

MEDIA RELEASE

May 24, 2013

SCOTIA GROUP JAMAICA REPORTS SECOND QUARTER RESULTS

SECOND QUARTER 2013 HIGHLIGHTS (YEAR TO DATE)

- **Net Income of \$5.65 billion**
- **Net Income available to common shareholders of \$5.47 billion**
- **Earnings per share of \$1.76**
- **Return on Average Equity of 16.69%**
- **Productivity ratio of 56.60%**
- **Second quarter dividend of 40 cents per share**

Scotia Group Jamaica Limited (Scotia Group) today reported net income of \$2,930 million for the second quarter ended April 30, 2013. This is \$210 million above the previous quarter ended January 31, 2013 and \$214 million above the quarter ended April 30, 2012. For the six months ended April 30, 2013, net income was \$5,651 million compared to \$5,364 million for the same period last year.

Earnings per share (EPS) for the six months was \$1.76 compared to \$1.65 for the same period last year. The Return on Average Equity (ROE) was 16.69%, down from 16.74% last year.

The Board of Directors today approved a second interim dividend of 40 cents per stock unit payable on July 4, 2013, to stockholders on record at June 14, 2013.

Bruce Bowen, President and CEO said, "Scotia Group generated strong results for Q2 with continued growth in all of our key business lines. Our culture of prudent risk management and strong liquidity enabled us to weather the challenges in the market during the quarter. Looking forward, the National Debt Exchange (NDX) has reduced margins and recent tax measures have increased operating costs. To offset these effects we are focused on deepening our relationship with clients and growing our customer base, while improving operating efficiencies and maintaining tight control of expenses."

Mr Bowen went on to say, "In times of turmoil in the financial sector Scotiabank is known for providing Jamaicans a safe place to bank. With the addition of Scotia Investments, Scotia Jamaica Life Insurance and Scotia Jamaica Building Society, and our commitment to providing a great customer experience, I believe that we can truly help our customers be financially better off. If we focus on our customers we are in an excellent position to build market share during this difficult economic period."



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

\$ Billion	2013	% Contribution
The Bank of Nova Scotia Jamaica Limited (BNSJ)	2.19	40%
Scotia Jamaica Life Insurance Company Limited (SJLIC)	1.36	25%
Scotia Investment Jamaica Limited (SIJL)*	0.63	11%
Scotia Group Jamaica Limited (SGJ)	0.86	16%
Scotia Jamaica Building Society (SJBS)	0.43	8%
<small>* Excludes minority interest</small>		
Net Income attributable to common shareholders	5.47	100%

REVENUES

Total operating income, comprising net interest income after impairment losses and including other revenue, was \$16.6 billion, an increase of \$1.2 billion or 7.8% relative to the prior year.

NET INTEREST INCOME

Net interest income after impairment losses for the period was \$11.13 billion, up \$341 million or 3% when compared to the same period last year. The Group continues to report strong growth in loan and deposit volumes over the period. Loan loss expense increased by \$277 million when compared with prior year, reflecting growth in the loan portfolio and the impact of continued contraction in the economy, especially on our retail customers.

OTHER REVENUE

Other revenue for the six months was \$5.5 billion, up \$858 million or 18.6% when compared with prior year. This was due to a combination of increased insurance revenue and fee income, gains on securities trading, as well as higher gains on our foreign currency trading and investment book. A net loss on financial assets was reported this quarter driven primarily by losses of \$397 million resulting from the Group's participation in the National and Private Debt Exchanges in February and March 2013 (note 11).

OPERATING EXPENSES AND PRODUCTIVITY

Our productivity ratio (operating expense/total revenue) - a key measure of cost efficiency - was 56.6%, compared to 53.52% in 2012. Operating Expenses were \$9.11 billion for the period, representing an increase of \$1 billion or 13% over prior year. Of this amount, staff-related costs represented \$439 million (10.2% increase) while Other Operating Expenses increased by \$606 million, reflecting primarily inflationary increases, devaluation of JA\$ and the impact of new tax measures.

CREDIT QUALITY

Non-performing loans (NPLs) at April 30, 2013 totaled \$5.03 billion, reflecting a decrease of \$440 million from prior year, and an increase of \$270 million from the previous quarter ended January 31, 2013. The reduction from the previous year was due primarily to the recovery of a large corporate loan that was classified as non-performing during 2011. Total NPLs now represent 3.88% of total gross loans compared to 4.83% last year and 3.82% as at January 31, 2013. The Group's aggregate loan loss provision as at January 31, 2013 was \$4.7 billion, representing 94% 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 \$33 billion or 9.46% to \$382 billion as at April 30, 2013. Loans grew by \$16.2 billion to close at \$127.26 billion, driven by strong results in both the retail and commercial portfolios, and cash resources increased by \$19 billion primarily as a result of the growth in deposits.

Total customer liabilities (deposits, repo liabilities and policyholder's funds) grew to \$294 billion, an increase of \$28 billion over last year. This growth was mainly reflected in the deposit portfolio as we continued to acquire new customers and see increased balances from existing customers.

CAPITAL

Total shareholders equity grew to \$69.7 billion, \$4.2 billion above prior year. We continue to exceed 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 made donations totaling \$21 million to support major projects of the Scotiabank Jamaica Foundation and smaller community projects across the island.

In Student Care at the primary level, repairs totaling \$4.2 million were completed at 4 schools in St. Mary which were damaged by Hurricane Sandy - Carron Hall Infant, Carron Hall Primary, Zion Hill Primary and Highgate Primary. Support was also given to Bellfield Primary School to rebuild following Hurricane Sandy so it could restart its breakfast and lunch feeding programme for students.

At the Holy Family Infant and Primary School funds were provided for the breakfast feeding programme and ScotiaVolunteers assisted with refurbishment work at the Highgate Primary School and Alpha Primary School.

At the tertiary level, the Foundation provided \$13 million to fund the Scotiabank Chair in Entrepreneurship at the University of Technology and the International Center for Nuclear Sciences at the University of the West Indies. Scholarship payments were also made to students at various secondary and tertiary institutions.

In Health Care, the Foundation continued its support of the Scotiabank Jamaica Foundation Haemodialysis Unit at the Cornwall Regional Hospital with contributions totaling \$1.4 million.

The Foundation also made donations to several community organizations including Missionaries of the Poor.

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.

Scotia Group Jamaica Limited
Consolidated Statement of Revenue and Expenses
Period ended April 30, 2013

Unaudited (\$ Thousands)	For the three months ended			For the six months ended	
	April 2013	January 2013	April 2012	April 2013	April 2012
Interest Income	7,199,781	7,894,108	7,321,970	15,093,889	14,671,969
Interest Expense	(1,545,880)	(1,771,474)	(1,716,913)	(3,317,354)	(3,513,810)
Net Interest Income	5,653,901	6,122,634	5,605,057	11,776,535	11,158,159
Impairment losses on loans	(365,388)	(283,593)	(175,829)	(648,981)	(371,859)
Net interest income after impairment losses	5,288,513	5,839,041	5,429,228	11,127,554	10,786,300
Net fee and commission income	1,450,204	1,376,180	1,292,750	2,826,384	2,650,235
Insurance revenue	765,684	461,927	652,309	1,227,611	1,052,857
Net gains on foreign currency activities	955,594	525,919	309,712	1,481,513	623,683
Net gains /(losses) on financial assets	(176,211)	82,364	40,533	(93,847)	80,712
Other revenue	20,934	6,685	70,342	27,619	203,448
	3,016,205	2,453,075	2,365,646	5,469,280	4,610,935
Total Operating Income	8,304,718	8,292,116	7,794,874	16,596,834	15,397,235
Operating Expenses					
Salaries and staff benefits	2,387,731	2,357,152	2,136,973	4,744,883	4,305,846
Property expenses, including depreciation	523,917	510,400	491,349	1,034,317	998,950
Amortisation of intangible assets	30,190	30,277	36,853	60,467	73,745
Other operating expenses	1,649,637	1,623,251	1,401,784	3,272,888	2,688,959
	4,591,475	4,521,080	4,066,959	9,112,555	8,067,500
Profit before taxation	3,713,243	3,771,036	3,727,915	7,484,279	7,329,735
Taxation	(782,863)	(1,050,881)	(1,011,132)	(1,833,744)	(1,965,922)
Profit for the period	2,930,380	2,720,155	2,716,783	5,650,535	5,363,813
Attributable to:-					
Stockholders of the Company	2,851,446	2,614,720	2,601,583	5,466,166	5,141,926
Non-Controlling Interest	78,934	105,435	115,200	184,369	221,887
Earnings per share (cents)	92	84	84	176	165
Return on average equity (annualized)	17.29%	16.12%	16.79%	16.69%	16.74%
Return on assets (annualized)	2.98%	2.79%	2.98%	2.86%	2.95%
Productivity ratio	57.17%	56.03%	53.23%	56.60%	53.52%

Scotia Group Jamaica Limited
Consolidated Statement of Comprehensive Income
Period ended April 30, 2013

Unaudited (\$ Thousands)	For the three months ended			For the six months ended	
	April 2013	January 2013	April 2012	April 2013	April 2012
Profit for the period	2,930,380	2,720,155	2,716,783	5,650,535	5,363,813
Other comprehensive income					
Unrealised gains / (losses) on AFS assets	811,019	(871,127)	(47,187)	(60,108)	(547,307)
Realised gains on AFS assets	(901,484)	(12,361)	(111,735)	(913,845)	(274,021)
Amortisation of fair value reserve on financial instruments reclassified to Loans and Receivable	(4,824)	7,219	15,411	2,395	33,909
	(95,289)	(876,269)	(143,511)	(971,558)	(787,419)
Taxation	(58,461)	175,605	53,906	117,144	287,833
Other comprehensive income, net of tax	(153,750)	(700,664)	(89,605)	(854,414)	(499,586)
Total comprehensive income for the period	2,776,630	2,019,491	2,627,178	4,796,121	4,864,227
Attributable to:-					
Stockholders of the Company	2,673,701	1,924,637	2,511,410	4,598,338	4,640,772
Non-Controlling Interest	102,929	94,854	115,768	197,783	223,455

SCOTIA GROUP JAMAICA LTD
Consolidated Statement of Financial Position
April 30, 2013

	Period ended April 30	Year ended October 31	Period ended April 30
Unaudited (\$ Thousands)	2013	2012	2012
ASSETS			
CASH RESOURCES	73,919,980	52,868,707	54,577,994
INVESTMENTS			
Held to maturity	12,165,705	11,323,782	12,475,766
Financial assets at fair value through profit and loss	433,605	477,941	1,272,126
Available for sale	80,298,038	84,480,935	77,704,861
	92,897,348	96,282,658	91,452,753
PLEGGED ASSETS	62,849,781	63,057,493	67,282,655
GOVERNMENT SECURITIES PURCHASED UNDER RESALE AGREEMENTS	-	-	681,202
LOANS, AFTER ALLOWANCE FOR IMPAIRMENT LOSSES	127,255,667	122,524,668	111,063,347
OTHER ASSETS			
Customers' liability under acceptances, guarantees and letters of credit	6,856,261	6,333,327	7,942,595
Property, plant and equipment	4,675,552	4,738,704	4,495,706
Deferred taxation	39,649	-	12,101
Taxation recoverable	2,388,844	1,692,436	1,484,908
Retirement benefit asset	8,502,330	8,113,770	7,817,622
Other assets	1,076,249	879,953	547,170
Intangible assets	1,662,922	1,717,705	1,748,466
	25,201,807	23,475,895	24,048,568
TOTAL ASSETS	382,124,583	358,209,421	349,106,519
LIABILITIES			
DEPOSITS			
Deposits by the public	183,628,903	160,994,182	155,989,045
Other deposits	11,435,641	10,666,786	10,492,370
	195,064,544	171,660,968	166,481,415
OTHER LIABILITIES			
Acceptances, guarantees and letters of credit	6,856,261	6,333,327	7,942,595
Securities sold under repurchase agreements	41,568,981	45,384,758	44,707,197
Capital management and government securities funds	15,098,804	14,174,566	14,507,792
Deferred taxation	2,703,318	2,938,163	3,163,688
Retirement benefit obligation	2,598,377	2,341,321	2,122,396
Assets held in trust on behalf of participants	38,743	41,905	44,455
Other liabilities	5,958,766	6,139,447	4,337,466
	74,823,250	77,353,487	76,825,589
POLICYHOLDERS' FUNDS	42,499,279	41,679,958	40,270,002
STOCKHOLDERS' EQUITY			
Share capital	6,569,810	6,569,810	6,569,810
Reserve fund	3,248,591	3,248,591	3,248,591
Retained earnings reserve	12,441,770	12,441,770	11,941,770
Capital reserve	9,383	9,383	9,383
Loan loss reserve	2,455,754	2,299,390	2,292,773
Other reserves	12,892	12,892	12,892
Cumulative remeasurement result from available for sale assets	11,208	642,821	1,453,961
Unappropriated profits	41,911,869	39,327,555	37,119,632
	66,661,277	64,552,212	62,648,812
Non-controlling interest	3,076,233	2,962,796	2,880,701
	69,737,510	67,515,008	65,529,513
TOTAL EQUITY AND LIABILITIES	382,124,583	358,209,421	349,106,519

Director

Director

SCOTIA GROUP JAMAICA LIMITED
Consolidated Statement of Changes in Shareholders' Equity
April 30, 2013

Unaudited (\$ Thousands)	Share Capital \$'000	Reserve Fund \$'000	Retained Earnings Reserve \$'000	Capital Reserves \$'000	Cumulative Remeasurement result from Available for Sale financial assets \$'000	Loan Loss Reserve \$'000	Other Reserves \$'000	Unappropriated Profits \$'000	Total \$'000	Non-controlling Interest	Total Equity \$'000
Balance at 31 October 2011	6,569,810	3,248,591	11,341,770	9,383	1,955,115	2,251,257	12,892	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)
Amortization of fair value reserves on financial assets 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	1,453,961	2,292,773	12,892	37,119,632	62,648,812	2,880,701	65,529,513
Balance at 31 October 2012	6,569,810	3,248,591	12,441,770	9,383	642,821	2,299,390	12,892	39,327,555	64,552,212	2,962,796	67,515,008
Net Profit	-	-	-	-	-	-	-	5,466,166	5,466,166	194,369	5,650,535
Other Comprehensive Income											
Unrealised losses on available-for-sale securities, net of taxes	-	-	-	-	(67,068)	-	-	-	(67,068)	21,542	(45,526)
Realised gains on available-for-sale securities, net of taxes	-	-	-	-	(789,372)	-	-	-	(789,372)	(4,728)	(794,100)
Amortization of fair value reserves on financial assets reclassified to loans and receivables	-	-	-	-	(11,388)	-	-	-	(11,388)	(3,400)	(14,788)
Total Comprehensive Income	-	-	-	-	(867,828)	-	-	5,466,166	4,598,338	197,783	4,796,121
Transfer to Loan Loss Reserve	-	-	-	-	-	156,364	-	(156,364)	-	-	-
Transfer to Unappropriated Profits	-	-	-	-	236,215	-	-	(236,215)	-	-	-
Net movement in reserves for non-controlling interests	-	-	-	-	-	-	-	-	-	3,217	3,217
Dividends Paid	-	-	-	-	-	-	-	(2,489,273)	(2,489,273)	(87,563)	(2,576,836)
Balance at 30 April 2013	6,569,810	3,248,591	12,441,770	9,383	11,208	2,455,754	12,892	41,911,869	66,661,277	3,076,233	69,737,510

Scotia Group Jamaica Limited
Condensed Statement of Consolidated Cash Flows
April 30, 2013

Unaudited (\$ Thousands)	2013	2012
Cash flows provided by / (used in) operating activities		
Profit for the year	5,650,535	5,363,813
Items not affecting cash:		
Depreciation	272,847	249,383
Impairment losses on loans	648,981	371,859
Amortisation of intangible assets	60,467	73,745
Taxation	1,833,744	1,965,922
Other, net	(11,786,124)	(11,263,411)
	<u>(3,319,550)</u>	<u>(3,238,689)</u>
Changes in operating assets and liabilities		
Loans	(5,371,343)	(11,463,692)
Deposits	23,580,911	11,599,432
Policyholders reserve	819,320	1,250,241
Securities sold under repurchase agreement	(3,774,860)	2,720
Financial Assets at fair value through profit and loss	44,701	(915,301)
Other, net	4,088,820	10,840,337
	<u>16,067,999</u>	<u>8,075,048</u>
Cash flows provided by / (used in) investing activities		
Investments	1,032,830	(2,779,350)
Repurchase Agreements, net	-	212,394
Proceeds from sale of shares	-	187,940
Purchase of property, plant, equipment and Intangibles	(227,094)	(966,546)
Proceeds on sale of property, plant and equipment	21,303	-
	<u>827,039</u>	<u>(3,345,562)</u>
Cash flows used in financing activities		
Dividends paid	(2,576,836)	(2,386,251)
	<u>(2,576,836)</u>	<u>(2,386,251)</u>
Effect of exchange rate on cash and cash equivalents	1,787,600	150,168
Net change in cash and cash equivalents	16,105,802	2,493,403
Cash and cash equivalents at beginning of year	31,384,317	35,208,174
Cash and cash equivalents at end of period	<u>47,490,119</u>	<u>37,701,577</u>
Represented by :		
Cash resources	73,919,980	54,577,994
Less statutory reserves at Bank of Jamaica	(20,289,821)	(16,382,265)
Less amounts due from other banks greater than ninety days	(6,011,292)	(3,223,719)
Less accrued interest on cash resources	(10,725)	(69,453)
Reverse repurchase agreements and bonds less than ninety days	1,351,340	4,227,418
Cheques and other instruments in transit, net	(1,469,363)	(1,428,398)
CASH AND CASH EQUIVALENTS AT END OF Period	<u>47,490,119</u>	<u>37,701,577</u>

SCOTIA GROUP JAMAICA LIMITED

Segment Reporting Information

Consolidated Statement of Income

April 30, 2013

Unaudited

(\$ Thousands)	Treasury	Retail Banking	Corporate Banking	Investment Management Services	Insurance Services	Other	Eliminations	Group Total
Net External Revenues	2,098,159	7,157,152	2,928,424	2,019,270	2,122,930	916,612	3,268	17,245,815
Revenues from other segments	(745,045)	(171,952)	864,504	5,569	43,697	3,227	-	-
Total Revenues	1,353,114	6,985,200	3,792,928	2,024,839	2,166,627	919,839	3,268	17,245,815
Expenses	(94,638)	(5,486,253)	(2,678,653)	(812,430)	(616,814)	(17,857)	(54,891)	(9,761,536)
Profit Before Tax	1,258,476	1,498,947	1,114,275	1,212,409	1,549,813	901,982	(51,623)	7,484,279
Taxation								(1,833,744)
Profit for the period								5,650,535

Consolidated Balance Sheet

(\$ Thousands)	Treasury	Retail Banking	Corporate Banking	Investment Management Services	Insurance Services	Other	Eliminations	Group Total
Segment assets	94,897,617	79,909,663	61,524,787	73,618,016	51,397,589	26,104,019	(15,003,843)	372,447,848
Unallocated assets								9,676,735
Total Assets								382,124,583
Segment liabilities	972,910	99,558,807	105,637,422	61,693,688	42,845,094	183,810	(6,794,357)	304,097,374
Unallocated liabilities								8,289,699
Total liabilities								312,387,073
Other Segment items:								
Capital Expenditure	-	143,873	80,658	1,965	598	-	-	227,094
Impairment losses on loans	-	723,837	(41,528)	(33,328)	-	-	-	648,981
Depreciation and amortisation	-	168,865	94,369	65,799	4,281	-	-	333,314

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)	4,186	(29,591)	-
Total Revenues	1,495,415	6,429,885	3,519,676	2,066,461	2,281,646	5,602	(29,591)	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	(7,727)	(97,390)	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
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2013

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 Scotia Jamaica Micro Finance 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 financial year has no 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, 2012. These financial statements are presented in Jamaican dollars, which is the Group's functional currency.

New and revised standards that became effective during this financial year:

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.

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.

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.

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.

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3. Financial Assets (continued)

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>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Securities sold under repurchase agreements	42,390	44,125	33,538	37,261
Securities with other financial institutions and clearing houses	<u>6,789</u>	<u>8,948</u>	<u>8,031</u>	<u>7,446</u>
	49,179	53,073	41,569	44,707
Capital management and government securities funds	<u>13,671</u>	<u>14,210</u>	<u>15,099</u>	<u>14,508</u>
	<u>62,850</u>	<u>67,283</u>	<u>56,668</u>	<u>59,215</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. Property, plant and equipment

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

8. 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.

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9. 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 is 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, as well as subject to certain limits.

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.

10. 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 represent less than 10% of the Group’s operating revenue and assets.

11. National Debt Exchange (NDX) and Private Debt Exchange (PDX)

During the quarter, Scotia Group fully participated in the Government of Jamaica’s (GOJ) National Debt Exchange (NDX) and Private Debt Exchange (PDX) programmes, both of which involved the exchange of GOJ securities to new bonds with lower coupon rates and longer tenures. Scotia Group exchanged securities totaling J\$119 Billion and US\$6 million. This resulted in an immediate loss of \$397 million for the Group which was reported in net gains/(losses) on financial assets in the Statement of Revenue and Expenses. Further, the exchange resulted in an immediate capital loss of J\$1.35 billion throughout the Group.