# 2005 ANNUAL REPORT

Scotiabank

# Who We Are

Scotiabank is Jamaica's leading financial institution. Through our network of 42 branches, supported by over 1,800 dedicated and highly trained employees across the country, we offer a complete line of retail and commercial products and services. Our 155 Automated Banking Machines islandwide are available for the 24 hour banking convenience of our customers.

At Scotiabank, our energies are focused on being the financial institution of choice - anticipating and fulfilling our customers' financial needs.

We are committed to our employees' welfare, and the maximization of our shareholders' wealth. We build strong relationships with the communities we serve, through our Scotiabank Volunteers and the contributions of Scotiabank Jamaica Foundation.

## Contents

# 2005 Performance

## Return on Average Equity (ROE)

Performance: 26.33%

ROE measures how well the Bank is using common shareholders' invested money. It is calculated by dividing net income available to common shareholders by average common shareholders' equity.

## Earnings Per Share (EPS)

Performance: $2.01

EPS is the net income a company has generated per common share. It is calculated by dividing net income available to shareholders by the average number of common shares outstanding.

## Productivity

Performance: 52.47%

The Productivity Ratio measures the overall efficiency of the Bank. It expresses non-interest expenses as a percentage of total revenue. A lower ratio indicates better productivity. By this measure, Scotiabank has historically been significantly better than the international benchmark of 60%.

## Risk Based Capital Adequacy

Performance: 21.53%

The Risk Based Capital Adequacy Ratio is a measure of the Bank's overall strength. It requires that the Bank maintain a ratio between its capital base and the aggregate of its risk weighted assets at no less than 10%. Scotiabank Jamaica has continued to maintain a strong capital adequacy ratio.

# Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Thirty-Ninth Annual General Meeting of THE BANK OF NOVA SCOTIA JAMAICA LIMITED will be held on Friday the 17th February 2006 at 10:00 a.m. at the Jamaica Pegasus Hotel, 81 Knutsford Boulevard, Kingston 5, Jamaica for the following purposes, namely: -

1. To consider the Company's Accounts and the Reports of the Directors and the Auditors for the year ended October 31, 2005 and to consider and (if thought fit) pass the following resolution:

   **<u>Resolution No. 1</u>**

   "That the Directors' Report, the Auditors' Report and the Statements of Account of the Company for the year ended October 31, 2005 be approved and adopted."

2. To approve and ratify interim dividends:-

   To consider and (if thought fit) pass the following resolution:

   **<u>Resolution No. 2</u>**

   "That the interim dividends paid of 50 cents on April 7, 2005, 25 cents on July 7, 2005, 25 cents on October 13, 2005 and 25 cents on January 5, 2006 be and are hereby ratified."

3. To elect Directors and fix their remuneration. The Directors retiring from office by rotation pursuant to Article 90 of the Company's Articles of Association are Miss Muna Issa, Mr. Charles Johnston, Mr. Warren McDonald and Dr. Herbert Thompson, who being eligible offer themselves for re-election.

   In accordance with Article 93 of the Company's Articles of Association, Mr. Joseph M. Matalon, Professor Stephen Vasciannie and Miss Stacie-Ann Wright, having been appointed to the Board since the last Annual General Meeting shall cease to hold office and, being eligible, offer themselves for election.

   To consider and (if thought fit) pass the following resolutions:

   **<u>Resolution No. 3</u>**

   a) "That retiring Director Muna Issa be and is hereby re-elected a Director of the Company."

   b) "That retiring Director Charles Johnston be and is hereby re-elected a Director of the Company."

   c) "That retiring Director Warren McDonald be and is hereby re-elected a Director of the company."

   d) "That retiring Director Herbert Thompson be and is hereby re-elected a Director of the Company."

   e) "That retiring Director Joseph M. Matalon be and is hereby elected a Director of the Company."

   f) "That retiring Director Stephen Vasciannie be and is hereby elected a Director of the Company."

   g) "That retiring Director Stacie-Ann Wright be and is hereby elected a Director of the Company."

4. To appoint Auditors and authorise the Directors to fix the remuneration of the Auditors.
To consider and (if thought fit) pass the following resolution as a special resolution:

**Resolution No. 4**

"KPMG, Chartered Accountants, be and are hereby appointed Auditors of the Company to hold office until the next Annual General Meeting at a remuneration to be fixed by the Directors of the Company."

5. Any other business for which due notice has been given.

BY ORDER OF THE BOARD

David Noël
Secretary
November 24, 2005

REGISTERED OFFICE
Scotiabank Centre
Duke & Port Royal Streets
Kingston

A member entitled to attend and vote at this meeting may appoint a Proxy to attend and vote in his/her stead. A Proxy need not also be a Member of the Company. Enclosed is a Proxy Form for your convenience, which must be lodged at the Company's Registered Office at least forty-eight hours before the time appointed for holding the meeting. The Proxy Form shall bear the stamp duty of $100.00 before being signed. The stamp duty may be paid by adhesive stamp(s) to be cancelled by the person executing the Proxy.

# Financial & Other Highlights

| Financial Position ($ Millions) | 2005 | 2004 |
|---|---|---|
| Total Assets | 183,461 | 168,168 |
| Earning Assets | | |
| Performing Loans, net of provisions | 56,730 | 52,420 |
| Repos | 27,227 | 25,046 |
| Non performing Loans | 918 | 1,039 |
| Investments & Others | 76,672 | 65,546 |
| Deposits by the public | 107,280 | 98,811 |
| Stockholders' Equity | 23,525 | 20,605 |
| **Earnings and Dividends ($Millions)** | | |
| Gross Operating revenue | 25,008 | 25,313 |
| Profit before Taxation | 8,330 | 8,173 |
| Profit after Taxation | 5,886 | 5,856 |
| Dividends paid and proposed | 2,927 | 3,118 |
| **Financial Ratios** | | |
| Earnings per stock unit ($)* | 2.01 | 2.00 |
| Dividends per stock unit ($)* | 1.00 | 0.925 |
| Dividend payout ratio (%) | 49.74 | 46.24 |
| Return on average equity after tax (%) | 26.33 | 29.85 |
| Return on assets at year- end (%) | 3.21 | 3.48 |
| Net Interest Margin (%) | 7.34 | 8.36 |
| Risk based Capital Adequacy Ratio (%) | 21.53 | 22.31 |
| **Other Statistics** | | |
| Number of stock units (ordinary shares)* | 2,927,232,000 | 2,927,232,000 |
| Stock price at year- end ($)* | 21.14 | 25.26 |
| Number of stockholders | 14,105 | 10,982 |
| Number of staff | 1,843 | 1,864 |
| Number of offices | 47 | 48 |

** 2004 restated to reflect the one-for-one bonus issue on March 10, 2005.*

*Where necessary, comparative figures have been restated to conform with changes in presentation in the current year.*

# Directors' Report

The Directors submit herewith the Statement of Consolidated Revenue, Expenses, Unappropriated Profits, Assets and Liabilities of the Bank for the year ended October 31, 2005.

The Consolidated Statement of Revenue and Expenses shows pre-tax profit for the year of $8,330 Million from which there has been provided $2,444 Million for corporate income tax, leaving a balance of $5,886 Million.

On February 18, 2005, at the Annual General Meeting of the Members of the company, resolutions were passed increasing the Authorised Share Capital from $1,500,000,000 to $3,000,000,000 and the Issued Share Capital from $1,463,616,000 to $2,927,232,000 by way of a 1 for 1 bonus share issue. The increase in the issued share capital was effected on March 10, 2005 and the cost of the bonus shares was met from the Retained Earnings Reserve as at January 31, 2005.

The appropriation of earnings detailed in the financial statements includes:

i. An interim dividend of 25 cents per stock unit payable to stockholders on record as at December 14, 2005, payable on January 5, 2006. This brings the total distribution for the year to $1.00 per stock unit compared with $0.925 per stock unit for the previous year, after adjustment for the aforementioned 1 for 1 bonus shares.

ii. A transfer of $750,000,000 to the Retained Earnings Reserve.

iii. Capitalization of $1,463,616,000 from Retained Earnings Reserve by way of a 1 for 1 bonus issue of shares on March 10, 2005.

iv. A transfer of $1,463,616,000 from Retained Earnings Reserve to the Statutory Reserve Fund.

In view of the interim dividends paid, and to be paid, as mentioned above, the Directors do not recommend the declaration of a final dividend at the Annual General Meeting to be held on February 17, 2006.

Miss Muna Issa, Mr. Charles Johnston, Mr. Warren McDonald and Dr. Herbert Thompson retire from the Board by rotation in accordance with Article 90 and being eligible offer themselves for re-election.

In accordance with Article 93 of the Company's Articles of Association, Mr. Joseph M. Matalon, Professor Stephen Vasciannie and Miss Stacie-Ann Wright having been appointed to the Board since the last Annual General Meeting cease to hold office and, being eligible, offers themselves for election.

Miss Minna Israel, Mr. Anthony Allen and Dr. Wayne Henry resigned from the Board on January 17, 2005, January 25, 2005 and June 30, 2005, respectively. The Board wishes to express its sincere appreciation to Miss Israel, Mr. Allen and Dr. Henry for their contributions to the Bank.

Your Directors are proposing that KPMG be appointed auditors of the Company at the next Annual General Meeting. Previously, both KPMG and PricewaterhouseCoopers were joint auditors of our parent company in Canada, the Bank of Nova Scotia. KPMG has now been appointed the sole auditors in Canada, and their proposed appointment as auditors in Jamaica as well is designed to achieve greater efficiency in the preparation of the consolidated results for the Scotiabank Group.

PricewaterhouseCoopers have agreed to retire as auditors at the next Annual General Meeting and your Directors would like to thank them for their professionalism and the excellent service they have provided as auditors over the years.

Your Directors wish to thank the Management and Staff of the Bank for their performance during the year under review.

On behalf of the Board

R.H. Pitfield
Chairman, Kingston, Jamaica
November 24, 2005

# Ten-year Statistical Review

| $'000 | 2005 | Restated 2004 | Restated 2003 | Restated 2002 |
|---|---|---|---|---|
| Total Assets | 183,460,943 | 168,167,649 | 147,653,177 | 127,367,433 |
| Performing Loans | 56,730,432 | 52,420,106 | 47,111,019 | 38,513,658 |
| Non-Performing Loans | 918,164 | 1,039,396 | 963,695 | 906,857 |
| Repos | 27,227,255 | 25,046,360 | 17,593,444 | 14,120,663 |
| Investments & Other Earning Assets | 76,672,095 | 65,554,244 | 60,908,823 | 52,326,933 |
| Deposits by the public | 107,280,146 | 98,810,819 | 87,067,332 | 76,947,608 |
| Securities Sold Under Repurchase Agreement | 16,705,889 | 18,546,429 | 15,292,996 | 11,566,632 |
| Stockholders' Equity | 23,524,953 | 20,605,017 | 17,651,197 | 14,065,776 |
| Profit Before Tax | 8,329,812 | 8,172,633 | 7,307,403 | 5,308,735 |
| Net profit after tax | 5,885,586 | 5,856,057 | 5,456,670 | 3,869,782 |
| Dividends paid, gross | 2,927,232 | 2,707,689 | 2,561,328 | 1,683,158 |
| Unappropriated Profits at year end | 11,918,737 | 9,710,382 | 6,580,207 | 4,265,864 |
| Number of stock units at year end(1) | 2,927,232 | 2,927,232 | 2,927,232 | 2,927,232 |
| **FINANCIAL RATIOS** | | | | |
| Earnings per stock unit(1) | 2.01 | 2.00 | 1.86 | 1.32 |
| Price earnings ratio | 10.51 | 12.62 | 4.80 | 5.92 |
| Dividends paid per stock unit(1) | 1.00 | 0.925 | 0.875 | 0.575 |
| Dividend yield (%)(1) | 3.88% | 4.41% | 9.78% | 7.34% |
| Dividend payout ratio (%) | 49.74% | 46.24% | 46.94% | 43.49% |
| Return on average equity pre-tax (%) | 37.26% | 41.65% | 45.83% | 40.00% |
| Return on average equity (%) | 26.33% | 29.85% | 34.22% | 29.16% |
| Return on assets at year end (%) | 3.21% | 3.48% | 3.70% | 3.04% |
| **OTHER DATA** | | | | |
| Stock price at year end ($)(1) | 21.14 | 25.26 | 8.95 | 7.83 |
| Price change from last year (%) | -16.31% | 182.18% | 14.30% | 2.49% |
| JSE Index at year end | 102,445 | 104,001 | 60,304 | 41,044 |
| Change in JSE Index from last year (%) | -1.50% | 72.46% | 46.93% | 25.92% |
| Number of staff | 1,843 | 1,864 | 1,851 | 1,805 |
| Number of offices | 47 | 48 | 47 | 49 |
| Number of stockholders | 14,105 | 10,982 | 9,401 | 9,447 |
| Exchange Rate J$1=US$ | 0.0156 | 0.0162 | 0.0166 | 0.0203 |
| Inflation Rate Year Over Year (%) | 15.90% | 11.60% | 14.13% | 5.04% |
| Net Profit in US$ | 92,061 | 94,805 | 90,549 | 78,387 |
| **DIVIDEND PAID QUARTERLY** | | | | |
| Quarter 1 | 731,808 | 585,446 | 446,403 | 402,493 |
| Quarter 2 | 731,808 | 658,627 | 446,403 | 417,131 |
| Quarter 3 | 731,808 | 731,808 | 526,902 | 417,131 |
| Quarter 4 | 731,808 | 731,808 | 1,141,620 | 446,403 |
| Total | 2,927,232 | 2,707,689 | 2,561,328 | 1,683,158 |

*(1) Amounts have been retroactively adjusted to reflect the one-for-one bonus issues on March 10, 2005 and October 6, 1997.*
*Where necessary, comparative figures have been restated to conform with changes in presentation in the current year.*

| Restated<br>**2001** | **2000** | **1999** | **1998** | **1997** | **1996** |
|---:|---:|---:|---:|---:|---:|
| 102,563,972 | 88,430,400 | 77,719,597 | 65,615,624 | 54,926,384 | 42,226,573 |
| 25,244,790 | 20,357,184 | 16,669,180 | 17,196,178 | 19,081,775 | 16,810,175 |
| 911,345 | 1,217,056 | 1,324,321 | 1,237,930 | 720,465 | 332,679 |
| 14,715,189 | 9,171,222 | 9,933,153 | 7,908,520 | 7,547,662 | 5,015,324 |
| 46,653,347 | 44,585,417 | 39,149,800 | 36,599,592 | 17,132,218 | 13,188,100 |
| 67,809,259 | 60,384,105 | 54,537,781 | 46,222,803 | 41,677,670 | 30,427,290 |
| 8,392,202 | 8,701,050 | 8,016,576 | 6,072,443 | 4,257,049 | 2,647,531 |
| 11,880,802 | 8,353,262 | 6,996,243 | 5,916,542 | 4,942,448 | 4,089,024 |
| 4,418,438 | 3,484,976 | 2,946,473 | 2,577,282 | 2,262,128 | 2,475,282 |
| 3,214,178 | 2,557,184 | 2,031,051 | 1,764,447 | 1,584,559 | 1,661,395 |
| 1,463,616 | 1,200,165 | 951,350 | 790,353 | 731,808 | 658,628 |
| 2,829,240 | 1,038,755 | 635,886 | 338,959 | 201,223 | 510,917 |
| 2,927,232 | 2,927,232 | 2,927,232 | 2,927,232 | 2,927,232 | 2,927,232 |
| | | | | | |
| 1.10 | 0.87 | 0.69 | 0.60 | 0.54 | 0.57 |
| 6.96 | 7.38 | 4.83 | 5.56 | 9.05 | 6.56 |
| 0.50 | 0.41 | 0.33 | 0.27 | 0.25 | 0.11 |
| 6.54% | 6.35% | 9.70% | 8.06% | 5.10% | 3.02% |
| 45.54% | 46.93% | 46.84% | 44.79% | 46.18% | 39.64% |
| 44.72% | 44.05% | 44.00% | 46.32% | 50.09% | 69.34% |
| 32.53% | 32.32% | 30.33% | 31.71% | 35.09% | 46.54% |
| 3.13% | 2.89% | 2.61% | 2.69% | 2.88% | 3.93% |
| | | | | | |
| 7.64 | 6.46 | 3.35 | 3.35 | 4.90 | 3.73 |
| 18.27% | 92.84% | 0.00% | -31.63% | 31.54% | 9.56% |
| 32,595 | 29,776 | 21,124 | 20,050 | 18,147 | 15,323 |
| 9.47% | 40.96% | 5.36% | 10.49% | 18.43% | -2.20% |
| 1,756 | 1,691 | 1,757 | 1,874 | 1,666 | 1,617 |
| 48 | 50 | 49 | 50 | 51 | 50 |
| 9,165 | 9,040 | 8,912 | 8,073 | 7,948 | 10,379 |
| 0.0210 | 0.0224 | 0.0250 | 0.0271 | 0.0278 | 0.0285 |
| 7.56% | 8.30% | 6.44% | 7.14% | 9.98% | 22.76% |
| 67,498 | 57,281 | 50,776 | 47,746 | 44,052 | 47,333 |
| | | | | | |
| 329,314 | 182,952 | 182,952 | 146,361 | 292,723 | 439,085 |
| 358,586 | 182,952 | 182,952 | 146,362 | 292,723 | 439,085 |
| 373,222 | 292,723 | 182,952 | 146,362 | 365,904 | 439,085 |
| 402,494 | 541,538 | 402,494 | 702,536 | 512,266 | 329,314 |
| 1,463,616 | 1,200,165 | 951,350 | 1,141,621 | 1,463,616 | 1,646,568 |

# Report to Shareholders

Robert H. Pitfield
Chairman

## Financial Review

We are pleased to report on another successful year of operations for Scotiabank and its Subsidiaries (The Bank). Scotiabank reported net income of $5,886 million for the year ended October 31, 2005, the ninth consecutive year of increased profits. These results were achieved in spite of very challenging economic times, which saw significant reductions in market interest rates. Our results reflect the strength of our well-diversified business lines, as we remain focused on our core business to achieve solid earnings and long-term sustainable growth. Strong growth in retail banking continues to be a major contributor to our solid performance, with volume growth in retail and credit card loans and fee income being major contributors to retail banking profits.

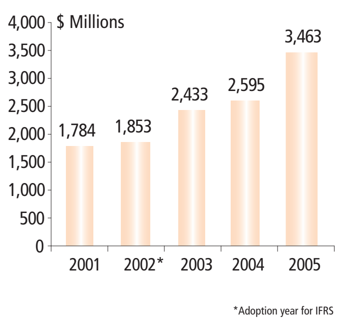
### Total Revenue

Total revenue comprising net interest revenue and other income was $17,526 million. While we experienced a marginal reduction in net interest revenue (consistent with the reduction in market interest rates), our other revenue increased by 33%. This was fueled by strong growth in foreign exchange trading profit, credit card revenue, and other retail fees.

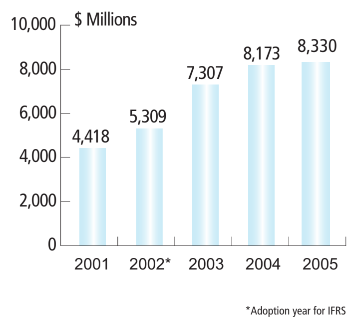
### Net Interest Income

Net interest income, the excess of gross interest earned over gross interest expenses, continues to be a significant source of revenue. For the year ended October 31, 2005, net interest income was $14,064 million, down marginally by $47 million from last year. There was strong portfolio volume growth, which would otherwise have resulted in a considerable increase in net interest revenue; however, there was a reduction in net interest margin occasioned by the significant reduction in market interest rates.

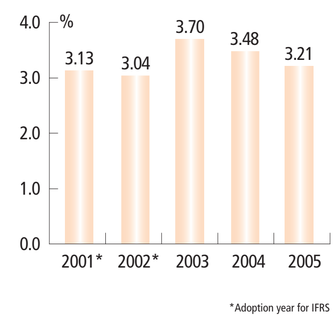
**Other Income**




**Profit Before Tax**




**Return on Assets**



# Financial Review cont'd

## Premium Income

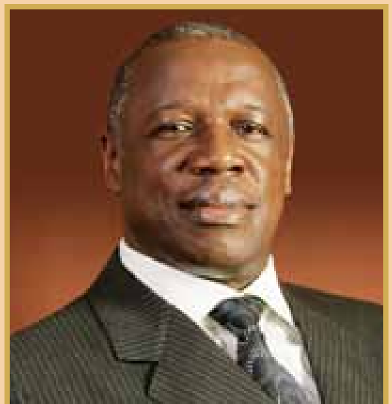
Scotia Jamaica Life Insurance Company Limited (SJLIC) had another successful year with total gross premium income of $4 billion. Net premium income increased by $60 million, when compared to the same period last year. Undaunted by competitive market forces and declining interest rates, ScotiaMINT continues to enjoy the largest share of the local interest-sensitive insurance market.

## Other Income

Other income, defined as all income other than net interest income and insurance premium income, increased by $808 million, year-over-year. This was driven by strong growth in retail banking fees and foreign exchange trading revenue in tandem with growth in business volume.

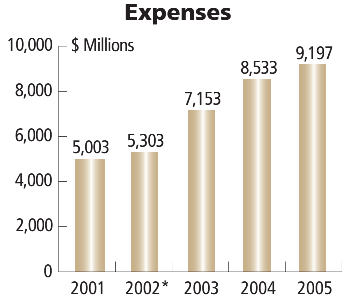
## Non-Interest Expenses and Productivity

Scotiabank's productivity ratio remains the best in the Jamaican financial sector, due in part to our unwavering focus on managing costs across the Group. Our productivity ratio (non-interest expense as a percentage of total revenue), - a key measure of cost efficiency, was 52.47%. If insurance premium and related actuarial expenses were excluded, to recognize the significant dissimilarities between the revenue/expense pattern of the insurance business and the other financial services offered by the Scotiabank Group, the productivity ratio for the period was 41.32%, which is significantly better than the international benchmark of 60%. We will continue our focus on finding new ways to improve operational efficiency by consolidating and streamlining processes and structures, eliminating duplication, and sharing best practices throughout our network.



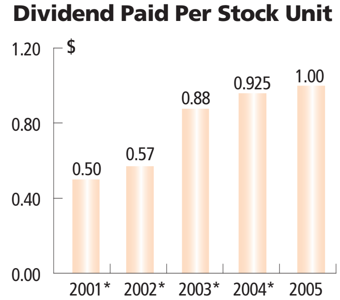
William E. Clarke, CD
President and CEO

**Expenses**



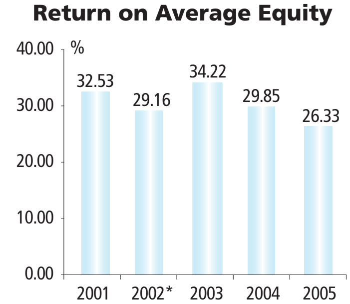

* Adoption year for IFRS

**Dividend Paid Per Stock Unit**




* Restated for Bonus issue

**Return on Average Equity**




*Adoption year for IFRS

## Financial Review cont'd

### Non-Interest Expenses and Productivity (cont'd)

Non-Interest Expenses excluding Change in Policyholders' Reserve and Loan Loss Provisions, were $6,831 million, an increase of $586 million over last year, which is primarily due to increases in staff--related costs. Policyholders' Reserves for ScotiaMINT's life insurance fund is directly attributed to the business in force.

### Dividends

Scotiabank's policy is to increase dividends in line with the trend in earnings, while ensuring that adequate levels of capital are kept for the purpose of protecting depositors and growing the business of the Bank. The dividend payout ratio is the gross dividend paid, expressed as a percentage of the net profit after tax. Our payout ratio for 2005 was 49.74%, compared with 46.24% for the previous year. Both dividends were within our usual payout range of 40% to 50%.

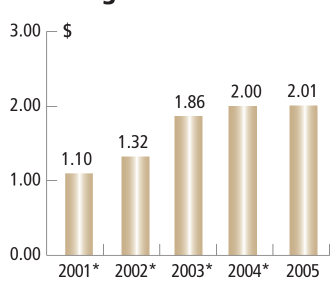
2005 marked another year of consecutive dividend increase. Dividends per share rose to $1.00 in 2005, an 8% increase over the prior year, which was $0.925 per share. The gross dividend paid for fiscal 2005 was $2,927 million, up $219 million from last year. The steady growth in dividends is a major contributor to the high long-term returns generated for shareholders.

### Asset Growth

The Bank's total assets increased from $168 billion at October 31, 2004 to $183 billion at October 31, 2005, an increase of $15 billion. The average 10 year compounded growth rate at October 31, 2005 was 15%, compared with 18.8% at the previous year-end. Performing Loans as at October 31, 2005 were $57 billion, up $4.3 billion over the previous year. While private sector commercial loan demand remained soft, we achieved significant growth during 2005, mainly through growth in retail loans.

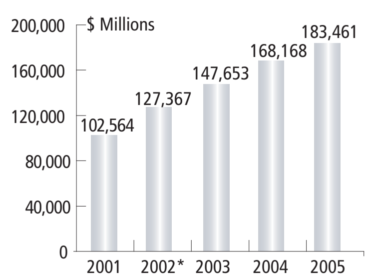
Our cash resources held to meet statutory reserves and the Bank's prudential liquidity targets stood at $44 billion at October 31, 2005, compared to $40 billion at the previous year-end. These assets are held in liquid form at levels and terms that enable us to respond effectively to swings in our cash flow, without severe adverse consequences. The amounts held exceed the statutory minimum for such assets in relation to our prescribed liabilities.

**Earnings Per Stock Unit**



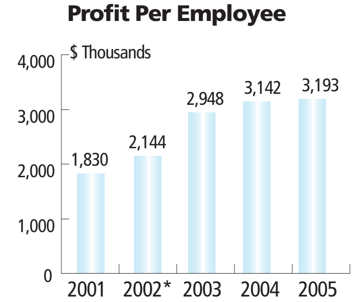

* Restated for Bonus issue

**Total Assets**




* Adoption year for IFRS

**Profit Per Employee**




* Adoption year for IFRS

## Financial Review cont'd

The Bank's portfolio of Government securities (including repurchase agreements) grew from $60 billion at last year-end to $67 billion at October 31, 2005 as deposit and repo liability growth outpaced loan growth. The average yield on the portfolio decreased year over year in line with market trends.

### Credit Quality

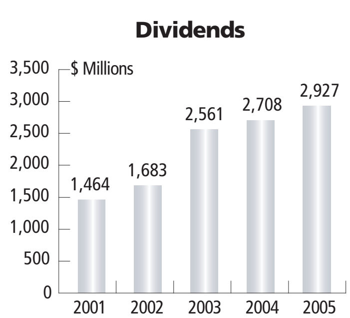
Scotiabank's credit quality continues to be outstanding, both by international standards and when compared with our peers locally. Non-performing Loans at October 31, 2005 were $918 million, an improvement of $121 million when compared to $1,039 million a year ago. The Group's non-performing loans now represent 1.59% of total loans and 0.50% of total assets, compared to 1.93% and 0.62% respectively in the prior year.

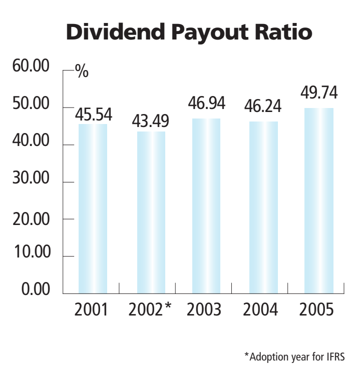
Most non-performing loans are secured, the majority with real estate security. Provisions for loan losses are considered adequate and are reviewed regularly in light of changing market conditions. Provision for loan losses on an IFRS (International Financial Reporting Standards) basis was $495 million at year-end. However, the total provisions based on the Bank of Jamaica's statutory requirements were $1,302 million. The difference between the statutory and the IFRS provision is reported in the LLP Reserve, as a component of shareholders' equity. We are confident that, with this level of provisioning, the Group is adequately protected should the economy suffer a short-term down turn.

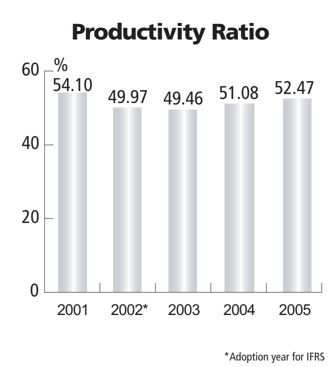
### Deposits

Our Bank continues to increase its deposits, despite the noticeable market shift from traditional bank deposits to investments in a wide variety of market instruments, ranging from Government of Jamaica securities to money market products. The Bank's deposits grew by 10 %, from $104 billion at last year-end to $114 billion at this year-end, as public confidence in the Bank remains very high.

The mix of the portfolio was dominated by retail savings accounts; however, term deposits liabilities continued to grow steadily.



# Report to Shareholders

## Corporate and Commercial Banking

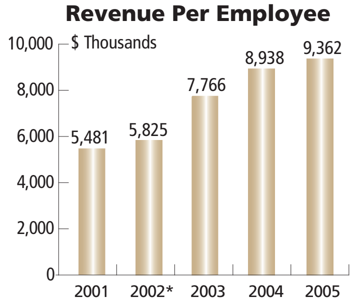
During the year, the Bank maintained market dominance in corporate and commercial banking, despite aggressive competition and the challenging economic environment. This was achieved primarily through the loyalty of our customers and the commitment, hard work and dedication of our relationship managers. We intensified our focus on growing market share by both deepening our customer relationships with a greater share of their business, and developing new relationships with select growth companies, on mutually beneficial terms.

Our experienced commercial banking professionals were successful in facilitating growth in the Bank's commercial/corporate loan and deposit portfolios, across a broad range of industry segments. We provided significant levels of financing to the tourism, telecommunications, manufacturing, transportation, distribution and agricultural sectors, through various structured financing arrangements.

Also, we fulfilled our mandate as joint lead arranger for a major syndicated financing facility in the telecommunications sector. Our extensive corporate finance and capital market capabilities, coupled with our strong capitalization and sizable lending capacity, allowed us to work successfully with our syndicated partners in putting together this landmark US$350 million transaction.

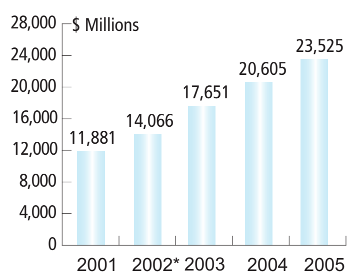
Recognizing the significant impact of the hotel industry on Jamaica's economic development, the Bank continues to be the leading financier to this industry, our expertise in structuring large scale hotel deals being unparalleled in the local market. In 2005, we financed two major hotel projects of more than US$100 million, resulting in the addition of over 850 rooms to the country's hotel room stock and the refurbishing and upgrading of over 700 rooms.

**Revenue Per Employee**



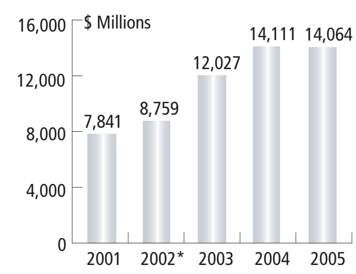

*Adoption year for IFRS

**Stockholders Equity**




*Adoption year for IFRS

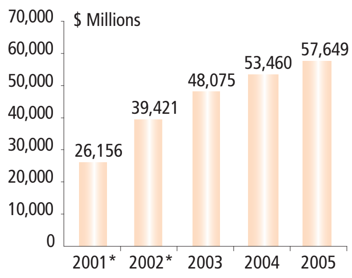
**Net Interest Income**




*Adoption year for IFRS

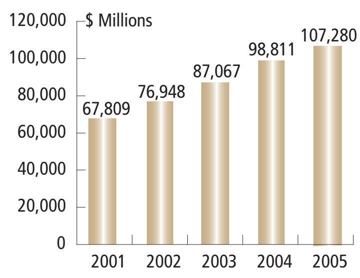
*The President's Council: Standing from left to right: Rosemarie Voordouw - Director, Employee Communications & Consultations; H. Wayne Powell - Executive Vice President, Retail Sales Management; Stacie-Ann Wright - Executive Vice President & Chief Financial Officer; David Noël - Senior Vice President/Senior Legal Counsel & Corporate Secretary; Rosemarie Pilliner - Executive Vice President, Operations & Service Delivery; Audrey Tugwell Henry - Senior Vice President, Retail & Electronic Banking; Michael Jones - Senior Vice President, Human Resources; Henri Bourdeau - Vice President, Risk Management; Wayne Hewitt - Vice President, Corporate & Commercial Banking and sitting, William E. Clarke - President & Chief Executive Officer.*

**Total Loans**




*Adoption year for IFRS

**Total Deposits**



*Jamaica's largest and one of the newest hotels on the North Coast is Club Riu Hotel, Ocho Rios for which Scotiabank provided the financing. Here, Carol Logan, Senior Relationship Manager, Corporate & Commercial Banking Center, Scotiabank, and General Manager Frank Sondern are seen in discussions.*

## CORPORATE AND COMMERCIAL BANKING CONT'D

Over the years, we have shared a mutually rewarding relationship with the Port Authority of Jamaica (PAJ). In 2004, the PAJ embarked on the expansion and upgrading of the Kingston Container Terminal (KCT Phase 4), which has been successfully completed. Scotiabank Jamaica was able to leverage its international linkages with Scotiabank in Canada to assist in providing a customized solution for a project the size of KCT Phase 4. As a result, PAJ now boasts one of the most modernized trans-shipment terminals in the region. Plans are being prepared to undertake Phase 5 of this redevelopment.

*A view of the impressive lobby area of the Club Riu Hotel, Ocho Rios.*

Scotiabank has been equally active in facilitating smaller business opportunities. During the year, the Bank continued to show its unreserved commitment to nation building and private enterprise through ongoing support to small and medium size enterprises. Through the Scotiabank Jamaica Production Fund, some J$800 million was disbursed to 37 businesses in the manufacturing sector, at a subsidized interest rate of 9.5%. Financing was also provided to several smaller type industries, such as transportation, clothing and textile, resulting in an increase in the number of buses utilized for the transportation of tourists, as well as the addition of state-of-the-art equipment to facilitate computerized embroidering on t-shirts.

*Scotiabank Jamaica leveraged its international linkages with The Bank of Nova Scotia, to provide financing for the refurbishing of the Sunset Jamaica Grand Resort & Spa in Ocho Rios. Here, Managing Director, Ian Kerr gives Marcette McLeggon, Senior Relationship Manager, Corporate & Commercial Banking Center, Scotiabank, a tour of the property.*

In addition to our traditional loan and deposit products, we continued to assist customers in managing their cashflow, mainly through our suite of cash management services. We at Scotiabank recognize that in today's fast-paced competitive environment, easy and immediate access to accurate information and superior cash management are keys to the success of any business. As a result, we will see the introduction of Business Internet Banking during the next fiscal year.

We expect the coming year to be even more challenging and anticipate that with continued emphasis on strengthening our customer relationships, improving our responsiveness to the needs of our corporate and commercial customers and continuously improving our delivery structure, we will enjoy growth in our business lines.

## Retail Banking

Despite many economic challenges, we maintained our dominance in retail banking with market share of deposits and loans of 44% and 41% respectively.

### Retail Lending

Our lead consumer loan product, Scotia Plan Loan, recorded growth of 16% in outstandings, remaining the consumer loan of choice and attesting to the hard work and high level of customer service provided by our personal banking officers.

During the year, we partnered with five of the island's leading new auto dealers, to launch ScotiaWheels, a motor vehicle financing programme, and reaffirmed Scotiabank's position as the premium bank for motor vehicle financing. The ScotiaWheels programme, which ended on December 31, 2005, offered purchasers of new cars from these dealers, a competitive and low interest rate of 18.75%, reduced from 19.75%.

*The current capacity of the Kingston Container Terminal has doubled, with the recent completion of Phase 4 of the expansion project. Here, representatives of APM Terminals (Ja.) Limited, responsible for the expansion and Scotiabank, financiers, look at the drawings for Phase 5 . From left to right are Brian Cunningham - Vice President, Global Risk Management Caribbean, Scotiabank Toronto; Peter Ford - General Manager APM Terminals (Ja.) Limited, Marcette McLeggon - Senior Relationship Manager, Corporate & Commercial Banking Center, Scotiabank Jamaica; Wilma Johnson - Client Services Manager, APM Terminals; Winston Boothe - Senior Vice President Finance & Administration, Port Authority; Wayne Hewitt - Vice President, Corporate & Commercial Banking Center, Scotiabank Jamaica and Robert Pitfield - Chairman, Scotiabank Jamaica.*

ScotiaLine Gold is an innovative solution that provides customers with electronic access to their ScotiaLine product, via the MasterCard and MultiLink ABM networks, 24 hours per day. In addition, customers can continue to use their personalized ScotiaLine cheques. During the year, our ScotiaLine portfolio recorded growth of 28.6% in outstanding balances.

Year over year, there was overall growth in our savings portfolio. Our youth accounts, ScotiaFirst & ScotiaWise, grew by 11.8 % and 13.6 % respectively. This was due mainly to our School Savings Promotion, which targeted potential and existing savers in these two youth savings accounts. The objective of this promotion was to encourage our youth to start saving at an early age.

During the year, we also looked at ways to provide benefits to our adult savers. The 'Gain A Million' promotion was launched in August, 2005, and ends on April 30, 2006. During the promotional period, customers will have the opportunity to win up to $3 million.

We continued to provide discounted fees and free services to our customers 55 years and over. Balances for the ScotiaPlus 55 portfolio increased by 8.5%.

## ELECTRONIC BANKING

### Credit Cards

Scotiabank has remained the market leader in the local credit card market, offering the widest range of cards to meet various customer needs. We extended our credit card line with the Platinum MasterCard last year, bringing our total offer to seven distinct credit cards to suit our customers' diverse lifestyles. The Platinum MasterCard portfolio has been steadily growing, over 100% year over year. Our Magna MasterCard Credit Card is the market leader, with more than 44% of our credit card customers holding a Magna Card, a 12% growth since the beginning of the financial year.


*Barrington Chishlom, Manager, New Kingston branch poses with Kenneth Loshusan owner of the Barbican Center which houses the Loshusan Supermarket in addition to 9 other shops, a Scotiabank financed project. The Center was officially opened on September 8, 2005 by William Clarke, President & CEO of Scotiabank Jamaica.*

## Merchant Services

Solutions to our merchants, in particular e-commerce solutions to facilitate conducting business online, were expanded during the year. The Inland Revenue Department was among the many merchants we partnered with to provide e-payment systems for their customers. This partnership marked a new beginning for Jamaicans, who can now pay property taxes and various other taxes and fees online, using their credit cards.

There was steady growth in the merchant base, and a significant 24% increase in the total revenue from credit card point of sale transactions. Debit point of sale transactions grew by an impressive 1,340%.

## ScotiaCard

ScotiaCard is now positioned as the umbrella vehicle for customers to conduct their banking safely, conveniently and quickly, using our reliable self-service Banking channels – Internet Banking, TeleScotia, ABMs, point of sale and in-branch banking. As ScotiaCard is the nucleus for driving usage of these channels, we launched a ScotiaCard advertising campaign, urging customers to SIMPLIFY their lives using ScotiaCard. This campaign was well received, in conjunction with several internal initiatives promoting ScotiaCard, resulting in the issuance of over 145,000 ScotiaCards this year. ScotiaCard's share of the Debit Card Market is now approximately 50%. The percentage of our active customer base now using ScotiaCard to access the self-service banking channels also grew by close to 60%.

## Automated Banking Machines

During the year, we added 12 machines to the network, which brings the total number of Scotiabank ABMs to 155, adding a higher level of flexibility and concurrence. ABMs are the preferred choice for our customers to do their routine transactions, as demonstrated by the growth in the number of transactions.

# Report to Shareholders

### Internet Banking

Many of our customers are enjoying the convenience of banking on line with Scotiabank Internet Banking. To date, we have signed up some 20,000 customers and 87 bill payment merchants, an increase of 50% and 40% respectively over the past year.

### TeleScotia

TeleScotia continues to be attractive to many of our customers, due to its convenience and reliability. This is evidenced by an 11% increase in the number of transactions. To date, more than 100 merchants accept bill payments via TeleScotia. We have an active customer base of 41,000.

### Business Internet Banking

Our new online banking solution for commercial customers, Business Internet Banking, was being piloted for launch in January 2006. This solution will offer, among other services, information on bank accounts, direct deposit payments, consolidated cash plans and cheque reconciliation functionalities. Eventually, all customers on the current Cash Management Services platform will be transferred to the Business Internet Banking platform. This will assist our commercial customers to enhance their working capital, improve information flow and simplify administration.

### Payment Card

Scotiabank, recognizing the need for a safe and convenient avenue for employers to make payroll payments to employees, has designed the QuickPay card - an electronic payroll card. In January 2006, employees will be able to quickly and conveniently access their salaries at over 300 ABMs or utilize the card at 11,000 point of sale terminals islandwide.

## Banking Operations

We concluded the implementation of the International Banking Platform (IBP) within our branch network, a cutting-edge technology, which realized our objectives to shift from traditional banking methods to a modern service arena.

This initiative focused on needs-based selling, personalized service, relationship building and the delivery of 'one-stop' shopping experiences for all customers. Our tellers are able to efficiently expedite transactions by accessing the Customer Information File data base, which comprehensively captures demographic, account and personal information on all Scotiabank Jamaica customers. The Interactive Application Process, complements the Interactive Telling Platform, by automating application-taking for our suite of banking products: viz-a-viz, credit cards, loans, lines of credit and retail accounts.

### Real Estate

We improved on our real estate aesthetics by refurbishing and renovating a number of our branches, which enhanced our merchandising approach to encompass the sales and service culture. The recent relocation of our Junction Branch to a more spacious and attractive locale, is indicative of our commitment to ensuring a mix of comfort and superior service.

Branch rationalization is ongoing, as we strategically position our branches to leverage market opportunities. We closed our Appleton Sub-branch on May 31, 2005, and the transition to the main branch, Santa Cruz was seamless, with customers utilizing the alternate delivery channels to effect banking transactions. The Appleton Sub-branch was established to primarily facilitate cheque encashment.

## Human Resources

The year 2005 was a successful one for the Bank's Human Resources function, with various strategically relevant issues being brought to completion. Our focus was in concert with the HR vision "adding value on the inside, creating value on the outside."

### Recruitment and Training

To assure the availability of resources to support turnover in key business lines and support areas, we continued our focus on talent identification and additional development interventions. Succession Planning was cascaded to lower levels to allow the identification of a wider pool for earlier development.

We improved our predictive recruitment capability by implementing a wider range of psychometric tools.

Training became increasingly competency-based, and new initiatives have either been implemented or planned to achieve the delivery of an exceptional customer service experience, management of the employee experience, or career development and leadership. We have also expanded

Mr. Andre Harvey

*My association with Scotiabank began in 1995 when I received a scholarship from the Bank to complete my first degree in Management Studies and Economics at the University of the West Indies (UWI). I graduated from this programme with First Class Honors.*

*My career at the Bank started at the East Queen Street branch where I received training as a Consumer Credit Officer. I then relocated to the Ocho Rios branch in 1998, where I worked as a Personal Banking Officer for two years. I was later promoted to the position of Senior Personal Banking Officer at the Sam Sharpe Square (Montego Bay) branch, and later a similar post at Hagley Park Road branch. I was subsequently trained in Commercial Credit. I have acted as Relief Branch Manager at the Port Antonio and Oxford Road branches.*

*In October 2005, I was promoted to my current post – Assistant Manager, Personal Banking at the New Kingston Branch.*

*Eight years at Scotiabank, for me, has been very fulfilling and rewarding. There is scope for upward mobility within the organization and the Bank provides training opportunities to assist employees to enhance their career development, as evidenced by my own career growth and advancement. I would certainly recommend Scotiabank as a great place to work.*

on-line training opportunities to our staff to supplement training currently offered at our Training Centre. Mandatory cross-training was also implemented across the BNSJ Group.

### Employee Satisfaction

HR technology also saw improvement through the additional mining of data to support HR metrics. Based on an internal staff survey, employee satisfaction improved year over year, from 72% to 77%, and the participation rate increased from 77% to 82%, reflecting increased emphasis on communication and employee relationship issues.

### Wellness and Staff Welfare

Wellness initiatives continued, including a very well received training programme for culinary staff on Professional Cooking for Healthy Living. Our new HR intranet also includes a Health Risk Assessment resource.

New efforts took place to increase 'social capital'. Our main recreational facility was re-branded and arrangements for similar facilities made for rural area branch staff. Our Employee Annual General Meeting (EAGM) and Fun Day were well supported by our staff from across the island. The Employee Share Ownership Programme maintained a healthy

Mrs. Christine Wilson

*To me, Scotiabank represents an institution where there are opportunities for employees to enhance their individual development and build successful careers. My career with the Bank started at the Santa Cruz branch as a teller in April 1997. In 1999, I was transferred to the Mandeville branch at my request in order to complete my Bachelor's Degree at Northern Caribbean University (NCU). At that time, Scotiabank had also enhanced its educational assistance to staff and I am very proud to say that I was one of the first persons to receive a scholarship to NCU from the Bank. I graduated in 2003 Magna Cum Laude. I recently completed my MBA with Nova Southeastern University and hope to further my studies in Human Resource Management.*

*Receiving the scholarship afforded me the opportunity to receive formal training in most functional areas of the Bank. This, coupled with on the job training, has allowed me to improve the quality of service that I offer to our customers in my current post as Relationship Officer at the Mandeville branch.*

*Scotiabank has shown me what it means for a company to be truly customer centric and what it takes to be a successful team player in any organisation. Being customer focused is the key to doing business in such a dynamic and competitive market place and I will always endeavour to put our customers first.*

## Wellness and Staff Welfare (cont'd)

participation level with an increase from 74% in fiscal 2004 to 83% in fiscal 2005. Employees attest to the significant benefits gained from participation in this programme from year to year.

Several retirement-related initiatives were executed during the year. Our first pensioners' luncheon was held in the first quarter of 2005 and was well received. This was followed up later in the year with a pre-retirement seminar, specially geared towards employees who are near retirement. Greater attention is being placed on assisting our staff to prepare for the future from early on in their careers.

Union negotiations with the Bustamante Industrial Trade Union for full-time and part-time employees were successfully concluded, culminating in a new three-year Collective Bargaining Agreement.

## Awards

Scotiabank received the Inaugural Human Resource Management Innovation award from the Human Resource Management Association of Jamaica, for innovativeness in implementing the first and only unit of its kind in Jamaica, our Employee Communications and Consultations Unit.

We were nominated amongst the top 10 Employers of Choice in the Jamaica Employers Federation/Mona Institute of Business inaugural 'Employer of Choice Survey'.

*In November 2005, Scotiabank received the Golden Leader Award from the Human Resources Management Association for providing innovative Employee Counseling Services.*

## Employee Communications & Consultations

The Employee Communications and Consultations Unit (ECC) was established in 2003 as an Ombuds function with responsibility for employee communications and confidential consultation for employees who have conflict or other work-related issues.

Over 10% of the employee population, 4% above the maximum annual usage expected for an Ombuds office, accessed the services of the Unit. This was mainly due to the coaching component of the consultations function, which provides leadership and interpersonal relationship coaching as well as on-going outreach efforts.

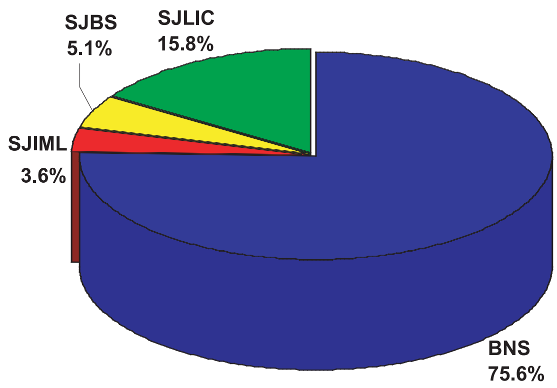
The ECC conducted 24 outreach meetings in branches and units on such topics as stress management, grief counselling, effective interpersonal communication and team building.

During the year, both counselors in the Unit received certification in general and workplace conflict mediation from the U.S. based Mediation Training Institute. Work-shops were held in conflict resolution, and career counselling. The Unit also added two new channels for employees to access information to assist with on-the-job performance and relationships, the Consultations Intranet, and the Coaching E-zine, *Reach!* Later in the year, the Unit produced a stress management CD which complements the stress management training offered on an individual and group basis.

On the communications side, the Unit produced the staff magazine, ScotiaVibes, and the quarterly Human Resources publication, *In the Loop.* Face-to-face meetings between the CEO and front-line staff, and monthly e-mails from the CEO continued. In addition the Scotiabank Speaker's Bureau aimed at streamlining the delivery of corporate messages, was established.

# Our Subsidiaries


*Over the years, the contribution of our Subsidiaries to the Group's net profit has grown steadily. This year, their combined contribution stands at 24.4% as shown below.*



## Scotia Jamaica Life Insurance Company Limited (SJLIC)

Scotia Jamaica Life Insurance Company Limited, which celebrated its seventh anniversary in June 2005, not only implemented several enhancements to its flagship product, ScotiaMINT, but also launched ScotiaMINT Gold - additional life insurance coverage on ScotiaMINT policies - in 2005.

With an improved and more attractive product, Scotia Jamaica Life Insurance Company Limited reported strong earnings for the year 2005, realizing net income after tax of $1.09 billion, an increase of 16% over 2004 and a contribution of 13.1% to the BNSJ Group results.

For the year ended October 31, 2005, the company sold 11,462 new ScotiaMINT policies, an increase in the ScotiaMINT portfolio of 13%, to 59,349 policyholders. Meanwhile, the sale of Credit Insurance certificates jumped to a record high of 22,706. The Creditor Life portfolio now boasts 40,978 insureds. Combined gross premium income for both products was $4.2 billion.

In 2005, Scotia Insurance continued to lead the insurance industry in the areas of Gross Premium Income (GPI). Competing against larger, older companies with multiple products and business lines, the company achieved 31.75% market share in GPI, while its market share in Annualized Premium Income for the period July 2004 to July 2005 increased from 18% to over 22 %. (Source: LICA market data as at July 2005).

In the face of continued decline in interest rates, the company's Policyholders' Fund reported significant growth, from $16.1 billion in October 2004 to $20 billion as at October 31, 2005. The company's total assets also grew by 25%, up from $19.2 billion in 2004 to $24 billion in 2005.

For the first time in the company's history, several SJLIC sales representatives, in recognition of excellence in insurance sales, attended the prestigious Million Dollar Round Table (MDRT) Conference in New Orleans in June 2005. MDRT, the premier international forum for financial professionals, not only sets the standards for these professionals, but also considers its members to be among the best in the world.

We restructured our Operations Department to improve its ability to support multiple lines of business, and provide a solid platform for future growth. We also focused on improving the post sale service channels and, as such, implemented an electronic Complaint/Enquiry Management system, installed service booths in branches, and enhanced the skill set and capacity of the SJLIC Call Centre. As we sought to improve our reporting and analytical systems through automation, the company upgraded its reporting tools.

With a robust organization structure, a well-trained and qualified workforce, and a solid reputation in the financial market, SJLIC is well poised to meet the challenges ahead. Committed to making our customers financially better off, our focus in 2006 will be on the expansion of our product line, implementation of more effective sales and customer servicing strategies, maximizing operational efficiencies through automation, and continuing to build the skills and knowledge of our team members.

| **SJLIC FINANCIAL HIGHLIGHTS** | **$ Millions 2005** | **$ Millions 2004** |
|---|---|---|
| Government Securities purchased under resale agreement | 8,103 | 6,120 |
| Investments | 14,334 | 11,262 |
| Shareholders' Equity | 3,977 | 2,911 |
| Policyholders' Fund | 19,955 | 16,101 |
| Total Assets | 24,030 | 19,246 |
| Net Profit After Tax | 1,091 | 937 |
| | | |
| Return on Average Equity (%) | 30 | 35 |
| Return on Assets (%) | 4.5 | 4.9 |
| | | |
| Number of ScotiaMINT policies in force | 59,349 | 52,349 |
| Number of Creditor Life policies in force | 40,978 | 33,238 |

# Report to Shareholders

## Scotia Jamaica Building Society (SJBS)

The year 2005 proved a challenging one for the Society. Despite more aggressive marketing tactics in the sector, SJBS showed growth in both the deposit and mortgage aspects of the business.

The Society's deposit base grew by $470 million, representing a 13% increase over last year's figures. Growth in the mortgage base was 11% over the 2004 figures, an increase of some $344 million. Total assets yielded an additional $773 million, an increase of 13%, impacting positively on Shareholder's Equity, which rose by 17% ($297 million).

In order to build brand awareness, generate goodwill and mark the occasion of the Society's 10th Anniversary, a customer appreciation function was held in February 2005. This took the form of a celebration in music, which was viewed as an outstanding highlight in the milestone of the Building Society.

The aim of SJBS is to be seen as not just a mortgage provider, but as experts in the field, guiding clients in their objective of home ownership and educating people on topics of importance to them. In keeping with this and following on the 'Build vs. Buy' investor forums that ran in the last financial year, 2005 saw the development of a partnership with the Land Administrative Management Programme (LAMP) - which provides information on land titles. The non-registration of a land title restricts the owner from accessing available loans - specifically mortgages. Starting in March 2005, the SJBS team and representatives of LAMP journeyed to four locations to speak on the topic. The forum in Christiana was aired on Television Jamaica with resounding success. So overwhelming has been the support, that these forums will continue into 2006.

The availability of Educational Grants to ScotiaAcheiver and ScotiaOptimum account holders gained a new level of awareness in 2005 as a result of greater focus on disseminating information on the facility. The Educational Grants have also generated increased goodwill amongst the Society's customers.

In June 2005, a new SJBS product emerged which offered a tiered mortgage rate to potential homeowners. This resulted in increased bookings and interest among prospective customers.

We also partnered directly with developers of new housing projects, such as Caribbean Estates which is constructing some 960 houses in three phases, scheduled for completion by mid-2008.

SJBS continues its drive to improve its share in a highly competitive market. Through its strategies of niche marketing and strategic alliances, the society is confident that it will continue to be a spirited player within the industry and a strong contributor to the success of the BNSJ Group.

| **SJBS FINANCIAL HIGHLIGHTS** | **$ Millions 2005** | **$ Millions 2004** |
|---|---|---|
| Total mortgages, net of provisions | 3,514 | 3,170 |
| Government Securities purchased under resale agreements | 1,836 | 1,401 |
| Investments | 678 | 727 |
| Deposits | 4,140 | 3,670 |
| Shareholders' Equity | 2,097 | 1,800 |
| Total Assets | 6,744 | 5,971 |
| Net Profit After Tax | 297 | 300 |
| | | |
| Return on Average Equity (%) | 14.99 | 17.62 |

## SCOTIA JAMAICA INVESTMENT MANAGEMENT LIMITED (SCOTIA INVESTMENTS)

Scotia Investments' main objective is to provide for the investment needs of our customer. This need was addressed by the creation of an investment sales team to offer investment solutions to our customers across the island. The role of the investment specialist is to strengthen and deepen relationships with our customers, offering a holistic approach to investment management, via access to a range of investment options specifically suited to their individual needs.

We plan even more changes in 2006, as we gear the company to be a fully functional securities, trading and investment sales entity while increasing our market presence.

Scotia Investments achieved a 20% increase over 2004, in total repurchase agreements (repos), with total client portfolio moving from $25 billion in 2004 to $30 billion as at October 31, 2005. Interest rates were generally low and stable during the fiscal year; and as a result there was a reduction in revenues earned from 'repo' sales ($158.8 million in 2004 versus $120.3 million in 2005). However, revenue from Mutual Fund sales increased by 50% (from $9.5 million in 2004, to $14.2 million in 2005). Scotia Investments achieved profit after tax of $206 million - a reduction of $38 million or 16% below 2004.

Scotia Investments' securities trading activities in 2005, delivered a 28.94% increase in non-interest revenue. The Pension and Asset Management Unit experienced growth in revenue of 7.87% over 2004, while simultaneously increasing assets under management, moving from J$17.6 billion to J$19.6 billion, an 11.36% increase. The Trust & Registrar Unit continued to grow through the addition of new escrow accounts with the main focus being geared towards corporate accounts.

The Scotia Investments team is adequately armed and motivated to become a major player in the investment market place. The focus for 2006 will be on building brand awareness and brand equity for our company. Additionally, the company's initiatives include the restructuring of its operational efficiencies to improve productivity and service to internal and external customers. This focus will serve to effectively offer full support to field sales officers. In our efforts to make our customers financially better off, Scotia Investments will generate research and analyses for development of products and services in 2006.

| SJIM FINANCIAL HIGHLIGHTS | $ Millions 2005 | $ Millions 2004 |
|---|---|---|
| BOJ Securities purchased under resale agreements | 17,288 | 18,784 |
| Investments | 815 | 728 |
| Shareholders' Equity | 1,310 | 1,107 |
| Total Assets | 18,892 | 20,741 |
| Net Profit After Tax | 206 | 244 |
| Return on Average Equity (%) | 16.84 | 23.02 |

# Report to Shareholders

**MEFL FINANCIAL HIGHLIGHTS**

| | |
|---|---|
| Loans disbursed | $70.6 million |
| Loans to Women | 79% |
| Average loan size | $21,554 |
| Active Clients | 1,365 |
| New rural branch | June 2005 |
| Retention rate | 78% |
| Repayment rate | 97% |
| Portfolio at risk | 5.91% |

*With the opening of its first office outside of Kingston, the Micro Enterprise Financing Limited (MEFL) is now providing financing for agricultural projects. Here, Executive Director of MEFL, Debra Williams (center) visits with two sorrel farmers Goston Murray (left) and Alburn Bromfield in Brinkley District, Nain, St. Elizabeth. The men are among the first set of farmers to receive a loan through the Santa Cruz office.*

## Micro Enterprise Financing Limited (MEFL)

Micro Enterprise Financing Limited continues to fulfil its mandate to assist individuals to achieve their dream of entrepreneurship. These individuals have defied the odds and are recording success in their small business ventures.

The number of active clients have grown from 939 in September 2004 to 1,365 in September 2005, a 45.3% growth in the portfolio. The growth in clientele resulted from the deepening of lending in existing inner city communities, as well as the opening of services in new rural and urban communities.

In June 2005, the year the company opened its first rural branch office in the parish of St. Elizabeth. This will assist in diversification of the loan portfolio, by mixing more agri-business loans with retail and wholesale trade activities. During the first four months of operation, disbursement of $2,800,000 in loan funds was made to 88 clients.

MEFL clients have in excess of $7,780,000 in combined savings at Scotiabank, allowing them a sense of security and wealth creation. Funds can be used in the case of illness, family emergencies, natural disasters, or to assist with loan repayment in slow business periods.

Five major factors explain the success of MEFL to date: the work of the Board of Directors, the strong leadership and dedication of the management team; the ongoing training given to all members of staff; growth in small entrepreneurs; and importantly, the commitment of all employees, stakeholders and sponsors to the mission, goals and vision of Micro Enterprise Financing Limited.

# Our Corporate Responsibility

Over the past year, Scotiabank continued to make tangible contributions to the communities in which we do business, through both the Scotiabank Jamaica Foundation, and other community activities. We placed an emphasis on building relationships and encouraged the involvement of our staff members in community activities, through the Scotiabank Volunteer Programme, as a means of further demonstrating our corporate responsibility.

## THE BANK

In 2005, Scotiabank, donated more than $40 million to numerous outreach activities and civic groups, giving priority to the educational and health needs of our children.

### Scotiabank Volunteers

Scotiabank Volunteers participated in two annual major projects, Teachers' Day and National Labour Day. On Teachers' Day 250 staff members volunteered to teach in 200 schools, kindergarten to tertiary levels island wide. Efforts focussed on preparing our children for natural disasters; hence the subject for the day was Earthquakes and Hurricanes. We teamed-up with the Office of Disaster Preparedness and Emergency Management, (ODPEM), and provided posters and other materials to schools. The ODPEM, provided our staff with tips on hurricane and earthquake disaster preparedness and assisted us in conducting an earthquake drill for all the students and teachers at the Holy Family Infant and Primary School.

The Teacher's Day focus was planned to dovetail into the National Labour Day theme: 'Prepare for Disaster, Recover Faster'. On Labour Day, 177 Scotiabank Volunteers worked at nine schools across the country. Several of these schools were damaged during Hurricane Ivan and were repaired by Scotiabank, at a cost of $20 million.

Scotiabank Chorale members are volunteers and have donated their time and talent on such occasions as Christmas Tree Lighting Ceremony at the Sir William Grant Park, children's treat at the Bustamante Children's Hospital and the launch of the Annual Salvation Army Christmas Kettle Appeal.

While building relationships Scotiabank Volunteers will identify projects in their communities. To that end, they will help to organize fund-raising events, provide manpower support, sit on boards and committees.

We hosted our 'Take Our Kids To Work Day' in July and 122 children of Scotiabank employees had the opportunity to familiarize themselves with the duties of their parents. The Kiddy Cricket programme now boasts 220 schools throughout the island. Our employees continue to volunteer as coaches, ensuring that the rudiments of the game are observed in play.

### Public Education

During 2005, Scotiabank conducted various seminars and presentations with the objective of providing business leaders and our customers with information on effective management and leadership. In April 2005, our Vice President, International Research, Pablo Bréard, presented our Annual Economic Seminar on trends in the global economy and the potential impact of these trends on Jamaica.

In June, our annual lecture series featured Harvard University Professor, Rosabeth Moss Kanter. She is listed among the '50 most influential business thinkers in the world,' the '100 most important women in America' and the '50 most powerful women in the world.' Professor Moss Kanter's presentation was entitled *Delivering Confidence: Winning Streaks, Losing Streaks and the Role of Leadership.*

### International Recognition

Scotiabank Jamaica was awarded *Bank of the Year* in Jamaica for 2005, for the third consecutive year, demonstrating our continued excellence in banking. This prestigious award is given by the Banker Magazine, a publication of the Financial Times of London.

We were also awarded *Bank of the Year* for 2005 by Latin Finance, a leading magazine of finance and investments in Latin America, which stated, “We selected Scotiabank for its strong overall financial performance, breadth and quality of service to customers”.


*In October, the Scotiabank Jamaica Foundation donated an additional 2 dialysis units and other equipment to the Scotiabank Jamaica Foundation Haemodialysis Center at the Cornwall Regional Hospital. After the presentation, President & CEO of Scotiabank, Mr. William Clarke (second left) talks about the Center with (l-r) Consultant, Dr. Curtis Yeates, Marie Powell - Executive Director, Scotiabank Jamaica Foundation and Mr. Everton Anderson, Chief Executive Officer of the hospital.*

## SCOTIABANK JAMAICA FOUNDATION

Over its nine years of operation, Scotiabank Jamaica Foundation has provided hope, inspiration and opportunity for many individuals, institutions and community groups. The Foundation's role in supporting education, health and community projects has resulted in contributions totalling $347 million, since its inception in 1996.

### Education

During the year, the Foundation contributed $21.1 million to the Education Sector. One new project was undertaken for the construction and equipping of a computer laboratory at the Iris Gelley Primary School. The Foundation committed $5.5 million toward this project, of which $3.5 million has already been disbursed to start the construction of the laboratory.

Our major activity in the area of education continued to be the awarding of scholarships and bursaries, totaling $14.5 million, to students attending universities, community colleges and high schools, islandwide. The number of scholarships awarded for the Grade Six Achievement Test, was increased to 18 from 15. There are now 87 GSAT scholars in the programme. A grant was awarded during the year to a hearing impaired student, to attend a tertiary institution.

# Report to Shareholders

We launched the Scotiabank Jamaica Foundation Scholars' Club (SJFSC) in February and an executive committee was elected to manage the ongoing activities of the Club. The objectives of the SJFSC are to create an environment in which our scholars can develop social awareness, as well as establish a lasting relationship with each other. There are 40 scholars enrolled in the programme.

### Health

The Health Sector remained a major beneficiary of the Foundation's donations with this year's contributions amounting to $31.2 million. We continued to focus on Haemodialysis Care, Breast Cancer Screening and Accident and Emergency Services.

The Scotiabank Jamaica Foundation Haemodialysis Centre at the Cornwall Regional Hospital received two new dialysis machines and equipment, valued at $5.2 million. We provided for the annual upkeep and maintenance of the Centre for the ninth year and serviced the Renal Unit machines at the Kingston Public Hospital, at a total cost of $9.1 million.

### International Centre for Environmental and Nuclear Sciences (ICENS)

This year, Scotiabank disbursed the first tranche of its $25 million commitment, payable over five years, to The University of the West Indies to support a professional research fellow at the International Centre for Environmental and Nuclear Sciences (ICENS), on the Mona Campus.

The donation reinforces Scotiabank's commitment to the improvement of health care in Jamaica. The grant will be used to strengthen ICENS' capability to examine essential and potentially harmful substances in the Jamaican diet. Possible links between the high levels of heavy metals in Jamaican soils and the high incidence in Jamaica of diabetes, renal disease and prostate cancer will also be investigated. The grant will be used to provide training and education to researchers.

### Community Projects

We cared for the 41 elderly residents of Cluster F at the Golden Age Home for the 10th year, through the provision of daily meals. The Foundation also partnered with the Rotary Club of St. Andrew, contributing $1.5 million toward the club's Special Centenary Project, which is the construction of a home for street boys. During the year, contributions to community projects totalled $4.5 million.

*Our continued success is the result of the support of our customers, the confidence of our shareholders and the solid contribution of our over 1800 dedicated Scotiabankers.*

*By focussing on our core strengths in customer satisfaction, people, diversification, expense and risk management, we have continued to achieve outstanding returns and dividend growth for our shareholders.*

*We are committed to being a leader in corporate social responsibility, responding to the needs of the communities in which we live and work, and alleviating poverty primarily in the areas of health and education.*

ROBERT H. PITFIELD
Chairman

WILLIAM E. CLARKE
President & CEO

# Risk Management

## OVERVIEW

The Scotiabank risk management framework has been developed to address the diversity of the Bank's business activities.  This framework is supported by a robust risk management culture and a strong commitment to active management of risks by both executive and business line management.  Scotiabank's primary risk management objectives are to protect and ensure the safety and stability of customers' funds that are placed in our fiduciary care, and to create and protect shareholder value. Through our various business activities we are exposed to four major types of risks - credit risk, market risk, liquidity risk and operational risk.

The risk management framework is driven by the principles that are set out below; these principles are applied to all businesses and risk types.

- Board oversight - Risk strategies, policies and limits are subject to Board review and approval
- Diversification - Policies and limits are designed with a view to ensuring that risks are well diversified
- Assessment - processes are designed to ensure that risks are properly assessed at the transaction, customer and portfolio levels
- Review and Reporting - Risk profiles of individual customers and portfolios are subjected to ongoing review and reporting to executive management and the Board.
- Accountability - Business units are accountable for all risks and the related returns
- Audit Review - Individual risks and portfolios are subject to comprehensive internal audit review, with independent reporting to the Audit Committee of the Board on the effectiveness of the risk management policies and the adherence to internal controls.

The various processes within the Bank's risk management framework are designed to ensure that risks in the various business activities are properly identified, measured, assessed and controlled.  Risk management strategies, policies and limits are then designed to ensure that the Bank's risk taking is consistent with its business objectives and risk tolerance.  Risks are managed within the limits established by the Board of Directors.

Scotiabank's Asset Liability Management (ALM) Programme focuses on measuring, managing and controlling the risks arising in the Bank's lending, funding and investing activities. Scotiabank's ALM process is designed to maintain a balance between enhancing interest revenue and maintaining strong liquidity within a framework of sound and prudent practices. The Asset and Liability Committee (ALCO) is responsible for supervising the ALM program. The Committee meets at least once monthly to review risks, evaluate performance and provide strategic direction.

### CREDIT RISK

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honor its financial contractual obligation.  Credit risk arises both in the Bank's direct lending operations and its funding and investment activities, where counterparties have repayment or other obligations to the Bank.

Scotiabank's credit risk is managed through strategies policies and limits that are approved by the Board of Directors. These strategies include centralized credit processes, portfolio diversification, enhanced credit analysis and strong Board oversight. The Bank's credit risk limits to counterparties in the financial and government sectors are also managed centrally to optimize the use of credit availability and to avoid excessive risk concentration.

#### Credit Processes

Scotiabank employs a highly centralized credit granting process that ensures all major lending decisions are referred to a Senior Credit Committee, or where appropriate, to a Loan Policy Committee. Credit proposals on major corporate and commercial accounts are submitted directly to the Credit Department by client relationship officers in the business lines. Credit specialists, who are independent of the business line, analyse the proposal. A risk rating system is used to quantify and evaluate the risk, and determine whether the Bank is being adequately compensated, and the Board reviews and ratifies all major credits.

Once a credit proposal has been authorized, a company's financial condition is monitored by business line and Credit Department personnel for signs of deterioration, which could affect the borrower's ability to meet its obligations to the Bank. In addition, a full review and risk analysis of each client relationship is undertaken at least annually. Additional reviews are carried out more frequently in the case of higher risk credits.

Decisions on small and medium-sized commercial credits are made utilizing a centralized loan underwriting system, which uses a computerized scoring model.  This process is significantly more efficient than the previous manual scoring system, thus the turnaround time is significantly improved.

Retail loan portfolios continue to be reviewed on a monthly basis for emerging trends in credit quality, in addition to regularly subjected analytical reviews to confirm the validity of the parameters used in the scoring models.

Special attention is paid to the management of problem loans. Intensive management and control is exercised over problem loans, in order to maximize recoveries of doubtful debts.

## MARKET RISK

Market risk refers to the risk of loss due to unfavorable changes in interest rates, foreign exchange rates, market prices and volatilities that result from the Bank's funding, investment and trading activities.

Market risk is an integral part of the Bank's lending and deposit taking activities, as well as its funding, trading and investment activities. Market risk exposures are managed through key policies, standards and limits established by the Board of Directors, which are formally reviewed and approved by the Board at least annually.

Within the policy and limit framework established by the Board, ALCO provides senior management oversight of the Bank's market risk exposure. The ALCO is primarily focused on asset liability management, which includes lending, funding, trading and investment activities. All market risk limits are reviewed at least annually. The key sources of market risk are described below.

## INTEREST RATE RISK

Interest rate risk arises when there is a mismatch between positions, which are subject to interest rate adjustment within a specified period. The Bank's lending, funding and investment activities give rise to interest rate risk. For these activities, the impact of changes in interest rates is reflected in net interest income.

The ALCO evaluates interest rate risk exposure arising from the Bank's funding and investment activities at least monthly. This supervisory role is supported by risk management processes, which include gap and sensitivity analysis. Under gap analysis, interest rate sensitive assets and liabilities are assigned to predefined time periods on the basis of expected re-pricing dates. A liability gap occurs when more liabilities than assets are subject to interest rate changes during a given time period. Conversely, an asset sensitive position arises when more assets than liabilities are subject to rate changes. Interest rate exposures in individual currencies are controlled by gap limits. Sensitivity analysis assesses the effect of changes in interest rates on current earnings and on the economic value of assets and liabilities.

## FOREIGN EXCHANGE RISK

Foreign exchange risk arises from trading activities and foreign currency operations. In its trading activities, the Bank buys and sells currencies in the spot market for its customers. Foreign exchange gains and losses from these activities are included in other income. The Bank mitigates the effect of foreign currency exposures by financing its net investments in its operations with borrowings in the same currencies, as the functional currency involved.

Foreign currency risk arising from the Bank's foreign currency trading is subject to Board approved limits. The ALCO reviews and manages these exposures.

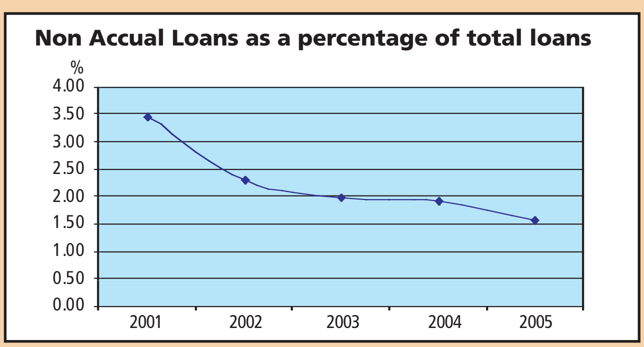
## LIQUIDITY RISK

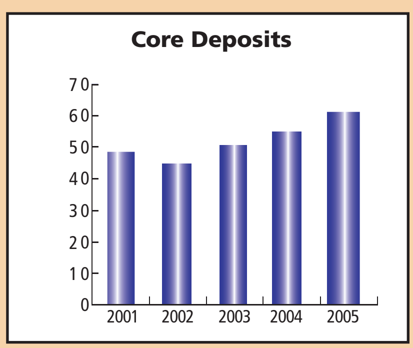
Liquidity refers to the ability to meet financial obligations and to fund the growth of assets. Liquidity risk is the risk of not being able to obtain funds at a reasonable price within a time period to meet obligations as they come due. Liquidity management includes estimating and satisfying the liquidity requirements of the Bank in the most cost effective way.

The Board of Directors approves the Bank's liquidity and funding management policies and establishes limits to control the risk. The Bank 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 cash flows for each major currency;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements;
- Monitoring of depositor concentration both in terms of the overall funding mix and to avoid undue reliance on large individual depositors; and
- Maintenance of liquidity and funding contingency plans

The Bank maintains large holdings of liquid assets to support its operations. These liquid assets can be sold or pledged to meet the Bank's obligations. As at October 31, 2005, liquid assets stood at $75 billion, which represents 41% of total assets.



# Risk Management

The objectives of the liquidity management processes are to ensure that the Bank honors all of its financial commitments as they fall due. To fulfill this objective, the Bank measures and forecasts its cash commitments, maintains diversified sources of funding, sets prudent limits, and ensures immediate access to liquid assets. Our strong performance and solid reputation also ensures timely access to borrowing on favorable rates and terms. The ALCO evaluates the Bank's liquidity profile on a monthly basis or more frequently as required.

## FUNDING

Scotiabank relies on a broad range of funding sources and applies prudent limits to avoid undue concentration. The principal sources of funding are capital, core deposits from retail and commercial customers, and wholesale deposits raised in the interbank and commercial markets. Scotiabank's extensive branch network provides a strong foundation for diversifying its funding and raising the level of core deposits. Considerable importance is attached to this core deposit base, which, over the years, has been stable and predictable. In 2005, core savings deposits continued to grow, reaching $61 billion as at October 31, 2005, representing 59% of total funding.

## OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, human behavior and systems, or from external events. Operational risk is inherent in each of the Bank's business and key support activities, and can manifest itself in various ways. These include breakdowns, errors, business interruptions and inappropriate behavior of employees, and can potentially result in financial losses and other damage to the Bank. Operational losses can be categorized into the following loss types:

- Errors or breakdown in transaction processing
- Legal liability arising from failure to meet legislative or contractual requirements
- Loss due to fraud, theft and unauthorized activities
- Loss or damage to assets due to natural disasters, acts of terrorism or other accidents.

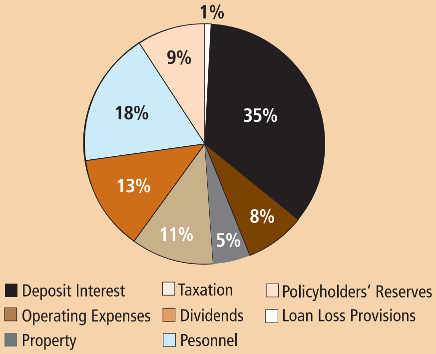
Operational risks are managed and controlled within the individual business lines and a wide variety of checks and balances to address operational risks have been developed as an important part of our risk management culture. They include the establishment of risk management policies, a rigorous planning process, regular organizational review, thorough enforcement of the Bank's Guidelines for Business Conduct, and clearly defined and documented approval authorities.

Regular audits conducted by an experienced independent internal audit department includes comprehensive reviews of the design and operation of internal control systems in all business and support groups, new products and systems and the reliability and integrity of Data Processing operations.

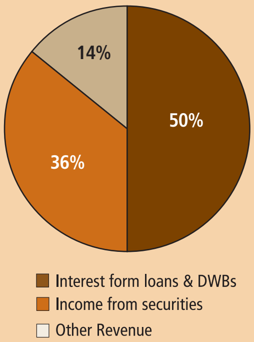
As part of our strong control culture, units are also subject to a standard, documented compliance program. The elements of which are, regulatory awareness, regulatory risk assessment, compliance monitoring, non-compliance and problem resolution and compliance reporting. Compliance matrices, which outline the various legislative and regulatory requirements for each unit, have been developed. The Bank's Compliance Officer manages the compliance program.

The Bank maintains and tests contingency facilities to support operations in the event of disasters, to ensure efficient operational recovery in the shortest possible timeframe.

**Allocation of Revenue 2005**




**Source of Revenue 2005**



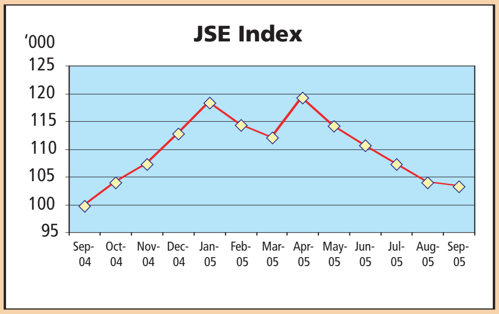
# Economic Review

## Overview

Jamaica's economic performance over the last fiscal year (November 04 - September 05) got off to a promising start in the first half of the year but has since dampened as a result of several internal and external shocks that have continued to buffet the country. At the start of the year, the country was expected to recover from the disruption in production and the inflationary effects of Hurricane Ivan last September. This confidence was reflected in the country's 2005 budget forecast where the economy was expected to grow by some 3.6% in real terms, driven largely by increased activity in sectors such as construction, mining & quarrying and tourism, as well as the recovery of agricultural exports to pre-Ivan levels.

However, an unusually active hurricane season, sustained high oil prices in the US (against which we benchmark our rates) and GCT reforms in May have contributed to spiralling inflation (At the end of October, inflation was 15.9% in the 12 months since November 2004 and 10.88% in the 7 months of the country's fiscal year). There was a 1.8% decline in the Jamaican dollar against its US counterpart over a four-week period in October 2005. Given the fact that the 12-month period (Sept 04 - Sept 05) prior to October saw a slow decline in the dollar's value of 1.6%, this has not served to bolster confidence in the near-term prospects for the economy.

In response, central bank operations, with the government being a net seller of foreign exchange bolstered by buoyant net international reserves of US$2.12 billion (September), have helped to stabilize the currency and mop up excess liquidity, thus reigning in some inflationary pressure.




While the government continues to surpass its expenditure targets through aggressive capital expenditure cuts, tax revenues for the April - September period were $7.3 billion less than projected, with collections for local GCT and GCT on imports accounting for approximately 67% of the shortfall. The net effect on the fiscal accounts at the end of August is a fiscal deficit of $18 billion, which is $3.7 billion more than projected.

Finally, while the unemployment rate as at July 2005 stood at 11.2% there was a net inward private transfer of funds for the January - August period that offset some of the undue strain caused by unemployment. Remittances account for 85% of this inflow is from remittances, which have shown strong growth year-over-year for the period. It is noteworthy that commercial banks handle only 28% of the inward remittances while handling approximately 91% of the remittance outflow traffic.

## The Financial Sector

At the end of August 2005, total assets of commercial banks stood at $347 billion, representing an increase of 6.2% over the previous year. Deposits at commercial banks stood at $235 billion at the end of August, representing an increase of 8.2% over the previous year.

The Central Bank, on two occasions lowered its Special Deposit Requirement for Commercial Banks and FIA institutions. This development, coupled with the lowering of rates on government instruments led to slower but steady decline in average savings and lending rates over the period. While the country has begun to experience real negative savings interest rates due to inflation, the low interest rate environment has fuelled growth in loans and advances from commercial banks over the 12-month period of 12.29%.

Deposits lodged with building societies grew by 11.64% over the previous year to $61 billion at the end of August 2005. Loans and advances made at building societies at the end of August 2005 stood at $34 billion, representing an increase of 27.2% over the previous year.

Merchant banks and other finance houses posted deposit gains of 12.1% over the previous year to balances of $11 billion at the end of August 2005.

The Jamaica Stock Exchange Index as of the end of September, increased by 3.52% over the previous year, but this is not reflective of the mixed performance of the index. The first 5 months saw the index increase by 18%, reflecting the liquidity within the economy and a measure of confidence and expectations for profitability within the private sector. The ensuing months however have seen an average 13% decline in the index, reflecting changing investor confidence due to lower than projected corporate earnings and higher inflation.

## Outlook

GDP growth is expected to continue to be fuelled by the mining, construction and tourism sectors and while significant FDI inflows demonstrate this optimism, the impact of the active hurricane season will limit the early growth expected from these sectors.

The outlook for the agricultural sector for the remainder of the fiscal year is less than positive given the weather phenomenon over the latter half of the year. Further, the likely dislocation expected from the downgrading of the preferential pricing on sugar exported to EU countries, coupled with the continued inefficient sugar production practices in many of the sugar estates, will be significant.

Crime and violence continues to have an adverse impact on the growth potential for the economy and the level of FDI that is attracted, despite recent successes in this regard. The direct and indirect impact of crime on the economy remains to be measured but, as the business confidence indices show, what is clear is that it is significant.

Finally, the government's major challenge over the next fiscal year continues to be to manage the fiscal deficit and contain the debt burden, while encouraging local and foreign investment through a stable exchange rate, a sustained low interest rate environment and moderate inflation. Jamaica will have a harder time meeting its medium term targets as budgeted revenues fall short and expenditures increase in the wake of the natural disasters and rising inflation.

# Shareholdings

## Shareholdings of Directors and Connected Persons in The Bank of Nova Scotia Jamaica Limited as at October 31, 2005*

| | Units |
|---|---|
| Robert Pitfield | 9,270 |
| William E. Clarke, CD | 92,980 |
| Anthony Chang | 3,274 |
| Professor Celia D. C. Christie | 20,000 |
| Dr. Jean A. Dixon | 72,530 |
| Muna M. Issa | 19,986 |
| Charles Johnston | 2.328 |
| - Marine Management Services | 64,472 |
| Warren McDonald | 10,000 |
| Joseph M. Matalon | NIL |
| Hon. Mayer M. Matalon, OJ | 100,000 |
| William A. McConnell, CD | 10,000 |
| Dr. Herbert J. Thompson | 29,640 |
| Professor Stephen Vasciannie | NIL |
| Richard E. Waugh | NIL |
| Stacie-Ann Wright | 43,501 |

*Inclusive of shares in Jamaica Central Securities Depository

## Shareholders Holding the Ten Largest Blocks of Shares in The Bank of Nova Scotia Jamaica Limited as at October 31, 2005

| | Units |
|---|---|
| 1. The Bank of Nova Scotia, Toronto, Canada | 2,049,062,400 |
| 2. Scotia Jamaica Investment Management Limited - A/C 3119 | 76,977,650 |
| 3. Life of Jamaica Pooled Equity Fund No. 1 | 57,155,855 |
| 4. Scotia Jamaica Investment Management Limited - A/C 560 | 39,487,461 |
| 5. Guardian Life Limited | 32,903,235 |
| 6. National Insurance Fund | 26,041,444 |
| 7. Capital & Credit Merchant Bank Limited | 25,162,654 |
| 8. Investment Nominees Limited - A/C Lascelles Henriques S/A Fund | 15,153,996 |
| 9. Manchester Pension Trust Fund | 13,017,444 |
| 10. West Indies Trust Co. Ltd. A/C WT89 | 12,983,520 |

## Shareholdings of Senior Management Officers of The Bank of Nova Scotia Jamaica Limited as at October 31, 2005*

| | Units |
|---|---|
| William E. Clarke, CD | 92,980 |
| Egerton Anderson | 95,288 |
| - Joan Anderson | 19,598 |
| Ronald Bourdeau | NIL |
| Bevan Callam | 1,045,810 |
| Roger Cogle | 98,512 |
| Sharon Colquhoun | NIL |
| Wayne Hewitt | 2,000 |
| Michael Jones | 219,562 |
| Bridget Lewis | 113,800 |
| Suzette McLeod | 160,000 |
| David Noël | 120,745 |
| Yvonne Pandohie | 95,640 |
| Rosemarie Pilliner | 294,538 |
| H. Wayne Powell | 1,198,338 |
| - Yanissa Investments | 144,448 |
| Marie Powell | 58,512 |
| Shirley Ramsaran | NIL |
| - Reginald Ramsaran | 40,229 |
| Janice V. Robinson | 38,512 |
| Jacqueline Sharp | 98,000 |
| Clyde Singh | 240,616 |
| Michael Thompson | 50,000 |
| Audrey Tugwell Henry | 12,446 |
| Rosemarie Voordouw | NIL |
| David M. Williams | 131,130 |
| Donald O. Williams | 155,872 |
| - Eileen H. Williams | 151,702 |
| Gladstone Whitelocke | 84,000 |
| - Elaine Whitelocke | NIL |
| - Justin Whitelocke | 1,200 |
| - Renee Whitelocke | 1,320 |
| Stacie-Ann Wright | 43,501 |

*Inclusive of shares in Jamaica Central Securities Depository

# PRICEWATERHOUSECOOPERS

**PricewaterhouseCoopers**
Scotiabank Centre
Duke Street
Box 372
Kingston Jamaica
Telephone (876) 922 6230
Facsimile (876) 922 7581

24 November 2005

To the Members of
The Bank of Nova Scotia Jamaica Limited
Kingston

**Auditors' Report**

We have audited the financial statements set out on pages 37 to 107, and have received all the information and explanations which we considered necessary. These financial statements are the responsibility of the Bank's management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, proper accounting records have been kept and the financial statements, which are in agreement therewith, give a true and fair view of the state of affairs of the Group and the Bank as at 31 October 2005 and of the results of operations, changes in stockholders' equity and cash flows of the Group and the Bank for the year then ended in accordance with International Financial Reporting Standards and comply with the provisions of the Jamaican Companies Act applicable to banking companies.

PricewaterhouseCoopers

Chartered Accountants
Kingston, Jamaica

# Statement of Consolidated Revenue and Expenses
(expressed in thousands of Jamaican dollars unless otherwise stated)

**Year ended 31 October 2005**

| | Note | 2005 | Restated 2004 |
|---|---|---|---|
| **Net Interest Income and Other Revenue** | | | |
| Interest from loans and deposits with banks | | 12,419,622 | 13,439,520 |
| Income from securities | | 9,125,456 | 9,278,088 |
| Total interest income | 6 | 21,545,078 | 22,717,608 |
| Interest expense | 6 | (7,481,246) | (8,606,990) |
| Net interest income | | 14,063,832 | 14,110,618 |
| Impairment losses on loans | 23 | (272,575) | (45,878) |
| Net interest income after impairment losses on loans | | 13,791,257 | 14,064,740 |
| Net foreign exchange trading income | 7 | 793,919 | 586,277 |
| Fee and commission income | 8 | 2,803,498 | 2,105,495 |
| Fee and commission expense | 8 | (475,033) | (378,829) |
| Net fee and commission income | | 2,328,465 | 1,726,666 |
| Insurance premium income | | 333,963 | 273,962 |
| Other revenue | | 6,276 | 8,272 |
| | | 17,253,880 | 16,659,917 |
| **Expenses** | | | |
| Salaries, pension contributions and other staff benefits | 9 | 4,003,588 | 3,772,527 |
| Property expenses, including depreciation | | 1,029,859 | 984,628 |
| Change in policyholders' reserves | 10 | 2,092,742 | 2,242,099 |
| Other operating expenses | | 1,797,879 | 1,488,030 |
| | | 8,924,068 | 8,487,284 |
| **Profit before Taxation** | 12 | 8,329,812 | 8,172,633 |
| Taxation | 13 | (2,444,226) | (2,316,576) |
| **NET PROFIT** | 14 | 5,885,586 | 5,856,057 |
| **EARNINGS PER STOCK UNIT** (expressed in $ per share) | 15 | $2.01 | $2.00 |

# Consolidated Balance Sheet
(expressed in thousands of Jamaican dollars unless otherwise stated)

**31 October 2005**

| | Note | 2005 | Restated 2004 |
|---|---|---|---|
| **ASSETS** | | | |
| **Cash Resources** | | | |
| Notes and coins of, deposit with, and money at call at, | | | |
| Bank of Jamaica | 16 | 25,443,331 | 23,636,648 |
| Government and bank notes other than Jamaica | | 240,438 | 307,744 |
| Amounts due from other banks | 17 | 18,235,430 | 15,394,487 |
| Accounts with parent and fellow subsidiaries | 18 | 489,135 | 1,111,543 |
| | | 44,408,334 | 40,450,422 |
| **Trading Securities** | 20 | 21,990 | - |
| **Government Securities Purchased under Resale Agreements** | 21 | 27,227,255 | 25,046,360 |
| **Loans, after Allowance for Impairment Losses** | 22 | 57,648,163 | 53,454,402 |
| **Lease Receivables** | 24 | 433 | 5,100 |
| **Investment Securities** | 25 | | |
| Available-for-sale | | 9,703,139 | 8,807,167 |
| Held-to-maturity | | 30,007,225 | 26,280,091 |
| | | 39,710,364 | 35,087,258 |
| **Other Assets** | | | |
| Customers' liabilities under acceptances, guarantees and | | | |
| letters of credit | | 3,486,501 | 2,458,854 |
| Taxation recoverable | | 522,694 | 1,016,105 |
| Sundry assets | 26 | 4,543,745 | 5,186,532 |
| Property, plant and equipment | 27 | 2,017,153 | 2,036,541 |
| Deferred tax assets | 28 | 109,939 | 87,248 |
| Retirement benefit asset | 29 | 3,764,372 | 3,338,827 |
| | | 14,444,404 | 14,124,107 |
| | | 183,460,943 | 168,167,649 |

# Consolidated Balance Sheet (continued)
(expressed in thousands of Jamaican dollars unless otherwise stated)

**31 October 2005**

| | Note | 2005 | Restated 2004 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Deposits** | | | |
| Deposits by the public | 30 | 107,280,146 | 98,810,819 |
| Amounts due to other banks and financial institutions | 31 | 1,655,908 | 1,773,436 |
| Amounts due to parent company | 33 | 4,608,443 | 3,069,486 |
| Amounts due to fellow subsidiaries | | 3,989 | 561 |
| | | 113,548,486 | 103,654,302 |
| **Other Liabilities** | | | |
| Cheques and other instruments in transit | | 1,906,302 | 2,884,129 |
| Acceptances, guarantees and letters of credit | | 3,486,501 | 2,458,854 |
| Securities sold under repurchase agreements | | 16,705,889 | 18,546,429 |
| Other liabilities | 34 | 1,605,158 | 1,880,842 |
| Taxation payable | | 905,542 | 364,284 |
| Deferred tax liabilities | 28 | 1,497,437 | 1,408,452 |
| Retirement benefit obligations | 29 | 326,062 | 264,634 |
| | | 26,432,891 | 27,807,624 |
| **Policyholders' Fund** | 10 | 19,954,613 | 16,100,706 |
| **STOCKHOLDERS' EQUITY** | | | |
| Share capital | 36 | 2,927,232 | 1,463,616 |
| Reserve fund | 37 | 3,158,480 | 1,694,864 |
| Retained earnings reserve | 38 | 4,492,902 | 6,670,134 |
| Cumulative remeasurement result from available-for-sale financial assets | 39 | 194,364 | 232,783 |
| Loan loss reserve | 40 | 806,524 | 806,524 |
| Other reserves | 41 | 26,714 | 26,714 |
| Unappropriated profits | | 11,918,737 | 9,710,382 |
| | | 23,524,953 | 20,605,017 |
| | | 183,460,943 | 168,167,649 |

**Approved for issue by the Board of Directors on 24 November 2005 and signed on its behalf by:**

| | | | |
|---|---|---|---|
| Robert H. Pitfield | Director | Stacie-Ann S. Wright | Director |
| William E. Clarke | Director | David A. Noël | Secretary |

# Statement of Consolidated Changes in Stockholders' Equity

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

## Year ended 31 October 2005

| | Note | Share Capital | Reserve Fund | Retained Earnings Reserve | Cumulative Remeasure-ment Result From Available For-Sale Financial Assets | Loan Loss Reserve | Other Reserves | Unappropriated Profits | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 31 October 2003 as previously stated** | | 1,463,616 | 1.694,864 | 5,920.134 | 22.697 | 806.524 | 26,714 | 7.721,827 | 17.656,376 |
| Effects of early adopting revised IFRS | 50 | - | - | - | (5.179) | - | - | - | (5,179) |
| As restated | | 1,463,616 | 1.694,864 | 5,920.134 | 17.518 | 806.524 | 26,714 | 7.721,827 | 17.651,197 |
| Unrealised gains on available-for-sale investments, net of taxes | | - | - | - | 209.640 | - | - | - | 209,640 |
| Net gains not recognised in Consolidated Statement of Revenue and Expenses | | - | - | - | 209.640 | - | - | - | 209,640 |
| Net profit | | - | - | - | - | - | - | 5,856,057 | 5.856,057 |
| Dividends paid | | - | - | - | - | - | - | (3,117,502) | (3.117,502) |
| Transfer to retained earnings reserve | | - | - | 750,000 | - | - | - | (750,000) | - |
| Effects of early adopting revised IFRS | 50 | - | - | - | 5.625 | - | - | - | 5,625 |
| **Balance at 31 October 2004** | | 1,463,616 | 1.694,864 | 6,670.134 | 232.783 | 806.524 | 26,714 | 9.710,382 | 20.606,017 |
| Unrealised losses on available-for-sale investments, net of taxes | | - | - | - | (38.419) | - | - | - | (38,419) |
| Net losses not recognised in Consolidated Statement of Revenue and Expenses | | - | - | - | (38.419) | - | - | - | (38.419) |
| Net profit | | - | - | - | - | - | - | 5.885,586 | 5.885,586 |
| Dividends paid | | - | - | - | - | - | - | (2,927,231) | (2.927,231) |
| Bonus issue of ordinary shares | 36 | 1.463,616 | - | (1,463.616) | - | - | - | - | - |
| Transfer to reserve fund | 37 | - | 1.463,616 | (1,463,616) | - | - | - | - | - |
| Transfer to retained earnings reserve | | - | - | 750,000 | - | - | - | (750,000) | - |
| **Balance at 31 October 2005** | | 2,927,232 | 3.158,480 | 4,492,902 | 194.364 | 806.524 | 26,714 | 11.916,737 | 23.524,953 |

# Statement of Consolidated Cash Flows
**(expressed in thousands of Jamaican dollars unless otherwise stated)**

**Year ended 31 October 2005**

| | Note | 2005 | Restated 2004 |
|---|---|---|---|
| **Cash Flows from Operating Activities** | | | |
| Net profit from operations | | 5,885,586 | 5,856,057 |
| Items not affecting cash | | | |
| Interest income | 6 | (21,545,078) | (22,717,608) |
| Interest expense | 6 | 7,481,246 | 8,506,990 |
| Income tax charge | | 2,367,543 | 2,109,358 |
| Deferred tax expense | | 76,683 | 207,218 |
| Depreciation | 27 | 309,165 | 319,027 |
| Impairment losses on loans | 23 | 272,575 | 45,878 |
| Gain on sale of property, plant and equipment | | (1,847) | (245) |
| Write offs of property, plant and equipment | 27 | 4,075 | 3,617 |
| | | (5,150,052) | (5,569,708) |
| Changes in operating assets and liabilities | | | |
| Loans | | (4,461,669) | (5,430,666) |
| Retirement benefits | | (364,117) | (331,571) |
| Customer deposits | | 8,469,327 | 11,499,206 |
| Policyholders' reserves | | 3,853,907 | 4,626,123 |
| Statutory reserves at Bank of Jamaica | | 2,331,647 | (1,506,535) |
| | | 4,679,043 | 3,286,849 |
| Interest received | | 21,363,087 | 23,287,452 |
| Interest paid | | (7,890,991) | (8,909,994) |
| Income tax paid | | (1,146,290) | (2,614,324) |
| Net cash provided by operating activities | | 17,004,849 | 15,049,983 |
| **Cash Flows from Investing Activities** | | | |
| Investment securities | | (4,429,082) | (1,420,756) |
| Government securities purchased under resale agreements | | (2,180,895) | (7,452,916) |
| Proceeds from the sale of property, plant and equipment | | 8,340 | 1,527 |
| Purchase of property, plant and equipment | 27 | (300,345) | (366,866) |
| Taxation recoverable | | (186,584) | (632,137) |
| Other assets, net | | 814,388 | 330,507 |
| Securities sold under repurchase agreements | | (1,840,540) | 3,253,433 |
| Net cash used in investing activities | | (8,114,718) | (6,287,208) |
| **Cash Flows from Operating and Investing Activities** | | 8,890,131 | 8,762,775 |

# Statement of Consolidated Cash Flows (Continued)
## (expressed in thousands of Jamaican dollars unless otherwise stated)

**Year ended 31 October 2005**

| | Note | 2005 | Restated 2004 |
|---|---|---|---|
| **Cash Flows from Operating and Investing Activities (Page 41)** | | 8,890,131 | 8,762,775 |
| **Cash Flows from Financing Activities** | | | |
| Due to parent company and fellow subsidiaries | | 1,542,385 | 596,212 |
| Dividends paid | | (2,927,231) | (3,117,502) |
| Other liabilities, net | | 134,061 | (335,302) |
| Net cash used in financing activities | | (1,250,785) | (2,856,592) |
| Effect of exchange rate changes on cash and amounts due to banks and other financial institutions | | 562,673 | (19,336) |
| Net increase in cash and amounts due to banks and other financial institutions | | 8,202,019 | 5,886,847 |
| Cash and amounts due to banks and other financial institutions at beginning of year | | 29,919,809 | 24,032,962 |
| **CASH AND AMOUNTS DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS AT END OF YEAR** | 19 | 38,121,828 | 29,919,809 |

# Statement of Revenue and Expenses
(expressed in thousands of Jamaican dollars unless otherwise stated)

**Year ended 31 October 2005**

| | Note | 2005 | Restated 2004 |
|---|---|---|---|
| **Net Interest Income and Other Revenue** | | | |
| Interest from loans and deposits with banks | | 11,859,945 | 11,415,879 |
| Income from securities | | 2,774,181 | 3,740,932 |
| Total interest income | 6 | 14,634,126 | 15,156,811 |
| Interest expense | 6 | (4,804,170) | (5,338,770) |
| Net interest income | | 9,829,956 | 9,818,041 |
| Impairment losses on loans | 23 | (272,426) | (56,209) |
| Net interest income after impairment losses on loans | | 9,557,530 | 9,761,832 |
| Fee and commission income | 8 | 2,637,548 | 1,927,172 |
| Fee and commission expense | 8 | (475,033) | (378,829) |
| Net fee and commission income | | 2,162,515 | 1,548,343 |
| Net foreign exchange trading income | 7 | 794,422 | 578,502 |
| Other revenue | | 6,818 | 4,397 |
| | | 12,521,285 | 11,893,074 |
| **Expenses** | | | |
| Salaries, pension contributions and other staff benefits | 9 | 3,631,696 | 3,381,887 |
| Property expenses, including depreciation | | 994,557 | 951,390 |
| Other operating expenses | | 1,595,182 | 1,329,747 |
| | | 6,221,435 | 5,663,024 |
| **Profit before Taxation** | 12 | 6,299,850 | 6,230,050 |
| Taxation | 13 | (2,001,575) | (1,856,480) |
| **NET PROFIT** | 14 | 4,298,275 | 4,373,570 |

# Balance Sheet

(expressed in thousands of Jamaican dollars unless otherwise stated)

**31 October 2005**

| | Note | 2005 | Restated 2004 |
|---|---|---|---|
| **ASSETS** | | | |
| **Cash Resources** | | | |
| Notes and coins of, deposit with, and money at call at, Bank of Jamaica | 16 | 25,401,582 | 23,600,356 |
| Government and bank notes other than Jamaica | | 240,438 | 307,744 |
| Amounts due from other banks | 17 | 18,201,056 | 15,370,384 |
| Accounts with parent and fellow subsidiaries | 18 | 489,135 | 1,111,543 |
| | | 44,332,211 | 40,390,027 |
| **Government Securities Purchased under Resale Agreements** | 21 | 98,600 | 69,000 |
| **Loans, after Allowance for Impairment Losses** | 22 | 53,992,250 | 50,288,921 |
| **Investment Securities** | 25 | | |
| Available-for-sale | | 6,796,117 | 5,445,605 |
| Held-to-maturity | | 17,096,745 | 16,912,645 |
| | | 23,892,862 | 22,358,250 |
| **Investment in Subsidiaries** | | 258,238 | 258,238 |
| **Other Assets** | | | |
| Customers' liabilities under acceptances, guarantees and letters of credit | | 3,127,349 | 2,118,976 |
| Taxation recoverable | | - | 16,862 |
| Sundry assets | 26 | 2,700,039 | 3,133,378 |
| Property, plant and equipment | 27 | 1,950,830 | 1,967,982 |
| Deferred tax assets | 28 | 108,687 | 85,666 |
| Retirement benefit asset | 29 | 3,764,372 | 3,338,827 |
| | | 11,651,277 | 10,661,691 |
| | | 134,225,438 | 124,026,127 |

# Balance Sheet (Continued)
(expressed in thousands of Jamaican dollars unless otherwise stated)

**31 October 2005**

| | Note | 2005 | Restated 2004 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Deposits** | | | |
| Deposits by the public | 30 | 103,139,697 | 95,141,204 |
| Amounts due to other banks and financial institutions | 31 | 1,577,800 | 1,671,537 |
| Amounts due to subsidiaries | 32 | 148,026 | 226,144 |
| Amounts due to parent company | 33 | 4,608,443 | 3,069,486 |
| Amounts due to fellow subsidiaries | | 3,989 | 561 |
| | | 109,477,955 | 100,108,932 |
| **Other Liabilities** | | | |
| Cheques and other instruments in transit | | 1,856,866 | 2,772,536 |
| Acceptances, guarantees and letters of credit | | 3,127,349 | 2,118,976 |
| Securities sold under repurchase agreements | | - | 1,471,653 |
| Other liabilities | 34 | 835,743 | 838,342 |
| Taxation payable | | 891,293 | 195,078 |
| Deferred tax liabilities | 28 | 1,470,903 | 1,376,601 |
| Retirement benefit obligations | 29 | 326,062 | 264,634 |
| | | 8,508,216 | 9,037,820 |
| **STOCKHOLDERS' EQUITY** | | | |
| Share capital | 36 | 2,927,232 | 1,463,616 |
| Reserve fund | 37 | 2,930,616 | 1,467,000 |
| Retained earnings reserve | 38 | 4,092,152 | 6,269,384 |
| Cumulative remeasurement result from available-for-sale financial assets | 39 | 142,272 | 153,424 |
| Loan loss reserve | 40 | 765,292 | 765,292 |
| Unappropriated profits | | 5,381,703 | 4,760,659 |
| | | 16,239,267 | 14,879,375 |
| | | 134,225,438 | 124,026,127 |

**Approved for issue by the Board of Directors on 24 November 2005 and signed on its behalf by:**

| | | | |
|---|---|---|---|
| Robert H. Pitfield | Director | Stacie-Ann S. Wright | Director |
| William E. Clarke | Director | David A. Noël | Secretary |

# Statement of Changes in Stockholders' Equity
## (expressed in thousands of Jamaican dollars unless otherwise stated)

**Year ended 31 October 2005**

| | Note | Share Capital | Reserve Fund | Retained Earnings Reserve | Cumulative Remeasurement Result From Available-For-Sale Financial Assets | Loan Loss Reserve | Unappropriated Profits | Total |
|---|---|---|---|---|---|---|---|---|
| Balance at 31 October 2003 | | 1,463,616 | 1,167,000 | 5,518,381 | (54,518) | 785,292 | 4,257,591 | 13,415,385 |
| Unrealised gains on available-for-sale investments, net of taxes | | - | - | - | 207,942 | - | - | 207,942 |
| Net gains not recognised in the Statement of Revenue and Expenses | | - | - | - | 207,942 | - | - | 207,942 |
| Net profit | | - | - | - | | - | 4,373,570 | 4,373,570 |
| Dividends paid | | - | - | - | - | - | (3,117,502) | (3,117,502) |
| Transfer to retained earnings reserve | | - | - | 750,000 | - | - | (750,000) | - |
| Balance at 31 October 2004 | | 1,463,616 | 1,467,000 | 6,268,381 | 153,424 | 785,292 | 4,763,659 | 14,979,375 |
| Unrealised gains on available-for-sale investments, net of taxes | | - | - | - | (11,152) | - | - | (11,152) |
| Net losses not recognised in the Statement of Revenue and Expenses | | - | - | - | (11,152) | - | - | (11,152) |
| Net profit | | - | - | - | - | - | 4,295,275 | 4,295,275 |
| Dividends paid | | - | - | - | | - | (2,927,231) | (2,927,231) |
| Bonus issue of ordinary shares | 36 | 1,463,616 | - | (1,463,616) | | - | | |
| Transfer to reserve fund | 37 | - | 1,463,616 | (1,463,616) | - | - | - | - |
| Transfer to retained earnings reserve | | | | 750,000 | - | | (750,000) | - |
| Balance at 31 October 2005 | | 2,927,232 | 2,930,616 | 4,092,152 | 142,272 | 785,292 | 5,381,703 | 16,239,267 |

# Statement of Cash Flows
(expressed in thousands of Jamaican dollars unless otherwise stated)

**Year ended 31 October 2005**

| | Note | 2005 | Restated 2004 |
|---|---|---|---|
| **Cash Flows from Operating Activities** | | | |
| Net profit from operations | | 4,298,275 | 4,373,570 |
| Items not affecting cash | | | |
| Interest income | 6 | (14,634,126) | (15,156,811) |
| Interest expense | 6 | 4,804,170 | 5,338,770 |
| Deferred tax expense | | 76,857 | 197,284 |
| Income tax charge | | 1,924,718 | 1,659,196 |
| Depreciation | 27 | 297,617 | 307,637 |
| Impairment losses on loans | 23 | 272,425 | 56,209 |
| Gain on sale of property, plant and equipment | | (4,486) | (365) |
| Write offs of property, plant and equipment | 27 | 4,075 | 3,617 |
| | | (2,960,475) | (3,220,893) |
| Changes in operating assets and liabilities | | | |
| Loans | | (3,975,754) | (5,019,165) |
| Retirement benefits | | (364,117) | (331,571) |
| Customer deposits | | 7,998,493 | 11,013,729 |
| Statutory reserves at Bank of Jamaica | | 2,337,045 | (1,493,430) |
| | | 3,035,192 | 948,670 |
| Interest received | | 14,234,748 | 15,117,130 |
| Interest paid | | (4,797,648) | (5,366,487) |
| Income tax paid | | (1,228,503) | (861,277) |
| Net cash provided by operating activities | | 11,243,789 | 9,838,036 |
| **Cash Flows from Investing Activities** | | | |
| Investment securities | | (2,462,664) | 197,711 |
| Government securities purchased under resale agreements | | (29,600) | (26,534) |
| Purchase of property, plant and equipment | 27 | (285,863) | (356,050) |
| Proceeds from the sale of property, plant and equipment | | 5,809 | 400 |
| Withholding tax recoverable | | 16,862 | - |
| Other assets, net | | 827,141 | (986,769) |
| Securities sold under repurchase agreements | | (1,471,653) | (1,629,092) |
| Net cash provided by/(used in) investing activities | | (3,399,968) | (2,800,334) |
| **Cash Flows from Operating and Investing Activities** | | 7,843,821 | 7,037,702 |

# Statement of Cash Flows (Continued)

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

**Year ended 31 October 2005**

| | Note | 2005 | Restated 2004 |
|---|---|---|---|
| **Cash Flows from Operating and Investing Activities (Page 47)** | | 7,843,821 | 7,037,702 |
| **Cash Flows from Financing Activities** | | | |
| Due to parent company and fellow subsidiaries | | 1,464,267 | 444,914 |
| Dividends paid | | (2,927,231) | (3,117,502) |
| Other liabilities, net | | (9,121) | 110,300 |
| Net cash used in financing activities | | (1,472,085) | (2,562,288) |
| Effect of exchange rate changes on cash and amounts due to banks and other financial institutions | | 544,145 | (22,275) |
| Net increase in cash and amounts due to banks and other financial institutions | | 6,915,881 | 4,453,139 |
| Cash and amounts due to banks and other financial institutions at beginning of year | | 28,572,071 | 24,118,932 |
| **CASH AND AMOUNTS DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS** | 19 | 35,487,952 | 28,572,071 |

(expressed in thousands of Jamaican dollars unless otherwise stated)

## 1. Identification, Regulation and Licence

The Bank of Nova Scotia Jamaica Limited ("the Bank") is incorporated and domiciled in Jamaica. It is a 70% subsidiary of The Bank of Nova Scotia, which is incorporated and domiciled in Canada. The registered office of the Bank is located at the Scotiabank Centre, Corner of Duke and Port Royal Streets, Kingston.

The Bank is licensed and these financial statements have been prepared in accordance with the provisions of the Banking Act, 1992.

The Bank is listed on the Jamaica Stock Exchange.

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

| Subsidiaries | Principal Activities | Holding | Financial Year End |
|---|---|---|---|
| Scotia Jamaica Investment Management Limited | Investment and Pension Fund Management and Trustee Services | 100% | 31 October |
| The Scotia Jamaica Building Society | Mortgage financing | 100% | 31 October |
| Scotia Jamaica Life Insurance Company Limited | Life Insurance | 100% | 31 December |
| Scotia Jamaica General Insurance Brokers Limited | Insurance Brokers | 100% | 31 October |
| Scotia Jamaica Financial Services Limited | Non-trading | 100% | 31 October |
| Brighton Holdings Limited | Non-trading | 100% | 31 October |

All of the Bank's subsidiaries are incorporated and domiciled in Jamaica.

During the year, one of the Bank's subsidiaries, Scotia Jamaica General Insurance Brokers Limited ceased trading and is in the process of surrendering the insurance brokers licence to the Regulator.

These financial statements have been approved for issue by the Board of Directors on 24 November 2005.

(expressed in thousands of Jamaican dollars unless otherwise stated)

## 2. Summary of Significant Accounting Policies

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

### (a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and have been prepared under the historical cost convention, as modified for the revaluation of available-for-sale financial assets and financial assets held for trading.

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

Early adoption of revised standards -
In 2005, the Group early adopted the following IFRS, which are relevant to its operations. The 2004 accounts have been amended as required, in accordance with the relevant requirements. The effects of early adopting IFRS on equity previously reported for the Group are detailed in Note 50.

| | |
|---|---|
| IAS 1 (revised 2003) | Presentation of Financial Statements |
| IAS 8 (revised 2003) | Accounting Policies, Changes in Accounting Estimates and Errors |
| IAS 10 (revised 2003) | Events after the Balance Sheet Date |
| IAS 16 (revised 2003) | Property, Plant and Equipment |
| IAS 17 (revised 2003) | Leases |
| IAS 24 (revised 2003) | Related Party Disclosures |
| IAS 32 (revised 2003 | Financial Instruments: Disclosure and Presentation |
| IAS 36 (revised 2003) | Impairment of Assets |
| IAS 38 (revised 2003) | Intangible Assets |
| IAS 39 (revised 2003 & 2004) | Financial Instruments: Recognition and Measurement |

The early adoption of IAS 1, 8, 10, 16, 17, 24, 32, 36, 38 and 39 (all revised 2003) and IAS 39 (revised 2004) did not result in substantial changes to the Group's accounting policies. In summary:

(i) IAS 1 (revised 2003) has affected disclosures.
(ii) IAS 8, 10, 16, 17, 32, 38 and 39 (all revised 2003) and IAS 39 (revised 2004) had no material effect on the Group's policies.
(iii) IAS 24 (revised 2003) has extended the identification of related parties and some other related-party disclosures.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than IAS 39 – the de-recognition of financial assets is applied prospectively.

There was no impact on opening retained earnings as at 1 November 2004 from the adoption of any of the above-mentioned standards.

2. **Summary of Significant Accounting Policies (Continued)**

**(b) Basis of consolidation**

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting shares rights.

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

**(c) Segment reporting**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

**(d) Foreign currency translation**

Assets and liabilities denominated in foreign currencies are translated into Jamaican dollars at the exchange rates prevailing at the balance sheet date, being the mid-point between the Bank of Jamaica's (the Central Bank) 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) Interest and fees**

(i) Income and expense

Interest income and expense are recognised in the statement of revenue and expenses for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. Interest income includes coupons earned on fixed income investments and accrued discount or on treasury bills and other discounted instruments.

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

(ii) Fee and commission income

Fee and commission income is recognised on an accrual basis when service has been provided. Loan origination fees, for loans which are probable of being drawn down, are recognised in the statement of revenue and expenses immediately, as they are not considered material for deferral.

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

2. **Summary of Significant Accounting Policies (Continued)**

(f) **Premium income**
Premiums are recognised as earned when due.

(g) **Claims**
Death claims are recorded in the statement of operations net of reinsurance recoverable.

(h) **Reinsurance ceded**
The Group cedes insurance premiums and risk in the normal course of business in order to limit the potential for losses arising from large exposures. Reinsurance does not relieve the originating insurer of its liability.

(i) **Taxation**
Taxation on the profit or loss for the year comprises current and deferred tax. Current and deferred taxes are recognised as income tax expense or benefit in the statement of revenue and expenses except, where they relate to items recorded in stockholders' equity, they are also charged or credited to stockholders' equity.

(i) Current taxation
Current tax is the expected taxation payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable and tax losses in respect of previous years.

(ii) Deferred income taxes
Deferred tax liabilities are recognised for temporary differences between the carrying amounts of assets and liabilities and their amounts as measured for tax purposes, which will result in taxable amounts in future periods. Deferred tax assets are recognised for temporary differences which will result in deductible amounts in future periods, but only to the extent it is probable that sufficient taxable profits will be available against which these differences can be utilised.

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

Current and deferred tax assets and liabilities are offset when they arise from the same taxable entity, relate to the same Tax Authority and when the legal right of offset exists.

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

The process of calculating policy reserves necessarily involves the use of estimates concerning such factors as mortality and morbidity rates, future investment yields and future expense levels. Consequently, these liabilities include reasonable provisions for adverse deviations from the estimates.

An actuarial valuation is prepared annually. The actuarial surplus, net of taxation, is transferred from the policyholders' fund to the statement of revenue and expenses.

2. **Summary of Significant Accounting Policies (Continued)**

**(k) Financial assets**

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

(i) Financial assets at fair value through profit or loss

This category includes financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

(ii) 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, goods or services directly to a debtor with no intention of trading the receivable.

(iii) 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. Were the Group to sell other than an insignificant amount of held-to-maturity assets, the entire category would be compromised and reclassified as available-for-sale.

(v) Available-for-sale

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

Purchases and sales of financial assets held for trading, held-to-maturity and available-for-sale are recognised at the settlement date – the date on which an asset is delivered to or by the Group. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets held for trading are subsequently carried at fair value. Loans and receivables investment is carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial assets are derecognised or impaired at which time the cumulative gains or losses previously recognised in equity should be recognised in profit or loss. However, interest calculated using the effective interest method is recognised in the statement of revenue and expenses.

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.

## 2. Summary of Significant Accounting Policies (Continued)

### (l) Investment in subsidiaries

Investments by the Bank in subsidiaries are stated at cost.

### (m) Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase (repurchase agreements) and securities purchased under agreements to resell (reverse repurchase agreements) are treated as collateralised financing transactions. The difference between the sale/purchase and repurchase/resale price is treated as interest and accrued over the life of the agreements using the effective yield method.

### (n) Loans and allowance for impairment losses

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

Loans are recognised when cash is advanced to borrowers. They are initially recorded at cost, which is the cash given to originate the loan including any transaction costs, and are subsequently measured at amortised cost using the effective interest rate method.

An allowance for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms of loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of 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. As required by statutory regulations, if a payment on a loan is contractually 90 days in arrears, the loan will be classified as impaired, if not already classified as such. Any credit card loan that has a payment that is contractually 90 days in arrears is written-off.

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

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

### (o) Acceptances and guarantees

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

### (p) Intangible assets

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

**2. Summary of Significant Accounting Policies (Continued)**

**(q) Leases**

(i) As lessee

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are recognised at the inception of the lease at the lower of the fair value of the leased asset or the present value of minimum lease payments. Each lease payment is allocated between the liability and interest charges so as to produce a constant rate of charge on the lease obligation. The interest element of the lease payments is charged to the statement of revenue and expenses over the lease period.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under operating leases are charged to the statement of revenue and expenses on a straight-line basis over the period of the lease.

(ii) As lessor

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

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

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

Land is stated at historical cost. All other property, plant and equipment are stated at historical cost less accumulated depreciation.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and renewals are charged to the statement of revenue and expenses during the financial period in which they are incurred.

Depreciation and amortisation are calculated on the straight-line method at rates estimated to write off the assets over their expected useful lives as follows:

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

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

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

2. Summary of Significant Accounting Policies (Continued)

(s) Employee benefits

(i) Pension obligations

The Group has established a defined benefit pension plan.

The asset or liability in respect of defined benefit plans is the difference between the present value of the defined benefit obligation at the balance sheet date and the fair value of plan assets, adjusted for unrecognised actuarial gains/losses and past service cost. Where a pension asset arises, the amount recognised is limited to the net total of any cumulative unrecognised net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reduction in future contributions to the plan. The pension costs are assessed using the Projected Unit Credit Method. Under this method, the cost of providing pensions is charged to the statement of operations so as to spread the regular cost over the service lives of the employees in accordance with the advice of the actuaries, who carry out a full valuation of the plan every year in accordance with IAS 19. The pension obligation is measured at the present value of the estimated future cash outflows using estimated discount rates based on market yields on Government securities which have terms to maturity approximating the terms of the related liability.

A portion of actuarial gains and losses is recognised in the statement of revenue and expenses if the net cumulative unrecognised actuarial gains or losses at the end of the previous reporting period exceeded 10 percent of the greater of the present value of the gross defined benefit obligation and the fair value of plan assets at that date. Any excess actuarial gains or losses are recognised in the statement of revenue and expenses over the average remaining service lives of the participating employees.

(ii) Termination obligations

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without the possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve (12) months after the balance sheet date are discounted to present value.

(iii) Other post-retirement obligations

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

(iv) Equity compensation benefits

The Bank has an Employee Share Ownership Plan (ESOP) for eligible employees. The Bank currently pays all the administrative and other expenses of the Plan. The Bank provides a fixed benefit to each participant, which is linked to the number of years of service. This benefit is recorded in salaries and staff benefits expense in the statement of revenue and expenses.

## 2. Summary of Significant Accounting Policies (Continued)

**(t) Borrowings**

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

**(u) Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Employee entitlements to annual leave and long-service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

**(v) Dividends**

Dividends are recorded in the financial statements in the period in which they have been approved by the Board of Directors.

**(w) Financial instruments**

Financial instruments carried on the balance sheet include cash resources, investments, securities purchased under resale agreements, loans and leases and other assets, deposits, other liabilities and policyholders' funds.

The fair values of the Group's and the Bank's financial instruments are discussed in Note 43.

**(x) Fiduciary activities**

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

**(y) Cash and cash equivalents**

For the purpose of the cash flow statement, cash and cash equivalents comprise balances which mature within 90 days from the date of acquisition including cash and balances at Bank of Jamaica (excluding statutory cash reserves), amounts due from other banks, investment securities and amounts due to other banks.

**(z) Comparative information**

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year.

## 3. Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of revenue and expenses, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the net present value of estimated cash flows differs by +/-5 percent, the provision would be estimated $525,514 higher or $475,465 lower.

(ii) Held-to-maturity investments

The Group follows the guidance of IAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific 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 therefore be measured at fair value, not amortised cost. If the entire class of held-to-maturity investments is compromised, the fair value would increase by $433,520 with a corresponding entry in the fair value reserve in stockholders' equity.

(iii) Income taxes

Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for possible tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Were the actual final outcome (on the judgement areas) to differ by 10% from management's estimates, the Group would need to:

- increase the income tax liability by $8,779 and the deferred tax liability by $7,338, if unfavourable; or
- decrease the income tax liability by $8,779 and the deferred tax liability by $7,338, if favourable.

## 3. Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

(iv) Estimate of future payments and premiums arising from long-term insurance contracts

The determination of the liabilities under long-term insurance contracts is dependent on estimates made by the Group. Estimates are made as to the expected number of deaths for each of the years in which the Group is exposed to risk. The Group bases these estimates on standard industry and international mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the Group's own experience. For contracts that insure the risk of longevity, appropriate but not excessively prudent allowance is made for expected mortality improvements. The estimated number of deaths determines the value of the benefit payments and the value of the valuation premiums. The main source of uncertainty is that epidemics such as AIDS, and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits, could result in future mortality being significantly worse than in the past for the age groups in which the Group has significant exposure to mortality risk. However, continuing improvements in medical care and social conditions could result in improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where the Group is exposed to longevity risk.

Were the numbers of deaths in future years to differ by 10% from management's estimate, the liability would increase by $23,536 or decrease by $23,466.

For contracts without fixed terms, it is assumed that the Group will be able to increase mortality risk charges in future years in line with emerging mortality experience.

Estimates are also made as to future investment income arising from the assets backing long-term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments. The average estimated rate of investment return is 13.5%. Were the average future investment returns to differ by 1% from management's estimates, the insurance liability would increase by $161,110 or decrease by $195,986.

For long-term contracts with fixed and guaranteed terms, estimates are made in two stages. Estimates of future deaths, voluntary terminations, investment returns and administration expenses are made at the inception of the contract and form the assumptions used for calculating the liabilities during the life of the contract. A margin of risk and uncertainty is added to these assumptions. These assumptions are 'locked in' for the duration of the contract. New estimates are made each subsequent year in order to determine whether the previous liabilities are adequate in the light of these estimates. If the liabilities are considered adequate, the assumptions are not altered. If they are not adequate, the assumptions are altered ('unlocked') to reflect the best estimates assumptions. A key feature of the adequacy testing for these contracts is that the effects of changes in the assumptions on the measurement of the liabilities and related assets are not symmetrical. Any significant improvements or deteriorations in estimates are immediately recognised to make the liabilities adequate.

### 3. Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

(v) Pension and post-retirement benefits

The cost of these benefits and the present value of the pension and the other post-retirement liabilities depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumption used in determining the net periodic cost (income) for pension and post-retirement benefits include the expected long-term rate of return on the relevant plan assets, the discount rate and, in the case of the post-employment medical benefits, the expected rate of increase in medical costs. Any changes in these assumptions will impact the net periodic cost (income) recorded for pension and post-retirement benefits and may affect planned funding of the pension plans. The expected return on plan assets assumption is determined on a uniform basis, considering long-term historical returns, asset allocation and future estimates of long-term investments returns. The Group determines the appropriate discount rate at the end of each year, which represents the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension and post-retirement benefit obligations. In determining the appropriate discount rate, the Group considered interest rate of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. The expected rate of increase of medical costs has been determined by comparing the historical relationship of the actual medical cost increases with the rate of inflation in the respective economy. Past experience has shown that the actual medical costs have increased on average by one time the rate of inflation. Other key assumptions for the pension and post retirement benefits cost and credits are based in part on current market conditions.

Were the actual expected return on plan assets to differ by 1% from management's estimates, the consolidated net income would be an estimated $145,030 higher or $145,031 lower. Were the actual discount rate used to differ by 1% from management's estimates, the consolidated net income would be an estimated $271,846 higher or $551,209 lower.

### 4. Responsibilities of the Appointed Actuary and External Auditors

The Board of Directors pursuant to the Insurance Act appoints the Actuary. His responsibility is to carry out an annual valuation of the Group's policy liabilities in accordance with accepted actuarial practice and regulatory requirements and report thereon to the policyholders and stockholders. In performing the valuation, the Actuary makes assumptions as to the future rates of interest, asset defaults, mortality, morbidity, claims experience, policy termination, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Group and the insurance policies in force.

The stockholders pursuant to the Companies Act appoint the external auditors. Their responsibility is to conduct an independent and objective audit of the financial statements in accordance with International Standards on Auditing and report thereon to the stockholders. In carrying out their audit, the auditors also make use of the work of the appointed Actuary and his report on the policy liabilities.

## 5. Segmental Financial Information

The Group is organised into five main business segments:

(a) Retail Banking – incorporating personal banking services, personal customer current accounts, savings, deposits, custody, credit and debit cards, consumer loans and mortgages;

(b) Corporate and Commercial Banking - incorporating non-personal direct debit facilities, current accounts, deposits, overdrafts, loans and other credit facilities and foreign currency transactions;

(c) Treasury – incorporating the Bank's liquidity and investment management function, management of correspondent bank relationships, as well as foreign currency trading;

(d) Investment Management Services – incorporating investments and pension fund management and the administration of trust accounts;

(e) Insurance Services - incorporating the provision of life insurance and

(f) Other operations of the Group comprise General Insurance Brokerage and property rental.

Transactions between the business segments are on normal commercial terms and conditions.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet, but exclude items such as taxation, retirement benefit assets and obligations and borrowings.

The Group's operations are located solely in Jamaica.

(expressed in thousands of Jamaican dollars unless otherwise stated)

## 5. Segmental Financial Information (Continued)

| | 2005 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | \--------------Banking | | -------------\ | | | | | |
| | Retail | Corporate and Commercial | Treasury | Investment Management Services | Insurance Services | Other | Eliminations | Group |
| Gross external revenues | 6,348.931 | 6,265.129 | 5,818.784 | 2,796.198 | 3,771,192 | 7,467 | - | 25.007,701 |
| Revenue/(expenses) from other segments | 2.916,016 | 329,743 | (3,155,740) | 51.937 | 11,622 | 19,161 | (172,739) | - |
| **Total gross revenues** | 9.264,947 | 6,594,872 | 2.663,044 | 2.848,135 | 3.782,814 | 26,628 | (172,739) | 25,007,701 |
| Total expenses | (7,021,005) | (4.625,008) | (154,119) | (2,552,221) | (2.466,811) | (31.464) | 172.739 | (16,677.889) |
| Profit before tax | 2,243.942 | 1.969,864 | 2,508.925 | 295,914 | 1,316,003 | (4.836) | - | 8,329,812 |
| Income tax expense | | | | | | | | (2,444,226) |
| Net profit | | | | | | | | 5.885,586 |
| Segment assets | 29,370.490 | 39,815.151 | 67,660.200 | 18.891,769 | 24.029,675 | 166,285 | (596,326) | 179,337.244 |
| Unallocated assets | | | | | | | | 4.123,699 |
| **Total assets** | | | | | | | | 183.460,943 |
| Segment liabilities | 62,560,765 | 54,970.353 | 1,790.534 | 17.581,765 | 20,052.579 | 64,764 | (396,036) | 156,624,724 |
| Unallocated liabilities | | | | | | | | 3.311,266 |
| **Total liabilities** | | | | | | | | 159.935,990 |
| Other segment items: | | | | | | | | |
| Capital expenditure | 191,636 | 73.676 | 22,291 | 4.359 | 8,363 | - | - | 300,345 |
| Impairment losses on loans | 194,334 | 79.990 | - | (1,749) | - | - | - | 272,575 |
| Depreciation | 239,960 | 47.445 | 12,774 | 3,571 | 4,325 | 1,090 | - | 309,165 |

(expressed in thousands of Jamaican dollars unless otherwise stated)

## 5. Segmental Financial Information (Continued)

| | 2004 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | \-----Banking----- | | \ | | | | | |
| | Retail | Corporate and Commercial | Treasury | Investment Management Services | Insurance Services | Other | Eliminations | Group |
| Gross external revenues | 5,201.442 | 6,405.638 | 6.318,869 | 4.231,827 | 3,070,483 | 84,528 | - | 25.312,785 |
| Revenue/(expenses) from other segments | 4,911.362 | 278,864 | (4,929,797) | 217.334 | 647,064 | 1,817 | (1.126,644) | - |
| **Total gross revenues** | 10,112.804 | 6,684,500 | 1,389,072 | 4.449,161 | 3.717,547 | 86,345 | (1.126,644) | 25,312,785 |
| Total expenses | (6,923,877) | (4.267,366) | (329,880) | (4,101,809) | (2.564,600) | (79.264) | 1,126.644 | (17,140.152) |
| Profit before tax | 3.188,927 | 2.417,134 | 1,059.192 | 347,352 | 1,152,947 | 7,081 | - | 8.172,633 |
| Income tax expense | | | | | | | | (2,316,576) |
| Net profit | | | | | | | | 5.856,057 |
| Segment assets | 23,742.116 | 38,242.201 | 63,468.434 | 20.740,949 | 19.245,601 | 210.718 | (2.027,085) | 163,642,936 |
| Unallocated assets | | | | | | | | 4.524,713 |
| **Total assets** | | | | | | | | 168.167,649 |
| Segment liabilities | 60,647.010 | 46,853.047 | 3,349.403 | 19.634,340 | 16,335,139 | 102,046 | (1.826,794) | 145.094,191 |
| Unallocated liabilities | | | | | | | | 2.468,441 |
| **Total liabilities** | | | | | | | | 147.562,632 |
| Other segment items: | | | | | | | | |
| Capital expenditure | 221.081 | 109.968 | 27.346 | 2.508 | 4,019 | 1,944 | - | 366,866 |
| Impairment losses on loans | 67,283 | (12,756) | - | (8,649) | - | - | - | 45.878 |
| Depreciation | 246.493 | 50,395 | 13.237 | 3,406 | 3,575 | 1,921 | - | 319,027 |

Capital expenditure comprises additions to property, plant and equipment (Note 27).

(expressed in thousands of Jamaican dollars unless otherwise stated)

**Year ended 31 October 2005**

## 6. Net Interest Income

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Interest income - | | | | |
| Deposits with banks and other financial institutions | 2,488,944 | 2,206,398 | 2,517,941 | 2,204,174 |
| Investment securities | 5,209,959 | 6,346,355 | 2,757,160 | 3,725,601 |
| Reverse repurchase agreements | 3,915,497 | 4,417,970 | 17,020 | 15,361 |
| Loans and advances | 9,911,251 | 9,724,733 | 9,339,586 | 9,208,980 |
| Other | 19,427 | 22,152 | 2,419 | 2,695 |
| | 21,545,078 | 22,717,608 | 14,634,126 | 15,156,811 |
| Interest expense - | | | | |
| Banks and customers | 5,086,362 | 5,333,662 | 4,675,374 | 4,922,719 |
| Repurchase agreements | 2,378,453 | 3,260,222 | 122,209 | 412,416 |
| Other | 16,431 | 13,106 | 6,587 | 3,635 |
| | 7,481,246 | 8,606,990 | 4,804,170 | 5,338,770 |

## 7. Net Foreign Exchange Trading Income

Foreign exchange net trading income includes gains and losses arising from foreign currency trading activities.

## 8. Net Fee and Commission Income

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Fee and commission income - | | | | |
| Retail banking fees | 1,023,536 | 683,019 | 1,023,398 | 681,763 |
| Credit related fees | 469,629 | 455,405 | 467,259 | 455,505 |
| Commercial and depository fees | 1,310,333 | 967,071 | 1,146,891 | 789,904 |
| | 2,803,498 | 2,105,495 | 2,637,548 | 1,927,172 |
| Fee and commission expenses | (475,033) | (378,829) | (475,033) | (378,829) |
| | 2,328,465 | 1,726,666 | 2,162,515 | 1,548,343 |

(expressed in thousands of Jamaican dollars unless otherwise stated)

## 9. Salaries, Pension Contributions and Other Staff Benefits

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Wages and salaries | 3,186,949 | 2,994,931 | 2,880,024 | 2,694,060 |
| Payroll taxes | 286,154 | 264,322 | 261,596 | 217,743 |
| Pension costs (Note 29) | (331,768) | (278,668) | (331,768) | (278,668) |
| Other post retirement benefits (Note 29) | 80,004 | 40,342 | 80,004 | 40,342 |
| Other staff benefits | 782,249 | 751,600 | 741,840 | 708,410 |
| | 4,003,588 | 3,772,527 | 3,631,696 | 3,381,887 |

The number of persons employed at the year end:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | No. | No. | No. | No. |
| Full - time | 1,183 | 1,225 | 1,050 | 1,076 |
| Part - time | 660 | 639 | 652 | 630 |
| | 1,843 | 1,864 | 1,702 | 1,706 |

## 10. Change in Policyholders' Reserves

(a) Reserve for future benefits

| | The Group | |
|---|---|---|
| | 2005 | 2004 |
| Composition by line of business: | | |
| Ordinary life | 19,869,816 | 16,025,935 |
| Creditor life | 84,797 | 74,771 |
| | 19,954,613 | 16,100,706 |

(b) Change in policyholders' reserves

| | The Group | |
|---|---|---|
| | 2005 | 2004 |
| Policyholders' benefit payments | 20,851 | 6,803 |
| Interest expense | 2,360,941 | 2,373,944 |
| Transfer from actuarial reserves | (289,050) | (138,648) |
| | 2,092,742 | 2,242,099 |

(expressed in thousands of Jamaican dollars unless otherwise stated)

**31 October 2005**

## 11. Expenses by Nature

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Salaries, pension contributions and other staff benefits (Note 9) | 4,003,588 | 3,772,527 | 3,631,696 | 3,381,887 |
| Property expenses, including depreciation | 1,029,859 | 984,628 | 994,557 | 951,390 |
| Changes in policyholders' reserves | 2,092,742 | 2,242,099 | - | - |
| Transportation and communication | 548,653 | 460,196 | 518,647 | 435,428 |
| Marketing and advertising | 316,548 | 245,201 | 268,352 | 200,472 |
| Management and consultant fees | 204,541 | 211,332 | 196,711 | 202,349 |
| Deposit insurance | 145,637 | 121,997 | 139,872 | 115,088 |
| Stationery | 182,075 | 193,805 | 175,066 | 187,188 |
| Other operating expenses | 400,425 | 255,499 | 296,534 | 189,222 |
| | 8,924,068 | 8,487,284 | 6,221,435 | 5,663,024 |

## 12. Profit before Taxation

In arriving at the profit before taxation, the following have been charged/(credited):

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Auditors' remuneration- | 12,430 | 11,400 | 7,600 | 6,767 |
| Depreciation | 309,165 | 319,027 | 297,617 | 307,637 |
| Directors' emoluments - | | | | |
| Fees | 13,657 | 13,292 | 7,586 | 6,764 |
| Other | 45,221 | 49,889 | 34,684 | 39,352 |
| (Gains)\losses on sale of property, plant and equipment | (1,847) | 245 | (4,486) | 365 |
| Operating lease rentals | 36,873 | 34,501 | 35,469 | 32,675 |

(expressed in thousands of Jamaican dollars unless otherwise stated)

## 13. Taxation

(a) Taxation charge

Income tax is computed on the profit for the year as adjusted for tax purposes. The charge for taxation comprises:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Current income tax - | | | | |
| Income tax at 33⅓% | 2,015,107 | 1,757,686 | 1,924,682 | 1,648,329 |
| Income tax at 30% | 119,396 | 124,766 | - | - |
| Premium income tax at 3% | 76,434 | 83,688 | - | - |
| Investment income tax at 15% | 148,293 | 132,351 | - | - |
| Adjustment for under-provision of prior year's charge | 8,313 | 10,867 | 36 | 10,867 |
| Deferred income tax (Note 28) | 76,683 | 207,218 | 76,857 | 197,284 |
| | 2,444,226 | 2,316,576 | 2,001,575 | 1,856,480 |

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

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Profit before taxation | 8,329,812 | 8,172,633 | 6,299,850 | 6,230,050 |
| Tax calculated at 33⅓% | 2,776,604 | 2,724,211 | 2,099,950 | 2,076,683 |
| Adjusted for the effects of: | | | | |
| Effect of different tax regime applicable to life insurance and mortgage financing subsidiaries | (213,990) | (168,081) | - | - |
| Income not subject to tax – tax free investments | (163,358) | (266,238) | (154,583) | (246,588) |
| Expenses not deductible for tax purposes | 2,048 | 1,206 | 1,358 | 1,206 |
| Other charges and allowances | 42,922 | 25,478 | 54,850 | 25,179 |
| Income tax expense | 2,444,226 | 2,316,576 | 2,001,575 | 1,856,480 |

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

(expressed in thousands of Jamaican dollars unless otherwise stated)

## 14. Net Profit and Unappropriated Profits Attributable to Stockholders

| | 2005 | 2004 |
|---|---|---|
| (a) The net profit is dealt with as follows in the financial statements of: | | |
| The Bank | 4,298,275 | 4,373,570 |
| The Subsidiaries | 1,587,311 | 1,482,487 |
| | 5,885,586 | 5,856,057 |
| (b) The unappropriated profits are dealt with as follows in the financial statements of: | | |
| The Bank | 5,381,703 | 4,760,659 |
| The Subsidiaries | 6,537,034 | 4,949,723 |
| | 11,918,737 | 9,710,382 |

## 15. Earnings per Stock Unit

Basic earnings per stock unit is calculated by dividing the net profit attributable to stockholders by the weighted average number of ordinary stock units in issue during the year. The average number of stock units for the previous year has been adjusted accordingly to take into account the issue of 1,463,616,000 bonus ordinary shares.

| | 2005 | 2004 |
|---|---|---|
| Net profit attributable to stockholders ($'000) | 5,885,586 | 5,856,057 |
| Weighted average number of ordinary stock units in issue ('000) | 2,927,232 | 2,927,232 |
| Basic earnings per stock unit (expressed in $ per share) | $2.01 | $2.00 |

(expressed in thousands of Jamaican dollars unless otherwise stated)

## 16. Cash and Balances at Bank of Jamaica

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| Special reserves held with the Bank of Jamaica | 582,060 | 2,863,830 | 582,060 | 2,863,830 |
| Statutory reserves with Bank of Jamaica - interest-bearing | 2,926,528 | 3,065,541 | 2,926,123 | 3,065,042 |
| Statutory reserves with Bank of Jamaica - non-interest-bearing | 5,279,597 | 5,190,461 | 5,238,539 | 5,154,895 |
| | 8,788,185 | 11,119,832 | 8,746,722 | 11,083,767 |
| Cash in hand and at bank (Note 19) | 16,655,146 | 12,516,816 | 16,654,860 | 12,516,589 |
| | 25,443,331 | 23,636,648 | 25,401,582 | 23,600,356 |

Statutory reserves with the Bank of Jamaica under Section 14 (i) of the Banking Act, 1992, and the Building Societies Regulations represent the required ratio of 9% (9% - 2004) of the Bank's and 1% (1% - 2004) of the Society's prescribed liabilities respectively. They are not available for investment, lending or other use by the Group and the Bank.

Effective 15 January 2003, the Bank is required by the Bank of Jamaica (BOJ) under Section 28A of the Bank of Jamaica Act, to maintain with the BOJ, a special deposit wholly in the form of cash, representing 1% (2004 - 5%) of the prescribed liabilities. This special deposit earns interest at a rate of 6% per annum.

## 17. Amounts due from Other Banks

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| Items in course of collection from other banks | 978,589 | 1,838,658 | 978,589 | 1,838,658 |
| Placements with other banks | 16,798,841 | 13,555,829 | 16,764,467 | 13,531,726 |
| | 17,777,430 | 15,394,487 | 17,743,056 | 15,370,384 |
| Loans and advances to other banks | 458,000 | - | 458,000 | - |
| | 18,235,430 | 15,394,487 | 18,201,056 | 15,370,384 |

## 18. Accounts with Parent and Fellow Subsidiaries

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

(expressed in thousands of Jamaican dollars unless otherwise stated)

## 19. Cash and Cash Equivalents

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Cash and balances with Bank of Jamaica | 25,443,331 | 23,636,648 | 25,401,582 | 23,600,356 |
| Less: statutory reserves (Note 16) | (8,788,185) | (11,119,832) | (8,746,722) | (11,083,767) |
| | 16,655,146 | 12,516,816 | 16,654,860 | 12,516,589 |
| Government and bank notes other than Jamaica | 240,438 | 307,744 | 240,438 | 307,744 |
| Trading securities (Note 20) | 21,990 | - | - | - |
| Investment securities (Note 25) | 6,041,899 | 5,246,784 | 3,337,129 | 3,709,884 |
| Amounts due from other banks (Note 17) | 18,235,430 | 15,394,487 | 18,201,056 | 15,370,384 |
| Accounts with parent and fellow subsidiaries | 489,135 | 1,111,543 | 489,135 | 1,111,543 |
| Cheques and other instruments in transit | (1,906,302) | (2,884,129) | (1,856,866) | (2,772,536) |
| | 39,777,736 | 31,693,245 | 37,065,752 | 30,243,608 |

Cash and amounts due to banks and other financial institutions include the following for the purposes of the cash flow statement:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Cash and cash equivalents | 39,777,736 | 31,693,245 | 37,065,752 | 30,243,608 |
| Amounts due to other banks and financial institutions | (1,655,908) | (1,773,436) | (1,577,800) | (1,671,537) |
| | 38,121,828 | 29,919,809 | 35,487,952 | 28,572,071 |

## 20. Trading securities

These represent investments in Government of Jamaica securities.

Trading securities at fair value through profit and loss that were designated at initial recognition amounted to $21,990 (2004 – nil)

(expressed in thousands of Jamaican dollars unless otherwise stated)

## 21. Government Securities Purchased under Resale Agreements

The Group and the Bank enter into reverse repurchase agreements collateralised by Government of Jamaica securities. These agreements may result in credit exposure in the event that the counterparty to the transaction is unable to fulfill its contractual obligations.

## 22. Loans, after Allowance for Impairment Losses

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| Business and Government | 36,506,862 | 35,408,095 | 36,348,820 | 35,394,218 |
| Personal and credit cards | 18,103,489 | 15,359,851 | 18,103,489 | 15,359,851 |
| Residential mortgages | 3,532,846 | 3,186,577 | - | - |
| | 58,143,197 | 53,954,523 | 54,452,309 | 50,754,069 |
| Less: allowance for impairment losses (Note 23) | (495,034) | (500,121) | (460,059) | (465,148) |
| | 57,648,163 | 53,454,402 | 53,992,250 | 50,288,921 |

(expressed in thousands of Jamaican dollars unless otherwise stated)

## 23. Impairment Losses on Loans

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| Total non-performing loans | 918,164 | 1,039,396 | 818,491 | 941,490 |
| Provision at beginning of year | 500,121 | 655,350 | 465,148 | 612,525 |
| Charged against revenue during the year | 272,575 | 45,878 | 272,426 | 56,209 |
| Bad debts written off | (461,583) | (323,469) | (461,435) | (323,315) |
| Recoveries of bad debts | 183,921 | 122,362 | 183,920 | 119,729 |
| At end of year | 495,034 | 500,121 | 460,059 | 465,148 |
| This comprises: | | | | |
| Specific provisions | 347,255 | 357,045 | 317,079 | 324,402 |
| General provisions | 147,779 | 143,076 | 142,980 | 140,746 |
| | 495,034 | 500,121 | 460,059 | 465,148 |

Allowance for impairment losses

A loan is classified as impaired if its book value exceeds the present value of the cash flows actually expected in future periods – interest payments, principal repayments as well as liquidation of collateral. Provisions for credit losses are made on all impaired loans. Uncollected interest not accrued in these financial statements on impaired loans was estimated at $79,571 as at 31 October 2005 (2004 – $71,955) for the Bank and $84,103 as at 31 October 2005 (2004 - $77,318) for the Group.

The Group's and Bank's loan loss provisioning requirements amounted to $1,301,558 (2004 - $1,306,645) and $1,225,351 (2004 - $1,230,440) respectively. This includes the amounts required to meet the Bank of Jamaica loan loss provisioning requirement. The provisions shown in the table above represent provisions based on IAS 39 (Financial Instruments: Recognition and Measurement) requirements. A non-distributable loan loss reserve was established to represent the excess of the Bank's provision over the IAS 39 requirements.

(expressed in thousands of Jamaican dollars unless otherwise stated)

## 24. Lease Receivables

| | The Group | |
|---|---|---|
| | 2005 | 2004 |
| Gross investment in finance leases | | |
| Not later than one year | 495 | 5,177 |
| Later than one year and not later than five years | - | 535 |
| | 495 | 5,712 |
| Less: Unearned income | (62) | (612) |
| Net investment in finance leases | 433 | 5,100 |
| Net investment in finance leases may be classified as follows: | | |
| Not later than one year | 433 | 4,636 |
| Later than one year and not later than five years | - | 464 |
| | 433 | 5,100 |

The provision for uncollectible finance lease receivables amounted to nil as at 31 October 2005 (2004 - $17,000).

(expressed in thousands of Jamaican dollars unless otherwise stated)

## 25. Investment Securities

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| Available-for-sale - | | | | |
| Government of Jamaica | 9,698,034 | 8,381,105 | 6,791,012 | 5,019,543 |
| Other foreign Government | - | 420,957 | - | 420,957 |
| Other | 5,105 | 5,105 | 5,105 | 5,105 |
| | 9,703,139 | 8,807,167 | 6,796,117 | 5,445,605 |
| Held-to-maturity | | | | |
| Government of Jamaica | 30,007,089 | 26,279,955 | 17,096,745 | 16,912,645 |
| Other | 136 | 136 | - | - |
| | 30,007,225 | 26,280,091 | 17,096,745 | 16,912,645 |
| Total investment securities | 39,710,364 | 35,087,258 | 23,892,862 | 22,358,250 |

The Bank of Jamaica holds as security, Government of Jamaica Local Registered Stocks and Bank of Jamaica Certificates of Deposits valued at $981,463 (2004 - $952,000) for the Group and $900,000 (2004 - $900,000) for the Bank against possible shortfalls in the operating account.

Included in investment securities are Government of Jamaica Local Registered Stocks valued at $90,000 (2004 - $90,000) which have been deposited, by one of the Bank's subsidiaries, Scotia Jamaica Life Insurance Company Limited, with the insurance regulators, the Financial Services Commission, pursuant to Section 8 (1) (a) of the Insurance Regulations 2001.

Other financial institutions hold as security, Government of Jamaica Local Registered Stocks valued at $1,170,000 (2004 - $170,000) for the Bank in the normal course of inter bank transactions.

The Group has not reclassified any financial asset measured at amortised cost rather than fair value during the year.

Gains and losses previously recognised in equity:

| The Group | | The Bank | |
|---|---|---|---|
| **2005** | **2004** | **2005** | **2004** |
| (39,095) | 561 | (35,368) | 2,065 |

Included in investment securities are the following amounts which are regarded as cash equivalents for purposes of the statement of cash flows:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| Debt securities with an original maturity of less than 90 days (Note 19) | 6,041,899 | 5,246,784 | 3,337,129 | 3,709,884 |

(expressed in thousands of Jamaican dollars unless otherwise stated)

## 26. Other Assets

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Accounts receivable and prepayments | 73,603 | 52,118 | 51,755 | 15,955 |
| Interest receivable | 4,241,992 | 4,060,001 | 2,449,397 | 2,050,019 |
| Other | 228,150 | 1,074,413 | 198,887 | 1,067,404 |
| | 4,543,745 | 5,186,532 | 2,700,039 | 3,133,378 |

(expressed in thousands of Jamaican dollars unless otherwise stated)

## 27. Property, Plant and Equipment

| | The Group | | | | |
|---|---|---|---|---|---|
| | Freehold Land and Buildings | Leasehold Improvements | Furniture, Fixtures, Motor Vehicles & Equipment | Capital Work-In-Progress | Total |
| Cost - | | | | | |
| At 1 November 2003 | 1.183,868 | 95,025 | 2,010,511 | 148,126 | 3,437,530 |
| Additions | 5,321 | 486 | 103,256 | 257,803 | 366,866 |
| Disposals | - | - | (4,103) | (71) | (4,174) |
| Transfers | 89,105 | 2,924 | 256.919 | (348.948) | - |
| Write-offs | - | - | - | (3,617) | (3,617) |
| At 31 October 2004 | 1.278,294 | 98,435 | 2,366.583 | 53,293 | 3,796,605 |
| Additions | 7,944 | 6,351 | 80,840 | 205,210 | 300,345 |
| Disposals | (27) | (172) | (23,862) | (942) | (25,003) |
| Transfers | 51,494 | 16.469 | 111.478 | (179.441) | - |
| Write-offs | - | - | - | (4,075) | (4,075) |
| At 31 October 2005 | 1,337,705 | 121,083 | 2,535,039 | 74,045 | 4,067,872 |
| Accumulated Depreciation - | | | | | |
| At 1 November 2003 | 145,798 | 58,251 | 1,239.880 | - | 1,443,929 |
| Charge for the year | 26,090 | 7.932 | 285.005 | - | 319,027 |
| On disposals | - | - | (2,892) | - | (2,892) |
| At 31 October 2004 | 171,888 | 66,183 | 1,521.993 | - | 1,760,064 |
| Charge for the year | 27,558 | 11.956 | 269.651 | - | 309,165 |
| On disposals | - | (90) | (18,420) | - | (18,510) |
| At 31 October 2005 | 199,446 | 78,049 | 1,773.224 | - | 2,050,719 |
| Net Book Value - | | | | | |
| 31 October 2004 | 1.106,406 | 32,252 | 844.590 | 53,293 | 2,036,541 |
| 31 October 2005 | 1.138,259 | 43,034 | 761.815 | 74,045 | 2,017,153 |

(expressed in thousands of Jamaican dollars unless otherwise stated)

**31 October 2005**

## 27. Property, Plant and Equipment (Continued)

| | The Bank | | | | |
|---|---|---|---|---|---|
| | Freehold Land and Buildings | Leasehold Improvements | Furniture, Fixtures, Motor Vehicles & Equipment | Capital Work-In-Progress | Total |
| Cost - | | | | | |
| At 1 November 2003 | 1,130,903 | 94,640 | 1,939,343 | 147,317 | 3,312,203 |
| Additions | 5,321 | 314 | 92,613 | 257,802 | 356,050 |
| Disposals | - | - | (2,016) | - | (2,016) |
| Transfers | 89,105 | 2,924 | 256,919 | (348,948) | - |
| Write-offs | - | - | - | (3,617) | (3,617) |
| At 31 October 2004 | 1,225,329 | 97,878 | 2,286,859 | 52,554 | 3,662,620 |
| Additions | 7,944 | 5,313 | 71,309 | 201,297 | 285,863 |
| Disposals | (27) | - | (10,661) | - | (10,688) |
| Transfers | 51,494 | 16,469 | 111,478 | (179,441) | - |
| Write-offs | - | - | - | (4,075) | (4,075) |
| At 31 October 2005 | 1,284,740 | 119,660 | 2,458,985 | 70,335 | 3,933,720 |
| Accumulated Depreciation - | | | | | |
| At 1 November 2003 | 135,800 | 58,017 | 1,195,165 | - | 1,388,982 |
| Charge for the year | 24,885 | 7,804 | 274,948 | - | 307,637 |
| On disposals | - | - | (1,981) | - | (1,981) |
| At 31 October 2004 | 160,685 | 65,821 | 1,468,132 | - | 1,694,638 |
| Charge for the year | 26,352 | 11,109 | 260,156 | - | 297,617 |
| On disposals | - | - | (9,365) | - | (9,365) |
| At 31 October 2005 | 187,037 | 76,930 | 1,718,923 | - | 1,982,890 |
| Net Book Value - | | | | | |
| 31 October 2004 | 1,064,644 | 32,057 | 818,727 | 52,554 | 1,967,982 |
| 31 October 2005 | 1,097,703 | 42,730 | 740,062 | 70,335 | 1,950,830 |

(expressed in thousands of Jamaican dollars unless otherwise stated)

## 28. Deferred Income Taxes

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of:

- 30% for The Scotia Jamaica Building Society;
- 15% for Scotia Jamaica Life Insurance Company Limited and
- 33⅓% for the Bank and all other subsidiaries.

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

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Balance as at 1 November | (1,318,392) | (991,463) | (1,290,935) | (989,680) |
| Charged to statement of revenue and expenses (Note 13) | (76,683) | (207,218) | (76,857) | (197,284) |
| Available-for-sale investments | | | | |
| - fair value re-measurement | 18,922 | (107,631) | 5,493 | (104,659) |
| - transfer to net profit | - | (14,892) | - | 688 |
| Other differences | (11,345) | - | 83 | - |
| Balance as at 31 October | (1,387,498) | (1,321,204) | (1,362,216) | (1,290,935) |

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

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Deferred income tax assets - | | | | |
| Other post retirement benefits | 108,687 | 85,666 | 108,687 | 85,666 |
| Interest receivable | 1,252 | 1,582 | - | - |
| | 109,939 | 87,248 | 108,687 | 85,666 |
| Deferred income tax liabilities - | | | | |
| Pension benefits | 1,254,791 | 1,112,419 | 1,254,791 | 1,112,419 |
| Accelerated tax depreciation | 79,734 | 82,999 | 71,599 | 76,562 |
| Available-for-sale investments | 78,589 | 92,712 | 71,136 | 76,712 |
| Impairment losses on loans | 84,323 | 116,163 | 73,377 | 110,908 |
| Other temporary differences | - | 4,159 | - | - |
| | 1,497,437 | 1,408,452 | 1,470,903 | 1,376,601 |

(expressed in thousands of Jamaican dollars unless otherwise stated)

**28. Deferred Income Taxes (Continued)**

The deferred tax charge in the statement of revenue and expenses comprises the following temporary differences:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| Accelerated tax depreciation | (9,810) | 569 | (4,963) | 3,318 |
| Pensions and other post retirement benefits | 119,350 | 110,524 | 119,350 | 110,524 |
| Allowance for loan impairment | (31,670) | 96,125 | (37,530) | 83,442 |
| Interest receivable | (1,187) | - | - | - |
| | 76,683 | 207,218 | 76,857 | 197,284 |

Deferred income tax liabilities have not been established for the withholding tax and other taxes that would be payable on the unappropriated profits of subsidiaries as such amounts are permanently reinvested; such unappropriated profits totalled $6,537,034 at 31 October 2005 (2004 - $4,949,723).

**29. Retirement Benefit Asset**

Amounts recognised in the balance sheet:

| | The Group and The Bank | |
|---|---|---|
| | **2005** | **2004** |
| Pension scheme | 3,764,372 | 3,338,827 |
| Other post retirement benefits | (326,062) | (264,634) |
| | 3,438,310 | 3,074,193 |

**(a) Pension Scheme**

The Group has established a pension scheme covering all permanent employees. The pension scheme is a final salary (the average of the best three consecutive years' remuneration, with no salary cap) defined benefit plan and is fully funded. The assets of the plan are held independently of the Group's assets in a separate trustee administered fund. The scheme is valued by independent actuaries annually using the Projected Unit Credit Method. The latest actuarial valuation was carried out as at 31 October 2005.

(expressed in thousands of Jamaican dollars unless otherwise stated)

## 29. Retirement Benefit Asset (Continued)

### (a) Pension Scheme (Continued)

The amounts recognised in the balance sheet are determined as follows:

| | The Group and The Bank | |
|---|---|---|
| | 2005 | 2004 |
| Present value of funded obligations | 5,124,428 | 3,916,362 |
| Fair value of plan assets | (14,458,261) | (14,458,261) |
| Unrecognised actuarial gains | 4,165,675 | 4,206,539 |
| | (5,168,158) | (6,335,360) |
| Limitation on recognition of surplus due to uncertainty of obtaining future benefits | 1,403,786 | 2,996,533 |
| Asset in the balance sheet | (3,764,372) | (3,338,827) |

Pension plan assets include:

(i) The Bank's ordinary stock units with a fair value of $1,616,530 (2004 - $2,026,728).

(ii) Bank of Jamaica repurchase agreements valued at $261,107 (2004 - $2,948,609) with a related company, Scotia Jamaica Investment Management Limited.

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

| | The Group and The Bank | |
|---|---|---|
| | 2005 | 2004 |
| Current service cost, net of employee contributions | 59,317 | (9,117) |
| Interest cost | 553,757 | 393,402 |
| Expected return on plan assets | (1,522,823) | (1,006,402) |
| Net actuarial gain recognised in year | (122,600) | (26,400) |
| Losses on curtailment | 395,838 | 369,849 |
| Income not recognised due to limit | 304,743 | - |
| Included in staff costs (Note 9) | (331,768) | (278,668) |

The actual return on plan assets was $1,829,737 (2004: $4,818,442).

(expressed in thousands of Jamaican dollars unless otherwise stated)

## 29. Retirement Benefit Asset (Continued)

### (a) Pension scheme (continued)

Movement in the asset recognised in the balance sheet:

| | The Group and The Bank | |
|---|---|---|
| | 2005 | 2004 |
| At 1 November | (3,338,827) | (2,977,805) |
| Total income | (331,768) | (278,668) |
| Contributions paid | (93,777) | (82,354) |
| At 31 October | (3,764,372) | (3,338,827) |

The principal actuarial assumptions used were as follows:

| | The Group and The Bank | |
|---|---|---|
| | 2005 | 2004 |
| Discount rate | 12.5% | 12.5% |
| Expected return on plan assets | 10.5% | 10.5% |
| Future salary increases | 9.5% | 9.5% |
| Future pension increases | 3.5% | 3.5% |
| Average expected remaining working lives (Years) | 22.5 | 22.2 |

(expressed in thousands of Jamaican dollars unless otherwise stated)

## 29. Retirement Benefit Asset (Continued)

### (b) Other Post Retirement Benefits

In addition to pension benefits, the Bank offers retiree medical and group life insurance benefits that contribute to the health care and life insurance coverage of employees and beneficiaries after retirement. The method of accounting and frequency of valuations are similar to those used for the defined benefit pension scheme.

In addition to the assumptions used for the pension scheme, the main actuarial assumption is a long-term increase in health costs of 10% per year (2004 – 10%).

The amounts recognised in the balance sheet are as follows:

| | The Group and The Bank | |
|---|---|---|
| | **2005** | **2004** |
| Present value of unfunded obligations | 877,965 | 394,895 |
| Unrecognised actuarial losses | (551,903) | (130,261) |
| Liability in the balance sheet | 326,062 | 264,634 |

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

| | The Group and The Bank | |
|---|---|---|
| | **2005** | **2004** |
| Current service cost | 25,374 | 17,316 |
| Interest cost | 51,489 | 25,744 |
| Net actuarial losses/(gains) recognised in year | 3,141 | (2,718) |
| Total included in staff costs (Note 9) | 80,004 | 40,342 |

Movements in the amounts recognised in the balance sheet:

| | | |
|---|---|---|
| Liability at beginning of year | 264,634 | 235,183 |
| Total expense, as above | 80,004 | 40,342 |
| Contributions paid | (18,576) | (10,891) |
| Liability at end of year | 326,062 | 264,634 |

(expressed in thousands of Jamaican dollars unless otherwise stated)

## 30. Deposits by the Public

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Personal | 59,812,474 | 57,117,963 | 56,057,151 | 53,703,324 |
| Other | 47,467,672 | 41,692,856 | 47,082,546 | 41,437,880 |
| | 107,280,146 | 98,810,819 | 103,139,697 | 95,141,204 |

Deposits include $7,857,259 (2004 - $5,600,849) held as collateral for cash secured credit facilities.

## 31. Amounts due to Other Banks and Financial Institutions

These represent deposits by other banks and financial institutions in the normal course of business. Included in amounts due to other banks and financial institutions is $1,655,908 (2004 - $1,773,436) and $1,577,800 (2004 - $1,671,537) for the Group and the Bank respectively representing cash and cash equivalents (Note 19).

## 32. Amounts due to Subsidiaries

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

## 33. Due to Parent Company

| | The Group and The Bank | |
|---|---|---|
| | 2005 | 2004 |
| Facility I | 12,055 | 469,361 |
| Facility II | 2,678,443 | 2,600,125 |
| Facility III | 1,917,945 | - |
| | 4,608,443 | 3,069,486 |

(i) Facility I is a US$ denominated ten year non-revolving term loan from the parent company, for on-lending. The principal is repayable in ten installments which commenced 31 December 1998. Interest on the loan is at 30 day LIBOR + 1% per annum.

(ii) Facility II is a US$ denominated fifteen (15) year non-revolving loan from the parent company, for on-lending. The repayment of the principal commenced 30 June 2003 and is subject to an interest rate of LIBOR + 1% per annum.

(iii) Facility III is a US$ denominated five (5) year non-revolving loan from the parent company, for on-lending. The repayment of the principal is to commence 1 June 2006 and is subject to an interest rate of LIBOR + 1% per annum.

The above loan facilities are unsecured.

(expressed in thousands of Jamaican dollars unless otherwise stated)

## 34. Other Liabilities

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| Interest payable | 893,021 | 1,302,766 | 212,735 | 206,213 |
| Provisions (Note 35) | 60,044 | 69,482 | 54,009 | 64,975 |
| Accrued liabilities | 364,649 | 230,449 | 399,070 | 378,669 |
| Prepaid letters of credit | 28,170 | 76,152 | 28,644 | 76,152 |
| Other | 259,274 | 201,993 | 141,285 | 112,333 |
| | 1,605,158 | 1,880,842 | 835,743 | 838,342 |

## 35. Provisions

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| At beginning of year | 69,482 | 103,245 | 64,975 | 100,565 |
| Provided during the year | 60,044 | 88,420 | 54,009 | 79,045 |
| Utilised during the year | (69,482) | (122,183) | (64,975) | (114,635) |
| At end of year | 60,044 | 69,482 | 54,009 | 64,975 |

The above provisions mainly relate to redundancy.

(expressed in thousands of Jamaican dollars unless otherwise stated)

## 36. Share Capital

| | Number of Units | | Total | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Authorised - | | | | |
| Ordinary shares of $1 each | 3,000,000,000 | 1,500,000,000 | 3,000,000 | 1,500,000 |
| Issued and fully paid - | | | | |
| At beginning of year: | | | | |
| Ordinary stock units of $1 each | 1,463,616,000 | 1,463,616,000 | 1,463,616 | 1,463,616 |
| Movement during the year: | | | | |
| Bonus issue of ordinary stock units/shares of $1 each | 1,463,616,000 | - | 1,463,616 | - |
| At end of year: | | | | |
| Ordinary stock units of $1 each | 2,927,232,000 | 1,463,616,000 | 2,927,232 | 1,463,616 |

The total authorised number of ordinary shares at year end was 3,000,000,000 shares (2004- 1,500,000,000 shares) with a par value of $1 per share (2004 - $1 per share). All issued shares are fully paid.

In February 2005, the authorised ordinary share capital of the Bank was increased to $3,000,000 by the creation of an additional 1,500,000,000 ordinary shares of $1 each to rank pari passu in all respects with the existing ordinary stocks in the capital of the Bank. Shares totalling 1,463,616,000 units were then issued as fully paid up at par bonus shares by the capitalisation of profits of $1,463,616 on the basis of one ordinary share for every one ordinary stock unit held.

## 37. Reserve Fund

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Opening balance | 1,694,864 | 1,694,864 | 1,467,000 | 1,467,000 |
| Transfer from retained earnings reserve | 1,463,616 | - | 1,463,616 | - |
| Closing balance | 3,158,480 | 1,694,864 | 2,930,616 | 1,467,000 |

In accordance with the regulations under which they operate, certain companies in the Group are required to make transfers of a minimum of 15% or 10% of net profit, depending on the circumstances, to the reserve fund until required statutory levels are attained.

(expressed in thousands of Jamaican dollars unless otherwise stated)

## 38. Retained Earnings Reserve

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

## 39. Cumulative Remeasurement Result from Available-For-Sale Financial Assets

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

## 40. Loan Loss Reserve

This is a non-distributable loan loss reserve which represents the excess of the loan loss provision over IAS 39 requirements.

## 41. Other Reserves

| | The Group | |
|---|---|---|
| | **2005** | **2004** |
| Opening and closing balance: | | |
| Capital reserve arising on consolidation, net | 67 | 67 |
| Reserves of subsidiary capitalised | | |
| through bonus issue of shares | 16,548 | 16,548 |
| General reserve | 10,099 | 10,099 |
| | 26,714 | 26,714 |

## 42. Financial Risk Management

By their nature, the Group's activities are principally related to the use of financial instruments. The Group accepts deposits from customers at both fixed and floating rates and for various periods, and actively manages its interest rate exposures with the objective of enhancing net interest income within prudent risk tolerances.

The Group also seeks to raise its interest margins by obtaining competitive margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just loans and advances; the Group also enters into guarantees and other commitments such as letters of credit.

The Group also trades in financial instruments where it takes positions to take advantage of short-term market movements in securities prices and in foreign exchange and interest rates. The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions.

### (a) Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing 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 Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The following tables summarise carrying amounts of balance sheet assets, liabilities and equity in order to arrive at the Group's and the Bank's interest rate gap based on earlier of contractual repricing or maturity dates.

(expressed in thousands of Jamaican dollars unless otherwise stated)

## 42. Financial Risk Management (Continued)

### (a) Cash flow and fair value interest rate risk (continued)

| | The Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2005 | | | | | | |
| | Immediately rate sensitive | Within 3 Months | 3 to 12 Months | 1 to 5 Years | Over 5 Years | Non rate sensitive | Total |
| Cash resources | 9,630,353 | 13,572,819 | 8,460,371 | - | - | 12,744,791 | 44,408,334 |
| Trading securities | - | 21,990 | - | - | - | - | 21,990 |
| Securities purchased under resale agreements | - | 10,621,481 | 16,605,774 | - | - | - | 27,227,255 |
| Loans [3] | 15,164,373 | 20,677,611 | 6,938,804 | 11,546,230 | 2,923,956 | 397,189 | 57,648,163 |
| Lease receivable [4] | 433 | - | - | - | - | - | 433 |
| Investment securities [2] | | | | | | | |
| - Available-for-sale | - | 1,140,210 | 2,615,801 | 2,421,642 | 3,525,486 | - | 9,703,139 |
| - Held to maturity | - | 15,634,747 | 10,127,727 | 4,190,486 | 49,025 | 5,240 | 30,007,225 |
| Other assets | - | - | - | - | - | 14,444,404 | 14,444,404 |
| Total assets | 24,795,159 | 61,668,858 | 44,746,477 | 18,160,358 | 6,498,467 | 27,591,624 | 183,460,943 |
| Deposits | 86,598,066 | 15,042,761 | 4,593,131 | 5,770,995 | 1,543,533 | - | 113,548,486 |
| Securities sold under repurchase agreements | - | 9,080,181 | 7,625,708 | - | - | - | 16,705,889 |
| Other liabilities | - | - | - | - | - | 9,727,002 | 9,727,002 |
| Policyholders' fund | 9,902,921 | 1,814,971 | 9,270,364 | - | - | (1,033,643) | 19,954,613 |
| Stockholders' equity | - | - | - | - | - | 23,524,953 | 23,524,953 |
| Total liabilities and stockholders' equity | 96,500,987 | 25,937,913 | 21,489,203 | 5,770,995 | 1,543,533 | 32,218,312 | 183,460,943 |
| **Total interest rate sensitivity gap** | (71,705,828) | 35,730,945 | 23,257,274 | 12,389,363 | 4,954,934 | (4,626,688) | - |
| **Cumulative gap** | (71,705,828) | (35,974,883) | (12,717,609) | (328,246) | 4,626,688 | - | - |
| | 2004 | | | | | | |
| Total assets | 20,017,988 | 57,761,241 | 35,076,015 | 24,184,111 | 3,512,868 | 27,615,426 | 168,167,649 |
| Total liabilities and stockholders' equity | 93,703,820 | 19,295,079 | 20,279,616 | 3,459,644 | 2,276,303 | 29,153,187 | 168,167,649 |
| **Total interest rate sensitivity gap** | (73,685,832) | 38,466,162 | 14,796,399 | 20,724,467 | 1,236,565 | (1,537,761) | - |
| **Cumulative gap** | (73,685,832) | (35,219,670) | (20,423,271) | 301,196 | 1,537,761 | - | - |

(expressed in thousands of Jamaican dollars unless otherwise stated)

## 42. Financial Risk Management (Continued)

### (a) Cash flow and fair value interest rate risk (continued)

| | The Bank | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2005 | | | | | | |
| | Immediately rate sensitive [1] | Within 3 Months | 3 to 12 Months | 1 to 5 Years | Over 5 Years | Non rate sensitive | Total |
| Cash resources | 9,629,780 | 13,548,035 | 8,450,782 | - | - | 12,703,614 | 44,332,211 |
| Securities purchased under resale agreements | - | 55,000 | 43,600 | - | - | - | 98,600 |
| Loans [3] | 15,152,421 | 18,043,081 | 6,690,651 | 11,282,470 | 2,479,185 | 344,442 | 53,992,250 |
| Investment securities [2] | | | | | | | |
| - Available-for-sale | - | 451,063 | 951,595 | 1,867,974 | 3,525,485 | - | 6,796,117 |
| - Held to maturity | - | 11,248,502 | 3,351,317 | 2,485,679 | 6,142 | 5,105 | 17,096,745 |
| Investment in subsidiaries | - | - | - | - | - | 258,238 | 258,238 |
| Other assets [4] | - | - | - | - | - | 11,651,277 | 11,651,277 |
| Total assets | 24,782,201 | 43,345,681 | 19,487,945 | 15,636,123 | 6,010,812 | 24,962,676 | 134,225,438 |
| Deposits | 85,434,596 | 12,827,332 | 3,974,503 | 5,749,605 | 1,491,919 | - | 109,477,955 |
| Securities sold under repurchase agreements | - | - | - | - | - | - | - |
| Other liabilities | - | - | - | - | - | 8,508,216 | 8,508,216 |
| Stockholders' equity | - | - | - | - | - | 16,239,267 | 16,239,267 |
| Total liabilities and stockholders' equity | 85,434,596 | 12,827,332 | 3,974,503 | 5,749,605 | 1,491,919 | 24,747,483 | 134,225,438 |
| **Total interest rate sensitivity gap** | (60,652,395) | 30,518,349 | 15,513,442 | 9,886,518 | 4,518,893 | 215,193 | - |
| **Cumulative gap** | (60,652,395) | (30,134,046) | (14,620,604) | (4,734,086) | (215,193) | - | - |
| | 2004 | | | | | | |
| Total assets | 19,374,389 | 43,755,008 | 15,118,459 | 18,506,003 | 2,976,069 | 24,296,199 | 124,026,127 |
| Total liabilities and stockholders' equity | 84,789,584 | 8,251,259 | 2,886,265 | 3,434,944 | 2,218,533 | 22,445,542 | 124,026,127 |
| **Total interest rate sensitivity gap** | (65,415,195) | 35,503,749 | 12,232,194 | 15,071,059 | 757,536 | 1,850,657 | - |
| **Cumulative gap** | (65,415,195) | (29,911,446) | (17,679,252) | (2,608,193) | (1,850,657) | - | - |

(1) This represents those financial instruments whose interest rates change concurrently with a change in the underlying interest rate basis, for example, base rate loans.

(2) This includes financial instruments such as equity investments.

(3) This includes impaired loans.

(4) This includes non-financial instruments.

(expressed in thousands of Jamaican dollars unless otherwise stated)

## 42. Financial Risk Management (Continued)

### (a) Cash flow and fair value interest rate risk (continued)

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

The Group

2005

| | Immediately rate sensitive | Within 3 Months | 3 to12 Months | 1 to 5 Years | Over 5 Years | Average |
|---|---|---|---|---|---|---|
| | % | % | % | % | % | % |
| Cash resources [4] | 3.97 | 9.67 | 11.88 | - | - | 6.08 |
| Trading securities | - | 8.76 | - | - | - | 8.76 |
| Investment securities [1] | | | | | | |
| Available-for-sale | - | 13.96 | 15.53 | 10.51 | - | 10.85 |
| Held to maturity | - | 13.46 | 15.01 | 13.36 | 18.20 | 13.97 |
| Securities purchased under resale agreements | - | 13.33 | 14.04 | - | - | 13.76 |
| Loans [2] | 17.29 | 22.50 | 13.99 | 19.06 | 9.03 | 18.58 |
| Lease receivable | 28.26 | - | - | - | - | 28.26 |
| Deposits [3] | 4.54 | 7.38 | 8.52 | 6.46 | 7.33 | 5.21 |
| Securities sold under repurchase agreements [2] | - | 12.32 | 13.35 | - | - | 12.79 |
| Policyholders' reserve | 11.45 | 14.00 | 12.30 | - | - | 12.67 |

2004

| | Immediately rate sensitive | Within 3 Months | 3 to12 Months | 1 to 5 Years | Over 5 Years | Average |
|---|---|---|---|---|---|---|
| | % | % | % | % | % | % |
| Cash resources [4] | 1.30 | 6.83 | 11.63 | - | - | 4.21 |
| Investment securities [1] | | | | | | |
| Available-for-sale | - | 23.88 | 13.14 | 14.96 | - | 16.18 |
| Originated debts | - | 17.73 | 16.38 | 14.42 | 18.20 | 16.18 |
| Securities purchased under resale agreements | 15.35 | 15.08 | 16.84 | - | - | 16.29 |
| Loans [2] | 17.99 | 20.71 | 19.49 | 18.21 | 8.76 | 18.62 |
| Lease receivable | 27.63 | - | - | - | - | 27.63 |
| Deposits [3] | 5.54 | 9.86 | 9.42 | 7.50 | 7.17 | 6.17 |
| Securities sold under repurchase agreements [2] | 14.46 | 14.30 | 16.22 | - | - | 15.23 |
| Policyholders' reserve | 14.45 | 20.07 | 15.67 | - | - | 16.21 |

(expressed in thousands of Jamaican dollars unless otherwise stated)

## 42. Financial Risk Management (Continued)

### (a) Cash flow and fair value interest rate risk (continued)

The Bank

| | 2005 | | | | | |
|---|---|---|---|---|---|---|
| | % | % | % | % | % | % |
| Cash resources [4] | 3.97 | 9.68 | 11.89 | - | - | 6.09 |
| Investment securities [1] | | | | | | |
| Available-for-sale | - | 7.72 | 11.06 | 9.30 | 6.60 | 8.04 |
| Held to maturity | - | 13.02 | 12.93 | 10.97 | 18.00 | 12.70 |
| Securities purchased under resale agreements | - | 14.06 | 13.02 | - | - | 13.60 |
| Loans [2] | 17.29 | 23.19 | 13.90 | 19.18 | 8.64 | 18.73 |
| Deposits [3] | 4.47 | 6.96 | 8.07 | 6.45 | 7.28 | 5.04 |

| | 2004 | | | | | |
|---|---|---|---|---|---|---|
| | % | % | % | % | % | % |
| Cash resources [4] | 1.32 | 6.84 | 11.63 | - | - | 4.21 |
| Investment securities [1] | | | | | | |
| Available-for-sale | - | 15.86 | 12.13 | 12.11 | - | 12.66 |
| Originated debts | - | 17.21 | 10.87 | 11.88 | 18.00 | 14.12 |
| Securities purchased under resale agreements | - | 14.80 | 16.09 | - | - | 15.86 |
| Loans [2] | 18.00 | 21.02 | 19.59 | 18.26 | 8.30 | 18.76 |
| Deposits [3] | 5.48 | 9.50 | 8.69 | 7.48 | 7.12 | 6.00 |
| Securities sold under repurchase agreements [2] | 14.10 | 13.99 | - | - | - | 14.05 |

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

(1) Yields are based on book values and contractual interest adjusted for amortisation of premiums and discounts. Yields on tax-exempt investments have not been computed on a taxable equivalent basis.

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

(3) Yields are based on contractual interest rates.

(4) The calculation of the average yields includes statutory reserves at Bank of Jamaica at 0%.

42. Financial Risk Management (Continued)

(b) Credit risk

The Group and the Bank take 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 provided for losses that have been incurred at the balance sheet date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Group's portfolio, could result in losses that are different from those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risk. Positions in tradeable assets such as bonds also carry credit risk.

The Group and the Bank structure the levels of credit risk they undertake by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. 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.

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 changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees, but a significant portion is personal lending where no such facilities can be obtained. Other than exposure on Government of Jamaica securities, there is no significant concentration of liquid funds.

Credit-related commitments

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

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

(expressed in thousands of Jamaican dollars unless otherwise stated)

## 42. Financial Risk Management (Continued)

### (b) Credit risk (continued)

The following tables summarise the credit exposure of the Group and the Bank to individuals, businesses and Government by sector:

| | The Group | | | |
|---|---|---|---|---|
| | Loans and Leases | Acceptances, Guarantees and Letters of Credit | Total | Total |
| | | | 2005 | 2004 |
| Agriculture, fishing and mining | 962,296 | 98,234 | 1,060,530 | 916,018 |
| Construction and real estate | 965,455 | 263,109 | 1,228,564 | 2,149,619 |
| Distribution | 2,257,952 | 789,413 | 3,047,365 | 2,197,921 |
| Financial institutions | 55 | 62,964 | 63,019 | 19,471 |
| Government and public entities | 16,423,749 | 838,628 | 17,262,377 | 20,775,352 |
| Manufacturing | 3,400,246 | 539,941 | 3,940,187 | 1,912,750 |
| Personal | 21,604,191 | 653,419 | 22,257,610 | 18,983,243 |
| Professional and other services | 2,655,592 | 180,894 | 2,836,486 | 1,927,324 |
| Tourism and entertainment | 9,874,094 | 59,899 | 9,933,993 | 7,536,779 |
| Total | 58,143,630 | 3,486,501 | 61,630,131 | 56,418,477 |
| Total impairment provision | | | (495,034) | (500,121) |
| | | | 61,135,097 | 55,918,356 |

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

**42. Financial Risk Management (Continued)**

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

| | The Bank | | | |
|---|---|---|---|---|
| | Loans | Acceptances, Guarantees and Letters of Credit | Total | Total |
| | | | 2005 | 2004 |
| Agriculture, fishing and mining | 962,295 | 98,234 | 1,060,529 | 916,018 |
| Construction and real estate | 953,503 | 263,109 | 1,216,612 | 2,133,908 |
| Distribution | 2,257,519 | 789,413 | 3,046,932 | 2,197,921 |
| Financial institutions | 10,989 | 62,964 | 73,953 | 19,471 |
| Government and public entities | 16,420,537 | 838,628 | 17,259,165 | 20,771,647 |
| Manufacturing and other activities | 3,255,246 | 539,941 | 3,795,187 | 1,908,999 |
| Personal | 18,074,557 | 294,267 | 18,368,824 | 15,460,470 |
| Professional and other services | 2,643,569 | 180,894 | 2,824,463 | 1,913,137 |
| Tourism and entertainment | 9,874,094 | 59,899 | 9,933,993 | 7,551,474 |
| Total | 54,452,309 | 3,127,349 | 57,579,658 | 52,873,045 |
| Total impairment provision | | | (460,059) | (465,148) |
| | | | 57,119,599 | 52,407,897 |

**(c) Currency risk**

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

The table below summaries the Group's and the Bank's exposure to foreign currency exchange risk at 31 October.

| | The Group | | The Bank | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| United States dollar ($ thousands) | 11,627 | 13,386 | 10,503 | 12,004 |
| Canadian dollar ($ thousands) | 484 | 296 | 484 | 296 |
| Pound Sterling (£ thousands) | 539 | 2,242 | 537 | 2,240 |

42. Financial Risk Management (Continued)

(d) **Liquidity risk**

The Group and the Bank are exposed to daily calls on their available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs and guarantees. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The 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.

The tables below analyse assets and liabilities of the Group and the Bank into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity dates.

(expressed in thousands of Jamaican dollars unless otherwise stated)

## 14. Net Profit and Unappropriated Profits Attributable to Stockholders

| | | 2005 | 2004 |
|---|---|---|---|
| (a) | The net profit is dealt with as follows in the financial statements of: | | |
| | The Bank | 4,298,275 | 4,373,570 |
| | The Subsidiaries | 1,587,311 | 1,482,487 |
| | | 5,885,586 | 5,856,057 |
| (b) | The unappropriated profits are dealt with as follows in the financial statements of: | | |
| | The Bank | 5,381,703 | 4,760,659 |
| | The Subsidiaries | 6,537,034 | 4,949,723 |
| | | 11,918,737 | 9,710,382 |

## 15. Earnings per Stock Unit

Basic earnings per stock unit is calculated by dividing the net profit attributable to stockholders by the weighted average number of ordinary stock units in issue during the year. The average number of stock units for the previous year has been adjusted accordingly to take into account the issue of 1,463,616,000 bonus ordinary shares.

| | 2005 | 2004 |
|---|---|---|
| Net profit attributable to stockholders ($'000) | 5,885,586 | 5,856,057 |
| Weighted average number of ordinary stock units in issue ('000) | 2,927,232 | 2,927,232 |
| Basic earnings per stock unit (expressed in $ per share) | $2.01 | $2.00 |

(expressed in thousands of Jamaican dollars unless otherwise stated)

## 42. Financial Risk Management (Continued)

### (d) Liquidity risk (continued)

| | The Bank | | | | | |
|---|---|---|---|---|---|---|
| | 2006 | | | | | |
| | Within 3 Months | 3 to 12 Months | 1 to 5 Years | Over 5 Years | No specific maturity | Total |
| Cash resources | 35.881,429 | 8,450,782 | - | - | - | 44,332,211 |
| Securities purchased under resale agreements | 55,000 | 43,600 | - | - | - | 98,600 |
| Loans | 15.044,054 | 10,834,625 | 24.926,067 | 3.387,504 | - | 53,952,250 |
| Investment securities - | | | | | | |
| Available-for-sale | 451,063 | 951,595 | 1.867,974 | 3.525,485 | - | 6,796,117 |
| Held-to-maturity | 2.831,051 | 3,955,259 | 7.299,188 | 3.006,142 | 5,105 | 17,096,745 |
| Subsidiary companies | - | - | - | - | 258,238 | 258,238 |
| Other assets | 3.333,598 | 1,437,935 | 711,657 | 350,451 | 5,817.636 | 11,651,277 |
| Total assets | 57.596,195 | 25,473,796 | 34.804,886 | 10.269,582 | 6,080.979 | 134,225,438 |
| Deposits | 93.723,670 | 6,716,290 | 7.546,076 | 1.491,919 | - | 109,477,955 |
| Other liabilities | 3,376,611 | 987,452 | 1,996,737 | 350,451 | 1,796,965 | 8,508,216 |
| Stockholders' equity | - | - | - | - | 16,239,267 | 16,239,267 |
| Total liabilities and stockholders' equity | 97.100,281 | 7,703,742 | 9.542,813 | 1.842,370 | 18,036,232 | 134,225,436 |
| **Total liquidity gap** | (39,504,086) | 17,770,054 | 25.262,073 | 8.427,212 | (11,955.253) | - |
| Cumulative gap | (39,504,086) | (21,734,032) | 3.528,041 | 11.955,253 | - | - |
| | 2004 | | | | | |
| Total assets | 54,122,892 | 23.075,707 | 37,567,232 | 3,601,663 | 5,658,613 | 124,026,127 |
| Total liabilities and stockholders' equity | 93,671,821 | 5.058,690 | 6,148,238 | 2,698,047 | 16,449,331 | 124,026,127 |
| **Total liquidity gap** | (39,548,929) | 18.017,017 | 31,418,994 | 903,636 | (10,790.718) | - |
| Cumulative gap | (39,548,929) | (21,531.912) | 9,887,082 | 10,790,718 | - | - |

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

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

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

**42. Financial Risk Management (Continued)**

**(e) Market risk**

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security, its issuer or factors affecting all securities traded in the market. The Group manages its risk through the Assets and Liabilities Committee which carries out extensive research and monitors the price movement of securities on the local and international markets.

**(f) Insurance risk**

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

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

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

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk and type of industry covered.

## 43. Fair Value of Financial Instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an 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 and liabilities held and issued by the Group. 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 balance sheet dates.

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

(i) financial investments classified as available-for-sale are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques;

(ii) 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;

(iii) the fair value of demand deposits and savings accounts with no specific maturity is assumed to be the amount payable on demand at the balance sheet date;

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

(v) the fair value of fixed rate loans is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. For match-funded loans the fair value is assumed to be equal to their carrying value, as gains and losses offset each other. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values as the impact of credit risk is recognised separately by deducting the amount of the provisions for credit losses from both book and fair values.

The following tables present the fair value of financial instruments based on the above-mentioned valuation methods and assumptions. The following financial assets and liabilities are not carried at fair value.

(expressed in thousands of Jamaican dollars unless otherwise stated)

**31 October 2005**

## 43. Fair Value of Financial Instruments (Continued)

| | The Group | | | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| | **2005** | **2005** | **2004** | **2004** |
| **Financial Assets** | | | | |
| Loans | 57,648.163 | 57,242,459 | 53,454,402 | 53,243,982 |
| Investment securities : held-to-maturity | 30,007.225 | 30,440,745 | 26,280.091 | 26,659,764 |
| **Financial Liability** | | | | |
| Deposits by the public | 113,548.486 | 107,339,613 | 103,654.302 | 103,607,316 |

| | The Bank | | | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| | **2005** | **2005** | **2004** | **2004** |
| **Financial Assets** | | | | |
| Loans | 53,992,250 | 53,621,076 | 50,288,921 | 50,118,481 |
| Investment securities : held-to-maturity | 17,096.745 | 17,353,515 | 16,912.645 | 17,498,628 |
| Investment in subsidiaries | 258,238 | 49,831,862 | 258,238 | 46,155,069 |
| **Financial Liability** | | | | |
| Deposits by the public | 109,477.955 | 103,274,637 | 100,108.932 | 100,084,482 |

## 44. Commitments

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| (a) Capital expenditure: | | | | |
| Authorised and not contracted for | - | 90,000 | - | 40,320 |
| Authorised and contracted for | 60,792 | - | 60,792 | - |
| (b) Commitments to extend credit: | | | | |
| Originated term to maturity of more than one year | 10,373,099 | 7,597,696 | 9,735,199 | 7,042,896 |

(expressed in thousands of Jamaican dollars unless otherwise stated)

## 44. Commitments (Continued)

(c) Operating lease commitments

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

| | The Group | |
|---|---|---|
| | 2005 | 2004 |
| Not later than one year | 112,021 | 90,051 |
| Later than one year and not later than five years | 342,336 | 393,179 |
| Later than five years | 843,231 | 904,411 |
| | 1,297,588 | 1,387,641 |

## 45. Pledged Assets

Assets are pledged as collateral under repurchase agreements with counterparties. Mandatory reserve deposits are also held with The Bank of Jamaica under Section 14 (i) of the Banking Act, 1992.

| | The Group | | | |
|---|---|---|---|---|
| | Asset | | Related Liability | |
| | 2005 | 2004 | 2005 | 2004 |
| Balances with regulators | 990,000 | 990,000 | - | - |
| Securities sold under repurchase agreements | 17,861,165 | 20,557,114 | 16,705,889 | 18,546,429 |
| Investment securities (Note 25) | 1,170,000 | 170,000 | - | - |
| | 20,021,165 | 21,717,114 | 16,705,889 | 18,546,429 |

| | The Bank | | | |
|---|---|---|---|---|
| | Asset | | Related Liability | |
| | 2005 | 2004 | 2005 | 2004 |
| Balances with Bank of Jamaica | 900,000 | 900,000 | - | - |
| Securities sold under repurchase agreements | - | 1,773,000 | - | 1,471,653 |
| Investment securities (Note 25) | 1,170,000 | 170,000 | - | - |
| | 2,070,000 | 2,843,000 | - | 1,471,653 |

(expressed in thousands of Jamaican dollars unless otherwise stated)

## 46. Fiduciary Activities

The Group provides custody, trustee, corporate administration, investment management and advisory services to third parties which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. At the balance sheet date, the Group had investment custody accounts amounting to approximately $34,163,056 (2004 - $26,506,433).

## 47. Related Party Transactions and Balances

The Group is controlled by The Bank of Nova Scotia, a company incorporated and domiciled in Canada, which owns 70% of the ordinary stock units. The remaining 30% of the stock units are widely held.

A number of banking transactions are entered into with related parties. These include loans, deposits, investment management and foreign currency transactions. The volumes of related party transactions, outstanding balances at the year end, and relating expenses and income for the year are as follows:

| | Directors and key management personnel | |
|---|---|---|
| | **2005** | **2004** |
| **Loans** | | |
| Loans outstanding at 1 November | 146,311 | 103,337 |
| Net loans issued/(repaid) during the year | 62,898 | 42,974 |
| Loans outstanding at 31 October | 209,209 | 146,311 |
| Interest income earned | 18,846 | 8,408 |
| Average repayment term (Years) | 13 | 13 |
| Average interest rate (%) | 8.84 | 8.89 |
| **Deposits** | | |
| Deposits outstanding at 1 November | 116,030 | 60,792 |
| Net deposits received/(repaid) during the year | (27,977) | 55,238 |
| Deposits outstanding at 31 October | 88,053 | 116,030 |
| Interest expense on deposits | 6,236 | 9,199 |

(expressed in thousands of Jamaican dollars unless otherwise stated)

**31 October 2005**

## 47. Related Party Transactions and Balances (Continued)

| | Directors and key management personnel | | Associated companies | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| Insurance products | 7,296 | 5,133 | - | - |
| Securities sold under repurchase agreements | 83,586 | 73,452 | - | - |
| Interest on repurchase agreements | 12,658 | 14,924 | - | - |
| Due from banks and other financial institutions | - | - | 489,135 | 1,111,543 |
| Due to banks and other financial institutions | - | - | 3,990 | 560 |
| Interest earned from banks and other financial institutions | - | - | 51,099 | 11,265 |

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| **Key management compensation** | | | | |
| Salaries and other short term benefits | 236,874 | 209,065 | 177,895 | 157,734 |
| Termination costs | 597 | - | - | - |
| Post-employment benefits | 295,816 | 224,204 | 263,490 | 199,694 |
| **Other -** | | | | |
| Management fees paid to parent company | 227,753 | 196,051 | 178,422 | 172,429 |
| Guarantees fees paid to parent company | 18,289 | 30,311 | 18,289 | 30,311 |
| Current accounts | - | - | 147,954 | 222,558 |
| Interest paid on current accounts | - | - | 13,152 | 15,780 |
| Securities purchased under resale agreements | - | - | 98,600 | 69,000 |
| Interest earned on resale agreements | - | - | 11,875 | 10,272 |

There were no related party transactions with the parent company other than the payment of dividends, management fees and amount due to parent company (Note 33).

(expressed in thousands of Jamaican dollars unless otherwise stated)

## 47. Related Party Transactions and Balances (Continued)

A number of banking transactions are entered into with related parties including companies connected by virtue of common directorship in the normal course of business. These include loans, deposits, investment management and foreign currency transactions. The volumes of related party transactions, outstanding balances at the year end, and relating expenses and income for the year are as follows:

| | Connected companies | |
|---|---|---|
| | **2005** | **2004** |
| **Loans** | | |
| Loans outstanding at 1 November | 5,376,149 | 5,808,120 |
| Net loans issued/(repaid) during the year | (483,551) | (431,971) |
| Loans outstanding at 31 October | 4,892,598 | 5,376,149 |
| Interest income earned | 490,333 | 655,575 |
| Average repayment term (Years) | 5 | 5 |
| Average interest rate (%) | 10.26 | 11.84 |
| **Deposits** | | |
| Deposits outstanding at 1 November | 5,566,310 | 5,766,378 |
| Net deposits received/(repaid) during the year | (154,642) | (200,068) |
| Deposits outstanding at 31 October | 5,411,668 | 5,566,310 |
| Interest expense on deposits | 260,793 | 247,595 |

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

Pursuant to Section 13 (1), (d) and (i) of the Banking Act, 1992, connected companies include companies with common directors of the Bank and its subsidiaries.

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

## 48. Litigation and Contingent Liabilities

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

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

(b) On 7 April 1999, a writ was filed by National Commercial Bank Jamaica Limited ("NCB") in which they set out a claim for payment of the sum of US$13,286,000 in connection with an alleged undertaking given to NCB by Scotia Jamaica Investment Management Limited (formerly Scotiabank Jamaica Trust and Merchant Bank Limited). Legal opinion has been obtained which states that the subsidiary has a strong defence to the claim. Consequently, no provision has been made for this amount in these financial statements.

## 49. Dividends

At the Board of Directors meeting on 24 November 2005, a dividend in respect of 2005 of $0.25 per share (2004 - actual dividend $0.50 per share) amounting to a total of $731,808 (2004 - $731,808) is to be proposed. The financial statements for the year ended 31 October 2005 do not reflect this resolution, which will be accounted for in stockholders' equity as an appropriation of retained profits in the year ending 31 October 2006.

(expressed in thousands of Jamaican dollars unless otherwise stated)

## 50. Effects of Early Adoption of Revised IFRS

The Group early adopted revised IFRS. The financial statements for the years ended 31 October 2003 and 31 October 2004 (the immediately preceding comparative period) have been restated to reflect the financial position under the revised IFRS. The financial effects of early adoption are set out as follows:

(i) Effect on stockholders' equity as at 31 October 2003:

| | Previously stated 2003 | Effect of early adoption | Restated 2003 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash resources | 35,343,233 | - | 35,343,233 |
| Government securities purchased under resale agreements | 17,593,444 | - | 17,593,444 |
| Loans, after allowance for impairment losses | 48,052,569 | - | 48,052,569 |
| Investment securities | 30,785,980 | (7,768) | 30,778,212 |
| Other assets | 15,863,574 | - | 15,863,574 |
| Lease receivables | 22,145 | - | 22,145 |
| Total assets | 147,660,945 | (7,768) | 147,653,177 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | |
| Deposits | 91,314,603 | - | 91,314,603 |
| Other liabilities | 27,215,383 | (2,589) | 27,212,794 |
| Policyholders' fund | 11,474,583 | - | 11,474,583 |
| Stockholders' equity | 17,656,376 | (5,179) | 17,651,197 |
| | 147,660,945 | (7,768) | 147,653,177 |

(expressed in thousands of Jamaican dollars unless otherwise stated)

**50. Effects of Early Adoption of Revised IFRS (Continued)**

(ii) Effect on stockholders' equity as at 31 October 2004:

| | Previously stated 2004 | Effect of early adoption | Restated 2004 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash resources | 40,450,422 | - | 40,450,422 |
| Government securities purchased under resale agreements | 25,046,360 | - | 25,046,360 |
| Loans, after allowance for impairment losses | 53,454,402 | - | 53,454,402 |
| Investment securities | 35,078,821 | 8,437 | 35,087,258 |
| Other assets | 14,124,107 | - | 14,124,107 |
| Lease receivables | 5,100 | - | 5,100 |
| Total assets | 168,159,212 | 8,437 | 168,167,649 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | |
| Deposits | 103,654,302 | - | 103,654,302 |
| Other liabilities | 27,804,812 | 2,812 | 27,807,624 |
| Policyholders' fund | 16,100,706 | - | 16,100,706 |
| Stockholders' equity | 20,599,392 | 5,625 | 20,605,017 |
| | 168,159,212 | 8,437 | 168,167,649 |

Financial assets previously classified as originated debts in the two preceding years were reclassified to the available-for-sale category. The fair value measurement, as a result of the reclassification, was recognised in the cumulative re-measurement result from available-for-sale financial assets, net of deferred taxation.

# Glossary

### Assets held in Trust
Assets administered by the Bank and its subsidiaries, which are beneficially owned by customers and are therefore not reported on the consolidated balance sheet. Services provided in respect of these assets are administrative in nature, such as security custody, trusteeship, stock transfer and personal trust services.

### Bankers' Acceptances (BAs)
A type of negotiable, short-term debt security, generally issued by a non-financial entity and guaranteed for a fee, by the issuer's bank.

### Basis Point
A unit of measure defined as one-hundredth of one per cent.

### Capital
Consists of common shareholders' equity and preferred shareholders' equity. Capital funds support asset growth, provide against loan losses, and protect the Bank's depositors.

### General Provision
Established against the loan portfolio in the Bank's business lines when the Bank's assessment of economic trends suggests that losses may occur, but that such losses cannot yet be determined on an item-by-item basis.

### Guarantees & Letters of Credit
Assurances given by the Bank that it will make payments on behalf of customers to third parties in the event that the customers default. The Bank normally has recourse against its customers for funds advanced under such arrangements.

### Net Interest Margin
Net interest income, expressed as a percentage of average total assets.

### Non-Performing Loans
Loans on which the Bank no longer has reasonable assurance as to the timely collection of interest and principal, or where a contractual payment is past due a prescribed period. Interest is not accrued on non-performing loans.

### Off-Balance Sheet Instruments
These instruments are comprised of indirect credit commitments, which include the Bank's commitments to extend credit facilities to its customers which are not yet drawn.

### Productivity Ratio
Productivity ratio measures the efficiency with which the Bank incurs expenses to generate revenue. It expresses non-interest expenses as a percentage of the sum of net interest income and other income. A lower ratio indicates improved productivity.

### Provisions for Loan Losses
An allowance set aside from income, which, in management's opinion, is adequate to absorb all credit-related losses in its portfolio of both on and off-balance sheet items. It is decreased by write-offs, realized losses and recoveries, and increased by new provisions for loan losses. The provisions for loan losses is deducted from the related asset category on the balance sheet.

### Repos
Repos is the short form for "obligations related to assets sold under repurchase agreements" - a short-term transaction whereby the Bank sells securities to a customer and simultaneously agrees to repurchase the securities on a specified date and at a specified price. It is a form of short-term funding.

### Return on Equity (ROE)
Net income, less preferred share dividends, expressed as a percentage of average common shareholders equity.

### Reverse Repos
Reverse Repos is the short form for "assets purchased under resale agreements" -a short-term transaction whereby the Bank purchases securities from a customer and simultaneously agrees to resell the securities on a specified date and at a specified price. It is a form of short-term collateralized lending.

### Risk-Adjusted Assets
Calculated using weights based on the degree of credit risk for each class of counterparty. Off-balance sheet instruments are converted to balance sheet equivalents, using specified conversion factors, before the appropriate risk weights are applied.

### Tier 1, Tier 2 Capital Ratios
These are ratios of capital to risk-adjusted assets, as stipulated by the Bank of Jamaica, based on guidelines developed under the auspices of the Bank for International Settlements (BIS). Tier 1 capital, the more permanent, consists primarily of common shareholders' equity plus non-cumulative preferred shares, and certain designated retained earnings which by statute may not be distributed or reduced without permission from the Bank of Jamaica. Tier 2 is mainly the general provision.

# Corporate Governance

Scotiabank believes that sound and effective corporate governance practices are essential to our long-term success. Our corporate governance practices are designed to ensure the independence of our Board of Directors and its ability to effectively supervise management's operation of the Bank. Good corporate governance practices are important to the creation of shareholder value and maintaining the confidence of depositors and investors.

Board independence ensures that the Bank is managed for the long-term benefit of all stakeholders – shareholders, employees, customers and the communities in which we operate. Our Bank therefore ensures that the majority of our Directors are independent with eleven of our fifteen current Directors being independent of the Bank, its parent or its affiliates (and thirteen Directors being non-executive Directors). The composition of the Board therefore provides management with independent and objective oversight and strategic guidance. The Board also ensures that key committees (such as the Audit Committee, the Conduct Review Committee and the Human Resources Committee) are comprised of independent directors who have the requisite skills to carry out the respective mandates.

The effectiveness of any Board of Directors will also be dependent on the quality of the individuals who serve as Directors. Our Bank prides itself on having individuals serving as directors who are business and community leaders who have distinguished themselves in various fields of business and academia. Our Directors have contributed significantly to the Bank's success over the years and we are confident that they will continue to do so in the future.

From time to time, new Directors are appointed to the Board who are able to provide a different perspective to the Board's deliberations. The process of continually appointing new Directors as others retire ensures that the Board continues to evolve in changing times. In 2005, three new Directors were appointed to the Board.

The Scotiabank Group is committed to good corporate governance and will continue to comply with international best practices and with any guidance from the Jamaica Stock Exchange, the Bank of Jamaica and the Financial Services Commission.

# Board of Directors of the Bank

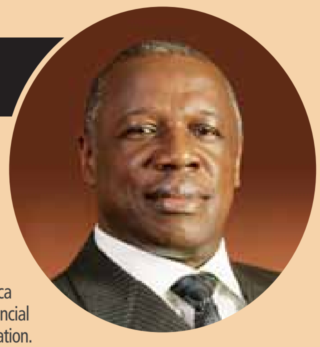
**R. H. Pitfield**
*Chairman*

Mr. Robert H. Pitfield is the Executive Vice President, International Banking, of the parent Company, The Bank of Nova Scotia, Canada and is responsible for all of the Bank's retail and commercial operations outside of Canada & USA. He was appointed a Director and Chairman of The Bank of Nova Scotia Jamaica Limited on May 22, 2003 and is a member of the Executive and Pension Committees.

**Hon. M. M. Matalon, O.J.**
*Deputy Chairman*

Hon. Mayer Matalon is the Deputy Chairman of the I.C.D. Group Limited. He is also the Deputy Chairman of the Board of the Bank and Chairman of the Executive Committee of the Board. Mr. Matalon has been a Director of the Bank since 1966.

**W. E. Clarke, C.D.**



Mr. William Clarke, President and CEO of the Bank, was appointed to the Board on May 18, 1995. He is a member of the Executive and Pension Committees of the Board and is also a Director of Scotia Jamaica Investment Management Limited, The Scotia Jamaica Building Society, Scotia Jamaica Life Insurance Company Limited, Scotia Jamaica General Insurance Brokers Limited, Scotia Financial Services Limited and Scotiabank Jamaica Foundation.

**Dr. J. A. Dixon**

Dr. Jean Dixon is the Permanent Secretary in the Ministry of Industry, Commerce and Technology. She has been a Director since February 19, 1998 and is a member of the Executive and Audit Committees of the Board. Dr. Dixon is also the Chairperson of the Board of Directors of The Scotia Jamaica Building Society and Scotiabank Jamaica Foundation.

**A. V. Chang**

Mr. Anthony Chang is the Managing Director of T. Geddes Grant Limited. He was appointed to the Board of the Bank on February 5, 2001 and is a member of the Human Resources and Pension Committees of the Board. Mr. Chang is also a Director of Scotia Jamaica Life Insurance Company Limited.

**M. M. Issa**

Miss Muna Issa is the Treasurer of SuperClubs. She has been a Director of the Bank since August 26, 1999 and is also a member of the Human Resources Committee of the Board. Miss Issa is also the Chairperson of the Board of Scotia Jamaica Life Insurance Company Limited and a member of the Board of The Scotia Jamaica Building Society.

**Prof. C. D.C. Christie**

Celia Christie is a Professor of Pediatrics and a specialist in Pediatric infectious diseases, epidemiology and Public Health at the University of the West Indies. Professor Christie has been a Director of the Bank since February 5, 2001 and is also a member of the Audit and Conduct Review Committees of the Board. She is also a Director of Scotia Jamaica Life Insurance Company Limited.

**C. H. Johnston**

Mr. Charles Johnston is the Chairman and Managing Director of Jamaica Fruit and Shipping Company Limited. He was appointed to the Board of the Bank on August 22, 2002 and is the Chairman of the Human Resources Committee and a member of the Executive and Audit Committees of the Board.

### J. M. Matalon

Mr. Joseph M. Matalon is the Chairman and Chief Executive Officer of the ICD Group Limited. He was appointed a Director on September 1, 2005 and is a member of the Audit and Human Resources Committees of the Board.

### Prof. S. C. Vasciannie

Stephen Vasciannie is currently Professor of International Law at the University of the West Indies and Head of the International Division of the Attorney General's Chambers. Professor Vasciannie was appointed a Director on September 1, 2005. He is a member of the Conduct Review and Pension Committees of the Board and is also a Director of Scotia Jamaica Life Insurance Company Limited and Scotia Jamaica Investment Management Limited.

### W. A. McConnell, C.D.

Mr. William McConnell is the Managing Director of Lascelles DeMercado Company Limited. He has been a Director of the Bank since February 18, 1988. He is also a member of the Executive and Pension Committees of the Board and Chairman of Scotia Jamaica Investment Management Limited.

### R. E. Waugh

Mr. Richard E. Waugh is the President of The Bank of Nova Scotia, Canada. Mr. Waugh is a member of the Board of Directors of The Bank of Nova Scotia and several of the Bank's subsidiaries and affiliates. He was appointed to the Board of Directors of The Bank of Nova Scotia Jamaica Limited on February 20, 2003.

### W. A. McDonald

Mr. Warren McDonald is the Managing Director and Chief Executive Officer of Berger Paints Jamaica Limited. Mr. McDonald was appointed to the Board of the Bank on February 5, 2001 and is a member of the Audit and Pension Committees of the Board. He is also a Director of Scotia Jamaica Investment Management Limited.

### S. A. Wright

Miss Stacie Ann Wright is the Executive Vice President and Chief Financial Officer of the Bank and was appointed to the Board on September 1, 2005. Miss Wright is also a Director of Scotia Jamaica Life Insurance Company Limited, Scotia Jamaica Building Society, Scotia Jamaica Investment Management Limited, Scotia Jamaica Financial Services Limited and Scotiabank Jamaica Foundation.

### Dr. H. J. Thompson

Dr. Herbert Thompson is the President of The Northern Caribbean University. He was appointed to the Board of the Bank on August 19, 1998 and is also a member of the Executive, Audit and Conduct Review Committees of the Board. Dr. Thompson is also Deputy Chairman of the Board of the Scotia Jamaica Building Society.

# Executive and Senior Management Officers

## EXECUTIVE OFFICERS

William E. Clarke
President and CEO

H. Wayne Powell
Executive Vice President,
Retail Sales Management

Mrs. Rosemarie A. Pilliner
Executive Vice President,
Operations & Service Delivery

Miss Stacie-Ann Wright
Executive Vice President,
& Chief Financial Officer

Michael D. Jones
Senior Vice President,
Human Resources

David A. Noël
Senior Vice President /
Senior Legal Counsel & Corporate Secretary

Mrs. Audrey M. Tugwell Henry
Senior Vice President,
Retail & Electronic Banking

## SENIOR MANAGEMENT OFFICERS

### Audit

Yvonne M. Pandohie
Vice President & Chief Auditor

### Corporate Affairs & Marketing

Mrs. Marie Powell
Vice President,
Corporate Affairs & Marketing

### Corporate & Commercial Banking Centre

Wayne P. Hewitt
Vice President,
Corporate & Commercial Banking

Bevan A. Callam
Assistant General Manager,
Corporate & Commercial Risk

Michael A. Thompson
Assistant General Manager,
Business Development

### Credit Risk Management

Henri R. Bourdeau
Vice President, Risk Management

Donald O. Williams
Vice President,
Credit Risk Management

### District Vice Presidents

Egerton G. Anderson

Roger R. Cogle

### Employee Communications & Consultations Unit

Mrs. Rosemarie A. Voordouw
Director

## SENIOR MANAGEMENT OFFICERS cont'd.

### Finance

Miss Shirley K. Ramsaran
Assistant General Manager,
Finance & Comptroller

Hugh G. Miller
Assistant General Manager,
Treasury & Foreign Exchange

### Information Systems Centre

Miss Sharon A. Colquhoun
Director

### Operations and Shared Services

Mrs. Suzette A. M. McLeod
Vice President, Shared Services

David M. Williams
Assistant General Manager,
Operations & Sales Support

### Private Banking Services

Miss Bridget A. Lewis
General Manager

### Retail & Electronic Banking

Clyde C. Singh
Assistant General Manager,
Electronic Banking

Mrs. Karen Tomlinson
Director
Retail Banking

## SENIOR MANAGEMENT OFFICERS cont'd.

### The Scotia Jamaica Building Society

Gladstone F. Whitelocke
General Manager

### Scotia Jamaica Investment Management Limited

Miss Janice V. Robinson
Vice President & General Manager

### Scotia Jamaica Life Insurance Company Limited

Mrs. Jacqueline T. Sharp
Vice President & General Manager

### Scotiabank Jamaica Foundation

Mrs. Marie Powell
Executive Director

# Corporate Directory

## Branches and Managers

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

R. R. Reid, Manager

**BROWN'S TOWN**
Main Street
P. O. Box 35
Brown's Town
St. Ann

Mrs. D. A. Maxwell, Manager

**CHRISTIANA**
Main Street
P. O. Box 11
Christiana, Manchester

C. A. Dawes, Manager

**CORPORATE & COMMERCIAL BANKING CENTRE**
Miss M. P. McLeggon, Snr. Relationship Manager
Miss C. A. Logan, Snr. Relationship Manager
P. R. Gajraj, Snr. Relationship Manager
L. M. Reynolds, Snr. Relationship Manager
C. M. Newman, Snr. Relationship Manager
Mrs. D. A. Mighty, Relationship Manager
Mrs. S. M. Chambers-Creary, Relationship Manager
K. A. Townsend, Relationship Manager
H. P. Ebanks, Relationship Manager
Mrs. A. M. Buckley, Relationship Manager
M. G. Verley, Relationship Manager

**CROSS ROADS**
86 Slipe Road
P. O. Box 2
Kingston 5

J. A. Clarke, Manager

**FALMOUTH**
Trelawny Wharf
P. O. Box 27
Falmouth,
Trelawny

S. H. Thompson, Manager

**HAGLEY PARK ROAD**
128 Hagley Park Road
P. O. Box 5
Kingston 11

Miss V. I. Omess, Manager

Mrs. Y. T. Leslie, Asst. Manager

**HALF-WAY-TREE**
80 Half-Way-Tree Road
P. O. Box 5
Kingston 10

D. E. Walters, Manager

Miss G. N. Crawford, Senior Account Manager

L. S. Estick, Account Manager

Mrs. V. J. James, Account Manager

V. A. Harvey,
Assistant Manager, Operations & Service

Miss D. A. Hyman, Account Manager,

Mrs. K. N. Chang, Account Manager

**HIGHGATE**
Main Street
P. O. Box 9
Highgate
St. Mary

O. W. Stephenson, Manager

**IRONSHORE SERVICE CENTRE**
Shops 2 & 3, Golden Triangle
Shopping Centre
Ironshore
Montego Bay

Miss D. M. Mortimer, Manager

**JUNCTION**
Junction P. O.
St. Elizabeth

Mrs. C. A. Sanderson, Manager

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

T. V. Allen, Manager

Mrs. W. D. O'Connor, Asst. Manager

C.C. Wiggan, Asst. Manager

Mrs. L. D. Stewart, Asst. Manager, Operations

D. W. Quarrie, Asst. Manager,
Personal Banking

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

S. A. Distant, Manager

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

Miss J. Carter, Manager

Mrs. A. Y. Howard, Asst. Manager

**LUCEA**
Willie Delisser Boulevard
P. O. Box 63
Lucea
Hanover

M. A. Elliot, Manager

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

A. C. Bright, Manager

Miss A. E. Senior, Asst. Manager, Credit

J. J. Smalling, Manager,
Personal Banking

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

**MAY PEN**
36 Main Street
P.O. Box 32
May Pen
Clarendon

Mrs. B. M. Corrie, Manager

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

Miss M. A. Flake, Manager

C. A. Marshall, Asst. Manager, Credit

Mrs. A. E. Bell-Grant, Account Manager

Mrs. A. M. Walters, Asst. Manager, Operations

W. O. Carr, Asst. Manager,
Personal Banking

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

C. A. Wright, Manager

**NEGRIL**
Negril Square
Negril P. O.
Westmoreland

G. E. Gray, Manager

**NEW KINGSTON**
2 Knutsford Boulevard
P. O. Box 307
Kingston 5

B. C. Chisholm, Manager

Miss S. C. Lue, Asst. Manager

A. O. Harvey, Asst. Manager,
Personal Banking

M. S. Nelson. Asst. Manager, Operations

**OCHO RIOS**
Main Street
P. O. Box 150
Ocho Rios
St. Ann

Miss T. M. Palmer, Manager

K. E. Reese, Asst. Manager

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

Miss M. A. Foster, Manager

**OXFORD ROAD**
6 Oxford Road
P. O. Box 109
Kingston 5

Miss. J. A. Sutherland, Manager

**PORT ANTONIO**
3 Harbour Street
P. O. Box 79
Port Antonio
Portland

F. O. Wright, Manager

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

Mrs. O. A. Whittaker, Manager

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

A. D. Johnson, Manager

**PREMIER**
10 Constant Spring Road
P. O. Box 509
Kingston 10

A. A. Boyd, Manager

**ST. ANN'S BAY**
18 Bravo Street
P. O. Box 2
St. Ann's Bay
St. Ann

Mrs. N. F. Haughton, Manager

**SANTA CRUZ**
77 Main Street
P. O. Box 20
Santa Cruz
St. Elizabeth

D. A. James, Manager

**SAVANNA-LA-MAR**
19 Great George's Street
P.O. Box 14
Savanna-La-Mar
Westmoreland

M. E. Shaw, Manager

Miss T. E. Buddo, Asst. Manager

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

D. A. Hanson, Manager

T. C. James, Account Manager

Mrs. W. M. Mowatt, Operations Manager

**SPANISH TOWN**
27 Adelaide Street
Spanish Town
St. Catherine

R. A. Sangster, Manager

Mrs. I. C. Tucker, Asst. Manager

**UWI, MONA CAMPUS**
Cnr. Ring Road & Shed Lane
Kingston 7

Miss P. N. Buchanan, Manager

**VICTORIA & BLAKE**
29 Victoria Avenue
P.O. Box 625
Kingston

N. L. Stultz, Manager

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

Mrs. G. A. Morrison, Manager

**SUB-BRANCHES**

**BARNETT STREET**
(Sub to Montego Bay)
51 Barnett Street
Montego Bay
St. James

**CLAREMONT**
(Sub to St. Ann's Bay)
Claremont P.O.
Claremont
St. Ann

**CLARK'S TOWN**
(Sub to Falmouth)
Clark's Town P. O.
Trelawny

**FRANKFIELD**
(Sub to Christiana)
Frankfield
Clarendon

**GAYLE**
(Sub to Ocho Rios)
Gayle P. O.
St. Mary

**ORACABESSA**
(Sub to Port Maria)
Oracabessa P. O.
St. Mary

**PARK CRESCENT**
(Sub to Mandeville)
17 Park Crescent
Mandeville
Manchester

# Corporate Directory

## Wholly-Owned Subsidiaries and Scotiabank Jamaica Foundation

### Boards of Directors and Senior Officers
**as at 31 October 2005**

**SCOTIA JAMAICA INVESTMENT MANAGEMENT LIMITED**

4th Floor, Scotiabank Centre
Cnr. Duke & Port Royal Streets
P.O. Box 627
Kingston, Jamaica

**Board of Directors**
W. A. McConnell, C.D. - Chairman
W. E. Clarke, C.D.
Ms. E. M. Brown
Mrs. A. M. Tugwell-Henry
C. H. Johnston
W. A. McDonald
R. U. Patrick
H. W. Powell
Prof. S. C. Vasciannie
Miss S. A. Wright

**Senior Officers:**
Miss J. V. Robinson
Vice President & General Manager

K. Harris
Senior Manager Investments

Miss N. K. Hines
Manager, Trust & Registration Services

G. A. White
Manager, Finance & Operations

B. O. Frazer
Manager, Securities, Trading & Investments

**SCOTIA JAMAICA LIFE INSURANCE COMPANY LIMITED**

5th Floor, Scotiabank Centre
Cnr. Duke & Port Royal Streets
Kingston, Jamaica

**Board of Directors**
Miss M. M. Issa - Chairperson
W. E. Clarke, C.D.
A. V. Chang
Prof. C. D. C. Christie
H. W. Powell
H. A. Reid
Dr. A. E. Samuels
P. B. Scott
Miss S. A. Wright
Ms. E. Leung

**Senior Officers:**
Mrs. J. T. Sharp
Vice President & General Manager

Mrs. M. Anthony
Senior Manager, Finance & Investments

Mrs. E. A. Hendricks
Manager, Marketing & Communications

Ms. L. S. Heslop
Manager, Operations & Customer Service

**THE SCOTIA JAMAICA BUILDING SOCIETY**

95 Harbour Street
P.O. Box 8463
Kingston, Jamaica

**Board of Directors**
Dr. J. A. Dixon - Chairperson
Dr. H. J. Thompson - Deputy Chairman
Dr. C. D. Archer
W. E. Clarke, C.D.
Miss M. M. Issa
H. W. Powell
Mrs. M. Powell
Miss J. A. Thompson
Miss S. A. Wright

**Senior Officers:**
G. F. Whitelocke
General Manager

Ms. L. Fuller
Manager, Finance & Operations

P. F. Williams
Manager, Mortgage Services

**SCOTIA JAMAICA FINANCIAL SERVICES LIMITED**

Scotiabank Centre
Cnr. Duke & Port Royal Streets
P.O. Box 709
Kingston, Jamaica

**Board of Directors**
W. E. Clarke, C.D.- Chairman
Mrs. A. M. Tugwell-Henry
H. W. Powell
Mrs. M. Powell
Miss S. A. Wright

**SCOTIABANK JAMAICA FOUNDATION**

Scotiabank Centre
Cnr. Duke & Port Royal Streets
P.O. Box 709
Kingston, Jamaica

**Board of Directors**
Dr. J. A. Dixon - Chairperson
E. H. Anderson
Ms. E. M. Brown
W. E. Clarke, C.D., Deputy Chairman
M. Jones
Mrs. R. A. Pilliner
H. W. Powell
Mrs. M. Powell
Miss S. A. Wright

**Senior Officer:**
Mrs. M. Powell
Executive Director

**SCOTIA JAMAICA GENERAL INSURANCE BROKERS LIMITED**

5th Floor, Scotiabank Centre
Cnr. Duke & Port Royal Streets
Kingston, Jamaica

**Board of Directors**
W. E. Clarke, C.D. - Chairman
E. H. Anderson
H. W. Powell
Mrs. R. A. Pilliner
Miss J. V. Robinson
G. F. Whitelocke

**BRIGHTON HOLDINGS LIMITED**

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

**Board of Directors**
W.E. Clarke, C.D. - Chairman
E. H. Anderson
H. W. Powell
Miss S. A. Wright

# The Bank of Nova Scotia Jamaica Limited Committees & Members

**EXECUTIVE COMMITTEE OF THE BOARD**

Hon. M. M. Matalon, O.J.
Chairman

W. E. Clarke, C.D.
Dr. J. A. Dixon
W. A. McConnell, C.D.
C. H. Johnston
R. H. Pitfield
Dr. H. J. Thompson

**HUMAN RESOURCES COMMITTEE**

C. H. Johnston
Chairman

A. V. Chang
Miss M. M. Issa
Dr. J. A. Dixon
J. M. Matalon

**CONDUCT REVIEW COMMITTEE**

Dr. H. J. Thompson
Chairman

Prof. C. D. C. Christie
Prof. S. C. Vasciannie
Miss M. M. Issa

**AUDIT COMMITTEE**

Dr. J. A. Dixon
Chairperson

Prof. C. D. C. Christie
W. A. McDonald
C. H. Johnston
Dr. H. J. Thompson
J. M. Matalon

**PENSION COMMITTEE**

W. A. McConnell, C.D.
Chairman

R. H. Pitfield
W. E. Clarke, C.D.
A. V. Chang
W. A. McDonald
Prof. S. C. Vasciannie

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**SECRETARY**

David A. Noël
Senior Vice President/Senior Legal Counsel
& Corporate Secretary

The Bank of Nova Scotia Jamaica Limited
Executive Offices
Scotiabank Centre
Cnr. Duke & Port Royal Streets
P.O. Box 709
Kingston, Jamaica

**AUDITORS**

PricewaterhouseCoopers
Scotiabank Centre
Cnr. Duke & Port Royal Streets
P.O. Box 372
Kingston, Jamaica

Telephone: (876) 922.6230
Fax: (876) 922.7581

**REGISTERED OFFICE**

Scotiabank Centre
Cnr. Duke & Port Royal Streets
P.O. Box 709
Kingston, Jamaica

Telephone: (876) 922.1000
Fax: (876) 922.6548
Website: www.jamaica.scotiabank.com
Telex: 2297
SWIFT Bic Code: NOSCJMKN

**REGISTRAR & TRANSFER AGENT**

Scotia Jamaica Investment
Management Limited
4th Floor, Scotiabank Centre
Cnr. Duke & Port Royal Streets
P.O. Box 627
Kingston, Jamaica

Telephone: (876) 922.1810
Fax: (876) 922.3378

# NOTES

# PROXY FORM

THE BANK OF NOVA SCOTIA JAMAICA LIMITED

I/We..........................................................................................................................................................
of..............................................................................................................................................................
in the parish of ..........................................................being a Member of the above Company, hereby appoint the Chairman of the Meeting or failing him (see Note 1)........................................................................................
...........................................................................................................................................................of
...............................................................................................................................................or failing them...................................................................................................................................................of
..............................................................................................................................as my/our Proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on the 17th day of February 2006 and at any adjournment thereof.

Please indicate by inserting a cross in the appropriate square how you wish your votes to be cast. Unless otherwise instructed, the Proxy will vote or abstain from voting, at his discretion.

| RESOLUTION | FOR | AGAINST |
|---|---|---|
| NO. 1 | | |
| NO. 2 | | |
| NO. 3(a) | | |
| NO. 3(b) | | |
| NO. 3(c) | | |
| NO. 3(d) | | |
| NO. 3(e) | | |
| NO. 3(f) | | |
| NO. 3(g) | | |
| NO. 4 | | |

As witness my hand this.................................................................................................................day
of.............................................................................................................................200..................

...................................................................................
Signature

1. If you wish to appoint a proxy other than the Chairman of the Meeting, please insert the person's name and address and delete (initialing the deletion) "the Chairman of the Meeting".

2. To be valid, this form of proxy and the power of attorney or other authority (if any) under which it is signed must be lodged at the office of the Registrar of the Company, Scotia Jamaica Investment Management Limited (formerly Scotiabank Jamaica Trust and Merchant Bank Limited), 4th Floor, Scotiabank Centre, Cnr. Duke & Port Royal Streets, Kingston, at least 48 hours before the time appointed for the holding of the meeting.

3. To this form must be affixed a $100.00 stamp in payment of stamp duty.

4. In the case of joint shareholders, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holder(s) and for this purpose seniority shall be determined by the order in which the names stand in the register of members.

5. To be effective, this form of proxy must be signed by the appointer or his attorney, duly authorised in writing or, if the appointer is a corporation, must be under its common seal or be signed by some officer or attorney duly authorised in that behalf.

*Cover photo:*

**Scotiabank Relationship:** *n.* **1**. a connection or association in which it is easy to talk with the Scotiabank representative. **2**. a state in which the customer experiences a heightened degree of importance. **3**. the needs of the customer become the only focus of the Scotiabank representative *(When you start a Scotiabank Relationship, you have started the journey to success)*.

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The Banker

Bank of the Year 2003
Jamaica

The Banker

Bank of the Year 2004
Jamaica

The Banker

Bank of the Year 2005
Jamaica

Scotiabank