

MEDIA RELEASE

November 28, 2013

SCOTIA GROUP JAMAICA REPORTS 2013 FINANCIAL RESULTS

FISCAL 2013 HIGHLIGHTS

- **Net Income of \$11.92 billion**
- **Net Income available to common shareholders of \$11.52 billion**
- **Earnings per share of \$3.70**
- **Return on Average Equity of 17.11%**
- **Productivity ratio of 53.89%**
- **Fourth quarter dividend of 40 cents per share**

Scotia Group Jamaica Limited (Scotia Group) today reported net income of \$3.22 billion for the fourth quarter ended October 31, 2013. This is \$160 million above the previous quarter ended July 31, 2013 and \$595 million above the quarter ended October 31, 2012. For the year ended October 31, 2013, net income was \$11.92 billion compared to \$10.58 billion for the same period last year.

Earnings per share (EPS) for the year was \$3.70 compared to \$3.26 for the same period last year. The Return on Average Equity (ROE) was 17.11%, up from 16.11% last year.

The Board of Directors today approved a final dividend of 40 cents per stock unit payable on January 13, 2014, to stockholders on record at December 18, 2013.

Jackie Sharp, Scotia Group's President & CEO commented, "Despite the challenging year that 2013 was, Scotia Group's strong performance reflects our strategy of focusing on our core business while prudently managing risk and improving operating efficiencies. All of our business lines executed well and recorded strong results with solid growth in our loan and deposit portfolios, our mutual fund and unit trust products and in our insurance portfolio. We are also pleased that we saw a lift in our customer service as our customers rated our service 10% higher than the previous year. This lift was due to initiatives that drove consistency of service delivery and engagement at all customer touch points". Jackie continued, "As we look towards 2014 and anticipate another challenging year, Scotia Group will continue to support Jamaica in achieving long-term economic growth while remaining focused on our strategic objectives to drive value for our customers, shareholders and staff."



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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)	5.04	44%
Scotia Jamaica Life Insurance Company Limited (SJLIC)	2.78	24%
Scotia Investment Jamaica Limited (SIJL)	1.38	12%
Scotia Group Jamaica Limited (SGJ)	1.46	13%
Scotia Jamaica Building Society (SJBS)	0.86	7%
<small>* Excludes minority interest and eliminations</small>		
Net Income attributable to common shareholders	11.52	100%

REVENUES

Total operating income, comprising net interest income after impairment losses and including other revenue, was \$34.2 billion, an increase of \$3 billion or 9.68% relative to the prior year.

NET INTEREST INCOME

Net interest income after impairment losses for the period was \$22.85 billion, up \$740 million or 3.35% 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 \$168 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 twelve months was \$11.39 billion, up \$2.28 billion or 25% when compared with prior year. This was due primarily to increased insurance revenue, fee and commission income, as well as higher gains on our foreign currency trading and investment book. Net fee and commission income increased 10%, due to increased account and transaction volumes in our retail and commercial portfolios, as well as, growth in our mutual funds and unit trust business.

OPERATING EXPENSES AND PRODUCTIVITY

Our productivity ratio - a key measure of cost efficiency - was 53.89%, compared to 53.69% in 2012. Operating Expenses were \$18 billion for the year, representing an increase of \$1.62 billion or 9.88% over prior year. This is due primarily to higher operating expenses of \$1.5B reflecting an increase in the asset tax and other tax measures, inflationary increases and devaluation of the Jamaican dollar.

Salaries and staff benefits reflect a reduction of \$126 million this year, as it includes a higher actuarially-determined net credit of \$1.19 billion in relation to our defined benefit pension, group life and health plans. The salaries and staff benefits expense, excluding the post retirement credit, increased by \$1.06 billion or 12.22% year over year (note 10).

CREDIT QUALITY

Non-performing loans (NPLs) at October 31, 2013 totaled \$4.49 billion, reflecting a decrease of \$60 million from prior year, and a decrease of \$209 million from the previous quarter ended July 31, 2013 as our recoveries increased during the period. Total NPLs now represent 3.29% of total gross loans compared to 3.65% last year and 3.51% as at July 31, 2013. The Group's aggregate loan loss provision as at October 31, 2013 was \$4.5 billion, representing 100% coverage 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 \$31 billion or 8.68% to \$389 billion as at October 31, 2013. Loans grew by \$12.3 billion to close at \$134.8 billion, driven by strong results in both the retail and commercial portfolios, and cash resources increased by \$22 billion primarily as a result of the growth in deposits.

Total customer liabilities (deposits, repo liabilities and policyholder's funds) grew to \$296 billion, an increase of \$23 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 \$72.8 billion, \$5.2 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

Scotiabank demonstrated its commitment to Corporate Social Responsibility through its support of programmes aimed at building a bright future for our children and through the involvement of the ScotiaVolunteers in communities in which we live and work. The Foundation donated a total of \$12.6 million to various projects and activities during the quarter.

In Student Care our Foundation contributed \$11.5 million based on the following initiatives: awarded 15 new Scotia Foundation Shining Star Scholarships to outstanding students in the Grade Six Achievement Test; assisted approximately 100 scholars in secondary and tertiary institutions; and supported the Breakfast Feeding programme in two of seven primary schools.

In Health Care, the Foundation contributed \$400,000 towards the maintenance of the Scotiabank Jamaica Foundation Haemodialysis Unit at the Cornwall Regional Hospital, the Scotiabank Centennial Accident and Emergency Unit at the University Hospital of the West Indies and the purchase of implants for corrective spinal surgeries under its Scoliosis and Spine care programme where eight of the nine surgeries were conducted at the Kingston Public Hospital for beneficiaries of the 2013 programme.

In Community Care, the Foundation contributed \$787,000 to community activities. Our staff supported the Jamaica Environment Trust in beach clean-ups across the island on International Coastal Clean-up Day in September; raised funds for the Jamaica Cancer Society's Pink Day in aid of Cancer Awareness Month in October; and supported the Forestry Department by planting over 1,000 trees for National Tree Planting Day.

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
Year ended October 31, 2013

(\$ Thousands)	For the three months ended			For the year ended	
	October 2013	July 2013	October 2012	October 2013	October 2012
Interest Income	7,589,482	7,296,855	7,706,257	29,980,226	29,930,228
Interest Expense	(1,409,402)	(1,390,438)	(1,749,677)	(6,117,194)	(6,975,588)
Net Interest Income	6,180,080	5,906,417	5,956,580	23,863,032	22,954,640
Impairment losses on loans	(191,302)	(173,093)	(238,252)	(1,013,376)	(845,452)
Net interest income after impairment losses	5,988,778	5,733,324	5,718,328	22,849,656	22,109,188
Net fee and commission income	1,474,863	1,496,545	1,299,090	5,797,792	5,247,748
Insurance revenue	476,083	709,417	427,109	2,413,111	2,026,331
Net gains on foreign currency activities	676,720	571,079	371,831	2,729,312	1,389,203
Net gains on financial assets	149,128	193,655	174,241	248,936	259,025
Other revenue	4,609	170,287	(71,458)	202,515	188,085
	2,781,403	3,140,983	2,200,813	11,391,666	9,110,392
Total Operating Income	8,770,181	8,874,307	7,919,141	34,241,322	31,219,580
Operating Expenses					
Salaries and staff benefits	1,261,310	2,411,624	2,291,292	8,417,817	8,543,646
Property expenses, including depreciation	575,139	585,832	490,494	2,190,670	2,054,274
Amortisation of intangible assets	137,905	30,289	10,865	233,279	121,503
Other operating expenses	2,249,727	1,621,700	1,566,246	7,144,315	5,649,880
	4,224,081	4,649,445	4,358,897	17,986,081	16,369,303
Profit before taxation	4,546,100	4,224,862	3,560,244	16,255,241	14,850,277
Taxation	(1,329,144)	(1,167,499)	(938,595)	(4,330,387)	(4,275,186)
Profit for the period	3,216,956	3,057,363	2,621,649	11,924,854	10,575,091
Attributable to:-					
Stockholders of the Company	3,116,515	2,934,514	2,529,039	11,517,195	10,159,045
Non-Controlling Interest	100,441	122,849	92,610	407,659	416,046
Earnings per share (cents)	100	94	81	370	326
Return on average equity (annualized)	18.14%	17.46%	15.76%	17.11%	16.11%
Return on assets (annualized)	3.20%	3.02%	2.82%	2.96%	2.84%
Productivity ratio	49.27%	53.30%	56.36%	53.89%	53.69%

Scotia Group Jamaica Limited
Consolidated Statement of Comprehensive Income
Year ended October 31, 2013

(\$ Thousands)	For the three months ended			For the year ended	
	October 2013	July 2013	October 2012	October 2013	October 2012
Profit for the period	3,216,956	3,057,363	2,621,649	11,924,854	10,575,091
Other comprehensive income					
Unrealised losses on available for sale assets	(167,992)	(651,639)	(877,721)	(879,739)	(1,641,154)
Realised (gains) / losses on available for sale assets	21,653	-	(997)	(892,192)	(324,609)
Amortisation of fair value reserve on financial instruments reclassified to loans and receivable	(2,288)	(33,121)	7,508	(33,014)	56,692
	(148,627)	(684,760)	(871,210)	(1,804,945)	(1,909,071)
Taxation	41,804	116,638	225,570	275,586	567,346
Other comprehensive income, net of tax	(106,823)	(568,122)	(645,640)	(1,529,359)	(1,341,725)
Total comprehensive income for the period	3,110,133	2,489,241	1,976,009	10,395,495	9,233,366
Attributable to:-					
Stockholders of the Company	3,022,597	2,398,440	1,907,188	10,019,375	8,846,751
Non-Controlling Interest	87,536	90,801	68,821	376,120	386,615

SCOTIA GROUP JAMAICA LTD
Consolidated Statement of Financial Position
October 31, 2013

	October 31, 2013	October 31, 2012
(\$ Thousands)		
ASSETS		
CASH RESOURCES	74,882,563	52,868,707
INVESTMENTS		
Held to maturity	12,492,257	11,323,782
Financial assets at fair value through profit and loss	813,101	477,941
Available for sale	80,342,802	84,480,935
	<u>93,648,160</u>	<u>96,282,658</u>
PLEGDED ASSETS	59,028,856	63,057,493
LOANS, AFTER ALLOWANCE FOR IMPAIRMENT LOSSES	134,823,756	122,524,668
OTHER ASSETS		
Customers' liability under acceptances, guarantees and letters of credit	7,173,614	6,333,327
Property, plant and equipment	4,679,879	4,738,704
Deferred taxation	34,349	-
Taxation recoverable	2,499,165	1,692,436
Retirement benefit asset	10,065,469	8,113,770
Other assets	970,319	879,953
Intangible assets	1,499,675	1,717,705
	<u>26,922,470</u>	<u>23,475,895</u>
TOTAL ASSETS	389,305,805	358,209,421
LIABILITIES		
DEPOSITS		
Deposits by the public	183,369,415	160,994,182
Other deposits	14,152,481	10,666,786
	<u>197,521,896</u>	<u>171,660,968</u>
OTHER LIABILITIES		
Acceptances, guarantees and letters of credit	7,173,614	6,333,327
Securities sold under repurchase agreements	42,588,792	45,384,758
Capital management and government securities funds	13,018,564	14,174,566
Deferred taxation	3,179,118	2,938,163
Retirement benefit obligation	2,848,375	2,341,321
Assets held in trust on behalf of participants	38,316	41,905
Other liabilities	7,161,233	6,139,447
	<u>76,008,012</u>	<u>77,353,487</u>
POLICYHOLDERS' FUNDS	43,013,959	41,679,958
STOCKHOLDERS' EQUITY		
Share capital	6,569,810	6,569,810
Reserve fund	3,248,591	3,248,591
Retained earnings reserve	14,391,770	12,441,770
Capital reserve	9,383	9,383
Loan loss reserve	2,781,066	2,299,390
Other reserves	12,892	12,892
Cumulative remeasurement result from available for sale assets	(463,053)	642,821
Unappropriated profits	43,042,579	39,327,555
	<u>69,593,038</u>	<u>64,552,212</u>
Non-controlling interest	3,168,900	2,962,796
	<u>72,761,938</u>	<u>67,515,008</u>
TOTAL EQUITY AND LIABILITIES	389,305,805	358,209,421

Director

Director

SCOTIA GROUP JAMAICA LIMITED
Consolidated Statement of Changes in Shareholders' Equity
October 31, 2013

(\$ Thousands)	Share Capital	Reserve Fund	Retained Earnings Reserve	Capital Reserves	Cumulative Remeasurement result from Available for Sale financial assets	Loan Loss Reserve	Other Reserves	Unappropriated Profits	Total	Non-controlling Interest	Total Equity
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	-	-	-	-	-	-	-	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, net of taxes	-	-	-	-	(227,238)	-	-	-	(227,238)	(29,909)	(257,147)
Amortization of fair value reserves on financial assets reclassified to loans and receivables	-	-	-	-	104,856	-	-	-	104,856	31,303	136,159
Total Comprehensive Income	-	-	-	-	(1,312,294)	-	-	10,159,045	8,846,751	386,615	9,233,366
Transfers between reserves											
Transfer to Retained Earnings Reserve	-	-	1,100,000	-	-	-	-	(1,100,000)	-	-	-
Transfer to Loan Loss Reserve	-	-	-	-	-	48,133	-	(48,133)	-	2,606	2,606
Dividends Paid	-	-	-	-	-	-	-	(4,605,158)	(4,605,158)	(167,343)	(4,772,501)
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
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	-	-	-	-	-	-	-	11,517,195	11,517,195	407,659	11,924,854
Other Comprehensive Income											
Unrealised losses on available-for-sale securities, net of taxes	-	-	-	-	(666,466)	-	-	-	(666,466)	(9,947)	(676,413)
Realised gains on available-for-sale securities, net of taxes	-	-	-	-	(774,864)	-	-	-	(774,864)	(4,728)	(779,592)
Amortization of fair value reserves on financial assets reclassified to loans and receivables	-	-	-	-	(56,490)	-	-	-	(56,490)	(16,864)	(73,354)
Total Comprehensive Income	-	-	-	-	(1,497,820)	-	-	11,517,195	10,019,375	376,120	10,395,495
Transfers between reserves											
Transfer to Retained Earnings Reserve	-	-	1,950,000	-	-	-	-	(1,950,000)	-	-	-
Transfer to Loan Loss Reserve	-	-	-	-	-	481,676	-	(481,676)	-	-	-
Transfer to Unappropriated Profits	-	-	-	-	391,946	-	-	(391,946)	-	-	-
Net movement in reserves for non-controlling interests	-	-	-	-	-	-	-	-	-	5,110	5,110
Dividends Paid	-	-	-	-	-	-	-	(4,978,549)	(4,978,549)	(175,126)	(5,153,675)
Balance at 31 October 2013	6,569,810	3,248,591	14,391,770	9,383	(463,053)	2,781,066	12,892	43,042,579	69,593,038	3,168,900	72,761,938

Scotia Group Jamaica Limited
Condensed Statement of Consolidated Cash Flows
October 31, 2013

(\$ Thousands)	2013	2012
Cash flows provided by / (used in) operating activities		
Profit for the year	11,924,854	10,575,091
Items not affecting cash:		
Depreciation	544,069	466,745
Impairment losses on loans	2,063,978	1,783,741
Amortisation of intangible assets	233,279	121,503
Taxation	4,330,387	4,275,186
Other, net	(24,019,264)	(23,061,236)
	<u>(4,922,697)</u>	<u>(5,838,970)</u>
Changes in operating assets and liabilities		
Loans	(14,339,923)	(24,233,299)
Deposits	21,242,269	16,277,857
Policyholders reserve	1,334,001	2,660,197
Securities sold under repurchase agreement	(2,729,501)	692,209
Financial Assets at fair value through profit and loss	(335,126)	(123,221)
Other, net	6,587,742	19,050,303
	<u>6,836,765</u>	<u>8,485,076</u>
Cash flows provided by / (used in) investing activities		
Investments and pledged assets	7,191,036	(5,177,518)
Repurchase Agreements, net	-	(1,772,947)
Proceeds from sale of shares	-	187,940
Purchase of property, plant, equipment and intangibles	(571,965)	(1,444,104)
Proceeds on sale of property, plant and equipment	227,703	1,545
	<u>6,846,774</u>	<u>(8,205,084)</u>
Cash flows used in financing activities		
Dividends paid	(5,153,675)	(4,772,501)
	<u>(5,153,675)</u>	<u>(4,772,501)</u>
Effect of exchange rate on cash and cash equivalents	3,192,489	668,652
Net change in cash and cash equivalents	11,722,353	(3,823,857)
Cash and cash equivalents at beginning of year	31,384,317	35,208,174
Cash and cash equivalents at end of year	43,106,670	31,384,317
Represented by :		
Cash resources	74,882,563	52,868,707
Less statutory reserves at Bank of Jamaica	(20,363,517)	(17,542,997)
Less amounts due from other banks greater than ninety days	(14,402,337)	(4,085,538)
Less accrued interest on cash resources	(9,027)	(10,439)
Pledged assets less than ninety days	4,607,094	1,563,790
Cheques and other instruments in transit, net	(1,608,106)	(1,409,206)
CASH AND CASH EQUIVALENTS AT END OF YEAR	43,106,670	31,384,317

SCOTIA GROUP JAMAICA LIMITED

Segment Reporting Information

Consolidated Statement of Income

October 31, 2013

<i>(\$ Thousands)</i>	Treasury	Retail Banking	Corporate Banking	Investment Management Services	Insurance Services	Other	Eliminations	Group Total
Net External Revenues	3,994,553	14,841,254	6,140,309	4,362,579	4,255,241	1,660,762	-	35,254,698
Revenues from other segments	(1,150,317)	(464,939)	1,475,811	(3,938)	137,641	7,141	(1,399)	-
Total Revenues	2,844,236	14,376,315	7,616,120	4,358,641	4,392,882	1,667,903	(1,399)	35,254,698
Expenses	(188,290)	(10,338,092)	(5,447,960)	(1,562,118)	(1,227,285)	(28,814)	(206,898)	(18,999,457)
Profit Before Tax	2,655,946	4,038,223	2,168,160	2,796,523	3,165,597	1,639,089	(208,297)	16,255,241
Taxation								(4,330,387)
Profit for the year								11,924,854

Consolidated Balance Sheet

<i>(\$ Thousands)</i>	Treasury	Retail Banking	Corporate Banking	Investment Management Services	Insurance Services	Other	Eliminations	Group Total
Segment assets	94,280,448	84,383,754	63,912,978	73,746,560	51,983,533	26,684,543	(16,810,609)	378,181,207
Unallocated assets								11,124,598
Total Assets								389,305,805
Segment liabilities	2,525,000	103,800,507	104,058,101	61,254,671	43,385,480	251,782	(8,457,254)	306,818,287
Unallocated liabilities								9,725,580
Total liabilities								316,543,867
Other Segment items:								
Capital Expenditure	-	197,807	317,639	25,381	31,138	-	-	571,965
Impairment losses on loans	-	1,071,273	39,657	(97,554)	-	-	-	1,013,376
Depreciation and amortisation	-	332,513	185,250	246,719	12,866	-	-	777,348

SCOTIA GROUP JAMAICA LIMITED

Segment Reporting Information

Consolidated Statement of Income

October 31, 2012

(\$ Thousands)	Treasury	Retail Banking	Corporate Banking	Investment Management Services	Insurance Services	Other	Eliminations	Group Total
Net External Revenues	4,500,018	13,105,437	5,514,560	4,042,557	4,448,436	454,024	-	32,065,032
Revenues from other segments	(1,624,924)	64,370	1,479,391	63,605	8,169	8,004	1,385	-
Total Revenues	2,875,094	13,169,807	6,993,951	4,106,162	4,456,605	462,028	1,385	32,065,032
Expenses	(95,090)	(9,581,725)	(4,916,190)	(1,346,939)	(1,131,893)	(33,253)	(109,665)	(17,214,755)
Profit Before Tax	2,780,004	3,588,082	2,077,761	2,759,223	3,324,712	428,775	(108,280)	14,850,277
Taxation								(4,275,186)
Profit for the year								10,575,091

Consolidated Balance Sheet

(\$ Thousands)	Treasury	Retail Banking	Corporate Banking	Investment Management Services	Insurance Services	Other	Eliminations	Group Total
Segment assets	76,189,249	75,234,212	62,740,117	73,871,395	50,637,238	25,358,259	(14,941,244)	349,089,226
Unallocated assets								9,120,195
Total Assets								358,209,421
Segment liabilities	1,414,457	93,201,605	89,586,359	62,497,336	42,216,124	209,666	(6,794,154)	282,331,393
Unallocated liabilities								8,363,020
Total liabilities								290,694,413
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 amortisation	-	283,553	156,756	127,708	9,851	10,380	-	588,248

SCOTIA GROUP JAMAICA LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
October 31, 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 effective this financial year had no material impact on the 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.

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	37,088	45,178	32,918	45,385
Securities with other financial institutions and clearing houses	<u>11,689</u>	<u>6,601</u>	<u>9,671</u>	<u>-</u>
	48,777	51,779	42,589	45,385
Capital management and government securities funds	<u>10,252</u>	<u>11,278</u>	<u>13,019</u>	<u>14,175</u>
	<u>59,029</u>	<u>63,057</u>	<u>55,608</u>	<u>59,560</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. Salaries and other staff benefits

	<u>2013</u>	<u>2012</u>
Wages and salaries	7,674,840	7,010,897
Statutory payroll contributions	702,237	619,405
Other staff benefits	<u>1,400,140</u>	<u>1,082,433</u>
	9,777,217	8,712,735
Pension costs, net defined benefit plan	(1,921,318)	(653,937)
Other post-employment benefits	<u>561,918</u>	<u>484,848</u>
Total	<u>8,417,817</u>	<u>8,543,646</u>

11. 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.

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

During the year, 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 a capital loss of J\$1.35 billion to the Group.