

MEDIA RELEASE

May 25, 2012



SCOTIA GROUP JAMAICA REPORTS SECOND QUARTER RESULTS

SECOND QUARTER 2012 HIGHLIGHTS

- **Net Income of \$5.36 billion**
- **Net Income available to common shareholders of \$5.14 billion**
- **Earnings per share of \$1.65**
- **Return on Average Equity of 16.74%**
- **Productivity ratio of 53.52%**
- **Second quarter dividend of 37 cents per share**

Scotia Group Jamaica Limited (Scotia Group) today reported net income of \$2,717 million for the second quarter ended April 30, 2012. This is \$70 million above the previous quarter ended January 31, 2012, and \$35 million below the quarter ended April 30, 2011. For the six months ended April 30, 2012, net income was \$5,364 million compared to \$5,440 million for the same period last year.

Earnings per share (EPS) for the six months was \$1.65 compared to \$1.69 for the same period last year. The Return on Average Equity (ROE) was 16.74%.

The Board of Directors today approved a second interim dividend of 37 cents per stock unit payable on July 5, 2012, to stockholders on record at June 14, 2012.

Bruce Bowen, President and CEO said, "Scotia Group is committed to supporting economic growth and this quarter we focused on the development of innovative product offerings and partnerships which have correspondingly led to the significant growth of our loan portfolio. For Q2 we launched two new insurance products, opened a special loan fund of \$300 million for the Women Business Owners and supported a number of SME initiatives to strengthen the sector and facilitate economic growth in the medium term. In this quarter, we saw a reduction in our loan losses as a result of the steps taken over the past year to strengthen our credit risk processes. In the upcoming months we will continue to be focused on strategic imperatives that will strengthen our risk management while driving long term growth and value for both our shareholders and our customers."



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

\$'Billion	2012	% Contribution
The Bank of Nova Scotia Jamaica Limited (BNSJ)	2.55	49%
Scotia Jamaica Life Insurance Company Limited (SJLIC)	1.53	30%
Scotia Investment Jamaica Limited (SIJL)*	0.70	14%
Scotia Jamaica Building Society (SJBS)	0.36	7%
<small>* Excludes minority interest</small>		
Net Income attributable to common shareholders	5.14	100%

REVENUES

Total operating income, comprising net interest income after impairment losses and other revenue, was \$15.4 billion, representing an increase of \$615 million or 4.16% relative to prior year.

NET INTEREST INCOME

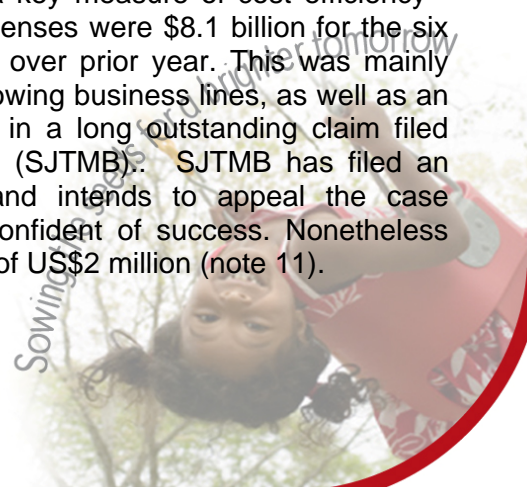
Net interest income after impairment losses for the period was \$10.79 billion, up \$134 million or 1.3% when compared to prior year. While interest margins declined as the reduction in market interest rates year over year impacted asset yields, the growth in loan volumes helped to off-set the reduced margins. Further, there was a \$225 million (38%) reduction in impairment losses, due to lower write-offs and lower provisions this year.

OTHER REVENUE

Other revenue for the six month period was \$4.6 billion, up \$481 million or 11.65% when compared with the prior year. This was due primarily to fees earned on capital market transactions and a gain on disposal of Visa shares.

OPERATING EXPENSES AND PRODUCTIVITY

Our productivity ratio (operating expense/total revenue) - a key measure of cost efficiency - was 53.52%, compared to 52.39% in 2011. Operating Expenses were \$8.1 billion for the six months, representing an increase of \$607 million or 8.1% over prior year. This was mainly reflected in staff related costs, expenses associated with growing business lines, as well as an increase in legal provisions relating to judgment received in a long outstanding claim filed against Scotia Jamaica Trust and Merchant Bank Limited (SJTMB). SJTMB has filed an appeal challenging the judgment on several grounds and intends to appeal the case vigorously. Based upon legal advice obtained, we are confident of success. Nonetheless management has considered it prudent to make a provision of US\$2 million (note 11).



CREDIT QUALITY

Non-performing loans (NPLs) at April 30, 2012 totaled \$5.47 billion, reflecting an increase of \$1.25 billion above prior year, and \$0.19 billion above the previous quarter ended January 31, 2012. The year/year growth was due primarily to a large corporate loan classified as non-performing during Q4/11. Total NPLs now represent 4.83% of total gross loans compared to 4.20% last year and 4.85% as at January 31, 2012. The Group's aggregate loan loss provision as at April 30, 2012 was \$4.43 billion, which represents 81% of the total non-performing loans. For most of these NPLs, the Group holds meaningful collateral.

BALANCE SHEET

Total assets increased year over year by \$11.3 billion or 3.35% to \$349 billion as at April 30, 2012. The loan book grew by \$12.46 billion to close at \$111.1 billion, driven by solid growth in both the retail and commercial portfolios.

Total customer liabilities (deposits, repo liabilities and policyholder's funds) grew to \$266 billion, an increase of \$2.4 billion, this growth was mainly reflected in the policyholder's funds. Repo liabilities marginally declined in keeping with our strategy of shifting the Investment Management business to an off-balance sheet fund management business model.

CAPITAL

Total shareholders equity grew to \$65.5 billion, \$5.9 billion more than the prior year. We continue to exceed the regulatory capital requirements in all our business lines. Our strong capital position also enables us to take advantage of future growth opportunities.

OUR COMMITMENT TO COMMUNITY

During the quarter, Scotiabank continued its commitment to being a leader in corporate philanthropy with donations totaling \$31 million. In March 2012, the Bank donated a motor vehicle to the University of the West Indies to assist in its public outreach project in researching and training coastal communities on the invasion of the Lionfish and its effects on Jamaica's ecosystem. The Bank also renovated the Learning Center and Library at the Bustamante Hospital for Children so that it can better facilitate education and learning.



In Education, the ScotiaFoundation donated \$10 million to fund the Scotiabank Chair in Entrepreneurship and Development at the University of Technology, continued our Breakfast Feeding programme, and made the final payments on equipment for the Agriculture Laboratory at the Northern Caribbean University. This facility was officially opened on March 8 and will act as a center for information dissemination and training in the different areas of agriculture for students, entrepreneurs and the farming community.

In the area of Health Care, the Foundation donated \$1.5 million for the maintenance of equipment at the Scotiabank Centennial Accident and Emergency Unit at the University Hospital of the West Indies and the Scotiabank Haemodialysis Unit at the Cornwall Regional Hospital, and covered the cost of shipping supplies from Hope Charitable Services in the United States for the Kingston Public Hospital.

In Community Care, the ScotiaFoundation donated \$19 million to the continued support of the YUTE programme, provision of meals for the residents of Cluster F at the National Golden Age Home in Kingston, and numerous community projects island wide.

Scotiabank received the award, Best Emerging Market Bank by Global Finance Magazine. We also received special recognition from the Salvation Army for our outstanding contribution to the annual Christmas Kettle Appeal and were recognized by the Jamaica Environment Trust as a Leader donor.

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

Scotiabank Group Media Release



Sowing the seeds for a brighter tomorrow

Scotia Group Jamaica Limited
Consolidated Statement of Revenue and Expenses
Period ended April 30, 2012

Unaudited (\$ thousands)	For the three months ended			For the six months ended	
	April 2012	January 2012	April 2011	April 2012	April 2011
Interest Income	7,321,970	7,349,999	7,385,997	14,671,969	15,302,890
Interest Expense	(1,716,913)	(1,796,897)	(1,921,419)	(3,513,810)	(4,054,104)
Net Interest Income	5,605,057	5,553,102	5,464,578	11,158,159	11,248,786
Impairment losses on loans	(175,829)	(196,030)	(110,430)	(371,859)	(596,193)
Net interest income after impairment losses	5,429,228	5,357,072	5,354,148	10,786,300	10,652,593
Net fee and commission income	1,292,750	1,357,485	1,197,754	2,650,235	2,310,554
Insurance revenue	652,309	400,548	593,053	1,052,857	1,086,345
Net foreign exchange trading income	309,712	313,971	279,750	623,683	585,270
Net gain /(losses) on financial assets	40,533	40,179	5,478	80,712	21,406
Other revenue	70,342	133,106	79,247	203,448	126,369
	2,365,646	2,245,289	2,155,282	4,610,935	4,129,944
Total Operating Income	7,794,874	7,602,361	7,509,430	15,397,234	14,782,537
Operating Expenses					
Salaries and staff benefits	2,136,973	2,168,873	2,145,418	4,305,846	4,173,636
Property expenses, including depreciation	491,349	507,601	471,931	998,950	942,852
Amortisation of intangible assets	36,853	36,892	50,548	73,745	101,200
Other operating expenses	1,401,784	1,287,175	1,060,172	2,688,959	2,242,680
	4,066,959	4,000,541	3,728,069	8,067,500	7,460,368
Profit before taxation	3,727,915	3,601,820	3,781,361	7,329,735	7,322,169
Taxation	(1,011,132)	(954,790)	(1,029,255)	(1,965,922)	(1,882,585)
Profit for the period	2,716,783	2,647,030	2,752,106	5,363,813	5,439,584
Attributable to:-					
Stockholders of the Company	2,601,583	2,540,343	2,656,391	5,141,926	5,248,058
Non-Controlling Interest	115,200	106,687	95,715	221,887	191,526
Earnings per share (cents)	84	82	85	165	169
Return on average equity (annualized)	16.79%	16.71%	18.96%	16.74%	19.05%
Return on assets (annualized)	2.98%	2.94%	3.15%	2.95%	3.11%
Productivity ratio	53.23%	53.81%	50.36%	53.52%	52.39%

Scotia Group Jamaica Limited
Consolidated Statement of Comprehensive Income
Period ended April 30, 2012

Unaudited (\$ thousands)	For the three months ended			For the six months ended	
	April 2012	January 2012	April 2011	April 2012	April 2011
Profit for the period	2,716,783	2,647,030	2,752,106	5,363,813	5,439,584
Other comprehensive income					
Unrealised (loss) / gains on available for sale financial assets	(47,187)	(500,120)	627,867	(547,307)	1,134,562
Realised gains on available for sale financial assets	(111,735)	(162,286)	(2,000)	(274,021)	(11,296)
Amortisation of fair value reserve on financial instruments reclassified to Loans and Receivable	15,411	18,498	9,950	33,909	9,950
Taxation	(143,511)	(643,908)	635,817	(787,419)	1,133,216
Other comprehensive income, net of tax	53,906	233,927	(86,389)	287,833	(166,694)
	(89,605)	(409,981)	549,428	(499,586)	966,522
Total comprehensive income for the period	2,627,178	2,237,049	3,301,534	4,864,227	6,406,106
Attributable to:-					
Stockholders of the Company	2,511,410	2,129,362	3,191,534	4,640,772	6,198,536
Non-Controlling Interest	115,768	107,687	110,000	223,455	207,570

Scotia Group Jamaica Ltd.
Consolidated Statement of Financial Position
April 30, 2012

	Period ended April 30	Year ended October 31	Period ended April 30
Unaudited (\$ thousands)	2012	2011	2011
ASSETS			
CASH RESOURCES	54,577,994	53,073,501	61,202,333
INVESTMENTS			
Held to maturity	12,475,766	14,006,187	15,006,484
Financial assets at fair value through profit and loss	1,272,126	356,168	349,786
Available for sale	77,704,861	76,132,244	74,148,523
	<u>91,452,753</u>	<u>90,494,599</u>	<u>89,504,793</u>
PLEGGED ASSETS	67,282,655	65,371,048	66,488,188
GOVERNMENT SECURITIES UNDER REPURCHASE AGREEMENT	681,202	1,152,466	2,151,754
LOANS, AFTER MAKING PROVISIONS FOR LOSSES	111,063,347	99,976,439	98,604,777
OTHER ASSETS			
Customers' Liability under acceptances, guarantees and letters of credit	7,942,595	6,742,140	5,731,339
Property, plant, and equipment	4,495,706	3,790,870	3,639,589
Deferred Taxation	12,101	12,101	12,101
Taxation Recoverable	1,484,908	1,827,113	1,025,585
Retirement Benefit Asset	7,817,622	7,412,119	6,959,165
Other assets	547,170	378,959	647,422
Intangible Assets	1,748,466	1,809,904	1,772,158
	<u>24,048,568</u>	<u>21,973,206</u>	<u>19,787,359</u>
ASSETS CLASSIFIED AS HELD FOR SALE	-	-	56,894
TOTAL ASSETS	349,106,519	332,041,259	337,796,098
LIABILITIES			
DEPOSITS			
Deposits by public	155,989,045	144,670,083	155,258,399
Other deposits	10,492,370	10,465,297	10,919,901
	<u>166,481,415</u>	<u>155,135,380</u>	<u>166,178,300</u>
OTHER LIABILITIES			
Acceptances, Guarantees and Letters of Credit	7,942,595	6,742,140	5,731,339
Liabilities under repurchase agreements	44,707,197	44,700,992	45,203,703
Promissory Notes	-	2,436	2,391
Capital Management and Government Securities Fund	14,507,792	14,241,114	14,390,049
Redeemable Preference Shares	-	-	100,000
Deferred Taxation	3,163,688	3,373,187	3,015,022
Retirement Benefit Obligation	2,122,396	1,904,277	1,710,460
Assets Held in Trust on behalf of Participants	44,455	44,140	42,097
Other liabilities	4,337,466	3,826,295	3,996,796
	<u>76,825,589</u>	<u>74,834,581</u>	<u>74,191,857</u>
POLICY HOLDERS' FUND	40,270,002	39,019,761	37,790,591
LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE	-	-	3,435
SHAREHOLDERS' EQUITY			
Capital and reserves attributable to the company's shareholders			
Capital- Issued and fully paid, 3,111,572,984			
Ordinary stock units, no par value	6,569,810	6,569,810	6,569,810
Reserve Fund	3,248,591	3,248,591	3,248,591
Retained Earnings Reserve	11,941,770	11,341,770	10,741,770
Capital Reserve	9,383	9,383	9,383
Loan Loss Reserve	2,292,773	2,251,257	2,306,873
Other Reserves	12,892	12,892	12,892
Investment Cumulative Remeasurement result from Available for Sale Financial Assets	1,453,961	1,955,115	1,338,595
Unappropriated Profits	37,119,632	34,921,801	32,823,440
	<u>62,648,812</u>	<u>60,310,619</u>	<u>57,051,354</u>
Non-controlling Interest	2,880,701	2,740,918	2,580,561
	<u>65,529,513</u>	<u>63,051,537</u>	<u>59,631,915</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	349,106,519	332,041,259	337,796,098

Director

Director

SCOTIA GROUP JAMAICA LIMITED

Consolidated Statement of Changes in Shareholders' Equity
April 30, 2012

(\$ thousands)	Share Capital	Reserve Fund	Retained Earnings Reserve	Capital Reserves	Other Reserves	Loan Loss Reserve	Cumulative Remeasurement result from Available for Sale financial assets	Unappropriated Profits	Total	Non-controlling Interest	Total Equity
Balance at 31 October 2010	6,569,810	3,248,591	10,741,770	9,383	12,892	2,093,499	388,117	30,091,319	53,155,381	2,437,432	55,592,813
Net Profit	-	-	-	-	-	-	-	5,248,058	5,248,058	191,526	5,439,584
Other Comprehensive Income											
Unrealised gains on available-for-sale securities, net of taxes	-	-	-	-	-	-	951,472	-	951,472	15,947	967,419
Realised gains on available-for-sale securities, net of taxes	-	-	-	-	-	-	(6,103)	-	(6,103)	(1,428)	(7,531)
Amortisation of fair value reserve on financial instruments reclassified to loans and receivables	-	-	-	-	-	-	5,109	-	5,109	1,525	6,634
Total Comprehensive Income	-	-	-	-	-	-	950,478	5,248,058	6,198,536	207,570	6,406,106
Transfer to Loan Loss Reserve	-	-	-	-	-	213,374	-	(213,374)	-	-	-
Net movement in reserves for non-controlling interests	-	-	-	-	-	-	-	-	-	(228)	(228)
Dividends Paid	-	-	-	-	-	-	-	(2,302,563)	(2,302,563)	(84,213)	(2,386,776)
Balance at 30 April 2011	6,569,810	3,248,591	10,741,770	9,383	12,892	2,306,873	1,338,595	32,823,440	57,051,354	2,580,561	59,631,915
Balance at 31 October 2011	6,569,810	3,248,591	11,341,770	9,383	12,892	2,251,257	1,955,115	34,921,801	60,310,619	2,740,918	63,051,537
Net Profit	-	-	-	-	-	-	-	5,141,926	5,141,926	221,887	5,363,813
Other Comprehensive Income											
Unrealised losses on available-for-sale securities, net of taxes	-	-	-	-	-	-	(400,367)	-	(400,367)	(2,348)	(402,715)
Realised gains on available-for-sale securities, net of taxes	-	-	-	-	-	-	(193,894)	-	(193,894)	(23,880)	(217,774)
Amortisation of fair value reserve on financial instruments reclassified to loans and receivables	-	-	-	-	-	-	93,107	-	93,107	27,796	120,903
Total Comprehensive Income	-	-	-	-	-	-	(501,154)	5,141,926	4,640,772	223,455	4,864,227
Transfer to Retained Earnings Reserve	-	-	600,000	-	-	-	-	(600,000)	-	-	-
Transfer to Loan Loss Reserve	-	-	-	-	-	41,516	-	(41,516)	-	-	-
Dividends Paid	-	-	-	-	-	-	-	(2,302,579)	(2,302,579)	(83,672)	(2,386,251)
Balance at 30 April 2012	6,569,810	3,248,591	11,941,770	9,383	12,892	2,292,773	1,453,961	37,119,632	62,648,812	2,880,701	65,529,513

Scotia Group Jamaica Limited
Condensed Statement of Consolidated Cash Flows
April 30, 2012

Unaudited (\$ thousands)	2012	2011
Cash flows provided by / (used in) operating activities		
Profit for the year	5,363,813	5,439,584
Items not affecting cash:		
Depreciation	249,383	235,904
Impairment losses on loans	371,859	596,193
Amortisation of intangible assets	73,745	101,258
Gain on sale of shares	(105,272)	-
Taxation	1,965,922	1,882,585
Other, net	(11,158,139)	(11,251,549)
	<u>(3,238,689)</u>	<u>(2,996,025)</u>
Changes in operating assets and liabilities		
Loans	(11,463,692)	(3,436,293)
Deposits	11,599,432	8,869,925
Policyholders reserve	1,250,241	899,421
Securities sold under repurchase agreement	2,720	(141,194)
Financial Assets at fair value through profit and loss	(915,301)	(221,178)
Other, net	10,840,337	13,054,774
	<u>8,075,048</u>	<u>16,029,430</u>
Cash flows provided by / (used in) investing activities		
Investments	(2,779,350)	(3,257,671)
Repurchase Agreements, net	212,394	849
Proceeds from sale of shares	187,940	-
Property, plant and equipment, Intangibles, net	(966,546)	(298,435)
	<u>(3,345,562)</u>	<u>(3,555,257)</u>
Cash flows used in financing activities		
Dividends paid	(2,386,251)	(2,366,776)
	<u>(2,386,251)</u>	<u>(2,366,776)</u>
Effect of exchange rate on cash and cash equivalents	150,168	239,491
Net change in cash and cash equivalents	2,493,403	10,346,888
Cash and cash equivalents at beginning of period	35,208,174	34,794,864
Cash and cash equivalents at end of period	<u>37,701,577</u>	<u>45,141,752</u>
Represented by :		
Cash resources	54,577,994	61,202,333
Less statutory reserves at Bank of Jamaica	(16,382,265)	(15,871,621)
Less amounts due from other banks greater than ninety days	(3,223,719)	(5,745,256)
Less accrued interest on cash resources	(69,453)	(116,858)
Reverse repurchase agreements and bonds less than ninety days	4,227,418	7,100,399
Cheques and other instruments in transit, net	(1,428,398)	(1,427,245)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>37,701,577</u>	<u>45,141,752</u>

SCOTIA GROUP JAMAICA LIMITED

Segment Reporting Information

Consolidated Statement of Income

April 30, 2012

Unaudited

(\$ thousands)	Treasury	Retail Banking	Corporate Banking	Investment Management Services	Insurance Services	Other	Eliminations	Group Total
Net External Revenues	2,332,319	6,283,190	2,772,074	2,082,633	2,297,462	1,416	-	15,769,094
Revenues from other segments	(836,904)	146,695	747,602	(16,172)	(15,816)	2,509,149	(2,534,554)	-
Total Revenues	1,495,415	6,429,885	3,519,676	2,066,461	2,281,646	2,510,565	(2,534,554)	15,769,094
Expenses	(49,087)	(4,594,914)	(2,539,517)	(656,942)	(517,771)	(13,329)	(67,799)	(8,439,359)
Profit Before Tax	1,446,328	1,834,971	980,159	1,409,519	1,763,875	2,497,236	(2,602,353)	7,329,735
Taxation								(1,965,922)
Profit for the period								5,363,813

Consolidated Balance Sheet

(\$ thousands)	Treasury	Retail Banking	Corporate Banking	Investment Management Services	Insurance Services	Other	Eliminations	Group Total
Segment assets	88,051,125	68,864,160	59,618,584	73,373,701	52,745,388	9,824,955	(11,597,771)	340,880,142
Unallocated assets								8,226,377
Total Assets								349,106,519
Segment liabilities	-	93,059,167	82,874,637	62,400,599	41,801,601	60,734	(3,572,273)	276,624,465
Unallocated liabilities								6,952,541
Total liabilities								283,577,006
Other Segment items:								
Capital Expenditure	-	648,213	310,626	7,516	191	-	-	966,546
Impairment losses on loans	-	311,734	65,894	(5,769)	-	-	-	371,859
Depreciation and amortisation	-	155,740	86,639	77,302	3,177	270	-	323,128

SCOTIA GROUP JAMAICA LIMITED

Segment Reporting Information

Consolidated Statement of Income

April 30, 2011

Unaudited

<i>(\$ thousands)</i>	Treasury	Retail Banking	Corporate Banking	Investment Management Services	Insurance Services	Other	Eliminations	Group Total
Net External Revenues	2,354,230	5,573,188	2,703,915	1,923,393	2,817,896	6,108	-	15,378,730
Revenues from other segments	(1,113,603)	469,921	640,174	9,041	10,489	2,305,122	(2,321,144)	-
Total Revenues	1,240,627	6,043,109	3,344,089	1,932,434	2,828,385	2,311,230	(2,321,144)	15,378,730
Expenses	(35,021)	(4,566,445)	(2,312,966)	(603,664)	(444,206)	(10,612)	(83,647)	(8,056,561)
Profit Before Tax	1,205,606	1,476,664	1,031,123	1,328,770	2,384,179	2,300,618	(2,404,791)	7,322,169
Taxation								(1,882,585)
Profit for the period								5,439,584

Consolidated Balance Sheet

<i>(\$ thousands)</i>	Treasury	Retail Banking	Corporate Banking	Investment Management Services	Insurance Services	Other	Eliminations	Group Total
Segment assets	88,705,175	59,791,806	54,444,097	71,104,849	57,816,126	10,634,486	(12,225,075)	330,271,464
Unallocated assets								7,524,634
Total Assets								337,796,098
Segment liabilities	-	90,914,226	83,896,761	61,547,100	38,219,375	246,763	(3,564,846)	271,259,379
Unallocated liabilities								6,904,804
Total liabilities								278,164,183
Other Segment items:								
Capital expenditure	-	168,761	129,266	4,796	-	-		302,823
Impairment losses on loans	-	516,305	105,756	(25,868)	-	-		596,193
Depreciation and amortisation	-	149,135	73,339	111,939	2,479	270		337,162

SCOTIA GROUP JAMAICA LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
April 30, 2012

1. Identification

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

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

2. Basis of presentation

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

New and revised standards that became effective during the year:

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

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

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

Basis of consolidation

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

3. Financial Assets

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

Financial Assets at Fair Value through Profit and Loss

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

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3. Financial Assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money or services directly to a debtor with no intention of trading the receivable.

Held-to-Maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

Available-for-sale

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

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

4. Pledged Assets

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

(\$millions)	<u>Asset</u>		<u>Related Liability</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Securities sold under repurchase agreements	44,125	46,193	37,261	39,726
Securities with other financial institutions and clearing houses	<u>8,948</u>	<u>6,385</u>	<u>7,446</u>	<u>5,478</u>
	53,073	52,578	44,707	45,204
Capital management and government securities funds	<u>14,210</u>	<u>13,910</u>	<u>14,508</u>	<u>14,390</u>
	<u>67,283</u>	<u>66,488</u>	<u>59,215</u>	<u>59,594</u>

5. Insurance and investment contracts

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

6. Loan loss provision

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

7. Deferred taxation

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts.

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8. Employee benefits

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

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

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

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

9. Property, plant and equipment

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

10. Cash and cash equivalents

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

11. Litigation

Judgment was received in a long outstanding claim filed in April 1999 against Scotiabank Jamaica Trust and Merchant Bank Limited (SJTMB) for breach of contract and negligent performance of contract in connection with an alleged undertaking given by SJTMB in May 1997. The Courts found against SJTMB in the sum of US\$14,861,992.98 plus interest at the rate of 4% per annum from 1997 to the date of payment and costs. SJTMB has filed an appeal challenging the judgment on several grounds, and based on legal advice obtained, SJTMB will continue to vigorously appeal the judgment. A stay of execution of judgment is in place until May 29, 2012. 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 take a provision of US\$2 million in the accounts of BNSJ for the quarter ending April 30, 2012.

12. Segment reporting

The Group is organized into six main business segments:

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

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