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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Scotiabank (Bahamas) Limited

Report on the financial statements

We have audited the accompanying financial statements of Scotiabank (Bahamas) Limited, which comprise the statement of financial position as at October 31, 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Scotiabank (Bahamas) Limited as at October 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG

February 24, 2012

SCOTIABANK (BAHAMAS) LIMITED


Statement of Financial Position

October 31, 2011, with corresponding figures for 2010
(Expressed in Bahamian dollars)

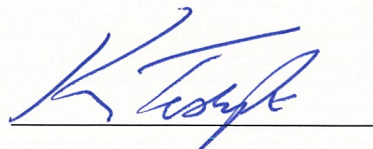
	2011 (\$'000s)	2010 (\$'000s)
Assets		
Cash and balances with The Central Bank of The Bahamas	127,112	76,547
Treasury bills	57,524	76,322
Loans and advances to banks	832,300	932,156
Investment securities	139,556	138,452
Loans and advances to customers	1,497,691	1,621,398
Unrealized gains on open forward currency contracts	—	—
Property and equipment	18,917	17,127
Receivables and other assets	19,827	18,831
Total Assets	2,692,927	2,880,833
Liabilities		
Deposits	1,947,408	2,149,496
Payables and other liabilities	40,050	55,736
Total Liabilities	1,987,458	2,205,232
Equity		
Share capital	25,000	25,000
Share premium	40,000	40,000
Fair value reserve	2,173	—
Retained earnings	638,296	610,601
Total Equity	705,469	675,601
Commitment & contingencies		
Total Liabilities and Equity	2,692,927	2,880,833

See accompanying notes to financial statements.

These financial statements were approved on behalf of the Board of Directors on February 24, 2012 by the following:



Director



Director

SCOTIABANK (BAHAMAS) LIMITED

Statement of Comprehensive Income

Year ended October 31, 2011, with corresponding figures for 2010
(Expressed in Bahamian dollars)

	2011 (\$'000s)	2010 (\$'000s)
Interest income	121,975	126,454
Interest expense	15,997	20,089
Net interest income	105,978	106,365
Fee and commission income	30,435	30,808
Net income from other financial instruments at fair value through profit or loss	—	1,128
Other income	4,343	4,382
Operating Income	140,756	142,683
Net impairment loss on financial assets	45,652	104,946
Impairment loss on non-financial assets	1,532	—
Personnel expenses	35,536	35,322
Property, equipment and maintenance, including depreciation	7,775	7,871
Rent and property tax	2,168	2,368
Other expenses	20,398	21,303
	113,061	171,810
Net income/(loss) for the year	27,695	(29,127)
Other comprehensive income		
Net change in fair value of available-for-sale securities	2,173	—
	2,173	—
Total comprehensive income/(loss) for the year	29,868	(29,127)

See accompanying notes to financial statements.

SCOTIABANK (BAHAMAS) LIMITED

Statement of Changes in Equity

Year ended October 31, 2011, with corresponding figures for 2010

(Expressed in Bahamian dollars)

	Share Capital (\$'000s)	Share Premium (\$'000s)	Fair Value Reserve (\$'000s)	Retained Earnings (\$'000s)	Total (\$'000s)
Balance at October 31, 2009	25,000	40,000	–	639,728	704,728
Total comprehensive loss for the year:					
Net loss for the year	–	–	–	(29,127)	(29,127)
Balance at October 31, 2010	25,000	40,000	–	610,601	675,601
Total comprehensive income for the year:					
Net income for the year	–	–	–	27,695	27,695
Other comprehensive income					
Net change in fair value of available-for-sale securities	–	–	2,173	–	2,173
Balance at October 31, 2011	25,000	40,000	2,173	638,296	705,469

See accompanying notes to financial statements.

SCOTIABANK (BAHAMAS) LIMITED

Statement of Cash Flows

Year ended October 31, 2011, with corresponding figures for 2010
(Expressed in Bahamian dollars)

	2011 (\$'000s)	2010 (\$'000s)
Cash flows from operating activities:		
Net income/(loss) for the year	27,695	(29,127)
Adjustments for:		
Interest income	(121,975)	(126,454)
Net impairment loss on financial assets	45,652	104,946
Impairment loss on non-financial assets	1,532	–
Interest expense	15,997	20,089
Depreciation	2,195	2,040
(Gain)/loss on disposal of property and equipment	(3)	10
Realized gain on sale of investment securities	–	(2,114)
Net movement in unrealized gains on derivative financial instruments	–	986
Net cash used in operations before changes in operating assets and liabilities	(28,907)	(29,624)
Decrease in restricted cash balances with The Central Bank of The Bahamas	721	750
Decrease/(increase) in treasury bills	18,798	(44,014)
Decrease/(increase) in loans and advances to banks	99,856	(53,792)
Decrease/(increase) in loans and advances to customers	76,772	(24,849)
(Increase)/decrease in receivables and other assets	(2,120)	6,702
(Decrease)/increase in deposits	(202,088)	14,890
(Decrease)/increase in payables and other liabilities	(14,763)	24,087
Interest received	122,850	128,180
Interest paid	(16,920)	(21,390)
Net cash provided by operating activities	54,199	940
Cash flows from investing activities:		
Net proceeds from maturity/(acquisition) of investment securities	1,069	(5,773)
Proceeds from sale of investment securities	–	5,084
Acquisition of property and equipment	(4,003)	(2,015)
Proceeds from the disposal of property and equipment	21	8
Net cash used in investing activities	(2,913)	(2,696)
Net increase/(decrease) in cash and cash equivalents	51,286	(1,756)
Cash and cash equivalents, beginning of year	44,286	46,042
Cash and cash equivalents, end of year	95,572	44,286

See accompanying notes to financial statements.

SCOTIABANK (BAHAMAS) LIMITED

Note to Financial Statements

Year ended October 31, 2011

(Expressed in Bahamian dollars)

1. General information

The accompanying statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows are extracts from Scotiabank (Bahamas) Limited's ("the Bank's") financial statements. The auditors' report included herewith should be read in conjunction with the full set of financial statements, which can be obtained at, or requested in writing from, the Bank's Managing Director's Office, Rawson Square, Nassau Bahamas.