SCOTIA JAMAICA BUILDING SOCIETY

FINANCIAL STATEMENTS

OCTOBER 31, 2011

KPMG
Chartered Accountants
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INDEPENDENT AUDITORS' REPORT

To the Members of
THE SCOTIA JAMAICA BUILDING SOCIETY

Report on the Financial Statements

We have audited the financial statements of The Scotia Jamaica Building Society ("the Society"), set out on pages 3 to 42, which comprise the statement of financial position as at October 31, 2011, the statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

To the Members of
THE SCOTIA JAMAICA BUILDING SOCIETY

Report on the Financial Statements, cont'd

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the company as at October 31, 2011, and of its financial performance, changes in shareholders' equity and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other matters as required by the Building Societies Act

We have examined the mortgage deeds and other securities belonging to the Society. Title deeds numbering 1,483 held in respect of mortgage loans were produced to us and actually inspected by us and we are satisfied that the remaining deeds not inspected by us were in the hands of attorneys or elsewhere in the normal course of business of the Society.

In our opinion, proper accounting records have been maintained and the financial statements are in agreement therewith, duly vouched, and in accordance with law.

KPMG

Chartered Accountants
Kingston, Jamaica

November 29, 2011

THE SCOTIA JAMAICA BUILDING SOCIETY

Statement of Comprehensive Income
Year ended October 31, 2011
(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2011	2010
Net interest income and other revenue			
Interest and similar income	4	1,386,530	1,250,561
Interest expense	4	(322,325)	(374,825)
Net interest income	4	1,064,205	875,736
Impairment losses on loans, net of recoveries	10	(55,492)	(43,454)
Net interest income after impairment losses on loans		1,008,713	832,282
Net foreign exchange trading income		31	2
Fee and commission income	5	22,444	21,912
		1,031,188	854,196
Expenses			
Salaries, pension plan contributions and other staff benefits	6	108,713	79,833
Property expenses, including depreciation		14,678	12,787
Other operating expenses		81,860	69,446
Total non-interest expenses		205,251	162,066
Profit before taxation	7	825,937	692,130
Taxation	8	(247,781)	(207,639)
Profit for the year		578,156	484,491
Other comprehensive income			
Unrealised (losses)/gains on available-for-sale securities		(2,214)	5,532
Deferred taxation on available-for-sale securities	8(b)	664	(1,660)
Other comprehensive income, net of taxation		(1,550)	3,872
Total comprehensive income for the year		576,606	488,363

THE SCOTIA JAMAICA BUILDING SOCIETY

Statement of Financial Position
October 31, 2011
(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2011	2010
ASSETS			
Cash resources			
Cash and balances with Bank of Jamaica	9	2,689,582	2,206,607
Bank current account with parent	9	180,496	161,690
Amounts due from other financial institutions	9	49,837	40,730
		2,919,915	2,409,027
Loans, after allowance for impairment losses	10	10,267,042	7,587,525
Investment securities			
Available-for-sale	11	1,147,518	1,164,806
Other assets			
Customers' liabilities under guarantees and commitments		657,796	373,579
Property, plant and equipment	12	27,476	25,718
Amounts due from parent		-	64,060
Other receivables		4,464	3,220
		689,736	466,577
		15,024,211	11,627,935

THE SCOTIA JAMAICA BUILDING SOCIETY

Statement of Financial Position (continued)
October 31, 2011
(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2011	2010
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits	13		
Deposits by the public		7,418,739	5,468,645
Amounts due to other financial institutions		1,939,149	1,409,338
		9,357,888	6,877,983
Other liabilities			
Guarantees and commitments		657,796	373,579
Taxation payable		75,611	43,018
Deferred tax liabilities	14	46,909	37,352
Other payables	15	39,483	30,520
Amount due to parent company		4,435	-
		824,234	484,469
		10,182,122	7,362,452
Shareholders' equity			
Share capital	16	70,000	70,000
Reserve fund	17	229,250	229,250
Retained earnings reserve	18	1,800,750	1,800,750
Cumulative re-measurement result from AFS financial securities	19	2,322	3,872
Loan loss reserve	20	204,251	157,483
Unappropriated profits		2,535,516	2,004,128
		4,842,089	4,265,483
		15,024,211	11,627,935

The financial statements on pages 3 to 42 were approved for issue by the Board of Directors on November 29, 2011 and signed on its behalf by:

____________________ Director
Bruce F. Bowen

____________________ Director
H. Wayne Powell

THE SCOTIA JAMAICA BUILDING SOCIETY

Statement of Changes in Shareholders' Equity
Year ended October 31, 2011

(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Number of shares	Amount of share capital	Reserve fund	Retained earnings reserve	Cumulative remeasurement	Loan loss reserve	Unappropriated profits	Total
Balances at October 31, 2009	70,000	70,000	229,250	1,400,750	-	112,824	1,964,296	3,777,120
Movement between reserves:								
Transfer to loan loss reserve	-	-	-	-	-	44,659	(44,659)	-
Transfer to retained earnings reserve	-	-	-	400,000	-	-	(400,000)	-
	-	-	-	400,000	-	44,659	(444,659)	-
Total comprehensive income for the year:								
Profit for the year	-	-	-	-	-	-	484,491	484,491
Other comprehensive income:								
Unrealised gains on available-for-sale securities, net of taxes	-	-	-	-	3,872	-	-	3,872
Total comprehensive income	-	-	-	-	3,872	-	484,491	488,363
Balances at October 31, 2010	70,000	70,000	229,250	1,800,750	3,872	157,483	2,004,128	4,265,483
Movement between reserves:								
Transfer to loan loss reserve	-	-	-	-	-	46,768	(46,768)	-
Total comprehensive income for the year:								
Profit for the year	-	-	-	-	-	-	578,156	578,156
Other comprehensive income:								
Unrealised losses on available-for-sale securities, net of taxes	-	-	-	-	(1,550)	-	-	(1,550)
Total comprehensive income	-	-	-	-	(1,550)	-	578,156	576,606
Balances at October 31, 2011	70,000	70,000	229,250	1,800,750	2,322	204,251	2,535,516	4,842,089

THE SCOTIA JAMAICA BUILDING SOCIETY

Statement of Cash Flows
Year ended October 31, 2011
(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Note	2011	2010
Cash flows from operating activities			
Profit for the year		578,156	484,491
Items not affecting cash:			
Depreciation	12	2,410	2,004
Impairment on loans	10	55,492	43,454
Income tax expense	8	247,781	207,639
Loss on disposal of property, plant and equipment		-	3
Write-off of property, plant and equipment	12	-	2,183
		883,839	739,774
Interest income	4	(1,386,530)	(1,250,561)
Interest expense	4	322,325	374,825
		(180,366)	(135,962)
Changes in operating assets and liabilities:			
Deposits by public		1,960,373	1,206,345
Deposits with other financial institutions		(727)	2,912
Loans		(2,720,581)	(829,717)
Due to other financial institutions		529,857	306,322
Cash reserves at Bank of Jamaica		(23,081)	(8,114)
Other liabilities and provisions		297,615	22,168
Other assets		(222,807)	10,743
		(359,717)	574,697
Interest received		1,377,175	1,247,618
Interest paid		(332,649)	(385,659)
Income tax paid		(205,631)	(193,087)
Net cash provided by operating activities		479,178	1,243,569
Cash flows from investing activities			
Purchase of property, plant and equipment	12	(4,168)	(2,252)
Investment securities and certificates of deposit with Bank of Jamaica, net		12,213	424,567
Net cash provided by investing activities		8,045	422,315
Effect of exchange rate fluctuation on cash and cash equivalents		727	(2,912)
Net increase in cash and cash-equivalents		487,950	1,662,972
Cash and cash-equivalents at beginning of year		2,352,604	689,632
Cash and cash-equivalents at end of year	9	2,840,554	2,352,604

1. Identification, regulation and licence

The Scotia Jamaica Building Society ("the Society") was incorporated under the Building Societies Act on June 24, 1993 and commenced operations in September 1994. The Society is a wholly-owned subsidiary of The Bank of Nova Scotia Jamaica Limited, which is in turn a 100% subsidiary of Scotia Group Jamaica Limited. Both of these companies are incorporated and domiciled in Jamaica. Scotia Group Jamaica Limited is a 71.78% subsidiary of The Bank of Nova Scotia, which is incorporated and domiciled in Canada, and is the ultimate parent. The registered office of the Society is located at 95 Harbour Street, Kingston, Jamaica.

The principal activities are the acceptance of customers' deposits and financing of mortgages. The Society is licensed under the Building Societies Act and the Bank of Jamaica (Building Societies) Regulations, 1995.

The licence requires, *inter alia*, that:

(a) 10% of profit for the year be transferred annually to a reserve fund until the amount in the reserve fund is equal to the total amount paid up on its capital shares and its deferred shares;

(b) 1% of savings funds be maintained as a cash reserve placed on deposit with the Bank of Jamaica provided that the value of qualifying assets is at least 40% of deposit liabilities; and

(c) Liquid assets be 5% of savings fund provided that the value of qualifying assets is at least 40% of deposit liabilities.

2. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements, unless otherwise stated.

(a) Basis of preparation

(i) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

None of the new, revised and amended standards and interpretations that became effective during the current financial year had any significant effect on these financial statements.

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(i) Statement of compliance (continued)

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

At the date of authorisation of these financial statements, certain new, revised and amended standards and interpretations were in issue but were not yet effective, and had not been early-adopted by the Society. The Society has assessed them with respect to its operations and has determined that the following may be relevant:

IAS 1, *Presentation of Financial Statements*, has been amended, effective for annual reporting periods beginning on or after January 1, 2013, 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*, which is effective for annual reporting periods beginning on or after January 1, 2012, requires an entity to measure deferred taxes relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The Society is assessing the impact this standard will have on the financial statements.

IAS 24, *Related Party Disclosures*, which is effective for annual reporting periods beginning on or after January 1, 2011, clarifies and simplifies 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. The Society is assessing the impact this standard will have on the financial statements.

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(i) Statement of compliance (continued)

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

Improvements to IFRS (2010) contain amendments to six standards and to one interpretation and are effective for annual reporting periods beginning on or after July 1, 2010 or January 1, 2011. The main applicable amendments are as follows:

- IFRS 7, *Financial Instruments: Disclosures*, which 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.

IFRS 9, *Financial Instruments*, which is effective for annual reporting periods beginning on or after January 1, 2013, retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. It also includes guidance on classification and measurement of financial liabilities designated as at fair value through profit or loss and incorporates certain existing requirements of IAS 39, *Financial Instruments: Recognition and Measurement,* on the recognition and de-recognition of financial assets and financial liabilities. The Society is assessing the impact the standard will have on its financial statements when it becomes effective.

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(i) Statement of compliance (continued)

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

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

(ii) Basis of measurement

The financial statements have been prepared on the historical cost basis.

(iii) Use of estimates and judgements

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

(iv) Functional and presentation currency

These financial statements are presented in Jamaican dollars, which is the Society's functional currency. Except where indicated to be otherwise, financial information presented in Jamaican dollars has been rounded to the nearest thousand.

(b) Interest income and expense

Interest income and expense are recognised for all interest bearing instruments on the accrual basis using the effective yield method based on the actual purchase price. Interest income includes coupons earned on fixed income investments plus accretion of discount or less amortization of premium on instruments bought at a discount or a premium, respectively.

2. Summary of significant accounting policies (continued)

(b) Interest income and expense (continued)

Where collection of interest income is considered doubtful, or payment is outstanding for more than 90 days, the Building Societies Regulations stipulate that interest should be taken into account on the cash basis. This is different under IFRS, which requires that when loans become doubtful of collection, that is, impaired, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount. However, the difference between the amount which would have been determined under IFRS and that determined under the Building Societies Regulations is considered to be immaterial.

(c) Fees and commission

Fee and commission income are recognised on the accrual basis when the related services are performed. Origination fees for loans which are probable of being drawn down are recognised in profit or loss immediately, as they are not considered material for deferral.

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

(d) Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Jamaican dollars at the exchange rates prevailing at the reporting date, being the mid-point between the Bank of Jamaica's (BOJs) weighted average buying and selling rates at that date.

Transactions in foreign currencies are translated at the rates of exchange ruling at the dates of those transactions.

(e) Taxation

Taxation expense comprises current and deferred income tax charges.

Current taxation charges are based on taxable profit for the year, which differs from the profit before tax reported because it excludes items that are taxable or deductible in other years, and items that are never taxable or deductible. The Society's liability for current tax is calculated at tax rates that have been enacted at the reporting date.

Deferred tax is the tax expected to be paid or recovered on differences between the carrying amounts of assets and liabilities and the corresponding tax bases. 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 in the financial statements. Currently enacted tax rates are used in the determination of deferred tax.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

2. Summary of significant accounting policies (continued)

(f) Financial assets and liabilities

The Society classifies its financial assets into the following categories: loans and receivables, available-for-sale and held-to-maturity financial assets. Management determines the classification of its investments at initial recognition.

(i) Recognition

The Society initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets and liabilities are initially recognised on the trade date, that is, the date at which the Society becomes a party to the contractual provisions of the instrument.

(ii) Derecognition

The Society derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Society is recognised as a separate asset or liability.

The Society derecognises a financial liability when its contractual obligations are discharged or cancelled, or when they expire.

(iii) 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 Society provides money, goods or services directly to a debtor with no intention of trading the receivable.

(iv) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Society's management has the positive intention and ability to hold to maturity. Were the Society to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

2. Summary of significant accounting policies (continued)

(f) Financial assets and liabilities (continued)

(v) Available-for-sale

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale, or that are not classified as loans and receivables, held-to-maturity investments, or financial assets at fair value through profit or loss.

A financial asset is considered impaired if its carrying amount exceeds its estimated recoverable amount. The amount of the impairment loss for an asset carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the original effective interest rate. The recoverable amount of a financial asset carried at fair value is the present value of expected future cash flows discounted at the current market interest rate for a similar financial asset.

(g) Loans and allowance for impairment losses

Loans are stated net of any unearned income and of any allowance for credit losses.

An allowance for loan impairment is established if there is objective evidence that the Society will not be able to collect all amounts due according to the original contractual terms of the loan. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the loans.

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

When a loan is classified as impaired, recognition of interest in accordance with the terms of the original loan ceases, and interest is taken into account on the cash basis. Interest due on impaired loans is not recognised.

The Society maintains an allowance for credit losses which, in management's opinion, is adequate to absorb all credit-related losses in its portfolio. The allowance consists of specific provisions and general provisions for doubtful credits.

Specific provisions are established as a result of reviews of individual loans and are based on an assessment which takes into consideration all factors, including collateral held and business and economic conditions. Collateral held by the Society is valued on the basis of guidelines issued by the Supervisor, Bank of Jamaica.

2. Summary of significant accounting policies (continued)

(g) Loans and allowance for impairment losses (continued)

General provisions for doubtful credits are established against the loan portfolio in respect of the Society's core business lines where a prudent assessment by the Society of adverse economic trends suggests that losses may occur, but where such losses cannot yet be determined on an item-by-item basis. The Supervisor requires that such provision should not be less than 0.5% of the aggregate dollar value for certain residential mortgages for current year and not less than 1% of the aggregate dollar value for all other credits.

Statutory and other regulatory loan loss reserve requirements that exceed the amounts determined under IFRS are included in a non-distributable loan loss reserve as an appropriation of profits.

(h) Guarantees and commitments

The Society's potential liability under acceptances is reported as a liability in the statement of financial position. The Society has equal and offsetting claims against its customers, in the event of a call on these commitments, which are reported as an asset.

(i) Property, plant and equipment

All property, plant and equipment are recorded at historical cost less accumulated depreciation and, if any, impairment losses. Costs include expenditures that are directly attributable to the acquisition of the asset. Depreciation is calculated on the straight-line method at rates estimated to write off the depreciable amounts of the assets over their expected useful lives, as follows:

Freehold buildings	40 years
Furniture, fixtures and equipment	10 years
Computer equipment	4 years
Office machines	5 years

The depreciation method, useful lives and residual values are reassessed at each reporting date.

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

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amounts and are taken into account in determining profit for the year. Repairs and renewals are charged off as expenses when the expenditure is incurred.

2. Summary of significant accounting policies (continued)

(j) Pension plan

The employees of the Society participate in the defined-benefit pension plan of the Society's parent company. The Society's contribution to the plan is at a fixed percentage of pensionable salaries. Once the contributions have been paid, the Society has no further legal or constructive obligations (note 24).

(k) 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 financial institutions, and highly liquid financial assets with original maturities of less than ninety days, which are readily convertible to known amounts of cash, are subject to insignificant risk of changes in their fair value, and are used by the Society in the management of its short-term commitments, rather than for investment or other purposes.

Cash and cash-equivalents are carried at amortised cost.

(l) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

Financial assets comprise cash resources, investment securities, loans, amounts due from parent and other receivables. Financial liabilities include deposits and other liabilities.

The determination of the fair values of financial instruments is disclosed in note 22.

3. Critical accounting estimates and judgements in applying accounting policies

The Society makes estimates and assumptions that affect the amounts of, and disclosures relating to, assets, liabilities, income and expenses reported in these financial statements, and may be reported in the next financial year. Estimates and judgements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances, and are continually evaluated. The significant items most affected by assumptions and judgements are as follows:

(Expressed in thousands of Jamaican dollars unless otherwise stated)

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

(i) Impairment losses on loans and advances

The Society reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Society makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the net present value of estimated cash flows differs by +/-5 percent, the provision would be estimated to be $16,221 (2010: $13,753) higher/$16,221 (2010: $13,753) lower.

(ii) Held-to-maturity investments

The Society follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Society evaluates its intention and ability to hold such investments to maturity. If the Society fails to keep these investments to maturity, other than for the specific limited circumstances, for example, selling other than an insignificant amount close to maturity, it will be required to reclassify the entire class as available-for-sale. The investments would in such a case be measured at fair value, not amortised cost.

4. Net interest income

	2011	2010
Interest income:		
Certificates of deposit with Bank of Jamaica	179,986	128,962
Investment securities	97,845	158,631
Loans	1,105,463	959,796
Other	3,236	3,172
	1,386,530	1,250,561
Interest expense:		
Deposits	(322,325)	(374,825)
Net interest income	1,064,205	875,736

(Expressed in thousands of Jamaican dollars unless otherwise stated)

5. Fee and commission income

	2011	2010
Credit related fees	16,997	19,956
Retail banking fees	5,447	1,956
	22,444	21,912

6. Salaries, pension plan contributions and other staff benefits

	2011	2010
Wages and salaries	100,907	70,268
Statutory payroll contributions	3,633	3,861
Pension plan contributions (note 24)	280	358
Other staff benefits	3,893	5,346
	108,713	79,833

7. Profit before taxation

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

	2011	2010
Audit fees	4,791	4,169
Depreciation (note 12)	2,410	2,004
Directors' fees	2,518	2,977

8. Taxation

(a) The charge is for income tax, computed at 30% of the profit before taxation, as adjusted for tax purposes, and is made up as follows:

	2011	2010
Current income tax	237,560	197,563
Deferred income tax (note 14)	10,221	10,076
	247,781	207,639

(Expressed in thousands of Jamaican dollars unless otherwise stated)

8. Taxation (continued)

(b) Income tax effects relating to other comprehensive income:

	Before tax amount (Note 19)	Tax expenses (Notes 14,19)	Net of tax amount
2011			
Available-for-sale securities	(2,214)	664	(1,550)
2010			
Available-for-sale securities	5,532	(1,660)	3,872

9. Cash resources

(a) Cash reserves at Bank of Jamaica represent funds which have been deposited at Bank of Jamaica [note 1(b)]. This amount is held, under Section 31 of the Bank of Jamaica (Building Societies) Regulations, 1995, substantially on a non-interest-bearing basis and is not available for investment or other use by the Society.

(b) Amounts due from other financial institutions represent placements with overseas banks.

(c) The bank current account balance is held with the Society's parent, The Bank of Nova Scotia Jamaica Limited.

Cash resources making up cash and cash equivalents are as follows:

	2011	2010
Cash and balances with Bank of Jamaica (a)	2,689,582	2,206,607
Less: Statutory Reserves	(72,588)	(49,506)
Less: Balances at bank greater than 90 days	-	-
	2,616,994	2,157,101
Amounts due from other financial institutions (b)	49,837	40,727
Bank current account with parent (c)	180,496	161,690
	2,847,327	2,359,518
Less: Accrued interest on BOJ CD's	(6,773)	(6,914)
	2,840,554	2,352,604

(Expressed in thousands of Jamaican dollars unless otherwise stated)

10. Loans, after allowance for impairment losses

	2011	2010
Business	-	2,314
Residential mortgages	10,390,257	7,655,514
	10,390,257	7,657,828
Less: Allowance for impairment losses	(123,215)	(70,303)
	10,267,042	7,587,525

(a) The aging of the loans at the reporting date was as follows:

	2011	2010
Neither past due nor impaired	7,994,108	5,872,427
Past due but not impaired		
Past due 0-30 days	1,222,470	909,680
Past due 30-60 days	418,329	293,080
Past due 60-90 days	218,716	154,602
	1,859,515	1,357,362
Past due and impaired		
Past due more than 90 days [note 10(d)]	448,126	353,959
Interest receivable	88,508	74,080
Gross loan portfolio	10,390,257	7,657,828
Less: Allowance for impairment losses [note 10(d)]	(123,215)	(70,303)
	10,267,042	7,587,525

Based on historic default rates, the Society believes that no impairment allowance is necessary in respect of loans past due up to 90 days.

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

(b) Renegotiated loans:

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account may be reset to a normal status and managed together with other similar accounts after careful analysis and demonstrated ability to maintain the scheduled payments over a prolonged period.

Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continual review.

The Society did not renegotiate loans that would otherwise be past due or impaired during the current or previous year.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

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

(c) Repossessed collateral:

Repossessed properties are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. In general, repossessed properties are not utilised for business use.

The Society has no repossessed collateral.

(d) Allowance for impairment losses:

	2011	2010
Total amount of non-performing loans [note 10(a)]	448,126	353,959
Allowance at beginning of year	70,303	41,951
Charged against revenue during the year	55,492	43,454
Bad debts written off	(2,580)	(15,102)
Allowance at end of year [note 10(a)]	123,215	70,303

(e) Collateral accepted as security for assets:

The fair value of assets accepted as collateral that the Society is permitted to sell or repledge in the case of default is $Nil (2010: $Nil). The fair value of any such collateral that has been sold or repledged was $Nil (2010: $Nil).

Uncollected interest not accrued in the financial statements on impaired loans is estimated at $146,032 (2010: $117,933).

11. Investment securities

These represent investments in Government of Jamaica securities.

	2011	2010
Government of Jamaica securities	1,130,917	1,143,132
Accrued interest	16,601	21,674
	1,147,518	1,164,806

The Society participated in the Jamaica Debt Exchange programme during February 2010 under which 100% of all securities held were exchanged for notes with lower yields and longer tenures. Upon the exchange of the securities, management designated all new notes as available-for-sale.

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12. Property, plant and equipment

	Freehold Land & Buildings	Furniture, Fixtures & Equipment	Computer Equipment	Office Machines	Total
Cost:					
October 31, 2009	29,969	12,502	4,453	1,048	47,972
Additions	-	-	2,252	-	2,252
Write-off	-	-	(2,183)	-	(2,183)
October 31, 2010	29,969	12,502	4,522	1,048	48,041
Additions	2,292	-	1,876	-	4,168
October 31, 2011	32,261	12,502	6,398	1,048	52,209
Depreciation:					
October 31, 2009	7,698	9,560	4,240	1,002	22,500
Charge for the year	630	645	706	23	2,004
Eliminated on write-off	-	-	(2,181)	-	(2,181)
October 31, 2010	8,328	10,205	2,765	1,025	22,323
Charge for the year	686	602	1,099	23	2,410
October 31, 2011	9,014	10,807	3,864	1,048	24,733
Net book values:					
October 31, 2011	23,247	1,695	2,534	-	27,476
October 31, 2010	21,641	2,297	1,757	23	25,718
October 31, 2009	22,271	2,942	213	46	25,472

13. Deposits

	2011	2010
Personal	6,551,407	4,880,533
Financial institutions	1,939,149	1,409,338
Other	867,332	588,112
	9,357,888	6,877,983

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14. Deferred tax liabilities

Deferred tax is calculated on all temporary differences under the liability method using an effective tax rate of 30%.

The movement on the deferred tax account is as follows:

	2011	2010
Balance at beginning of year	(37,352)	(25,616)
Charged/(credited) in statement of revenue and expenses [note 8 (a)]	(10,221)	(10,076)
Revaluation of available-for-sale investments [note 8 (b)]	664	(1,660)
Balance at end of year	(46,909)	(37,352)

Deferred tax liabilities are attributable to the following items:

	2011	2010
Outstanding vacation leave	1,149	802
Accelerated tax depreciation	(110)	(160)
Allowance for loan impairment	(46,952)	(36,334)
Revaluation of available-for-sale investments	(996)	(1,660)
	(46,909)	(37,352)

The deferred tax charged in the statement of comprehensive income comprises the following temporary differences:

	2011	2010
Accelerated tax depreciation	50	8
Outstanding vacation leave	347	650
Allowance for loan impairment	(10,618)	(10,734)
	(10,221)	(10,076)

15. Other payables

The movement on accrued vacation leave included in other payables is as follows:

	2011	2010
At beginning of year	2,673	506
Provided during the year	3,829	2,673
Utilised during the year	(2,673)	(506)
At end of year	3,829	2,673

(Expressed in thousands of Jamaican dollars unless otherwise stated)

16. Share capital

	2011	2010
Authorised, issued and fully paid:		
70,000 (2010: 70,000) proprietary shares of $1,000 each	70,000	70,000

17. Reserve fund

	2011	2010
As at October 31	229,250	229,250

As required by the Bank of Jamaica (Building Societies) Regulations, 1995, the Society makes transfers of a minimum of 10% of net profit, depending on the circumstances, to the reserve fund until the amount in the fund is equal to the total of the amount paid up on its capital shares and the amount of its deferred shares. No transfers were made during the year as the Society has attained the required statutory level.

18. Retained earnings reserve

Transfers to the retained earnings reserve are made at the discretion of the Board of Directors. During the financial year no transfer was made to the reserve.

19. Cumulative re-measurement result from AFS securities

This represents the unrealised gains on the revaluation of available-for-sale securities.

	2011	2010
Balance at beginning of year	3,872	-
Unrealised gains on available-for-sale securities (note 14)	(2,214)	5,532
Deferred taxation on available-for-sale securities (note 14)	664	(1,660)
Balance at end of year	2,322	3,872

20. Loan loss reserve

The loan loss reserve represents the excess of the loan loss provision over IAS 39 requirements, and is non-distributable.

21. Financial risk management

The Society's activities expose it to a variety of financial risks, including the effects of changes in foreign currency exchange rates and interest rates. Management seeks to minimise potential adverse effects on the financial performance of the Society by applying procedures to identify, evaluate and manage these risks, based on guidelines set by the Board of Directors.

21. Financial risk management (continued)

The Society's activities are principally related to the use of financial instruments. Therefore, this will involve analysis, evaluation and management of some degree of risk or a combination of risks. The Society's aim is, therefore, to achieve an appropriate balance between risk and return and minimise potential adverse effects on it's financial performance.

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

The Board of Directors is ultimately responsible for the establishment and oversight of the Society's risk management framework.

The Society manages its risk through the Asset and Liability Committee (ALCO), which carries out extensive research and monitors the price movement of securities on the local and international markets. ALCO has the responsibility of ensuring that risks are managed within the limits established by the Board of Directors; it meets at least once monthly to review risks, evaluate performance and provide strategic direction. It also reviews investment, loan and funding activities, and ensures that the existing policies comprehensively deal with the management and diversification of the Society's investment and loan portfolios and that appropriate limits are being adhered to.

The most important types of risk for the Society are credit risk, market risk and liquidity risk.

(a) Credit risk:

(i) Management of credit risk

The Society takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are made for losses that have been incurred at the reporting date. However, significant negative changes in the economy, industry segment that represent a concentration in the Society's loan portfolio, or positions in tradable assets such as bonds, could result in losses that are different from those provided for at the reporting date.

21. Financial risk management (continued)

(a) Credit risk (continued):

(i) Management of credit risk (continued)

At a strategic level, the Society manages the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to any one borrower, or group of borrowers, and industry segments. Limits on the level of credit risk by product and industry sector are approved quarterly by the Board of Directors. The exposure to any one borrower, including banks and brokers, is further restricted by sub-limits covering on and off-balance sheet exposures. Actual exposures against limits are monitored daily.

Operationally, the exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by restructuring loans where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and personal guarantees. The principal collateral types for loans are charges over residential properties.

Collateral held as security for financial assets other than loans is determined by the nature of the instrument. Debt securities are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

The Society's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the reporting date on a case-by-case basis, and are applied to all individually significant accounts.

The assessment normally encompasses collateral held and the anticipated receipts for that individual account. Collectively assessed impairment allowances are provided for:

(1) portfolios of homogenous assets; and

(2) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques.

The Society further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of assets and liabilities on the statement of financial position, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

21. Financial risk management (continued)

(a) Credit risk (continued):

(ii) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees which represent irrevocable assurances that the Society will make payments on behalf of a customer to complete a mortgage transaction, carry the same credit risk as loans.

(iii) Credit quality

In measuring credit risk at the counterparty level, the loans are risk-rated based on an internal scoring system which combines statistical analysis with credit officer judgement. The table below shows the percentage of the Society's loan portfolio as at October 31, 2011 relating to loans and credit commitments for each of the internal rating categories:

	Loans and credit commitments	
	2011 (%)	2010 (%)
Excellent	49.5	60.3
Good	43.1	32.4
Higher risk	7.4	7.3
	100.0	100.0

If the Society's rating scale was done using the Bank of Jamaica Credit Classification, Provisioning and Non Accrual Requirements, the credit profile of the Society would be as follows:

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

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

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

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

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

(Expressed in thousands of Jamaican dollars unless otherwise stated)

21. Financial risk management (continued)

(a) Credit risk (continued):

(iii) Credit quality (continued)

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

	2011	2010
Standard	95.0%	94%
Special Mention	0.6%	1%
Sub-Standard	3.0%	2%
Doubtful	0.4%	1%
Loss	1.0%	2%
	100.0%	100%

The following table presents an analysis by rating agency designation of debt and similar securities, other than loans, based on Standard & Poor's ratings or their equivalent as at October 31:

	2011	2010
BB to B-	3,764,512	3,321,907
Lower than B-	-	-
Of which classifed as:		
Cash resources:		
Deposits with Bank of Jamaica (note 9)	2,616,994	2,157,101
Government of Jamaica investment securities		
Available-for-sale (note 11)	1,147,518	1,164,806
	3,764,512	3,321,907

(Expressed in thousands of Jamaican dollars unless otherwise stated)

21. Financial risk management (continued)

(a) Credit risk (continued):

(iv) Maximum exposure to credit risk

The following represents the maximum exposure to credit risk, before taking account of any collateral held or other credit enhancements. For financial assets, the exposure to credit risk equals their carrying amount. For financial guarantees granted, the maximum exposure to credit risk is the maximum amount that would have to be paid if the guarantees were called upon. For loan commitments and other credit-related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

	2011	2010
Deposits with the Bank of Jamaica	2,689,582	2,206,607
Deposits due from other financial institutions	230,333	202,420
Loans, after allowance for impairment losses	10,267,042	7,587,525
Investment securities	1,147,518	1,164,806
Customers' liabilities under guarantees and commitments	657,796	373,579
Other assets	-	64,060
	14,992,271	11,598,997

The following table summarises the credit exposure of the Society for loans to individuals, businesses and Government:

	Loans 2011	Guarantees and commitments 2011	Total 2011	Total 2010
Personal	10,390,257	657,796	11,048,053	8,029,093
Professional and other services	-	-	-	2,314
Total	10,390,257	657,796	11,048,053	8,031,407
Total impairment allowance	(123,215)	-	(123,215)	(70,303)
	10,267,042	657,796	10,924,838	7,961,104

(Expressed in thousands of Jamaican dollars unless otherwise stated)

21. Financial risk management (continued)

(a) Credit risk (continued):

(v) Debt securities and amounts due from other banks

The following table summarises the Society's credit exposure for debt securities and amounts due from other banks at their carrying amounts, as categorised by issuer:

	2011	2010
Government of Jamaica securities	1,147,518	1,164,806
Bank of Jamaica	2,689,582	2,206,607
Financial institutions	230,333	202,420
	4,067,433	3,573,833

There was no change to the Society's approach to measuring and managing credit risk during the year.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and currency, both of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices, such as interest rates and foreign exchange rates.

The market risks relevant to the Society are interest rate and foreign exchange risks, which are discussed below:

(i) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Society takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Society monitors interest rate risk using its Asset and Liability model. It calculates the interest rate risk gaps, economic value and annual income amounts which are compared with risk limits approved by the Board of Directors. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly.

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21. Financial risk management (continued)

(b) Market risk (continued)

(i) Interest rate risk (continued)

The following table summarises carrying amounts of assets, liabilities and equity, in order to arrive at the Society's interest rate gap based on the earlier of contractual repricing and maturity dates.

	2011						
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-rate sensitive	Total
Cash resources	156,972	2,660,058	-	-	-	102,885	2,919,915
Investment securities	-	1,085,000	10,000	32,600	-	19,918	1,147,518
Loans, after allowance for impairment losses (1)	-	8,267,128	202,040	1,610,137	99,229	88,508	10,267,042
Other assets	-	-	-	-	-	689,736	689,736
Total assets	156,972	12,012,186	212,040	1,642,737	99,229	901,047	15,024,211
Deposits	4,333,059	4,301,827	660,190	34,441	1,214	27,157	9,357,888
Other liabilities (2)	-	-	-	-	-	824,234	824,234
Shareholders' equity	-	-	-	-	-	4,842,089	4,842,089
Total liabilities and shareholders' equity	4,333,059	4,301,827	660,190	34,441	1,214	5,693,480	15,024,211
Total interest rate sensitivity gap	(4,176,087)	7,710,359	(448,150)	1,608,296	98,015	(4,792,433)	-
Cumulative gap	(4,176,087)	3,534,272	3,086,122	4,694,418	4,792,433	-	-
	2010						
Total interest rate sensitivity gap	(3,406,244)	7,129,103	(347,390)	642,600	82,963	(4,101,032)	-
Cumulative gap	(3,406,244)	3,722,859	3,375,469	4,018,069	4,101,032	-	-

(1) This includes impaired loans
(2) This includes non-financial instruments

Sensitivity to interest rate movements:

The following table shows the potential impact on profit or loss and shareholders' equity in the event of shifts in interest rates.

The changes in interest rates as noted below are based on recently observed market movements. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

21. Financial risk management (continued)

(b) Market risk (continued)

(i) Interest rate risk (continued)

	2011	2010
JMD Interest rates	increase/decrease by 125bps	increase/decrease by 450bps
USD Interest rates	increase/decrease by 200bps	increase/decrease by 200bps

	2011	2010
Effect on profit or loss	5,420	54,038
Effect on shareholders' equity	3,304	48,702

Average effective yields by the earlier of the contractual repricing and maturity dates:

	2011					
	Immediately rate sensitive %	Within 3 months %	3 to 12 months %	1 to 5 years %	Over 5 years %	Average %
Cash resources	2.3	6.0	-	-	-	5.7
Investment securities						
Available-for-sale	-	7.7	12.0	12.2	-	7.7
Loans, after allowance for impairment losses (1)	-	12.0	12.3	10.9	11.5	11.8
Deposits (2)	3.9	3.5	3.1	7.0	7.0	3.7

	2010					
	Immediately rate sensitive %	Within 3 months %	3 to 12 months %	1 to 5 years %	Over 5 years %	Average %
Cash resources	2.6	7.8	-	-	-	7.5
Investment securities						
Available-for-sale	-	9.7	11.8	12.2	-	9.9
Loans, after allowance for impairment losses (1)	-	13.2	14.3	11.0	12.0	13.0
Deposits (2)	5.1	5.6	6.0	6.9	7.0	5.4

(1) Yields are based on book values, net of allowances for credit losses.
(2) Yields are based on contractual interest rates.

21. Financial risk management (continued)

(b) Market risk (continued)

(ii) Determination of fair values and fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The source of the input parameter for the Jamaica Sovereign yield curve is Bloomberg.

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available.

This hierarchy requires the use of observable market data when available. The company considers relevant and observable market prices in its valuations where possible.

	2011			
	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	-	1,147,518	-	1,147,518

	2010			
	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	-	1,164,806	-	1,164,806

(Expressed in thousands of Jamaican dollars unless otherwise stated)

21. Financial risk management (continued)

(b) Market risk (continued)

(iii) Foreign exchange risk:

The Society takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The main currencies giving rise to this risk are the USD and GBP. The Society ensures that the net exposure is kept to an acceptable level by matching foreign assets with liabilities as far as possible.

The Society's exposure to foreign exchange risk was as follows, based on notional amounts:

	2011			
JMD Equivalent	JMD	USD	GBP	TOTAL
ASSETS				
Cash resources	2,852,367	50,631	16,917	2,919,915
Investments	1,147,518	-	-	1,147,518
Loans	10,267,042	-	-	10,267,042
Other assets	692,538	1,923	(4,725)	689,736
	14,959,465	52,554	12,192	15,024,211
LIABILITIES				
Deposits	9,293,299	52,403	12,186	9,357,888
Other liabilities	824,077	151	6	824,234
	10,117,376	52,554	12,192	10,182,122
Net position	4,842,089	-	-	4,842,089

	2010			
JMD Equivalent	JMD	USD	GBP	TOTAL
ASSETS				
Cash resources	2,329,985	65,423	13,619	2,409,027
Investments	1,164,806	-	-	1,164,806
Loans	7,587,525	-	-	7,587,525
Other assets	478,669	(8,046)	(4,046)	466,577
	11,560,985	57,377	9,573	11,627,935
LIABILITIES				
Deposits	6,811,048	57,369	9,566	6,877,983
Other liabilities	484,454	8	7	484,469
	7,295,502	57,377	9,573	7,362,452
Net position	4,265,483	-	-	4,265,483

(Expressed in thousands of Jamaican dollars unless otherwise stated)

21. Financial risk management (continued)

(b) Market risk (continued)

(iii) Foreign exchange risk (continued):

Sensitivity to foreign exchange rate movements

A weakening of the JMD against the following currencies at October 31 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is performed on the same basis for 2010, analysing the market movements for exchange rates during the year. The strengthening of the JMD against the same currencies at 31 October would have had the equal but opposite effect on the amounts shown, on the basis that all other variables remain constant.

	2011	2010
USD	increase / decrease by 7.5%	increase/decrease by 15%
GBP	increase / decrease by 20%	Increase/decrease by 25%

	2011	2010
Effect on profit or loss and shareholders' equity	16	36

The following significant exchange rates were applied during the period:

	Average rate		Reporting date spot rate	
	2011	2010	2011	2010
USD	85.7820	87.7303	86.2778	85.3825
GBP	137.0296	135.8581	137.6197	135.5446

There was no change to the Society's approach to measuring and managing market risks during the year.

(c) Liquidity risk

The Society is exposed to daily calls on its available cash resources from maturing deposits and loan disbursements. The Society does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

21. Financial risk management (continued)

(c) Liquidity risk (continued)

The Board of Directors approves the Society's liquidity and funding management policies and establishes limits to control the risk. The Society assesses the adequacy of its liquidity position by analyzing its current liquidity position, present and anticipated funding requirements, and alternative sources of funds. This process includes:

- Projecting day-to-day cash flows for each major currency;
- Managing the concentration and profile of debt maturities;
- Monitoring of depositor concentration both in terms of the overall funding mix and to avoid undue reliance on large individual depositors;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption of cash flow;
- Monitoring liquidity ratios against internal and regulatory requirements; and
- Maintenance of liquidity and funding contingency plans.

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

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Society and its exposure to changes in interest rates and exchange rates.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

21. Financial risk management (continued)

(c) Liquidity risk (continued)

Financial liabilities cash flows

The tables below present the undiscounted cash flows payable (both interest and principal cash flows) to settle the Society's financial liabilities, based on contractual repayment obligations. The Society expects that many depositors will not request repayment on the earliest date the Society could be required to pay. The expected maturity dates of financial assets and liabilities are based on estimates made by management as determined by retention history.

	2011					
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total	Carrying amount
Financial liabilities						
Deposits by the public	8,694,824	678,491	34,441	1,214	9,408,970	9,357,888
Other liabilities	686,836	75,611	-	-	762,447	701,714
Total liabilities (contractual maturity dates)	9,381,660	754,102	34,441	1,214	10,171,417	10,059,602

	2010					
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total	Carrying amount
Financial liabilities						
Deposits by the public	6,150,878	757,896	32,116	11,850	6,952,740	6,877,983
Other liabilities	384,099	63,018	-	-	447,117	404,099
Total liabilities (contractual maturity dates)	6,534,977	820,914	32,116	11,850	7,399,857	7,282,082

There was no change to the Society's approach to measuring and managing market risks during the year.

22. Fair values of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Market price is used to determine fair value where an active market exists as it is the best evidence of the fair value of a financial instrument. However, market prices are not available for a significant number of the financial assets held and liabilities issued by the Society. Therefore, for financial instruments where no market price is available, the fair values presented have been estimated using present value or other estimation and valuation techniques based on market conditions existing at the reporting date.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

22. Fair values of financial instruments (continued)

The values derived from applying these techniques are significantly affected by the underlying assumptions used concerning both the amounts and timing of future cash flows and the discount rates. The following methods and assumptions have been used:

(i) The fair value of liquid assets and other assets maturing within one year is assumed to approximate their carrying amount. This assumption is applied to liquid assets and the short-term elements of all other financial assets and liabilities;

(ii) The fair value of time deposits with no specific maturity is assumed to be the amount payable on demand at the reporting date;

(iii) The fair value of variable rate financial instruments is assumed to approximate their carrying amounts; and

(iv) The fair value of fixed rate loans is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. If the difference is significant, the fair value is computed by discounting future cash flows from the loans using the market interest rates current at the year-end. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values as the impact of credit risk is recognised separately by deducting the amount of the provision for credit losses from both book and fair values.

The following table presents the fair value of financial instruments not carried at fair value, based on the above-mentioned valuation methods and assumptions:

	2011		2010	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Investment securities	1,147,518	1,147,518	1,164,806	1,164,806
Loans	10,267,042	10,269,125	7,587,525	7,446,722
Financial liability				
Deposits	9,357,888	9,347,395	6,877,983	6,867,824

23. Capital risk management

Capital risk is the risk that the Society fails to comply with mandated regulatory requirements, resulting in a breach of its minimum capital ratios and the possible suspension or loss of its licences.

Regulators are primarily interested in protecting the rights of depositors, and monitor the Society closely to ensure that it is satisfactorily managing its fiduciary responsibility to the depositors. At the same time, the regulators are also interested in ensuring that the Society maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters.

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

- To comply with the capital requirements established by the regulatory authority;
- To safeguard its ability to continue as a going concern, and meet future obligations to depositors and shareholders;
- To provide adequate returns to shareholders by pricing investment and other contracts commensurately with the level of risk; and
- To maintain a strong capital base to support the future development of the Society's operations.

The Society is regulated by the Bank of Jamaica, which sets and monitors capital adequacy requirements. Required capital adequacy information is filed with the regulators at least on an annual basis.

Regulatory capital is divided into two tiers:

1. Tier 1 capital comprises share capital, reserve fund and reserves created by appropriations of retained earnings.
2. Tier 2 capital comprises qualifying subordinated loan capital, collective impairment allowances and revaluation surplus on property and equipment.

The Risk weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of each asset and counterparty, taking into account any eligible collateral and guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the composition of regulatory capital and the ratios for the Society. During the year, the Society complied with all of the externally imposed capital requirements to which it is subject.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

23. Capital risk management (continued)

	2011	2010
Tier 1 capital	2,100,000	2,100,000
Tier 2 capital	47,744	36,368
Total regulatory capital	2,147,744	2,136,368
Risk weighted assets		
On-balance sheet	6,034,263	4,444,397
Foreign exchange position	14,735	14,513
Total risk weighted assets	6,048,998	4,458,910
Actual regulatory capital to risk weighted assets (%)	35.5	47.9
Regulatory requirement (%)	10.0	10.0

There was no change to the Society's approach to measuring and managing capital risk during the year.

24. Pension plan

(a) The employees of the Society participate in the Bank of Nova Scotia Jamaica Limited's defined-benefit pension plan, the assets of which are held independently of the Bank's assets in a separate fund administered by Trustees.

The fund established under the plan is valued annually by independent actuaries using the Projected Unit Credit Method.

The Society contributes at a fixed rate of 2% of pensionable salary. Any funding deficiency of the plan is absorbed by the Bank. Accordingly, the Society is not entitled to any surplus that may arise.

(b) Benefits to members are based on the final pensionable salary (the average of the best of three consecutive years' remuneration, with no salary cap), as follows:

(i) Per year of contributory service - 1¾% of final pensionable salary;

(ii) Per year of non-contributory service:

- 1½% of final pensionable salary for employees who started to contribute on November 1, 1971; and
- 1¼% of final pensionable salary for employees who started to contribute after November 1, 1971.

(iii) Maximum pension is the lesser of 70% of the average of final pensionable salary and ⅔ of salary at retirement.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

24. Pension plan (continued)

(c) The employees contribute 3% of salary up to $250 per annum, plus 6% of salary thereafter.

(d) The Society's contributions for the year amounted to $280 (2010: $358) (note 6).

25. Commitments

	2011	2010
Commitments to extend credit	657,796	373,579

26. Related party transactions and balances

A number of transactions are entered into with related parties, including companies, in the normal course of business. The amounts of related party transactions, outstanding balances at the year end, and related expenses and income for the year are as follows:

	Directors and key management personnel	
	2011	2010
Loans		
Loans outstanding at beginning of year	64,368	64,803
Net movements	1,179	(435)
Loans outstanding at end of year	65,547	64,368
Interest income earned	6,116	6,945
Average repayment term (years)	18.94	21.67
Average interest rate (%)	8.32	10.40

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

(Expressed in thousands of Jamaican dollars unless otherwise stated)

26. Related party transactions and balances (continued)

	Directors and key management personnel	
	2011	2010
Deposit liabilities:		
Deposits outstanding at beginning of year	4,160	8,121
Net movement	(422)	(3,961)
Deposits outstanding at end of year	3,738	4,160
Interest expense on deposits	84	377
Average interest rate (%)	1.25	3.64

	2011	2010
Bank current account with parent:		
At beginning of year	161,690	157,240
Net movement	18,806	4,450
At end of year	180,496	161,690
Interest income	3,089	3,066
Average interest rate (%)	2.30	3.20

Key management compensation

	2011	2010
Salaries and other short term benefits	49,630	28,502

There were no related party transactions with the ultimate parent company.

27. Litigation and contingent liabilities

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

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