

***Scotiabank (Belize) Ltd.***

***Financial Statements for the years ended  
October 31, 2005 and 2004 and  
Independent Auditors' Report***

**SCOTIABANK (BELIZE) LTD.**

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## **INDEPENDENT AUDITORS' REPORT**

### **To the Board of Directors and Shareholders of Scotiabank (Belize) Ltd.:**

We have audited the accompanying balance sheets of Scotiabank (Belize) Ltd. as of October 31, 2005 and 2004, the statements of operations and retained earnings, shareholders' equity and cash flows for the years then ended. 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 International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Scotiabank (Belize) Ltd. as of October 31, 2005 and 2004, the results of its operations and retained earnings, its shareholders' equity and its cash flows for the years then ended in conformity with International Financial Reporting Standards and the Banks and Financial Institutions Act Chapter 263 of the Laws of Belize (Revised Edition 2000).

**December 2, 2005**

**SCOTIABANK (BELIZE) LTD.****BALANCE SHEETS****OCTOBER 31, 2005 AND 2004 (IN THOUSANDS OF BELIZE DOLLARS)**

<b><u>ASSETS</u></b>	<b><u>Notes</u></b>	<b><u>2005</u></b>	<b><u>2004</u></b>
<b>CURRENT ASSETS:</b>			
Cash and due from banks	2	\$ 39,758	\$ 23,455
Government of Belize Treasury Bills	1d, 3	19,849	22,347
Loans – net	1e, 4	243,068	216,624
Interest receivable		1,567	1,581
Accounts receivable and prepayments	5	147	1,198
Total current assets		<u>304,389</u>	<u>265,205</u>
PROPERTY, PLANT AND EQUIPMENT – Net	1b, 6	<u>9,627</u>	<u>8,842</u>
TOTAL		<u>\$314,016</u>	<u>\$274,047</u>
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>			
<b>CURRENT LIABILITIES:</b>			
Demand deposits		\$121,435	\$116,682
Interest bearing time deposits	7	150,407	118,151
Interest payable		3,582	2,676
Accounts payable and accruals	8	3,305	3,238
General loan loss reserve	9	2,361	2,093
Short-term borrowings	11	5,000	-
Due (from) to head office	10	(5,839)	5,368
Total current liabilities		<u>280,251</u>	<u>248,208</u>
LONG TERM BORROWINGS	11	<u>-</u>	<u>2,000</u>
Total liabilities		<u>280,251</u>	<u>250,208</u>
<b>SHAREHOLDERS' EQUITY:</b>			
Share capital	12	12,000	12,000
Statutory reserve fund	13	5,442	2,959
Retained earnings		<u>16,323</u>	<u>8,880</u>
Total shareholders' equity		<u>33,765</u>	<u>23,839</u>
TOTAL		<u>\$314,016</u>	<u>\$274,047</u>
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_____ ) Directors			
_____ )			
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See notes to financial statements.

**SCOTIABANK (BELIZE) LTD.****STATEMENTS OF OPERATIONS AND RETAINED EARNINGS**  
**YEARS ENDED OCTOBER 31, 2005 AND 2004 (IN THOUSANDS OF BELIZE DOLLARS)**

	<u>Notes</u>	<u>2005</u>	<u>2004</u>
INTEREST INCOME:			
Loans		\$31,978	\$27,249
Investment		<u>780</u>	<u>317</u>
	1c	<u>32,758</u>	<u>27,566</u>
INTEREST EXPENSE:			
Demand deposits		(4,206)	(3,150)
Time deposits		(8,848)	(6,534)
Borrowed funds		<u>(81)</u>	<u>(150)</u>
	1c	<u>(13,135)</u>	<u>(9,834)</u>
Net interest income		19,623	17,732
OTHER OPERATING INCOME	15	<u>9,499</u>	<u>10,520</u>
NET OPERATING INCOME		29,122	28,252
BUSINESS TAX EXPENSE	16	(3,152)	(2,561)
GENERAL AND ADMINISTRATIVE EXPENSES	18	<u>(16,108)</u>	<u>(15,171)</u>
NET PROFIT BEFORE LOAN LOSS EXPENSE		9,862	10,520
LOAN LOSS INCOME (EXPENSE) - NET	1e, 4, 9	<u>64</u>	<u>(398)</u>
NET PROFIT AFTER GENERAL LOAN LOSS EXPENSE		9,926	10,122
STATUTORY RESERVE FUND	13	<u>(2,483)</u>	<u>(2,530)</u>
NET PROFIT		7,443	7,592
RETAINED EARNINGS, BEGINNING OF YEAR		<u>8,880</u>	<u>1,288</u>
RETAINED EARNINGS, END OF YEAR		<u>\$16,323</u>	<u>\$ 8,880</u>

See notes to financial statements.

**SCOTIABANK (BELIZE) LTD.**

**STATEMENTS OF SHAREHOLDERS' EQUITY**  
**YEARS ENDED OCTOBER 31, 2005 AND 2004 (IN THOUSANDS OF BELIZE DOLLARS)**

	<b>SHARE CAPITAL</b>	<b>RETAINED EARNINGS</b>	<b>STATUTORY RESERVE FUND</b>	<b>TOTAL</b>
November 1, 2003	\$12,000	\$1,288	\$ 429	\$13,717
Net profit	-	7,592	-	7,592
Statutory reserve fund	<u>-</u>	<u>-</u>	<u>2,530</u>	<u>2,530</u>
<b>October 31, 2004</b>	<b><u>\$12,000</u></b>	<b><u>\$8,880</u></b>	<b><u>\$2,959</u></b>	<b><u>\$23,839</u></b>
November 1, 2004	\$12,000	\$8,880	\$2,959	\$23,839
Net profit	-	7,443	-	7,443
Statutory reserve fund	<u>-</u>	<u>-</u>	<u>2,483</u>	<u>2,483</u>
<b>October 31, 2005</b>	<b><u>\$12,000</u></b>	<b><u>\$16,323</u></b>	<b><u>\$5,442</u></b>	<b><u>\$33,765</u></b>

See notes to financial statements.

**SCOTIABANK (BELIZE) LTD.****STATEMENTS OF CASH FLOWS**  
**YEARS ENDED OCTOBER 31, 2005 AND 2004 (IN THOUSANDS OF BELIZE DOLLARS)**

	<u>2005</u>	<u>2004</u>
OPERATING ACTIVITIES:		
Net profit	\$ 7,443	\$ 7,592
Adjustments for:		
Amortization and depreciation	721	718
General loan loss provision	268	318
Statutory reserve provision	<u>2,483</u>	<u>2,530</u>
Operating profit before working capital changes	<u>10,915</u>	11,158
Increase in loans	(26,444)	(32,784)
Decrease (increase) in interest receivable	14	(538)
Decrease (increase) in accounts receivable and prepayments	1,051	(788)
Increase (decrease) in demand deposits	4,753	(414)
Increase in interest bearing time deposits	32,256	36,039
Increase in accounts payable and accruals	67	380
Increase in interest payable	906	595
Increase in due (from) to head office (net)	<u>(11,207)</u>	<u>(13,304)</u>
Net cash provided by operating activities	<u>12,311</u>	<u>344</u>
INVESTING ACTIVITIES:		
Treasury bills	2,498	(12,917)
Additions of property, plant and equipment	(1,506)	(1,650)
Sale of investment	-	<u>1,500</u>
Net cash provided by (used in) investing activities	<u>992</u>	<u>(13,067)</u>
FINANCING ACTIVITIES:		
Proceeds from loans	5,000	-
Repayment short term borrowings	-	(4,000)
Repayment of long term borrowings	<u>(2,000)</u>	<u>(1,000)</u>
Net cash provided by (used in) financing activities	<u>3,000</u>	<u>(5,000)</u>
NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS	<u>16,303</u>	(17,723)
CASH AND DUE FROM BANKS, BEGINNING OF YEAR	<u>23,455</u>	41,178
CASH AND DUE FROM BANKS, END OF YEAR	<u>\$39,758</u>	<u>\$23,455</u>

See notes to financial statements.

## SCOTIABANK (BELIZE) LTD.

### NOTES TO FINANCIAL STATEMENTS

#### YEARS ENDED OCTOBER 31, 2005 AND 2005 (IN THOUSANDS OF BELIZE DOLLARS)

#### **1. STATUS AND SIGNIFICANT ACCOUNTING POLICIES**

Status – Scotiabank (Belize) Ltd. (the “Company” or “the Bank”) is a private limited liability company incorporated under the Laws of Belize (Chapter 250, Revised Edition 2000) on March 12, 2003. The Bank was issued a bank license under the Banks and Financial Institutions Act (Chapter 263 Revised Edition 2000) on July 1, 2003. Banking operations as a registered Chapter 250 Company commenced on July 1, 2003.

#### Significant Accounting Policies

- a. Foreign Currency Transactions – Transactions in foreign currencies are translated into Belize dollars on date of transaction, and foreign bank balances outstanding at the balance sheet date are translated into Belize dollars at the current rates of exchange prevailing on the balance sheet date.
- b. Property, Plant and Equipment/Leasehold Improvements - Property, Plant and Equipment are carried at cost and are depreciated on the declining balance method using the following rates:

Buildings	2%
Office machinery	10%
Motor vehicles	25%
Furniture, fixtures and office equipment	10%
Computer equipment and software	20%

Leasehold improvements are amortized over the life of the lease.

Maintenance, repairs and renewals are charged against revenue in the year the expenditure is incurred; major renewals and improvements are capitalized.

When property, plant and equipment are disposed of by sale or scrapping, the cost and related accumulated depreciation are removed from the accounting records and any resulting gain or loss is included in the results of operations.

- c. Interest Revenues and Expenses – These are accrued over the term of the related assets and liabilities. Commission on services is credited to income when the related transactions are formalized. Other revenues and expenses are recorded on the accrual basis.
- d. Government of Belize Treasury Bills – These are held at cost until maturity. The related interest is recorded on the accrual basis.
- e. Loan Losses – Provisions for specific and general loan losses are made in accordance with the Banks and Financial Institutions Act (BFIA) and the related BFIA Circulars issued by the Central Bank of Belize.



## SCOTIABANK (BELIZE) LTD.

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED OCTOBER 31, 2005 AND 2004 (IN THOUSANDS OF BELIZE DOLLARS)

#### 1. STATUS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

- f. Fair Value of Financial Instruments – The following methods and assumptions were used by the Bank in estimating fair values of financial instruments as disclosed herein:

Loans receivable - For variable-rate loans that have no significant change in credit risk, fair values are based on carrying values. Fair values are estimated using interest rates currently being offered for loans with similar terms to borrowers of similar credit rating.

Deposit liabilities - The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (that is the carrying amounts).

- g. Investment Securities – A financial asset or liability held for trading is one that was acquired or incurred principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. A financial asset should be classified as held for trading if, regardless of why it was acquired, it is part of a portfolio for which there is evidence of a recent actual pattern of short-term profit-taking.

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity that an enterprise has the positive intent and ability to hold to maturity other than loans and receivables originated by the enterprise. Held to maturity investments are carried at amortized cost, less any adjustment necessary for impairment.

Available-for-sale financial assets are those financial assets that are not (a) loans and receivables originated by the enterprise, (b) held-to-maturity investments, or (c) financial assets held for trading.

Investments classified as available for sale are carried at fair value. The gain or loss on available for sale securities is recognised in equity as unrealized holding gain or loss until the securities are sold, collected, or otherwise disposed of, at which time the cumulative gain or loss previously recognised in equity would be included in net profit or loss for the period.

#### 2. CASH AND DUE FROM BANKS

	<u>2005</u>	<u>2004</u>
Cheques Suspense	\$ 230	\$ 951
Bank One International Corporation	(1,335)	(324)
First Caribbean International Bank	455	193
BNS Toronto	4,000	-
Bank of America	1,710	6,489
Belize Bank Limited	-	(1,914)
Central Bank of Belize	29,150	13,607
Cash on hand	5,551	4,423
HSBC Bank	(3)	30
	<u>\$39,758</u>	<u>\$23,455</u>

**SCOTIABANK (BELIZE) LTD.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED OCTOBER 31, 2005 AND 2004 (IN THOUSANDS OF BELIZE DOLLARS)**

**3. GOVERNMENT OF BELIZE TREASURY BILLS**

This balance represents Government of Belize Treasury Bills of \$20,000,000 (2004: \$22,500,000) par value redeemable in December 2005, yielding 3.25% at maturity. The notes were purchased at a discounted value of \$19,848,537 (2004: \$22,347,068).

**4. LOANS**

	<u>2005</u>	<u>2004</u>
Commercial	\$ 38,167	\$ 35,551
Consumer loans	62,486	45,137
Credit Card Loans	235	-
Residential loans	117,579	106,386
Overdraft facility	<u>27,489</u>	<u>32,770</u>
	245,956	219,844
Specific provision for loan losses	<u>(2,888)</u>	<u>(3,220)</u>
	<u>\$243,068</u>	<u>\$216,624</u>

The loans are stated at the principal amount outstanding. The maturity dates are as follows:

0 - 3 months	\$ 5,576
3 - 12 months	37,005
1 - 5 years	68,537
6 years and more	<u>134,838</u>
	<u>\$245,956</u>

**5. ACCOUNTS RECEIVABLE AND PREPAYMENTS**

	<u>2005</u>	<u>2004</u>
Accounts receivable	\$ 51	\$ 10
Accrued interest securities	44	-
Other receivables	<u>52</u>	<u>1,188</u>
	<u>\$147</u>	<u>\$1,198</u>

**SCOTIABANK (BELIZE) LTD.****NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED OCTOBER 31, 2005 AND 2004 (IN THOUSANDS OF BELIZE DOLLARS)****6. PROPERTY, PLANT AND EQUIPMENT**

Cost	Land, buildings and leasehold premises	Office machinery	Motor vehicles	Furniture, fixtures and office equipment	Computer equipment and software	Total
Brought forward at November 1, 2004	\$4,001	\$ 839	\$699	\$3,767	\$4,290	\$13,596
Additions	<u>370</u>	<u>220</u>	<u>48</u>	<u>282</u>	<u>586</u>	<u>1,506</u>
Carried forward at October 31, 2005	<u>4,371</u>	<u>1,059</u>	<u>747</u>	<u>4,049</u>	<u>4,876</u>	<u>15,102</u>
<b>Accumulated Depreciation</b>						
Brought forward at November 1, 2004	70	243	299	1,577	2,565	4,754
Additions	<u>79</u>	<u>61</u>	<u>102</u>	<u>217</u>	<u>262</u>	<u>721</u>
Carried forward at October 31, 2005	<u>149</u>	<u>304</u>	<u>401</u>	<u>1,794</u>	<u>2,827</u>	<u>5,475</u>
<b>Net Book Value</b>						
<b>October 31, 2005</b>	<b><u>\$4,222</u></b>	<b><u>\$ 755</u></b>	<b><u>\$346</u></b>	<b><u>\$2,255</u></b>	<b><u>\$2,049</u></b>	<b><u>\$ 9,627</u></b>
October 31, 2004	<u>\$3,931</u>	<u>\$ 596</u>	<u>\$400</u>	<u>\$2,190</u>	<u>\$1,725</u>	<u>\$ 8,842</u>

**7. INTEREST BEARING TIME DEPOSITS**

Time deposits are paid interest at varied rates. \$26,854,567 (2004: 12,703,954) of the time deposits is collateral guarantees for loans. The deposits have maturity dates as follows:

2005	<b>\$138,416</b>
2006	<b><u>11,991</u></b>
	<b><u>\$150,407</u></b>

**8. ACCOUNTS PAYABLE AND ACCRUALS**

	<u>2005</u>	<u>2004</u>
Accounts payable	<b>\$1,857</b>	\$1,995
Accrued charges	<b>1,055</b>	929
Government of Belize payable	<b>43</b>	40
Insurance payable	<b>117</b>	132
Other payables	<b><u>233</u></b>	<u>142</u>
	<b><u>\$3,305</u></b>	<u>\$3,238</u>

**SCOTIABANK (BELIZE) LTD.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED OCTOBER 31, 2005 AND 2004 (IN THOUSANDS OF BELIZE DOLLARS)**

**9. GENERAL LOAN LOSS RESERVE**

The Bank is required by Section 81 (1) of the Banks and Financial Institutions Act and BFIA Circular #2/1996 to establish general loan loss reserves equivalent to one percent (1%) of all loans that are not adversely classified and to show these reserves as a liability.

**10. DUE TO HEAD OFFICE**

	<b><u>2005</u></b>	<b><u>2004</u></b>
Subsidiaries clearings	<b><u>\$(8,816)</u></b>	<b><u>\$1,406</u></b>
Retained profits payable	<b><u>2,977</u></b>	<b><u>3,962</u></b>
	<b><u>\$(5,839)</u></b>	<b><u>\$5,368</u></b>

**11. LONG AND SHORT TERM BORROWINGS**

This balance is payable to the Scotiabank Caribbean Treasury Unit and to the Bank of Nova Scotia Toronto. Interest is charged at 4.185% (2004: 3.25%) and the loan matures September 13, 2006.

**12. SHARE CAPITAL**

	<b><u>2005</u></b>	<b><u>2004</u></b>
Authorised:		
20,000,000 ordinary shares at \$1.00 each	<b><u>\$20,000</u></b>	<b><u>\$20,000</u></b>
Issued and fully paid:		
12,000,000 ordinary shares at \$1.00 each	<b><u>\$12,000</u></b>	<b><u>\$12,000</u></b>

**13. STATUTORY RESERVE FUND**

The Bank is required by Section 11 (2) of the Banks and Financial Institutions Act to establish a statutory reserve fund equivalent to twenty-five percent (25%) out of net profits for the year before the declaration of dividends, until the amount of the reserve fund is at least equal to the fully-paid up and outstanding capital of such bank or financial institution.

## **SCOTIABANK (BELIZE) LTD.**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED)** **YEARS ENDED OCTOBER 31, 2005 AND 2004 (IN THOUSANDS OF BELIZE DOLLARS)**

#### **14. RELATED PARTY TRANSACTIONS/BALANCES**

The Bank as part of its normal course of doing business provides loans to its employees, management and Board of Directors. Loan balances due from employees, management and the Board of Directors as at October 31, 2005 totaled \$7,354,337 (2004: \$6,416,502). Some staff loans are interest free while others are at concessionary rates but are adequately secured. Loans to management and the Board are made in the normal course of business and are adequately secured.

	<u>2005</u>	<u>2004</u>
Staff Loans	\$ 7,354	\$6,417
Scotiabank (Bahamas) Ltd. – short term loan	\$ 4,000	\$ -
Bank of Nova Scotia (Toronto) – long term loan	\$ 1,000	\$2,000
Bank of Nova Scotia (Toronto) – head office account-Net	\$(5,839)	\$5,368
Bank of Nova Scotia (Toronto) – management fee	\$ 483	\$ 508

#### **15. OTHER OPERATING INCOME**

	<u>2005</u>	<u>2004</u>
Commission on loans	\$2,436	\$1,955
Other commissions	498	695
Service charges	2,440	2,178
Exchange gain/loss on foreign exchange	4,013	3,087
Capital gains from sale of investment	-	2,500
Miscellaneous income	<u>112</u>	<u>105</u>
	<u>\$9,499</u>	<u>\$10,520</u>

#### **16. BUSINESS TAX**

In accordance with the Income and Business Tax Act revised edition 2000, business tax is paid at the rate of 10% on the net of interest earned and the interest paid on deposits, as well as, the interest paid on borrowed funds from abroad for on-lending in Belize as certified by the Central Bank of Belize. During the period the Government of Belize enacted legislation to change the rate of Business Tax effective April 2005. The Bank subsequently paid business tax at the new rate of 15%.

#### **17. COMMITMENTS AND CONTINGENCIES**

In the normal course of business to meet the financing needs of its customers, the Bank is a party to financial instruments with off-balance sheet risks. These financial instruments include letters of credit, bank guarantees, bonds and standby letters of credit. In the ordinary course of business, the Bank has various outstanding commitments and contingent liabilities that are not reflected in the accompanying financial statements.

Standby letters of credit and bank guarantees are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party.

Outstanding guarantees and letter of credit as at October 31, 2005 totalled to \$1,567,349 and \$1,340,590 respectively (2004: \$1,304,000 and \$1,410,067).

**SCOTIABANK (BELIZE) LTD.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED OCTOBER 31, 2005 AND 2004 (IN THOUSANDS OF BELIZE DOLLARS)**

**18. GENERAL AND ADMINISTRATIVE EXPENSES**

	<u>2005</u>	<u>2004</u>
Advertising and promotion	\$ 149	\$ 143
Amortization and depreciation	721	718
Bank licenses	25	25
Bad debt write-off (net)	927	1,055
Business meeting expenses	127	82
Cleaning	263	244
Charge-outs	228	222
Cash losses	184	162
Computer expenses	39	33
Entertainment	47	27
Insurance	23	43
Licenses and taxes	294	105
Management fee	483	508
Merchant transaction	763	470
Miscellaneous supplies	80	108
Miscellaneous expenses	127	74
Office rent	552	541
Office supplies and stationery	574	469
Postage and courier service	194	210
Professional services	113	57
Repairs and maintenance	411	551
Salaries and benefits	7,213	6,964
Security	486	355
Traveling and subsistence	213	323
Utilities	1,804	1,610
Vehicle operating expense	<u>68</u>	<u>72</u>
	<u>\$16,108</u>	<u>\$15,171</u>

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