	11,962,692	-	-
Other	1,816,100	1,725,556	-	-
Interest receivable	<u>286,895</u>	<u>317,939</u>	-	-
	<u>11,323,782</u>	<u>14,006,187</u>	-	-

**SCOTIA GROUP JAMAICA LIMITED**
**Notes to the Financial Statements (Continued)**
**October 31, 2012**
*(Expressed in thousands of Jamaican dollars unless otherwise stated)*
**25. Investment securities (continued)**

Included in investment securities are Government of Jamaica Benchmark Investment Note with a book value of \$90,000 (2011: \$90,000) which have been deposited by one of the Group's subsidiaries, Scotia Jamaica Life Insurance Company Limited, with the insurance regulator, Financial Services Commission, pursuant to Section 8(1)(a) of the Insurance Regulations 2001.

The debt securities include fixed rate and variable rate instruments. The Group has not reclassified any HTM Securities (measured at amortised cost) to AFS securities (measured at fair value), during the year.

**26. Sundry assets**

	The Group	
	<u>2012</u>	<u>2011</u>
Accounts receivable and prepayments	324,790	254,047
Other	<u>555,163</u>	<u>124,912</u>
	<u>879,953</u>	<u>378,959</u>

**27. Property, plant and equipment**

	The Group				
	<u>Freehold Land and Buildings</u>	<u>Leasehold Improvements</u>	<u>Furniture, Fixtures, Motor vehicles &amp; Equipment</u>	<u>Capital Work- in- Progress</u>	<u>Total</u>
Cost:					
October 31, 2010	2,560,991	236,674	4,312,726	292,517	7,402,908
Additions	18,924	3,534	56,233	601,234	679,925
Disposals	( 41,078)	( 12,310)	( 379,573)	-	( 432,961)
Transfers	<u>256,299</u>	<u>23,867</u>	<u>184,579</u>	<u>( 464,745)</u>	<u>-</u>
October 31, 2011	2,795,136	251,765	4,173,965	429,006	7,649,872
Additions	6,349	15,901	107,575	1,284,975	1,414,800
Disposals	( 20)	-	( 5,167)	-	( 5,187)
Transfers	544,748	95,431	755,494	(1,395,673)	-
Write-offs	<u>-</u>	<u>-</u>	<u>-</u>	<u>( 201)</u>	<u>( 201)</u>
October 31, 2012	<u>3,346,213</u>	<u>363,097</u>	<u>5,031,867</u>	<u>318,107</u>	<u>9,059,284</u>
Accumulated depreciation:					
October 31, 2010	452,279	203,585	3,172,749	-	3,828,613
Charge for the year	49,846	39,684	333,622	-	423,152
Eliminated on disposals	<u>( 12,432)</u>	<u>( 12,310)</u>	<u>( 368,021)</u>	<u>-</u>	<u>( 392,763)</u>
October 31, 2011	489,693	230,959	3,138,350	-	3,859,002
Charge for the year	72,780	43,272	350,693	-	466,745
Eliminated on disposals	<u>-</u>	<u>-</u>	<u>( 5,167)</u>	<u>-</u>	<u>( 5,167)</u>
October 31, 2012	<u>562,473</u>	<u>274,231</u>	<u>3,483,876</u>	<u>-</u>	<u>4,320,580</u>
Net book values					
October 31, 2012	<u>2,783,740</u>	<u>88,866</u>	<u>1,547,991</u>	<u>318,107</u>	<u>4,738,704</u>
October 31, 2011	<u>2,305,443</u>	<u>20,806</u>	<u>1,035,615</u>	<u>429,006</u>	<u>3,790,870</u>
October 31, 2010	<u>2,108,712</u>	<u>33,089</u>	<u>1,139,977</u>	<u>292,517</u>	<u>3,574,295</u>

**28. Intangible assets**

	Customer Relationships	Contract-Based Intangibles	License	Tax Benefits	Goodwill	Computer Software	Total
<b>Cost:</b>							
October 31, 2010	1,382,582	348,987	49,470	692,466	136,892	131,361	2,741,758
Additions during the year	-	-	-	-	-	84,089	84,089
Disposal	-	-	-	-	-	(1,909)	(1,909)
Write off	-	-	-	-	-	(2,235)	(2,235)
October 31, 2011	1,382,582	348,987	49,470	692,466	136,892	211,306	2,821,703
Additions during the year	-	-	-	-	-	29,304	29,304
October 31, 2012	<u>1,382,582</u>	<u>348,987</u>	<u>49,470</u>	<u>692,466</u>	<u>136,892</u>	<u>240,610</u>	<u>2,851,007</u>
<b>Amortisation:</b>							
October 31, 2010	362,660	26,661	-	317,562	35,611	125,848	868,342
Amortisation for the year	73,521	14,971	-	50,834	-	7,570	146,896
Impairment charge	-	-	333	-	-	-	333
October 31, 2011	73,521	14,971	333	50,834	-	7,570	147,229
Disposal	-	-	-	-	-	(1,909)	(1,909)
Write off	-	-	-	-	-	(1,863)	(1,863)
Movement for the year	<u>73,521</u>	<u>14,971</u>	<u>333</u>	<u>50,834</u>	<u>-</u>	<u>3,798</u>	<u>143,457</u>
October 31, 2011	436,181	41,632	333	368,396	35,611	129,646	1,011,799
Amortisation for the year	73,521	14,971	-	20,206	-	7,805	116,503
Impairment charge	-	-	5,000	-	-	-	5,000
Movement for the year	<u>73,521</u>	<u>14,971</u>	<u>5,000</u>	<u>20,206</u>	<u>-</u>	<u>7,805</u>	<u>121,503</u>
October 31, 2012	<u>509,702</u>	<u>56,603</u>	<u>5,333</u>	<u>388,602</u>	<u>35,611</u>	<u>137,451</u>	<u>1,133,302</u>
<b>Net book values</b>							
October 31, 2012	<u>872,880</u>	<u>292,384</u>	<u>44,137</u>	<u>303,864</u>	<u>101,281</u>	<u>103,159</u>	<u>1,717,705</u>
October 31, 2011	<u>946,401</u>	<u>307,355</u>	<u>49,137</u>	<u>324,070</u>	<u>101,281</u>	<u>81,660</u>	<u>1,809,904</u>
October 31, 2010	<u>1,019,922</u>	<u>322,326</u>	<u>49,470</u>	<u>374,904</u>	<u>101,281</u>	<u>5,513</u>	<u>1,873,416</u>

**29. Retirement benefit asset/obligation**

Amounts recognised in the statement of financial position:

	The Group	
	<u>2012</u>	<u>2011</u>
Defined benefit pension plan	8,113,770	7,412,119
Other post retirement benefits	(2,341,321)	(1,904,277)
	<u>5,772,449</u>	<u>5,507,842</u>

(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, the report on which was issued on November 5, 2012, was carried out as at October 31, 2012.

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

	The Group	
	<u>2012</u>	<u>2011</u>
Present value of funded obligations	(16,254,535)	(15,752,204)
Fair value of plan assets	36,082,995	34,780,109
Unrecognised actuarial gains	( 6,060,765)	( 6,506,312)
Unrecognised past service costs	<u>67,616</u>	<u>89,931</u>
	13,835,311	12,611,524
Unrecognised amount of plan assets due to limitation on economic benefit	( 5,721,541)	( 5,199,405)
Asset in the statement of financial position	<u>8,113,770</u>	<u>7,412,119</u>

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

	The Group	
	<u>2012</u>	<u>2011</u>
At beginning of year	(15,752,204)	(13,384,602)
Interest and service costs	( 2,319,739)	( 2,285,505)
Past service cost – vested and unvested benefits	-	( 541,011)
Actuarial gain/(loss) on obligation	1,276,557	( 194,842)
Benefits paid	<u>540,851</u>	<u>653,756</u>
At end of year	<u>(16,254,535)</u>	<u>(15,752,204)</u>



**29. Retirement benefit asset/obligation (continued)**

(a) Defined benefit pension plan (continued)

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

	The Group	
	<u>2012</u>	<u>2011</u>
At beginning of year	34,780,109	30,457,536
Expected return on plan assets	2,948,374	3,039,640
Actuarial (loss)/gains on plan assets	( 1,559,292)	1,533,177
Contributions	454,655	403,512
Benefits paid	( 540,851)	( 653,756)
At end of year	<u>36,082,995</u>	<u>34,780,109</u>

(iv) Composition of plan assets:

	The Group	
	<u>2012</u>	<u>2011</u>
Government stocks and bonds	28,887,275	28,971,714
Quoted equities	3,667,468	3,609,417
Reverse repurchase agreements	371,989	531,399
Certificates of deposits	447,643	122,975
Real estate	1,875,037	988,271
Net current assets	<u>833,583</u>	<u>556,333</u>
	<u>36,082,995</u>	<u>34,780,109</u>

Plan assets include the following:

Scotia Group Jamaica Limited's ordinary shares	<u>1,170,234</u>	<u>1,286,143</u>
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(v) The amounts recognised in the statement of revenue and expenses are as follows:

	The Group	
	<u>2012</u>	<u>2011</u>
Current service cost, net of employee contributions	317,574	283,874
Interest cost	1,595,221	1,643,563
Expected return on plan assets	(2,948,373)	(3,039,640)
Net actuarial gain recognised in year	( 162,812)	( 122,393)
Past service cost – vested and non vested benefits	22,315	451,079
Income (recognised)/not recognised due to limit	<u>522,138</u>	<u>58,499</u>
Included in staff costs (note 11)	<u>( 653,937)</u>	<u>( 725,018)</u>

The actual return on plan assets was \$1,389,082 (2011: \$4,572,817).

**29. Retirement benefit asset/obligation (continued)**

(a) Defined benefit pension plan (continued)

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

	The Group	
	<u>2012</u>	<u>2011</u>
Discount rate	10.00%	10.00%
Expected return on plan assets	8.50%	8.50%
Future salary increases	6.50%	6.50%
Future pension increases	4.50%	4.50%
Average expected remaining working lives (years)	<u>18.60</u>	<u>18.34</u>

(b) Other post-employment benefits

In addition to pension benefits, the Group offers post-employment medical and group life insurance benefits to retirees and beneficiaries after retirement. The method of accounting and frequency of valuations are similar to those used for the defined benefit pension plan.

In addition to the assumptions used for the pension plan that are relevant to the group health plan, the estimate assumes a long-term increase in health costs of 6% per year (2011: 7.5%).

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

	The Group	
	<u>2012</u>	<u>2011</u>
Present value of unfunded obligations	(3,140,953)	(2,671,261)
Unrecognised past services costs	( 6,707)	( 8,184)
Unrecognised actuarial losses	<u>806,339</u>	<u>775,168</u>
Liability in the statement of financial position	<u>(2,341,321)</u>	<u>(1,904,277)</u>

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

	The Group	
	<u>2012</u>	<u>2011</u>
At beginning of year	(2,671,261)	(2,485,118)
Interest and service costs	( 459,011)	( 436,180)
Actuarial gain on obligation	( 58,485)	180,279
Benefits paid	47,804	48,609
Past service cost – vested and non vested benefits	<u>-</u>	<u>21,149</u>
At end of year	<u>(3,140,953)</u>	<u>(2,671,261)</u>

**SCOTIA GROUP JAMAICA LIMITED**
**Notes to the Financial Statements (Continued)**
**October 31, 2012**
*(Expressed in thousands of Jamaican dollars unless otherwise stated)*
**29. Retirement benefit asset/obligation (continued)**
**(b) Other post-employment benefits (continued)**

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

	The Group	
	<u>2012</u>	<u>2011</u>
Current service cost	176,650	139,083
Interest cost	282,361	297,097
Net actuarial losses recognised in year	27,313	27,549
Past service cost – vested and non vested benefits	( 1,476)	( 12,967)
Included in staff costs (note 11)	<u>484,848</u>	<u>450,762</u>

**(c) Five year trend analysis**

	Pension				
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Fair value of plan assets	36,082,995	34,780,109	30,457,536	26,446,396	22,726,007
Present value of defined benefit obligation	(16,254,535)	(15,752,204)	(13,384,602)	(10,948,143)	( 9,087,313)
Surplus in the plan	<u>19,828,460</u>	<u>19,027,905</u>	<u>17,072,934</u>	<u>15,498,253</u>	<u>13,638,694</u>
Experience adjustments to plan liabilities (gain)/loss	( 487,777)	<u>278,387</u>	( 762,749)	<u>793,979</u>	<u>427,376</u>
Experience adjustments to plan assets – (loss)/gain	( 1,559,292)	<u>1,533,177</u>	<u>1,508,399</u>	<u>1,253,835</u>	<u>204,530</u>

	Health and Group Life				
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Present value of defined benefit obligation	<u>3,140,953</u>	<u>2,671,261</u>	<u>2,485,118</u>	<u>1,569,756</u>	<u>1,209,160</u>
Deficit in the plan	(3,140,953)	( 2,671,261)	( 2,485,118)	(1,569,756)	(1,209,160)
Experience adjustments to plan liabilities (gain)/loss	( 44,896)	<u>78,638</u>	( 318,837)	<u>184,950</u>	( 8,502)

**30. Deposits by the public**

	The Group	
	<u>2012</u>	<u>2011</u>
Personal	88,543,961	85,136,784
Other	72,376,980	59,440,069
Interest payable	<u>73,241</u>	<u>93,230</u>
	<u>160,994,182</u>	<u>144,670,083</u>

**30. Deposits by the public (continued)**

Deposits include \$36,039 (2011: \$32,639) held as collateral for irrevocable commitments under letters of credit.

**31. Amounts due to other banks and financial institutions**

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

**32. Due to parent company**

	The Group	
	<u>2012</u>	<u>2011</u>
Facility I	1,056,070	1,003,419
Facility II	3,127,136	3,156,930
Facility III	<u>3,398,831</u>	<u>3,399,345</u>
	7,582,037	7,559,694
Interest payable	<u>83,287</u>	<u>88,857</u>
	7,665,324	7,648,551
Deposits held with Bank	<u>17,547</u>	<u>11,865</u>
	<u>7,682,871</u>	<u>7,660,416</u>

- (i) Facility I is a US\$ denominated eight (8) year non-revolving loan from the parent company, for on-lending. The facility was restructured in May 2012 with principal repayments scheduled to commence May 2014 and is subject to 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 principal commenced in May 2012, is scheduled to be completed by August 2020 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 principal commenced in May 2012, is scheduled to be completed by February 2022 and is subject to a fixed interest rate of 5.95%.

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

**33. Amounts due to subsidiaries and fellow subsidiaries**

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

**34. Capital Management and Government Securities funds**

(a) Capital management fund

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

(b) Government securities fund

The Group manages funds, on a non-recourse basis, on behalf of investors. The investors have a direct traceable interest in the investments.

**35. Other liabilities**

	The Group	
	<u>2012</u>	<u>2011</u>
Accrued staff expenses	798,809	785,775
Prepaid letters of credit	36,093	88,620
Other accrued liabilities	<u>1,879,569</u>	<u>1,068,067</u>
	<u>2,714,471</u>	<u>1,942,462</u>

**36. Deferred tax assets and liabilities**

Deferred income taxes are calculated on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, using an effective tax rate of:

33½% for the Scotia Group Jamaica Limited and its subsidiaries except for:

The Scotia Jamaica Building Society at 30%; and  
Scotia Jamaica Life Insurance Company Limited at 15%

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

	The Group		The Company	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Balance at beginning of year	(3,361,086)	(2,832,539)	-	-
Recognised in the profit for the year (note 14)	( 144,423)	( 159,862)	-	-
Recognised in other comprehensive income:				
Available-for-sale investments				
- fair value re-measurement	555,835	( 362,785)	(2,978)	-
- transfer to net profit	<u>11,511</u>	<u>( 5,900)</u>	-	-
	567,346	( 368,685)	(2,978)	-
Balances at end of year	<u>(2,938,163)</u>	<u>(3,361,086)</u>	<u>(2,978)</u>	<u>-</u>

**36. Deferred tax assets and liabilities (continued)**

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

	The Group		The Company	
	2012	2011	2012	2011
Pension benefits	(2,704,590)	(2,470,706)	-	-
Other post retirement benefits	780,440	634,750	-	-
Available-for-sale investments	( 159,658)	( 727,445)	(2,978)	-
Losses carry forward	-	2,511	-	-
Vacation accrued	89,261	86,733	-	-
Accelerated tax depreciation	( 172,224)	( 111,482)	-	-
Impairment losses on loans	( 393,570)	( 412,000)	-	-
Interest receivable	( 377,822)	( 363,447)	-	-
Net deferred income tax liability	<u>(2,938,163)</u>	<u>(3,361,086)</u>	<u>(2,978)</u>	<u>-</u>
This is comprised of :-				
Deferred income tax asset	-	12,101	-	-
Deferred income tax liability	<u>(2,938,163)</u>	<u>(3,373,187)</u>	<u>(2,978)</u>	<u>-</u>
	<u>(2,938,163)</u>	<u>(3,361,086)</u>	<u>(2,978)</u>	<u>-</u>

(c) The deferred tax charge comprises the following temporary differences and related tax:

	The Group	
	2012	2011
Accelerated tax depreciation	60,741	( 6,864)
Pensions and other post retirement benefits	88,202	122,768
Allowance for loan impairment	( 18,441)	18,133
Vacation accrued	( 2,530)	( 12,898)
Losses carry forward	2,511	-
Interest receivable	<u>13,939</u>	<u>38,723</u>
	<u>144,422</u>	<u>159,862</u>

(d) During its 2012/13 budget presentation, the Government announced that the corporate income tax rate for non-regulated entities would be reduced from 33 1/3% to 25%, effective January 1, 2013. As at the reporting date, the change had not been enacted and has therefore not been applied in determining the amounts for taxation in these financial statements. The rate change, if and when enacted, will affect the eventual amounts which may be realised in respect of deferred tax recognised as at the reporting date. Had the change in tax rate been recognized at the reporting date, there would be a decrease in deferred tax asset/liability of \$744 for the Company and \$1,034 for the Group.

**37. Policyholders' liabilities**

(a) Composition of policyholders liabilities

	The Group	
	<u>2012</u>	<u>2011</u>
Policyholders' fund	44,954,278	42,019,066
Benefits and claims payable	138,707	103,199
Unprocessed premiums	( 2,570)	11,637
Annuity fund	73,766	42,637
Insurance risk reserve – Individual life	( 4,075,620)	( 3,550,839)
- Individual accident and sickness	172,570	122,933
- Group life	<u>418,827</u>	<u>271,128</u>
	<u>41,679,958</u>	<u>39,019,761</u>

(b) Movement in policyholders' liabilities:

	The Group	
	<u>2012</u>	<u>2011</u>
Policyholders fund:		
At beginning of year	42,019,066	39,390,270
Gross premium	6,347,014	5,341,715
Disbursements	( 5,463,901)	( 4,864,217)
Interest credited	<u>2,052,099</u>	<u>2,151,298</u>
At end of year	<u>44,954,278</u>	<u>42,019,066</u>
Benefits and claims payable:		
At beginning of year	103,199	69,525
New claims and benefits made during the year	214,293	159,572
Benefits and claims paid	( 178,785)	( 125,898)
At end of year	<u>138,707</u>	<u>103,199</u>
Unprocessed premiums:		
At beginning of year	11,637	9,436
Premiums received	8,151,321	6,738,255
Premiums applied	( 8,165,528)	( 6,736,054)
At end of year	<u>( 2,570)</u>	<u>11,637</u>

	2012		
	<u>Individual life</u>	<u>Group life</u>	<u>Total</u>
Insurance risk reserve:			
At beginning of year	(3,427,906)	271,128	(3,156,778)
Changes in assumptions	( 186,529)	( 859)	( 187,388)
Normal changes	<u>( 288,615)</u>	<u>148,558</u>	<u>( 140,057)</u>
At end of year	<u>(3,903,050)</u>	<u>418,827</u>	<u>(3,484,223)</u>

**37. Policyholders' liabilities (continued)**

(b) Movement in policyholders' liabilities:

	2011		Total
	<u>Individual life</u>	<u>Group life</u>	
Insurance risk reserve:			
At beginning of year	(2,760,641)	182,580	(2,578,061)
Changes in assumptions	( 404,017)	2,361	( 401,656)
Normal changes	<u>( 263,248)</u>	<u>86,187</u>	<u>( 177,061)</u>
At end of year	<u>(3,427,906)</u>	<u>271,128</u>	<u>(3,156,778)</u>

(c) Policy assumptions

Policy liabilities are valued using 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 company matches assets and liabilities by line of business.

For Scotia Mint and Creditor Insurance, the Actuary has assumed a portfolio rate of 6.4% in January 2012 decreasing to 5% over 20 years. For CritiCare, the Actuary has assumed a portfolio rate of 6.5% in January 2012 decreasing to 5% over 30 years. Assumed interest rates are net of investment income tax and have been decreased by 0.50% as a margin for adverse deviation. The appropriateness of these rates has been tested by projecting asset and liability cash flows under various reinvestment scenarios.

(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.



**37. Policyholders' liabilities (continued)**

(c) Policy assumptions (continued)

(1) Best estimate assumptions (continued):

(iii) Persistency (continued)

Lapse and surrender rates are derived from the company's own experience. A margin for adverse deviation is added by increasing or decreasing the lapse rates, whichever is adverse, by 20%.

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

(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 5% in January 2012, decreasing to 2% over 20 years.

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, a margin for adverse deviation is included in each assumption.

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

**38. Share capital**

	Number of Units '000		Total \$'000	
	2012	2011	2012	2011
Authorised:				
Ordinary shares of no par value	<u>10,000,000</u>	<u>10,000,000</u>		
Issued and fully paid:				
Ordinary stock units	<u>3,111,573</u>	<u>3,111,573</u>	<u>6,569,810</u>	<u>6,569,810</u>

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

**39. Reserve fund**

	The Group	
	2012	2011
As at October 31	<u>3,248,591</u>	<u>3,248,591</u>

In accordance with the Banking Act 1992, certain companies in the Group are required to make transfers of a minimum of 15% of net profit until the amount in the fund is equal to 50% of the paid-up capital of the bank and thereafter 10% of the net profits until the reserve fund is equal to the respective paid-up capital.

The Building Society is required to make transfers of a minimum of 10% of net profit, until the amount at the credit of the reserve fund is equal to the total of the amount paid up on its capital shares and the amount of its deferred shares.

**40. Retained earnings reserve**

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

**41. Cumulative remeasurement result from available-for-sale financial assets**

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

**42. Loan loss reserve**

This is a non-distributable loan loss reserve which represents the excess of the regulatory loan loss provision over the amount determined under IFRS requirements (note 24).

**43. Other reserves**

This represents reserves arising on consolidation of subsidiaries, net.

**44. Related party transactions and balances**

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

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

Related party transactions with the parent company include the payment of dividends, management fees, guarantee fees, and centralized computing service fees. The related party balance with the parent is the amount due to the parent company as set out in note 32.

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

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

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

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

**SCOTIA GROUP JAMAICA LIMITED**
**Notes to the Financial Statements (Continued)**
**October 31, 2012**
*(Expressed in thousands of Jamaican dollars unless otherwise stated)*
**44. Related party transactions and balances (continued)**

	The Group					
	Parent	Fellow subsidiaries	Directors and Key Management Personnel	Connected companies	Total 2012	Total 2011
<b>Loans</b>						
Loans outstanding at beginning of year	-	-	430,511	7,303,888	7,734,399	10,456,610
Net loans issued/(repaid) during the year	<u>-</u>	<u>-</u>	<u>( 47,693)</u>	<u>(6,934,238)</u>	<u>(6,981,931)</u>	<u>( 2,722,211)</u>
Loans outstanding at end of year	-	-	<u>382,818</u>	<u>369,650</u>	<u>752,468</u>	<u>7,734,399</u>
Interest income earned	-	-	<u>39,323</u>	<u>473,950</u>	<u>513,273</u>	<u>803,861</u>
Average repayment term (Years)	-	-	11.88	6.18	9.08	5.99
Average interest rate (%)	-	-	8.06	12.65	10.32	8.82
<b>Deposits</b>						
Deposits outstanding at beginning of year	7,571,559	-	171,032	2,538,682	10,281,273	10,400,717
Net deposits received/(repaid) during the year	<u>28,025</u>	<u>-</u>	<u>( 32,776)</u>	<u>(1,508,176)</u>	<u>( 1,512,927)</u>	<u>( 119,444)</u>
Deposits outstanding at end of year	<u>7,599,584</u>	<u>-</u>	<u>138,256</u>	<u>1,030,506</u>	<u>8,768,346</u>	<u>10,281,273</u>
Interest expense on deposits	<u>412,704</u>	<u>-</u>	<u>2,886</u>	<u>27,225</u>	<u>442,815</u>	<u>441,018</u>
<b>Other</b>						
Fees and commission earned	-	-	393	69,612	70,005	55,063
Insurance products	-	-	38,164	-	38,164	34,682
Securities sold under repurchase agreements	-	-	( 103,742)	-	( 103,742)	( 77,593)
Interest paid on repurchase agreements	-	-	(3,066)	-	( 3,066)	( 781)
Other investment	-	4,021,419	( 113,766)	-	3,907,653	3,602,293
Interest earned on other investments	-	246,849	( 3,294)	-	243,555	162,344
Due from banks and other financial institutions	2,062,004	6,124,101	-	-	8,186,105	4,717,251
Interest earned from banks and other financial institutions	19	13,514	-	-	13,533	14,237
Management fees paid	( 842,662)	-	-	-	( 842,662)	( 566,192)
Guarantee fees paid to parent company	( 1,403)	-	-	-	( 1,403)	( 1,232)
Other operating expense/income	<u>( 374,309)</u>	<u>217,667</u>	<u>-</u>	<u>-</u>	<u>( 156,642)</u>	<u>( 156,803)</u>

	The Group	
	<u>2012</u>	<u>2011</u>
<b>Key management compensation</b>		
Salaries and other short term benefits	715,953	636,280
Post-employment benefits	<u>(103,266)</u>	<u>(143,301)</u>

#### 45. 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 manages risk through a framework of risk principles, organizational structures and risk measurement and monitoring processes that are closely aligned with the activities of its business units. The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Board of Directors is ultimately responsible for the establishment and oversight of the Board's risk management framework. The Board has established committees for managing and monitoring risks; in addition, there are management committees established to manage risks.

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

##### (i) Board Audit Committee

The Board Audit Committee is comprised of independent directors. This committee oversees the integrity of the Group's financial statements, compliance with legal and regulatory requirements, the performance of the Bank's internal audit function and external auditors, as well as the system of internal controls over financial reporting. The Audit Committee reviews the quarterly and annual financial statements, examining significant issues regarding the financial results, accounting principles and policies, as well as management estimates and assumptions, for recommendation to the Board for approval. This committee is assisted in its oversight role by the Internal Audit Department, which undertakes reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

##### (ii) Executive and Enterprise Risk Committee

The Executive and Enterprise Risk Committee reviews and recommends to the Board for approval, the risk management policies, limits, procedures and standards. This involves review of the quarterly reports on the Group's enterprise wide risk profile, including credit, market, operational and liquidity risks. This Committee also oversees the corporate strategy and profit plans for the Group, as well as develops and makes recommendations for improvement of the corporate governance policies and procedures.

**45. Financial risk management (continued)****(a) Overview and risk management framework (continued)****(iii) Asset and Liability Committee**

The Asset and Liability Committee (ALCO), a management committee, 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, liquidity risk, market risk, insurance risk and operational risk. Market risk includes currency risk, interest rate risk and other price risk.

**(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 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 principal 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.

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 is consistent with the policies outlined in note 2(p).

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

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

**(iii) Credit quality**

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:

**45. Financial risk management (continued)**

**(b) Credit risk (continued)**

(iii) Credit quality (continued)

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

<u>The Group's rating</u>	<u>External rating : Standard &amp; Poor's equivalent.</u>
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 combines statistical analysis with credit officer judgment, and fall within the following categories:

- Excellent
- Good
- Higher risk

The following table 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:

	<u>Loans and credit commitments</u>	
	<u>The Group</u>	
	<u>2012</u>	<u>2011</u>
	(%)	(%)
Excellent	22.3	22.2
Very Good	5.1	6.1
Good	19.1	21.4
Acceptable	5.7	6.1
Higher Risk	47.8	44.2
	<u>100.0</u>	<u>100.0</u>



**45. Financial risk management (continued)**

**(b) Credit risk (continued)**

(iii) Credit quality (continued)

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.

Using these classifications to rate credit quality, the credit profile of the Group’s loan portfolio would be as set out in the following table:

	The Group	
	<u>2012</u>	<u>2011</u>
	(%)	(%)
Standard	83.1	84.3
Special Mention	11.1	8.0
Sub-Standard	4.3	5.0
Doubtful	0.2	0.4
Loss	<u>1.3</u>	<u>2.3</u>
	<u>100.0</u>	<u>100.0</u>

45. Financial risk management (continued)

(b) Credit risk (continued)

(iii) Credit quality (continued)

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, 2012 and 2011:

	The Group		The Company	
	2012	2011	2012	2011
AAA to AA+	269,029	243,867	-	-
A to A-	36,985	-	-	-
BBB+ to BB+	192,945	189,294	-	-
BB to B-	167,290,327	171,473,086	11,691,767	-
Lower than B-	4	-	-	-
	<u>167,789,290</u>	<u>171,906,247</u>	<u>11,691,767</u>	<u>-</u>

	The Group		The Company	
	2012	2011	2012	2011
<i>Classified as follows:</i>				
Deposits with				
Bank of Jamaica	11,530,469	18,638,926	-	-
Financial assets at fair value through profit and loss	310,877	192,995	-	-
Investment securities				
Held-to-maturity	11,323,782	14,006,187	-	-
Available-for-sale	84,466,913	75,674,817	11,691,767	-
Pledged assets, Capital Management and Government Securities Funds:				
Loans and receivables	11,677,853	11,766,377	-	-
Held-to-maturity	7,160,301	7,823,737	-	-
Available-for-sale	41,000,991	43,803,208	-	-
Trading	318,104	-	-	-
	<u>167,789,290</u>	<u>171,906,247</u>	<u>11,691,767</u>	<u>-</u>

(iv) Maximum exposure to credit risk

The maximum exposure to credit risk, is the amount 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.

**45. Financial risk management (continued)****(b) Credit risk (continued)****Collateral and other credit enhancements held against loans**

It is the Group's practice to lend on the basis of the customer's ability to meet his obligations out of his cash flow resources rather than rely on the value of security offered as collateral. Nevertheless, the collateral is an important mitigant of credit risk. Depending on the customer's standing and the type of product, some facilities are granted on an unsecured basis. For other facilities, a charge over collateral is obtained and considered in determining the credit decision and pricing. In the event of default the Group may utilise the collateral as a source of repayment. In such cases the collateral is used to settle all debt obligations to the Group, and excess value is returned to the borrower.

The Group holds collateral against credits to borrowers primarily in the form of cash, motor vehicles, real estate, charges over business assets such as premises, inventory and accounts receivable and charges over financial instruments such as debt securities and equities. Estimates of values are based on value of collateral assessed at the time of borrowing and are generally not updated except when credits to borrowers are individually assessed as impaired.

The estimated value of the collateral with enforceable legal right pursuant to the agreements for outstanding loans and guarantees is \$100,805,123 (2011:\$86,220,027) for the Group.

**45. 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 2012	Total 2011
Agriculture, fishing and mining	813,635	51,069	864,704	826,767
Construction and real estate	887,538	387,579	1,275,117	1,087,900
Distribution	10,367,902	433,522	10,801,424	7,863,578
Financial institutions	46	1,567,919	1,567,965	2,479,029
Government and public entities	21,771,295	130,447	21,901,742	19,571,580
Manufacturing	5,132,641	456,032	5,588,673	2,518,469
Transportation, electricity, water and other	5,934,279	772,648	6,706,927	4,674,772
Personal	66,545,806	2,143,301	68,689,107	56,872,841
Professional and other services	6,157,412	322,543	6,479,955	6,090,172
Tourism and entertainment	5,950,323	68,267	6,018,590	5,971,718
Interest receivable	965,273	-	965,273	778,158
<b>Total</b>	<b>124,526,150</b>	<b>6,333,327</b>	<b>130,859,477</b>	<b>108,734,984</b>
Total impairment allowance (note 24)			( 2,001,482)	( 2,016,405)
			<u>128,857,995</u>	<u>106,718,579</u>

(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, categorised by issuer:

	The Group		The Company	
	2012	2011	2012	2011
Government of Jamaica	149,422,839	140,644,413	11,691,767	-
Bank of Jamaica	29,527,954	36,799,351	-	-
Financial institutions	27,792,159	21,125,245	3,875,613	19,681
Corporates and other	639,240	5,076,410	-	-
	<u>207,382,192</u>	<u>203,645,419</u>	<u>15,567,380</u>	<u>19,681</u>

Other than exposure on Government of Jamaica securities, there is no significant concentration of credit risk related to debt securities. For securities purchased under resale agreements, titles to securities are transferred to the Group for the duration of the agreement.

**45. Financial risk management (continued)****(c) Market risk**

The Group manages market risk through risk limits approved by the Board of Directors. Risk limits are determined for each portfolio, and are set by product and risk type, with market liquidity being a principal factor in determining the 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 capitalize on short-term market movements in security prices, foreign exchange and interest rates. The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions.

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

**(i) Interest rate risk**

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing market interest rates on its financial position and cash flows.

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

**SCOTIA GROUP JAMAICA LIMITED**
**Notes to the Financial Statements (Continued)**
**October 31, 2012**
*(Expressed in thousands of Jamaican dollars unless otherwise stated)*
**45. Financial risk management (continued)**
**(c) Market risk (continued)**
**(i) Interest rate risk (continued)**

	The Group						
	2012						
	Immediately <u>rate sensitive</u>	Within 3 <u>months</u>	3 to 12 <u>months</u>	1 to 5 <u>years</u>	Over <u>5 years</u>	Non-rate <u>sensitive</u>	<u>Total</u>
Cash resources	11,486,256	19,362,547	453,338	-	-	21,566,566	52,868,707
Financial assets at fair value through profit or loss	-	6,822	1,427	302,628	-	167,064	477,941
Loans (2)	14,622,831	54,686,940	8,565,526	38,623,661	5,012,870	1,012,840	122,524,668
Investment securities (1)	-	52,235,504	5,615,238	18,179,513	6,610,694	1,839,986	84,480,935
- Available-for-sale	-	1,017,000	3,962,479	6,057,408	-	286,895	11,323,782
- Held to maturity	-	-	-	-	-	-	-
Pledged assets	1,737,455	45,486,986	12,846,443	1,884,613	39,598	1,062,398	63,057,493
Other assets	-	-	-	-	-	23,475,895	23,475,895
<b>Total assets</b>	<b>27,846,542</b>	<b>172,795,799</b>	<b>31,444,451</b>	<b>65,047,823</b>	<b>11,663,162</b>	<b>49,411,644</b>	<b>358,209,421</b>
Deposits (3)	142,439,500	20,076,445	3,110,310	3,261,162	2,618,858	154,693	171,660,968
Securities sold under repurchase agreements	1,193,572	38,069,187	5,842,221	1,379	-	278,399	45,384,758
Other liabilities	-	-	-	-	-	17,794,163	17,794,163
Capital Management and Government Securities funds	14,173,762	-	-	-	-	804	14,174,566
Policyholders' liabilities	28,480,064	3,513,605	13,034,376	-	-	( 3,348,087)	41,679,958
Stockholders' equity	-	-	-	-	-	67,515,008	67,515,008
<b>Total liabilities and stockholders' equity</b>	<b>186,286,898</b>	<b>61,659,237</b>	<b>21,986,907</b>	<b>3,262,541</b>	<b>2,618,858</b>	<b>82,394,980</b>	<b>358,209,421</b>
<b>Total interest rate sensitivity gap</b>	<b>(158,440,356)</b>	<b>111,136,562</b>	<b>9,457,544</b>	<b>61,785,282</b>	<b>9,044,304</b>	<b>(32,983,336)</b>	<b>-</b>
<b>Cumulative gap</b>	<b>(158,440,356)</b>	<b>( 47,303,794)</b>	<b>(37,846,250)</b>	<b>23,939,032</b>	<b>32,983,336</b>	<b>-</b>	<b>-</b>
	2011						
Total assets	22,147,303	153,288,171	32,332,958	60,533,039	17,495,067	46,244,721	332,041,259
Total liabilities and stockholders' equity	169,579,414	56,934,796	22,765,530	3,159,231	3,218,342	76,383,946	332,041,259
<b>Total interest rate sensitivity gap</b>	<b>(147,432,111)</b>	<b>96,353,375</b>	<b>9,567,428</b>	<b>57,373,808</b>	<b>14,276,725</b>	<b>(30,139,225)</b>	<b>-</b>
<b>Cumulative gap</b>	<b>(147,432,111)</b>	<b>( 51,078,736)</b>	<b>(41,511,308)</b>	<b>15,862,500</b>	<b>30,139,225</b>	<b>-</b>	<b>-</b>

**45. 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					
	2012					
	Immediately rate sensitive %	Within 3 months %	3 to 12 months %	1 to 5 years %	Over 5 years %	Weighted average %
<b>ASSETS</b>						
Cash resources	0.53	1.51	1.60	-	-	0.97
Financial assets at fair value through profit or loss	-	9.36	12.00	9.81	-	9.81
Loans (2)	14.04	17.42	15.10	14.15	9.46	15.53
Investment securities (1)						
Available-for-sale	-	7.58	10.25	8.81	12.62	8.44
Held to maturity	-	7.21	11.86	10.64	-	10.76
Pledged assets	2.1	7.77	10.13	8.43	5.22	8.11
<b>LIABILITIES</b>						
Deposits (3)	1.40	3.02	3.91	5.82	5.80	1.78
Securities sold under repurchase agreements	4.89	4.64	4.06	4.25	-	4.58
Capital Management and Government Securities fund	3.04	-	-	-	-	3.04
Policyholders' liabilities	<u>4.65</u>	<u>4.95</u>	<u>4.98</u>	<u>-</u>	<u>-</u>	<u>4.77</u>

	2011					
	Immediately rate sensitive %	Within 3 months %	3 to 12 months %	1 to 5 years %	Over 5 years %	Weighted average %
<b>ASSETS</b>						
Cash resources	2.19	4.20	1.18	-	-	3.50
Securities purchased under resale agreements	-	6.00	-	-	-	6.00
Loans (2)	14.16	20.74	15.09	14.27	9.31	16.44
Investment securities (1)						
Available-for-sale	-	7.25	9.58	10.12	12.02	8.66
Held to maturity	-	7.25	11.58	11.12	-	10.50
Pledged assets	0.10	7.56	8.94	12.03	11.31	8.28
<b>LIABILITIES</b>						
Deposits (3)	1.55	3.04	3.68	5.91	5.80	1.94
Securities sold under repurchase agreements	5.49	4.87	3.86	3.92	-	4.77
Promissory notes	-	5.25	-	-	-	5.25
Capital Management and Government Securities fund	3.23	-	-	-	-	3.23
Policyholders' liabilities	<u>4.65</u>	<u>5.75</u>	<u>5.21</u>	<u>-</u>	<u>-</u>	<u>4.91</u>

(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.

**45. Financial risk management (continued)**

**(c) Market risk (continued)**

(i) Interest rate risk (continued)

**Sensitivity to interest rate movements**

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. The analysis is performed on the same basis as for 2011.

	2012		2011	
JMD Interest rates	Increase/decrease by 350bps		Increase/decrease by 125bps	
USD Interest rates	Increase/decrease by 225bps		Increase/decrease by 200bps	
	The Group		The Company	
	2012	2011	2012	2011
Effect on profit or loss	582,921	123,143	394,115	-
Effect on stockholders' equity	495,285	950,795	136,989	-

Sensitivity to interest rate risk for SJLIC, the insurance subsidiary, is considered in note 45(e) under the DCAT scenarios.

(ii) Currency risk

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



**SCOTIA GROUP JAMAICA LIMITED**

## Notes to the Financial Statements (Continued)

October 31, 2012

*(Expressed in thousands of Jamaican dollars unless otherwise stated)***45. Financial risk management (continued)****(c) Market risk (continued)****(ii) Currency risk (continued)**

The tables below summarize the Group's exposure to foreign currency risk:

JMD Equivalent \$'000	2012						
	JMD	USD	CAD	GBP	EUR	Other	Total
<b>ASSETS</b>							
Cash resources	29,001,836	17,249,008	1,797,817	4,433,101	355,649	31,296	52,868,707
Investments	82,960,209	12,770,357	-	-	74,151	-	95,804,717
Financial assets at fair value through profit or loss	180,925	297,016	-	-	-	-	477,941
Pledged assets	37,735,910	24,541,906	266,665	191,734	321,278	-	63,057,493
Loans	92,266,174	29,949,107	224,108	903	84,376	-	122,524,668
Other assets	<u>24,855,858</u>	<u>( 2,212,150)</u>	<u>199,194</u>	<u>596,804</u>	<u>36,189</u>	<u>-</u>	<u>23,475,895</u>
	<u>267,000,912</u>	<u>82,595,244</u>	<u>2,487,784</u>	<u>5,222,542</u>	<u>871,643</u>	<u>31,296</u>	<u>358,209,421</u>
<b>LIABILITIES</b>							
Deposits	110,646,701	54,473,014	1,879,013	4,311,931	349,914	395	171,660,968
Other liabilities	48,563,441	26,844,491	571,055	829,549	530,830	14,121	77,353,487
Policyholders' liabilities	<u>41,679,958</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>41,679,958</u>
	<u>200,890,100</u>	<u>81,317,505</u>	<u>2,450,068</u>	<u>5,141,480</u>	<u>880,744</u>	<u>14,516</u>	<u>290,694,413</u>
<b>NET POSITION</b>	<u>66,110,812</u>	<u>1,277,739</u>	<u>37,716</u>	<u>81,062</u>	<u>( 9,101)</u>	<u>16,780</u>	<u>67,515,008</u>

**45. Financial risk management (continued)**
**(c) Market risk (continued)**

## (ii) Currency risk (continued)

The tables below summarize the Group's exposure to foreign currency risk (continued):

JMD Equivalent \$'000	2011						
	JMD	USD	CAD	GBP	EUR	Other	Total
<b>ASSETS</b>							
Cash resources	34,693,671	12,062,471	1,481,877	4,474,519	320,938	40,025	53,073,501
Investments	79,482,456	10,486,408	-	-	169,567	-	90,138,431
Financial assets at fair value through profit or loss	356,168	-	-	-	-	-	356,168
Govt securities purchased under resale agreements	1,152,466	-	-	-	-	-	1,152,466
Pledged assets	42,620,436	21,692,712	243,837	( 709)	814,772	-	65,371,048
Loans	75,138,174	24,358,201	371,604	14,513	93,947	-	99,976,439
Other assets	<u>19,060,695</u>	<u>1,916,754</u>	<u>348,270</u>	<u>553,258</u>	<u>95,942</u>	<u>( 1,713)</u>	<u>21,973,206</u>
	<u>252,504,066</u>	<u>70,516,546</u>	<u>2,445,588</u>	<u>5,041,581</u>	<u>1,495,166</u>	<u>38,312</u>	<u>332,041,259</u>
<b>LIABILITIES</b>							
Deposits	104,529,830	44,454,948	1,704,713	4,023,622	421,981	286	155,135,380
Other liabilities	47,359,096	24,752,174	678,229	920,481	1,116,032	8,569	74,834,581
Policyholders' liabilities	<u>39,019,761</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,019,761</u>
	<u>190,908,687</u>	<u>69,207,122</u>	<u>2,382,942</u>	<u>4,944,103</u>	<u>1,538,013</u>	<u>8,855</u>	<u>268,989,722</u>
<b>NET POSITION</b>	<u>61,595,379</u>	<u>1,309,424</u>	<u>62,646</u>	<u>97,478</u>	<u>( 42,847)</u>	<u>29,457</u>	<u>63,051,537</u>

The following significant exchange rates were applied during the period:

	Average Rate for the Period		Reporting Date Spot Rate	
	2012	2011	2012	2011
USD	88.0388	85.7820	90.8050	86.2778
CAD	87.2836	86.4078	90.6676	85.6213
GBP	138.9460	137.0296	146.3108	137.6197
EUR	<u>112.9194</u>	<u>119.0004</u>	<u>117.9639</u>	<u>119.4035</u>

**45. Financial risk management (continued)**

**(c) Market risk (continued)**

**(ii) Currency risk (continued)**

Sensitivity to foreign exchange rate movements

A weakening of the JMD against the currencies indicated above, at October 31, would have increased/(decreased) equity and profit by the amounts shown below. This analysis is performed on the same basis as 2011. The strengthening of the JMD against the same currencies at October 31 would have had the equal but opposite effect on the amounts shown, on the basis that all other variables remain constant.

Sensitivity to foreign exchange:

	<u>2012</u>	<u>2011</u>
USD	Increase/decrease by 7.5%	Increase/decrease by 7.5%
CAD	Increase/decrease by 17%	Increase/decrease by 20%
GBP	Increase/decrease by 16%	Increase/decrease by 20%
EUR	Increase/decrease by 26.5%	Increase/decrease by 27.5%
	<u>2012</u>	<u>2011</u>
Effect on profit and stockholders' equity	<u>544,638</u>	<u>321,378</u>

**(iii) Equity price risks**

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

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

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

	<u>2012</u>	<u>2011</u>
Financial assets at fair value through profit or loss	14,463	24,475
Pledged assets	<u>-</u>	<u>1,556</u>

**45. Financial risk management (continued)**

**(c) Market risk (continued)**

(iii) Equity price risks (continued)

**Sensitivity to equity price movements**

Maximum changes observed in running 10 day periods during the financial year for the equity portfolio as at October 31, 2012 would have increased or decreased equity and profit by the amounts shown below:

This analysis is performed on the same basis as 2011. Prices used are the bid prices for the equities. A 10 day period is used to account for the liquidity of the local market equities.

	Profit or loss		Equity	
	Maximum increase	Maximum decrease	Maximum increase	Maximum decrease
31 October 2012	3,405	2,098	3,405	2,098
31 October 2011	11,207	4,763	11,920	5,066

**(d) Liquidity risk**

The Group is exposed to daily calls on its available cash resources from overnight and maturing deposits, loan drawdowns and guarantees. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

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

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates. Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash and central bank balances; government and corporate bonds; treasury bills; and loans.

**45. Financial risk management (continued)**
**(d) Liquidity risk (continued)**

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

**Financial liabilities cash flows**

The tables below present the undiscounted cash flows (both interest and principal cash flows) to settle financial liabilities based on contractual repayment obligations. 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					Total	Carrying amounts
	2012						
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity		
<b>Financial liabilities</b>							
Deposits	166,800,260	3,170,631	3,304,114	2,701,085	-	175,976,090	171,660,968
Securities sold under repurchase agreements	39,825,531	6,100,162	1,442	-	-	45,927,135	45,384,758
Capital Management and Government Securities fund	14,174,566	-	-	-	-	14,174,566	14,174,566
Policyholders liabilities	28,669,522	13,431,008	-	-	-	42,100,530	41,679,958
Other liabilities	<u>5,452,892</u>	<u>820,895</u>	<u>1,446,227</u>	<u>22,517</u>	<u>41,907</u>	<u>7,784,438</u>	<u>7,784,438</u>
<b>Total liabilities</b>	<b><u>254,922,771</u></b>	<b><u>23,522,696</u></b>	<b><u>4,751,783</u></b>	<b><u>2,723,602</u></b>	<b><u>41,907</u></b>	<b><u>285,962,759</u></b>	<b><u>280,684,688</u></b>
	2011					Total	Carrying amounts
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity		
<b>Financial liabilities</b>							
Deposits	144,333,380	4,591,783	3,188,620	3,218,353	-	155,332,136	155,135,380
Promissory notes	2,497	-	-	-	-	2,497	2,436
Securities sold under repurchase agreements	39,665,102	5,608,999	5,473	-	-	45,279,574	44,700,992
Capital Management and Government Securities fund	14,241,114	-	-	-	-	14,241,114	14,241,114
Policyholders liabilities	26,286,331	13,160,929	-	-	-	39,447,260	39,019,761
Other liabilities	<u>4,846,525</u>	<u>1,298,070</u>	<u>1,894,927</u>	<u>22,684</u>	<u>44,437</u>	<u>8,106,643</u>	<u>8,106,643</u>
<b>Total liabilities</b>	<b><u>229,374,949</u></b>	<b><u>24,659,781</u></b>	<b><u>5,089,020</u></b>	<b><u>3,241,037</u></b>	<b><u>44,437</u></b>	<b><u>262,409,224</u></b>	<b><u>261,206,326</u></b>

**45. Financial risk management (continued)****(e) Insurance risk**

The Group issues long term contracts that transfer insurance risk or financial risk or both. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

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

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio.

Two key matters affecting insurance risk are discussed below:

**(i) Long-term insurance contracts**

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

The Group has developed its insurance underwriting strategy and reinsurance arrangements to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. The Group's underwriting strategy includes the use of a medical questionnaire with benefits limited to reflect the health condition of applications and retention limits on any single life insured.

**(1) Frequency and severity of claims**

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

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

**45. Financial risk management (continued)**

**(e) Insurance risk (continued)**

(i) Long term insurance contracts (continued)

(1) Frequency and severity of claims (continued)

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

	Total benefits assured			
	Before and After		Before and After	
	Reinsurance	%	Reinsurance	%
Individual Life Benefits assured per life				
0 to 250,000	6,626,858	15	6,547,895	16
250,001 to 500,000	2,722,017	6	2,723,537	7
500,001 to 750,000	4,142,318	10	4,192,838	10
750,001 to 1,000,000	3,211,202	7	3,393,548	8
1,000,001 to 1,500,000	8,270,548	19	8,105,665	20
1,500,001 to 2,000,000	4,564,223	11	4,411,926	11
Over 2,000,000	<u>13,918,449</u>	<u>32</u>	<u>11,988,291</u>	<u>28</u>
Total	<u>43,455,615</u>	<u>100</u>	<u>41,363,700</u>	<u>100</u>

	Total benefits assured			
	Before and After		Before and After	
	Reinsurance	%	Reinsurance	%
Group Life Benefits assured per life				
0 to 250,000	6,782,284	12	5,800,205	14
250,001 to 500,000	5,718,143	10	4,884,047	12
500,001 to 750,000	5,789,244	10	3,959,922	10
750,001 to 1,000,000	4,101,785	7	2,724,637	7
1,000,001 to 1,500,000	10,639,177	19	6,201,750	15
1,500,001 to 2,000,000	5,727,132	10	3,652,433	9
Over 2,000,000	<u>17,461,388</u>	<u>31</u>	<u>12,798,233</u>	<u>33</u>
Total	<u>56,219,153</u>	<u>100</u>	<u>40,021,227</u>	<u>100</u>

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.

**45. Financial risk management (continued)**

**(e) Insurance risk (continued)**

(i) Long term insurance contracts (continued)

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

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

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

(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 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 37(c) for detailed policy assumptions.



**45. Financial risk management (continued)**

**(e) Insurance risk (continued)**

(ii) Reinsurance Risk

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

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

Type of insurance contract	Retention
Individual, group & creditor life catastrophe	maximum retention of \$420 for a single event; treaty limits apply
Group creditor life contracts	maximum retention of \$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.

**45. 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:

	<u>2012</u>	<u>2011</u>
Interest rates decrease by 1%	56,420	31,005
Interest rates increase by 1%	( 32,987)	( 13,689)
Mortality increases by 10%	288,517	256,557
Mortality decreases by 10%	(297,565)	(264,835)
Expenses increase by 10%	274,871	214,618
Expenses decrease by 10%	(271,223)	(212,143)
Lapses and withdrawals increase by 10%	202,989	183,245
Lapses and withdrawals decrease by 10%	(223,388)	(202,784)

(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.

**45. Financial risk management (continued)****(e) Insurance risk (continued)****(iii) Sensitivity analysis of actuarial liabilities (continued)****(2) Dynamic capital adequacy testing (DCAT) (continued)**

The purpose of the DCAT is:

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

A full DCAT report was completed for the Group during 2012, 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 2012, 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 MCCR 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 MCCR increases.
- **Expense risks**  
Higher unit maintenance expenses were tested by setting the annual inflation at 5% greater than current expenses, starting in 2012, for five years. Overall, this scenario produces a lower MCCR 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 MCCR over the five year period.
- **High sales growth**  
New business was projected to grow at 20% higher than existing sales per year over five years. The increased sales result in increased profits but the MCCR ratio falls.

**45. Financial risk management (continued)**

**(e) Insurance risk (continued)**

(iii) Sensitivity analysis of actuarial liabilities (continued)

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

- Flat sales  
This scenario assumed sales were 20% less than existing sales starting in 2012. Overall this scenario produces adverse results for the next five years.

The DCAT conducted has not tested any correlation that may exist between assumptions. The following table represents the estimated sensitivity of each of the above scenarios 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.

	2012		2011	
	Surplus	MCCSR	Surplus	MCCSR
Base	11,037,680	926%	20,521,718	2,205%
Variable				
Mortality risks	10,989,804	925%	20,442,342	2,207%
Low lapse rates	11,233,676	900%	20,827,446	2,134%
Higher lapse rates	10,005,092	1,087%	19,211,686	2,526%
Expense risks	10,936,404	923%	20,374,538	2,201%
Low interest rate	9,580,488	881%	21,568,514	1,963%
High Interest rate	10,845,768	967%	19,504,642	2,249%
High sales growth	11,066,396	897%	20,523,314	2,176%
Flat sales	10,851,276	944%	20,306,238	2,247%

**46. Fair value of financial instruments**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms length transaction. Market price is used to determine fair value where an active market exists, as it is the best evidence of the fair value of a financial instrument. For financial instruments for which no market price is available, the fair values presented have been estimated using present value or other estimation and valuation techniques based on market conditions existing at the balance sheet dates.

**46. Fair value of financial instruments (continued)**

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 recognised valuation techniques. Fair value is equal to the carrying amount of these investments;

- (iii) the fair value of liquid assets and other assets maturing within one year is considered to approximate their carrying amount. This assumption is applied to liquid assets and the short-term elements of all other financial assets and liabilities;
- (iv) the fair value of demand deposits and savings accounts with no specific maturity is considered to be the amount payable on demand at the reporting date; the fair value of fixed-term interest-bearing deposits is based on discounted cash flows using interest rates for new deposits.
- (v) the fair value of variable rate financial instruments is considered to approximate their carrying amounts; and
- (vi) the fair value of fixed rate loans is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. For match-funded loans the fair value is assumed to be equal to their carrying value, as gains and losses offset each other. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values as the impact of credit risk is recognised separately by deducting the amount of the provisions for credit losses from both the book and fair values.
- (vii) The fair values of quoted equity investments are based on quoted market bid prices. Equity securities for which fair values cannot be measured reliably are recognized at cost less impairment.

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 2012	Fair Value 2012	Carrying Value 2011	Fair Value 2011
<b>Financial assets</b>				
Loans	122,524,668	124,950,291	99,976,439	101,223,714
Pledged assets	23,301,910	23,165,941	23,085,820	25,313,221
Investment securities:				
Held-to-maturity	<u>11,323,782</u>	<u>11,430,323</u>	<u>14,006,187</u>	<u>14,646,078</u>
<b>Financial liability</b>				
Deposits	<u>171,660,968</u>	<u>171,644,819</u>	<u>155,135,380</u>	<u>155,123,242</u>

**46. 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			
	2012			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at fair value through profit or loss				
- Debt securities	-	8,298	-	8,298
- Equity securities	14,351	455,292	-	469,643
Available-for-sale securities				
- Debt securities	-	84,466,913	-	84,466,913
- Equity securities	-	-	14,022	14,022
Pledged assets				
- Debt securities	-	39,981,362	-	39,981,362
- Equity securities	-	774,221	-	774,221
	<u>14,351</u>	<u>125,686,086</u>	<u>14,022</u>	<u>125,714,459</u>
	2011			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at fair value through profit or loss				
- Debt securities	-	277,148	-	277,148
- Equity securities	25,221	53,799	-	79,020
Available-for-sale securities				
- Debt securities	-	75,654,754	-	75,654,754
- Equity securities	179,561	276,911	15,777	472,249
Pledged assets				
- Debt securities	-	40,719,402	-	40,719,402
- Equity securities	1,235	844,591	-	845,826
	<u>206,017</u>	<u>117,826,605</u>	<u>15,777</u>	<u>118,048,399</u>

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

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

- To comply with the capital requirements established by 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, investment and insurance subsidiaries are directly regulated by their respective regulator, who sets and monitors their capital adequacy requirements. Required capital adequacy information is filed with the regulators at least on a quarterly basis.

**Banking, mortgage lending and investment management**

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

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

Regulatory capital is divided into two tiers:

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

Investment in subsidiaries 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.

**47. Capital Risk Management (continued)**
**Banking, mortgage lending and investment management (continued)**

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 requirement to which they are subject.

	Regulated by the BOJ <sup>1</sup>		Regulated by the FSC <sup>2</sup>	
	2012	2011	2012	2011
Tier 1 Capital	19,552,852	18,456,173	12,699,535	9,861,897
Tier 2 Capital	1,094,488	924,064	24,649	24,664
	<u>20,647,340</u>	<u>19,380,237</u>	<u>12,724,184</u>	<u>9,886,561</u>
Less prescribed deductions	(242,093)	(242,093)	(94,590)	95,656
Total regulatory capital	<u>20,405,247</u>	<u>19,138,144</u>	<u>12,629,594</u>	<u>9,982,217</u>
<b>Risk weighted assets</b>				
On-balance sheet	140,828,865	107,322,499	29,331,943	20,584,935
Off-balance sheet	17,371,126	13,107,196	-	-
Foreign exchange exposure	2,101,679	387,787	782,102	301,989
Total risk weighted assets	<u>160,301,670</u>	<u>120,817,482</u>	<u>30,114,045</u>	<u>20,886,924</u>
Actual regulatory capital to risk weighted assets	12.7%	15.8%	41.9%	47.8%
Regulatory requirement	<u>10.0%</u>	<u>10.0%</u>	<u>10.0%</u>	<u>10.0%</u>

<sup>1</sup> This relates to The Bank of Nova Scotia Jamaica Limited, Scotia Jamaica Building Society.

<sup>2</sup> This relates to Scotia Investments Jamaica Limited.

**Life insurance business**

Capital adequacy is calculated by the Appointed Actuary and reviewed by executive management, the audit committee and the Board of Directors. The Group seeks to maintain internal capital adequacy levels higher than the regulatory requirements. To assist in evaluating the current financial strength, 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 Jamaican regulations, the minimum standard recommended for companies is a MCCSR of 150%. The MCCSR for the insurance subsidiary as of October 31, 2012 and 2011 is set out below:

	2012	2011
Regulatory capital held	<u>6,052,803</u>	<u>8,283,794</u>
Minimum regulatory capital	<u>1,180,942</u>	<u>934,313</u>
Minimum Continuing Capital on Surplus Requirements Ratio	<u>512%</u>	<u>887%</u>



**48. Commitments**

	The Group	
	<u>2012</u>	<u>2011</u>
(a) Commitments to extend credit: Originated term to maturity of more than one year	<u>18,927,642</u>	<u>17,857,901</u>

(b) Operating lease commitments:

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

	The Group	
	<u>2012</u>	<u>2011</u>
Not later than one year	216,755	208,059
Later than one year and not later than five years	652,530	611,012
Later than five years	<u>1,971,251</u>	<u>1,933,684</u>
	<u>2,840,536</u>	<u>2,752,755</u>

**49. Reclassification of financial assets**

On October 1, 2008 the company reclassified certain investments that were included in pledged assets from available-for-sale to loans and receivables in accordance with paragraph 50E of IAS 39. The standard requires that such reclassification be made at the fair value of the instruments at the date of reclassification. The prices of GOJ Global Bonds as at September 30, 2008 were used to determine the fair value used for the reclassification. The carrying value and fair value of these assets as at the reporting date are as follows:

	The Group			
	<u>2012</u>		<u>2011</u>	
	Carrying value	Fair value	Carrying value	Fair value
Securities:				
US\$ GOJ Global Bonds	11,213,598	11,723,578	10,791,648	11,524,547
EURO GOJ Global Bonds	<u>260,504</u>	<u>274,722</u>	<u>808,262</u>	<u>914,676</u>

(a) Fair value losses, excluding deferred tax liabilities of \$65,465 (2011: \$103,259), were recognized in equity in relation to the above investments reclassified in 2008.

(b) Fair value gains of \$416,986 (2011: \$559,542), exclusive of deferred taxation, would have been included in equity for the previous year had the investments not been reclassified. This amount was estimated on the basis of the bid-price of the securities as at October 31, 2012. This price is not necessarily what would have been obtained if an active market for the securities actually existed at that date.

**49. Reclassification of financial assets (continued)**

- (c) The weighted average effective interest rate of the investments at the date of reclassification was 8.39%. The undiscounted cash flows to be recovered from the investments reclassified is \$18,055,447.

**50. Fiduciary activities**

The Group provides custody, trustee, corporate administration, investment management and advisory services to third parties; this involves the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. At the financial year-end, the Group had assets under administration amounting to approximately \$103,279,036 (2011: \$93,944,660).

**51. Litigation and contingent liabilities**

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

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

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

**52. Dividends**

(a) Paid

	The Group		The Company	
	2012	2011	2012	2011
<b>Scotia Group Jamaica Limited</b>				
Paid to stockholders:				
In respect of 2010	-	1,151,289	-	1,151,289
In respect of 2011	1,151,289	3,453,861	1,151,289	3,453,861
In respect of 2012	<u>3,453,869</u>	<u>-</u>	<u>3,453,869</u>	<u>-</u>
	4,605,158	4,605,150	4,605,158	4,605,150
Paid to minority interest in a subsidiary	<u>167,343</u>	<u>128,425</u>	<u>-</u>	<u>-</u>
	<u>4,772,501</u>	<u>4,733,575</u>	<u>4,605,158</u>	<u>4,605,150</u>

(b) Proposed

At the Board of Directors meeting on November 29, 2012, a dividend in respect of 2012 of \$0.40 per share (2011: \$0.37 per share) amounting to \$1,244,629 (2011: \$1,151,289) 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.

**53. Employee Share Ownership Plan**

(i) Scotia Group Jamaica Limited

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

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

**SCOTIA GROUP JAMAICA LIMITED****Notes to the Financial Statements (Continued)****October 31, 2012***(Expressed in thousands of Jamaican dollars unless otherwise stated)***53. Employee Share Ownership Plan (continued)****(i) Scotia Group Jamaica Limited (continued)**

The amount contributed by the Group to employee share purchase during the year, included in employee compensation, amounted to \$27,480 (2011: \$9,728).

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:

	<u>2012</u>	<u>2011</u>
Number of shares	<u>872,595</u>	<u>1,839,252</u>
Fair value of shares \$'000	<u>18,521</u>	<u>45,797</u>

**(ii) Scotia Investments Jamaica Limited**

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

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

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

	<u>2012</u>	<u>2011</u>
Number of shares	<u>1,257,215</u>	<u>1,704,972</u>
Fair value of shares \$'000	<u>35,215</u>	<u>46,546</u>

**54. Disposal of subsidiary**

- (a) On May 2, 2011, the Group sold its 100% shareholding in Asset Management Company Limited. This subsidiary contributed profit before tax of \$1,515 to the Group for the period November 1, 2010 to May 1, 2011.

	<u>2011</u>
(i) Analysis of the assets and liabilities disposed of:	
Cash and cash equivalents	5,822
Hire purchase contracts, receivable	46,011
Other assets	5,132
Other liabilities	<u>(35,209)</u>
Net assets disposed of	<u>21,756</u>
(ii) Net cash inflow on disposal of subsidiary	
Proceeds from sale	18,000
Less: cash and cash equivalents in subsidiary sold	( 5,822)
Less: transaction costs	<u>( 4,005)</u>
Net cash inflow	<u>8,173</u>
(iii) Loss on disposal of subsidiary	
Consideration received	18,000
Net assets disposed of	(21,756)
Transaction costs	<u>( 4,005)</u>
Loss on disposal	<u>( 7,761)</u>

## THE INTERNATIONAL MARKET

Global markets continued to be affected by the ongoing Eurozone crisis in 2012, with Greece, Spain and Italy faced by large budget deficits, unsustainable debt burdens, economic contraction and youth unemployment rates north of a staggering 30%. As a result, government borrowing costs soared to unsustainable levels for some Eurozone countries amid mounting fears of a Greece exit from the Eurozone during the first half of the fiscal year.

As various attempts by the European Central Bank (ECB) and lack of policy cohesion among Eurozone policy makers failed to lower borrowing costs to sustainable levels during the fiscal first half, Greece was eventually forced to restructure its debt in June and apply for a second bailout package in as many years. As the Eurozone crisis dragged on, its impact was felt right across the world, from China and the BRIC countries to the United States of America (USA) and emerging markets.

Heading into the second half of the fiscal year, Eurozone contraction and a generally weak global economy resulted in a deceleration of Chinese growth to below 8%, the lowest in more than a decade. Emerging market countries, especially commodity producers also saw a deceleration in growth, while the US saw below trend growth and weak employment levels. The US was also faced with the uncertainty of a "fiscal cliff" due to gridlock among US lawmakers, with expiring tax breaks and automatic spending cuts to take effect at the start of 2013. As a result, many businesses chose to defer hiring and capital expenditure decisions, resulting in further weakness in employment levels.

As we entered the fourth quarter of the fiscal year the most powerful global central banks were stirred into action in an attempt to save the global economy. First, the ECB announced an unlimited sterilized bond buying program to reduce Eurozone borrowing costs during the first week of September. The following week the US Federal Reserve announced an unlimited asset purchase program of US\$40 billion per month and extended its pledge to keep interest rates low until at least 2015. A week and a half later, Japan expanded its bond asset purchase program.

While markets celebrate another round of cheap money that will likely create a floor under asset prices, it remains to be seen whether this will be the panacea for global markets, given already record low interest rates.

## THE JAMAICAN MARKET

### Political Environment and IMF Agreement

The start of the fiscal year was characterized by a general election, which resulted in a change of administration and a new Prime Minister, followed closely by local government elections which also saw a change of administration.

The new administration's central focus was to prepare and deliver a new budget for the 2012/13 fiscal year and prepare to negotiate a new agreement with the IMF, as the previous deal had been in abeyance for some time. A new IMF deal is critical to Jamaica's future and centres around a credible medium term program to balance the budget by 2015/16 and reduce the country's debt burden to 100% of GDP within the same time frame. The policy reform area of a new deal focuses on tax reform, pension reform and public sector reform, all three of which, albeit challenging, will be critical to Jamaica's economic fortune over the medium term. The government began negotiations with the IMF in September, with the hope to conclude a new deal as soon as possible.

### Gross Domestic Products (GDP)

The local economy failed to maintain the economic momentum which ensued over calendar 2011 when real GDP advanced 1.3% to record the first year of positive growth since the recession of 2008. In calendar year 2012, real GDP amounted -0.1% and -0.2% for the first and second quarters respectively. This resulted from weak performances in the Goods Producing and Services industries which both posted first half declines.

For the Goods Producing sector, Agriculture has recorded a stellar first half performance bolstered by favourable weather conditions and continued government support in the areas of marketing, irrigation and extension services. Mining posted the biggest decline on the heels of lower bauxite and alumina production resulting from operational issues at one alumina refinery. Similarly, Construction and Manufacturing reflected weaknesses on all fronts. The Hotels and Restaurants sub-sector remains the bellwether for the Services industry, recording the only meaningful advance.

### Fiscal Accounts

Central government's fiscal position reflected marked deterioration for FY 2011/12. The primary balance declined to 3.1% from 4.5% for the previous year.

### Fiscal Accounts (continued)

This ensued from a weak showing on the revenue front with tax revenue growing at 3.6%, its lowest rate in two decades. The fiscal balance saw no improvement, remaining at -6.2%, but fell short of the budgeted -4.6%.

In a move to put the debt on a sustainably downward trajectory and secure a deal with the IMF, the new government has carved this fiscal year's budget targeting a primary balance of 6.0% of GDP. To achieve this, a tax package totalling J\$19.4 billion was implemented among other revenue measures coupled with significant expenditure restraint.

Nonetheless, for April to October of fiscal year 2012/13, the primary and fiscal balances fell short of their planned numbers by J\$7.6 billion and J\$3.9 billion respectively. Notably, total revenue amounted to J\$9.9 billion below plan while expenditure undercut budget by J\$6.0 billion resulting chiefly from lower interest payments and spending on recurrent programmes. Despite the tax measures, tax collection which accounts for 90% of central government revenue grew at a slower pace of 6.5% versus the 11.2% budgeted and the 7.8% for the corresponding period of the past year. Similarly, the growth in tax revenue for the past 12 months amounted to 3.1%, trending below the 15.8% required to meet the 6% primary balance target. Fiscal year-to-date, the shortfall in tax revenue reached \$7.7 billion.

Whilst tax revenue continues to fall short of target, the quest to reach the 6% primary balance position, though not impossible, remains a challenge given the limited room to offset revenue slippage with cuts to primary expenditure items. Capital programmes, the chief candidate for the government's axe, surpassed budget by J\$6.4 billion for October alone. Consequently, capital expenditure exceeded plan by J\$0.6 billion cumulatively and is likely to widen further given the infrastructural damage suffered under Hurricane Sandy.

### Inflation

Calendar year to October 2012 headline inflation came in at 6.3% versus 5.1% for the comparable period of the previous year. Point-to-point headline inflation surfaced at 7.2%, lower than the 7.7% recorded for the corresponding period of the past year.

### Foreign Exchange

Exchange Rates- JMD per	Oct. 31, 2011	Oct. 31, 2012	Change
USD	86.27	90.81	5.26%
GBP	137.62	146.31	6.31%
CAD	85.62	90.67	5.90%

For the period November 1, 2011 to October 31, 2012, the Jamaican dollar lost 5.26% of its value or J\$4.54 to its US dollar counterpart. The Jamaican dollar closed the period at a rate of J\$90.81/US\$1.

The Bank of Jamaica (BOJ) intervened in the foreign exchange market on numerous occasions due to strong demands for the US dollar resulting in the net international reserve (NIR) declining by US\$ 899.39 million to reach US\$1.08 billion as at the end of October 2012. This represented 13.25 weeks of goods and services imports, nearing the international benchmark of 12 weeks.

For the period, the local currency depreciated by 6.31% or J\$8.69 against the British pound, and by 5.90% or J\$5.05 against the Canadian dollar.

### Domestic Money Market

Interest Rates	Oct. 31, 2011	Oct. 31, 2012	Change
30 Days BOJ OMO	6.25%	6.25%	-
90 Days T-bills	6.22%	6.38%	0.16%
180 Days T-bills	6.28%	6.69%	0.41%

The period under review saw no rate action from the Bank of Jamaica (BOJ). The BOJ maintained its Open Market Operations (OMO) interest rate at 6.25% due to significant upside inflation risks induced by higher energy prices in addition to increased pressure on the local currency emanating partly from uncertainty surrounding a new IMF agreement.

However, market-determined interest rates inched higher for the period. The average yield on the 90-day Treasury bill (T-bill) tenor commenced the period at 6.22% showing mild fluctuation throughout to reach 6.38% as at October 2012. Similarly, the 180-day rate inched higher by 42 basis points to finish the period at 6.69%.

## Global Bond Market

Negative investor sentiment driven by the ongoing debt crisis in the Euro zone in addition to concerns regarding Jamaica's ability to secure a new deal with the IMF continue to bear on the global bond market. For the period, there were slight upward movements in the prices on the shorter duration bonds reflecting investors' preference to stay on the shorter end of the bond curve. On the other hand, longer duration bonds saw marginal decline in prices.

	Oct. 31, 2011	Oct. 31, 2012	Change	Change
JSE Main Index	92,270.73	89,821.80	(2,448.93)	-2.65%
All Jamaica Composite	101,997.96	88,678.60	(13,319.36)	-13.06%
JSE Select	2,890.65	2,411.92	(478.73)	-16.56%
JSE Junior Market	731.84	668.51	(63.33)	-8.65%

## Stock Market

For the financial year, the Jamaica Stock Exchange (JSE) Main Index registered a 2.65% decline. Movement in the main index came amidst a very challenging economic environment. Notwithstanding historically low interest rates, the JSE Main Market underwent significant downward pressure due mainly to investor reticence.

The JSE Junior Market also fell, reversing the stellar performance it posted in the prior year to decline by 8.7% to end at 668.51 points. There was one new entrant to the Junior Market during the year.





# BRANCHES & TEAM LEADERS

The Bank of Nova Scotia Jamaica Limited

As at October 31, 2012

## BLACK RIVER

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

Mrs. A. A. Rhule, Manager

## BROWN'S TOWN

Main Street  
P. O. Box 35  
Brown's Town  
St. Ann

Mr. P. O. Brown, 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

Mr. D. M. Brown  
Snr. Manager Trade Finance

Mrs. D. R. Brown  
Snr. Relationship Manager

Mrs. R. M. Dixon  
Senior Manager  
Credit Solutions

Mr. H. P. Ebanks  
Snr. Manager  
Credit Solutions

Miss M. A. Flake  
Snr. Relationship Manager

Mrs. L. Francis  
Snr. Manager  
Credit Solutions

Mrs. N. G. Heywood  
Senior Relationship  
Manager

Mr. G. A. Hogarth  
Relationship Manager

Miss A. M. Jones  
Portfolio Manager

Mrs. S. Lue-Whittingham  
Snr. Relationship Manager

Mrs. G. A. Morrison  
Relationship Manager

Mr. M. S. A. Nelson  
Snr. Manager  
Credit Solutions

Mr. K. E. Reese  
Snr. Relationship Manager

Miss. C. A. Rochester  
Relationship Manager

Mr. H. D. Stephens  
Snr. Relationship Manager

Mr. A. Thompson  
Relationship Manager

Mr. C. M. Wisdom  
Snr. Manager  
Credit Solutions

Mr. C. Wright  
Snr. Relationship Manager

## CROSS ROADS

86 Slipe Road  
P. O. Box 2  
Kingston 5

Mr. R. W. Bennett, 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

Mr. D. E. Webb, Manager

Mr. V. L. Johnson  
Assistant Manager  
Business Banking

## HALF-WAY-TREE

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

Mrs. J. Carter-James  
Manager

Miss V. J. Williams  
Asst. Manager  
Business Banking

Mr. D. A. Palmer  
Asst. Manager  
Personal Banking

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

## IRONSHORE SERVICE CENTRE

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

Mr. K. L. Burton, Manager

## JUNCTION

Junction P. O.  
St. Elizabeth

Miss J. D. Thompson  
Manager

## KING STREET

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

Miss V. I. Omess, Manager

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

Mr. S. G. Stewart  
Asst. Manager  
Personal Banking

Mrs. A. A. Douglas  
Asst. Manager  
Operations & Service

## LIGUANEA

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

Mr. M. O. Lee, Manager

## LINSTEAD

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

Mrs. M. G. Lee-Rutland  
Manager

## LUCEA

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

Mr. D. Bryan, Manager

## MANDEVILLE

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

Mr. A. C. Bright, Manager

Mr. A. O. Harvey  
Manager, Personal Banking

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

Mrs. L. M. Vickers  
Asst. Manager  
Operations & Service

## MAY PEN

36 Main Street  
P. O. Box 32  
May Pen  
Clarendon

Mr. E. A. Blake, Manager

## MONTEGO BAY

6-7 Sam Sharpe Square  
P.O. Box 311  
Montego Bay  
St. James

Mr S. Thompson  
Manager

Dr. N. Smellie  
Asst. Manager  
Business Banking

Mr. C. Samuels  
Asst. Manager  
Personal Banking

Miss L. A. Hosang  
Asst. Manager  
Operations & Service

**MORANT BAY**

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

Mr. L. V. Sutherland  
Manager

**NEGRIL**

Negril Square  
Negril P. O.  
Westmoreland

Miss D. M. Mortimer  
Manager

**NEW KINGSTON**

2 Knutsford Boulevard  
P. O. Box 307  
Kingston 5

Miss A. Leonce, Manager

Mrs. E. Kepple  
Asst. Manager  
Business Banking

Mr. L. A. Leach  
Asst. Manager  
Personal Banking

Mrs. J. M. Thompson  
Asst. Manager  
Operations & Service

**OCHO RIOS**

Main Street  
P. O. Box 150  
Ocho Rios  
St. Ann

Mr. F. O. Wright, Manager

Mrs. H. J. John Keith  
Assistant Manager  
Business Banking

**OLD HARBOUR**

4 South Street  
P. O. Box 43  
Old Harbour  
St. Catherine

Mr. D. O. Bucknor, Manager

**OXFORD ROAD**

6 Oxford Road  
P. O. Box 109  
Kingston 5

Mr. C. C. Wiggan, Manager

**PORT ANTONIO**

3 Harbour Street  
P. O. Box 79  
Port Antonio  
Portland

Mr. N. Scott, Manager

**PORT MARIA**

57 Warner Street  
P. O. Box 6  
Port Maria  
St. Mary

Mr. P. Wallace, Manager

**PORTMORE**

Lot 2 Cookson Pen  
Bushy Park  
P.O. Box 14  
Greater Portmore  
St Catherine

Mr. R. R. Reid, 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

Mr. C. A. Dawes, Manager

Miss C. Murray  
Asst. Manager  
Business Banking

**SCOTIABANK CENTRE**

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

Mr. S. A. Distant, Manager

Mrs. D. A. Maxwell  
Asst. Manager  
Business Banking

Mrs. J. M. Badson-Mignott  
Manager, Operations

**SPANISH TOWN**

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

Mr. J. A. Clarke, Manager

**UWI, MONA CAMPUS**

Cnr. Ring Road & Shed Lane  
Kingston 7

Mr. P. G. Mohan, Manager

**WESTGATE**

Westgate Shopping Centre  
P.O. Box 11  
Montego Bay  
St. James

Mr. 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

# Subsidiaries, 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

B. J. Porter – Chairman  
A. V. Chang  
Ms. B. A. Alexander  
B. F. Bowen  
Ms. S. D. Chrominska  
J. M. Hall  
C. H. Johnston, CD  
J. M. Matalon \*\*  
W. A. McDonald, JP  
C. S. Norfolk  
Dr. H. J. Thompson, CD  
Prof. S. C. Vasciannie

### Senior Officers

B. F. Bowen  
President & CEO  
Mrs. R. A. Pilliner  
Executive Vice-President  
Operations & Shared Services  
H. W. Powell  
Executive Vice-President  
Retail Banking  
Mrs. J. T. Sharp  
Senior Vice-President  
Chief Financial Officer &  
Chief Administrative Officer

## SCOTIA JAMAICA LIFE INSURANCE COMPANY LTD.

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  
H. A. Reid  
Dr. A. E. Samuels-Harris  
A. Mijares Ricci  
P. B. Scott  
Prof. S. C. Vasciannie\*  
O. Zimmerman

### Senior Officers

H. A. Reid  
General Manager  
Mrs. M. Williams  
Manager Finance  
& Reporting  
Mrs. L. H. Forbes  
Director Sales and Channel  
Delivery

## 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  
Dr. A. N. Law  
H. W. Powell  
D. Walters

### Senior Officers

G. F. Whitelocke  
Vice-President &  
General Manager  
Non-Branch Sales  
L. S. Reynolds  
Assistant General Manager  
Business Development  
and Non-Branch Sales  
Mrs. M. D. Scott  
Manager, Financial Reporting

## 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  
J. T. Sharp

## SCOTIA JAMAICA MICROFINANCE CO. LTD.

12 Duke Street, Kingston,  
Jamaica, W.I.

### Board of Directors

B. F. Bowen  
B. Callam  
H. W. Powell  
J. T. Sharp  
F. Williams  
Senior Officer  
Mrs. Y. Anderson  
General Manager

## 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. Moodie  
Mrs. R. A. Pilliner  
H. W. Powell  
Mrs. M. Todd  
Mrs. R. Voordouw

### Senior Officer

Mrs. J. A. Griffiths-Irving  
Executive Director

## BRIGHTON HOLDINGS LTD.

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

### Board of Directors

B. F. Bowen - Chairman  
H. W. Powell  
J. T. Sharp

## SCOTIA INVESTMENTS JAMAICA LIMITED

Head Office: 7 Holborn Road  
Kingston 10, Jamaica

### Board of Directors

B. F. Bowen, Chairman  
Ms. B. A. Alexander  
A. V. Chang  
Mrs. A. M. Fowler  
Dr. A. N. Law  
L. L. Mitchell  
P. P. Martin  
Ms. C. Welling  
M. Schroder

### Senior Officers

L. L. Mitchell  
Chief Executive Officer  
Miss Y. Pandohie  
Vice-President &  
Chief Financial Officer  
H. Miller  
Chief Operating Officer

## SCOTIA ASSET MANAGEMENT (JAMAICA) LIMITED

1B Holborn Road, Kingston 10  
Jamaica

### Board of Directors

Ms. B. A. Alexander  
Chairperson  
Ms. K. Bilyk  
Mrs. A. Fowler  
L. L. Mitchell  
Ms. A. Richards  
Mrs. J. T. Sharp

### Senior Officer

B. O. Frazer  
Vice-President, Asset  
Management  
& General Manager

## 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

\* Resigned June 11, 2012

\*\*Appointed March 12, 2012

## 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

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Cnr. Duke & Port Royal Streets  
P.O. Box 709  
Kingston, Jamaica  
Telephone: (876) 922.1000  
Fax: (876) 922.6548  
Website: [www.jamaica.scotiabank.com](http://www.jamaica.scotiabank.com)  
Telex: 2297  
SWIFT Bic Code: NOS CJMKN



# MANAGEMENT OFFICERS

(of the Group and its Subsidiaries)

As at October 31, 2012

## 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 Monique French  
Senior Vice-President, Credit Risk Management

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

Mr. Lissant Mitchell  
Senior Vice-President, Wealth & CEO  
Scotia Investment Jamaica Limited

Mr. Hugh Reid  
Senior Vice-President Scotia Group & President  
Scotia Jamaica Life Insurance Company Limited

Mrs. Jacqueline Sharp  
Senior Vice-President, Chief Financial Officer &  
Chief Administrative Officer

## SENIOR MANAGEMENT OFFICERS

### Retail Banking

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

Mr. Michael E. Shaw  
District Vice-President, Metro North

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

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

Mr. Gladstone Whitelocke  
Vice-President & General Manager  
Scotia Jamaica Building Society  
& Non-Branch Sales & Service

Mr. Linley Reynolds  
Assistant General Manager, SJBS Business Development  
& Non-Branch Sales & Service

Miss Pamela Douglas  
Director, Professional Partnerships, SME

### Centralized Retail Collection Unit

Mr. Vincent Harvey  
Vice-President, Collections & Recovery

### Compliance

Mr. George Roper, Vice-President, Compliance

### Contact Centre

Mrs. Sheila Segree-White, General Manager

### Corporate & Commercial Banking

Miss Marcette McLeggon  
Vice-President, Credit Solutions

Mr. H. Craig Mair  
Vice President, Commercial Banking

### Corporate Human Resources

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

Mrs. Hopelin Hines  
Director, Total Rewards and Evaluations

## SENIOR MANAGEMENT OFFICERS

### Corporate & Legal

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

Mrs. Shaun Lawson-Laing  
Director/Legal Counsel & Assistant Company Secretary

### Credit Risk Management

Mr. Bevan A. Callam, Vice-President

Miss Carol Logan, Assistant General Manager

Mr. Lennox Elvy, Director, Retail Risk

### Customer Experience

Mrs. Rosemarie Voordouw, Director

### Employee Consultations & Ombuds Services

Mrs. Claudine McCalla, Director

### Finance

Miss Shirley K. Ramsaran  
Vice-President, Finance & Comptroller

Mr. Frederick A. Williams  
Vice-President  
Business Analytics & Strategy and Risk Management

Dr. Adrian Stokes  
Group Strategist

Miss Carolyn Kean  
Director, Business Intelligence

### Government Affairs

Dr. Wayne Henry  
Vice-President, Government Relationship

### Marketing, Public & Corporate Affairs

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

Mrs. Suzette Smellie-Tomlinson  
Director, Marketing Programmes

Mrs. Joylene A. Griffiths Irving  
Director, Corporate Social Responsibility  
& Executive Director, Scotiabank Jamaica Foundation

### Shared Services

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

Mr. Donovan Hanson, Vice-President, Lending Services

Mrs. Sallian Wright  
Vice President, Processing Support Centre

Mrs. Marcia Parker Robinson  
Director, Regional Strategic Sourcing, Caribbean

Mr. Cecil Rhoden, Director, Retail Risk Assessment

Mrs. Dorette Barrett  
Director, Business Service Centre

### Scotia Private Client Group

Mrs. Debra Lopez-Spence  
Centre Director

### Systems Support Centre

Mr. Adza Davis, Director, Systems Support Centre

### Treasury

Mr. Gary-Vaughn White  
Vice-President, Treasury

Mr. Adrian Reynolds  
Director, Treasury & Foreign Exchange Trading

# 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 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.

**CREDIT SPREAD RISK:** The risk of loss due to changes in the market price of credit, or the credit-worthiness of a particular issuer.

**EQUITY RISK:** The risk of loss due to changes in the prices, and the volatility, of individual equity instruments and equity indices.

**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 CURRENCY RISK:** The risk of loss due to changes in spot and forward prices, and the volatility of currency exchange rates.

**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.

**FUNDS UNDER ADMINISTRATION & MANAGEMENT:**

The total market value of portfolios 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.

**GAP ANALYSIS:** Gap analysis is used to assess the interest rate sensitivity of the Group's operations. Under gap analysis, interest rate sensitive assets, liabilities and off-balance sheet instruments are assigned to defined time periods on the basis of expected re-pricing dates.

**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.

**INTEREST RATE RISK :** The risk of loss due to changes in the level, slope and curvature of the yield curve; the volatility of interest rates; and mortgage prepayment rates.

**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 total 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 sell 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 assigned by the regulators 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.

**SENSITIVITY ANALYSIS:** Sensitivity analysis assesses the effect of changes in interest rates on current earnings and on the economic value of shareholders' equity related to non-trading portfolios.

**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:** Assessment of market risk under unlikely but possible events in abnormal markets. Stress testing examines the impact that abnormally large swings in market factors and periods of prolonged inactivity might have on trading portfolios. The stress testing program is designed to identify key risks and

ensure that the Group's capital can absorb potential losses from abnormal events.

**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 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 qualifying capital.

**VALUE AT RISK (VAR) :** VAR is a method of measuring market risk based upon a common confidence interval and time horizon. It is a statistical estimate of expected potential loss that is derived by translating the riskiness of any financial instrument into a common standard. The Group calculates VaR daily using a 99% confidence level, and a one-day holding period for its trading portfolios. This means that about once in every 100 days, the trading positions are expected to lose more than the VaR estimate.

**YIELD CURVE:** A graph showing the term structure of interest rates, plotting the yields of similar quality bonds by term to maturity.










## CONTACT US

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1-888-429-5863

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[www.jamaica.scotiabank.com](http://www.jamaica.scotiabank.com)

 Visit our facebook page at:  
[www.facebook.com/scotiabankgroupjm](http://www.facebook.com/scotiabankgroupjm)

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