1998 ANNUAL REPORT

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Scotiabank

Scotiabank

Putting people first.

Scotiabank is one of North America's premier financial institutions and Canada's most international bank, with assets of $234 billion. Our 42,000 employees provide retail, commercial, corporate and investment banking services to individuals, small and medium-sized businesses, corporations and governments – in 53 countries around the world, and coast to coast across Canada.

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CAMILLE TEELUCKSINGH
Scotia Plaza branch, Toronto

PETER C. GODSOE
Chairman of the Board &
Chief Executive Officer

For the fiscal year	**1998**	1997	1996
Shareholder returns			
Net income ($ millions)	**$1,394**	$ 1,514	$ 1,069
Earnings per common share(1)	**$ 2.64**	$ 2.95	$ 2.04
Dividends per common share(1)	**$ 0.80**	$ 0.74	$ 0.65
Return on common shareholders' equity	**15.3%**	20.2%	15.8%
Return on common shareholders' investment	**6.1%**	51.1%	52.3%
Common share price (close, October 31)(1)	**$32.20**	$ 31.08	$ 21.13

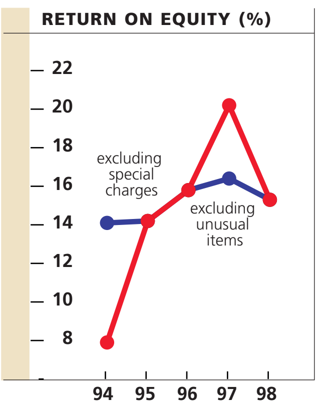
(1) Amounts have been adjusted to reflect the two-for-one stock split on February 12, 1998.

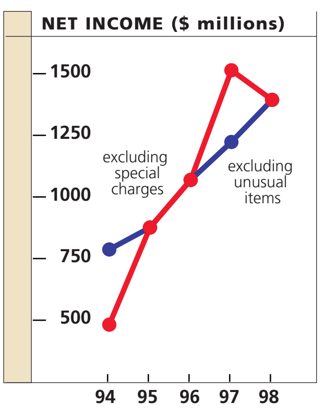
Financial highlights

Scotiabank achieved solid results in 1998, highlighting the strength and diversity of our core businesses. Net income was $1,394 million, which represented a return on equity of 15.3%. Income in 1998 was 8% lower than in 1997, as last year's results included several unusual items. If these are excluded, earnings in 1997 were $1,223 million. Compared to this, 1998 net income showed a solid increase of 14%.

Return to common shareholders – which includes both dividends and appreciation in the market value of the Bank's common shares – was 6.1% in 1998. This was lower than the excellent returns of 1996 and 1997, but was nonetheless among the better returns provided by a Canadian bank. Ownership of Scotiabank has provided shareholders with a compound average return of 21.7% a year over the past five years, and 21.4% a year over the past decade.

The Bank has had consistent growth in the dividends on its common shares, with the dividend rate having been increased in 33 of the past 35 years. In 1998, dividends per share increased to 80 cents, 8% higher than the 74 cents of the prior year. In addition, on December 2, 1998, the Board of Directors announced an increase in the quarterly dividend on common shares to 21 cents per share (84 cents annualized), effective in the first quarter of 1999.





A strategy that works

We are convinced that our bank has put in place the correct strategies to ensure success as we move toward the new millennium. Our guiding principles remain unchanged: executing more efficiently and more effectively than our competitors, concentrating on our core businesses, building on our strengths, and motivating and relying upon the employees of the Scotiabank Group. Above all, we will stay focused on the needs of our customers.

Diversity – in our products, services, customers, employees and locations – will remain an important component of our long-term business plans. This strategy allows us to explore new opportunities in the markets we serve and to withstand temporary setbacks in specific areas. It spreads risk broadly, and offers many opportunities for profitable expansion in the future.

Scotiabank has the most broadly based multinational network of any Canadian bank. We plan to seek additional opportunities in the international arena, especially in Asia and Latin America. Despite current economic difficulties in several international markets, we are confident that these regions will grow and prosper over the long term.

Domestically, we will keep building the infrastructure and business processes required to support our increasing focus on customer relationship management. A crucial element in our strategy is to continuously improve the way we work, so that efficiency and productivity climb steadily. For many years, our superior productivity record has been an important competitive advantage, translating into better returns for our shareholders and better service for our customers.

Key initiatives

In the Retail Bank, our customer service is acknowledged to be among the best in the industry. In its annual survey on customer service at financial institutions, released in October, Market Facts again named Scotiabank the top performing major bank for overall service quality.

During the coming year, we plan to improve our service further, through our branches, and by expanding our alternate delivery channels. We will continue to simplify, centralize and automate routine branch functions to give branch staff more time to dedicate to customers.

We are committed to giving our customers a growing variety of options to fulfil their banking needs. Many now prefer the convenience and speed of alternate delivery channels, such as ABMs, telephone and Internet banking, debit cards and smart cards, to conduct their everyday transactions. Our Internet banking service, Scotia OnLine, and its innovative Entrust security system, have won high praise from customers, and awards from both the Canadian Information Productivity Awards and Microbanker Inc., a publisher of banking technology newsletters.

However, personal service still lies at the heart of Scotiabanking. Extensive employee and customer research has revealed that our customers believe we deal with them on a more personal level – much more directly than our competitors.

A key priority for the coming year is to communicate this difference to existing and prospective customers throughout the Scotiabank Group worldwide. To position the Bank as a unique player in communities and markets across Canada and around the world, this image of Scotiabank – human, straightforward and knowledgeable – will be central to our activities.

Last year's acquisition of National Trust added to our successful retail banking operations, and positioned us as one of the largest personal trust operations in Canada. This will be particularly important as we expand our wealth management capabilities. The addition of National Trust has improved our ability to serve Canadians – particularly in Ontario, where most of its branches are located – and resulted in Scotiabank becoming the country's second-largest mortgage lender.

We are also working to enhance the service we provide to our commercial customers. By streamlining processes and developing our back-office support capabilities, we will strive to increase our market share of small and medium-sized enterprises.

RoyNat, one of two merchant banking arms, helps promising small and medium-sized companies grow by providing a broad range of financing options. Scotia Merchant Capital complements RoyNat, making sizable equity investments in larger companies that are poised for growth.

Wealth management

Wealth management has become an increasingly significant part of our business and, as the Canadian population ages, it will gain importance. To improve our present position and increase our share of the market, we are developing new ways to lever opportunities in this key area.

The integration of Cassels Blaikie, Scotia Investment Management Limited and the investment division of Scotiatrust created Scotia Cassels Investment Counsel Limited in August 1998, which manages assets of more than $15 billion. This fully consolidated investment counselling firm increases our ability to provide a broad range of personal investment services for Canadian and global investors, including estates and trust, fiduciary money management, pension and mutual funds. The wealth management services offered through ScotiaMcLeod and Scotiatrust complement those of Scotia Cassels.

BRUCE R. BIRMINGHAM
President

Integrated wholesale operations

In 1998, we set in motion our plans to integrate our worldwide investment and corporate banking operations.

In recent years, our clients have come to expect and demand a highly co-ordinated approach to all their financing and investment needs. We believe this initiative will allow us to better fulfil their expectations by providing them with access to the full range of the Bank's capabilities. It will also enable us to apply our respective expertise to provide superior value to both our clients and shareholders.

The integration, when completed next year, will enable us to deliver our product groups to clients in a more streamlined and focused fashion. Included in these services are corporate banking, global trading, merger and acquisition advice, equity sales and research, and securities underwriting.

Global opportunities

Our diverse operations in more than 50 countries on six continents generated almost half our total earnings in 1998. We continued to expand into new markets during the year, especially in Asia. We received approval to open a branch in Colombo, Sri Lanka, and became the first Canadian bank to open a full-service branch in Bangladesh, in the capital city of Dhaka. We also opened additional branches in countries where we have already established a presence. These new locations include Bangkok, Thailand; Bangalore, India; and Chongqing, China. As well, we have identified good potential for additional acquisitions in Latin America and Asia.

Overall, we continue to view our international banking activities against their potential for long-term success. The next few years may be tough for emerging markets, although they clearly offer excellent potential. Our challenge is to grow our global revenues and realize higher returns, while reducing corresponding risks. Having successfully operated internationally for more than a century, we remain convinced our strategy will continue to produce solid shareholder value.

Scotiabank people

At Scotiabank, we have retained our proud tradition of putting people first: our customers, as well as our employees and members of the communities we serve.

The Scotiabank Group is a team of more than 42,000 people who are dedicated to working together to ensure their Bank's success year after year. Our people are a major factor behind the superior financial results that we achieve.

We continue to invest heavily in training and developing our staff. New courses offered during the year, both on CD-ROM and in workshops, have strengthened employees' skills in diverse areas, such as effective management of people, sales and customer relationship building.

Financial sector reform

Our ability to remain competitive and enjoy continued growth is, to some extent, dependent on the financial sector policy framework under which we operate. If Scotiabank – and the Canadian banking sector in general –

SYLVIA D. CHROMINSKA *Executive Vice-President, Human Resources*
BARRY R. F. LUTER *Co-Head, Corporate & Investment Banking and Head of Global Corporate Banking*
ROBERT W. CHISHOLM *Vice-Chairman, Domestic Banking*
S. DENNIS N. BELCHER *Executive Vice-President, Investment Banking Credit & Credit Policy and Special Accounts Management*
JOHN F. M. CREAN *Senior Executive Vice-President, Global Risk Management*
RICHARD E. WAUGH *Vice-Chairman, Wealth Management & International Banking*

is to thrive and grow, both domestically and on the world stage, we require a new policy framework that reflects the realities of today's rapidly changing markets.

We are in complete agreement with the federal government's plans to review and thoroughly assess the financial sector, and set the future framework for the industry. At Scotiabank, we support the process of review that is taking place, and we are committed to playing a constructive role in the formation of revised financial sector policy. We will remain consistent advocates of a policy vision that is in the national interest, one that encourages more competition and more choice for Canadian consumers and businesses.

We strongly believe that Scotiabank will continue to grow and prosper, and that Canada's financial sector policy will support strong, successful institutions, just as it has in the past. The key to the future is to remain focused on our overall strategy and the fundamental things we do that have made us successful: offering first-rate service to our customers and working together as an effective team.

Outlook

As we enter the final stretch before the new millennium, we face another year of challenges. Economic and financial market conditions remain unsettled in Asia and many parts of the world. Canadian financial markets have not been immune from the recurring bouts of global volatility and, despite the positive influence of our low interest rates and improved fiscal and competitive fundamentals, there is a good chance that the Canadian and U.S. economies will lose some momentum in 1999. We are confident that, despite these setbacks, the long-term outlook for Canada and the Bank's major markets remains favourable.

We believe that the great strength of the Canadian banking system is another reason we do well at Scotiabank. This system, which has become part of the fabric of the country and its business community, benefits all Canadians and the country as a whole.

Within that system, our own traditional core strengths – risk management, expense management, our diverse businesses, customer satisfaction and our strong team of people – will allow us to succeed.

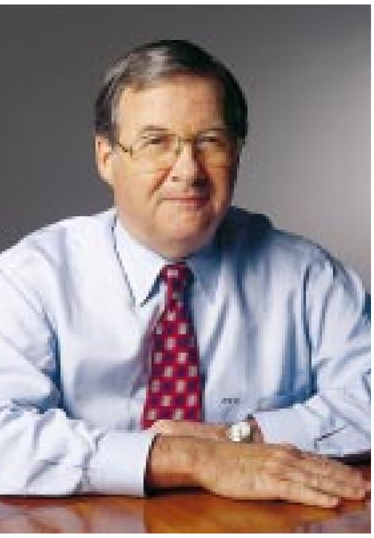
We have a great opportunity to build additional business, both at home and abroad. We are the bank that's not too big to care – about our shareholders, about our customers, about our employees and about the communities we serve. We are putting people first.

PETER C. GODSOE
Chairman of the Board & Chief Executive Officer

BRUCE R. BIRMINGHAM
President

ALBERT E. WAHBE *Executive Vice-President, Electronic Banking*
WILLIAM P. SUTTON *Executive Vice-President, Latin America*
W. DAVID WILSON *Co-Head, Corporate & Investment Banking and Chairman & CEO, Scotia Capital Markets & ScotiaMcLeod Inc.*
ROBERT H. PITFIELD *Executive Vice-President, Retail Products & Marketing*
JOHN A. YOUNG *Executive Vice-President, Domestic Branch Banking*
SARABJIT S. MARWAH *Executive Vice-President and Chief Financial Officer*
ROBERT L. BROOKS *Executive Vice-President & Group Treasurer*

ANSWERS TO QUESTIONS



Chairman and CEO Peter Godsoe addresses questions of interest to shareholders, analysts and customers.

Q: What sets Scotiabank's international strategy and operations apart from other major Canadian banks?

A: We are unique among Canada's banks in the scope of our international expertise. First, we operate in more than 50 countries. Second, we've been a multinational bank for more than 100 years, making us one of the few banks in the world that understands and operates successfully in the global banking arena. Scotiabank's geographic diversity not only distinguishes us in the marketplace, but gives our customers a global reach unavailable through other Canadian banks.

The Bank's strategy hinges on investing for the long term – in strong, local banks, in our own extensive branch network, and in other businesses – around the world. This spreads our risk broadly, and provides the Bank with a continuous stream of earnings independent of the Canadian economy. Our strategy has served us very well in the past and offers great potential for growth in the future.

Q: How important is the small business sector to Scotiabank – and what are you doing to help your small business customers?

A: The small business sector is a major source of jobs and economic growth in Canada. It's also an important part of Scotiabank's operations and that's why we are absolutely committed to continually improving the service to our small business customers. The key to service is people – specialists in our branches to deal with small business customers directly and personally, and other specially trained staff in our service centres across Canada, who are just a phone call away.

At the same time, we're also working to ensure we have the appropriate technology to give small business owners more control over how and when they conduct their banking, be it through automated banking machines, over the telephone or via the Internet. We're also improving access to credit for small businesses. We're now able to respond to most business loan requests within one or two business days – by equipping our small business lending specialists with new risk-assessment technology, and by introducing a simple, one-page application form.

But the core of our service to small business customers remains people and providing the highest level of service to our customers.

Q: Scotiabank's ability to control costs has been excellent over the years. Can the Bank maintain, or even improve it?

A: In banking, the accepted benchmark for measuring productivity is how much money you spend to earn a dollar of revenue. So the lower the figure, the better. And Scotiabank has traditionally been more productive than the other five major banks (see page 35). Our aim is to keep the Bank's productivity ratio below 60 per cent.

The 60.4 per cent ratio we ended up with in 1998 was a little higher than this goal, because of special expenses related to preparing our computer systems for the year 2000, and costs for several of the major projects that are setting the stage for reduced expenses in future years.

Once those expenses are behind us, we intend to focus on getting as much value as we can out of the new technology that we have installed. We will also continue to streamline our processing work, so that our staff can spend more time on sales and on serving customers. These are the activities that are going to improve our productivity ratio in the future.

Q: What steps is the Scotiabank Group taking to position itself as a leader in the wealth management market?

A: With more Canadians concentrating on saving and investing for the future, the wealth management business has grown rapidly in Canada. The Scotiabank Group is already a leader in providing wealth management services that cover everything from helping customers accumulate and preserve assets to passing them on to the next generation. We are building on this position through the efforts of our experts at the Bank and in our wealth management subsidiaries.

Scotiabank provides customers with one of the broadest and most innovative ranges of wealth management products in Canada, including guaranteed investment certificates, registered retirement savings plans, RRSP Catch-Up loans and a family of 27 Scotia Mutual Funds.

Through our Private Client Financial Services, Scotia Discount Brokerage and Scotia Cassels Investment Counsel, we are well positioned to help our customers manage and protect their wealth. In addition, the acquisitions of National Trust and Montreal Trust have made Scotiatrust one of the three largest trust businesses in Canada – a definite competitive advantage for the Bank.

Q: How does the Bank use technology to support its customers?

A: While banking will continue to be a people-oriented business, technology greatly helps us better serve our customers. Enormous technological advancements are opening up many exciting new opportunities for our customers and for the Bank. For example, in November, we announced that Canada Post would apply our proven on-line security technology to its new Internet services, including bill payment, electronic courier services and electronic mail.

Thanks to new technology, customers can now choose how, when and where they want to bank. The rapid growth in use of Scotia OnLine and TeleScotia, our Internet and telephone banking services, shows that our customers like having greater access to our products and services through these alternate banking channels.

From our perspective, technologies such as these help us to operate more efficiently and improve our productivity. While technology takes care of routine functions, our employees have more time to spend with their customers, providing a greater range of advice and services. The result is better products and services for our customers, more interesting careers for our employees and better long-term value for our shareholders.

Q: Why is financial sector reform important for Canada and Canada's banks?

A: A healthy and dynamic banking sector is the backbone of the economy. Few industries touch people's lives – their families and businesses – as significantly. Today, we have a winning system – one that's highly efficient, very safe and stable, and extremely competitive. But change is necessary to ensure these strengths are maintained and that Canadians continue to benefit from our world-class financial system.

The Canadian government is committed to creating a new regulatory framework for the financial sector. We think this is the right priority for the government and the industry – and in the best interests of our customers, our shareholders and our employees. Through this process, we believe it's critical to allow banks, and the financial sector as a whole, the flexibility to grow, while enhancing competition and choice for Canadian consumers and businesses in all regions of our country.

THE SCOTIABANK GROUP

Putting people first is a strong part of our heritage. It means listening and responding to individual customer needs. It is a strategy built on sharing common goals and objectives. Locally and globally, this strategy has contributed to the success of the Scotiabank Group and its employees around the world.

We understand the direct link between customer satisfaction and satisfied employees – and we're focusing our employment initiatives directly at making Scotiabank a great place to work. We invest in high-tech training, focus on relationship skills, product knowledge and development programs, and work to continually enhance career opportunities.

In this annual report, we show how our common goals are reflected in our customer relationships and employee achievements in our business lines and locations around the world.

A strong Canadian foundation

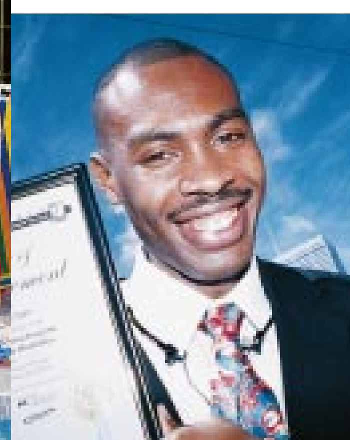
Two of the customers featured in this report illustrate the effectiveness of the personal touch we provide through our Canadian branch and electronic networks. The first is a young doctor from Winnipeg, Manitoba, who looks for choice, convenience and professional expertise. The second is the Robinson family of Prince Edward Island, customers for three generations, who value relationships that continue to grow.

Millions of Canadian customers can draw upon a wide range of Scotiabank services and products, from lending and deposits, to mutual funds and insurance, at any of our 1,284 branches and offices or through our electronic banking services. Investment management needs can be expertly handled by our trust division – one of Canada's largest – or through our wealth management subsidiaries, including ScotiaMcLeod, Scotia Cassels and Scotia Discount Brokerage.

We're also increasing our depth in the investment counselling field, providing enhanced service for global and Canadian investors in the areas of estates and trusts, endowments, fiduciary money management and mutual funds.

Small business is one of the fastest growing market segments in Canada and key to the country's economic success. To serve these clients better, we have made our processes simpler and introduced new products.





• **LARRY SCOTT** *is Managing Director and Head of ScotiaMocatta, one of the world's leading precious metals and bullion dealers.*
• *Scotiabank is the leading provider of financial services in the Caribbean.*
• *Long-time customer* **ANN MARIE CROSSBY** *runs her own business from home, using Scotiabank's telephone and branch banking services – and both of her children have Getting There accounts for young people.*
• **MONTE MCGREGOR** *displays his certificate of achievement from Goodwill's call centre training program, which Scotiabank supports as an employer partner. Monte now works for Scotiabank.*

Integrated wholesale operations

As a leader in corporate and investment banking, Scotiabank provides a wide range of wholesale banking services to both Canadian and international clients. We listen and respond to the specific needs of corporations and individuals. Our partnership with Canada's Onex Corporation, one of our many corporate customers, exemplifies our commitment to building relationships.

With offices in Canada, the United States, Europe, Asia and Latin America, Scotiabank provides seamless, one-stop service to meet all our clients' financial needs, from cash management to bullion trading, from debt and equities to stock transfer services. We rank 10th in the world in global loan syndications, and we consistently place among the top 10 for syndicated loans in the U.S. As well, our expanding network of locations across Canada serves the needs of individual investment clients.

A growing multinational network

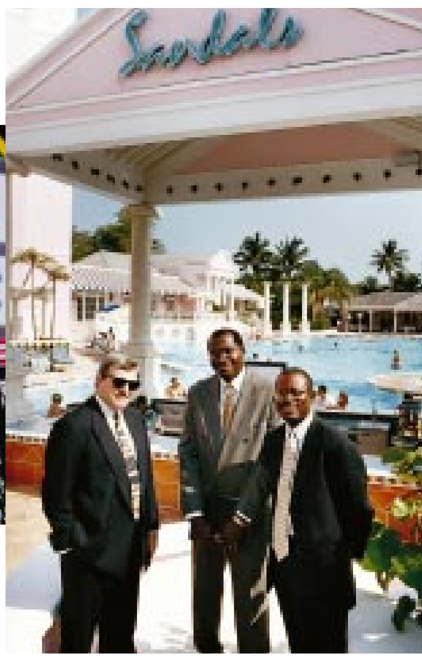
Scotiabank has operated in the international sphere for more than a century, and today provides personal, commercial and corporate services in more than 50 countries. Customers around the world have access to the experience, commitment and global connections of the entire Scotiabank Group.

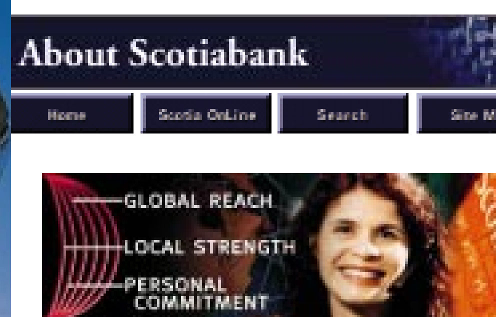
In the Caribbean, we have a long history of building relationships. In fact, we opened our first office outside of North America in Jamaica in 1889. Today, we're still the region's leading provider of financial services, with operations in more than 20 countries.

Our network in Asia/Pacific spans 12 countries – the broadest of any Canadian bank. It stretches from India to Japan, and includes strategic alliances with banks in the Philippines and Indonesia, plus Scotiabank branches in China, India, Malaysia and Thailand.

We offer customers a range of retail, commercial, trust, insurance and trade-related services through our affiliations with local banks in Latin America, as well as our own offices throughout the region. By combining the strengths of our people, capital and technology, we are building long-term growth potential – and providing exceptional value to our customers around the world.

Mexico's Transportacíon Marítima Mexicana, (TMM), for example, does business in 60 countries. It chose Scotiabank as a business partner because of our local strength – through our affiliation with Banco Inverlat – and our similar global reach.





• **TANIA SLEEM** *of Scotia Plaza branch is one member of our 42,000-strong team serving customers worldwide.*

• *Scotiabank is a specialist at financing resorts in the Caribbean, such as Sandals on Nassau's Cable Beach in the Bahamas. From left: Scotiabankers* **HUGH KENT**, **ED CURRY** *and* **KEN BRATHWAITE**.

• *TMM, the largest transportation company in Latin America, looks to both Scotiabank and its affiliate, Banco Inverlat, to provide local and global banking services.*

• *Scotiabank's Internet site provides leading-edge banking services plus information on worldwide operations.*

“With a demanding career and young family, I need choice and convenience. Scotiabank gives me both: quick 24-hour electronic banking, plus personal service from friendly staff at my local branch.”

ROBYN OLSON, *MD*

The personal, integrated service provided by Winnipeg Commercial Banking Centre’s **STEPHEN CARROLL**, *Manager, Personal Banking, and* **MICHELLE ASHCROFT**, *Account Manager, Personal and Professional Banking, fulfills Dr. Robyn Olson’s banking needs, both at home and in the office.*

The needs of our customers have become increasingly sophisticated, and their time has never been more valuable. The convenience of electronic banking, including ABMs, TeleScotia and Scotia OnLine, has made it faster, easier and more efficient for customers to carry out financial transactions.

By expanding our branches’ focus on consultative capabilities, and by entering new areas of service, such as personal trust, we can respond to the varied and complex needs of our clients.

Dr. Robyn Olson, a busy general practitioner in Winnipeg, Manitoba, has found Scotiabank uniquely able to meet her requirements: a high level of personal service at her branch, plus the advantages of Scotia Professional Plan (SPP), a powerful package of business and personal financial services, custom-tailored to meet the specialized needs of professional practitioners.

Robyn and her husband first chose Scotiabank six years ago when shopping for a mortgage on their house. The Bank offered the best rate. Impressed by the level of service they received, they moved their other banking services to Scotiabank as well, and Robyn signed up for SPP.

Like most GPs, Robyn finds that the demands of her practice leave little enough time for a personal life with her family – the last thing she needs is extra complications in her banking.

“With Scotia Professional Plan and the personal service I get from my branch,” says Robyn, “banking is not as big an issue as it would be to me otherwise. It saves me time.”

Albany Branch Manager **JOY READ**, *right, with Assistant Manager* **JEAN WALSH**. *Scotiabank recognizes the important role local entrepreneurs play in economic growth, job creation and a bright future for Canada. We are proud to be associated with successful and forward-thinking businesses, such as that of the Robinson family.*

Scotiabank forged a commercial relationship with the Robinson family more than 50 years ago, providing the financial services needed for growth and success of their agri-business.

Today, Eric C. Robinson Inc. is more than just a potato-growing business. It's an industry leader – bringing new and improved varieties to North American farmers and exporting seed and table stock potatoes throughout North America and the world. It also develops new approaches to crop rotation and controlling soil erosion, and provides crop protection services and advice to other growers in the province.

John Robinson's ancestors have been farming in the same community since 1810. John and his late brother, Alan, joined their father, Eric – who founded the business in 1942 – to make the Robinson name synonymous with world-famous Prince Edward Island potatoes. They did this while continuing the Robinson tradition of maintaining the quality of the land, farming it in trust for future generations.

John can also look to the future of the business with hope and confidence. The next generation of Robinsons – John's children Deborah, Alan John and Mary, together with Alan's children Susan, Lori and Andrew – armed with university degrees, a lifetime of experience and love of the land, is already hard at work steering the family agri-business toward continued prosperity.

Scotiabank is proud of its role in the Robinson family's success. Through its branch in Albany, P.E.I., Scotiabank provides business loans and services – as well as personal banking services for the entire clan. In fact, when Scotiabank launched its on-line banking service, John Robinson was the first customer in P.E.I. to sign up.

"In our business, we have to be responsive to the needs of our customers," John says. "We expect – and get – that same kind of responsiveness from our bank."

"Our family has been growing potatoes on Prince Edward Island for 80 years...and Scotiabank's been our partner for the last 50. It's still a great growing relationship."

A. JOHN ROBINSON, *Eric C. Robinson Inc., Albany, P.E.I.*


ROBINSON
ROBINSON

TONY MELMAN, *Vice-President, left, and*
EWOUT HEERSINK, *Vice-President and Chief Financial Officer, Onex Corporation*

"First-rate service, highly professional and very responsive — that describes the Scotiabank Group."

Senior Vice-President **JOHN EBY**, *left, and Vice-President* **MICHAEL LOCKE**, *Corporate Banking, Toronto. The Scotiabank Group has participated in most of Onex's major purchases over the last several years. As the relationship has strengthened, both Onex and the companies it has invested in have expanded and prospered.*

Onex Corporation and the Scotiabank Group have a long history of working together, a relationship that has intensified over the past decade.

Onex invests in a carefully selected group of companies, working in partnership with the operating management of each organization to build it into a leader in its field. Onex's goal is to create value – not only for its own shareholders, but also for the companies themselves, their customers, suppliers and employees.

Some of those companies are now widely recognized and respected names: Sky Chefs, the world's largest in-flight caterer; Celestica, the world's third-largest electronics manufacturing services company, serving the computer and communications sectors; and Lantic Sugar, Canada's leading sugar refiner. Others are smaller – but equally attractive – businesses with high potential.

"In our business, the acquisition transactions often involve very sophisticated financial structuring," explains Tony Melman, Vice-President, Onex Corporation. "Over the years, Scotiabank's Corporate Banking group has been extremely constructive, working with us to find optimum solutions – while the Investment Banking group has served as advisor, underwriter and investor."

Building a client-banker relationship, such as this one between Onex and the Scotiabank Group, depends on many factors, says Tony. "But one of the most important is the level of co-operation that comes from mutual understanding, trust and confidence."

Locally or globally, Scotiabank plays an important role in the success of numerous businesses around the world. Helping TMM achieve its goals are, from left, Assistant Director **GUADALUPE RAZO CAMBEROS**, *Vice-President* **RANDY CRATH** *of Banco Inverlat's Corporate Banking unit, and* **FRANCISCO GÓMEZ FERNÁNDEZ**, *Assistant Managing Director, Corporate and Commercial Banking.*

Transportación Marítima Mexicana (TMM) is one of the leading integrated transportation companies in Latin America, and one of the largest shipping companies in the world. TMM once prided itself on service from port to port. "Now it's door to door," explains Director Iñigo Gutiérrez.

A joint venture with Canadian Pacific Ships, announced in 1998, offers further opportunities for growth, strength and profitability, and will help the company meet the challenges of globalization in the container shipping business.

"Our mission is to provide integrated transportation that's tailored to our customers' needs," explains TMM's Chief Financial Officer Jacinto Marina. "Our regular shipping service to more than 30 countries is now backed by a vast rail and truck network – allowing us to provide the kind of exceptional, door-to-door service our customers can count on."

Banco Inverlat, Scotiabank's affiliate in Mexico, has been a partner in TMM's success since 1984, providing cash management, secured and unsecured credit, foreign exchange and money market services. Now, Inverlat's affiliation with Scotiabank is proving even more valuable. "Traditionally, banks in Mexico have not been global," states Jacinto Marina. "The partnership of Inverlat and Scotiabank offers us new opportunities, and access to bigger and different markets."

"We're one of Latin America's largest transportation companies – and we plan to grow even larger! With the global access to financial services that Inverlat and Scotiabank provide, we can tap into a world of new opportunities."

JACINTO MARINA, *Chief Financial Officer, TMM (Transportación Marítima Mexicana)*

“I’m proud to be a Big Sister…and proud that Scotiabank supports my work with donations through its new volunteer program. I think that’s great – and so does Ashlea, my Little Sister.”

LINDA MUSIC, *Big Sister and Manager, Corporate Accounting and Financial Reporting, Scotia Cassels Investment Counsel*

Scotiabank believes in people, and in being involved in the community. The Bank has a long tradition of contributing to the communities in which it does business, and where Scotiabankers live and work. In fact, Scotiabank contributed more than $16 million to communities across Canada and internationally last year.

Building on that tradition of local involvement, the Bank launched the Scotia Employee Volunteer Program (SEVP). Under the program, Scotiabank donates up to $1,000 each year to registered charities where Scotiabank employees and pensioners have volunteered at least 50 hours of their time in a given year. To date, the program has raised $260,000 for local charities across Canada.

Linda Music also believes in people and in community involvement. That’s why she has been Ashlea’s “Big Sister” for almost two years. “As a woman and an employee of the Bank, I’m able to show Ashlea the opportunities available to her,” says Linda.

Being matched with a Big Sister can make a world of difference to a young girl like Ashlea. “It means having someone to spend time with on a weekly basis,” says Linda. “For me, it means knowing that I’ve been able to introduce Ashlea to new ideas and experiences that she may not have otherwise been exposed to. That’s a great feeling.”

Since 1912, Big Sisters agencies have provided opportunities for girls to realize their full potential, build on their strengths and enhance their self-esteem. This is made possible through one-on-one friendships between girls six to 16 years of age and responsible, adult female volunteers. Linda, who works with Big Sisters of Toronto, is one of more than 5,000 matched volunteers across Canada.

Through the SEVP program, Scotiabank encourages the efforts of employee volunteers. It also provides financial assistance to causes that are important to the Bank and to communities.

GLOSSARY

ALLOWANCE FOR CREDIT LOSSES: An allowance set aside from income which, in management's opinion, is adequate to absorb all credit-related losses from on- and off-balance sheet items. It includes specific, country risk and general provisions. Allowance for credit losses is deducted from the related asset categories on the balance sheet.

ASSETS UNDER ADMINISTRATION AND MANAGEMENT: Assets owned by customers, for which the Bank provides management and custodial services. These assets are not reported on the Bank's balance sheet.

BANKERS' ACCEPTANCES (BAs): Negotiable, short-term debt securities, guaranteed for a fee by the issuer's bank.

BASIS POINT: A unit of measure defined as one-hundredth of one per cent.

BRADY BONDS: Debt securities issued by certain Designated Emerging Market countries in exchange for loans. Brady bonds normally are partially collateralized by long-term U.S. treasury bonds.

CAPITAL: Consists of common shareholders' equity, preferred shareholders' equity and subordinated debentures. It can support asset growth, provide against loan losses and protect depositors.

COUNTRY RISK PROVISION: Funds set aside initially in 1987-89 to cover potential losses on exposure to a designated group of emerging market countries determined by OSFI.

DERIVATIVE PRODUCTS: Financial contracts whose value is derived from an underlying price, interest rate, exchange rate or price index. Forwards, options and swaps are all derivative instruments.

DESIGNATED EMERGING MARKETS (DEM): Countries against whose loans and securities OSFI has required banks to set aside a country risk provision.

FOREIGN CURRENCY TRANSLATION GAIN/LOSS: The unrealized gain or loss recorded when foreign currency assets and liabilities are translated into Canadian dollars at a balance sheet date, when exchange rates differ from those of the previous balance sheet date.

FOREIGN EXCHANGE CONTRACTS: Commitments to buy or sell a specified amount of foreign currency on a set date and at a predetermined rate of exchange.

FORWARD RATE AGREEMENT (FRA): A contract between two parties, whereby a designated interest rate, applied to a notional principal amount, is locked in for a specified period of time. The difference between the contracted rate and prevailing market rate is paid in cash on the settlement date. These agreements are used to protect against, or take advantage of, future interest rate movements.

FUTURES: Commitments to buy or sell designated amounts of commodities, securities or currencies on a specified date at a predetermined price. Futures are traded on recognized exchanges. Gains and losses on these contracts are settled daily, based on closing market prices.

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

GUARANTEES AND LETTERS OF CREDIT: Assurances given by the Bank that it will make payments on behalf of clients to third parties if the clients default. The Bank has recourse against its clients for any such advanced funds.

HEDGING: Protecting against price, interest rate or foreign exchange exposures by taking positions that are expected to react to market conditions in an offsetting manner.

IMPAIRED 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 impaired loans.

MARKED-TO-MARKET: The valuation of securities and off-balance sheet instruments, such as interest and exchange rate contracts, held for trading purposes, at market prices as of the balance sheet date. The difference between market and book value is recorded as a gain or loss to income.

MIDDLE OFFICE: The independent middle office plays a key role in risk management and measurement. It reviews trading models and valuations; develops and performs stress tests, sensitivity analysis and VAR calculations; reviews profit and loss performance; and participates in new product development.

NET INTEREST MARGIN: Net interest income, on a taxable equivalent basis, expressed as a percentage of average total assets.

NOTIONAL PRINCIPAL AMOUNTS: The contract or principal amounts used to determine payments for certain off-balance sheet instruments, such as FRAs, interest rate swaps and cross-currency swaps. The amounts are termed "notional" because they are not usually exchanged themselves, serving only as the basis for calculating amounts that do change hands.

OFF-BALANCE SHEET INSTRUMENTS: These are indirect credit commitments, including undrawn commitments to extend credit and derivative instruments.

OPTIONS: Contracts between buyer and seller giving the buyer of the option the right, but not the obligation, to buy (call), or sell (put) a specified commodity, financial instrument or currency at a set price or rate on or before a specified future date.

OSFI: The Office of the Superintendent of Financial Institutions Canada, the regulator of Canadian banks.

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 on a taxable equivalent basis and other income. A lower ratio indicates improved productivity.

REPOS: Repos is short for "obligations related to assets sold under repurchase agreements" – a short-term transaction where the Bank sells securities, normally government bonds, to a client and simultaneously agrees to repurchase them 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: Short for "assets purchased under resale agreements" – a short-term transaction where the Bank purchases securities, normally government bonds, from a client and simultaneously agrees to resell them 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.

SWAPS: Interest rate swaps are agreements to exchange streams of interest payments, typically one at a floating rate, the other at a fixed rate, over a specified period of time, based on notional principal amounts. Cross-currency swaps are agreements to exchange payments in different currencies over predetermined periods of time.

TAXABLE EQUIVALENT BASIS (TEB): The grossing up of tax-exempt income earned on certain securities to an equivalent before-tax basis. This ensures uniform measurement and comparison of net interest income arising from both taxable and tax-exempt sources.

TIER 1, TIER 2 CAPITAL RATIOS: These are ratios of capital to risk-adjusted assets, as stipulated by OSFI, 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, less unamortized goodwill. Tier 2 is mainly cumulative preferred shares, subordinated debentures and the general provision.

VALUE AT RISK (VAR): VAR is an estimate of the potential loss of value that might result from holding a position for a specified period of time, with a given level of statistical confidence.

1998 FINANCIAL REPORT

MANAGEMENT'S DISCUSSION AND
ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

of financial condition and results of operations

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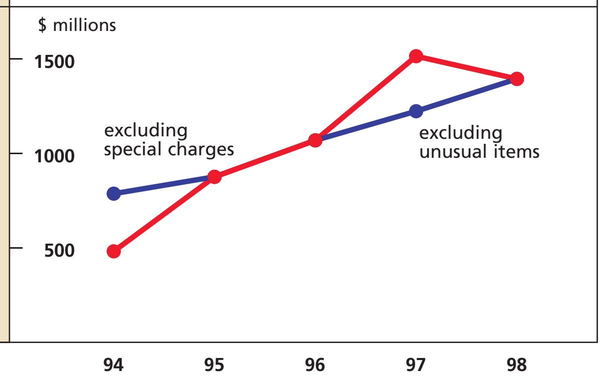
OVERVIEW OF FINANCIAL RESULTS

STRONG NET INCOME PERFORMANCE

Net income was $1,394 million in 1998, which represented a return on equity of 15.3%. While 1998 net income was 8% lower than in 1997, this was because last year's results included several unusual items. If these are excluded, earnings in 1997 were $1,223 million. Compared to this, 1998 net income showed a solid increase of 14%.

The Bank benefited in 1998 from a strong economy in North America, the full year contribution of National Trust which was acquired in late 1997, and very good operating results across most of the Bank's operations, particularly in the United States and in the Caribbean. Areas of particular success were personal and small business lending, and syndicated lending to major corporate customers. As well, there was excellent growth in fee income except in Investment Banking, where revenues were below the prior year. The Bank's expenses remained well controlled throughout 1998, notwithstanding significant investments in new products, in better sales and service methods, and in the Year 2000 initiative.

Net income



RETURN TO COMMON SHAREHOLDERS

For the financial years	**1998**	1997	1996	1995	1994
Annual return	**6.1%**	51.1%	52.3%	10.2%	(0.9)%
Five-year return (annualized)	**21.7%**	26.0%	21.9%	27.6%	16.2%

Return to common shareholders – which includes both dividends and appreciation in the market value of the Bank's common shares – was 6.1% in 1998. This was lower than the excellent returns of 1996 and 1997, but was nonetheless among the better returns provided by Canadian banks. Ownership of Scotiabank has provided shareholders with a compound average annual return of 21.7% over the past five years and 21.4% over the past decade.

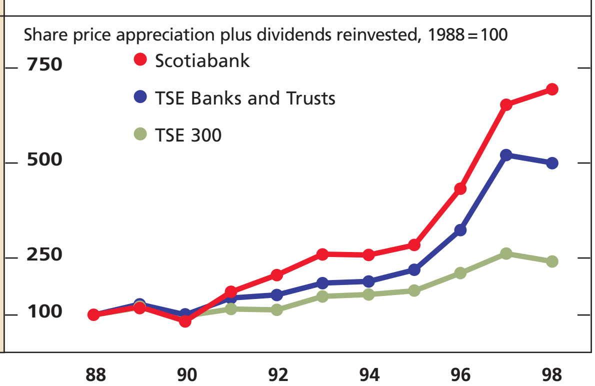
DIVIDENDS GROWING CONSISTENTLY

The Bank has had consistent growth in the dividends on its common shares, with the dividend rate having been increased in 33 of the past 35 years. In 1998, dividends per share increased to 80 cents, 8% higher than the 74 cents of the prior year (adjusted for the 2 for 1 stock split on February 12, 1998). In addition, on December 2, 1998, the Board of Directors announced an increase in the quarterly dividend on common shares to 21 cents per share (84 cents annualized) effective in the first quarter of 1999.

STRONG BUSINESS LINES

The Bank's main business lines are well diversified, providing protection against risk, and many opportunities for profitable expansion. In 1998, the Bank benefited from this diversity of its earnings streams, as growth in Canadian Retail and Commercial Banking and in Corporate Banking more than offset the lower results in Investment Banking caused by turbulence in global capital markets in the latter part of 1998. Business line results are summarized in the table below, and are reviewed on the following pages.

Good long-term return to common shareholders



Four profitable business lines

net income, $ millions	**1998**	1997
Canadian Retail and Commercial	**$605**	$520
International	**255**	434
Corporate	**431**	357
Investment	**218**	401
Other*	**(115)**	(198)
Total net income	**1,394**	1,514

* includes gains on sales of businesses, items related to National Trust (1997), certain overhead expenses and corporate items

CANADIAN RETAIL AND COMMERCIAL BANKING

CANADIAN RETAIL AND COMMERCIAL BANKING serves customers in close to four million households and well over 250,000 businesses. They have access to Scotiabank's services through 1,284 branches across Canada, 2,002 automated banking machines, five offices of Scotia Discount Brokerage, four TeleScotia call centres, 250 personal investment managers, Scotia OnLine PC banking and point-of-sale.

FINANCIAL PERFORMANCE

In 1998, Canadian Retail and Commercial Banking produced net income of $605 million, representing 43% of the Bank's net income. 1998 net income was 16% higher than in the previous year, arising from a sizeable increase in the domestic franchise partly from the addition of National Trust, a Canadian trust company serving 600,000 households, which the Bank acquired in 1997.

Across the entire business line, revenues rose by 21% to $3.7 billion in 1998. This revenue growth was the result of continuing expansion of the Bank's retail business. Average residential mortgages grew by 28% and market share rose to 18% largely with the acquisition of National Trust. All of the sales channels contributed to this growth, including the branches as well as the newer mobile mortgage sales managers, mortgage brokerage units and the Bank's Internet services. Personal loans, adjusted for amounts sold to investors under securitizations, rose by 12%.

Financial results, Canadian Retail and Commercial Banking

$ millions	**1998**	1997*	1996*
Net interest income	**$ 2,739**	$ 2,277	$ 2,031
Other income	**963**	787	710
Provision for credit losses	**(296)**	(227)	(236)
Non-interest expenses	**(2,385)**	(1,934)	(1,816)
Income taxes	**(416)**	(383)	(284)
Net income	**605**	520	405
Average earning assets ($ billions)	**78**	62	58
Average deposits ($ billions)	**63**	51	49
Staffing	**21,787**	19,426	19,326

*excludes National Trust

Commercial loans, including those to the vital small and medium-size business sector served through the branch network and by RoyNat, were 18% higher than in 1997. This was accompanied by a very strong increase of 18% in the current account deposits from this customer base. In fact, total current accounts, including those held by corporate customers, have been rising steadily over the past several years, and in 1998 were 50% above the level of three years ago.

Personal deposits grew a sizeable 23% over the year with market share also increasing to over 17%. This arose notwithstanding the movement of some customer deposits to the Bank's mutual funds, which also rose by 33% during the year.

Fees earned from the Bank's many services rose 22% in 1998. Mutual funds were strong contributors to this growth, as were deposit and payment services.

Operating expenses were 23% greater than in 1997. Two-thirds of this growth was because of the inclusion of National Trust. Also contributing was additional staffing, particularly in front line customer service positions. In addition, there were higher professional and computer expenses incurred for a number of projects to enhance the sales and service capabilities in the branches.

Provisions for credit losses, at $296 million, were $69 million higher than in 1997. The main area of increase was in the student loan portfolio, with a smaller growth related to commercial lending.

ACCOMPLISHMENTS

- rated #1 among Big Five banks for service quality in 1998
- on track to complete the integration of National Trust branches by mid-1999
- introduced one-page application for small business borrowers
- received CIPA Award of Excellence for Scotia OnLine Internet service

BUSINESS PLANS

In retail banking, the Bank plans to continue to improve the quality and range of services, further distinguishing ourselves as a partner – human, straightforward and knowledgeable – that helps Canadian families manage their financial affairs.

New products, and growing skills in giving advice, are expected to help the Bank increase its business, particularly among home buyers, emerging investors, and savers looking forward to retirement.

The Bank will continue to make customers more aware of our convenient low-cost electronic delivery channels, widen the range of products available through those facilities, and improve service. As one of our initiatives to improve productivity, for example, customers can now arrange mortgage financing through the Bank's call centres and through the Internet.

New products, more advice, and inexpensive access to services provided by the Bank will also support the Bank's program to communicate its distinctive attributes to Canadian households – attributes that include a long-standing record of top-quality customer service (see chart below).

In commercial banking, the Bank is enhancing its delivery of services, to increase efficiency and respond to the changing needs of small and medium-sized businesses.

The automation and centralization of many administrative functions is enabling branch officers all across Canada to devote more effort to building local knowledge and supporting small business.

The Bank is in the process of implementing a highly streamlined application and processing procedure for making loans to small and medium-size business banking customers. This will enable the Bank to respond to customer loan requests within 24 hours.

The Bank will also continue to market alternate delivery programs to its business customers, many of whom have signed up for business banking over the Internet.

With other efficiency initiatives, in particular a major redesign of branch operating systems, the Bank expects to bring down the ratio of expenses to revenues over the next few years. This will help the Bank maintain its productivity leadership in a very competitive marketplace.

OUTLOOK

In 1999, the growth rate of the Canadian economy is expected to moderate compared with the strong performance of the past three years. In spite of this, both the retail and commercial banking areas are planning to achieve business growth, albeit at a slower pace. Expense growth is expected to slow, accompanied by higher savings arising from the ongoing integration of National Trust. As a result of a combination of these factors, earnings should continue to grow in the coming year.

Customers score ScotiaService the best

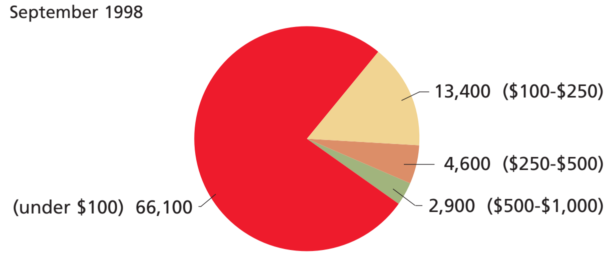
rank among Big Five banks for customer service

#1	#1	#1
1998	**last 5 years**	**last 10 years**

source: calculated from data from Market Facts of Canada Limited

Wide mix of small business borrowers

borrowing customers by size of authorized line of credit ($ thousands)
September 1998



INTERNATIONAL BANKING

INTERNATIONAL BANKING continues to expand its worldwide network in order to generate revenue growth by providing quality retail and commercial banking services in selected high-potential markets.

FINANCIAL PERFORMANCE

Despite economic turmoil in Asia, the Bank's International Banking division did well in 1998, with earnings of $255 million. The decline of 41% from 1997 was due to the credit of $290 million (after-tax) last year from the reversal of $500 million of the country risk provision established in prior years. With this excluded from the 1997 figures, there was an increase of $111 million or 77% in earnings between the two years.

Fiscal 1998 was another very good year for the Bank's operations in the Caribbean and Central America. In this region, where the Bank opened its first branch in the 1880s, it conducts mainly a local banking business. Earnings have tripled since 1992, from the growth of existing operations, from new offices and from expansions into Costa Rica and El Salvador.

Financial results, International Banking

$ millions	**1998**	1997	1996
Net interest income	**$ 1,012**	$ 763	$ 710
Other income	**352**	201	189
Provision for credit losses	**(155)**	326	(53)
Non-interest expenses	**(732)**	(519)	(428)
Income taxes/minority interest	**(222)**	(337)	(182)
Net income	**255**	434	236
Average earning assets ($ billions)	**24**	18	16
Average deposits ($ billions)	**15**	11	10
Staffing	**8,703***	5,942	5,776

* including Banco Quilmes and Ahorromet Scotiabank

In 1998, the Caribbean Region had earnings growth of 28% from 1997. Almost all of the major markets in the region did well. Average assets increased from $9 billion last year, to almost $12 billion in 1998.

The Bank's Asia/Pacific Region did not achieve its profitability goals as a result of the unfavourable economic conditions in several countries. However, credit losses in the region were below the 1997 level, because the Bank reacted quickly to the economic downturn in the region. Average assets were little changed from 1997. Notwithstanding the region's recent difficulties, the Bank has enjoyed many years of profitable expansion in the Pacific, and it continues to view the area as having above average long-term potential.

In Latin America, the Bank is laying a strong foundation for future growth. The Bank has had offices in the Spanish-speaking Americas since opening its first branch there in 1906, and is adding to its network by making strategic acquisitions. These new investments have been generating modest returns while the Bank upgrades credit processes, technology and productivity methods. However, this network is expected to provide good earnings growth in the near future.

ACCOMPLISHMENTS

- acquired 100% of Banco Quilmes in Argentina
- enhanced sales and service culture in the Caribbean
- began positioning Latin American affiliates for higher earnings by 2000

BUSINESS PLANS

As part of its strategy to build a multinational financial services network, diversified by region, country and line of business, Scotiabank is developing new, high-value local franchises in key Latin American and Asian markets. The Bank now owns or has interests in banks, most of them recently acquired, in markets with more than 80% of the gross domestic product of the Spanish-speaking Americas.

These investments are building on the Bank's long record of success in retail and commercial banking in the Caribbean, and on its many accomplishments in Canadian banking. They enhance the Bank's position as one of the world's most multinational banks, providing a broad array of local financial services as well as access to a worldwide network.

Among the larger of the recent investments are Banco Quilmes in Argentina, and Grupo Financiero Inverlat, which owns Banco Inverlat, in Mexico. Together, these banks have a very extensive network of 450 branches.

The Bank increased its holdings in Banco Quilmes from 25% to 100% during fiscal 1998, and has made good progress in strengthening credit processes, training for sales and service, and streamlining operations.

The Bank owns 10% of the common shares of Grupo Financiero Inverlat, with an option to acquire another 45% from the government of Mexico in 2000. It has been managing the company on the government's behalf since 1996, during which time it has greatly strengthened credit processes, made major strides in reducing costs and working out problem credits, and upgraded branches and revenue streams.

The Bank will also continue to develop its interests in other affiliates and subsidiaries in Latin America and Asia. In Latin America, the network includes Banco Sud Americano in Chile (28% equity interest), Banco Sudamericano in Peru (25%), Banco del Caribe in Venezuela (27%), Ahorromet Scotiabank in El Salvador (53%), and Scotiabank de Costa Rica (80%). In Asia, the network includes Bank Arya of Indonesia (48%) and Solidbank of the Philippines (40%).

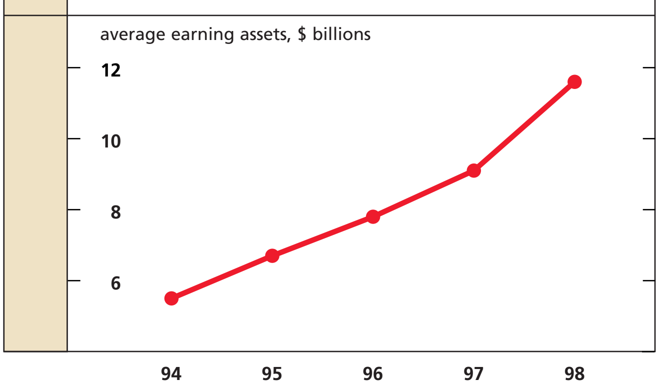
The Bank is now also developing plans for offices to be opened in Bangladesh and Sri Lanka, and is starting up ScotiaFinance, a non-bank financial institution in India.

In the Caribbean and Central America, the Bank is building on its sales and service culture. Branch operations are being streamlined, alternate delivery channels are being expanded, and front-line staff are being given the tools to support revenue generating activity.

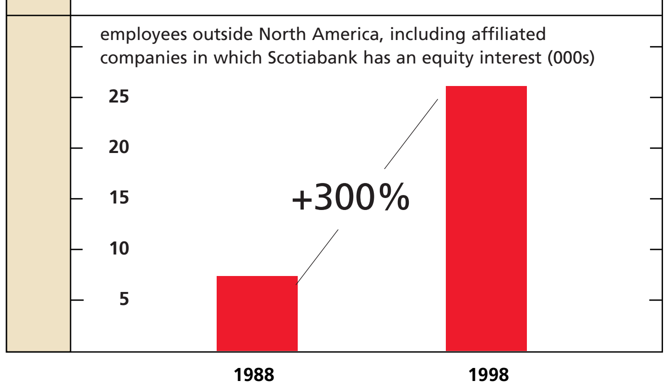
OUTLOOK

In 1999, Caribbean operations are expected to continue their good growth in volumes and earnings. The Asia/Pacific Region's performance is expected to improve, as the economies in the region begin to recover and as loan losses decline. In Latin America, the earnings contribution from the recent investments is anticipated to increase gradually. While the pace of economic recovery in the emerging markets continues to be uncertain, International Banking should provide an increasing share of overall net income in future, as a result of the investments of recent years.

Vigorous growth in the Caribbean



Growing local representation



CORPORATE AND INVESTMENT BANKING – CORPORATE

CORPORATE BANKING manages the Bank's global relationships with large corporations, institutions and governments, marketing the full capabilities of the Scotiabank Group.

FINANCIAL PERFORMANCE

In 1998, Corporate Banking reported its sixth consecutive year of improved results. Earnings rose to a record $431 million, up 21% or $74 million over 1997. Corporate Banking provided 31% of the Bank's total earnings. These strong results were from good performances in all areas – in asset growth, revenues, credit losses and non-interest expenses.

The increase in average earning assets was substantial, at $6 billion or 20%. This was in part the result of the lower value of the Canadian dollar against the U.S. dollar, the currency in which much of Corporate Banking's business is conducted. Of greater significance was the very strong demand for credit, which more than outweighed the reduction in assets arising from the active syndication of loans to other banks and investors.

Revenues were strong in 1998, rising 26% over last year's record level.

Financial results, Corporate Banking

$ millions	**1998**	1997	1996
Net interest income	**$ 687**	$ 502	$ 455
Other income	**389**	355	337
Provision for credit losses	**(42)**	46	(86)
Non-interest expenses	**(332)**	(308)	(293)
Income taxes	**(271)**	(238)	(163)
Net income	**431**	357	250
Average earning assets ($ billions)	**39**	33	27
Average deposits ($ billions)	**3**	3	3
Staffing	**1,885**	1,755	1,876

The provision for credit losses across Corporate Banking was very low in 1998. However, it increased over the prior year, because in 1997 there were net recoveries and reversals of previous provisions. In 1998, U.S. and Canadian Real Estate continued to experience net recoveries, as the problems experienced by the real estate markets in the early 1990s are resolved.

Within Corporate Banking, the largest portion of the business line's gain in earnings came in the U.S. The syndicated loans market in the U.S. was very active, and the Bank benefited from its decade-long status as a leader in the origination and distribution of syndicated loans in that market. U.S. Corporate's average assets rose 33%, as the Bank moved higher in the ranks of syndicated lenders (see table on page 30).

Net earnings from Real Estate were slightly lower than in 1997, chiefly because 1998's net recoveries in provision for credit losses were lower than in the prior year.

CORPORATE AND INVESTMENT BANKING – INVESTMENT

INVESTMENT BANKING is made up of Global Treasury and Scotia Capital Markets. *Global Treasury* manages the Bank's investments, its medium-term funding and its capitalization. *Scotia Capital Markets* offers a broad range of services to customers in Canada, provides international clients access to Canadian products, and is active globally in certain niche markets – including precious and base metals where it is a leader.

FINANCIAL PERFORMANCE

Despite the unsettled market conditions during the latter part of 1998, Investment Banking had a good year in 1998, contributing $218 million to the Bank's results. This compared with $401 million in 1997, when there were substantially higher gains on investment securities and market conditions were more favourable. In 1998, Investment Banking contributed 16% of the Bank's total results.

Global Treasury provided earnings of $143 million. These were below the previous year, because gains on the sale of investment securities were lower than their very high level in 1997.

During 1998, action was taken to build the Bank's capabilities in investment management, with the merger of Cassels Blaikie Investment Management Limited with Scotia Investment Management Limited. The resulting firm, Scotia Cassels Investment Counsel, has assets under management of $15 billion, $6 billion from Scotia Mutual Funds, $7 billion from private investors, and $2 billion from institutions.

In Scotia Capital Markets, the weaker securities markets in the latter part of 1998 combined with integration costs for ScotiaMocatta resulted in lower earnings for the year. While results fell in the fourth quarter as a result of the severe turbulence in global capital markets, the Bank's risk control and trading functions performed well. As a result, Scotia Capital Markets did not incur any major losses during this period.

Within the Global Trading division, the derivatives group achieved stronger results in 1998, as did foreign exchange.

Results in institutional equity sales and trading suffered from volatile trading conditions during the latter part of the year, but were still profitable for the full year.

The newly acquired Mocatta Bullion and Base Metals was integrated during 1998 with the Bank's existing precious metals operation. The new group, ScotiaMocatta, turned in a very strong performance.

Corporate Finance's earnings were reduced by the much slower pace of new issues in the latter part of 1998.

Despite weaker customer activity in the second half of 1998, Private Client Financial Services, ScotiaMcLeod's full-service retail brokerage arm, maintained about the same level of revenues in 1998 compared with the prior year.

Financial results, Investment Banking

$ millions	**1998**	1997	1996
Net interest income	**$ 234**	$ 309	$ 317
Other income	**1,048**	1,172	744
Provision for credit losses	**(2)**	–	1
Non-interest expenses	**(922)**	(794)	(667)
Income taxes	**(140)**	(286)	(163)
Net income	**218**	401	232
Average earning assets ($ billions)	**64**	56	50
Average deposits ($ billions)	**71**	59	52
Staffing	**4,255**	3,722	3,424

ACCOMPLISHMENTS

- once again achieved top-tier standing for wholesale U.S. loan syndications
- integrated ScotiaMocatta, thereby creating a leading global position in base and precious metals
- acquired new capabilities in equity research, particularly in mining, financial services and oil and gas

CORPORATE AND INVESTMENT BANKING

BUSINESS PLANS: Corporate Banking & Scotia Capital Markets

The major strategic issue for Corporate Banking and Scotia Capital Markets over the next year is their integration into a single organizational unit focussed on clients.

In Canada, Corporate Banking and Scotia Capital Markets serve a common corporate and institutional client base but, historically, have functioned as separate divisions with separate operations, systems and sales forces. Working together, they can be more effective in providing the seamless coverage that middle-market and large corporate clients are increasingly looking for, and ensure that clients have access to the full range of the Bank's capabilities.

In the U.S. and Europe, Corporate Banking has a major customer franchise and sales force, which will be of great benefit to Scotia Capital Markets as it expands in these markets.

BUSINESS PLANS: Corporate Banking

The Bank will maintain its excellent management of credit risk, through careful adjudication of proposals, broad portfolio diversification, and application of risk modelling techniques.

Corporate Banking's expansion will continue to be based on building its corporate finance and syndications capabilities in North America, Europe and Asia. For instance, the Bank has successfully co-ordinated all of its relationships with the transportation sector worldwide. This provides a model for deepening the industry expertise that the Bank brings to other areas, such as mining, energy, automotive, media, and real estate. Corporate Banking will also add more specialty product groups, such as the U.S. structured leasing group established in 1998.

BUSINESS PLANS: Scotia Capital Markets

Scotia Capital Markets will continue to reinforce its ability to meet client needs across a wide range of products and services. Strengthening the equity research group, for example, provides value to both issuing and investing clients, and is a major area of focus.

Developing equity and credit derivatives capabilities is also part of the Bank's effort to give clients more solutions to help improve their financial performance.

The ongoing expansion of Private Client Financial Services, ScotiaMcLeod's retail brokerage, will also remain a priority.

OUTLOOK

After a year of strong business growth, Corporate Banking is expecting a lower level of growth in 1999. Investment Banking does not expect a repeat of the unprecedented market turmoil of 1998 but does expect that market activity, and therefore business growth, will be more moderate than in recent years.

Top-tier standing in U.S. loan syndications

domestic U.S. syndications
1998 up to mid-November

	Rank among banks agent/co-agent	agent only
1998	6	8
1997	8	10
1996	9	10
1995	11	11
1994	9	11

source: Loan Pricing Corp.

ScotiaMocatta: a world leader

- founded 1671 in London, England
- global leader in precious and base metals
- one of five members of the London Gold Fix, which sets the world reference gold price
- offices in London, Toronto, New York, Hong Kong, Singapore, Australia, India and the Middle East

WEALTH MANAGEMENT

ACCOMPLISHMENTS

- revenue growth of over 20% in 1998
- Scotiatrust, Montreal Trust and National Trust combined to form one of Canada's leading personal trust operations
- Scotia Cassels Investment Counsel formed as one of the premier asset managers in the Canadian market

The Scotiabank Group is committed to providing a broad array of products and services to meet the investment needs of customers.

In recent years, the Scotiabank Group has greatly enlarged its capabilities in personal wealth management services. The Bank's aim is to provide the range of products and services to meet the investment needs of customers through a wide network of delivery channels. Wealth management products are today delivered to customers by staff in a variety of locations, both directly in the Bank and through its subsidiaries, as detailed in the table below.

Private Client Financial Services, the full-service retail brokerage division of ScotiaMcLeod, has grown rapidly, with the number of investment executives increasing by a third over the past three years. The business produced revenues in 1998 at the same level as 1997, despite weak customer activity in the latter part of the year. In addition, the Bank's discount brokerage is one of the lowest cost non-advisory retail brokerage firms in Canada.

The Scotia Mutual Funds family, containing 27 individual mutual funds, is available to investors at each of the Bank's Canadian branches through Scotia Securities. As well, a wide array of other investment products are available through the branch network, including "GICs with Guts", the Bank's innovative GICs linked to stock indexes, a product where the Bank is a market leader.

Scotiatrust is now one of the largest trust businesses in Canada. The Bank has a substantial number of skilled trust and investment officers operating in 28 centres across Canada. Two acquisitions (Montreal Trust in 1994 and National Trust in 1997) and significant internal growth have contributed to the achievement of this leadership position in the marketplace. Scotiabank's international trust companies are located in Bahamas, Cayman, Jersey, and Hong Kong, and in a number of other locations through subsidiaries and affiliates. They offer trust services to private and institutional clients located outside Canada.

Private Banking, which provides services for clients with more sophisticated needs, is offered in five Canadian locations.

Scotia Cassels Investment Counsel, with $15 billion in assets under management, provides portfolio management for Scotia Mutual Funds, Scotiatrust customers, institutions and high net worth clients.

The wealth management area is expected to grow as a key complement to core banking services. The Bank will continue to invest in people and technology to realize the full potential of this growing business segment.

Generating Wealth Management revenues...

$ millions	1998	1997
Private Client Financial Services & Scotia Discount Brokerage	$394	$392
Scotia Mutual Funds*	100	70
Scotiatrust*, Private Banking & International Trust	112	59
Scotia Cassels Investment Counsel*	35	10

* for 1998 includes predecessor firms

...by building linkages across the Scotiabank Group

NET INTEREST INCOME

There was a sizeable increase in net interest income in 1998.

FINANCIAL PERFORMANCE

In 1998, net interest income (taxable equivalent basis) rose to $4.5 billion, a substantial increase of 18% over the prior year. The main source of this gain was solid growth across most of the Bank's retail, commercial and corporate businesses, aided by the full-year impact of the acquisition of National Trust.

The increase in net interest income was a major contributor to the growth of 13% in the Bank's total revenues, which exceeded $7.2 billion in 1998. These have risen at a compound annual rate of 13% a year through the past five years.

The net interest margin, which expresses net interest income as a percentage of average earning assets, was 2.11% in 1998, almost unchanged from the 1997 level of 2.13%.

In Canadian Retail and Commercial Banking, the source of 60% of the Bank's net interest income, the margin was slightly lower. Supporting the margin was the higher level of retail deposits. Partly offsetting this were strong competition for assets and deposits, which led to lower margins, and the effects of disintermediation as customers moved to mutual funds. As well, much of the asset growth was in residential mortgages, where interest spreads are typically lower than on most other types of retail credit.

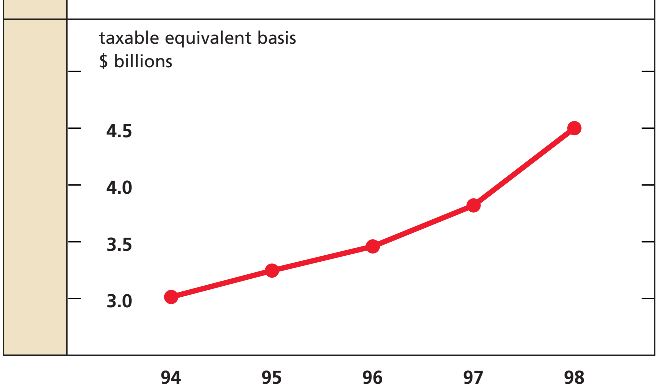
Growth in low-yielding assets, including those held for liquidity purposes, also resulted in some compression of the margin. These assets, which are comprised of cash, interbank deposits, and assets purchased under resale agreements, rose by $5 billion, or 20%.

In the Bank's remaining businesses, the margins were maintained. Also supporting the margin was careful management of the mix and term of the Bank's assets and liabilities.

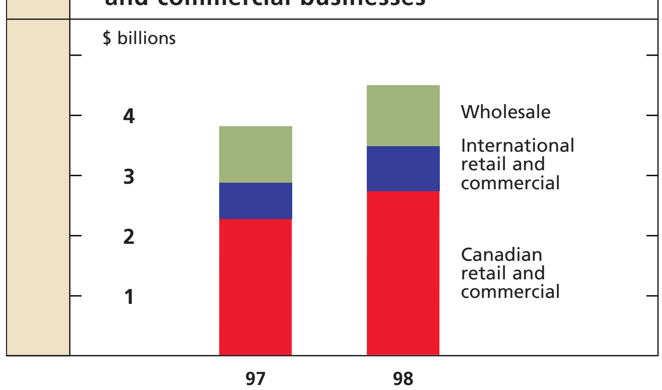
OUTLOOK

The main driver of growth in net interest income in the coming year is expected to be an increase in earning assets in Canada, the U.S., and the Caribbean. It is expected that the net interest margin will remain essentially unchanged in 1999.

Consistent growth in net interest income



Net interest income mainly from retail and commercial businesses



AVERAGE ASSETS AND LIABILITIES

Loan growth was strong in North America and the Caribbean.

FINANCIAL PERFORMANCE

Scotiabank's portfolio of loans and acceptances (excluding reverse repos) averaged $134 billion in 1998, $24 billion or 22% higher than in the previous year. While part of this increase stemmed from the effect of translating foreign currency assets into the weaker Canadian dollar, the underlying rise was still substantial at 20%.

Average loans and acceptances in Canada rose by $16 billion or 21% from their 1997 level to reach $88 billion. Retail assets, including residential mortgages, lines of credit and credit cards, showed strong growth. National Trust also added significantly to the growth in residential mortgages.

As well, there was an increase of $1 billion in lending to commercial customers, including the small and medium size business sector, served by the Canadian branches. There was also a small increase in lending to major Canadian corporate customers.

Loans to borrowers in the United States were up a substantial $5 billion or 33% to $22 billion. This part of the Bank's portfolio was the most affected by the translation effect arising from the decline in the Canadian dollar. Excluding foreign currency fluctuations, the increase would have been 27%, as the Bank benefited from its well-established corporate customer base and active markets in the U.S.

The Caribbean achieved another year of very strong growth, with loans increasing by 25% to $9 billion. Similar to the portfolio in Canada, these loans represent a diversified mix of lending to households and commercial customers.

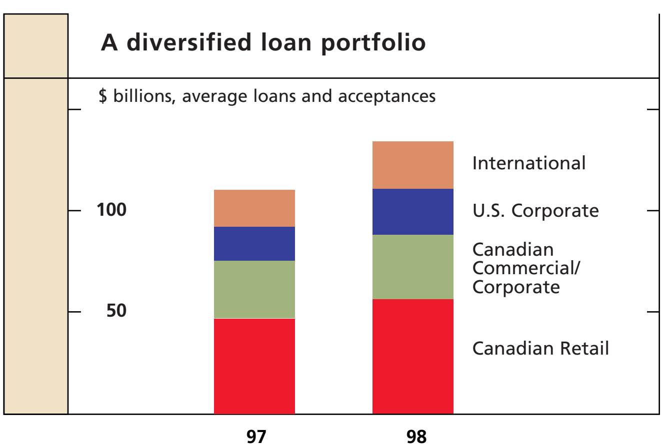
Loans in the Asia/Pacific Region were unchanged during the year, as new lending was curtailed due to the financial instability in most parts of the region. A large increase in Latin America reflected the consolidation of Banco Quilmes after the Bank increased its ownership to 100% early in fiscal 1998.

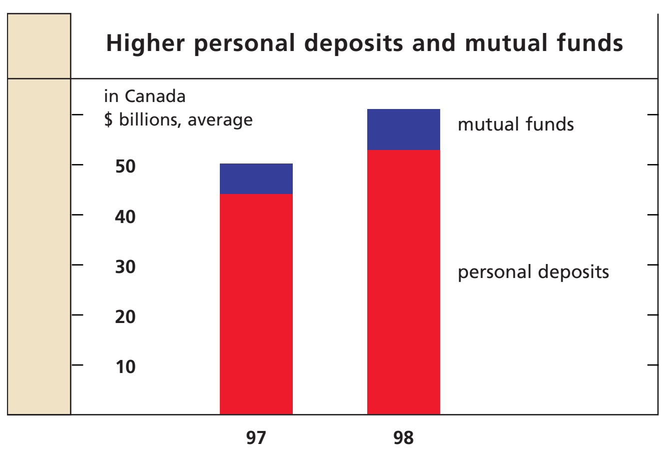
In addition to the growth in loans during 1998, the Bank added $6 billion or 12% to its other earning assets, including deposits with banks, securities and reverse repos, bringing these to $60 billion during the year. The biggest part of this increase was in deposits with banks which rose $4 billion to $19 billion as the Bank maintained them at a higher level as a prudent step given the unsettled markets in much of the year.

On the deposit side, there was strong growth of 19% in funds gathered through the branch network in Canada. With the acquisition of National Trust, the Bank now has the second largest level of personal deposits among the Canadian banks. During 1998, market share in total personal deposits and mutual funds rose by 9 basis points, following the Bank's continued leadership in the sales of stock-indexed GICs and strong growth in other retail deposits. As well, commercial deposits rose following the Bank's emphasis on building its business with this group of customers.

OUTLOOK

Business growth in Canada, in loans and retail deposits, is expected to remain reasonably good through 1999. However, because growth in Corporate lending in the U.S. is expected to slow from the unusually strong performance over the past year, the Bank's total rate of growth will likely be less than in the previous year. Growth is expected to be further diminished as the Bank takes advantage of market opportunities to securitize assets over the coming year.





OTHER INCOME

Almost all categories of other income showed worthwhile gains in 1998.

FINANCIAL PERFORMANCE

Other income was $2.9 billion in 1998, an increase of 7% over the prior year. In the past five years, these revenues have more than doubled, reflecting the Bank's priority of growing fee income. In fact, other income represents an increasing proportion of total revenues, rising to 39% of revenues in 1998, versus 34% five years ago.

Fees for deposit and payment services rose by 17% to $0.6 billion this year, reflecting contributions from the Bank's newer electronic services, growth in the Caribbean and the addition of National Trust and Banco Quilmes.

Use of the Bank's Canadian transactions services continues to increase substantially, most notably for Interac Direct Payment by personal customers and for Scotia 2020 terminals by merchants. Credit card revenues also grew, from Banco Quilmes and in the Caribbean where credit cards continue to be introduced on different islands.

Investment management and trust revenues rose by a very strong 24% in 1998. Personal trust revenues were a major contributor, with the Bank now having a leading position in this marketplace. The other large source of increase was mutual fund revenues, which grew by 43% from higher customer demand as well as customers migrating toward higher fee equity funds. However, these revenues eased back in the fourth quarter when equity markets weakened.

Credit fees grew 19%, continuing their strong performance of recent years. The Bank's status as a top-tier syndicator of corporate loans in the United States is a key factor in the Bank's ability to increase these revenues.

Investment Banking other income was $0.8 billion, slightly below last year's record because of weak securities markets in the latter part of the year. Revenues from underwriting and trading were lower in the second half of the year, particularly in the fourth quarter, as a result of the severe volatility in capital markets worldwide.

A strong growth area was foreign exchange revenues generated through the Bank's extensive branch network. Half of these revenues were earned in international operations, which was higher than in previous years because of increases in most markets and the inclusion of Banco Quilmes. ScotiaMocatta also made a major contribution.

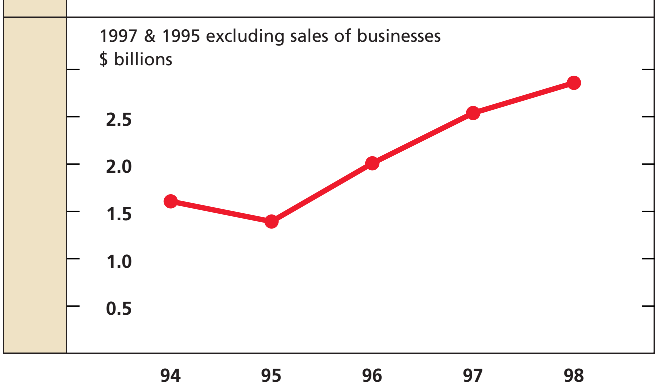
Gains on the sale of investment securities were significant in 1998, though somewhat below the high levels of 1997. In 1998, they totalled $322 million, compared to $366 million in the prior year.

Other non-interest revenues were up a substantial $162 million in 1998. This is largely because 1998 was the first full year these revenues were included from National Trust, Banco Quilmes and ScotiaMocatta, and from growth in insurance revenues.

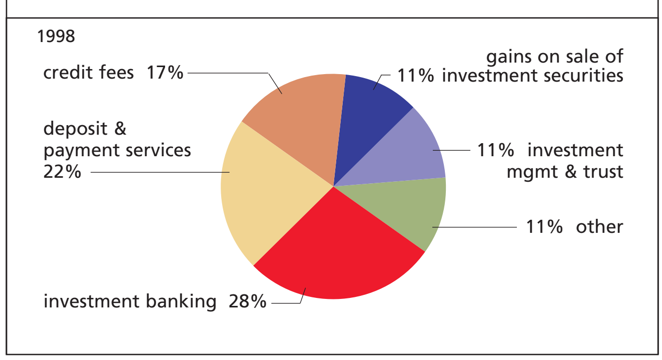
OUTLOOK

In the coming year, the Bank expects to continue to have good growth in fee income from the transaction services provided to personal and business customers and from higher wealth management revenues. Investment banking revenues are expected to recover somewhat in 1999 from the slowdown resulting from the unsettled markets this year. One area where the Bank is not likely to repeat the performance of the past year is in gains on sales of investment securities, since the market conditions that made such gains possible are unlikely to be repeated.

Substantial expansion in other income



Many sources of other income



NON-INTEREST EXPENSES AND PRODUCTIVITY

Expense increases in 1998 were in support of business growth – and for major projects, setting the stage for reduced costs in the future.

FINANCIAL PERFORMANCE

Operating expenses in 1998 were 10% higher than in 1997. A substantial portion of this increase arose from the inclusion of the full year of expenses of National Trust and Banco Quilmes, with an offset for the one-time restructuring charge for National Trust recorded in 1997.

Remuneration and benefits represent the largest component of the Bank's operating expenses. In 1998, these expenses grew by 14%. The major contributors were the Bank's merit programs, higher pension and medical expenses, the inclusion of National Trust, Banco Quilmes and ScotiaMocatta for the full year and higher underlying staffing.

During 1998, the Bank added 3,398 employees (full-time equivalent). Much of this was in International Banking where staffing increased by 2,481 from the acquisition of Banco Quilmes in Argentina and Ahorromet Scotiabank in El Salvador. In Canada, there were staff increases to help customers with their personal banking and investment needs. As well, staff were added in Commercial Banking due to growth in this business segment. Staffing also rose in the Bank's call centres, now part of the new Electronic Banking division, because of a wider range of services and higher customer volumes.

Within premises and equipment, the increase of 21% in occupancy costs was largely due to acquisitions and other new offices.

The very large increase of 27% in technology expenses included substantial expenditures on the Year 2000 project, as well as a number of major investments in new initiatives (as listed in the table below). Higher depreciation reflects the rapid growth in the Bank's technology investments.

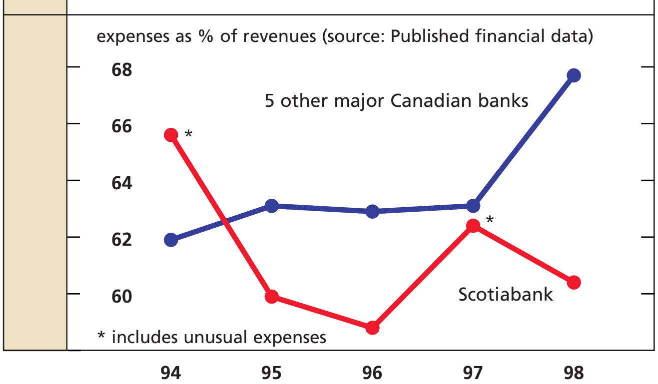
Total taxes incurred by the Bank were $1.4 billion in 1998 as compared with $1.2 billion in 1997. The level of bank taxation remains among the highest of all Canadian industries. The Bank supports the report of the Task Force on the Future of the Canadian Financial Services Sector, which recommended the elimination of special capital taxes on regulated financial institutions.

The accepted benchmark to measure efficiency in banking is the productivity ratio, which represents the expenses incurred to earn a dollar of revenue – the lower the ratio, the better the efficiency. Scotiabank's target is to keep its productivity ratio below 60%. In 1998, the ratio was slightly above the target, at 60.4%, but was still the best among the major Canadian banks.

OUTLOOK

During the coming year, the Bank expects lower growth in non-interest expenses as a result of greater focus on expense control, as well as the planned completion of several major projects. The productivity ratio target of 60% should be achieved in 1999.

Better productivity record



Major projects being implemented

- National Trust integration
- Year 2000
- Upgrade of the computer technology platform in the Canadian branches
- System to manage customer relationships in Corporate Banking and Scotia Capital Markets
- Retail customer relationship management system

RISK MANAGEMENT

ACCOMPLISHMENTS

- continued strengthening of risk measurement and management processes
- market risk control system proved robust during turbulent capital markets
- proactive and early response in dealing with Asian credit problems
- significant progress on Year 2000 initiative

RISK MANAGEMENT IS A CORNERSTONE of prudent banking practice. At Scotiabank, all levels of management play an active role in the evaluation and management of the risks the Bank faces.

SCOTIABANK'S RISK MANAGEMENT PROCESSES

Risk management is given top priority throughout Scotiabank. Responsibility for the Bank's risk management policies and limits on the level of risk assumed, lies with the Board of Directors. The Board charges management with developing, presenting and implementing these policies, controls and limits. This framework is designed to provide a reasonable degree of assurance that no single event, or combination of events, will materially affect the well-being of the Bank.

Active, hands-on senior management play a key role in the identification, evaluation and management of all risks. Senior management keep in close contact with line units and receive reports covering all aspects of operations. Major credit, investment and new product decisions require direct senior management approval.

Management is supported by a comprehensive structure of independent controls, analyses and reporting processes, and periodic examinations by the Bank's Audit Department. As well, senior management review independent analyses before they approve new products and systems, new policies or procedures, or limits and controls.

In addition, regulatory bodies review and assess the Bank's risk management policies and procedures.

PROCESS IMPROVEMENTS AND OUTLOOK

During 1998, the initiation of new products, the integration of National Trust and ScotiaMocatta, and global uncertainty in the markets introduced new challenges for risk management, each of which was met. In addition, the Bank continued to improve its risk management processes through further investments in technology and staff resources.

Dedication to the prudent application and continued enhancement of its risk management processes will facilitate the Bank's expansion into new markets and products in 1999 with all appropriate safeguards.

Active hands-on senior management

Oversight and control of all risk management issues rest with committees composed of executive management and senior officers from trading, credit and risk management.

The Risk Policy Committee reviews all larger credits, ensures wide portfolio diversification, and establishes risk policies reflecting business priorities.

Senior Credit Committees representing Canadian Commercial Credit, International Banking, and Corporate and Investment Banking, are responsible for the adjudication of credits within prescribed limits and establishing the operating rules and guidelines for the implementation of credit policies.

The Market Risk Management and Policy Committee is responsible for reviewing and evaluating all aspects of trading, including the initiation of new products, development of market risk policies and practices, setting limits, and the introduction of new systems.

The Liability Committee appraises market trends, economic and political developments, and provides global strategic direction for managing interest rate risk, liquidity risk, and trading and investment portfolio decisions.

The Scotia Capital Markets Risk Committee assesses and monitors overall principal risk, risk control mechanisms, credit risk and compliance issues related to trading business.

CREDIT RISK

STRONG CREDIT RISK MANAGEMENT is a priority at Scotiabank and is based on well-defined strategies for controlling credit risk.

CREDIT PROCESSES

Scotiabank's credit processes include a centralized credit review system which is independent of the customer relationship function, senior management committees which consider all major risk exposures, and independent review by the Audit Department.

Client relationship managers develop and structure individual proposals, which are analyzed and adjudicated by the Credit Department. A Senior Credit Committee or the Risk Policy Committee reviews large corporate and commercial credits, all exceptions to established credit policies and higher-risk exposures.

The Bank uses a risk rating system to quantify and evaluate the risks of proposed credits and to ensure appropriate returns for assuming risks. In assessing credit proposals, the Bank is particularly sensitive to the risks posed to credit quality by environmental exposures and the impact of Year 2000 issues on customers. Relationship managers undertake a full financial review with each client at least annually, so the Bank remains fully aware of customers' risk profiles. Swaps, letters of credit, and other off-balance sheet instruments are managed by this same process.

Retail credits are normally authorized in branches or through customer service centres within established criteria using credit scoring systems. Retail portfolios are reviewed monthly for early signs of possible difficulties.

PORTFOLIO DIVERSIFICATION

Scotiabank has a well-defined policy of diversification. It is the most geographically diverse of the major Canadian banks (see chart below). Risks are further mitigated through counterparty, industry and product exposure limits, and by ensuring that there is wide market diversification inherent in the Bank's various business lines.

ENHANCED CREDIT ANALYSIS

In 1998, the Bank began using a credit scoring model for smaller businesses in Canada to shorten adjudication times while ensuring consistency in risk assessment.

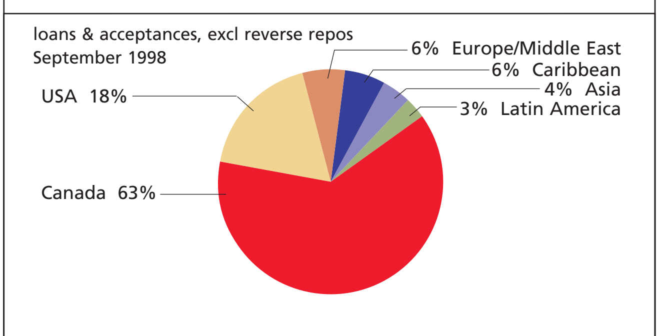
In addition, the Bank's risk rating system provides the basis for quarterly reviews of risk levels in the credit portfolios. If the risk profile of a particular portfolio segment increases, action is taken to mitigate the risk.

The Bank also uses a variety of statistical techniques for evaluating credit risk and for portfolio management. These include use of credit evaluation models based on a statistical application of modern finance theory and on historical migration paths for particular types of credit.

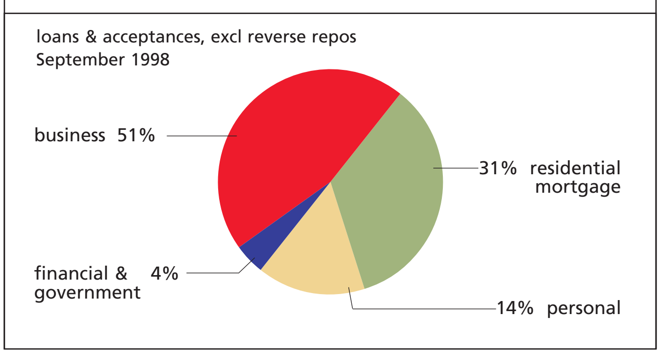
Credit decisions use insights from these techniques to augment the fundamental analysis applied to each credit. Judgement is critical in combining these differing analytical approaches. A similar methodology is used to evaluate the various loan portfolios of the Bank and to establish the general provision.

Regular reports are made to the Board of Directors on individual large credits, on the trends in credit quality and on the composition of, and trends in, the Bank's portfolios.

Canadian foundation, international diversification



Balance between household and business lending



CREDIT QUALITY

Impaired loans were reduced over the year.

FINANCIAL PERFORMANCE

Over the course of 1998, there was a decline of $172 million or 29% in net impaired loans, a measure that takes account of established provisions for credit losses. This decline occurred despite continued credit strains in some Southeast Asian countries and the consolidation of the portfolio of Banco Quilmes of Argentina for the first time in 1998.

As a ratio of loans and acceptances, net impaired loans were 0.3% at the end of 1998. As shown in the chart below, the ratio has steadily improved in recent years; it is now well below the peak of the early 1990s.

Gross impaired loans were $2.3 billion at year end, $123 million higher than at the end of 1997, because of the inclusion of $222 million arising from the consolidation of Banco Quilmes.

Within the Bank's retail business, there was a decrease of $80 million in gross impaired loans and mortgages in Canada. Partially offsetting was a substantial increase in impaired student loans.

Within business loans, gross impaired loans in the real estate portfolio were reduced to $214 million at the end of the year, from improvements in the portfolio, as well as asset sales and restructurings.

Gross impaired business loans to non-real estate borrowers in Canada rose by $101 million over the course of 1998, which reflects the growth in loan volumes of the past several years.

Continued economic difficulties in Southeast Asia led to classifying as impaired $136 million in loans in Indonesia, against which provisions of $94 million were made. Outside Indonesia and Thailand (where there were large provisions in 1997), the Bank has $1.9 billion in exposure to the three other members of the Asian "five tigers", Malaysia, the Philippines and South Korea. Of this, the vast majority are performing, as detailed in the table below.

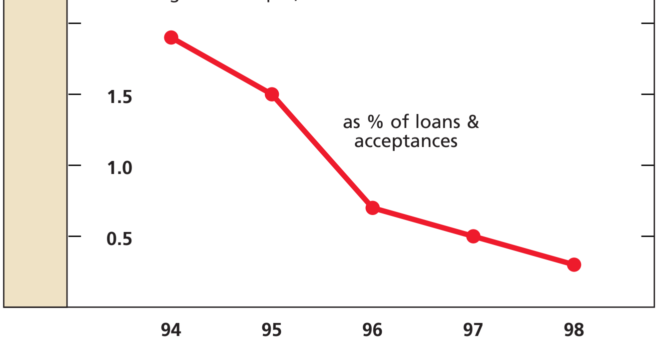
The Bank's policy for loans to hedge funds requires them to be individually authorized at senior credit levels. The Bank's current exposure to hedge funds is approximately $75 million. None of this exposure is impaired.

OUTLOOK

The Bank expects that credit quality in most areas of the Bank will be fairly stable during the coming year. The Asia/Pacific loan portfolio, which had weakened in the past few years, is expected to improve, as most economies in that region begin to stabilize and show signs of recovery.

Net impaired loan ratio steadily better

excluding reverse repos, as at October 31



Low net impaired exposure to Asian "five tigers"

$ millions

	Net exposure		
	Performing	Impaired	Total
Indonesia	$149	$ 42	$ 191
Thailand	292	14	306
Malaysia	831	4	835
The Philippines	239	–	239
South Korea	811	8	819

PROVISION FOR CREDIT LOSSES

In 1998, the Bank provided against the risks in its Asian portfolio, and added to its general provision.

FINANCIAL PERFORMANCE

In fiscal 1998, the Bank established specific provisions of $495 million and added $100 million to its general provision. This compared with specific provisions of $360 million and a $175 million addition to the general provision in 1997 (see chart below).

Provisions for credit losses in Canada rose by $87 million over 1997. The growth was more than accounted for by additional provisions taken against student loans where federal or provincial governments share part of the risk. There were also modest increases in provisions against commercial mortgages and large corporate borrowers. Losses on residential mortgages and other personal loans were significantly lower in 1998 than in the previous year.

In the United States, there was a modest increase in losses on corporate loans. In addition, there were lower recoveries in 1998 on real estate loans.

In International, provisions related to Asian borrowers were $116 million, lower than in the prior year. The largest component of these provisions related to Indonesia. The 1998 provisions also included $21 million for credit losses at Banco Quilmes, whose results were consolidated with the Bank's beginning this year. Credit losses in the Caribbean were consistent with the experience of recent years.

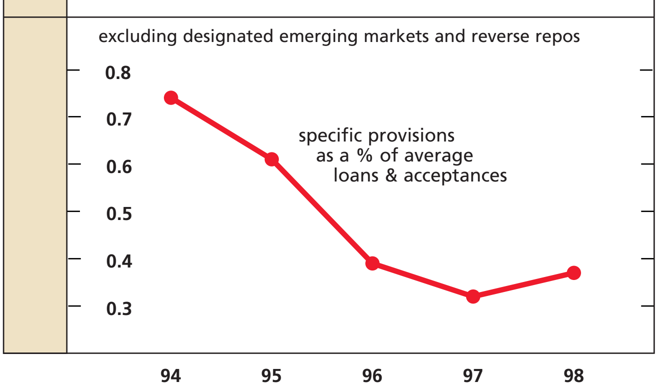
The Bank continued to build its general provision in 1998, with the addition of $100 million during the year. This brought the general provision to $600 million, equivalent to 0.40% of loans and acceptances. The Bank uses an analytical methodology in establishing its general provision that takes into account the historical pattern of losses across the various sectors of the portfolio of loans and acceptances, as well as management's qualitative judgements about the position of the global economic cycle, industry trends, and other appropriate factors.

During 1998, the Office of the Superintendent of Financial Institutions (OSFI) provided guidance to federally regulated deposit-taking institutions on establishing general provisions for credit risk. Commencing with the 1999 fiscal year, OSFI will formally introduce assessment criteria for establishing general provisions.

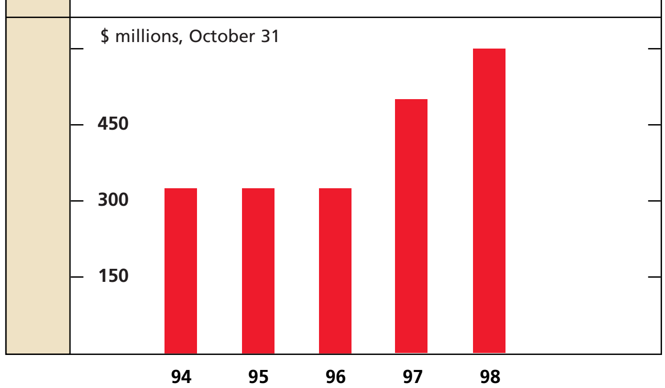
OUTLOOK

The Bank expects only a moderate slowdown of economic expansion in North America, and a gradual improvement in economic conditions in emerging markets in 1999. Overall, it is expected that specific provisions will remain flat with, or moderately below, those in 1998.

Low credit losses in recent years



Prudent additions to the general provision



ASSET LIABILITY MANAGEMENT refers to the process whereby liquidity and interest rate risks are measured, managed and controlled.

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. In the Bank's funding, lending and investment activities, fluctuations in interest rates are reflected in interest margins and earnings. Interest rate risk also arises in trading activities, where changes in interest rates may cause fluctuations in portfolio market values (see Trading Risk, page 42). Interest rate risk is managed in the following manner:

CANADIAN DOMESTIC BANKING

The Bank's domestic banking operations offer customers a wide range of loan and investment products. Customer preferences for different maturities in these products create a structural gap. In addition, embedded options in these products increase the complexity of interest rate risk management. The Liability Committee manages the interest rate risk associated with these operations using simulation modelling and gap and scenario analysis.

WHOLESALE BANKING

These portfolios, mainly in the United States, Europe and Japan, undergo regular stress testing, and interest rate gaps are carefully monitored and adjusted to changing market conditions. The Liability Committee reviews global positions in major currencies on a weekly basis.

INTERNATIONAL BANKING

Regional treasury functions in the Bank's international operations are subject to strict interest rate risk limits, determined centrally. Exposures are regularly reviewed by executive management.

INVESTMENT PORTFOLIOS

The Bank's portfolios of bonds and other investment securities are managed with a longer term perspective. They are reviewed by the Liability Committee at least weekly and subjected to regular stress testing analysis.

GAP ANALYSIS AND MANAGEMENT

The interest rate gap is a common measure of interest rate sensitivity. A liability gap occurs when more liabilities than assets are subject to rate changes during a prescribed time period. The chart on page 41 shows recent trends.

For the most part of 1998, there was a small one-year liability gap in Canadian dollars, because of the preferences of mortgage customers for longer terms. This liability gap rose in the fourth quarter, as the Bank took action to take advantage of an expected decline in interest rates.

In foreign currencies, where the U.S. dollar is the largest component, the Bank had close to a neutral position in its one-year gap until mid-year, after which a liability gap was maintained in line with the lower outlook for U.S. interest rates.

INTEREST RATE SIMULATION

Simulation models enable the Bank to assess interest rate risk dynamically. They incorporate assumptions about growth, the mix of new business, changes in interest rates, shape of the yield curve, embedded product options and other factors. The models also show the impact on net income and market value of various hedging strategies and economic scenarios.

In a key simulation, the Bank's balance sheet is subjected to a hypothetical interest rate shock (assuming no action is taken). At year end 1998, an immediate and sustained 100 basis point rise in interest rates across all currencies and maturities, would lower net income after tax by approximately $28 million over the next 12 months (versus $13 million for 1997) and would reduce the present value of the Bank's net assets by approximately $385 million (versus $251 million for 1997).

Value at Risk (VAR) analysis is also conducted periodically on funding and certain investment portfolios. For a discussion of VAR, see page 42.

ASSET LIABILITY MANAGEMENT

LIQUIDITY RISK

Liquidity risk arises from fluctuations in cash flows. The liquidity risk management process ensures that the Bank is able to honour all of its financial commitments as they fall due.

Scotiabank's liquidity policies include:

- measuring and forecasting cash commitments
- building a large and stable base of core deposits from retail and commercial customers
- ensuring immediate availability of large pools of liquid assets to meet unforeseen events
- maintaining a strong credit rating to ensure timely access to borrowing on favourable rates and terms
- diversifying funding sources
- maintaining the ability to securitize the Bank's assets

During 1998, the Bank integrated ScotiaMocatta and National Trust into its liquidity risk management framework.

The Bank applies formal limit controls on the net cash flow gaps of all global currencies. Liquid assets meet a prescribed minimum proportion of the net cash flow gap. Liquidity is reviewed weekly by the Liability Committee.

In addition, the Bank conducts regular scenario testing programs to evaluate its liquidity assumptions and its ability to sustain operations under duress. Contingency plans covering all aspects of the Bank's operations are reviewed annually.

The Bank is also taking steps to ensure that adequate liquidity and funding will be in place to address any potential problems arising from the Year 2000 issue.

FUNDING

The principal sources of funding are capital, core deposits from retail and commercial clients, and wholesale deposits raised in the interbank and commercial markets. Diversification of funding is achieved by applying a number of limits and controls. Scotiabank's extensive domestic and international branch network facilitates this diversification. At October 31, 1998 core funds, primarily capital and core deposits, totalled $102 billion, up from $95 billion in 1997 (see chart below). These core funds provide almost half of total funding and bring considerable stability to the Bank's liquidity.

The Bank continues to expand its asset securitization program as an additional source of funding. In 1998, a new program was initiated with the securitization of $1.0 billion of credit card receivables, increasing the Bank's total asset securitizations outstanding to $1.8 billion.

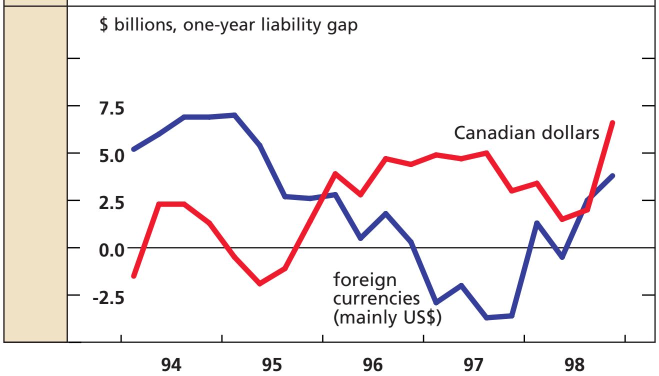
PLEDGING

The Bank pledges assets to support its participation in certain markets and business activities. As at October 31, 1998, total assets pledged were $21.3 billion, almost all related to the Bank's securities repurchase and securities borrowing activities.

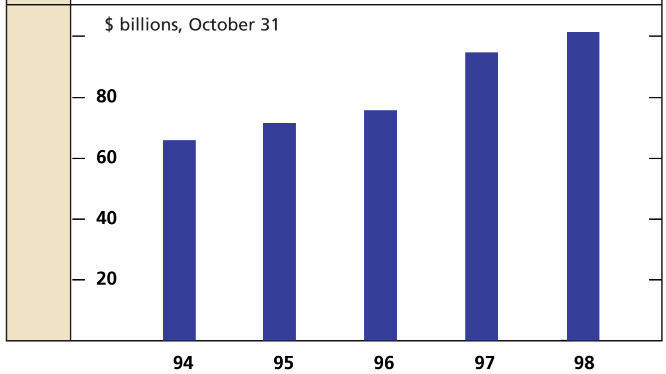
LIQUID ASSETS

The Bank maintains large holdings of highly liquid assets which can be used to sustain operations in the event of unexpected disruptions. In 1998, liquid assets were $46 billion, representing 20% of total assets. These assets were comprised of securities (50%) and cash and deposits with other banks (50%).

Interest rate gap



Substantial core funds



MARKET RISK

THE BANK CONTINUES to strengthen its market risk management processes.

Market risk refers to the uncertainty of future earnings resulting from changes in interest rates, foreign exchange rates, market prices and volatilities. The Bank assumes market risk in its lending and deposit-taking businesses, and in its investment activities, including position taking and trading. The strategy for controlling market risk includes:

- direct involvement of experienced line management
- stringent controls and limits
- strict segregation of front, middle and back office duties
- comprehensive daily reporting of positions
- regular independent reviews of all controls and limits
- rigorous testing and auditing of all pricing, trading, risk management and accounting systems

The policies and procedures applied to each element of market risk are described in the preceding section on Asset Liability Management, and the following sections on Trading Risk, Foreign Exchange Risk, Equities Risk, Commodities Risk, Derivative Products and Investment Securities.

TRADING RISK

Trading portfolios are managed with the intent to buy and sell financial instruments over a short period of time, rather than to hold positions for investment. The Bank's trading activity is customer focussed, but also includes a proprietary component.

Senior management keep in close contact with front-line staff in the Bank's major trading centres and are frequently called upon to apply their expertise to control major trading decisions.

Management oversight is facilitated by extensive limit and management information systems. Explicit limits are established by currency, instrument, position and term. All limits are approved by the Market Risk Management and Policy Committee and reviewed annually.

The back and middle offices independently review and report on all aspects of trading activity and circulate daily reports of profit and loss, limit overruns, and compliance to appropriate departments and senior management.

Pricing and hedging for most trading activity is done in real time, and portfolios are marked to market daily. Rigorous analysis and testing programmes measure risk and supplement controls and limits. These programmes include stress testing, sensitivity analysis, and the application of Value at Risk analysis.

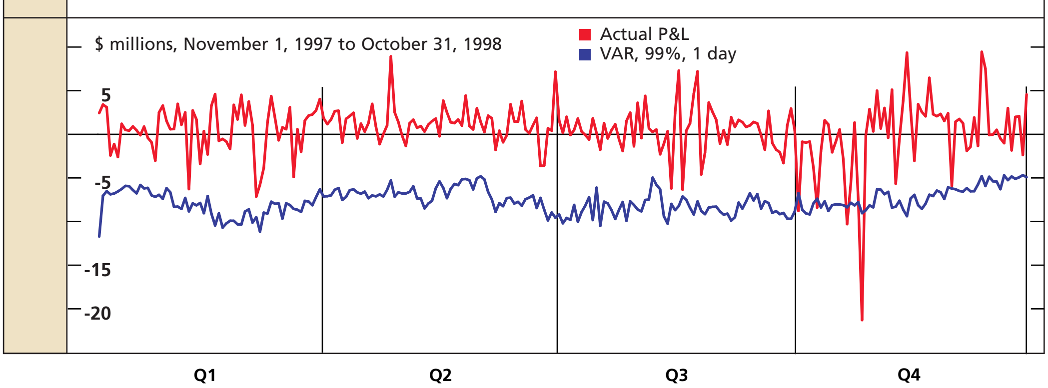
VALUE AT RISK

Value at Risk (VAR) estimates potential loss from holding a position for a specified period of time with a given level of statistical confidence. During 1997, the Bank implemented its new Sentry System, upgrading the VAR implemented in 1995.

In Sentry, VAR is calculated daily for all significant trading portfolios at a 99% confidence level, for one and ten-day holding periods, using historical simulations based on 300 days of data. Sentry is used to determine the Bank's statutory general market risk capital as required by OSFI.

The Bank sets VAR limits by business line and in aggregate. Senior management receive daily VAR reports by desk, site,

All Bank backtesting results



business line and legal entity. The Board of Directors has established an aggregate limit for the ten-day VAR and reviews the VAR, backtesting and stress testing results semi-annually. During fiscal 1998, the average for the ten-day aggregate VAR for all trading books was less than $19 million. The peak was less than $44 million, well within the Board's limit.

BACKTESTING

"Backtesting" is a process used to validate the VAR model by comparing the VAR estimates to profit and loss (P&L) results. Management reviews backtesting results on an ongoing basis. The Market Risk Management and Policy Committee reviews them quarterly.

Backtesting is an integral part of the assessment of the adequacy of the Bank's VAR model. The chart on page 42 shows that the actual P&L was within the VAR estimates during 1998 with few exceptions. Overall, the Bank's risk models held up well during the significant turbulence in global capital markets in the latter half of 1998.

STRESS TESTING

While the VAR measures the potential losses in normally active markets, stress testing examines the impact of abnormally large swings or prolonged inactivity. Every month, the Market Risk Management and Policy Committee reviews the results of the stress testing programme which includes substantial moves in interest and foreign exchange rates, equity and commodity prices, and option volatilities. The Bank also conducts a smaller series of tests weekly, with results provided to trading and senior management.

THE MIDDLE OFFICE

The independent middle office plays a key role in risk management and measurement. It reviews trading models and valuations; develops and performs stress tests, sensitivity analysis and VAR calculations; reviews P&L performance; and participates in new product development.

NET TRADING REVENUE

The moderate risk of the Bank's trading portfolios is evidenced by the low variability of daily trading revenues in 1998, shown in the table below. The largest daily loss, $21 million, occurred in August 1998 when there was extreme turbulence in the markets for equities and emerging market securities. Overall, profitable days more than offset loss days during the year.

FOREIGN EXCHANGE RISK

TRADING OPERATIONS

The Bank buys and sells currencies in the spot, forward and options markets to assist customers in meeting their business needs and for its own account. Exposures to currency price fluctuations associated with this high volume activity are controlled by the techniques described in the Trading Risk section.

Foreign exchange trading also exposes the Bank to settlement risk when the Bank is required to deliver value under a contract before it will receive value from the counterparty. The Bank applies prudent credit and settlement limits to each counterparty and uses legally enforceable bilateral netting agreements to reduce the level of credit exposure.

Finally, the Bank is participating in national and international initiatives to reduce these risks.

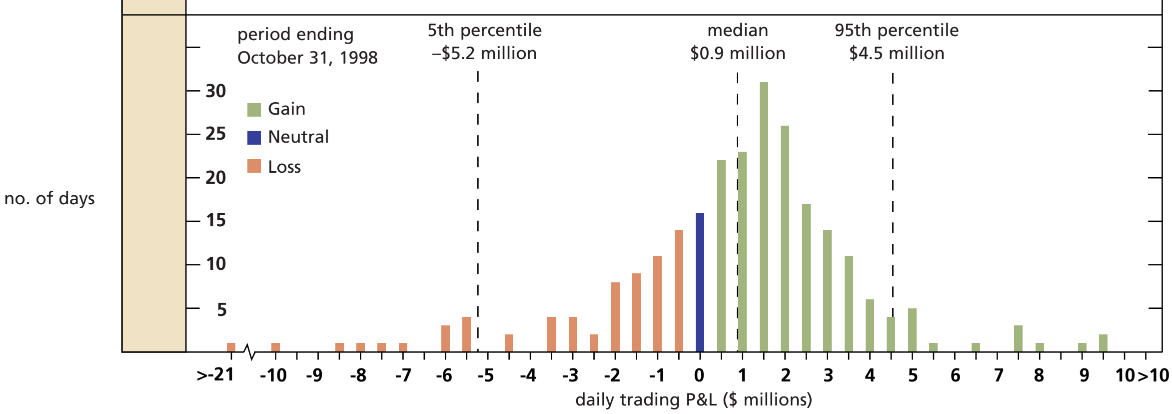
FOREIGN CURRENCY OPERATIONS

The Bank has no significant foreign exchange exposure in its international businesses since assets are customarily funded by liabilities in the same currency. The Liability Committee reviews and manages currency exposures from net revenue streams generated from foreign currency operations.

NET INVESTMENT IN FOREIGN SUBSIDIARIES

The Bank retains certain investments in foreign subsidiaries in the currency of account and translates them to Canadian dollars. The Liability Committee also reviews and manages these exposures. Any translation gains or losses appear in retained earnings.

Low variability of net trading revenues



MARKET RISK

EQUITIES RISK

The Bank trades equities for its customers through Scotia Capital Markets and for its own account. These activities are managed as described in the section on Trading Risk. The Bank also has substantial investment and trading portfolios. Each portfolio has stated objectives and limits governing eligibility, diversification, and investment size.

COMMODITIES RISK

Commodities trading activity includes precious and base metals as well as related options and futures. The Bank applies controls similar to those used in its currency portfolios, such as limits on net spot exposure, forward/interest rate gaps and other market sensitivities. In 1998, the Bank integrated ScotiaMocatta's precious and base metals business into its risk management framework, including VAR analysis.

DERIVATIVE PRODUCTS

Derivatives are important risk management tools for both Scotiabank and its customers. The Bank uses derivatives to manage market risk arising from its funding and investment activities, and to improve the cost effectiveness of its capital. As a dealer, the Bank markets derivatives to its customers and engages in position taking for its own account. Scotiabank's derivatives activity has focussed on generic products. In 1998, it added equity derivatives to its product line and began limited activity in credit derivatives.

To control market risk, derivative trading portfolios are marked-to-market daily. Daily management reports ensure compliance with rigorous policies and limits. These are supplemented by the testing, analysis and VAR processes noted under Trading Risk.

To control derivative credit risk, the Bank applies limits to each counterparty, measures exposure as the current fair value plus potential future exposure, and uses credit mitigation techniques such as netting and collateralization. The Bank's derivatives portfolio is mainly in short term instruments, with high quality counterparties, as illustrated in the charts below.

INVESTMENT SECURITIES

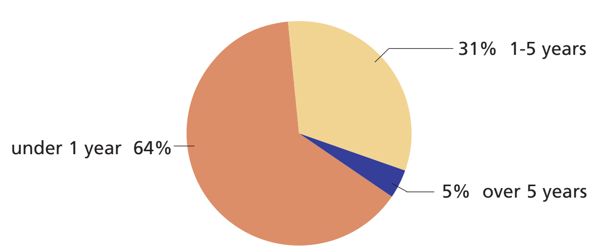
Total security holdings as at October 31, 1998 were $29.5 billion, held primarily in two portfolios, trading and investment.

The trading portfolio at year end was $12.1 billion, carried at its market value. This portfolio contains securities available for immediate resale. It increased during the year by 11%, reflecting higher activity levels in several portfolios.

The investment portfolio includes securities held for liquidity and as longer-term investments, carried at cost, net of impairment writedowns and the country risk provision. These investment securities were valued at $17.1 billion at the end of October 1998 as against $16.7 billion a year earlier. The surplus of market value over carrying value was $81 million at the end of fiscal 1998, compared with $817 million at the end of 1997. This significant decline arose almost entirely in the fourth quarter of 1998, following the unprecedented turmoil in global capital markets, which was accompanied by a lack of liquidity for emerging market debt. As a result, the value of the Bank's emerging market bond portfolio and, to a lesser extent, the North American equity portfolio, fell in that quarter. Also, there was an adverse movement in the value of a hedge placed to protect the fixed-rate emerging market bonds against higher U.S. interest rates.

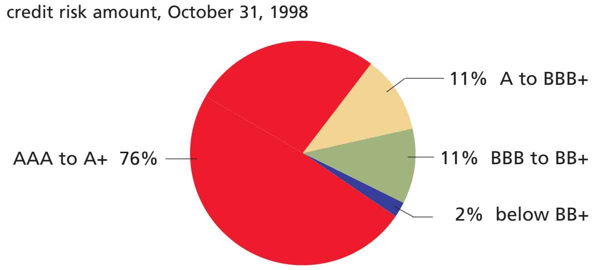
Derivatives portfolio mostly short term

notional principal, October 31, 1998



Highly rated counterparties dominate derivatives

credit risk amount, October 31, 1998



OPERATING RISK

STRONG CONTROL OVER OPERATING RISK is a Scotiabank standard. In 1998, there was particular focus on the Year 2000 initiative.

Operating risk is the risk of loss caused by events such as systems or procedural failures, errors or fraud. The Bank ensures that adequate safeguards are in place to minimize the potential that such risks would have a material impact.

STAFFING AND TRAINING

The Bank has a knowledgeable experienced management team committed to risk management, and a staff that shares its strong risk management culture.

SEGREGATION OF DUTIES

The Bank's policies, procedures and systems have been designed to ensure built-in checks and balances and clear separation of duties. Credit management, risk management, and transaction processing functions are fully independent of business units.

AUDIT REVIEW

The Bank's independent Audit Department performs comprehensive reviews of the design and operation of the internal control systems in all existing business and support groups, including risk management policies and procedures. Audit also reviews new products and systems to ensure that risks have been evaluated. The continued reliability and integrity of data processing operations are audited on a regular basis.

BACK-UP FACILITIES

The Bank has extensive on and off-site back up facilities to ensure the availability of service delivery. All key operations areas have developed business resumption plans.

EUROPEAN MONETARY UNION (EMU)

On January 1, 1999 the Euro will become a currency in its own right and the existing currencies of the 11 "IN" countries (Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain) will cease to be independent. The exchange rates for these currencies will be irrevocably locked against the Euro. During a transition period, which will run until 2002, banking will be possible in both the Euro and national currencies. At the end of this period, the national currencies will be fully phased out and Euro notes and coins will be introduced.

Over the past two years, the Bank has been preparing for a smooth transition to the Euro by evaluating the associated legal, business and operating implications and by taking appropriate measures to address them.

YEAR 2000

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems, if not modified or replaced, may incorrectly recognize a date using “00” as other than the year 2000. This could result in system failure or miscalculations causing disruption to operations, including a temporary inability to process transactions or to engage in normal business activities.

In 1996, the Bank established a steering committee to oversee the reliable transition to the year 2000 for the Bank’s computer systems. The Bank established a target to have its internal mission critical systems modified and tested for Year 2000 compliance by December 31, 1998. At October 31, 1998, all such domestic systems had been modified and tested in a Bank-wide integrated test environment. Additional remediation identified from the integrated testing was completed by December 31, 1998. Almost all of the mission critical systems in Investment Banking and International Banking had been modified or replaced and tested by December 31, 1998. Any remaining systems modifications or replacements are scheduled to be completed well before the year 2000.

The success of the Bank in minimizing the impact of the Year 2000 issue and ensuring a reliable transition, also depends on the readiness of external parties with which the Bank deals to address this issue. These include payment systems, financial exchanges, other financial institutions, securities depositories, telecommunication companies, government agencies, data processing companies and networks in Canada and worldwide. Plans for fully integrated testing with key external parties have been developed and such “street wide” testing is scheduled throughout 1999.

By modifying and replacing internal Bank systems, monitoring the readiness of key external parties, and developing both specific system and overall business contingency plans, the Bank believes it is mitigating the risk of the Year 2000 issue. However, it is not possible to be certain that all aspects of the Year 2000 issue affecting the Bank, including those related to the efforts of customers, suppliers or other third parties, will not materially and adversely affect the Bank.

The ability and readiness of the Bank’s customers and counterparties may impact credit risk. Any failure of customers to fully address the Year 2000 issue may result in increases in impaired loans and provisions for credit losses in future years. At this time, it is not possible to estimate the amount of such increases, if any.

The expected total cost to the Bank of implementing the Year 2000 project is $160 million, of which approximately $100 million had been spent to the end of fiscal 1998. Of this, $80 million has been charged to income, with $20 million being capitalized, representing assets to be depreciated over their estimated useful lives.

CAPITAL

ACCOMPLISHMENTS

- strong earnings resulted in internally generated capital of $1.1 billion
- steady improvement of the Tier 1 capital ratio over the past four years
- issued $1.3 billion in new capital instruments

Scotiabank's solid capital base supports its high credit rating, contributes to its undoubted safety, and enables it to take advantage of growth opportunities – while still allowing common shareholders to earn excellent returns.

Scotiabank further strengthened its capital ratios in 1998, through internally generated capital and actions taken as part of the Bank's program of capital management.

In particular, Tier 1 capital rose to $10.8 billion, a growth of $1.4 billion or 15% over 1997. Tier 1 capital, which is considered the most permanent, is comprised mainly of common equity and non-cumulative preferred shares.

The largest part of the improvement in Tier 1 capital resulted from the $1.1 billion increase in retained earnings arising from the strong earnings generated by the Bank. Also contributing was the issue of $300 million in new non-cumulative preferred shares.

The Tier 1 capital ratio increased from 6.9% at the end of 1997 to 7.2% at the end of 1998. (Capital ratios are calculated by dividing Tier 1 and total regulatory capital, by the amount of risk-weighted assets using weights based on credit risk as designated by OSFI.)

During the year, the Bank also issued $1.0 billion in subordinated debentures primarily to replace debentures converted into deposit notes. Further, $100 million was added to the general provision, which brings the eligible provision for inclusion in Tier 2 capital to $600 million. As a net result, total Tier 2 capital rose by $0.4 billion to $5.2 billion at year end. The Tier 2 capital ratio was 3.4%, a decrease of 0.1% from the end of 1997.

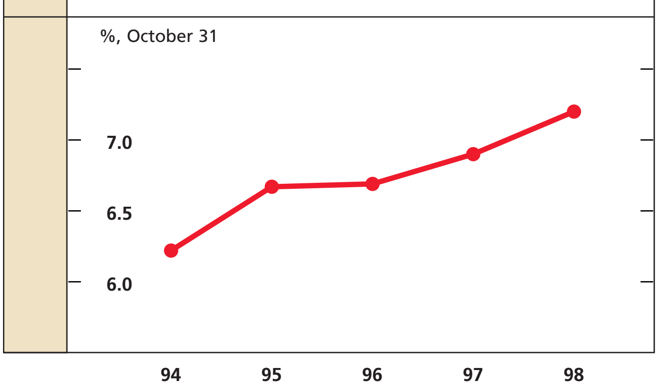
The total capital ratio, the sum of the Tier 1 and Tier 2 ratios, increased to 10.6% at October 31, 1998, from 10.4% at the close of 1997.

During 1998, the Bank took steps to reduce the amount of its risk-weighted assets. These steps included purchasing mortgage insurance, employing credit derivatives and securitizing loans. The Bank has also completed the preparatory steps for a securitization of U.S. business loans.

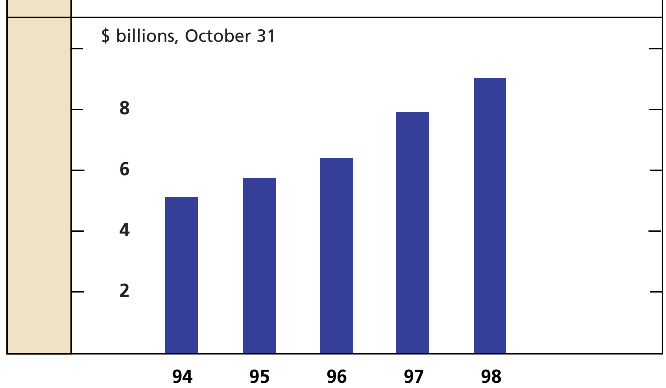
OUTLOOK

Over the course of the coming year, capital ratios are expected to increase further. The Bank continually evaluates its capital mix, the use of innovative capital instruments and balance sheet management strategies with a view to maintaining a solid capital base while also providing a good return to shareholders.

Strengthening Tier 1 capital ratio...



...driven by growth in common equity



SUPPLEMENTARY DATA[1]

REVENUES

Table 1 Average balance sheet and interest margin

taxable equivalent basis *For the financial years ($ billions)*	1998 Average balance	1998 Average rate	1997 Average balance	1997 Average rate
Assets				
Deposits with other banks	**$ 19.1**	**5.28%**	$ 15.4	5.01%
Securities	**29.3**	**6.62**	27.9	6.22
Reverse repos	**11.4**	**5.05**	10.0	3.63
Loans:				
Residential mortgages	**43.4**	**6.90**	33.7	7.28
Personal and credit cards	**18.9**	**9.38**	17.4	8.90
Business and governments	**63.0**	**7.82**	52.1	7.14
Subtotal	**125.3**	**7.74**	103.2	7.48
Total earning assets	**185.1**	**7.14**	156.5	6.77
Customers' liability under acceptances	**8.4**	**–**	7.4	–
Other assets	**20.5**	**–**	15.3	–
Total assets	**$ 214.0**	**6.18%**	$ 179.2	5.91%
Liabilities				
Deposits:				
Personal	**$ 61.0**	**4.28%**	$ 49.8	4.17%
Other	**90.5**	**5.18**	76.8	4.74
Subtotal	**151.5**	**4.82**	126.6	4.51
Subordinated debentures	**5.6**	**6.34**	4.0	6.41
Other interest-bearing liabilities	**21.7**	**4.87**	19.1	4.18
Total interest-bearing liabilities	**178.8**	**4.87**	149.7	4.52
Other liabilities including acceptances	**25.2**	**–**	21.2	–
Shareholders' equity	**10.0**	**–**	8.3	–
Total liabilities and equity	**$ 214.0**	**4.07%**	$ 179.2	3.78%
Net interest margin		**2.11%**		2.13%

(1) Certain comparative amounts in this report have been reclassified to conform with current year presentation.

Table 2 Volume/rate analysis of changes in net interest income

taxable equivalent basis *For the financial years ($ millions)*	**1998 versus 1997 Increase (decrease) due to change in:**			1997 versus 1996 Increase (decrease) due to change in:		
	Average volume	**Average rate**	**Net change**	Average volume	Average rate	Net change
Net interest income						
Assets	**$ 2,057**	**$ 572**	**$ 2,629**	$ 1,204	$(1,096)	$ 108
Liabilities	**(1,315)**	**(628)**	**(1,943)**	(770)	1,023	253
Total	**$ 742**	**$ (56)**	**$ 686**	$ 434	$ (73)	$ 361

Table 3 Other income

For the financial years ($ millions)	**1998**	1997	1996	1995	1994	**1998 versus 1997**
Deposit and payment services						
Deposit services	**$ 372**	$ 317	$ 289	$ 262	$ 235	**17%**
Card revenues	**184**	153	145	125	111	**20**
Other payment services	**63**	61	65	60	55	**4**
Subtotal	**619**	531	499	447	401	**17**
Investment management and trust						
Mutual funds	**117**	82	51	39	38	**42**
Investment management and custody	**71**	89	113	108	58	**(20)**
Personal and corporate trust	**122**	79	66	60	39	**55**
Subtotal	**310**	250	230	207	135	**24**
Credit fees						
Commitment/other credit fees	**397**	329	272	239	212	**21**
Acceptance fees	**75**	66	61	50	48	**15**
Subtotal	**472**	395	333	289	260	**20**
Investment banking						
Underwriting fees and brokerage commissions	**573**	597	422	267	347	**(4)**
Trading revenue	**100**	141	170	78	195	**(29)**
Foreign exchange other than trading	**125**	109	97	86	83	**14**
Subtotal	**798**	847	689	431	625	**(6)**
Net gains (losses) on investment securities	**322**	366(1)	129	(107)	52	**(12)**
Other	**312**	150	128	126	133	**100+**
Total of above	**2,833**	2,539	2,008	1,393	1,606	**12**
Gains on sale of businesses	**25**	144(1)	–	105	–	**(83)**
Total other income	**$ 2,858**	$ 2,683	$ 2,008	$ 1,498	$ 1,606	**7%**
Percentage increase over previous year	**7%**	34%	34%	(7)%	16%	

(1) Gain on sale of Montrusco Associates Inc. of $37 million was included in gains on sale of businesses, whereas in the Consolidated Statement of Income, it is reported in net gains (losses) on investment securities.

Table 4 Assets under administration and management

As at September 30 ($ billions)	**1998**	1997	1996	1995	1994
Assets under administration(1)					
Institutional trust and custodial services	**$ 37.7**	$ 35.2	$ 160.6	$ 148.3	$ 136.9
Personal trust and custodial services	**69.1**	66.2	34.4	30.0	19.0
Retail mutual funds	**8.0**	7.9	4.7	3.3	3.4
Serviced mortgages	**2.6**	3.1	1.4	1.7	2.2
Total	**$ 117.4**	$ 112.4	$ 201.1	$ 183.3	$ 161.5
Assets under management					
Institutional	**$ 2.0**	$ 2.0	$ 6.6	$ 6.0	$ 4.4
Personal	**6.8**	7.1	2.4	2.3	0.9
Retail mutual funds	**4.7(2)**	5.0	4.7	3.3	3.4
Total	**$ 13.5**	$ 14.1	$ 13.7	$ 11.6	$ 8.7

(1) On October 9, 1998, the Bank securitized $1.0 billion of credit card loans which continue to be administered by the Bank.
(2) During October 1998, Scotia Cassels assumed management of an additional $1.5 billion of mutual funds.

Table 5 Trading revenue

taxable equivalent basis *For the financial years ($ millions)*	**1998**	1997	1996
Reported in other income			
Securities trading	**$ (48)**	$ 52	$ 98
Foreign exchange and precious metals trading	**77**	45	67
Derivative products trading	**71**	44	5
Subtotal	**100**	141	170
Reported in net interest income	**58**	48	48
Total trading revenue	**$ 158**	$ 189	$ 218
% of total revenues (net interest income plus other income)	**2.1%**	2.9%	4.0%

EXPENSES

Table 6 Non-interest expenses

For the financial years ($ millions)	**1998**	1997	1996	1995	1994	**1998 versus 1997**
Salaries	**$ 2,193**	$ 1,973	$ 1,702	$ 1,438	$ 1,401	**11%**
Benefits	**308**	229	208	214	182	**35**
Premises and equipment						
Occupancy costs	**404**	334	307	275	263	**21**
Technology	**329**	259	195	172	149	**27**
Depreciation	**225**	185	162	141	121	**21**
Subtotal	**958**	778	664	588	533	**23**
Other						
Communications and marketing	**366**	320	272	265	230	**14**
Capital and business taxes, and deposit insurance premiums	**238**	192	174	157	136	**24**
Miscellaneous	**383**	291	217	182	212	**32**
Subtotal	**987**	803	663	604	578	**23**
Total of above	**4,446**	3,783	3,237	2,844	2,694	**18**
Restructuring costs	**–**	250	(20)	–	175	**n/a**
Write off of goodwill	**–**	26	–	–	162	**n/a**
Total non-interest expenses	**$ 4,446**	$ 4,059	$ 3,217	$ 2,844	$ 3,031	**10%**
Productivity ratio	**60.4%**	62.4%	58.8%	59.9%	65.6%	

Table 7 Direct and indirect taxes

For the financial years ($ millions)	**1998**	1997	1996	1995	1994	**1998 versus 1997**	**Five-year compound growth**
Income taxes							
Provision for income taxes	**$ 762**	$ 758	$ 665	$ 371	$ 455	**1%**	**13%**
Taxable equivalent adjustment	**129**	103	105	72	54	**26**	**22**
Taxable equivalent provision	**891**	861	770	443	509	**4**	**14**
Indirect taxes							
Payroll taxes	**133**	107	98	94	85	**23**	**11**
Property taxes	**55**	33	34	36	41	**67**	**2**
Capital taxes	**97**	81	68	60	55	**19**	**16**
Business taxes	**43**	36	37	34	33	**19**	**7**
Goods and services tax (GST)	**54**	48	38	40	33	**12**	**12**
Deposit insurance premiums	**98**	75	69	63	48	**32**	**23**
Total indirect taxes	**480**	380	344	327	295	**26**	**12**
Total taxes	**$ 1,371[(1)]**	$ 1,241[(1)]	$ 1,114	$ 770	$ 804	**10%**	**13%**

(1) Amount is comprised of $940 million of Canadian taxes (1997 - $949 million) and $431 million of foreign taxes (1997 - $292 million).

CREDIT RISK

Table 8 Geographic distribution of earning assets

As at September 30 ($ billions)	1998 Balance	1998 % of earning assets	1997	1996	1995	1994
North America						
Canada	**$ 119.2**	**57.4%**	$ 111.9	$ 92.7	$ 82.7	$ 78.2
United States	**38.9**	**18.7**	28.2	22.5	23.9	20.7
Subtotal	**158.1**	**76.1**	140.1	115.2	106.6	98.9
Europe						
United Kingdom	**8.8**	**4.3**	6.5	5.4	3.9	4.0
France	**2.4**	**1.1**	2.2	2.0	1.6	1.5
Germany	**2.3**	**1.1**	1.6	2.2	1.3	1.7
Other	**7.6**	**3.7**	5.5	4.9	4.1	2.9
Subtotal	**21.1**	**10.2**	15.8	14.5	10.9	10.1
Asia/Pacific						
Japan	**2.6**	**1.2**	4.6	4.2	4.5	4.6
Hong Kong	**1.7**	**0.8**	1.4	1.1	0.8	0.7
South Korea	**1.2**	**0.6**	0.9	0.7	0.5	0.5
Other	**3.9**	**1.9**	3.8	3.4	2.4	1.9
Subtotal	**9.4**	**4.5**	10.7	9.4	8.2	7.7
Caribbean						
Jamaica	**2.4**	**1.2**	1.8	1.4	1.1	0.7
Puerto Rico	**2.0**	**1.0**	1.5	1.5	1.4	1.2
Bahamas	**1.3**	**0.6**	0.9	0.8	0.6	0.5
Trinidad & Tobago	**1.2**	**0.6**	0.8	0.7	0.6	0.6
Other	**4.0**	**1.9**	3.0	2.5	2.2	2.0
Subtotal	**10.9**	**5.3**	8.0	6.9	5.9	5.0
Latin America						
Argentina	**3.4**	**1.6**	0.4	0.2	0.3	0.2
Mexico	**1.4**	**0.7**	1.0	1.2	1.1	1.2
Other	**3.3**	**1.6**	1.6	1.2	1.3	1.4
Subtotal	**8.1**	**3.9**	3.0	2.6	2.7	2.8
Middle East and Africa	**0.6**	**0.3**	0.2	0.2	0.4	0.5
General provision	**(0.6)**	**(0.3)**	(0.5)	(0.3)	(0.3)	(0.4)
Total	**$ 207.6**	**100%**	$ 177.3	$ 148.5	$ 134.4	$ 124.6

Table 9 Cross-border exposure to select geographic areas(1)

As at October 31, 1998 ($ millions)	Loans	Interbank deposits	Trade	Government securities	Investment in affiliates	Derivatives(2)	Total
Asia							
Thailand	$ 272	$ –	$ 28	$ –	$ –	$ –	**$ 300**
Indonesia	191	–	3	–	8	–	**202**
Malaysia	427	–	9	–	76	–	**512**
The Philippines	239	–	25	119	93	–	**476**
	1,129	–	65	119	177	–	**1,490**
South Korea	779	–	231	244	–	3	**1,257**
Hong Kong	373	–	82	–	–	–	**455**
Japan	620	568	15	–	–	310	**1,513**
Other(3)	342	73	170	–	–	42	**627**
Subtotal	3,243	641	563	363	177	355	**5,342**
Latin America							
Mexico	298	17	289	657	270(5)	–	**1,531**
Brazil	156	–	548	662	–	–	**1,366**
Argentina	253	–	160	346	301	–	**1,060**
Venezuela	28	22	2	273	151	–	**476**
Chile	285	–	34	–	63	–	**382**
Other(4)	496	20	109	170	75	–	**870**
Subtotal	1,516	59	1,142	2,108	860	–	**5,685**
Central and Eastern Europe	4	–	1	5	–	12	**22**
Total	$ 4,763	$ 700	$ 1,706	$ 2,476	$ 1,037	$ 367	**$11,049**

(1) Cross-border exposure represents a claim, denominated in a currency other than the local one, against a borrower in a foreign country on the basis of ultimate risk.
(2) Positive mark-to-market.
(3) Includes China, Singapore, Taiwan and Vietnam.
(4) Includes Colombia, Costa Rica, Ecuador, El Salvador, Panama, Peru and Uruguay.
(5) Guaranteed by the Government of Mexico.

Table 10 Loans and acceptances by geography

excludes reverse repos						Percentage mix	
As at September 30 ($ billions)	**1998**	1997	1996	1995	1994	**1998**	1994
Canada							
Atlantic provinces	**$ 9.0**	$ 8.4	$ 8.1	$ 7.6	$ 7.4	**6.2%**	8.5%
Quebec	**7.6**	7.2	6.1	5.7	5.4	**5.3**	6.2
Ontario	**48.1**	46.6	33.9	32.7	30.5	**33.4**	35.0
Manitoba and Saskatchewan	**4.1**	3.9	3.6	3.4	3.0	**2.8**	3.5
Alberta	**9.9**	8.7	6.8	6.5	6.3	**6.9**	7.3
British Columbia	**12.2**	11.2	9.3	8.7	7.8	**8.4**	9.0
Subtotal	**90.9**	86.0	67.8	64.6	60.4	**63.0**	69.5
International							
United States	**25.5**	18.0	15.2	14.1	13.9	**17.7**	16.1
Europe	**9.1**	6.7	5.7	4.8	4.3	**6.3**	4.9
Caribbean	**8.4**	6.3	5.7	4.8	4.0	**5.8**	4.6
Asia/Pacific	**5.9**	5.3	4.6	3.1	3.1	**4.1**	3.6
Latin America	**4.7**	0.9	0.8	1.1	1.2	**3.2**	1.3
Middle East and Africa	**0.4**	0.1	0.2	0.3	0.4	**0.3**	0.5
Subtotal	**54.0**	37.3	32.2	28.2	26.9	**37.4**	31.0
General provision	**(0.6)**	(0.5)	(0.3)	(0.3)	(0.4)	**(0.4)**	(0.5)
Total loans and acceptances	**$ 144.3**	$ 122.8	$ 99.7	$ 92.5	$ 86.9	**100.0%**	100.0%

Table 11 Loans and acceptances by type of borrower

excludes reverse repos	**1998**			
As at September 30 ($ billions)	**Balance**	**% of total**	1997	1996
Loans to households				
Residential mortgages	**$ 45.2**	**31.4%**	$ 41.7	$ 30.6
Personal loans	**19.7**	**13.6**	19.0	16.7
Subtotal	**64.9**	**45.0**	60.7	47.3
Loans to businesses and governments				
Resource and manufacturing, excluding automotive				
Oil and gas	**3.7**	**2.6**	3.4	2.5
Food and beverage	**2.8**	**2.0**	2.5	1.7
Forest products	**2.4**	**1.6**	2.2	1.6
Electrical and other machinery	**2.5**	**1.7**	2.1	1.7
Agriculture	**1.8**	**1.2**	1.6	1.3
Chemicals	**2.0**	**1.4**	1.5	1.4
Primary metals	**2.0**	**1.4**	1.4	1.4
Mining	**1.6**	**1.1**	0.7	0.8
Other	**4.7**	**3.3**	3.6	2.9
	23.5	**16.3**	19.0	15.3
Wholesale and retail distribution, excluding automotive	**6.7**	**4.6**	5.6	5.2
Media and communications	**6.3**	**4.4**	5.3	4.5
Automotive manufacturing and distribution	**6.0**	**4.2**	4.4	3.2
Real estate				
Commercial	**2.1**	**1.5**	1.8	2.3
Land and land development	**0.8**	**0.5**	0.7	0.7
Residential	**0.7**	**0.5**	0.5	0.5
Industrial	**0.7**	**0.5**	0.7	0.6
	4.3	**3.0**	3.7	4.1
Transportation	**4.7**	**3.3**	3.5	3.0
Banks and other financial services	**5.1**	**3.5**	3.1	3.0
Utilities	**2.7**	**1.8**	2.6	1.8
Hotels	**2.3**	**1.6**	2.0	1.8
Construction	**2.4**	**1.6**	2.0	1.6
Holding companies	**3.7**	**2.5**	2.0	1.5
Commercial mortgages	**1.8**	**1.3**	1.9	1.1
Health service	**2.3**	**1.6**	1.4	1.5
Government	**1.0**	**0.7**	0.8	0.7
Other services	**7.2**	**5.0**	5.3	4.4
Subtotal	**80.0**	**55.4**	62.6	52.7
General provision	**(0.6)**	**(0.4)**	(0.5)	(0.3)
Total loans and acceptances	**$ 144.3**	**100.0%**	$ 122.8	$ 99.7

Table 12 Off-balance sheet credit instruments

As at October 31 ($ billions)	1998	1997	1996	1995	1994
Guarantees and letters of credit	**$ 11.5**	$ 10.1	$ 8.3	$ 8.1	$ 7.0
Commitments to extend credit	**101.5**	88.9	79.7	67.6	61.1
Securities lending transactions	**1.5**	1.2	2.5	3.4	2.7
Total	**$ 114.5**	$ 100.2	$ 90.5	$ 79.1	$ 70.8

Table 13 Designated emerging market (DEM) provisionable exposures[(1)(2)(3)]

As at October 31 ($ millions)	1998	1997	1996	1995	1994
Brazil	**$ 591**	$ 542	$ 577	$ 583	$ 824
Venezuela	**300**	279	269	333	459
Argentina	**240**	230	293	309	281
Other Latin American countries	**217**	198	216	252	335
The Philippines	**–**	–	–	146	212
Caribbean countries	**45**	42	41	207	185
European countries	**34**	41	123	125	126
African countries	**18**	23	22	28	28
Gross exposure	**1,445**	1,355	1,541	1,983	2,450
Country risk provision	**(571)**	(534)[(5)]	(1,049)	(1,135)	(1,424)
Net exposure	**874**	821	492	848	1,026
Market value[(4)]	**$ 1,054**	$ 1,238	$ 1,291	$ 1,234	$ 1,351
Excess of market value over book value	**$ 180[(6)]**	$ 417[(6)]	$ 799	$ 386	$ 325

(1) OSFI approved the removal from the designated group of emerging market countries the exposures of Mexico in 1992, Chile in 1993, Uruguay and South Africa in 1994, and Jamaica, Morocco, the Philippines and Trinidad and Tobago in 1996.

(2) The Bank's 1998 exposure to Brazil, Venezuela, Argentina, the Dominican Republic, Ecuador, Panama, Peru and Poland is after deducting $182 million (US$118 million) of collateral.

(3) The above amounts represent only those DEM exposures against which a country risk provision has been established. In accordance with OSFI instructions, any additional exposures to a DEM country arising after October 31, 1995 do not form part of the provisionable exposure.

(4) The market value is based on average of bid and ask prices provided by major U.S. investment bankers.

(5) $500 million of the country risk provision was reversed into income in 1997.

(6) The excess of market value over book value comprises $41 million (1997 – $45 million) relating to loans, and $139 million (1997 – $372 million) relating to DEM restructured bonds and past due interest bonds.

Table 14 Impaired loans[(1)]

	1998						
As at October 31 ($ millions)	Net	Allowance for credit losses[(2)]	Gross	1997	1996	1995	1994
Domestic							
Residential mortgages	**$ 115**	**$ (43)**	**$ 158**	$ 230	$ 177	$ 224	$ 202
Personal loans	**43**	**(155)**	**198**	206	143	94	94
Primary industry and manufacturing	**80**	**(34)**	**114**	114	104	121	145
Real estate	**79**	**(59)**	**138**	221	343	852	739
Other	**317**	**(212)**	**529**	428	440	893	629
Subtotal	**634**	**(503)**	**1,137**	1,199	1,207	2,184	1,809
International							
Real estate	**44**	**(32)**	**76**	115	421	812	1,245
DEM	**–**	**(25)**	**25**	56	133	280	385
Other	**343**	**(735)**	**1,078**	823	393	420	443
Subtotal	**387**	**(792)**	**1,179**	994	947	1,512	2,073
Gross impaired loans			**$ 2,316**	2,193	2,154	3,696	3,882
Allowance for credit losses							
– specific and country risk provisions		**(1,295)**		(1,100)	(1,086)	(1,924)	(1,915)
– general provision	**(600)**	**(600)**		(500)	(325)	(325)	(325)
Subtotal	**(600)**	**$(1,895)**		(1,600)	(1,411)	(2,249)	(2,240)
Total net impaired loans	**$ 421**			$ 593	$ 743	$ 1,447	$ 1,642
Total net impaired loans as a % of total loans and acceptances[(3)]	**0.3%**			0.5%	0.7%	1.5%	1.9%
Allowance for credit losses as a % of gross impaired loans, excluding DEM		**82%**		72%	63%	58%	53%

(1) Fully secured past due loans where payments of interest or principal is contractually 90 to 180 days in arrears are not classified as impaired. These amounted to $21 million at October 31, 1998 (1997 – $2 million; 1996 – $12 million).

(2) Comprises specific provisions, general provision and related country risk provision.

(3) Excludes reverse repos.

Table 15 Interest recorded as income on impaired loans

For the financial years ($ millions)	**1998**	1997	1996	1995	1994
Interest					
Domestic	**$ –**	$ –	$ –	$ 2	$ 13
DEM	**29**	27	23	16	90
Other international	**–**	–	–	16	1
Total interest	**$ 29**	$ 27	$ 23	$ 34	$ 104
Average net impaired loans[(1)]					
Domestic	**$ 602**	$ 583	$ 859	$ 1,099	$ 1,046
Other international	**450**	407	462	749	1,215
Total average impaired loans, excluding DEM	**$ 1,052**	$ 990	$ 1,321	$ 1,848	$ 2,261

(1) Excludes general provision.

Table 16 Provisions for credit losses

For the financial years ($ millions)	**1998**	1997	1996	1995	1994
Specific provisions for credit losses					
New specific provisions	**$ 777**	$ 674	$ 576	$ 713	$ 798
Reversals	**(225)**	(244)	(158)	(120)	(149)
Recoveries	**(57)**	(70)	(38)	(33)	(57)
Net specific provisions for credit losses	**495**	360	380	560	592
Other provisions					
General provision	**100**	175	–	–	(25)
Country risk provision	**–**	(500)	–	–	–
Net provisions for credit losses	**$ 595**	$ 35	$ 380	$ 560	$ 567

Table 17 Specific provisions for credit losses by geography and type

For the financial years ($ millions)	**1998**	1997	1996	1995	1994
Domestic					
Residential mortgages	**$ (11)**	$ 20	$ 33	$ 19	$ 12
Personal loans	**227**	152	105	93	65
Primary industry and manufacturing	**32**	26	11	16	81
Real estate	**(7)**	(11)	60	110	140
Other	**56**	23	92	116	69
Subtotal	**297**	210	301	354	367
International					
Residential mortgages and personal loans	**30**	10	9	5	1
Real estate	**(22)**	(85)	22	172	208
Other	**190**	225	48	29	16
Subtotal	**198**	150	79	206	225
International consists of:					
United States	**42**	(12)	37	168	157
Europe/Middle East/Africa	**(15)**	(9)	(9)	16	52
Caribbean	**29**	37	35	14	15
Asia/Pacific	**116**	134	16	8	1
Latin America	**26**	–	–	–	–
Subtotal	**198**	150	79	206	225
Net specific provisions for credit losses	**$ 495**	$ 360	$ 380	$ 560	$ 592

Table 18 Provisions for credit losses as a percentage of average loans and acceptances[1]

For the financial years (%)	**1998**	1997	1996	1995	1994
Domestic					
Residential mortgages and personal	**0.37%**	0.35%	0.32%	0.28%	0.23%
Business	**0.27**	0.14	0.73	1.07	1.45
International	**0.43**	0.42	0.26	0.72	0.87
Weighted subtotal – specific provisions[2]	**0.37**	0.32	0.39	0.61	0.74
General provision	**0.07**	0.16	–	–	(0.03)
Country risk provision	**–**	n/a	–	–	–
Weighted total	**0.45%**	0.03%	0.39%	0.61%	0.71%

(1) Excludes reverse repos.
(2) Ratio of specific provisions for credit losses as a percentage of non-DEM average loans and acceptances.

MARKET RISK

Table 19 Interest rate gap

Interest rate sensitivity position[1] *As at October 31, 1998 ($ billions)*	Within 3 months	3 to 12 months	Over 1 year	Non-interest rate sensitive	**Total**
Canadian dollars					
Assets	$ 57.2	$ 14.9	$ 39.8	$ 7.1	**$ 119.0**
Liabilities	54.4	24.3	21.8	18.5	**119.0**
Gap	2.8	(9.4)	18.0	(11.4)	**–**
Cumulative gap	2.8	(6.6)	11.4	–	**–**
Foreign currencies					
Assets	78.5	16.2	10.2	9.7	**114.6**
Liabilities	94.0	4.5	4.2	11.9	**114.6**
Gap	(15.5)	11.7	6.0	(2.2)	**–**
Cumulative gap	(15.5)	(3.8)	2.2	–	**–**
Total					
Gap	$ (12.7)	$ 2.3	$ 24.0	$ (13.6)	**$ –**
Cumulative gap	(12.7)	(10.4)	13.6	–	**–**
As at October 31, 1997:					
Gap	$ (8.4)	$ 9.0	$ 12.1	$ (12.7)	**$ –**
Cumulative gap	(8.4)	0.6	12.7	–	**–**

(1) The above figures reflect the inclusion of off-balance sheet instruments as well as an estimate of prepayments on consumer and mortgage loans. The off-balance sheet gap is included in liabilities.

CAPITAL

Table 20 Regulatory capital

As at October 31 ($ millions)	**1998**	1997	1996	1995	1994
Tier 1 capital					
Common shareholders' equity	**$ 9,039**	$ 7,930	$ 6,424	$ 5,745	$ 5,140
Non-cumulative preferred shares (including SMIC)[1]	**1,775**	1,468	1,325	1,225	750
Non-controlling interest in subsidiaries	**173**	137	101	84	75
Less: Goodwill	**(148)**	(123)	(11)	(8)	(5)
Subtotal	**10,839**	9,412	7,839	7,046	5,960
Tier 2 capital					
Subordinated debentures (net of amortization)	**5,139**	4,616	2,851	3,039	2,975
General provision	**600**	500	–	–	–
Cumulative preferred shares (including subsidiaries)	**–**	–	–	399	450
Less: Investments in associated corporations and other items	**(575)**	(323)	(318)	(295)	(180)
Subtotal	**5,164**	4,793	2,533	3,143	3,245
Total capital	**$16,003**	$14,205	$10,372	$10,189	$ 9,205
Total risk-adjusted assets ($ billions)	**$ 150.8**	$ 136.4	$ 117.2	$ 105.6	$ 95.8
Capital ratios					
Tier 1 capital ratio	**7.2%**	6.9%	6.7%	6.7%	6.2%
Total capital ratio	**10.6%**	10.4%	8.9%	9.6%	9.6%

(1) Scotia Mortgage Investment Corporation.

Table 21 **Risk-adjusted assets**

As at October 31 ($ billions)			1998		1997	
Conversion factor	Weighting factor		**Gross**	**Risk-adjusted**	Gross	Risk-adjusted
On-balance sheet						
–	0%	Cash and claims on Canada, provinces, OECD governments and other[(1)]	**$ 73.8**	**$ –**	$ 56.5	$ –
–	5%	Privately insured residential mortgages[(2)]	**10.4**	**0.5**	6.2	0.3
–	20%	Claims on banks, investment dealers and municipalities	**28.0**	**5.6**	20.0	4.0
–	50%	Uninsured residential mortgages[(2)]	**17.0**	**8.5**	18.3	9.2
–	100%	Loans and acceptances	**92.4**	**92.4**	78.0	78.0
–	100%	Other	**12.0**	**12.0**	16.2	16.2
		Total on-balance sheet	**233.6**	**119.0**	195.2	107.7
Off-balance sheet						
		Indirect credit instruments:				
0%	–	One year and under credit commitments	**53.6**	**–**	47.0	–
20%	0 –100%	Short-term trade letters of credit	**1.2**	**0.2**	1.2	0.2
50%	0 –100%	Longer term credit commitments	**47.9**	**19.9**	41.8	20.3
50%	0 –100%	Non-financial guarantees, standby letters of credit, NIFs and RUFs	**4.0**	**2.0**	3.2	1.6
100%	0 –100%	Financial guarantees, standby letters of credit and securities lending	**7.8**	**3.4**	7.0	4.1
		Subtotal	**114.5**	**25.5**	100.2	26.2
		Interest rate instruments:				
0 –1.5%	0 –50%	Futures and forward rate agreements	**252.0**	**0.1**	211.6	–
0 –1.5%	0 –50%	Interest rate swaps	**535.5**	**2.2**	419.5	1.5
0 –1.5%	0 –50%	Interest rate options	**102.3**	**0.1**	95.2	0.1
		Subtotal	**889.8**	**2.4**	726.3	1.6
		Foreign exchange instruments:				
1 –7.5%	0 –50%	Futures and foreign exchange contracts	**207.5**	**1.7**	191.8	1.1
1 –7.5%	0 –50%	Currency swaps	**35.4**	**0.5**	30.7	0.5
1 –7.5%	0 –50%	Currency options	**21.9**	**0.2**	29.0	0.1
		Subtotal	**264.8**	**2.4**	251.5	1.7
6 –15%	0 –50%	**Other derivative instruments**	**20.9**	**0.6**	10.6	0.2
		Total off-balance sheet	**1,290.0**	**30.9**	1,088.6	29.7
		Total gross and risk-adjusted assets	**1,523.6**	**149.9**	1,283.8	137.4
		Impact of master netting	**–**	**(1.6)**	–	(1.0)
		Market risk – risk assets equivalent[(1)(3)]	**–**	**2.5**	–	–
		Total	**$1,523.6**	**$ 150.8**	$1,283.8	$ 136.4

(1) Includes assets which are subject to market risk. The risk weighting of these assets is included in "Market risk – risk assets equivalent".
(2) Excludes NHA guaranteed mortgages which are grouped with claims on Canada.
(3) Market risk rules in effect from Q1/1998.

Table 22 Capital funding activity

Preferred share issues

January 28, 1998	$7.0 million non-cumulative preferred shares Series 11 issued through conversion of non-cumulative preferred shares Series 10 and exercise of non-cumulative preferred share Series 11 purchase warrants
April 28, 1998	$3.8 million non-cumulative preferred shares Series 11 issued through conversion of non-cumulative preferred shares Series 10 and exercise of non-cumulative preferred share Series 11 purchase warrants
July 14, 1998	$300 million non-cumulative preferred shares Series 12

Subordinated debenture issues

April 1, 1998	$600 million 5.40% debentures due 2008
July 22, 1998	$425 million 5.65% debentures due 2013

Preferred share conversions

January 28, 1998	$2.8 million non-cumulative preferred shares Series 10 converted to non-cumulative preferred shares Series 11
April 28, 1998	$1.5 million non-cumulative preferred shares Series 10 converted to non-cumulative preferred shares Series 11

Subordinated debenture conversions to deposit notes

July 20, 1998	$157.1 million 10.35% debentures due 2001
September 1, 1998	$96.2 million 11.40% debentures due 2001
September 24, 1998	$183.8 million 8.10% debentures due 2003
September 26, 1998	$115.2 million 10.75% debentures due 2001
October 1, 1998	US $178.1 million 9.00% debentures due 1999

Subordinated debenture maturities

October 26, 1998	¥10 billion 7.35% debentures

OTHER INFORMATION

Table 23 Components of net income as a percentage of average total assets[1]

taxable equivalent basis *For the financial years (%)*	**1998**	1997	1996
Net interest income	**2.11%**	2.13%	2.18%
Provision for credit losses	**(0.28)**	(0.02)	(0.24)
Other income	**1.33**	1.50	1.26
Net interest and other income	**3.16**	3.61	3.20
Non-interest expenses	**(2.08)**	(2.11)	(2.03)
Restructuring costs and goodwill write-off	**–**	(0.15)	0.01
Net income before the undernoted:	**1.08**	1.35	1.18
Provision for income taxes and non-controlling interest	**(0.43)**	(0.50)	(0.51)
Net income	**0.65%**	0.85%	0.67%
Average total assets ($ billions)	**$ 214.0**	$ 179.2	$ 158.8

(1) *Income from tax-exempt securities has been expressed on an equivalent before-tax basis. The provision for income taxes has been adjusted by a corresponding amount: 1998 – $129 million; 1997 – $103 million; 1996 – $105 million.*

QUARTERLY INFORMATION

Table 24 Quarterly information

	1998				1997			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Statement of income ($ millions)								
Interest income	$ 3,556	$ 3,359	$ 3,170	$ 3,006	$ 2,788	$ 2,611	$ 2,536	$ 2,553
Interest expense	2,405	2,240	2,088	1,981	1,832	1,687	1,629	1,623
Net interest income	1,151	1,119	1,082	1,025	956	924	907	930
Provision for credit losses (reversal)	124	123	224	124	(406)	88	264	89
Other income	690	713	798	657	665	711	686	621
Net interest and other income	1,717	1,709	1,656	1,558	2,027	1,547	1,329	1,462
Non-interest expenses	1,143	1,133	1,145	1,025	1,298	911	878	972
Income before the undernoted:	574	576	511	533	729	636	451	490
Provision for income taxes	204	207	158	193	188	245	143	182
Non-controlling interest	11	11	7	9	8	7	8	11
Net income	359	358	346	331	533	384	300	297
Preferred dividends paid	27	24	23	23	25	24	24	26
Net income available to common shareholders	$ 332	$ 334	$ 323	$ 308	$ 508	$ 360	$ 276	$ 271
Common dividends paid	$ 99	$ 98	$ 98	$ 98	$ 91	$ 88	$ 88	$ 88
Average assets ($ billions)	$ 228.8	$ 214.7	$ 210.8	$ 201.2	$ 193.8	$ 179.0	$ 174.7	$ 169.1
Return on common shareholders' equity (%)	14.8%	15.5%	16.0%	15.2%	26.3%	20.3%	16.7%	16.5%
Balance sheet ($ billions)								
Cash resources	$ 22.9	$ 19.1	$ 18.8	$ 20.7	$ 18.2	$ 16.1	$ 17.3	$ 14.1
Securities	29.5	29.4	29.2	28.8	28.0	26.0	27.7	27.0
Reverse repos	11.2	12.8	12.3	11.6	8.5	14.7	9.7	8.5
Loans and acceptances:								
Residential mortgages	45.8	44.4	43.0	42.5	41.6	32.5	31.9	31.4
Personal and credit card loans	18.6	19.3	19.0	18.4	17.7	17.3	17.3	16.8
Business and government loans and acceptances	83.8	78.4	72.6	69.4	65.5	60.9	58.4	57.3
Total loans and acceptances	$ 148.2	$ 142.1	$ 134.6	$ 130.3	$ 124.8	$ 110.7	$ 107.6	$ 105.5
Total assets	$ 233.6	$ 222.7	$ 211.9	$ 210.7	$ 195.2	$ 181.7	$ 176.1	$ 168.7
Deposits	166.4	156.3	149.2	150.0	139.0	124.0	126.7	121.9
Subordinated debentures	5.5	6.2	5.8	5.2	5.2	5.1	3.6	3.6
Preferred shares	1.8	1.8	1.5	1.5	1.5	1.3	1.3	1.3
Common shareholders' equity	9.0	8.8	8.4	8.2	7.9	7.1	6.9	6.6
Asset quality								
Net impaired loans ($ millions)	$ 421	$ 420	$ 439	$ 589	$ 593	$ 446	$ 364	$ 690
As a % of loans and acceptances(1)	0.3%	0.3%	0.3%	0.5%	0.5%	0.4%	0.3%	0.7%
Risk-adjusted capital ratios (%)								
Tier 1 capital ratio	7.2%	6.9%	6.8%	6.7%	6.9%	6.7%	6.6%	6.7%
Total capital ratio	10.6	10.4	10.3	10.0	10.4	10.0	8.9	9.1
Common equity to risk-adjusted assets	6.0	5.7	5.8	5.7	5.8	5.6	5.5	5.5
Common share information								
Net income per share ($)(2)	$ 0.67	$ 0.68	$ 0.66	$ 0.63	$ 1.05	$ 0.75	$ 0.58	$ 0.57
Dividends per share ($)(2)	0.200	0.200	0.200	0.200	0.185	0.185	0.185	0.185
Dividend payout ratio (%)	29.7%	29.4%	30.4%	31.8%	17.8%	24.6%	32.0%	32.4%
Dividend yield (%)	2.8	2.2	2.1	2.5	2.3	2.5	2.8	3.3
Shares outstanding (millions)(2)								
End of period	492.1	491.8	491.0	490.3	489.8	477.8	476.5	475.7
Average	491.8	491.3	490.6	489.9	487.7	477.0	476.0	475.1
Book value per share ($)(2)	$ 18.37	$ 17.81	$ 17.06	$ 16.69	$ 16.19	$ 14.96	$ 14.45	$ 13.93
Share price ($)(2)								
– high	34.00	40.75	44.70	35.25	34.10	33.13	28.70	24.00
– low	22.80	33.45	32.33	27.88	28.90	26.53	23.80	20.55
– close	32.20	33.95	39.25	31.93	31.08	33.00	26.53	23.80
Market capitalization ($ billions)	15.8	16.7	19.3	15.7	15.2	15.8	12.6	11.3

(1) Excludes reverse repos.
(2) Amounts have been retroactively adjusted to reflect the two-for-one stock split on February 12, 1998.

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REPORT OF MANAGEMENT

The management of The Bank of Nova Scotia is responsible for the integrity and objectivity of the financial information presented in this Annual Report. The consolidated financial statements have been prepared in accordance with the financial reporting requirements of the Bank Act and instructions issued by the Superintendent of Financial Institutions Canada which comply in all material respects with generally accepted accounting principles. The consolidated financial statements reflect amounts which must of necessity be based on the best estimates and judgement of management with appropriate consideration as to materiality. Financial information presented elsewhere in this Annual Report is consistent with that shown in the accompanying consolidated financial statements.

Management has always recognized the importance of the Bank maintaining and reinforcing the highest possible standards of conduct in all of its actions, including the preparation and dissemination of statements fairly presenting the financial condition of the Bank. In this regard, management has developed and maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The system is augmented by written policies and procedures, the careful selection and training of qualified staff, the establishment of organizational structures providing an appropriate and well-defined division of responsibilities, and the communication of policies and guidelines of business conduct throughout the Bank.

The system of internal controls is further supported by a professional staff of internal auditors who conduct periodic audits of all aspects of the Bank's operations. As well, the Bank's Chief Inspector has full and free access to, and meets periodically with, the Audit Committee of the Board of Directors.

The Superintendent of Financial Institutions Canada examines and enquires into the business and affairs of the Bank, as he may deem necessary, to satisfy himself that the provisions of the Bank Act, having reference to the safety of the interests of depositors, creditors and shareholders of the Bank, are being duly observed and that the Bank is in a sound financial condition.

The Audit Committee, composed entirely of outside Directors, reviews the consolidated financial statements with both management and the independent auditors before such statements are approved by the Board of Directors and submitted to the shareholders of the Bank.

The Conduct Review Committee of the Board of Directors, composed entirely of outside Directors, reviews and reports its findings to the Board of Directors on all related party transactions having a material impact on the Bank.

KPMG LLP and PricewaterhouseCoopers LLP, the independent auditors appointed by the shareholders of the Bank, have examined the consolidated financial statements of the Bank in accordance with generally accepted auditing standards and have expressed their opinion upon completion of such examination in the following report to the shareholders. The auditors have full and free access to, and meet periodically with, the Audit Committee to discuss their audit and findings as to the integrity of the Bank's accounting and financial reporting and the adequacy of the system of internal controls.

Peter C. Godsoe Chairman of the Board and Chief Executive Officer	Bruce R. Birmingham President	Sarabjit S. Marwah Executive Vice-President and Chief Financial Officer

Toronto, December 2, 1998

AUDITORS' REPORT

To the Shareholders of The Bank of Nova Scotia

We have audited the Consolidated Balance Sheets of The Bank of Nova Scotia as at October 31, 1998 and 1997, and the Consolidated Statements of Income, Changes in Shareholders' Equity and Changes in Financial Position for each of the years in the three-year period ended October 31, 1998. 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 audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. 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.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 1998 and 1997, and the results of its operations and the changes in its financial position for each of the years in the three-year period ended October 31, 1998, in accordance with generally accepted accounting principles including the accounting requirements of the Superintendent of Financial Institutions Canada.

KPMG LLP Chartered Accountants	PricewaterhouseCoopers LLP Chartered Accountants	Toronto, December 2, 1998

CONSOLIDATED BALANCE SHEET

As at October 31 ($ millions)	**1998**	1997
ASSETS		
Cash resources		
Cash and deposits with Bank of Canada	**$ 2,360**	$ 1,058
Deposits with other banks	**20,540**	17,116
	22,900	18,174
Securities (Note 3)		
Issued or guaranteed by:		
Canada	**7,650**	8,782
Provinces and municipalities	**2,073**	1,869
Other securities	**19,777**	17,348
	29,500	27,999
Assets purchased under resale agreements	**11,189**	8,520
Loans (Note 4)		
Residential mortgages	**45,818**	41,647
Personal and credit cards	**18,574**	17,668
Business and governments	**74,901**	57,904
	139,293	117,219
Other		
Customers' liability under acceptances	**8,888**	7,575
Land, buildings and equipment (Note 6)	**1,759**	1,716
Other assets (Note 7)	**20,059**	13,950
	30,706	23,241
	$ 233,588	$ 195,153
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits (Note 8)		
Personal	**$ 62,656**	$ 59,239
Business and governments	**70,779**	56,928
Banks	**32,925**	22,808
	166,360	138,975
Other		
Cheques and other items in transit, net	**304**	340
Acceptances	**8,888**	7,575
Obligations related to assets sold under repurchase agreements	**14,603**	11,559
Obligations related to securities sold short	**3,121**	3,739
Other liabilities (Note 9)	**23,843**	18,263
Non-controlling interest in subsidiaries	**173**	137
	50,932	41,613
Subordinated debentures (Note 10)	**5,482**	5,167
Shareholders' equity		
Capital stock (Note 11)		
Preferred shares	**1,775**	1,468
Common shares	**2,625**	2,567
Retained earnings	**6,414**	5,363
	10,814	9,398
	$ 233,588	$ 195,153

Peter C. Godsoe
Chairman of the Board and
Chief Executive Officer

Bruce R. Birmingham
President

CONSOLIDATED STATEMENT OF INCOME

For the year ended October 31 ($ millions except per share amounts)	**1998**	1997	1996
INTEREST INCOME			
Loans	**$ 10,269**	$ 8,082	$ 7,881
Securities	**1,815**	1,636	1,757
Deposits with banks	**1,007**	770	740
	13,091	10,488	10,378
INTEREST EXPENSE			
Deposits	**7,303**	5,714	5,969
Subordinated debentures	**354**	260	214
Other	**1,057**	797	841
	8,714	6,771	7,024
Net interest income	**4,377**	3,717	3,354
Provision for credit losses (Note 5)	**595**	35	380
Net interest income after provision for credit losses	**3,782**	3,682	2,974
OTHER INCOME			
Deposit and payment services	**619**	531	499
Investment management and trust	**310**	250	230
Credit fees	**472**	395	333
Investment banking	**798**	847	689
Net gains on investment securities	**322**	403	129
Other	**337**	257	128
	2,858	2,683	2,008
Net interest and other income	**6,640**	6,365	4,982
NON-INTEREST EXPENSES			
Salaries	**2,193**	1,973	1,702
Pension contributions and other staff benefits	**308**	229	208
Premises and equipment, including depreciation	**958**	778	664
Other	**987**	829	663
Restructuring costs (Note 19)	**–**	250	(20)
	4,446	4,059	3,217
Income before the undernoted:	**2,194**	2,306	1,765
Provision for income taxes (Note 12)	**762**	758	665
Non-controlling interest in net income of subsidiaries	**38**	34	31
Net income	**$ 1,394**	$ 1,514	$ 1,069
Preferred dividends paid	**$ 97**	$ 99	$ 113
Net income available to common shareholders	**$ 1,297**	$ 1,415	$ 956
Average number of common shares outstanding (000's)(1)	**490,914**	478,972	468,716
Net income per common share(1)	**$ 2.64**	$ 2.95	$ 2.04
Dividends per common share(1)	**$ 0.80**	$ 0.74	$ 0.65

(1) Amounts have been retroactively adjusted to reflect the two-for-one stock split on February 12, 1998.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended October 31 ($ millions)	**1998**	1997	1996
PREFERRED SHARES (Note 11)			
Bank:			
Balance at beginning of year	**$ 1,218**	$ 1,325	$ 1,575
Issued	**311**	143	100
Redeemed	**(4)**	(250)	(350)
Balance at end of year	**1,525**	1,218	1,325
Scotia Mortgage Investment Corporation:			
Balance at beginning of year	**250**	–	–
Issued	**–**	250	–
Balance at end of year	**250**	250	–
Total preferred shares	**$ 1,775**	$ 1,468	$ 1,325
COMMON SHARES (Note 11)			
Balance at beginning of year	**$ 2,567**	$ 2,161	$ 1,994
Issued on acquisition of National Trustco Inc. (Note 19)	**–**	335	–
Issued under Shareholder Dividend and Share Purchase Plan, Stock Option Plan, and other	**58**	71	167
Balance at end of year	**$ 2,625**	$ 2,567	$ 2,161
RETAINED EARNINGS			
Balance at beginning of year	**$ 5,363**	$ 4,263	$ 3,751
Implementation of impaired loans accounting policy (Note 5)	**–**	–	(116)
Net income	**1,394**	1,514	1,069
Dividends: Preferred	**(97)**	(99)	(113)
Common	**(393)**	(355)	(305)
Net unrealized foreign exchange gains and losses	**152**	43	(19)
Net cost of shares issued and redeemed	**(5)**	(3)	(4)
Balance at end of year	**$ 6,414**	$ 5,363	$ 4,263

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year ended October 31 ($ millions)	**1998**	1997	1996
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Net income	**$ 1,394**	$ 1,514	$ 1,069
Adjustments to net income to determine net cash provided by (used in) operating activities:			
Restructuring costs	**–**	250	(20)
Depreciation and amortization	**248**	217	163
Provision for credit losses	**595**	35	380
Deferred income taxes	**(155)**	6	(47)
Net (increase) decrease in accrued interest receivable	**(489)**	(883)	139
Net increase in accrued interest payable	**44**	545	84
Net (increase) in trading securities	**(1,200)**	(838)	(1,916)
Net gains on investment securities	**(322)**	(403)	(129)
Other changes, net	**91**	347	572
Cash provided by operating activities	**206**	790	295
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES			
Net increase (decrease) in:			
Deposits	**27,385**	7,862	6,549
Obligations related to assets sold under repurchase agreements	**3,044**	3,665	540
Obligations related to securities sold short	**(618)**	(2,770)	1,093
Subordinated debentures:			
Proceeds from issues	**1,025**	1,835	300
Redemption of issues	**(920)**	–	(244)
Foreign exchange translation	**210**	81	(54)
Capital stock:			
Proceeds from preferred shares issued	**311**	393	100
Preferred shares redeemed	**(4)**	(250)	(350)
Proceeds from common shares:			
Issued on acquisition of National Trustco Inc. (Note 19)	**–**	335	–
Issued under Shareholder Dividend and Share Purchase Plan, Stock Option Plan, and other	**58**	71	167
Dividends paid	**(490)**	(454)	(418)
Other changes, net	**131**	522	165
Cash provided by financing activities	**30,132**	11,290	7,848
Total cash available for investing activities	**30,338**	12,080	8,143
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES			
Net (increase) decrease in:			
Deposits with other banks: non-operating	**(2,561)**	(2,916)	2,307
Investment securities	**21**	556	(1,886)
Assets purchased under resale agreements	**(2,669)**	592	(734)
Loans, excluding securitizations	**(23,669)**	(10,300)	(7,497)
Proceeds from loans securitized	**1,000**	1,500	–
Change in land, buildings and equipment, net of disposals	**(259)**	(285)	(199)
Acquisition of National Trustco Inc. (Note 19)	**–**	(1,236)	–
Cash (used in) investing activities	**(28,137)**	(12,089)	(8,009)
Increase (decrease) in cash and cash equivalents	**2,201**	(9)	134
Cash and cash equivalents, beginning of year	**2,230**	2,169	2,035
National Trustco Inc. – cash and cash equivalents, at date of acquisition	**–**	70	–
Cash and cash equivalents, end of year	**$ 4,431**	$ 2,230	$ 2,169
Represented by:			
Cash resources per Consolidated Balance Sheet	**$ 22,900**	$ 18,174	$ 14,737
Cheques and other items in transit, net	**(304)**	(340)	(459)
Deposits with other banks: non-operating	**(18,165)**	(15,604)	(12,109)
Cash and cash equivalents, end of year	**$ 4,431**	$ 2,230	$ 2,169

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of The Bank of Nova Scotia have been prepared in accordance with the Bank Act which states that, except as otherwise specified by the Superintendent of Financial Institutions Canada (the Superintendent), the financial statements are to be prepared in accordance with generally accepted accounting principles (GAAP). The significant accounting policies used in the preparation of these consolidated financial statements, including the accounting requirements of the Superintendent, are summarized on the following pages. These accounting policies conform, in all material respects, to GAAP. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and income and expenses during the reporting period. Actual results could differ from those estimates.

Certain comparative amounts have been reclassified to conform with current year presentation.

Basis of consolidation

The consolidated financial statements include the assets, liabilities and results of operations of the Bank and all of its subsidiaries and effectively controlled associated corporations after the elimination of intercompany transactions and balances. Subsidiaries are defined as corporations controlled by the Bank which are normally corporations in which the Bank owns more than 50% of the voting shares. The purchase method is used to account for acquisitions of subsidiaries.

The cost of investments in subsidiaries in excess of fair value of the net identifiable assets acquired is amortized over the estimated periods to be benefitted, not exceeding 20 years. The unamortized balance is recorded in Other Assets as goodwill. The value of goodwill is regularly evaluated by reviewing the returns of the related business, taking into account the risk associated with the investment. Any permanent impairment in the value of goodwill is written off against earnings. Identifiable intangible assets are amortized over the estimated periods to be benefitted and the unamortized balance is recorded in Other Assets. The values of identifiable intangibles are regularly evaluated for impairment by reviewing the amount of the estimated future net cash flows.

Investments in associated corporations, where the Bank has significant influence which is normally evidenced by direct or indirect ownership of between 20% and 50% of the voting shares, are carried on the equity basis of accounting and are included in Other Securities in the Consolidated Balance Sheet. The Bank's share of earnings of such corporations is included in Income from Securities in the Consolidated Statement of Income.

Translation of foreign currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing at the end of the financial year, except for the following which are recorded at historical Canadian dollar cost: land, buildings and equipment and foreign currency equity investments not funded in the same currency as the investments. All revenues and expenses denominated in foreign currencies are translated using average exchange rates except for depreciation, which is based on the historical Canadian dollar cost of the related assets.

Unrealized translation gains and losses which arise upon consolidation of net foreign currency investment positions in branches, subsidiaries and associated corporations, net of applicable income taxes, together with any gains or losses arising from hedges of those net investment positions, are credited or charged to Retained Earnings, except as noted below. Upon sale or substantial liquidation of an investment position, the previously recorded unrealized gains or losses thereon are transferred from Retained Earnings to the Consolidated Statement of Income.

Translation gains and losses arising from self-sustaining subsidiaries and branches operating in highly inflationary environments, if any, are included in Other Income – Investment Banking.

Securities

Securities are held in either the trading or investment portfolio.

Trading securities are intended to be held for a short period of time and are carried at market value. Gains and losses on disposal and adjustments to market value are included in Other Income – Investment Banking.

Investment securities comprise debt and equity securities held for liquidity and longer term investment. Equity securities in which the Bank's holdings of voting shares are less than 20% are carried at cost, except where significant influence is demonstrated. Debt securities held in the investment account are carried at amortized cost with premiums and discounts being amortized to income over the period to maturity. When there has been a decline in value of debt or equity securities that is other than temporary, the carrying value of the securities is appropriately reduced. Such reductions, if any, together with gains and losses on disposals are included in Other Income – Net Gains on Investment Securities.

Included in the investment portfolio are bonds received from the conversion of loans to designated emerging markets which are recorded at their face value net of the related country risk provision. Loan substitute securities are customer financings which have been restructured as after-tax investments rather than conventional loans in order to provide the issuers with a lower borrowing rate. Such securities are accorded the accounting treatment applicable to loans.

Assets purchased/sold under resale/repurchase agreements

The purchase and sale of securities under resale and repurchase agreements are treated as collateralized lending and borrowing transactions. The related interest income and interest expense are recorded on an accrual basis.

Loans

Loans are stated net of any unearned income and of an allowance for credit losses. Interest income is accounted for on the accrual basis for all loans other than impaired loans. Accrued interest is included in Other Assets in the Consolidated Balance Sheet.

A loan is classified as impaired when, in management's opinion, there has been a deterioration in credit quality to the extent that there is no longer reasonable assurance of timely collection of the full amount of principal and interest. If a payment on a loan is contractually 90 days in arrears, the loan will be classified as impaired, if not already classified as such, unless the loan is fully secured, the collection of the debt is in process and the collection efforts are reasonably expected to result in repayment of the loan or in restoring it to a current status within 180 days from the date a payment has become contractually in arrears. Finally, a loan that is contractually 180 days in arrears is classified as impaired in all situations, except when it is guaranteed or insured by the Canadian government, the provinces or a Canadian government agency; such loans are classified as impaired if the loan is contractually in arrears for

365 days. Any credit card loan that has a payment that is contractually 180 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. For those sovereign risk loans to which the related country risk provision applies, interest continues to be accrued in income, except when the loans are classified as impaired.

Loans are generally returned to accrual status when the timely collection of both principal and interest is reasonably assured and all delinquent principal and interest payments are brought current.

Loan fees are recognized in income over the appropriate lending or commitment period.

Allowance for credit losses

The Bank maintains an allowance for credit losses, which in management's opinion, is adequate to absorb all credit-related losses in its portfolio of both on and off-balance sheet items, including deposits with other banks, loan substitute securities, assets purchased under resale agreements, loans, acceptances, derivative instruments and other indirect credit commitments, such as letters of credit and guarantees. The allowance for credit losses consists of specific provisions, general provision, and country risk provision, each of which is reviewed on a regular basis. The allowance for credit losses against on-balance sheet items is included as a reduction of the related asset category, and allowances relating to off-balance sheet items are included in Other Liabilities.

Specific provisions, except those relating to credit card loans and certain personal loans, are determined on an item-by-item basis and reflect the associated estimated credit loss. In the case of loans, the specific provision is the amount that is required to reduce the carrying value of an impaired loan to its estimated realizable amount. Generally, the estimated realizable amount is measured by discounting the expected future cash flows at the effective interest rate inherent in the loan at the date of impairment. When the amounts and timing of future cash flows cannot be measured with reasonable reliability, either the fair value of any security underlying the loan, net of expected costs of realization and any amounts legally required to be paid to the borrower, or the observable market price for the loan is used to measure the estimated realizable amount. The change in the present value attributable to the passage of time on the expected future cash flows is reported as a reduction of the Provision for Credit Losses in the Consolidated Statement of Income. Specific provisions for credit card loans and certain personal loans are calculated using a formula method taking into account recent loss experience.

The general provision is established against the loan portfolio in respect of the Bank's core business lines where a prudent assessment by the Bank of adverse economic trends suggests that losses may occur, but where such losses cannot yet be determined on an item-by-item basis. Prior to 1997, the general provision was established in respect of exposures to particular industries or geographic regions.

The country risk provision is maintained in accordance with instructions issued by the Superintendent based on total trans-border exposure to a prescribed group of countries. In accordance with those instructions, any new exposures to those designated emerging markets after October 31, 1995, are subject to the same procedures as those used for determining specific provisions referred to above.

Loan securitizations

When the Bank enters into a transaction to transfer loans to an unrelated third party, the Bank treats the transfer as a sale, provided that the significant risks and rewards of ownership have been transferred and there is reasonable assurance regarding the measurement of the consideration derived. If the above criteria are not satisfied, then the transfer is treated as a financing transaction. If treated as a sale, the loan assets are removed from the balance sheet. In determining the gain or loss on sale, issuance costs are deducted from the sale proceeds. Losses on sales are recognized immediately. To the extent that there is recourse to the Bank under the transaction in excess of expected losses under recourse provisions, any gain on sale is not recognized and is deferred until it is collected in cash and there is no recourse to the cash. Where the Bank continues to service the assets sold, the normal servicing fee is recognized over the servicing period as earned and is reported in Other Income – Other.

Acceptances

The Bank's potential liability under acceptances is reported as a liability in the Consolidated 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. Fees earned are reported in Other Income – Credit Fees.

Land, buildings and equipment

Land is carried at cost. Buildings, equipment and leasehold improvements are carried at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method over the estimated useful life of the related asset as follows: buildings – 40 years, equipment – 3 to 10 years, and leasehold improvements – term of lease plus one renewal option period.

Net gains and losses on disposal are included in Other Income – Other, in the year of disposal.

Income taxes

The Bank follows the tax allocation basis of accounting for income taxes, whereby income tax provisions or recoveries are recorded in the years the income and expense are recognized for accounting purposes regardless of when related taxes are actually paid or recovered.

These provisions or recoveries include the income taxes applicable to income included in the Consolidated Statement of Income and amounts charged or credited directly to Retained Earnings. Deferred income taxes, accumulated as a result of timing differences, are included in Other Assets or Other Liabilities as applicable.

Precious metals

The precious metals inventory is carried at market value and is included in Cash Resources. The liability arising from outstanding certificates is also carried at market value and included in Other Liabilities.

Derivative instruments

Derivative instruments are financial contracts whose value is derived from interest rates, foreign exchange rates or other financial or commodity indices. Most derivative instruments can be characterized as interest rate contracts, foreign exchange contracts, commodity contracts or equity contracts. Derivative instruments are either exchange-traded contracts or negotiated over-the-counter contracts. Exchange-traded derivatives include futures and option contracts. Negotiated over-the-counter derivatives include swaps, forwards and options.

The Bank enters into these derivative instruments to accommodate the risk management needs of its customers, for proprietary trading and for asset/liability management purposes.

Derivative instruments designated as "trading" include derivatives entered into with customers to accommodate their risk management needs and derivatives transacted to generate trading income from the Bank's proprietary trading positions. Trading derivatives are carried at their fair values. The gains and losses resulting from changes in fair values are included in Other Income – Investment Banking. Unrealized gains and unrealized losses on trading derivatives are included in Other Assets and Other Liabilities respectively. An element of revenue estimated to be sufficient to provide for future risks and administrative expenses associated with swaps and interest rate options is deferred and amortized to Other Income – Investment Banking, over the life of the contracts.

Derivative instruments designated as "asset/liability management" are those used to manage the Bank's interest rate and foreign currency exposures, which include instruments designated as hedges. Where derivatives have been designated and function effectively as hedges, income and expense on these derivatives are recognized over the life of the related position as an adjustment to Net Interest Income. Realized gains and losses on terminated contracts are deferred and amortized over the remaining life of the related position. Accrued income and expense and deferred gains and losses are included in Other Assets and Other Liabilities, as appropriate.

Pensions and other post-retirement benefits

The Bank maintains pension plans to provide benefits to employees in Canada, the United States and other international operations. Assets of the pension funds are valued using a valuation method that spreads all realized and unrealized capital gains and losses over a five-year period. An actuarial valuation is performed each year to determine the present value of the accrued pension obligations based on management's best estimates of various assumptions, such as projected employee compensation levels and rates of return on investments.

The cumulative difference between pension expense and funding contributions is included in Other Assets or Other Liabilities, as appropriate.

Pension expense is comprised of (a) the actuarially determined pension benefits for the current year's service, (b) imputed interest on the net funding excess or deficiency of the plan and (c) amortization of certain items over the expected average remaining service life of employees. The items amortized are experience gains and losses, amounts arising as a result of changes in assumptions and plan amendments, and the net funding excess at the date the current accounting policy was implemented.

The Bank also provides post-retirement benefits for employees which include health and dental care, and life insurance benefits. The cost of these benefits is included in Pension Contributions and Other Staff Benefits as incurred.

2. FUTURE ACCOUNTING CHANGES

A) CORPORATE INCOME TAXES

The Canadian Institute of Chartered Accountants (CICA) issued a new accounting standard for income taxes, effective for fiscal year 2001. This standard will harmonize Canadian corporate income tax accounting with United States' standards. The standard will require adoption of the liability method whereby the measurement of future income tax assets and liabilities would be at the tax rates expected to apply when the asset is realized or the liability settled. The adoption of this new standard is not expected to have a material impact on the Bank's Consolidated Financial Statements.

B) CASH FLOW STATEMENTS

The CICA issued a new accounting standard for cash flow statements which is effective for fiscal year 1999. The current Consolidated Statement of Changes in Financial Position is not expected to change materially.

3. SECURITIES

As at October 31 ($ millions)	Remaining term to maturity: Within 3 months	Three to 12 months	One to 5 years	Over 5 years	No specific maturity	1998 Carrying value	1997 Carrying value
Investment securities							
Canadian federal government debt	$ 711	$ 1,413	$ 1,346	$ 294	$ –	**$ 3,764**	$ 5,037
Canadian provincial and municipal debt	20	109	247	338	–	**714**	564
Foreign government debt	663	838	1,983	1,482	–	**4,966**	4,137
Bonds of designated emerging markets(1)	–	–	–	1,317	–	**1,317**	1,201
Other debt	176	140	1,019	979	–	**2,314**	2,690
Preferred shares	6	–	2	–	1,224(2)	**1,232**	998
Common shares	–	–	–	–	2,081	**2,081**	1,516
Associated corporations	–	–	2	222	450(3)	**674**	568
Total	1,576	2,500	4,599	4,632	3,755	**17,062**	16,711
Loan substitute securities(4)	–	–	330	–	–	**330**	380
Trading securities(5)							
Canadian federal government debt	455	154	1,564	1,713	–	**3,886**	3,745
Canadian provincial and municipal debt	86	91	375	807	–	**1,359**	1,305
Foreign government debt	47	4	314	119	–	**484**	1,541
Common shares	–	–	–	–	3,207	**3,207**	2,497
Other	2,007	226	349	476	114	**3,172**	1,820
Total	2,595	475	2,602	3,115	3,321	**12,108**	10,908
Total securities	$ 4,171	$ 2,975	$ 7,531	$ 7,747	$ 7,076	**$ 29,500**	$ 27,999
Total by currency (in Canadian equivalent):							
Canadian dollar	$ 3,162	$ 1,878	$ 4,226	$ 3,378	$ 5,044	**$ 17,688**	$ 17,132
U.S. dollar	541	660	2,381	3,622	1,720	**8,924**	7,777
Other currencies	468	437	924	747	312	**2,888**	3,090
Total securities	$ 4,171	$ 2,975	$ 7,531	$ 7,747	$ 7,076	**$ 29,500**	$ 27,999

(1) This includes restructured bonds of designated emerging markets after deducting a country risk provision of $507 (1997 – $453). Refer to Note 5.
(2) Although these securities have no stated term, most of them provide the Bank with various means to retract or dispose of these shares on earlier dates.
(3) Equity securities of associated corporations have no stated term and have been classified in the "No specific maturity" column.
(4) Market value approximates carrying value.
(5) Trading securities are carried at market value.

An analysis of unrealized gains and losses on investment securities is as follows:

As at October 31 ($ millions)	1998 Carrying value	1998 Gross unrealized gains	1998 Gross unrealized losses	1998 Estimated market value	1997 Carrying value	1997 Gross unrealized gains	1997 Gross unrealized losses	1997 Estimated market value
Investment securities								
Canadian federal government debt	**$ 3,764**	**$ 38**	**$ 5**	**$ 3,797**	$ 5,037	$ 113	$ 2	$ 5,148
Canadian provincial and municipal debt	**714**	**35**	**1**	**748**	564	35	–	599
Foreign government debt	**4,966**	**108**	**66**	**5,008**	4,137	147	12	4,272
Bonds of designated emerging markets	**1,317**	**225**	**–**	**1,542**	1,201	460	–	1,661
Other debt	**2,314**	**60**	**1**	**2,373**	2,690	36	6	2,720
Preferred shares	**1,232**	**55**	**33**	**1,254**	998	84	8	1,074
Common shares	**2,081**	**215**	**143**	**2,153**	1,516	228	37	1,707
Associated corporations	**674**	**–**	**–**	**674**	568	–	–	568
Total investment securities	**$ 17,062**	**$ 736**	**$ 249**	**$ 17,549**	$ 16,711	$ 1,103	$ 65	$ 17,749

The net unrealized gains on investment securities of $487 million (1997 – $1,038 million) decreased to $81 million (1997 – $817 million) after the net fair value of derivative instruments and other hedge amounts associated with these securities are taken into account.

4. LOANS

The Bank's loans net of unearned income and the allowance for credit losses in respect of loans are as follows:

As at October 31 ($ millions)	**1998**	1997
Canada		
Residential mortgages	**$ 44,556**	$ 40,982
Personal and credit cards	**15,394**	15,397
Business and governments	**24,399**	22,776
	84,349	79,155
United States	**27,512**	19,540
Other international	**29,366**	20,149
	141,227	118,844
Less: allowance for credit losses	**1,934**	1,625
Total[(1)(2)]	**$ 139,293**	$ 117,219

(1) Loans denominated in U.S. dollars amount to $46,003 (1997 – $31,066) and loans denominated in other foreign currencies amount to $13,772 (1997 – $10,417). Segmentation of assets is based upon the location of ultimate risk of the underlying assets.
(2) During 1998 the Bank securitized $1,000 of credit card loans (1997 – $1,500 of personal loans).

5. IMPAIRED LOANS AND ALLOWANCE FOR CREDIT LOSSES

A) IMPAIRED LOANS

As at October 31 ($ millions)							**1998**	1997
	Gross impaired loans	Specific provisions: Individual	Specific provisions: By group	Country risk provision	Net impaired loans before general provision	General provision	**Net impaired loans**	Net impaired loans
By loan type:								
Residential mortgages	$ 192	$ 40	$ 8	$ –	$ 144	$ 18	**$ 126**	$ 157
Personal and credit cards	338	14	214	–	110	–	**110**	150
Business and governments:								
Real estate	214	91	–	–	123	98	**25**	65
Other businesses	1,547	903	–	–	644	484	**160**	221
Designated emerging markets	25	–	–	25	–	–	**–**	–
Total[(1) (2)]	$ 2,316	$ 1,048	$ 222	$ 25	$ 1,021	$ 600	**$ 421**	$ 593
By geography:								
Canada							**$ 634**	$ 644
United States							**160**	200
Other international							**227**	249
Net impaired loans before general provision							**1,021**	1,093
General provision							**600**	500
Net impaired loans							**$ 421**	$ 593

(1) Included in the gross impaired loans and the specific provisions are foreclosed assets held for sale of $97 (1997 – $184) and $63 (1997 – $109) respectively.
(2) Gross impaired loans in U.S. dollars amount to $1,067 (1997 – $795) and those denominated in other foreign currencies amount to $189 (1997 – $210).

B) ALLOWANCE FOR CREDIT LOSSES

As at October 31 ($ millions)	Specific provisions	Country risk provision[1]	General provision	**1998**	1997	1996
Balance, beginning of year	$ 1,044	$ 534	$ 500	**$ 2,078**	$ 2,327	$ 3,104
Implementation of impaired loans accounting policy[2]	–	–	–	**–**	–	202
Newly acquired subsidiaries – balance at date of acquisition[3]	160	–	–	**160**	138	–
Write offs[4]	(552)	(13)	–	**(565)**	(587)	(1,388)
Recoveries	57	–	–	**57**	70	38
Provision for credit losses	495[5]	–	100	**595**	35[5][6]	380[5]
Other, including foreign currency adjustment[7]	66	50	–	**116**	95	(9)
Balance, end of year	$ 1,270	$ 571	$ 600	**$ 2,441**	$ 2,078	$ 2,327

(1) Includes $507 (1997 – $453; 1996 – $737) which has been deducted from Securities.

(2) In accordance with the guidelines issued by the Superintendent, in fiscal 1996, the Bank adopted new impaired loans accounting principles established by the Canadian Institute of Chartered Accountants. The adoption of these principles by the Bank resulted in a one-time increase in the allowance for credit losses recorded in the Consolidated Balance Sheet of $202 and a corresponding cumulative charge to opening Retained Earnings of $116 (being net of deferred income taxes of $86) in fiscal 1996.

(3) The balance for 1998 relates to the acquisition of Banco Quilmes. The balance for 1997 relates to the acquisition of National Trustco Inc.

(4) Includes $11 (1997 – $16; 1996 – $102) of write offs of loans restructured during the year.

(5) Amounts are after reversing specific provisions no longer required of $225 (1997 – $244; 1996 – $158).

(6) Amounts are after reversing the country risk provision no longer required of $500 for 1997.

(7) This adjustment includes the effect of hedging the provision for credit losses of foreign currency denominated loans.

6. LAND, BUILDINGS AND EQUIPMENT

As at October 31 ($ millions)	Cost	Accumulated depreciation & amortization	**Net book value 1998**	Net book value 1997
Land	$ 231	$ –	**$ 231**	$ 231
Buildings	986	278	**708**	775
Equipment	1,884	1,286	**598**	519
Leasehold improvements	458	236	**222**	191
Total	$ 3,559	$ 1,800	**$ 1,759**	$ 1,716

Depreciation and amortization in respect of the above buildings, equipment and leasehold improvements for the year amounted to $225 million (1997 – $185 million; 1996 – $162 million).

7. OTHER ASSETS

As at October 31 ($ millions)	**1998**	1997
Unrealized gains on trading derivatives	**$ 13,675**	$ 8,925
Accrued interest	**2,550**	2,061
Accounts receivable	**439**	298
Deferred income taxes	**697**	542
Identifiable intangibles	**239**	246
Goodwill	**148**	123
Other	**2,311**	1,755
Total	**$ 20,059**	$ 13,950

8. DEPOSITS

As at October 31 ($ millions)	Payable on demand	Payable after notice	Payable on a fixed date	**1998**	1997
Canada					
Personal	$ 1,718	$ 12,932	$ 39,369	**$ 54,019**	$ 53,134
Business and governments	5,364	5,209	18,051	**28,624**	26,156
Banks	46	–	584	**630**	1,105
	7,128	18,141	58,004	**83,273**	80,395
United States					
Personal	6	112	591	**709**	558
Business and governments	92	209	23,041	**23,342**	15,459
Banks	37	788	6,044	**6,869**	2,142
	135	1,109	29,676	**30,920**	18,159
Other international					
Personal	225	3,303	4,400	**7,928**	5,547
Business and governments	1,447	774	16,592	**18,813**	15,313
Banks	350	375	24,701	**25,426**	19,561
	2,022	4,452	45,693	**52,167**	40,421
Total[1]	$ 9,285	$ 23,702	$ 133,373	**$ 166,360**	$ 138,975

(1) Deposits denominated in U.S. dollars amount to $64,307 (1997 – $42,379) and deposits denominated in other foreign currencies amount to $25,286 (1997 – $19,489). Segmentation of deposits is based upon residency of depositor.

9. OTHER LIABILITIES

As at October 31 ($ millions)	**1998**	1997
Unrealized losses on trading derivatives	**$ 14,360**	$ 8,872
Accrued interest	**2,575**	2,531
Accounts payable and accrued expenses	**1,321**	1,202
Deferred income	**292**	289
Liabilities of subsidiaries, other than deposits	**730**	1,429
Gold and silver certificates	**3,311**	2,512
Other	**1,254**	1,428
Total	**$ 23,843**	$ 18,263

10. SUBORDINATED DEBENTURES

($ millions)

These debentures are direct, unsecured obligations of the Bank and are subordinate to the claims of the Bank's depositors and other creditors. The Bank, where appropriate, enters into interest rate and cross currency swaps to hedge the related risks.

The outstanding debentures as at October 31 are:

Maturity date	Interest rate (%)	Terms[1] (currency in millions)	**1998**	1997
October, 1998	7.35	¥10,000 with interest payable in Australian dollars	**$ –**	$ 117
November, 1998	4.875	SFr 150	**171**	151
October, 1999	9.0	US $22 (1997 – US $200)	**34** [2]	282
March, 2001	11.4		**4** [2]	100
March, 2001	10.75		**35** [2]	150
July, 2001	10.35	Redeemable at any time	**43** [2]	200
March, 2003	8.1		**116** [2]	300
May, 2003	6.875	US $250	**386**	352
March, 2004	7.4	¥10,000 with interest payable in Australian dollars redeemable on March 29, 1999	**132**	117
December, 2006	6.0	Redeemable at any time. After December 4, 2001, interest will be payable at an annual rate equal to the 90 day Bankers' Acceptance rate plus 1%	**350**	350
June, 2007	6.25	Redeemable at any time. After June 12, 2002, interest will be payable at an annual rate equal to the 90 day Bankers' Acceptance rate plus 1%	**300**	300
July, 2007	6.5	US $500. Redeemable on any interest payment date on or after July 15, 2002. After July 15, 2002, interest will be payable at an annual rate equal to the US dollar three month LIBOR rate plus 1%	**771**	704
April, 2008	5.4	Redeemable at any time. After April 1, 2003, interest will be payable at an annual rate equal to the 90 day Bankers' Acceptance rate plus 1%	**600**	–
September, 2008	6.25	US $250	**386**	352
February, 2011	7.4	Redeemable on or after February 8, 2001. After February 8, 2006, interest will be payable at an annual rate equal to the 90 day Bankers' Acceptance rate plus 1%	**300**	300
July, 2012	6.25	Redeemable at any time. After July 16, 2007, interest will be payable at an annual rate equal to the 90 day Bankers' Acceptance rate plus 1%	**500**	500
July, 2013	5.65	Redeemable at any time. After July 22, 2008, interest will be payable at an annual rate equal to the 90 day Bankers' Acceptance rate plus 1%	**425**	–
September, 2013	8.3	Redeemable on or after September 27, 1998	**250**	250
June, 2025	8.9	Redeemable on or after June 20, 2000	**250**	250
August, 2085	Floating	US $278 bearing interest at a floating rate of the offered rate for six month Eurodollar deposits plus .125%; redeemable on any interest payment date	**429**	392
Total			**$ 5,482**	$ 5,167

The aggregate maturities of the debentures are as follows:

Less than 1 year	$ 205
From 1 to 2 years	–
From 2 to 5 years	584
From 5 to 10 years	2,539
Over 10 years	2,154
	$ 5,482

(1) *In accordance with the provisions of the Capital Adequacy Guideline of the Superintendent, all redemptions are subject to regulatory approval.*

(2) *During the year the Bank provided the holders of these subordinated debentures with a one-time option to convert their holdings into deposit instruments of the Bank bearing similar terms. Balances outstanding at the end of 1998 represent holders who did not exercise their option to convert.*

11. CAPITAL STOCK

Authorized:

Preferred Shares: An unlimited number of shares without nominal or par value, the aggregate consideration of which shall not exceed $4 billion.

Common Shares: An unlimited number of shares without nominal or par value, the aggregate consideration of which shall not exceed $5 billion.

Issued and fully paid as at October 31 ($ millions except share amounts)	**1998**		1997	
	Number of shares outstanding	**Amount**	Number of shares outstanding	Amount
Series 5 Preferred Shares(1)	**–**	**$ –**	–	$ –
Series 6 Preferred Shares(2)	**12,000,000**	**300**	12,000,000	300
Series 7 Preferred Shares(3)	**8,000,000**	**200**	8,000,000	200
Series 8 Preferred Shares(4)	**9,000,000**	**225**	9,000,000	225
Series 9 Preferred Shares(5)	**10,000,000**	**250**	10,000,000	250
Series 10 Preferred Shares(6)	**7,100**	**–**	438,278	4
Series 11 Preferred Shares(6)(7)	**9,992,900**	**250**	9,561,722	239
Series 12 Preferred Shares(8)	**12,000,000**	**300**	–	–
Preferred Shares issued by the Bank	**61,000,000**	**$ 1,525**	49,000,000	$ 1,218
Preferred Shares issued by Scotia Mortgage Investment Corporation(9)	**250,000**	**250**	250,000	250
Total Preferred Shares	**61,250,000**	**$ 1,775**	49,250,000	$ 1,468
Common Shares:				
Outstanding at beginning of year(10)	**489,812,304**	**$ 2,567**	474,893,222	$ 2,161
Issued to acquire National Trustco Inc. (Note 19)(10)	**–**	**–**	11,364,334	335
Issued under Shareholder Dividend and Share Purchase Plan, and other(10) (11)	**1,229,071**	**41**	1,573,628	43
Issued under Stock Option Plan(10) (12)	**1,047,397**	**17**	1,981,120	28
Outstanding at end of year(10) (11) (12)	**492,088,772**	**$ 2,625**	489,812,304	$ 2,567
Total capital stock		**$ 4,400**		$ 4,035

(1) Series 5 Non-cumulative Preferred Shares were redeemed by the Bank on October 29, 1997. Series 5 Non-cumulative Preferred Shares were entitled to non-cumulative preferential cash dividends payable quarterly in an amount per share equal to the greater of (i) $0.578125 and (ii) 116% of the regular dividend for the same quarter, if any, declared on each common share of the Bank.

(2) Series 6 Non-cumulative Preferred Shares are entitled to non-cumulative preferential cash dividends payable quarterly in an amount per share of $0.446875. With regulatory approval, the shares may be redeemed by the Bank on or after October 29, 2002, in whole or in part, by either the payment of cash or the issuance of common shares. On and after April 28, 2003, the Series 6 Preferred Shares will be convertible at the option of the holder into common shares of the Bank, subject to the right of the Bank prior to the conversion date to redeem for cash or find substitute purchasers for such preferred shares.

(3) Series 7 Non-cumulative Preferred Shares are entitled to non-cumulative preferential cash dividends payable quarterly in an amount per share of $0.44375. With regulatory approval, the shares may be redeemed by the Bank on or after July 29, 2002, in whole or in part, at declining premiums, by either the payment of cash or the issuance of common shares. On and after January 27, 2005, the Series 7 Preferred Shares will be convertible at the option of the holder into common shares of the Bank, subject to the right of the Bank prior to the conversion date to redeem for cash or find substitute purchasers for such preferred shares.

(4) Series 8 Non-cumulative Preferred Shares are entitled to non-cumulative preferential cash dividends payable quarterly in an amount per share of $0.4375. With regulatory approval, the shares may be redeemed by the Bank on or after January 29, 2003, in whole or in part, at declining premiums, by either the payment of cash or the issuance of common shares. On and after July 27, 2005, the Series 8 Preferred Shares will be convertible at the option of the holder into common shares of the Bank, subject to the right of the Bank prior to the conversion date to redeem for cash or find substitute purchasers for such preferred shares.

(5) Series 9 Non-cumulative Preferred Shares are entitled to non-cumulative preferential cash dividends payable quarterly in an amount per share of $0.421875. With regulatory approval, the shares may be redeemed by the Bank on or after April 28, 2003, in whole or in part, at declining premiums, by either the payment of cash or the issuance of common shares. On and after October 27, 2005, the Series 9 Preferred Shares will be convertible at the option of the holder into common shares of the Bank, subject to the right of the Bank prior to the

conversion date to redeem for cash or find substitute purchasers for such preferred shares.

(6) Series 10 Non-cumulative Preferred Shares were issued in Units consisting of one Series 10 Non-cumulative Preferred Share and one Series 11 Non-cumulative Preferred Share Purchase Warrant. Up to October 28, 1997, the Series 10 Preferred Shares were entitled to non-cumulative preferential cash dividends, payable quarterly in an amount per share of $0.16625; after which, such quarterly cash dividends were reduced to $0.02 per share. On each of October 29, 1997, January 28, 1998, and April 28, 1998, the Series 10 Preferred Shares were convertible into Series 11 Non-cumulative Preferred Shares with the concurrent exercise of an equal number of Warrants together with a cash payment of $15.00 per Warrant. Consequently, the conversion of one Series 10 Preferred Share, the exercise of one Warrant and a cash payment of $15.00 entitled the holder to receive one Series 11 Preferred Share. With regulatory approval, any such shares not converted may be redeemed by the Bank at par on or after April 26, 2001, in whole or in part, by the payment in cash of $10.00 for each such share together with declared and unpaid dividends to the redemption date.

(7) Series 11 Non-cumulative Preferred Shares are entitled to non-cumulative preferential cash dividends payable quarterly in an amount per share of $0.375. With regulatory approval, the shares may be redeemed by the Bank on or after January 28, 2004, in whole or in part, by either the payment of cash or the issuance of common shares. On and after January 27, 2006, the Series 11 Preferred Shares will be convertible at the option of the holder into common shares of the Bank, subject to the right of the Bank prior to the conversion date to redeem for cash or find substitute purchasers for such preferred shares.

(8) Series 12 Non-cumulative Preferred Shares, issued on July 14, 1998, are entitled to non-cumulative preferential cash dividends payable quarterly in an amount per share of $0.328125. The initial dividend, paid October 28, 1998, was $0.381164 per share. With regulatory approval, the shares may be redeemed by the Bank at par on or after October 29, 2013, in whole or in part, by the payment in cash of $25.00 per share, together with declared and unpaid dividends to the date fixed for redemption.

(9) On October 31, 1997, Scotia Mortgage Investment Corporation, a subsidiary of the Bank, issued 250,000 Class A Preferred Shares for $250 million. Each Class A Preferred Share is entitled to non-cumulative preferential cash dividends, if and when declared, payable semi-annually in an amount per share of $32.85. The first of such dividends were paid on April 30, 1998. Scotia Mortgage Investment Corporation is a mortgage investment corporation, as defined in the federal income tax act, and as such the dividends received by a holder of the Class A Preferred Shares, which is resident in Canada, will be treated as interest for Canadian federal income tax purposes. With regulatory approval, on or after October 31, 2007, Class A Preferred Shares may be redeemed in whole by the payment of cash by Scotia Mortgage Investment Corporation or, at the option of the Bank, exchanged for common shares of the Bank. On or after October 31, 2007, the Class A Preferred Shares will be exchangeable at the option of the holder into common shares of the Bank, subject to the right of the Bank prior to the exchange date to purchase for cash or find substitute purchasers for such shares. Under certain circumstances the Class A Preferred Shares of Scotia Mortgage Investment Corporation will be automatically exchanged, without the consent of the holder, into Series Z Non-cumulative Preferred Shares of the Bank which would bear the same dividend rate and similar redemption features.

(10) At the January 27, 1998, Annual General Meeting, the shareholders approved a proposal to subdivide the Bank's common shares on a two-for-one basis. The subdivision was effective at the close of business on February 12, 1998, the subdivision record date. Number of shares and per share amounts have been retroactively adjusted accordingly throughout these financial statements.

(11) As at October 31, 1998, common shares totalling 14,711,429 have been reserved for future issue under terms of the Shareholder Dividend and Share Purchase Plan.

(12) Under terms of the Stock Option Plan, options to purchase common shares may be granted to selected employees at an exercise price not less than the closing price of the common shares on the Toronto Stock Exchange on the last trade date prior to the date of the grant. The options are exercisable no later than 10 years after the date of the grant.

The maximum number of common shares to be issued over the life of the Stock Option Plan is 24,000,000. Options to purchase 17,895,308 common shares at a weighted average price per share of $23.81 were outstanding as at October 31, 1998. During 1998, options to purchase 1,047,397 shares were exercised at a weighted average price of $16.26 and 231,875 options were forfeited.

12. INCOME TAXES

For the year ended October 31 ($ millions)	1998	1997	1996
Income taxes reported in the financial statements are as follows:			
Consolidated Statement of Income	**$ 762**	$ 758	$ 665
Retained earnings:			
Income taxes related to:			
Unrealized foreign currency translation gains and losses	**(63)**	(32)	(2)
Cost of shares issued and redeemed	**(3)**	(3)	(3)
Implementation of impaired loans accounting policy (Note 5)	**–**	–	(86)
Total income taxes	**$ 696**	$ 723	$ 574
The current and deferred income taxes are as follows:			
Current income taxes:			
Domestic			
Federal	**$ 315**	$ 323	$ 328
Provincial	**183**	135	132
Foreign	**353**	259	161
	851	717	621
Deferred income taxes:			
Domestic			
Federal	**(134)**	12	(36)
Provincial	**(16)**	(3)	(11)
Foreign	**(5)**	(3)	–
	(155)	6	(47)
Total income taxes	**$ 696**	$ 723	$ 574

For the year ended October 31 ($ millions)	1998		1997		1996	
Income taxes in the Consolidated Statement of Income vary from the amounts that would be computed by applying the composite federal and provincial statutory income tax rate for the following reasons:						
Income taxes at statutory rate	**$ 939**	**42.8%**	$ 989	42.9%	$ 757	42.9%
Increase (decrease) in income taxes resulting from:						
Lower average tax rate applicable to subsidiaries, associated corporations, and foreign branches	**(173)**	**(7.8)**	(128)	(5.5)	(96)	(5.4)
Tax-exempt income from securities	**(66)**	**(3.0)**	(59)	(2.6)	(56)	(3.2)
Other, net	**62**	**2.8**	(44)	(1.9)	60	3.4
Total income taxes and effective tax rate	**$ 762**	**34.8%**	$ 758	32.9%	$ 665	37.7%

As at October 31 ($ millions)	1998	1997
The tax effects of timing differences which give rise to the net deferred income tax asset reported in Other Assets are as follows:		
Deferred income tax asset:		
Allowance for credit losses	**$ 520**	$ 325
Deferred income	**93**	77
Securities	**25**	140
Other	**390**	314
	1,028	856
Deferred income tax liability:		
Premises and equipment	**77**	81
Pension fund	**176**	179
Other	**78**	54
	331	314
Net deferred income tax asset	**$ 697**	$ 542

The Bank has reasonable assurance that its net deferred income tax asset will be realized through future reversals of timing differences.

13. PENSIONS

The Bank operates several pension plans on behalf of its employees. The most recent actuarial valuation was prepared as of November 1, 1997. Total pension fund assets as at October 31, 1998, were $2,544 million (1997 – $2,338 million). The present value of accrued pension benefits attributed to service rendered to October 31, 1998, was approximately $2,041 million (1997 – $1,783 million).

14. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank provides to its associated corporations normal banking services on terms similar to those offered to non-related parties.

15. SEGMENTED RESULTS OF OPERATIONS

The following table summarizes the Bank's financial results by geographic region. Revenues and expenses which have not been allocated back to specific operating business lines are reflected in Corporate adjustments.

For the year ended October 31	Canada			United States			Other international			Total		
	1998	1997	1996	**1998**	1997	1996	**1998**	1997	1996	**1998**	1997	1996
($ millions)												
Net interest income	**$ 2,962**	$ 2,561	$ 2,296	**$ 403**	$ 287	$ 270	**$ 1,149**	$ 877	$ 822	**$ 4,514**	$ 3,725	$ 3,388
Provision for credit losses	**(297)**	(204)	(291)	**(55)**	12	(40)	**(143)**	337	(43)	**(495)**	145	(374)
Other income	**1,840**	1,756	1,445	**412**	485	279	**500**	274	256	**2,752**	2,515	1,980
Non-interest expenses	**(3,213)**	(2,689)	(2,459)	**(238)**	(204)	(194)	**(920)**	(662)	(551)	**(4,371)**	(3,555)	(3,204)
Provision for income taxes	**(454)**	(548)	(356)	**(211)**	(244)	(126)	**(188)**	(292)	(156)	**(853)**	(1,084)	(638)
Non-controlling interest in net income of subsidiaries	**–**	–	(2)	**–**	–	–	**(38)**	(34)	(27)	**(38)**	(34)	(29)
Income	**$ 838**	$ 876	$ 633	**$ 311**	$ 336	$ 189	**$ 360**	$ 500	$ 301	**$ 1,509**	$ 1,712	$ 1,123
Corporate adjustments										**(115)**	(198)	(54)
Net income										**$ 1,394**	$ 1,514	$ 1,069
($ billions)												
Average total assets	**$ 127**	$ 106	$ 98	**$ 30**	$ 24	$ 20	**$ 48**	$ 39	$ 34	**$ 205**	$ 169	$ 152
Corporate adjustments										**9**	10	7
Average total assets including corporate adjustments										**$ 214**	$ 179	$ 159

16. COMMITMENTS AND CONTINGENT LIABILITIES

A) INDIRECT CREDIT COMMITMENTS

In the normal course of business, various indirect credit commitments are outstanding which are not reflected in the consolidated financial statements. These may include:

- Guarantees and standby letters of credit which represent an irrevocable obligation to pay a third party when a customer does not meet its contractual financial or performance obligations.
- Documentary and commercial letters of credit which require the Bank to honour drafts presented by a third party when specific activities are completed.
- Commitments to extend credit which represent undertakings to make credit available in the form of loans or other financings for specific amounts and maturities, subject to specific conditions.
- Securities lending transactions under which the Bank, acting as agent, agrees to lend a customer's securities to a borrower. The borrower must fully collateralize the security loan at all times. The Bank indemnifies the customer against credit risk in the event the borrower defaults and fails to return the lent securities.

These financial instruments are subject to normal credit standards, financial controls and monitoring procedures.

The table below provides a detailed breakdown of the Bank's off-balance sheet indirect credit commitments expressed in terms of the contractual amounts of the related commitment or contract. Losses, if any, that may result from these transactions are not expected to be material.

As at October 31 ($ millions)	**1998**	1997
Guarantees and standby letters of credit	**$ 10,285**	$ 8,888
Documentary and commercial letters of credit	**1,181**	1,195
Commitments to extend credit:		
Original term to maturity of one year or less	**53,587**	47,010
Original term to maturity of more than one year	**47,946**	41,827
Securities lending	**1,451**	1,236
Total off-balance sheet indirect credit commitments	**$ 114,450**	$ 100,156

B) LEASE COMMITMENTS

Minimum future rental commitments at October 31, 1998, for buildings and equipment under long-term, non-cancellable leases are shown below.

For the year ($ millions)	
1999	**$ 178**
2000	**150**
2001	**115**
2002	**93**
2003	**75**
2004 and thereafter	**362**
Total	**$ 973**

Building rent expense, net of rental income from subleases, included in the Consolidated Statement of Income was $172 million (1997 – $157 million; 1996 – $143 million).

C) PLEDGING OF ASSETS

In the ordinary course of business, securities and other assets are pledged against liabilities. Details of assets pledged are shown below:

As at October 31 ($ millions)	**1998**	1997
Assets pledged to:		
Bank of Canada[1]	**$ 65**	$ 65
Foreign governments and central banks[1]	**610**	296
Clearing systems, payment systems and depositories[1]	**704**	403
Assets pledged in relation to exchange traded derivative transactions	**29**	54
Assets pledged as collateral related to:		
Securities borrowed	**5,275**	7,780
Obligations related to assets sold under repurchase agreements	**14,603**	11,559
Call loans	**57**	112
Total	**$ 21,343**	$ 20,269

(1) Includes assets pledged in order to participate in clearing and payment systems and depositories or to have access to the facilities of central banks in foreign jurisdictions.

D) LITIGATION

There are a number of actions and legal proceedings pending against the Bank and its subsidiaries which arise from usual business activities. Many of these proceedings are in relation to steps taken by the Bank to collect delinquent loans and enforce rights in collateral securing such loans. Management of the Bank believes that the resolution of these actions and proceedings will not be material to the financial position of the Bank.

E) YEAR 2000

The Year 2000 issue arises because many existing computerized systems identify a year with two digits, rather than four. Such systems, if not modified or replaced, may recognize a date using "00" as the year 1900 or some other date, rather than the year 2000. The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000. If the Year 2000 issue is not addressed, the effect on operations and financial reporting may range from minor computational errors to significant systems failure, which could affect the Bank's ability to conduct normal business activities.

Due to the uncertainty inherent in the Year 2000 issue, it is not possible to be certain that all aspects of this issue, including those related to the efforts of customers, suppliers, or other third parties, will be resolved and that the problems will not adversely affect the Bank. In addition, the failure of the Bank's borrowers to fully address the Year 2000 issue may result in increases in impaired loans and provisions for credit losses in future years.

17. FINANCIAL INSTRUMENTS

A) FAIR VALUE

Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists. Many of the Bank's financial instruments lack an available trading market. Therefore, these instruments have been valued using present value or other valuation techniques and may not necessarily be indicative of the amounts realizable in an immediate settlement of the instruments. In addition, the calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

Changes in interest rates are the main cause of changes in the fair value of the Bank's financial instruments. The majority of the Bank's financial instruments are carried at historical cost and are not adjusted to reflect increases or decreases in fair value due to market fluctuations, including those due to interest rate changes. For those financial instruments held for trading purposes, the carrying value is adjusted regularly to reflect the fair value.

The following table sets out the fair values of on-balance sheet financial instruments and derivative instruments of the Bank using the valuation methods and assumptions described below. The fair values disclosed do not reflect the value of assets and liabilities that are not considered financial instruments, such as land, buildings and equipment.

	1998					1997		
	Fair value							
As at October 31 ($ millions)	Trading	Non-trading	**Total**	**Total book value**	**Favourable/ (Unfavourable)**	Total fair value	Total book value	Favourable/ (Unfavourable)
Assets								
Cash resources	$ –	$ 22,900	**$ 22,900**	**$ 22,900**	**$ –**	$ 18,174	$ 18,174	$ –
Securities (Note 3)	12,108	17,879	**29,987**	**29,500**	**487**[(1)]	29,037	27,999	1,038[(1)]
Assets purchased under resale agreements	11,189	–	**11,189**	**11,189**	**–**	8,520	8,520	–
Loans	–	140,161	**140,161**	**139,293**	**868**	118,884	117,219	1,665
Customers' liability under acceptances	–	8,888	**8,888**	**8,888**	**–**	7,575	7,575	–
Other	–	3,273	**3,273**	**3,273**	**–**	2,666	2,666	–
Liabilities								
Deposits	–	167,509	**167,509**	**166,360**	**(1,149)**	140,407	138,975	(1,432)
Acceptances	–	8,888	**8,888**	**8,888**	**–**	7,575	7,575	–
Obligations related to assets sold under repurchase agreements	14,603	–	**14,603**	**14,603**	**–**	11,559	11,559	–
Obligations related to securities sold short	3,121	–	**3,121**	**3,121**	**–**	3,739	3,739	–
Other	–	8,935	**8,935**	**8,935**	**–**	9,138	9,138	–
Subordinated debentures	–	5,617	**5,617**	**5,482**	**(135)**	5,445	5,167	(278)
Derivatives (Note 18)	(685)	981	**296**	**93**[(2)]	**203**	769	704[(2)]	65

(1) This excludes deferred realized hedge losses on securities of $329 (1997 – $139).

(2) This amount represents a net asset.

The book value of financial assets and financial liabilities held for purposes other than trading may exceed its fair value due primarily to changes in interest rates. In such instances, the Bank does not reduce the book value of these financial assets and financial liabilities to their fair values as it is the Bank's intention to hold them to maturity.

Determination of fair value

The following methods and assumptions were used to estimate the fair values of on-balance sheet financial instruments:

The fair values of Cash Resources, Assets Purchased under Resale Agreements, Customers' Liability under Acceptances, Other Assets, Obligations Related to Assets Sold under Repurchase Agreements, Obligations Related to Securities Sold Short, Acceptances and Other Liabilities are assumed to approximate their carrying values, due to their short-term nature.

The fair value of securities is assumed to be equal to the estimated market value of securities provided in Note 3. These values are based on quoted market prices, when available. When a quoted price is not readily available, market values are estimated using quoted market prices of similar securities, or other valuation techniques.

The estimated fair value of loans reflects changes in the general level of interest rates that have occurred since the loans were originated. The particular valuation methods used are as follows:

- For loans to designated emerging markets, fair value is based on quoted market prices.
- For floating rate loans, fair value is assumed to be equal to book value as the interest rates on these loans automatically reprice to market.
- For all other loans, fair value is determined by discounting the expected future cash flows of these loans at market rates for loans with similar terms and risks.

The fair values of deposits payable on demand or after notice or floating rate deposits payable on a fixed date are assumed to be equal to their carrying values. The estimated fair values of fixed rate deposits payable on a fixed date are determined by discounting the contractual cash flows, using market interest rates currently offered for deposits with similar terms and risks.

The fair values of subordinated debentures and liabilities of subsidiaries, other than deposits (included in other liabilities), are determined by reference to current market prices for debt with similar terms and risks.

B) INTEREST RATE RISK

The following table summarizes carrying amounts of balance sheet assets, liabilities and equity, and off-balance sheet financial instruments in order to arrive at the Bank's interest rate gap based on the earlier of contractual repricing or maturity dates. To arrive at the Bank's view of its effective interest rate gap, adjustments are made to factor in expected mortgage and loan repayments based on historical patterns, and to reclassify the Bank's trading instruments to the immediately rate sensitive category.

	1998						
As at October 31 ($ millions)	Immediately [1] rate sensitive	Within 3 months	Three to 12 months	One to 5 years	Over 5 years	Non-rate sensitive	Total
Cash resources	$ 1,213	$ 11,828	$ 6,590	$ 312	$ –	$ 2,957	$ 22,900
Trading securities	600	2,470	472	2,300	2,997	3,269	12,108
Investment and loan substitute securities	691	2,192	2,717	3,979	4,175	3,638[2]	17,392
Assets purchased under resale agreements	–	10,929	260	–	–	–	11,189
Loans	22,573	52,645	18,866	42,758	2,069	382[3]	139,293
Other assets	–	–	–	–	–	30,706[4]	30,706
Total assets	25,077	80,064	28,905	49,349	9,241	40,952	233,588
Deposits	10,502	91,798	35,468	18,678	50	9,864	166,360
Obligations related to assets sold under repurchase agreements	–	13,891	712	–	–	–	14,603
Obligations related to securities sold short	–	24	89	1,029	1,883	96	3,121
Subordinated debentures	–	171	463	583	4,265	–	5,482
Other liabilities	–	–	–	–	–	33,208[4]	33,208
Shareholders' equity	–	–	–	–	–	10,814[4]	10,814
Total liabilities and shareholders' equity	10,502	105,884	36,732	20,290	6,198	53,982	233,588
On-balance sheet gap	14,575	(25,820)	(7,827)	29,059	3,043	(13,030)	–
Off-balance sheet gap	–	(3,159)	8,235	(4,518)	(558)	–	–
Interest rate sensitivity gap based on contractual repricing	14,575	(28,979)	408	24,541	2,485	(13,030)	–
Adjustment to expected repricing	(39)	1,721	1,877	(4,051)	1,062	(570)	–
Total interest rate sensitivity gap	**$ 14,536**	**$ (27,258)**	**$ 2,285**	**$ 20,490**	**$ 3,547**	**$ (13,600)**	**$ –**
Cumulative gap	**14,536**	**(12,722)**	**(10,437)**	**10,053**	**13,600**	**–**	**–**
As at October 31, 1997							
Total interest rate sensitivity gap	$ 11,928	$ (20,351)	$ 8,996	$ 12,595	$ (500)	$ (12,668)	$ –
Cumulative gap	11,928	(8,423)	573	13,168	12,668	–	–

(1) Represents those financial instruments whose interest rates change concurrently with a change in the underlying interest rate basis, for example, prime rate loans.
(2) This includes financial instruments such as common shares, non-term preferred shares, and shares in associated corporations.
(3) This includes impaired loans.
(4) This includes non-financial instruments.

The tables on the following page summarize average effective yields, by the earlier of the contractual repricing or maturity dates, for the following on-balance sheet rate-sensitive financial instruments (these rates are shown before and after adjusting for the impact of related derivatives used by the Bank for asset/liability risk management purposes).

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

As at October 31 (%)	1998 Unadjusted Immediately rate sensitive	Within 3 months	Three to 12 months	One to 5 years	Over 5 years	**Total**	**Adjusted total (1)**
Cash resources	5.02%	5.14%	5.51%	5.57%	–%	**5.26%**	**5.26%**
Trading securities	5.12	4.96	4.74	4.88	5.49	**5.12**	**5.12**
Investment and loan substitute securities(2)	6.40	7.98	8.75	7.35	7.08	**7.60**	**7.36**
Assets purchased under resale agreements(3)	–	5.62	8.79	–	–	**5.69**	**5.69**
Loans(4)	7.95	6.99	7.36	7.25	7.10	**7.28**	**7.28**
Deposits(3)	4.12	5.02	5.33	6.03	5.91	**5.15**	**4.90**
Obligations related to assets sold under repurchase agreements(3)	–	5.57	6.34	–	–	**5.61**	**5.61**
Obligations related to securities sold short	–	5.15	4.83	4.74	5.45	**5.19**	**5.19**
Subordinated debentures(3)	–	4.31	5.78	7.40	6.32	**6.33**	**6.00**

As at October 31 (%)	1997 Unadjusted Immediately rate sensitive	Within 3 months	Three to 12 months	One to 5 years	Over 5 years	Total	Adjusted total (1)
Cash resources	5.19%	4.90%	4.89%	–%	–%	4.92%	4.92%
Trading securities	4.86	4.17	4.02	5.16	6.06	5.19	5.19
Investment and loan substitute securities(2)	5.59	6.00	6.21	6.50	6.32	6.25	5.91
Assets purchased under resale agreements(3)	–	4.22	5.18	4.50	–	4.31	4.31
Loans(4)	6.47	7.24	7.25	7.49	7.87	7.19	7.19
Deposits(3)	2.72	4.58	5.03	6.14	6.02	4.77	4.69
Obligations related to assets sold under repurchase agreements(3)	–	4.34	4.30	–	–	4.34	4.34
Obligations related to securities sold short	–	3.56	4.01	5.08	5.69	5.20	5.20
Subordinated debentures(3)	–	–	5.79	9.07	6.81	7.10	6.09

(1) After adjusting for the impact of related derivatives.
(2) Yields are based upon book values, net of the related country risk provision, and contractual interest or stated dividend rates adjusted for amortization of premiums and discounts. Yields on tax-exempt securities have not been computed on a taxable equivalent basis.
(3) Yields are based on book values and contractual interest rates.
(4) Yields are based on book values, net of allowance for credit losses, and contractual interest rates, adjusted for the amortization of any deferred income.

C) CREDIT EXPOSURE

The following table summarizes the credit exposure to businesses and governments of the Bank by sector:

As at September 30 ($ millions)	1998 Loans and acceptances(1)	Guarantees and letters of credit	Derivative instruments(2)	**Total**	1997
Primary industry and manufacturing	$ 26,810	$ 3,863	$ 765	**$ 31,438**	$ 23,999
Commercial and merchandising	26,832	3,305	243	**30,380**	24,531
Real estate	4,333	505	73	**4,911**	4,202
Transportation and communication	11,812	1,769	318	**13,899**	12,381
Banks and other financial services	9,184	1,322	12,561	**23,067**	14,822
Foreign governments and central banks	716	304	231	**1,251**	609
Canadian governments	332	48	1,473	**1,853**	1,909
Total	$ 80,019	$ 11,116	$ 15,664	**$ 106,799**	$ 82,453
General provision(3)				**582**	487
				$ 106,217	$ 81,966

(1) Excludes assets purchased under resale agreements.
(2) Credit risk amount as at October 31, 1998.
(3) The remaining $18 (1997 – $13) of the $600 (1997 – $500) general provision is allocated against loans other than business and government loans.

D) ANTICIPATORY HEDGES

In its normal course of business, the Bank may decide to hedge anticipatory transactions such as future foreign revenues and expenses and planned deposit campaigns. As at October 31, 1998, and 1997, there were no material anticipatory hedges outstanding.

18. DERIVATIVE INSTRUMENTS

A) NOTIONAL AMOUNTS

The following table provides the aggregate notional amounts of off-balance sheet derivative instruments outstanding by type and segregated between those used by the Bank in its dealer capacity (Trading) and those used in the Bank's asset/liability risk management process (ALM). The notional amounts of these contracts represent the derivatives volume outstanding and do not represent the potential gain or loss associated with the market risk or credit risk of such instruments. The notional amounts represent the amount to which a rate or price is applied to determine the amount of cash flows to be exchanged.

As at October 31 ($ millions)	1998			1997		
	Trading	ALM	**Total**	Trading	ALM	Total
Interest rate contracts						
Exchange traded:						
Futures	$ 63,129	$ 14,632	**$ 77,761**	$ 42,549	$ 18,589	$ 61,138
Options purchased	8,058	–	**8,058**	14,352	–	14,352
Options written	47	–	**47**	586	–	586
	71,234	14,632	**85,866**	57,487	18,589	76,076
Over-the-counter:						
Forward rate agreements	126,571	47,660	**174,231**	106,335	44,107	150,442
Swaps	462,213	73,332	**535,545**	357,650	61,813	419,463
Options purchased	40,587	139	**40,726**	35,084	2,059	37,143
Options written	53,125	304	**53,429**	43,176	–	43,176
	682,496	121,435	**803,931**	542,245	107,979	650,224
Total	$ 753,730	$ 136,067	**$ 889,797**	$ 599,732	$ 126,568	$ 726,300
Foreign exchange contracts						
Exchange traded:						
Futures	$ 1,911	$ –	**$ 1,911**	$ 100	$ –	$ 100
Options purchased	108	–	**108**	182	–	182
Options written	56	–	**56**	141	–	141
	2,075	–	**2,075**	423	–	423
Over-the-counter:						
Spot and forwards	195,321	10,225	**205,546**	183,880	12,119	195,999
Swaps	28,134	7,295	**35,429**	25,965	4,686	30,651
Options purchased	12,200	–	**12,200**	14,394	–	14,394
Options written	9,497	–	**9,497**	16,099	–	16,099
	245,152	17,520	**262,672**	240,338	16,805	257,143
Total	$ 247,227	$ 17,520	**$ 264,747**	$ 240,761	$ 16,805	$ 257,566
Other derivative contracts(1)						
Exchange traded	$ 5,946	$ –	**$ 5,946**	$ 208	$ –	$ 208
Over-the-counter	5,931	9,043	**14,974**	2,552	1,730	4,282
Total	$ 11,877	$ 9,043	**$ 20,920**	$ 2,760	$ 1,730	$ 4,490
Total notional amounts outstanding	$ 1,012,834	$ 162,630	**$ 1,175,464**	$ 843,253	$ 145,103	$ 988,356

(1) Includes equity, precious metals other than gold, base metals, and credit derivatives.

B) REMAINING TERM TO MATURITY

The following table summarizes the remaining term to maturity of the notional amounts of the Bank's derivative instruments by type:

	1998			
As at October 31 ($ millions)	Within 1 year	One to 5 years	Over 5 years	**Total**
Interest rate contracts				
Futures	$ 51,212	$ 26,549	$ –	**$ 77,761**
Forward rate agreements	170,098	4,133	–	**174,231**
Swaps	254,151	234,943	46,451	**535,545**
Options purchased	28,788	15,936	4,060	**48,784**
Options written	16,045	37,418	13	**53,476**
	520,294	318,979	50,524	**889,797**
Foreign exchange contracts				
Futures	1,911	–	–	**1,911**
Spot and forwards	191,882	12,824	840	**205,546**
Swaps	7,571	20,823	7,035	**35,429**
Options purchased	10,238	2,070	–	**12,308**
Options written	7,916	1,637	–	**9,553**
	219,518	37,354	7,875	**264,747**
Other derivative contracts	17,908	2,977	35	**20,920**
Total	$ 757,720	$ 359,310	$ 58,434	**$ 1,175,464**

	1997			
As at October 31 ($ millions)	Within 1 year	One to 5 years	Over 5 years	Total
Interest rate contracts				
Futures	$ 35,141	$ 25,997	$ –	$ 61,138
Forward rate agreements	145,110	5,332	–	150,442
Swaps	187,295	201,684	30,484	419,463
Options purchased	30,884	18,181	2,430	51,495
Options written	13,131	30,621	10	43,762
	411,561	281,815	32,924	726,300
Foreign exchange contracts				
Futures	100	–	–	100
Spot and forwards	187,474	7,798	727	195,999
Swaps	4,624	16,539	9,488	30,651
Options purchased	12,720	1,856	–	14,576
Options written	14,972	1,268	–	16,240
	219,890	27,461	10,215	257,566
Other derivative contracts	1,140	3,341	9	4,490
Total	$ 632,591	$ 312,617	$ 43,148	$ 988,356

C) CREDIT RISK

As with on-balance sheet assets, derivative instruments are subject to credit risk. Credit risk arises from the possibility that counterparties may default on their obligations to the Bank. However, whereas the credit risk of on-balance sheet assets is represented by the principal amount net of any applicable allowance for credit losses, the credit risk associated with derivatives is normally a small fraction of the notional amount of the derivative instrument. Derivative contracts expose the Bank to credit loss only if changes in market rates affect a counterparty's position unfavourably and the counterparty defaults on payment. Accordingly, credit risk of derivatives is represented by the positive fair value of the instrument.

Negotiated over-the-counter derivatives often present greater credit exposure than exchange-traded contracts. The net change in the exchange-traded contracts is normally settled daily in cash with the exchange. Holders of these contracts look to the exchange for performance under the contract. The Bank strives to limit credit risk by dealing with counterparties that it believes are creditworthy, and manages its credit risk for derivatives through the same credit risk process applied to on-balance sheet assets.

The Bank pursues opportunities to reduce its exposure to credit losses on derivative instruments. These opportunities include entering into master netting arrangements with counterparties. The credit risk associated with favourable contracts is eliminated by a master netting arrangement to the extent that unfavourable contracts with the same counterparty are not settled before favourable contracts. The Bank's overall exposure to credit risk on derivative instruments subject to a master netting arrangement can change substantially within a short period since it is affected by each transaction subject to the arrangement.

The following table summarizes the credit exposure of the Bank's derivatives. The credit risk amount (CRA) represents the estimated replacement cost, or positive fair value, for all contracts without taking into account any master netting or collateral arrangements that have been made. The CRA does not reflect actual or expected losses.

The credit equivalent amount (CEA) is the CRA plus an add-on for potential future exposure. The add-on amount is based on a formula prescribed in the Capital Adequacy Guideline of the Superintendent. The risk weighted balance is the CEA multiplied by counterparty risk factors prescribed by this guideline.

					1998		1997
As at October 31 ($ millions)	Notional amount	Credit risk amount (CRA) (a)	Potential future exposure (b)	Credit equivalent amount (CEA) (a) + (b)	**Risk weighted balance**	Credit risk amount (CRA)	Risk weighted balance
Interest rate contracts							
Futures	$ 77,761	$ –	$ –	$ –	**$ –**	$ –	$ –
Forward rate agreements	174,231	195	21	216	**42**	73	22
Swaps	535,545	8,752	1,870	10,622	**2,202**	6,291	1,522
Options purchased	48,784	380	140	520	**133**	216	93
Options written	53,476	–	–	–	**–**	–	–
	889,797	9,327	2,031	11,358	**2,377**	6,580	1,637
Foreign exchange contracts							
Futures	1,911	–	–	–	**–**	–	–
Spot and forwards	205,546	3,803	2,378	6,181	**1,700**	2,385	1,144
Swaps	35,429	1,410	1,644	3,054	**497**	1,286	499
Options purchased	12,308	471	206	677	**222**	200	94
Options written	9,553	–	–	–	**–**	–	–
	264,747	5,684	4,228	9,912	**2,419**	3,871	1,737
Other derivative contracts	20,920	653	1,199	1,852	**567**	227	126
Total derivatives	$ 1,175,464	$ 15,664	$ 7,458	$ 23,122	**$ 5,363**	$ 10,678	$ 3,500
Less: impact of master netting agreements		5,357			**1,573**	3,141	957
Total		$ 10,307			**$ 3,790**	$ 7,537	$ 2,543

D) FAIR VALUE

Fair values of exchange-traded derivatives are based on quoted market prices. Fair values of over-the-counter (OTC) derivatives are determined using pricing models, which take into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the positions.

The following table summarizes the fair value of derivatives segregated by type and segregated between trading and those derivatives used in the Bank's asset/liability risk management process (ALM).

As at October 31 ($ millions)	1998 Favourable	1998 Unfavourable	1997 Favourable	1997 Unfavourable
Trading[1]				
Interest rate contracts				
Forward rate agreements	$ 165	$ 149	$ 59	$ 60
Swaps	7,465	6,913	5,464	4,662
Options	378	432	211	263
	8,008	7,494	5,734	4,985
Foreign exchange contracts				
Forwards	3,680	3,085	2,083	2,052
Swaps	1,059	2,979	899	1,697
Options	471	258	200	133
	5,210	6,322	3,182	3,882
Other derivative contracts	457	544	9	5
Total fair value – trading	$ 13,675	$ 14,360	$ 8,925	$ 8,872
ALM[1][2]				
Interest rate contracts				
Forward rate agreements	$ 30	$ 48	$ 14	$ 24
Swaps	1,287	531	827	669
Options	2	12	5	–
	1,319	591	846	693
Foreign exchange contracts				
Forwards	123	283	302	237
Swaps	351	131	387	107
Options	–	–	–	–
	474	414	689	344
Other derivative contracts	196	3	218	–
Total fair value – ALM	$ 1,989	$ 1,008	$ 1,753	$ 1,037
Total gross fair values before netting	$ 15,664	$ 15,368	$ 10,678	$ 9,909
Less: impact of master netting agreements	5,357	5,357	3,141	3,141
Total	$ 10,307	$ 10,011	$ 7,537	$ 6,768

(1) Fair values have been segregated between those contracts which are in a favourable position (positive fair value) and those contracts which are in an unfavourable position (negative fair value).

(2) The fair values of these derivative financial instruments partially offset the changes in fair values of related on-balance sheet financial instruments.

19. ACQUISITION OF NATIONAL TRUSTCO INC.

On August 14, 1997, the Bank acquired 95% of the common shares of National Trustco Inc. A further 1% was purchased in September, 1997. The total consideration in respect of these purchases amounted to $1,205 million. This consisted of cash of $870 million and the issuance of 11,364,334 common shares of the Bank with an ascribed value of $335 million. Prior to August 14, 1997, the Bank held 4% of the common shares in National Trustco Inc. with a carrying value of $31 million.

The acquisition was accounted for using the purchase method. Goodwill of $124 million was recognized and is being amortized over 20 years on a straight-line basis.

Following the acquisition of National Trustco Inc., the Bank determined that it was necessary to restructure the combined operations. As a result, restructuring plans were prepared which detailed the actions to be taken and the estimated costs that would be incurred. These costs cover branch and office closures and mergers, staff severance and other related items and were estimated at $250 million. The 1997 Consolidated Statement of Income included a provision of $250 million for restructuring costs, of which $213 million was outstanding as at October 31, 1998. It is expected that the previously mentioned restructuring actions will be substantially completed by the end of 1999.

SUBSIDIARIES[1]

Name	Principal office address	Carrying value of shares owned by the Bank and its subsidiaries [2] ($ millions)
BNS International (Hong Kong) Limited	Hong Kong, China	$ 7
BNS Investments Inc.	Toronto, Ontario	$ 1,894
The Bank of Nova Scotia Properties Inc.		
Kings Place II Limited		
Scotia Properties Quebec Inc.		
Scotia Realty Limited		
Montreal Trust Company	Montreal, Quebec	
Montreal Trust Company of Canada		
MTCC Security Agent Corporation	Toronto, Ontario	
MontroServices Corporation	Montreal, Quebec	
RoyNat Inc.	Toronto, Ontario	
RoyNat Capital Inc.		
Roydolco Inc.		
RoyNat Management Inc.		
Scotia Holdings (US) Inc.	Atlanta, Georgia	
The Bank of Nova Scotia Trust Company of New York	New York, New York	
American Securities Transfer & Trust, Inc.	Denver, Colorado	
Scotiabanc Inc.	Atlanta, Georgia	
Scotia Merchant Capital Corporation	Toronto, Ontario	
Banco Ahorromet Scotiabank, S.A. (53%)	San Salvador, El Salvador	$ 29
The Bank of Nova Scotia Berhad	Kuala Lumpur, Malaysia	$ 76
The Bank of Nova Scotia International Limited	Nassau, Bahamas	$ 4,500
BNS International (Barbados) Limited	Warrens, Barbados	
The Bank of Nova Scotia Asia Limited	Singapore	
The Bank of Nova Scotia Channel Islands Limited	Jersey, Channel Islands	
The Bank of Nova Scotia Trust Company Channel Islands Limited		
The Bank of Nova Scotia Trust Company (Bahamas) Limited	Nassau, Bahamas	
The Bank of Nova Scotia Trust Company (Cayman) Limited	Grand Cayman, Cayman Islands	
Scotiatrust (Asia) Limited	Hong Kong, China	
Scotiabank (Ireland) Limited	Dublin, Ireland	
Scotia Insurance (Barbados) Limited	Warrens, Barbados	
Scotia Realty Bahamas Limited	Nassau, Bahamas	
Scotia Realty Cayman Limited	Grand Cayman, Cayman Islands	
Scotia Subsidiaries Limited	Nassau, Bahamas	
Scotiabank (Bahamas) Ltd.		
Scotiabank (British Virgin Islands) Limited	Road Town, Tortola, B.V.I.	
Scotiabank (Cayman Islands) Limited	Grand Cayman, Cayman Islands	
The Bank of Nova Scotia Jamaica Limited (70%)	Kingston, Jamaica	$ 165
Scotiabank Jamaica Trust & Merchant Bank Limited		
Scotia Jamaica Building Society		
Scotia Jamaica Insurance Agency Limited		
Scotia Jamaica Life Insurance Company		
The West India Company of Merchant Bankers Limited		
The Bank of Nova Scotia Trust Company (Caribbean) Limited	Bridgetown, Barbados	$ 2

(1) The Bank owns 100% of the outstanding voting shares of each subsidiary unless otherwise noted. The listing excludes inactive subsidiaries.

(2) Investments held in foreign currencies have been translated to Canadian dollars using October 31, 1998, closing spot rates of exchange.

(3) The carrying value of shares owned by the Bank and its subsidiaries is less than one million dollars.

(4) Associated corporation effectively controlled by the Bank.

Name	Principal office address	Carrying value of shares owned by the Bank and its subsidiaries [2] ($ millions)
Boracay Limited	Hong Kong, China	$ 1
KBI Investment Fund Inc.	Toronto, Ontario	$ – [3]
Kings Place Operations Ltd. (53%)	Fredericton, New Brunswick	$ – [3]
Market Square Leaseholds Ltd.	Saint John, New Brunswick	$ – [3]
The Mortgage Insurance Company of Canada	Toronto, Ontario	$ 311
National Trustco Inc. The Bank of Nova Scotia Trust Company National Trust Company Victoria and Grey Mortgage Corporation National Trust and Banking Corporation (Caribbean) Limited	Toronto, Ontario Grand Cayman, Cayman Islands	$ 1,135
Nova Scotia Inversiones Limitada	Santiago, Chile	$ 64
Scotia Cassels Investment Counsel Limited	Toronto, Ontario	$ 29
Scotia Export Finance Corporation	Toronto, Ontario	$ – [3]
Scotia General Insurance Company	Toronto, Ontario	$ 22
Scotia International Limited Banco Quilmes S.A. Corporacion Mercaban de Costa Rica, S.A. Scotiabank de Costa Rica, S.A. ScotiaValores Puesto de Bolsa, S.A. Scotiabank Anguilla Limited Scotia Mercantile Bank	Nassau, Bahamas Buenos Aires, Argentina San Jose, Costa Rica The Valley, Anguilla Grand Cayman, Cayman Islands	$ 623
Scotia Life Insurance Company	Toronto, Ontario	$ 27
Scotia Mortgage Corporation	Toronto, Ontario	$ 276
Scotia Mortgage Investment Corporation	St. John's, Newfoundland	$ 60
Scotia Realty Antilles N.V.	St. Maarten, Netherlands Antilles	$ 3
Scotia Securities Inc. Natrusco Investment Funds Limited Scotia Discount Brokerage Inc.	Toronto, Ontario	$ 139
Scotiabank de Puerto Rico	Hato Rey, Puerto Rico	$ 195
Scotiabank Europe plc	London, England	$ 945
Scotiabank Trinidad and Tobago Limited[4] (47%) Scotiatrust and Merchant Bank Trinidad and Tobago Limited	Port of Spain, Trinidad	$ 50
ScotiaMcLeod Corporation ScotiaMcLeod Holdings Inc. ScotiaMcLeod Inc. Scotia Capital Markets (USA) Inc. ScotiaMcLeod Financial Services Inc. ScotiaMocatta (Australia) Pty Ltd.	Toronto, Ontario New York, New York Toronto, Ontario Sydney, Australia	$ 293
ScotiaMocatta Depository Corporation	New York, New York	$ 3
ScotiaMocatta Limited	London, England	$ 15
Tour Scotia Ltée (50%)	Montreal, Quebec	$ – [3]

ELEVEN-YEAR STATISTICAL REVIEW

As at October 31 ($ millions)	**1998**	1997	1996	1995[2]
ASSETS				
Cash resources				
Cash and deposits with Bank of Canada	**$ 2,360**	$ 1,058	$ 1,485	$ 1,233
Deposits with other banks	**20,540**	17,116	13,252	15,495
Cheques and other items in transit, net	**–**	–	–	–
	22,900	18,174	14,737	16,728
Securities				
Issued or guaranteed by:				
Canada	**7,650**	8,782	9,101	8,235
Provinces and municipalities	**2,073**	1,869	2,289	1,561
Other securities	**19,777**	17,348	14,515	12,178
	29,500	27,999	25,905	21,974
Assets purchased under resale agreements	**11,189**	8,520	9,112	8,378
Loans				
Residential mortgages	**45,818**	41,647	30,653	28,581
Personal and credit cards	**18,574**	17,668	16,718	15,274
Business and governments	**74,901**	57,904	48,953	45,554
	139,293	117,219	96,324	89,409
Other				
Customers' liability under acceptances	**8,888**	7,575	5,945	5,563
Land, buildings and equipment	**1,759**	1,716	1,523	1,485
Other assets	**20,059**	13,950	11,755	3,652
	30,706	23,241	19,223	10,700
	$ 233,588	$ 195,153	$ 165,301	$ 147,189
LIABILITIES AND SHAREHOLDERS' EQUITY				
Deposits				
Personal	**$ 62,656**	$ 59,239	$ 47,768	$ 45,538
Business and governments	**70,779**	56,928	44,981	41,747
Banks	**32,925**	22,808	25,145	24,060
	166,360	138,975	117,894	111,345
Other				
Cheques and other items in transit, net	**304**	340	459	277
Acceptances	**8,888**	7,575	5,945	5,563
Obligations related to assets sold under repurchase agreements	**14,603**	11,559	7,894	7,354
Obligations related to securities sold short	**3,121**	3,739	6,509	5,416
Other liabilities	**23,843**	18,263	15,499	6,532
Non-controlling interest in subsidiaries	**173**	137	101	133
	50,932	41,613	36,407	25,275
Subordinated debentures	**5,482**	5,167	3,251	3,249
Shareholders' equity				
Capital stock				
Preferred shares	**1,775**	1,468	1,325	1,575
Common shares	**2,625**	2,567	2,161	1,994
Retained earnings	**6,414**	5,363	4,263	3,751
	10,814	9,398	7,749	7,320
	$ 233,588	$ 195,153	$ 165,301	$ 147,189

(1) Certain comparative amounts have been reclassified to conform with current year presentation.

(2) Pre 1996 comparative amounts have not been restated to reflect the reporting of unrealized gains and unrealized losses on trading derivative instruments on a gross basis in Other Assets and Other Liabilities respectively, as they were not reasonably determinable.

CONSOLIDATED BALANCE SHEET[1]

1994	1993	1992	1991	1990	1989	1988
$ 1,220	$ 1,119	$ 1,078	$ 1,008	$ 1,033	$ 1,117	$ 816
10,168	7,515	6,692	5,766	6,759	7,054	7,224
–	–	567	248	52	579	154
11,388	8,634	8,337	7,022	7,844	8,750	8,194
9,117	5,684	4,429	3,327	2,449	2,691	2,824
2,074	1,315	1,339	1,040	578	301	531
14,375	10,839	8,460	6,174	5,158	4,447	3,883
25,566	17,838	14,228	10,541	8,185	7,439	7,238
4,304	4,606	1,706	1,306	1,329	606	111
26,767	18,600	16,703	14,596	12,787	10,808	9,079
13,372	11,599	11,113	11,601	11,864	11,102	10,456
42,336	37,399	38,530	34,628	33,842	31,474	31,169
82,475	67,598	66,346	60,825	58,493	53,384	50,704
4,796	3,921	3,726	5,380	7,695	7,831	5,653
1,200	1,099	1,110	1,043	999	853	787
3,199	2,814	1,924	2,038	2,263	1,971	1,988
9,195	7,834	6,760	8,461	10,957	10,655	8,428
$ 132,928	$ 106,510	$ 97,377	$ 88,155	$ 86,808	$ 80,834	$ 74,675
$ 42,431	$ 31,288	$ 29,058	$ 27,539	$ 25,530	$ 23,097	$ 20,366
35,660	30,009	30,902	25,000	25,501	26,117	25,840
21,664	16,451	16,667	15,294	14,248	12,180	12,869
99,755	77,748	76,627	67,833	65,279	61,394	59,075
365	450	–	–	–	–	–
4,796	3,921	3,726	5,380	7,695	7,831	5,653
5,798	4,926	2,574	1,986	1,802	1,377	768
5,989	4,191	2,779	1,953	1,871	1,550	763
6,793	6,158	4,413	4,471	4,435	3,561	4,031
175	56	51	17	19	17	15
23,916	19,702	13,543	13,807	15,822	14,336	11,230
3,016	3,156	2,128	1,979	1,832	1,758	1,293
1,100	1,300	1,000	1,000	750	550	350
1,839	1,429	1,308	1,201	1,106	1,016	954
3,302	3,175	2,771	2,335	2,019	1,780	1,773
6,241	5,904	5,079	4,536	3,875	3,346	3,077
$ 132,928	$ 106,510	$ 97,377	$ 88,155	$ 86,808	$ 80,834	$ 74,675

ELEVEN-YEAR STATISTICAL REVIEW

For the year ended October 31 *($ millions except per share amounts)*	1998	1997	1996	1995
INTEREST INCOME				
Loans	**$ 10,269**	$ 8,082	$ 7,881	$ 8,007
Securities	**1,815**	1,636	1,757	1,991
Deposits with banks	**1,007**	770	740	597
	13,091	10,488	10,378	10,595
INTEREST EXPENSE				
Deposits	**7,303**	5,714	5,969	6,166
Subordinated debentures	**354**	260	214	209
Other	**1,057**	797	841	1,046
	8,714	6,771	7,024	7,421
Net interest income	**4,377**	3,717	3,354	3,174
Provision for credit losses	**595**	35	380	560
Net interest income after provision for credit losses	**3,782**	3,682	2,974	2,614
Other income	**2,858**	2,683	2,008	1,498
Net interest and other income	**6,640**	6,365	4,982	4,112
NON-INTEREST EXPENSES				
Salaries	**2,193**	1,973	1,702	1,438
Pension contributions and other staff benefits	**308**	229	208	214
Premises and equipment expenses, including depreciation	**958**	778	664	588
Other	**987**	803	663	604
Restructuring costs	**–**	250	(20)	–
Write off of goodwill	**–**	26	–	–
	4,446	4,059	3,217	2,844
Income before the undernoted:	**2,194**	2,306	1,765	1,268
Provision for income taxes	**762**	758	665	371
Non-controlling interest in net income of subsidiaries	**38**	34	31	21
Net income	**$ 1,394**	$ 1,514	$ 1,069	$ 876
Preferred dividends paid	**$ 97**	$ 99	$ 113	$ 104
Net income available to common shareholders	**$ 1,297**	$ 1,415	$ 956	$ 772
Average number of common shares outstanding (000's)[3]	**490,914**	478,972	468,716	457,197
Net income per common share[3][4]	**$ 2.64**	$ 2.95	$ 2.04	$ 1.69
Dividends per common share[3]	**$ 0.80**	$ 0.74	$ 0.65	$ 0.62

(1) Certain comparative amounts have been reclassified to conform with current year presentation.
(2) Pre 1992 comparative amounts have not been restated to reflect the reclassification of gains and losses on securities from Interest Income to Other Income as they were not reasonably determinable.
(3) Amounts have been retroactively adjusted to reflect the two-for-one stock split on February 12, 1998.
(4) Net income per common share has been calculated on the daily average of equivalent fully paid common shares outstanding.

CONSOLIDATED STATEMENT OF INCOME[1]

1994	1993	1992	1991[2]	1990	1989	1988
$ 6,090	$ 5,382	$ 5,729	$ 6,650	$ 6,836	$ 6,253	$ 5,199
1,287	1,243	1,201	1,299	1,072	959	684
391	313	357	484	616	638	492
7,768	6,938	7,287	8,433	8,524	7,850	6,375
4,149	3,706	4,191	5,287	5,936	5,335	4,093
172	133	134	166	180	156	85
487	434	374	462	436	287	149
4,808	4,273	4,699	5,915	6,552	5,778	4,327
2,960	2,665	2,588	2,518	1,972	2,072	2,048
567	465	449	374	238	895	465
2,393	2,200	2,139	2,144	1,734	1,177	1,583
1,606	1,380	1,197	883	831	850	658
3,999	3,580	3,336	3,027	2,565	2,027	2,241
1,401	1,255	1,153	1,075	966	916	786
182	144	117	101	76	63	59
533	481	461	421	364	323	266
578	483	443	399	369	360	292
175	–	–	–	–	–	–
162	–	–	–	–	–	–
3,031	2,363	2,174	1,996	1,775	1,662	1,403
968	1,217	1,162	1,031	790	365	838
455	490	475	391	271	135	325
31	13	11	7	7	8	6
$ 482	$ 714	$ 676	$ 633	$ 512	$ 222	$ 507
$ 97	$ 92	$ 79	$ 79	$ 69	$ 34	$ 25
$ 385	$ 622	$ 597	$ 554	$ 443	$ 188	$ 482
437,427	416,563	406,166	394,899	380,396	370,299	351,225
$ 0.88	$ 1.49	$ 1.47	$ 1.40	$ 1.16	$ 0.50	$ 1.37
$ 0.58	$ 0.56	$ 0.52	$ 0.50	$ 0.50	$ 0.44	$ 0.38

ELEVEN-YEAR STATISTICAL REVIEW

For the year ended October 31 ($ millions)	**1998**	1997	1996	1995
PREFERRED SHARES				
Bank:				
Balance at beginning of year	**$ 1,218**	$ 1,325	$ 1,575	$ 1,100
Issued	**311**	143	100	675
Redeemed	**(4)**	(250)	(350)	(200)
Balance at end of year	**1,525**	1,218	1,325	1,575
Scotia Mortgage Investment Corporation:				
Balance at beginning of year	**250**	–	–	–
Issued	**–**	250	–	–
Balance at end of year	**250**	250	–	–
Total preferred shares	**$ 1,775**	$ 1,468	$ 1,325	$ 1,575
COMMON SHARES				
Balance at beginning of year	**$ 2,567**	$ 2,161	$ 1,994	$ 1,839
Issued on acquisition of National Trustco Inc. (Note 19)	**–**	335	–	–
Issued to acquire Montreal Trustco Inc.	**–**	–	–	–
Issued to acquire The McLeod Young Weir Corporation	**–**	–	–	–
Issued under Shareholder Dividend and Share Purchase Plan, Stock Option Plan, and other	**58**	71	167	155
Balance at end of year	**$ 2,625**	$ 2,567	$ 2,161	$ 1,994
RETAINED EARNINGS				
Balance at beginning of year	**$ 5,363**	$ 4,263	$ 3,751	$ 3,302
Implementation of impaired loans accounting policy (Note 5)	**–**	–	(116)	–
Net income	**1,394**	1,514	1,069	876
Dividends: Preferred	**(97)**	(99)	(113)	(104)
Dividends: Common	**(393)**	(355)	(305)	(283)
Income taxes related to appropriations for contingencies	**–**	–	–	–
Net unrealized foreign exchange gains and losses	**152**	43	(19)	(15)
Net cost of shares issued and redeemed	**(5)**	(3)	(4)	(25)
Balance at end of year	**$ 6,414**	$ 5,363	$ 4,263	$ 3,751

ELEVEN-YEAR STATISTICAL REVIEW

Common Share Information				
Return on equity (%)	**15.3**	20.2	15.8	14.2
Earnings per share ($)(3)(4)	**2.64**	2.95	2.04	1.69
Dividends per share ($)(4)	**0.80**	0.74	0.65	0.62
Dividend payout (%)(5)	**30.3**	25.1	31.9	36.7
Dividend yield (%)(6)	**2.4**	2.7	3.7	4.6
Price/earnings ratio(6)	**12.8:1**	9.2:1	8.7:1	8.1:1
Number of shares outstanding (000's)(4)	**492,089**	489,812	474,893	464,513
Book value per common share ($)(4)	**18.37**	16.19	13.53	12.37
Share price ($)(4)(7):				
High	**44.70**	34.10	21.20	15.13
Low	**22.80**	20.55	14.19	12.13
Close – October 31	**32.20**	31.08	21.13	14.44
Capital Ratios				
Risk-adjusted (%):				
Tier 1	**7.2**	6.9	6.7	6.7
Total	**10.6**	10.4	8.9	9.6
Assets to capital ratio(8)	**14.9:1**	14.2:1	16.4:1	15.2:1
Common equity to total assets (%)	**3.9**	4.1	3.9	3.9
Other Information				
Average total assets ($ millions)	**213,973**	179,176	158,803	137,988
Return on assets (%)	**.65**	.85	.67	.64
Number of branches and offices	**1,741**	1,658	1,464	1,460
Number of employees(9)	**42,046**	38,648	34,592	33,717
Number of Automated Banking Machines	**2,244**	2,030	1,526	1,429

(1) Certain comparative amounts have been reclassified to conform with current year presentation.
(2) Pre 1996 comparative amounts have not been restated to reflect the separate reporting of unrealized gains and losses on trading derivative instruments in Other Assets and Other Liabilities as they were not reasonably determinable.
(3) Net income per common share has been calculated on the daily average of equivalent fully paid common shares outstanding.
(4) Amounts have been retroactively adjusted to reflect the two-for-one stock split on February 12, 1998.
(5) Dividend payments as a percentage of Net Income Available to Common Shareholders.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

1994	1993	1992	1991	1990	1989	1988
$ 1,300	$ 1,000	$ 1,000	$ 750	$ 550	$ 350	$ 350
–	300	–	250	200	200	–
(200)	–	–	–	–	–	–
1,100	1,300	1,000	1,000	750	550	350
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
$ 1,100	$ 1,300	$ 1,000	$ 1,000	$ 750	$ 550	$ 350
$ 1,429	$ 1,308	$ 1,201	$ 1,106	$ 1,016	$ 954	$ 720
–	–	–	–	–	–	–
280	–	–	–	–	–	–
–	–	–	–	–	–	185
130	121	107	95	90	62	49
$ 1,839	$ 1,429	$ 1,308	$ 1,201	$ 1,106	$ 1,016	$ 954
$ 3,175	$ 2,771	$ 2,335	$ 2,019	$ 1,780	$ 1,773	$ 1,652
–	–	–	–	–	–	–
482	714	676	633	512	222	507
(97)	(92)	(79)	(79)	(69)	(34)	(25)
(253)	(233)	(211)	(197)	(190)	(163)	(133)
–	–	–	–	–	–	(209)
9	20	50	(37)	(11)	(15)	(19)
(14)	(5)	–	(4)	(3)	(3)	–
$ 3,302	$ 3,175	$ 2,771	$ 2,335	$ 2,019	$ 1,780	$ 1,773

OTHER STATISTICS(1)(2)

7.9	14.4	15.7	16.7	14.9	6.5	18.7
0.88	1.49	1.47	1.40	1.16	0.50	1.37
0.58	0.56	0.52	0.50	0.50	0.44	0.38
65.8	37.5	35.3	35.6	42.9	87.0	27.5
4.1	4.4	4.8	6.6	6.9	5.4	5.5
16.0:1	8.6:1	7.4:1	5.4:1	6.3:1	16.3:1	5.0:1
452,518	422,544	412,374	402,123	389,567	375,388	367,250
11.36	10.90	9.89	8.79	8.02	7.45	7.42
16.63	14.75	12.38	10.00	9.07	9.63	8.00
11.57	10.94	9.50	5.25	5.50	6.82	5.75
13.75	14.50	12.00	9.88	5.50	8.63	7.50
6.2	6.5	5.7	5.5	4.6	4.1	3.9
9.6	10.4	8.6	8.5	7.3	6.8	6.0
15.2:1	12.9:1	14.8:1	14.9:1	16.5:1	17.1:1	18.8:1
3.9	4.3	4.2	4.0	3.6	3.5	3.7
120,619	100,836	93,807	88,073	83,697	77,974	71,582
.40	.71	.72	.72	.61	.28	.71
1,454	1,376	1,361	1,329	1,311	1,284	1,248
33,272	30,375	30,675	29,616	30,114	29,618	29,113
1,381	1,280	1,190	1,070	873	422	304

(6) *Based on the average of high and low common share prices and earnings per share.*
(7) *Based on trading on The Toronto Stock Exchange.*
(8) *Based on guidelines issued by the Superintendent of Financial Institutions Canada, the Bank's assets to capital ratio is calculated by dividing adjusted total assets by regulatory capital (Tier 1 and Tier 2).*
(9) *Includes all personnel (part-time stated on a full-time equivalent basis) of the Bank and all its subsidiaries.*

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

SINCE THE BOARD OF DIRECTORS AND MANAGEMENT OF THE BANK believe good corporate governance is essential to the effective, efficient and prudent operation of the Bank's business, they have established an internal control environment with strong corporate governance structures and procedures in place. These structures and procedures comply with the guidelines for corporate governance adopted by the Toronto and Montreal Stock Exchanges in 1995 (the "Exchange Guidelines").

Scotiabank founded its governance system on an extensive and interrelated network of Board activities and Bank policies. It is supported by strong management supervision, internal audits, external audit by two independent chartered accounting firms and the annual examination by the Office of the Superintendent of Financial Institutions (OSFI).

The Board annually certifies that the Bank adheres to the Canada Deposit Insurance Corporation (CDIC) Standards of Sound Business and Financial Practices. Furthermore, all directors, officers and employees of the Bank must comply with the standards of conduct set out in Scotiabank's Guidelines for Business Conduct.

COMPLIANCE

Consumer and investor protection is a primary focus of compliance activities. The Compliance Department's mandate includes specific administrative, consultative and educational responsibilities, as well as the establishment of a compliance network throughout all areas of the Bank and its subsidiaries. There is also a Head of Global Compliance for Scotia Capital Markets.

COMMUNICATION WITH STAKEHOLDERS

To maintain good communication with various constituencies, the Bank has facilities and mechanisms that allow investors, customers and the general public to obtain information and make enquiries.

Shareholders and investment institutions may direct their questions to the Secretary or Investor Relations, Finance Division of the Bank. The public can obtain information and communicate with the Bank through the Bank's World Wide Web site.

In addition, senior officers meet with industry analysts each quarter to discuss the Bank's operating results and banking trends.

Queries from the media and general public are handled by the Bank's Public and Corporate Affairs Department.

The Bank has procedures to inform customers about borrowing costs and transaction fees and to respond to customer enquiries and complaints. Generally, comments or complaints are dealt with directly by the branches or Vice-Presidents' offices.

SCOTIABANK OMBUDSMAN

Unresolved customer complaints are heard and dealt with impartially by the Bank's Ombudsman, who reports directly to the Chief Executive Officer. The Scotiabank Ombudsman has the power to review and make recommendations on all retail and small business customer service decisions made within the Bank.

For small business disputes, customers may also access the Scotia Business Credit Mediation Program. As a last resort, they may go directly to the Canadian Banking Ombudsman, whose mandate has expanded to include personal banking complaints, for an impartial review of the situation.

THE BOARD OF DIRECTORS

The Board held nine meetings during the 1998 fiscal year.

At the fiscal year end, the Bank's Board of Directors numbered 26 members, and was comprised of business and community leaders active at the regional, national and international levels – providing an important breadth of expertise. Overall, the size and composition of the Scotiabank Board reflects the broad geographic reach of our customer base, the communities in which we operate and our far flung international operations. The number of directors authorized by the by-laws ranges from a minimum of seven, as required by the Bank Act, to a maximum of 35 directors.

A diverse and highly qualified group of directors is critical to the effectiveness of the Board. The Corporate Governance Committee of the Board, which is composed exclusively of outside directors, identifies, evaluates and recommends nominees for directorship. The Committee assesses nominee candidates based on their individual suitability, keeping in mind the size of the Board and the desired diversity of composition.

The Exchange Guidelines recommend that the majority of the Board and of every Board Committee be comprised of unrelated directors. An unrelated director is one who is independent of management and free from any interest and any business or other relationship that could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interests of the Bank, other than interests and relationships arising from shareholding. Directors drawn from the ranks of management are related directors.

The Bank Act contains the concept of affiliated directors of which there may be no more than two-thirds of the Board. Of the 26 members of the Bank's Board, five are affiliated as defined by the Act, including two directors from management. Having considered the relevant definitions in the Exchange Guidelines and the directors having individually considered their respective interests and relationships, it has been determined that the Board has five related directors, which include all of the affiliated directors.

The Bank has a Directors' Share Purchase Plan to encourage directors to apply all or part of their Board fees to acquire the Bank's shares.

The performance of the Board is monitored by the Corporate Governance Committee and the Chairman of the Board. The Board of Directors and the Corporate Governance Committee have been, and continue to be, proactive and diligent in developing and reviewing the Bank's corporate governance structures and procedures.

THE MANDATE OF THE BOARD OF DIRECTORS

The mandate of the Board of Directors is to supervise the management of the Bank's business and affairs to maintain the strength and integrity of the Bank. In this context, the Board oversees the Bank's strategic direction, its organizational structure and the succession planning of senior management to serve the interests of the Bank, its customers, investors and employees.

Annually, the Board evaluates the Bank's strategy within the financial institutions marketplace. It reviews and approves policies and practices relating to areas of risk management, including credit, capital, foreign exchange, interest rate, liquidity, securities portfolio, real estate appraisals, derivative products, environmental and country risk. The Audit Committee approves the Bank's internal control policies and the Board is responsible for monitoring the integrity of the internal control system. A comprehensive, annual self-assessment is conducted by the Bank, measuring its adherence to certain core policies and procedures, the results of which are reported to the Board and regulators. The Board is apprised periodically of the Year 2000 project status.

In addition, the Board regularly reviews the performance of the Bank on a consolidated basis, as well as the performance of individual divisions and major subsidiaries. It compares and measures results against previously established and approved plans, against performance in past years and against industry peers.

The Board appoints the Chief Executive Officer and other executive officers, and establishes the appropriate level of compensation.

Specific decisions requiring Board approval are outlined in the Bank Act, as are specific duties of the Board and the Audit and Conduct Review Committees. To assist the Board with its work, other Committees have been established to review in greater depth particular areas of its mandate.

ASSESSMENT OF MANAGEMENT PERFORMANCE

The Human Resources Committee assists the Board in assessing management's performance, based on both quantitative and qualitative information. Taken into account are such factors as experience and sustained personal performance, demonstrated leadership ability and the achievement of business objectives.

Quantitative criteria include:

- achievement of profit plan targets,
- superior returns on both assets and shareholders' equity, and
- meeting productivity and loan loss targets.

Qualitative measures include:

- maintenance of exceptional customer service and business ethics,
- preservation of the highest levels of safety and security for customers' deposits as determined by various regulatory and audit reviews, and
- continuance as a superior employer.

GOVERNANCE INFORMATION FOR DIRECTORS

Upon joining the Board, directors receive information concerning their duties and responsibilities under the Bank Act and other applicable legislation. All directors are provided with a "Corporate and Governance Information" booklet which is updated annually, and which familiarizes directors with the Board's policies and the Bank's corporate profile and organization. It also describes key business lines and the Bank's corporate governance policies and practices.

CONFLICT OF INTEREST GUIDELINES

The Bank has adopted measures to promote the independence of the Board. Conflict of interest guidelines and procedures for directors and officers have been in place for many years. Board Committees are chaired by outside directors, and Bank directors and officers are requested, when appropriate, to absent themselves for part of Board or Committee meetings to allow independent discussion of particular items. In addition, the Bank Act contains provisions concerning self-dealing, affiliated directors, and the composition of the Board and certain committees.

The Board has implemented a procedure for a director to engage an outside advisor at the Bank's expense with the authority of the chair of the Corporate Governance Committee. The Corporate Governance Committee has responsibility for reviewing the relationship between management and the Board.

COMMITTEES OF THE BOARD OF DIRECTORS

There are six standing Committees of the Board and three Regional Advisory Committees. All directors participate in at least one standing Committee and a portion of the membership of each Committee rotates periodically. The majority of standing Committee members are Canadian residents and unrelated directors, as defined in the Exchange Guidelines. The majority of the members of the Audit and Conduct Review Committees are not affiliated, and all members of both Committees are outside directors.

AUDIT COMMITTEE

Chair: David Morton
Members: Lloyd I. Barber, E. Kendall Cork, N. Ashleigh Everett, M. Keith Goodrich, Hon. Henry N.R. Jackman, Ian McDougall, Elizabeth Parr-Johnston, Paul J. Phoenix, Arthur R.A. Scace.

The Audit Committee's mandate incorporates requirements under the Bank Act, the Securities Act, OSFI and the CDIC, and includes the following responsibilities:

i) reviewing the annual statements of the Bank and such returns of the Bank as specified by the Superintendent of Financial Institutions;
ii) ensuring that appropriate internal controls are in place and reviewing investments and transactions that could adversely affect the well-being of the Bank; and
iii) meeting with the independent Auditors and, similarly, meeting with the Bank's internal Audit Department to discuss the annual statements of the Bank, the returns and relevant transactions and the effectiveness of the Bank's internal control procedures.

The Committee met four times during this fiscal year, and the independent Auditors and the Bank's internal Audit Department were invited to attend all the meetings. The Committee meets with staff from OSFI to receive its report on the annual examination of the Bank.

CONDUCT REVIEW COMMITTEE

Chair: David H. Race
Members: Lloyd I. Barber, Malcolm R. Baxter, C.J. Chen, Sir Denis Mountain, Helen A. Parker.

The responsibilities of the Committee are in accordance with the Bank Act. The mandate includes:

i) reviewing the Bank's procedures for verifying that transactions with related parties of the Bank comply with the Bank Act, reviewing the practices of the Bank to identify any transactions with its related parties that may have a material effect on the Bank's stability or solvency, and establishing criteria for determining whether the value of transactions with related parties of the Bank are nominal or immaterial to the Bank; and
ii) monitoring procedures established by the Board to identify and resolve conflicts of interest, to restrict the use of confidential information, to deal with certain customer complaints and to provide disclosure of information to customers as required by the Bank Act.

Annually, the Board reports to OSFI on the proceedings of the Committee.

The Committee had three meetings during this fiscal year to which the independent Auditors and the Bank's internal Audit Department were invited.

CORPORATE GOVERNANCE COMMITTEE

Chair: Gerald J. Maier
Members: Sir Graham Day, Pierre J. Jeanniot, John T. Mayberry, Robert L. Pierce, Arthur R.A. Scace, Jonathan A. Wolfe.

The Committee's mandate is to enhance the Bank's corporate governance through a process of continuing assessment and adjustment. Further, the members determine suitable candidates for nominees as directors, periodically review the mandates of the Board and its Committees, propose agenda items and content for submissions to the Board and review the relationship between management and the Board.

The Committee met two times during this fiscal year.

EXECUTIVE COMMITTEE

Chair: Robert L. Pierce
Members: E. Kendall Cork, Sir Graham Day, Peter C. Godsoe, Hon. Henry N.R. Jackman, Pierre J. Jeanniot, Gerald J. Maier, David Morton, Paul J. Phoenix, David H. Race, Allan C. Shaw.

Generally, the Committee serves as an advisor to management. The mandate of the Committee is to:

i) advise executive management on highly sensitive or major strategic issues and on special risk situations;
ii) examine and report to the Board on the public issues facing the Bank and to recommend policies as applicable.

During intervals between Board meetings, the Committee may exercise all of the powers of the Board, subject to the limitations under the Bank Act or as determined by the Board.

There were 11 meetings of the Committee during this fiscal year.

HUMAN RESOURCES COMMITTEE

Chair: Sir Graham Day
Members: Laurent Lemaire, John T. Mayberry, David Morton, Robert L. Pierce, Isadore Sharp, Allan C. Shaw.

The Human Resources Committee determines the compensation to be paid to senior executives and senior officers, the general criteria and design of incentive bonus and stock option plans and the distribution of related awards, the senior level organization structure, staffing and succession planning. The Committee also assesses the performance of the Chief Executive Officer, and reviews assessments made of other executive officers.

During this fiscal year, the Committee held five meetings.

PENSION COMMITTEE

Chair: David H. Race
Members: Lloyd I. Barber, Malcolm R. Baxter, Bruce R. Birmingham, C.J. Chen, Sir Denis Mountain, Helen A. Parker.

The Pension Committee monitors and supervises the administration of The Scotiabank Pension Plan and the administration and investment of the Fund maintained in connection with the Pension Plan. Specifically, the Committee considers all amendments to the Pension Plan and approves the Fund's Statement of Investment Policies, Procedures and Guidelines, which it reviews annually. The Committee also recommends to the Board the appointment or removal of the Custodian of the Fund and retains competent professional actuaries and auditors, whose reports are reviewed by the Committee.

The Committee met two times during this fiscal year.

REGIONAL ADVISORY COMMITTEES

The Regional Advisory Committees have been established in Quebec, Alberta and British Columbia/Yukon, and act in an advisory rather than decision-making capacity.

These Committees have been established to provide better opportunities for directors residing in particular regions to participate to a greater extent in the Bank's affairs in those regions. The Committees provide advice and counsel of a general nature to local senior management, including matters relating to the acquisition of new business and regional commercial trends. The Committees also review regional forecasts and results, business development opportunities, and provide advice on the selection of new branch sites.

ASIAN ADVISORY COUNCIL

The Asian Advisory Council is chaired by the Chairman of the Board of the Bank and includes a number of outside advisors. It assists the Bank's Senior Executive Management by providing advice concerning strategic, socio-economic, political and business development issues in Asian countries.

There was one meeting of the Council during the 1998 fiscal year.

SCOTIABANK'S BOARD OF DIRECTORS

The contributions made by the members of the Board of Directors are vital to the Bank's success, and are gratefully acknowledged. Members continued to serve the Bank and its shareholders with their customary skill, dedication and insight during the past year.

Because of the age limitation provision in the By-laws of the Bank, Messrs. Gerald J. Maier and Paul J. Phoenix will not stand for re-election to the Board. As well, Mr. Jonathan Wolfe will not be standing for re-election. Mr. Wolfe has served the Board since January 1993. Each of these individuals has served the Bank with distinction and will be greatly missed.

The Bank regrets to note the passing, earlier this year, of Mr. Cyrus H. McLean of Vancouver. A director from 1959 through 1973, and Honorary Director to August 1998, Mr. McLean served the Bank and the Board faithfully and well.

Board members, officers, staff, shareholders and customers alike were deeply saddened by the death of Mr. George Coleby Hitchman this year. Mr. Hitchman retired as Deputy Chairman of the Board in 1981 and from the Board of Directors in 1985. During his distinguished career spanning more than 50 years, he served the Bank's employees, customers and shareholders with distinction and accomplishment. His leadership, dedication and loyalty will be warmly remembered and greatly missed.

HONORARY DIRECTORS

Honorary Directors neither attend meetings of the Board, nor receive remuneration.

David W. Barr
Toronto, Ontario

Kenneth V. Cox, D.Sc., LL.D.
Saint John, New Brunswick

John J. Jodrey, D.C.L., D.Eng.
Hantsport, Nova Scotia

The Right Honourable
Lord Keith of Castleacre
London, England

Gordon F. MacFarlane
Surrey, British Columbia

Donald Maclaren
Ottawa, Ontario

Malcolm H.D. McAlpine
Herts, England

H. Harrison McCain, C.C., LL.D.
Florenceville, New Brunswick

William S. McGregor
Edmonton, Alberta

David E. Mitchell
Calgary, Alberta

Cedric E. Ritchie, O.C.
Toronto, Ontario

Thomas G. Rust, C.M., LL.D.
Vancouver, British Columbia

Judson W. Sinclair
Toronto, Ontario

Marie Wilson, Q.C.
Toronto, Ontario

BOARD OF DIRECTORS

PETER C. GODSOE
Mr. Godsoe is Chairman of the Board and Chief Executive Officer of Scotiabank. He has been a Scotiabank director since February 1, 1982, and currently sits on the Executive Committee. He lives in Toronto, Ontario.

LLOYD I. BARBER, C.C., S.O.M., LL.D., PH.D.
Dr. Barber is President Emeritus of the University of Regina. He has been a Scotiabank director since September 28, 1976, and currently sits on the Audit, Conduct Review and Pension Committees. He lives in Regina Beach, Saskatchewan.

MALCOLM R. BAXTER
Mr. Baxter is Chairman and Chief Executive Officer of Baxter Foods Limited. He has been a Scotiabank director since March 31, 1992, and currently sits on the Conduct Review and Pension Committees. He lives in Saint John, New Brunswick.

BRUCE R. BIRMINGHAM
Mr. Birmingham is President of Scotiabank. He has been a Scotiabank director since September 29, 1992, and currently sits on the Pension Committee. He lives in Oakville, Ontario.

C.J. CHEN
Mr. Chen is a company director. He has been a Scotiabank director since October 30, 1990, and currently sits on the Conduct Review and Pension Committees. He lives in Singapore.

E. KENDALL CORK
Mr. Cork is Managing Director of Sentinel Associates Limited. He has been a Scotiabank director since December 4, 1973, and currently sits on the Audit and Executive Committees. He lives in Hillsburgh, Ontario.

SIR GRAHAM DAY
Sir Graham is a company director and Counsel to Stewart McKelvey Stirling Scales. He has been a Scotiabank director since October 31, 1989, and currently sits on the Corporate Governance, Executive and Human Resources Committees. He lives in Hantsport, Nova Scotia.

N. ASHLEIGH EVERETT
Ms. Everett is President of Royal Canadian Securities Limited. She has been a Scotiabank director since October 28, 1997, and currently sits on the Audit Committee. She lives in Winnipeg, Manitoba.

M. KEITH GOODRICH
Mr. Goodrich is the retired Chairman of Moore Corporation Limited. He has been a Scotiabank director since August 28, 1990, and currently sits on the Audit Committee. He lives in Lake Forest, Illinois.

THE HONOURABLE HENRY N.R. JACKMAN
Mr. Jackman is Chairman and President of E-L Financial Corporation Limited. He has been a Scotiabank director since September 30, 1997, and currently sits on the Audit and Executive Committees. He lives in Toronto, Ontario.

PIERRE J. JEANNIOT, O.C.
Mr. Jeanniot is Director General of the International Air Transport Association. He has been a Scotiabank director since June 26, 1990, and currently sits on the Corporate Governance and Executive Committees. He lives in Canton de Vaud, Switzerland.

LAURENT LEMAIRE
Mr. Lemaire is President and Chief Executive Officer of Cascades Inc. He has been a Scotiabank director since March 31, 1987, and currently sits on the Human Resources Committee. He lives in Warwick, Quebec.

GERALD J. MAIER
Mr. Maier is Chairman Emeritus of TransCanada PipeLines Limited. He has been a Scotiabank director since February 25, 1986, and currently sits on the Corporate Governance and Executive Committees. He lives in Calgary, Alberta.

JOHN T. MAYBERRY
Mr. Mayberry is President and Chief Executive Officer of Dofasco Inc. He has been a Scotiabank director since March 29, 1994, and currently sits on the Corporate Governance and Human Resources Committees. He lives in Burlington, Ontario.

IAN MCDOUGALL
Mr. McDougall is former Vice Chairman and Chief Financial Officer of Inco Limited. He has been a Scotiabank director since February 24, 1981, and currently sits on the Audit Committee. He lives in Lynbrook, New York.

DAVID MORTON
Mr. Morton is a company director and former Chairman and Chief Executive Officer of Alcan Aluminium Limited. He has been a Scotiabank director since March 31, 1987, and currently sits on the Audit, Executive and Human Resources Committees. He lives in Westmount, Quebec.

SIR DENIS MOUNTAIN, Bt.
Sir Denis is a corporate director. He has been a Scotiabank director since March 14, 1978, and currently sits on the Conduct Review and Pension Committees. He lives in London, England.

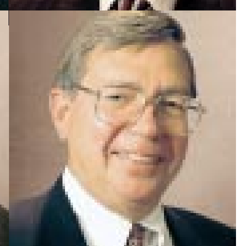
HELEN A. PARKER
Mrs. Parker is a company director. She has been a Scotiabank director since November 26, 1976, and currently sits on the Conduct Review and Pension Committees. She lives in Sidney, British Columbia.

ELIZABETH PARR-JOHNSTON, PH.D.
Dr. Parr-Johnston is President and Vice-Chancellor of the University of New Brunswick. She has been a Scotiabank director since October 26, 1993, and currently sits on the Audit Committee. She lives in Fredericton, New Brunswick.

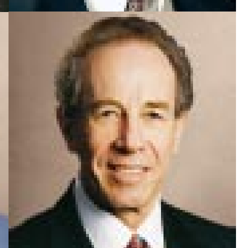
PAUL J. PHOENIX
Mr. Phoenix is a corporate director. He has been a Scotiabank director since June 21, 1985, and currently sits on the Audit and Executive Committees. He lives in Burlington, Ontario.

ROBERT L. PIERCE, Q.C.
Mr. Pierce is Chairman and Chief Executive Officer of Foothills Pipe Lines Ltd. He has been a Scotiabank director since February 16, 1971, and currently sits on the Corporate Governance, Executive and Human Resources Committees. He lives in Calgary, Alberta.

DAVID H. RACE
Mr. Race is Chairman and Chairman of the Executive Committee of CAE Inc. He has been a Scotiabank director since November 27, 1992, and currently sits on the Conduct Review, Executive and Pension Committees. He lives in Toronto, Ontario.



ARTHUR R.A. SCACE, Q.C.
Mr. Scace is Chairman of McCarthy Tétrault. He has been a Scotiabank director since March 25, 1997, and currently sits on the Audit and Corporate Governance Committees. He lives in Toronto, Ontario.



ISADORE SHARP, O.C.
Mr. Sharp is Chairman and Chief Executive Officer of Four Seasons Hotels Inc. He has been a Scotiabank director since March 27, 1990, and currently sits on the Human Resources Committee. He lives in Toronto, Ontario.

ALLAN C. SHAW
Mr. Shaw is Chairman and Chief Executive Officer of The Shaw Group Limited. He has been a Scotiabank director since September 30, 1986, and currently sits on the Executive and Human Resources Committees. He lives in Halifax, Nova Scotia.

JONATHAN A. WOLFE
Mr. Wolfe is a company director. He has been a Scotiabank director since January 26, 1993, and currently sits on the Corporate Governance Committee. He lives in Toronto, Ontario.

CORPORATE LISTINGS

As at October 31, 1998

EXECUTIVE OFFICERS

Chairman of the Board &
Chief Executive Officer
Peter C. Godsoe

President
Bruce R. Birmingham

Vice-Chairman
Domestic Banking
Robert W. Chisholm

Vice-Chairman
Wealth Management &
International Banking
Richard E. Waugh

Co-Head, Corporate &
Investment Banking and
Head of Global Corporate
Banking
Barry R.F. Luter

Co-Head, Corporate &
Investment Banking and
Chairman & CEO
Scotia Capital Markets &
ScotiaMcLeod Inc.
W. David Wilson

Senior Executive
Vice-President
Global Risk Management
John F.M. Crean

Executive Vice-President
Investment Banking Credit &
Credit Policy and Special
Accounts Management
S. Dennis N. Belcher

Executive Vice-President &
Group Treasurer
Robert L. Brooks

Executive Vice-President
Human Resources
Sylvia D. Chrominska

Executive Vice-President &
Chief Financial Officer
Sarabjit S. Marwah

Executive Vice-President
Retail Products & Marketing
Robert H. Pitfield

Executive Vice-President
Latin America
William P. Sutton

Executive Vice-President
Electronic Banking
Albert E. Wahbe

Executive Vice-President
Domestic Branch Banking
John A. Young

DOMESTIC BANKING AND REGIONAL OFFICES

ATLANTIC REGION
Halifax
Senior Vice-President
John G. Keith
Branches: 197

QUEBEC REGION
Montreal
Senior Vice-President
J. Guy Bisaillon
Branches: 115

TORONTO REGION
Toronto
Senior Vice-President
Dieter W. Jentsch
Branches: 263

ONTARIO REGION
Toronto
Senior Vice-President
Warren K. Walker
Branches: 330

PRAIRIE REGION
Calgary
Senior Vice-President
David J. Chapman
Branches: 227

BRITISH COLUMBIA & YUKON REGION
Vancouver
Senior Vice-President
George E. Marlatte
Branches: 140

COMMERCIAL BANKING
SMALL & MEDIUM-SIZED ENTERPRISES
Senior Vice-President
Ron E. Laursen

RETAIL PRODUCTS & MARKETING
MORTGAGES
Senior Vice-President
A. Edward Taylor

CARD PRODUCTS & MARKETING
Senior Vice-President
Robert K. Lounsbury

RETAIL LENDING
Vice-President
Roberta Hague

RETAIL MARKETING
Senior Vice-President
Barbara F. Mason

SALES AND SERVICE
Vice-President
Steve Hickey

CASH & TREASURY MANAGEMENT SERVICES & MONTREAL TRUST CORPORATE SERVICES
Senior Vice-President
L. Paul LeBlanc

AUTOMATED SERVICES, CORPORATE & COMMERCIAL BANKING
Senior Vice-President
J. Drew Brown

CORPORATE & INVESTMENT BANKING

CORPORATE BANKING
Division Heads
John C. Eby
John E. Oliver
Borden R. Osmak
Kevin R. Ray

Canada
Calgary: Office Head
Michael S. Jackson
Halifax: Office Head
Randy S. Hartlen
Montreal: Office Head
René Faribault
Toronto: Unit Heads
Robert V. Finlay
Robert A. Gray
Stephen P. Hart
Michael G. Locke
Vancouver: Office Head
Donald R. German

United States
Atlanta: Office Head
William J.G. Brown
Boston: Office Head
Terrance M. Pitcher
Chicago: Office Head
Christopher J. Allen
Houston: Office Head
Larry D. Lloyd
New York: Co-Head,
Corporate & Investment
Banking and Head of
Global Corporate Banking
Barry R.F. Luter
Unit Heads
John W. Campbell
Terry K. Fryett
James N. Tryforos
Portland: Office Head
Michael Brown
San Francisco: Office Head
James S. York

United Kingdom
Managing Head,
European Operations
Kevin R. Ray
Unit Heads
Kevin C. Clark
Gerald P. Ferris
Robyn L. Harrington
John R. Heeds

REAL ESTATE BANKING
Canada
Calgary: Office Head
Michael S. Jackson
Quebec: Office Head
Gary R. Graham
Toronto: Unit Head
James A. Gaiger
Vancouver: Office Head
Donald R. German

United States
New York: Office Head
Melvin J. Mandelbaum
San Francisco: Office Head
B. Lorne Ogmundson

INTERNATIONAL PROJECT FINANCE
Unit Heads
Anthony S. Courtwright
James G. Liddell

STRATEGIC PLANNING & DEVELOPMENT
Division Head
Raymond G. Darke

ADMINISTRATION
Unit Head
David W. Whitaker

SCOTIA CAPITAL MARKETS (SCM) & SCOTIAMCLEOD
Deputy Chairmen
Gordon J. Homer
Richard E. Lint
Daniel F. Sullivan

Managing Director &
Co-Head, Global Trading
Tom A. Healy

Managing Director &
Head, Corporate &
Institutional Client Services
Brian J. Porter

Managing Director &
Co-Head, Global Trading
C. John Schumacher

Managing Director & Head,
Private Client Financial Services
James M. Werry

MANAGING DIRECTORS
Head, Asian Operations
Ian A. Berry

Co-Heads, Capital
Markets Group
Michael Durland
John F. Madden

Head, Mergers &
Acquisitions
William N. Gula

Co-Heads, Institutional
Equity
Lawrence R. Lewis
James W. Mountain

Head, Investment Banking &
Deputy Head, Corporate &
Institutional Client Services
Scot A. Martin

Head, Quebec Region
Jacques O. Nadeau

Head, U.S. Operations
F. Ted Price

Head, European
Operations
Kevin R. Ray

Head, ScotiaMocatta
Larry J. Scott

Head, Compliance
Joan C. Smart

Head, Foreign Exchange &
Money Markets
Barry M. Wainstein

Head, Equity Research
Laurel J. Ward

Head, Human Resources
Ruth G. Woods

INTEGRATED SUPPORT SERVICES (ISS)
Chief Administrative Officer,
SCM; Senior Vice-President &
Head, ISS
Mark I. Greenspan

Senior Vice-President,
Risk Management & Control
Jeffrey C. Heath

Senior Vice-President,
Front Office Development
Gail J. Smith

Senior Vice-President,
Securities & Operations
Norman Graham

Senior Vice-President &
Head, Global Trading
Operations
Charles Wickett

GROUP TREASURY
Senior Vice-President,
Investments
Russell Morgan

Senior Vice-President,
Pensions
Ramsay R. Holmes

Vice-President, Mid-Term
& Capital Funding
Marc Durocher

GLOBAL RISK MANAGEMENT

COMMERCIAL CREDIT
Senior Vice-Presidents
David W. Ritcey
Donald S. Teslyk

CORPORATE & INTERNATIONAL CREDIT
Senior Vice-Presidents
John W. Agnew
Richard W. Hale-Sanders
S.M. (Mickey) Kitchell
Barry J. Webb

REAL ESTATE CREDIT
Senior Vice-President
F. George Wilson

POLICY & INFORMATION SYSTEMS/ANALYTICS/ TRADING POLICY
Senior Vice-President
Ameen Karmally

ANALYTICS
Senior Vice-President
Peter F.J. Heffernan

CORPORATE ADMINISTRATION

ECONOMICS AND PUBLIC & CORPORATE AFFAIRS
Senior Vice-President & Chief Economist
Warren Jestin

EXECUTIVE OFFICES ADMINISTRATION & SECRETARY
Senior Vice-President & Secretary
R. Peter Gerad

FINANCE
Senior Vice-President & Chief Accountant
John K. Mitchell

Senior Vice-President & Comptroller
Daniel L. Chui

Senior Vice-President
Eugene J. Rovas

AUDIT
Senior Vice-President & Chief Inspector
Peggy Mulligan

Senior Vice-Presidents
Thomas C. Nicol
John R. Roblin

GENERAL COUNSEL
Senior Vice-President & General Counsel
George E. Whyte

Compliance
Senior Vice-President
L. Louise Cannon

TAXATION
Senior Vice-President
Reginald W. Kowalchuk

HUMAN RESOURCES
Senior Vice-President
Shirley P. Fudge

OPERATIONS

BANKING OPERATIONS
Senior Vice-President
Terry C. Maloney

DOMESTIC CUSTOMER SERVICE CENTRES
Senior Vice-President
Bob Stark

RETAIL SYSTEMS DEVELOPMENT
Senior Vice-President
Sue E. Harrison

SYSTEMS DEVELOPMENT & SUPPORT
Senior Vice-President
David K. Gill

SYSTEMS OPERATIONS & TECHNICAL SERVICES
Senior Vice-President
Jean-Charles Petitclerc

YEAR 2000 & NATIONAL TRUST PROJECTS
Senior Vice-President
Michael D. Evans

REAL ESTATE
Senior Vice-President
Andrew B. Lennox

INTERNATIONAL BANKING

ASIA/PACIFIC
Senior Vice-Presidents
Robin S. Hibberd
Douglas H. Stewart

CARIBBEAN, CENTRAL AMERICA AND MEDITERRANEAN
Senior Vice-President
J. Brooke Frizzell

INTERNATIONAL CORPORATE FINANCE
Senior Vice-President
Brian E. Maloney

LATIN AMERICA
Executive Vice-President
William P. Sutton
Senior Vice-Presidents
Peter C. Cardinal
Timothy P. Hayward
Jim T. Meek

TRADE FINANCE & CORRESPONDENT BANKING
Senior Vice-President
Timothy G. Plumptre

The Americas
ARGENTINA: Roy D. Scott
Banco Quilmes, S.A. (86)
Vice-Chairman & CEO
Anatol von Hahn

BELIZE (6): Claude E. Marcel

BRAZIL: Eduardo Klurfan

CHILE: Robert Garneau
Banco Sud Americano (54)
Chairman, José Borda Aretxabala

COSTA RICA: Scotiabank de Costa Rica, S.A. (5)
General Manager
Alberto R. Tarabotto

EL SALVADOR: Banco Ahorromet Scotiabank, S.A. (32)
President
Juan Federico Salaverria

GUYANA (4): J.F. (Ian) Cooper

MEXICO: Antonio J. Uribe
Banco Inverlat (406)
President & CEO, Peter C. Cardinal
Casa de Bolsa Inverlat
Managing Director, Jorge Salim Alle

PANAMA: Terry S. McCoy

PERU: Jim T. Meek
Banco Sudamericano S.A. (15)
Chairman, Roberto Calda Cavanna

VENEZUELA: John Stevens
Banco del Caribe (110)
Chairman, Edgar A. Dao
Chief Operating Officer
Al Macdonald

Asia/Pacific
BANGLADESH: Sean Watts

CHINA (2): Bohua Guo

HONG KONG: Patrick N. Rooney
Scotiatrust (Asia) Limited
Managing Director, Clement C.H. Tay

INDIA (3): Douglas H. Stewart

INDONESIA: P.T. Bank Arya Panduarta Tbk. (25)
President Director
Safrullah Hadi Saleh

JAPAN (2): Robert Ulmer

MALAYSIA: M.S. (Corito) Sevilla
The Bank of Nova Scotia Berhad
Managing Director, Rasool Khan

THE PHILIPPINES: Cristina Sadler
Solidbank Corporation (105)
President & CEO
Deogracias N. Vistan

REPUBLIC OF KOREA: Henry Yong

SINGAPORE: Y.K. Heng
The Bank of Nova Scotia Asia Ltd.
Managing Director
Wah Sun Seong Koon

SRI LANKA: David Tait

TAIWAN: Benny S.H. Cheong

THAILAND: Kobsak Duangdee

VIETNAM: Eric Naggiar

The Caribbean
ANGUILLA: Scotiabank Anguilla Ltd.
Managing Director
Walter MacCalman

ANTIGUA (2): Leonard Wright

BAHAMAS: Scotiabank (Bahamas) Ltd. (15)
Managing Director, Anthony C. Allen
The Bank of Nova Scotia Trust Company (Bahamas) Ltd.
Managing Director
Christopher A. Barnes
Prime Bank and Trust (Bahamas)
Chairman, Roberto Calda Cavanna

BARBADOS: Peter F. Van Schie (8)

CAYMAN ISLANDS: Scotiabank (Cayman Islands) Ltd. (3)
Managing Director, Alan Brodie
The Bank of Nova Scotia Trust Company (Cayman) Ltd.
Managing Director
Stephen J. Grainger

DOMINICA: C. Monte Smith

DOMINICAN REPUBLIC (14):
Ariel D. Perez

GRENADA (3): William Robinson

HAITI (3): Bernard A. Theard

JAMAICA: The Bank of Nova Scotia Jamaica Limited (44)
Managing Director, William E. Clarke

NETHERLANDS ANTILLES:
ST. MAARTEN (2): Robert G. Judd
Maduro & Curiel's Bank N.V. (30)
Chairman, Supervisory Board,
May Henriquez
President, Lionel Capriles

PUERTO RICO: Scotiabank de Puerto Rico (13)
President & CEO, Ivan A. Mendez

ST. KITTS & NEVIS (3):
Wayde A. Christie

ST. LUCIA (4): James A. Batterton

ST. VINCENT: Bruce Sali

TRINIDAD & TOBAGO: Scotiabank Trinidad & Tobago Limited (24)
Managing Director, Richard P. Young

TURKS & CAICOS ISLANDS (2):
Indrani Lackhan

VIRGIN ISLANDS (BRITISH): Terry C. Bell

VIRGIN ISLANDS (U.S.) (10):
Robert Haines

Mediterranean & U.K.
CHANNEL ISLANDS: The Bank of Nova Scotia Channel Islands Ltd.
The Bank of Nova Scotia Trust Company Channel Islands Ltd.
Managing Director
Kenneth C. Brierley

EGYPT: Mohamed Jahangir

GREECE (7): Albert Horsting

LEBANON: Vahe Kouyoumjian

Number of offices indicated in brackets.

OTHER BUSINESSES

American Securities Transfer & Trust, Inc.
President
Ian Yewer

Montreal Trust Company
President & CEO
Robert W. Chisholm

National Trust Company Victoria and Grey Mortgage Corporation
President & CEO
Robert W. Chisholm

RoyNat Inc.
President & CEO
Rod M. Reynolds

Scotia Cassels Investment Counsel Limited
Chairman
J. Christopher Barron

Scotia Discount Brokerage Inc.
President & CEO
Andrew H. Scipio del Campo

Scotia Export Finance Corporation
Chairman & CEO
Timothy G. Plumptre

Scotia General Insurance Company, Scotia Life Insurance Company
President & CEO
Oscar Zimmerman

Scotia Merchant Capital Corporation
Managing Directors
Andrew R. Brenton
S. Jane Rowe

Scotia Mortgage Corporation
President
A. Edward Taylor

Scotia Securities Inc.
President & CEO
Andrew H. Scipio del Campo

Scotiabank Europe plc
Managing Director
Roger A. Ellis

Scotiabank (Ireland) Ltd.
Managing Director
Peter Kluge

ScotiaMocatta
Australia & Hong Kong:
David Turner
London: Tim Jones
New York: Tim Dinneny
Toronto: Drummond Gill

Scotiatrust
President & CEO
J. Rory MacDonald

For a detailed list of the locations and complete addresses of our branches and affiliates in 53 countries around the world, please refer to Scotiabank's Worldwide Directory. To obtain a copy, contact Public & Corporate Affairs by phone (416) 866-3925, fax (416) 866-4988 or e-mail: corpaff@scotiabank.ca, or visit Scotiabank's website at www.scotiabank.ca.

SHAREHOLDER INFORMATION

ANNUAL MEETING

Shareholders are invited to attend the 167th Annual Meeting of The Bank of Nova Scotia, to be held on March 2, 1999, at the World Trade and Convention Centre, 1800 Argyle Street, Halifax, Nova Scotia, Canada, beginning at 10:00 a.m. (Atlantic time).

SHAREHOLDINGS AND DIVIDENDS

Information regarding your shareholdings and dividends may be obtained by contacting the Transfer Agent.

DIRECT DEPOSIT SERVICE

Shareholders may have dividends deposited directly into accounts held at financial institutions which are members of the Canadian Payments Association. To arrange direct deposit service, please write to the Transfer Agent.

DIVIDEND AND SHARE PURCHASE PLAN

Scotiabank's dividend reinvestment and share purchase plan allows common and preferred shareholders to purchase additional common shares by reinvesting their cash dividend without incurring brokerage or administrative fees.

As well, eligible shareholders may invest up to $20,000 each fiscal year to purchase additional common shares of the Bank. Debenture holders may apply interest on fully registered Bank subordinated debentures to purchase additional common shares. All administrative costs of the Plan are paid by the Bank.

For more information on participation in the Plan, please contact the Transfer Agent.

LISTING OF SHARES

Common shares of the Bank are listed for trading on the Vancouver, Alberta, Winnipeg, Toronto, Montreal and London stock exchanges. Options on the Bank's common shares are listed for trading on the Toronto stock exchange.

Series 6, 7, 8, 9, 11 and 12 Preferred Shares of the Bank are listed on the Toronto and Montreal stock exchanges.

STOCK SYMBOLS

Stock	Ticker Symbol	Cusip No.
Common shares	BNS	064149 10 7
Series 6, Preferred	BNS.PR.E	064149 70 1
Series 7, Preferred	BNS.PR.F	064149 80 0
Series 8, Preferred	BNS.PR.G	064149 88 3
Series 9, Preferred	BNS.PR.H	064149 87 5
Series 11, Preferred	BNS.PR.I	064149 84 2
Series 12, Preferred	BNS.PR.J	064149 81 8

DIVIDEND DATES FOR 1999

Record and payment dates for common and preferred shares subject to approval by the Board of Directors.

Record Date	Payment Date
Jan. 5	Jan. 27
April 6	April 28
July 6	July 28
Oct. 5	Oct. 27

QUARTERLY EARNINGS REPORTING

For 1999, Scotiabank's quarterly earnings are anticipated to be announced March 2, May 26, August 31 and Nov. 30.

VALUATION DAY PRICE

For Canadian income tax purposes, The Bank of Nova Scotia's common stock was quoted at $31.13 per share on Valuation Day, December 22, 1971. This is equivalent to $2.594 after adjustment for the two-for-one stock split in 1976, the three-for-one stock split in 1984 and the two-for-one stock split in 1998.

DUPLICATED COMMUNICATION

Some registered holders of The Bank of Nova Scotia shares might receive more than one copy of shareholder mailings, such as this Annual Report. Every effort is made to avoid duplication, but if you are registered with different names and/or addresses, multiple mailings result.

If you receive, but do not require, more than one mailing for the same ownership, please contact the Transfer Agent to combine the accounts.

CREDIT RATINGS

Senior Long-Term Debt

CBRS	A+(high)
DBRS	AA
IBCA	AA-
Moody's	Aa3
Standard & Poor's	AA-

Non-Cumulative Preferred Shares

CBRS	P-2
DBRS	Pfd-1(low)

Commercial Paper

CBRS	A-1+
DBRS	R-1(middle)
Moody's	P-1
Standard & Poor's	A-1+

CONNECTING WITH SCOTIABANK

CORPORATE HEADQUARTERS

Scotiabank
Scotia Plaza
44 King Street West
Toronto, Ontario
Canada M5H 1H1
Tel.: (416) 866-6161
Fax: (416) 866-3750
E-mail: email@scotiabank.ca

SHAREHOLDER SERVICES

TRANSFER AGENT AND REGISTRAR MAIN AGENT

Montreal Trust Company of Canada
151 Front Street West, 8th Floor
Toronto, Ontario
Canada M5J 2N1
Tel.: (416) 981-9633; 1-800-663-9097
Fax: (416) 981-9507
E-mail: faq@montrealtrust.com

CO-TRANSFER AGENT (U.S.A.)

The Bank of Nova Scotia
Trust Company of New York
23rd Floor, 1 Liberty Plaza
New York, N.Y. 10006
Tel.: (212) 225-5470
Fax: (212) 225-5436
Telex: 00126777

CO-TRANSFER AGENT (UNITED KINGDOM)

IRG plc.
Balfour House
390/398 High Road
Ilford, Essex
1G1 1NQ
Tel.: 0181 639 2000
Fax: 0181 478 7717
E-mail: irg@easynet.co.uk

SECRETARY'S DEPARTMENT

Scotiabank
44 King Street West
Toronto, Ontario
Canada M5H 1H1
Tel.: (416) 866-4790
Fax: (416) 866-5090
E-mail: corpsec@istar.ca

FINANCIAL ANALYSTS, PORTFOLIO MANAGERS AND OTHER INSTITUTIONAL INVESTORS

Tel.: (416) 866-5982
Fax: (416) 866-7867
E-mail: invrelns@scotiabank.ca

FOR FURTHER INFORMATION

PUBLIC AND CORPORATE AFFAIRS

Scotiabank
44 King Street West
Toronto, Ontario
Canada M5H 1H1
Tel.: (416) 866-3925
Fax: (416) 866-4988
E-mail: corpaff@scotiabank.ca

CUSTOMER SERVICE CENTRE

1-800-4-SCOTIA

ONLINE

For product, corporate, financial and shareholder information: www.scotiabank.ca and www.scotiacapital.com

ANNUAL REPORT

For copies of the annual report and other financial reports:
Tel: (416) 866-3925
Fax: (416) 866-4988
E-mail: corpaff@scotiabank.ca

WORLDWIDE DIRECTORY

For complete addresses, please refer to the Worldwide Directory. To obtain a copy, contact:
Public and Corporate Affairs
44 King Street West
Toronto, Ontario
Canada M5H 1H1
Tel.: (416) 866-3925
Fax: (416) 866-4988
E-mail: corpaff@scotiabank.ca
Website: www.scotiabank.ca

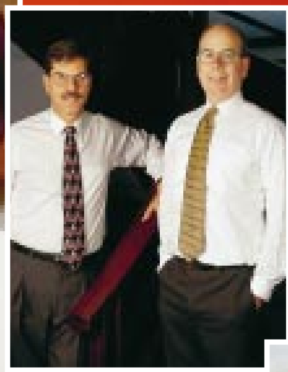
OFFICE OF THE OMBUDSMAN

44 King Street West
Toronto, Ontario
Canada M5H 1H1
Tel.: (416) 933-3299; 1-800-785-8772
Fax: (416) 933-3276

Front cover (from left): Iñigo Gutiérrez, TMM; Marie Powell, Scotiabank Jamaica; John Robinson with niece Lori Robinson, Eric C. Robinson Inc.; Dr. Robyn Olson; and Linda Music and Ashlea.

Back cover (from left): Ken Cordner, Lakeside Shopping Village, Burlington, Ont., branch; Guadalupe Razo Camberos, Randy Crath and Francisco Gómez Fernández, Banco Inverlat; John Eby and Michael Locke, Corporate Banking; Jean Walsh and Joy Read, Albany, P.E.I., branch; and Stephen Carroll and Michelle Ashcroft, Winnipeg Commercial Banking Centre.





The Scotiabank Group

Committed to
customers,
shareholders,
employees
and the
communities
where we work.

Scotiabank™