1997 ANNUAL REPORT

global reach

local strength

personal commitment

Scotiabank

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Scotiabank's goal is to be Canada's best and most successful financial services company.

We will achieve this by focusing on our core strengths: diversification, risk management, productivity, customer satisfaction and our Scotiabank team.

In all relationships with our stakeholders, we rely on our core values: a customer focus; honesty, integrity and candour; hard work and smart work; two-way commitment between employees and the bank; and teamwork.

Putting people first is central to who we are.

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Cover: *Emilce Andrea Correa is one of 1,800 employees of Banco Quilmes, Scotiabank's Argentine partner.* ***Page 1: Left:*** *Familiar Scotiabank signage at the main branch in Moncton, New Brunswick.* ***Centre:*** *Stephanie Sorensen works as a retail lending administration officer at the Toronto Midtown Commercial Banking Centre.* ***Right:*** *PC banking at your fingertips.*

THE SCOTIABANK GROUP

The Scotiabank Group provides comprehensive financial solutions to meet the needs of Canadian and international clients across four business lines – domestic, corporate, investment and international banking. Beyond traditional retail, commercial and wholesale banking, we also offer mutual funds, discount and full-service brokerage, discretionary portfolio management, trust and insurance services. The Scotiabank Group prides itself on providing superior service in more than 50 countries.

The Bank's steady growth and excellent financial performance have been characterized by an uninterrupted history of dividend payments since 1833. This clearly demonstrates our ability to compete successfully, both domestically and internationally. As the new millennium approaches, Scotiabank is stepping forward as a truly global bank – strong, resourceful, focused on our core strengths and supported by a dedicated team of people.

Highlights

Fiscal 1997 was a year of achievement for Scotiabank. The Bank produced good returns for the benefit of its shareholders, and made several important acquisitions that broaden its customer base and global reach. In addition, there were substantial increases in activity levels in most parts of the Bank's business, and capital ratios rose significantly. These two pages provide an overview of some of the goals and accomplishments of 1997.

	1997	1996	1995
Shareholder returns			
for the fiscal year, $ unless otherwise indicated			
Net income (*$ millions*)	**$ 1,514**	1,069	876
Earnings per common share	**$ 5.91**	4.08	3.38
Dividends per common share	**$ 1.48**	1.30	1.24
Return on common shareholders' equity	**20.2%**	15.8	14.2
Return on common shareholders' investment	**51.1%**	52.3	10.2
Common share price *(close, October 31)*	**$ 62.15**	42.45	28.88
Growth in the business			
at October 31, $ billions, unless otherwise indicated			
Assets			
Total assets	**$ 195.2**	165.3	147.2
Loans & acceptances *(excluding reverse repos)*	**$ 123.3**	101.6	94.3
U.S. loans syndicated as agent *(1997 to September)*	**$ 52.7**	45.4	32.7
Deposits			
Total deposits	**$ 139.0**	117.9	111.3
Personal deposits	**$ 59.2**	47.8	45.5
Assets under management	**$ 14.1**	13.7	11.6
People *(number)*			
Staffing *(full-time equivalent)*	**38,648**	34,592	33,717
Canadian mutual fund licencees	**5,980**	4,335	3,265
ScotiaMcLeod investment executives	**750**	650	600
Points of service *(number)*			
Branches & other offices	**1,658**	1,464	1,460
Countries with Scotiabank Group offices	**53**	46	44
ABMs – Canada	**1,669**	1,406	1,324
– International (Scotiabank & affiliates)	**830**	609	540
Financial strength			
at October 31			
Tier 1 capital ratio *(%)*	**6.90%**	6.69	6.67
Total capital ratio *(%)*	**10.42%**	8.85	9.65
Common shareholders' equity (*$ billions*)	**$ 7.9**	6.4	5.7
Market capitalization (*$ billions*)	**$ 15.2**	10.0	6.7
Composite of ratings from leading rating agencies	**AA-**	AA-	AA-

GOALS

Scotiabank has a number of financial goals based on its core strengths and the outlook for its main markets. The goals are:	1997 RESULTS	
■ to earn a specific premium over risk-free Government of Canada bonds — which presently translates into a return on equity target of more than 14%	ROE:	20.2%
■ to maintain a productivity ratio of less than 60%	Productivity ratio:	62.4%
■ to have steady increases in dividends to common shareholders	Annual dividend increase:	18 cents
■ to generate consistent growth in book value per share which should lead to a higher market value of the Bank's common shares	Growth in book value per share:	$5.33

ACHIEVEMENTS

Net Income

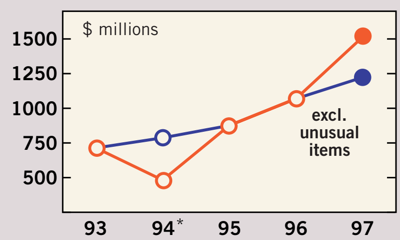
The Bank had strong growth in earnings in 1997 – net income rose 42% to $1,514 million. This increase was partly the result of several unusual items but, even excluding them, there was still a solid gain of 14%.

*1994 purple is before special charges

42%

UP

Strong growth in earnings



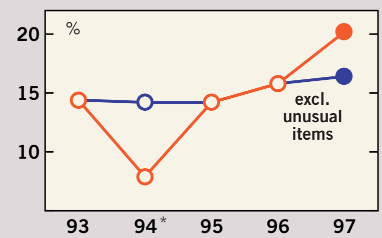
Return on Equity

In fiscal 1997, the Bank's ROE was 20.2% versus 15.8% in 1996. Even excluding the unusual items, the ROE of 16.4% exceeded the Bank's target.

*1994 purple is before special charges

20.2%

Above-target ROE



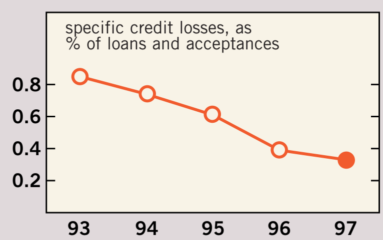
Risk Management

A key aspect of risk management is credit quality. The Bank improved its specific provision for credit losses in 1997 to $360 million or 0.33% of average loans and acceptances, versus 0.39% in the prior year.

5%

BETTER

An improvement in credit losses



Customer Satisfaction

Scotiabank consistently achieves a high ranking among its peers for customer satisfaction (in an independent survey), enhancing the ability of the Bank to retain customers and grow market share.

top-tier

High rank for customer satisfaction

Rank among Big Six banks

1 year	#2
5 years	#1
10 years	#2

source: calculated from data from Market Facts of Canada Limited

LETTER TO SHAREHOLDERS

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

In 1997, we extended our reach as a truly multinational bank, one equipped to take advantage of diverse business opportunities in major world markets. At the same time, we strengthened our overall business position in the domestic retail marketplace.

Our financial performance in 1997 demonstrated that our strategy of building on our core strengths, relying on our employees across the Scotiabank Group, and maintaining our focus on customers is generating increased value for shareholders. This strategy addresses the new challenges of the financial services business: rapid changes in the global marketplace, shifting customer requirements, increasing competition and the introduction of new information technologies to serve our customers better.

This year's financial highlights underscore our success. Net income rose to $1,514 million, up 42 per cent over the previous year. Return on common shareholders' equity was 20.2 per cent, and earnings per share climbed from $4.08 to $5.91, an increase of 45 per cent. These results were affected by several unusual items, including the acquisition of National Trust and the reversal of a portion of the country risk provision. Excluding these unusual items, net income would have been $1,223 million in 1997, a solid 14 per cent increase over 1996; return on common shareholders' equity would have been 16.4 per cent, still exceeding the Bank's target; and earnings per share would have been $4.72.

Scotiabank continues to generate superior shareholder value. Dividends per common share were up 14 per cent. This, together with appreciation on Scotiabank's common share price, produced a total return to shareholders of 51.1 per cent in 1997, following a total return of 52.3 per cent the previous year.

Key initiatives and acquisitions

Our strong financial position enabled us to make several key acquisitions in 1997 to broaden our customer base in Canada and extend our geographic reach.

At home, we purchased National Trust, with $14.6 billion in assets, for $1.2 billion. This acquisition improves our share of the Canadian retail market in deposits and residential mortgages, expands our market share in personal trust services, and strengthens our representation, especially in southwestern and central Ontario.

We implemented several other strategic initiatives we believe will ensure future growth in the Domestic Bank. With the launch of PC Internet banking in August, we now offer customers another way to do their everyday transactions. We simultaneously launched an Internet

Robert L. Brooks
Executive Vice-President
Investment Banking

Sylvia D. Chrominska
Executive Vice-President
Human Resources

Albert E. Wahbe
Executive Vice-President
Operations

Robert W. Chisholm
Vice-Chairman Finance &
Administration and President
& Chief Executive Officer
National Trust

Richard E. Waugh
Vice-Chairman
Corporate Banking

discount brokerage trading service, which enables customers to buy and sell securities, view their portfolios, get real-time stock quotes and receive up-to-the-minute market news. We also continued to expand our ABM, telephone banking and debit card networks.

Innovative retail product development has improved our market position. The Scotia RRSP Catch-Up Loan – introduced during the 1997 RRSP sales season – was a great success, boosting both consumer credit outstandings and sales of investment products of the Scotiabank Group.

We have experienced good growth in the small and medium business sectors, introduced electronic banking alternatives for small business customers, and streamlined credit application processes to enhance our service levels and decrease costs.

To improve efficiency and offer customers additional services, we formed a number of strategic alliances. In the United States, one such partnership will provide comprehensive cash management services to Scotiabank customers in Canada, the U.S. and Mexico.

We continued to strengthen our leadership position in syndication lending, especially in Canada, the U.S. and the U.K. From January to October 1997, Scotiabank led all Canadian banks in global syndication lending in terms of volume. We are the ninth-ranked bank among all domestic and international banks in the global syndication market.

We founded Scotia Merchant Capital Corporation, a merchant bank that funds equity investments in private

Bruce R. Birmingham
President

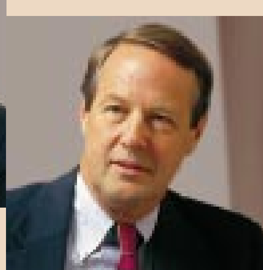
mid-market companies throughout North America, with a particular focus on Canada. This is an important business that we feel will grow significantly in the future.

To establish us as one of the world's leading metals trading and bullion banks, we signed an agreement to acquire Mocatta Bullion & Base Metals from Standard Chartered Bank, U.K. Mocatta will be integrated with Scotia Capital Markets to enhance the Bank's existing strengths in precious metals and the mining sector, and to position us to take advantage of opportunities in expanding markets in the Middle and Far East.

We believe that diversification, especially in major and emerging markets around the world, is critical to our future success. Based on our belief in the economic potential of Latin America and Asia, we expanded our presence in both areas with initiatives that will yield extensive business opportunities in the future.

We acquired 53 per cent of Banco Ahorromet in El Salvador, 25 per cent of Banco Sudamericano in Peru

Gordon F. Cheesbrough
Chairman & Chief Executive Officer
Scotia Capital Markets and ScotiaMcLeod Inc.



W. David Wilson
President & Deputy Chief Executive Officer
ScotiaMcLeod Inc.

S. Dennis N. Belcher
Executive Vice-President
Investment Banking
Credit & Credit Policy

Sarabjit S. Marwah
Executive Vice-President
Finance

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

and signed a letter of intent to acquire 25 per cent of Banco del Caribe in Venezuela. In Mexico, where we have a 10 per cent interest in Grupo Financiero Inverlat and an option to move to a controlling interest by the year 2000, we are positioning the company to share in the country's economic recovery and growth.

Reinforcing our Asia-Pacific strategy, we filed a letter of intent to purchase a 35 per cent interest in Bank Arya, an Indonesian retail bank. We plan further expansion in India, as well as entry into Sri Lanka and Bangladesh.

We also enhanced our dominant presence in the Caribbean with new branches in Grenada and Belize, and launched a comprehensive program of continuous improvement in the region to increase our efficiency.

Our intention is to continue to build our global network in order to maintain our unique position as Canada's most international bank.

The personal touch

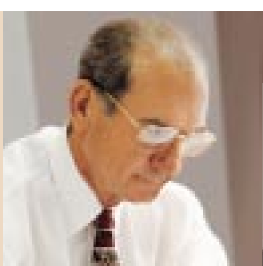
Our core strengths – productivity, diversification, risk management, customer satisfaction and our Scotiabank team – provide us with continuity and a sense of direction. Although each of these strengths is important to our success, it is our people who set us apart from other financial institutions. We built our businesses on the strength of relationships – relationships among our employees, and relationships between our employees and customers.

We continue to make substantial investments in our staff through competitive, innovative compensation, plus training programs and career development initiatives, to ensure they are properly equipped to serve the ever-increasing needs of customers.

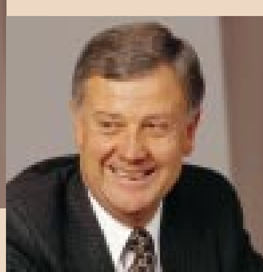
In 1997, we successfully introduced an employee share ownership plan in the United Kingdom, with an initial enrolment of approximately 75 per cent of eligible staff members, adding to the 88 per cent of Canadian employees and 82 per cent of U.S. employees who already participate. These figures speak to the commitment our employees have made toward the Bank.

Our training budget more than tripled between 1992 and 1997. During the past year, more than 16,000 employees in the branch network received Bank-sponsored training and more than 10,000 updated their skills through technology-assisted learning. We used multimedia equipment and coach-assisted self-study modules in all Canadian branches, to support the programs offered through our nine regional training centres. Caribbean staff receive training at centres in Jamaica, Bahamas, Trinidad and Puerto Rico, the latter offering Spanish-language instruction. A fifth training centre will open next year in Barbados.

The Bank's Mexican affiliate, Banco Inverlat, launched a major management training initiative for branch managers and supervisors, preparing branch leaders to take greater responsibility for human resources management. In all, more than 1,000 Inverlat employees benefitted from these and other programs.



Kevin S. Rowe
Executive Vice-President
Pacific Region



Barry R. F. Luter
Executive Vice-President
Corporate Banking
Eastern U.S.A.

Malcolm C. Johnston
Executive Vice-President
International Banking

Robert J. Marshall
Executive Vice-President
Retail Banking

William P. Sutton
President of the Executive Committee
Grupo Financiero Inverlat
Mexico

Other internal training and educational activities include programs to prepare employees for international positions, such as Spanish language training, an international MBA co-op program, and intercompany exchanges for subsidiaries and affiliates.

Beyond these internal programs, Scotiabankers registered for more than 8,000 courses offered by the Institute of Canadian Bankers, the second-highest number among Canadian banks. Seventy per cent of these individuals signed up for courses directly related to investment and financial planning, supporting our customers' growing reliance on our employees' expertise in financial planning and wealth management.

Besides formal training programs and educational assistance, we provide other development opportunities, such as mentorship programs and automated job posting.

Outlook

For most of the Bank's major markets, the outlook through 1998 is quite favourable. North American interest rates may edge higher in the months ahead, but the economy is expected to remain on track to register solid growth. Canada's expansion is now firmly rooted in the domestic economy and improving fiscal fundamentals. The U.S. economy, with almost full employment, should continue to experience broad-based growth. The pace of activity in western Europe and Japan is likely to revive, as domestic demand begins to recover. Latin America appears poised for another good year, led by gains in business investment and consumer spending. The recent financial turbulence in a number of Asian countries has created significant adjustment challenges and diminished growth prospects, but the long-term outlook for the region remains bright.

We expect our own good financial performance over the past eight years to continue, largely because the correct building blocks are in place to maintain our momentum and achieve our goals.

As we move toward the next century, three clearly defined challenges must be met: The need to manage new technologies. The need to define a new framework for the regulation of Canadian banks that will encourage growth and diversification. And the need to find ways to compete globally with banks that are often much larger than ours.

These challenges will be met by planning strategically for the future, continuing to build on our core strengths, and by focusing on our competitive advantages, including the skills and expertise of our people worldwide.

For our *customers*, we will continue to focus on their needs, delivering the highest quality service in all of our businesses. For our *employees*, we will continue to be a great place to work, providing challenging career opportunities. For the *communities* we serve, we will continue our tradition of support, particularly to organizations with an emphasis on youth, education and health. And for our *shareholders*, we will continue to generate strong returns and build long-term value.

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

Bruce R. Birmingham
President

QUESTIONS AND ANSWERS

Chairman and CEO Peter Godsoe addresses a number of questions dealing with issues affecting Scotiabank and the banking industry.

Q WHY DID SCOTIABANK ACQUIRE NATIONAL TRUST?

A Strategically, this purchase makes perfect sense. With similar small-town roots and values, Scotiabank and National Trust have a lot in common. The acquisition adds $12 billion in personal deposits and $9 billion in residential mortgages to our business. It also strengthens our branch network in many important Canadian markets – particularly in southwestern and central Ontario – and provides further penetration in personal trust services.

Q SCOTIABANK'S COMMON SHARES HAVE SEEN STRONG GROWTH SINCE NOVEMBER 1995. DO YOU EXPECT THIS TO CONTINUE?

A Scotiabank's outstanding performance has been part of the reason for the climb, but other factors, such as the low interest rate environment, have also played an important role. Our purpose is building long-term value through share appreciation for shareholders, and we're doing just that. We're experiencing a very good economy, it's a good time to invest and there's good potential to build that long-term value.

Q WHY IS THE BANK CONTINUING TO EXPAND ITS INTERNATIONAL OPERATIONS?

A We're one of a handful of banks in the world that understands and can operate successfully in a multinational environment. That's because more than a century of international expansion has enabled us to develop the expertise that is now one of our key competitive advantages. Global diversification helps ensure a stream of earnings independent of the Canadian economy, and spreads risks. From our shareholders' perspective, these long-term investments offer the potential for good growth in the future.

Q

Should foreign banks be allowed to operate freely in Canada?

A

We welcome competition and have supported the right of foreign banks to come to Canada for the past 25 years, and we still do. We believe foreign banks should be allowed to open branches without having to establish a Canadian subsidiary. They should not be placed under any disadvantage, nor should they be given any special advantages. This means foreign banks should work under the same regulatory regime as all other banks in Canada.

Q

You say, as many corporations do, that your employees are one of your core strengths. How is Scotiabank different?

A

Scotiabank is committed to its employees. We have resisted the popular trend to downsize our workforce. Certainly, many jobs have changed and some have even disappeared but, at the same time, we have been able to create many new job opportunities. The result is that we've been a net job creator – our workforce has grown by close to 1,500 over the last two years, not including the 3,440 new National Trust employees. We are also committed to our employees in other ways – by posting job opportunities and providing extensive training so our staff can grow in their careers, by encouraging alternate work arrangements that enable employees to balance work and family, and by recognizing individual achievements through our incentive pay program.

Q

How does the Bank practice good corporate citizenship?

A

We have a longstanding tradition of supporting the communities where we do business, and where our employees live and work – particularly in the areas of youth, education and health. In 1997, we contributed close to $14 million to numerous organizations, including direct donations and community support.

What cannot be easily measured is the time and effort given freely by our employees every day of the year. By launching the Scotia Employee Volunteer Program in 1998, we will be building on the tradition of supporting local involvement and individual commitments. Under this program, the Bank will donate up to $1,000 per year to charities and non-profit organizations in which our employees and pensioners are active volunteers. We hope this will encourage even more of our staff to volunteer, further support the efforts of those who already do so, and provide additional assistance to the causes that are important to us and our communities.

Business highlights

Who we are:	How we did:	What we accomplished:
Domestic Banking Canadian retail and commercial banking offers services to 4 million households and 225,000 businesses from 1,300 branches. A growing range of products and services is available – from branch staff, or through integrated, technology-based networks.	**$520 million** NET INCOME	**Highlights** ■ Expanded the Bank's retail base through the acquisition of National Trustco. ■ Launched Scotia OnLine Internet banking and discount brokerage services. ■ Created Scotia*business* Electronic Banking for small business owners, providing loan and deposit, plus account access via ABM, direct payment, telephone and Internet.
Corporate Banking Financial markets are global, and so is the scope of our Corporate Banking group. From major Canadian, U.S. and international cities, our relationship managers provide integrated global financial solutions to more than 2,000 national and multinational corporations and governments.	**$357 million** NET INCOME	**Highlights** ■ Maintained top-tier status in the tough U.S. syndicated loans market for 6th consecutive year. ■ Formed a strategic alliance to provide comprehensive cash management services to customers across Canada, the United States and Mexico. ■ In conjunction with Investment Banking, founded the Scotia Merchant Capital Corporation to fund equity investments in North American companies.
Investment Banking Investment Banking co-ordinates our global financial market activities through two units: Scotia Capital Markets, an integrated investment bank serving capital market and risk management needs; and the Global Treasury group, which supports the Bank's funding and manages liquidity.	**$401 million** NET INCOME	**Highlights** ■ Scotia Capital Markets (SCM) named Canada's "best securities firm" by *Euromoney* magazine. ■ Launched new technology initiatives, including a Private Client Internet presence and AssetWatch, a powerful portfolio tracking tool for clients. ■ In conjunction with Corporate Banking, added high-yield debt sales, trading and origination to the range of products and services offered by SCM's New York office.
International Banking Close to 6,000 employees work in International Banking to provide retail, commercial and corporate services to clients around the world. We are the leading bank in the Caribbean, have the broadest Asian network of any Canadian bank, and are expanding in the growing Latin American market through joint venture partnerships.	**$434 million** NET INCOME	**Highlights** ■ Initiated new investments in El Salvador, Peru, Venezuela and Indonesia. ■ Completed major, multi-year automation programs in the Caribbean and eastern Mediterranean to enhance competitiveness. ■ Extended our global retail network by opening new branches in Belize, Grenada, India, Lebanon and Malaysia.

Where we are headed:

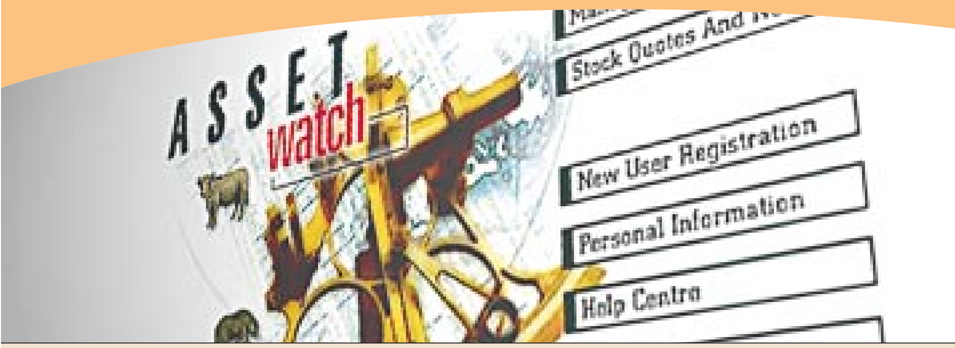
One of 41 commercial banking centres in Canada, Toronto's Midtown Commercial Banking Centre provides services to small and medium businesses.

- Integrate National Trust smoothly.
- Continue to develop alternate delivery channels, and further explore the potential of the Internet.
- Increase responsiveness to the needs of small business owners.

From offices in Europe, Asia, Latin America, the U.S. and Canada, Corporate Banking provides financial solutions to international clients.

- Build shareholder value by capitalizing on strong customer relationships.
- Develop multi-product financial solutions and provide value-added services.
- Enhance our global finance and syndication capabilities.

AssetWatch enables ScotiaMcLeod's clients to monitor their portfolios and the markets from their own personal computers.



- Be a leading Canadian investment bank and a capital market force in major global markets by offering expertise and innovative financial solutions.
- Expand the range of value-added services to clients.
- Broaden Scotia Capital Markets' geographic reach to selected emerging markets.

In 1997, Scotiabank established a joint venture partnership with Banco Sudamericano, based in Lima, Peru.

- Further build Scotiabank's global franchise by expanding our local expertise and by forming additional strategic alliances in key markets.
- Strengthen sales and service focus in selected markets, such as the Caribbean.

BUILDING ON OUR

Competitive Advantages

How has Scotiabank built Canada's most international financial services company? Very consciously. By looking outside Canada for new business opportunities for 165 years. And by using our local strengths as the building blocks for a strong global network. Today, our world-wide presence allows us to serve the needs of individuals and businesses, and participate with them in the world's fastest growing markets.

__Left:__ The Festival of the Future introduced consumers to Scotia OnLine, the Bank's Internet banking and discount brokerage services. __Centre:__ Worldwide, more than 350,000 automated banking machines that display the Interac, VISA or Plus symbols give Scotiabank customers access to their money. __Right:__ Credit Officer Miguel Cartagena and Clerk Ana Torres are based at the Fajardo branch of Scotiabank de Puerto Rico.

global reach

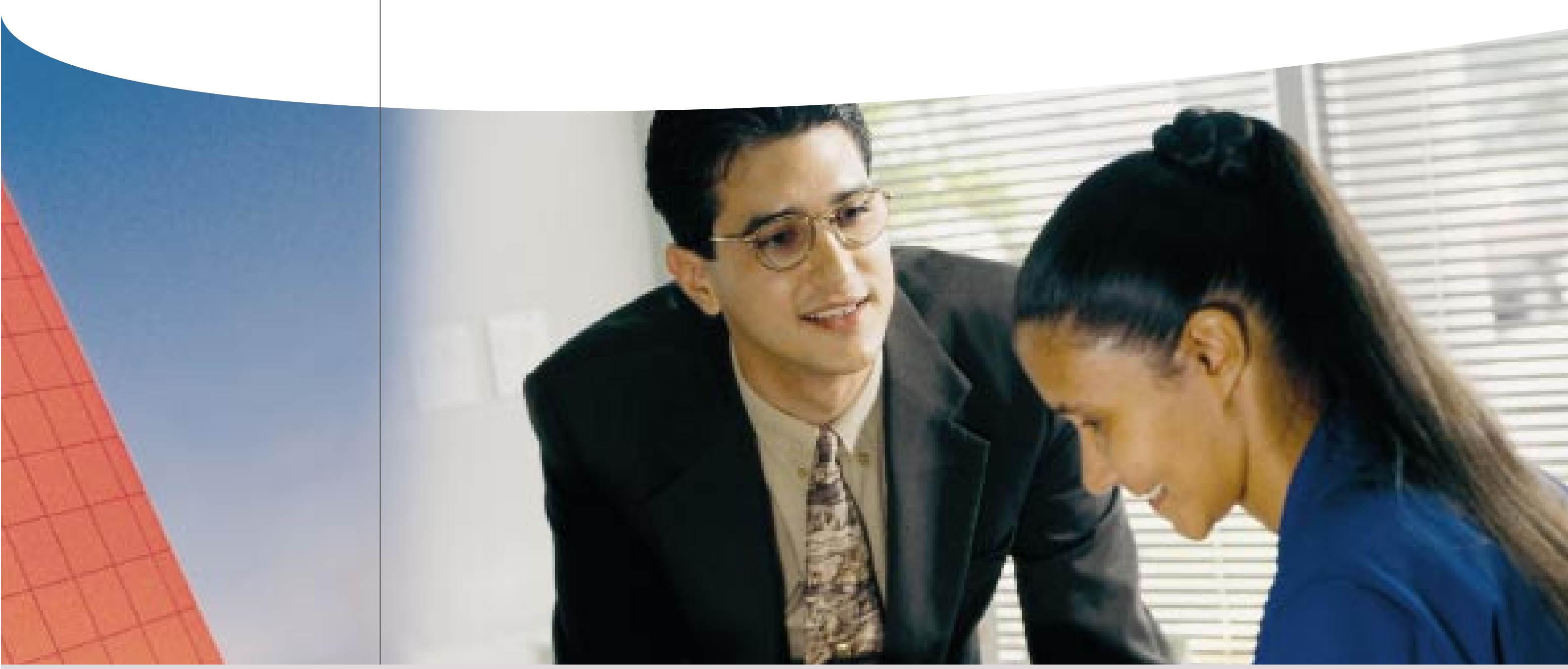
Scotiabank's global expansion, guided by a long-established strategy of seeking out the best opportunities for growth, has resulted in a network that now spans more than 50 countries on five continents. This means that our customers – no matter where in the world they do business – benefit from our ability to provide them with specialized service.

local strength

Strong local operations form the foundation of our global strategy. A commitment to shared values, such as customer service and teamwork, unites the employees of Scotiabank Group through branches, offices and affiliates in North America, the Caribbean, Asia, Latin America and Europe. In all locations, the combination of local knowledge and contacts, and our international experience and resources, enable us to provide our customers with the financial solutions they seek.

personal commitment

Globally and locally, Scotiabank and Scotiabankers share the same commitment – to their customers, shareholders and each other. Scotiabank is committed to being a great place to work. This includes providing rewarding career opportunities, giving employees a greater stake in the Bank's success, and investing in training to continually enhance individual skills. It also means providing flexibility to meet employee needs and, finally, communicating with honesty, integrity and candour.



global reach

International scope

Scotiabank opened its doors for business in Halifax, Nova Scotia, in 1832 and almost immediately appointed its first agent in New York, taking the initial step toward becoming Canada's most international bank. In 1889, we opened our first branch in the Caribbean. In fact, we were international before we were national – establishing a branch in Kingston, Jamaica, before moving west across Canada.

Today, Scotiabank is Canada's most international bank – and is still growing. We are increasing our presence in the expanding economies of Asia and Latin America, building strategic alliances, focusing on specialized niches and extending our retail network.

In each of the countries where we operate, our goal is to provide superior local and international financial services for a growing customer base.

In the Caribbean, we have established an extensive network of full-service Scotiabank branches that serve local customers, as well as Canadian and international customers doing business in the region. In other major markets around the world, clients are served through branch networks, subsidiaries and representative offices.

In Mexico, Argentina, Peru, Chile, El Salvador and the Philippines, we have invested in respected local banks with their own branch networks. These strategic alliances are mutually beneficial. We share information technology and management skills, and access to our international network and global clients. In turn, our affiliates provide local expertise, the resources of their branches, a valued name and a strong marketing presence.

We are currently finalizing similar arrangements in Indonesia and Venezuela.

Our global links allow the Bank and its business clients to participate in the excellent long-term prospects of many of the developing nations in the Asia-Pacific and Latin American regions. They provide a diversified revenue base, and serve as a springboard for securing new business.

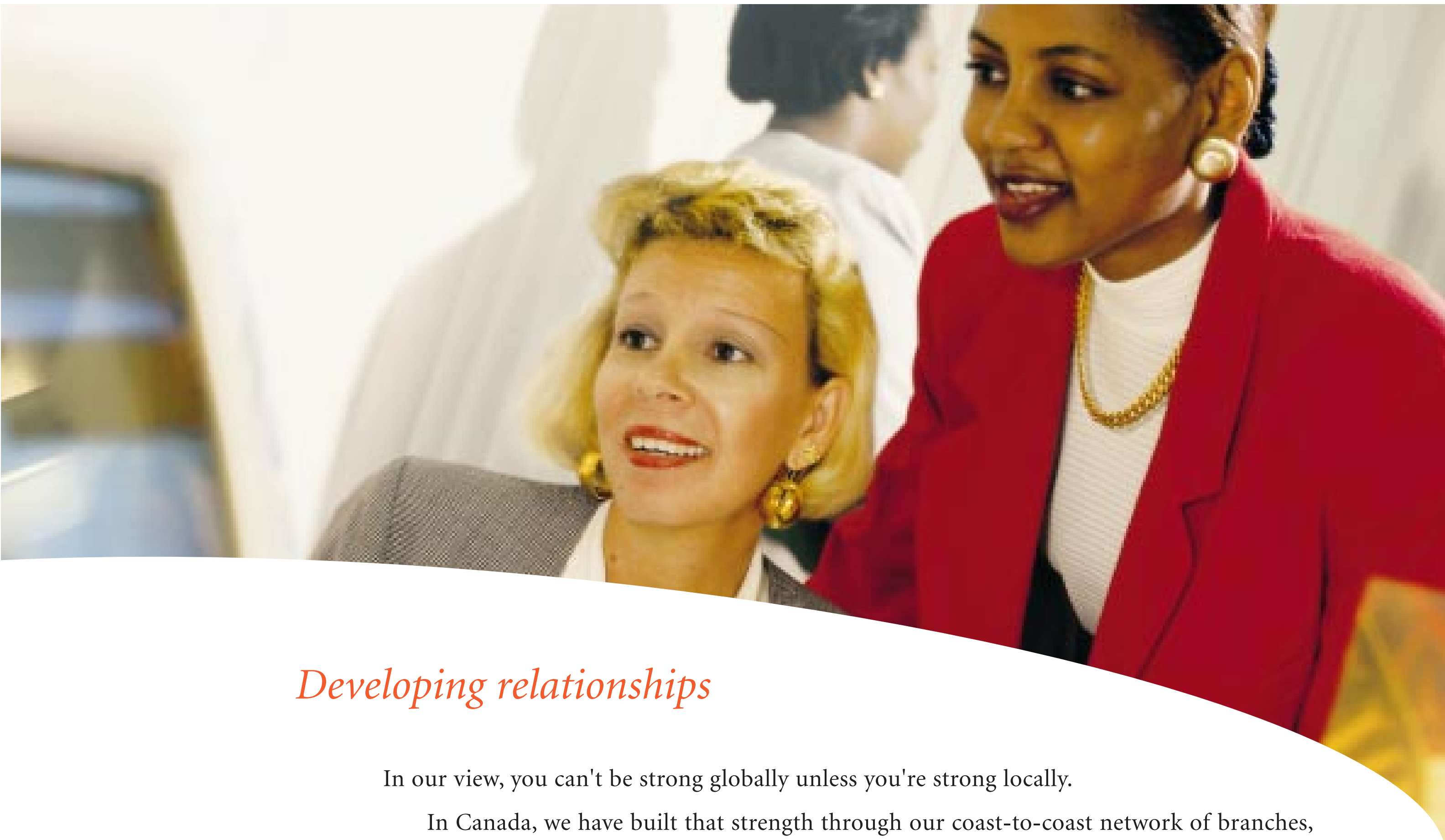
For example, our corporate banking relationship with U.K.-based Courts plc, an international home furnishings and electrical goods retailer, now spans the U.K. plus seven countries in the Caribbean, Malaysia and Singapore. In addition to providing local banking in these countries, Scotiabank arranged and acted as agent for Courts in a multi-million dollar global syndication.

Large multinational corporations, such as McDonald's and Chrysler, also take advantage of our international expertise to further their expansion. McDonald's is currently looking to Scotiabank to help support its growth internationally. We now provide lending commitments and cash management services to the fast-food chain in 10 countries. When Chrysler, a major Scotiabank corporate customer in the U.S. and Canada, returned to the Argentine market after a long absence, our partner, Banco Quilmes, became its leading banker. Banco Quilmes now provides credit to some of Chrysler Argentina's dealers, as well as retail loans to Chrysler customers.

We will continue to be responsive to the needs of our multinational customers as we expand and position ourselves to take advantage of further growth opportunities in global markets.

Far left: *Representatives of Peru's Banco Sudamericano, Director Rafael Calda (l) and José Escajadillo, visit a bank client – a manufacturer of plastic tubing.* ***Centre top:*** *The Bank maintains a branch, plus regional, investment and corporate banking offices and a trust company in Hong Kong.* ***Centre bottom:*** *Shurie Smith of our Nassau Central Accounting Unit.* ***Right:*** *One of 86 branches of Argentina's Banco Quilmes.* ***Far right:*** *The Freeport Container Port in the Bahamas was recently completed with Scotiabank financing as a joint venture between the local port authority and a subsidiary of one of our Hong Kong clients.*

local strength



Developing relationships

In our view, you can't be strong globally unless you're strong locally.

In Canada, we have built that strength through our coast-to-coast network of branches, our full complement of products and services, our skilled and knowledgeable workforce, and the more effective use of information technology.

We have built our strength in other ways, too.

Responding to our customers' increasingly sophisticated needs, we have expanded our self-service distribution channels, and boosted the number of personal banking officers and personal investment managers in our branches and call centres. This approach will play a pivotal role as customers increasingly look to the Bank for advice on investments and wealth management.

We continue to develop close relationships with local and national customers, becoming an integral member of the communities we serve. And we are taking steps to position the Scotiabank Group as a distinctive brand in the marketplace, emphasizing a human touch in a highly technological world.

Local strength is not confined to our domestic operations. Each of our international branches, representative offices and affiliates must be strong in its own business environment to succeed.

We can capitalize on the local strength of our operations abroad. Our recent investment in Peru's Banco Sudamericano, for instance, helped win business with that country's largest copper company.

We are broadening a number of corporate banking relationships by providing credit, cash management and trust agency services to major corporations in many countries. For example, by arranging new financings in China and Indonesia for American Standard, one of our U.S. corporate clients, we not only helped the company expand its global presence, but further deepened our relationship with this multinational client.

As part of our effort to strengthen our offshore operations, we are exporting expertise, products and service concepts, and innovative new technologies that have proved successful in Canada.

In Mexico, Banco Inverlat is developing a variation of Canada's successful small-business Scotia Professional Plan to provide loans to doctors and other professionals. And in the Caribbean, based on models first developed in Canada, we completed a 10-year roll-out of our Caribbean Automation Program and launched a region-wide Continuous Improvement Program.

As Canada’s most international bank, we will continue to rely on local expertise – in Canada and abroad – to provide solid advice and reliable service to our customers.

Far left: *Bertha Ritchie and Keva Ryan, Rawson Square, Nassau.* ***Centre top:*** *The Fajardo branch is one of 14 branches of Scotiabank de Puerto Rico.* ***Centre bottom:*** *Mark Lipton, Personal Investment Manager, Halifax Commercial Banking Centre.* ***Right:*** *Bank financing has helped revitalize Saskatchewan’s hog industry. Here, (from left) Wayne Vermette and Richard Wright of Quadra Group, a successful hog production management firm, confer with Darren Eurich, their account manager from our Westside branch in Saskatoon.*

personal commitment

People first

Putting people first is a sound business strategy. Our research has proved it. Satisfied, skilled, committed and motivated employees create above-average levels of customer satisfaction – and above-average results.

How do we create such an environment? By pursuing our shared goals and shared values. Consider the two-way commitment that exists between the Bank and its employees. Faced with technological advances, shifting demographics and rising consumer expectations, our employees are working harder than ever to provide excellent service to our customers. They need to know that Scotiabank, in turn, is working to support them.

We recognize individual contributions by giving employees a greater stake in the Bank's success. A new incentive pay program links compensation to individual performance, and to the performance of the Bank, as measured by return on equity. We launched this program in Canada in 1996, extended it to selected international locations in 1997, and will include all remaining locations worldwide in 1998.

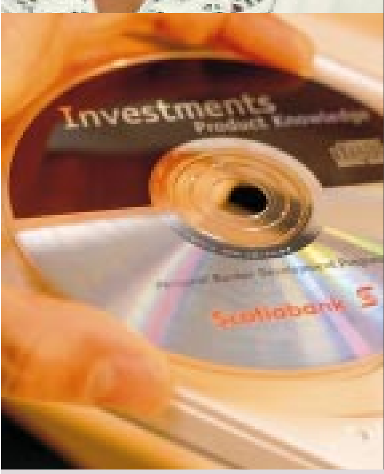
Dealing openly, fairly and sensitively with employees, particularly during times of major change, is the hallmark of Scotiabank's approach to employee relations. Careful human resource management has helped the Bank avoid massive downsizing and, in fact, become a net creator of new jobs – close to 1,500 over the past two years, not including the 3,440 new National Trust employees.

Customers are demanding new kinds of services in the areas of investment products and electronic banking. To meet this demand, jobs are changing, and we are reshaping our training, communication and career development programs to better prepare our people to deal with these new challenges.

Employees are developing the skills they need to pursue future career opportunities at regional training centres, through coach-assisted self-study programs, with in-branch multimedia equipment and training software, and through Bank-financed external courses.

Commitment to our employees also means helping them balance work with their personal needs. To provide a more flexible work environment, we launched a formal policy on alternate work arrangements in 1996. One year later, the number of Scotiabankers taking advantage of more flexible work options doubled, and continues to grow. A new telecommuting pilot project will also offer an increase in choices and allow more Scotiabankers to work outside the office.

During times of change, constant and consistent communication increases in importance. Communicating with honesty, integrity and candour is part of our commitment to making Scotiabank a great place to work.



Far left: *Gloria Kim, Personal Banking Officer, and Customer Service Representative Carman Hudson from the Toronto Midtown Commercial Banking Centre.* ***Centre top:*** *Althea Davis of Nassau's Cable Beach branch in the Bahamas.* ***Centre bottom:*** *Self-study modules on CD-ROM focus on the Bank's investment products.* ***Right:*** *Stephanie Di Ceglie, Performance and Training Services, demonstrates the Bank's orientation program for new employees.* ***Far right:*** *Lori Purdy, Staff Ombuds Office, is solely devoted to helping employees.*

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 provisions, the country risk provision and the General provisions. Allowance for credit losses is deducted from the related asset categories on the balance sheet.

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

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

CAPITAL: Capital consists of common shareholders' equity, preferred shareholders' equity and subordinated debentures. Capital supports asset growth, provides against loan losses and protects depositors.

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

DERIVATIVE PRODUCTS: Derivatives are 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 to 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 PROVISIONS: Provisions for doubtful credits (General provisions) are established against the loan portfolio in the Bank's 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.

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 normally has recourse against its clients for any such funds advanced.

HEDGING: Protecting against price, interest rate or foreign exchange exposures by taking positions which 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 both 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, 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.

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 in determining 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 instruments are comprised of 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: 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 (TEB) 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 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.

REVERSE REPOS: Reverse repos is short for "assets purchased under resale agreements" – a short-term transaction where the Bank purchases securities 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: Risk-adjusted assets are 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 procedure allows a uniform measurement and comparison of net interest income that arises 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, considered to be the more permanent, consists primarily of common shareholders' equity plus non-cumulative preferred shares, less any unamortized goodwill. Tier 2 is mainly cumulative preferred shares, subordinated debentures and general provisions.

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

1997 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

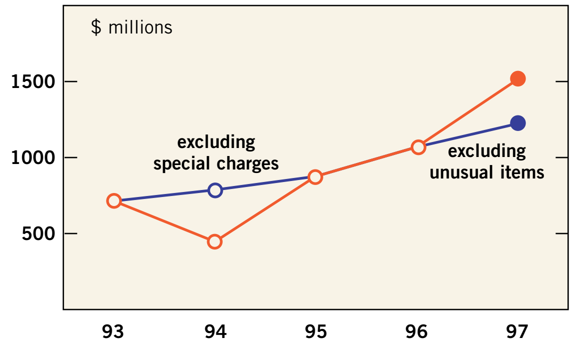
Table of contents

OVERVIEW OF FINANCIAL RESULTS

Substantial Increase in Net Income

- Net income was $1,514 million in 1997, a substantial increase of 42% from the previous year. This year's results were affected by several unusual items including the effects of the acquisition of National Trust and the reversal of a portion of the country risk provision (refer to Table 1, page 56).

Excluding the unusual items, earnings would have been $1,223 million in 1997, which was still a solid 14% increase over the prior year. This arose from good growth in loans and fee income in most of the Bank's activities, and continued improvement in credit quality.



Strong Return to Common Shareholders

% For the financial years	**1997**	1996	1995	1994	1993
Annual return	**51.1%**	52.3%	10.2%	(0.9)%	26.6%
Five-year return (annualized)	**26.0%**	21.9%	27.6%	16.2 %	21.1%

- Return to common shareholders, which includes both dividends and appreciation in the price of the Bank's common shares, has been strong in recent years, including 1997. The annualized return for the five years to the end of 1997 was 26% per year, consistent with other Canadian banks and materially better than the return on the TSE 300 index.

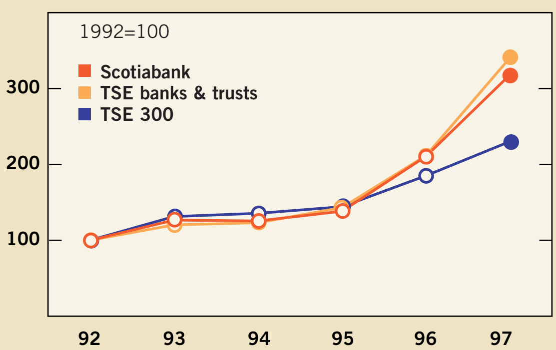
Dividends Growing Consistently

- Common share dividends have increased in 23 of the past 25 years. This performance continued in 1997, when the dividend payments increased to $1.48 per common share from $1.30 in 1996. Dividends per common share have risen 7% a year over the past five years.

Business Lines: Strength in Diversity

- The Bank's four main business lines provide it with diversification and many opportunities. The results of the business lines are summarized below and reviewed beginning on the following page.

Strong return to common shareholders



Four profitable business lines

$ millions	**1997**	1996
Canadian Retail & Commercial	**$ 520**	$ 405
Corporate	**357**	250
Investment	**401**	232
International	**434**	236
Other*	**(198)**	(54)
Total net income	**$1,514**	$1,069

*includes gains on sale of businesses, items related to National Trust, certain overhead expenses and corporate items

THE HUMAN SIDE OF BANKING

Canadian Retail and Commercial Banking is dedicated to providing useful and innovative financial services to customers. We offer a variety of delivery channels from which they can choose, easy to understand products and services, increasingly expert advice – and in partnership with our customers, we are helping them build their financial well-being.

Accomplishments

- expanded customer base and branch network with National Trust acquisition
- introduced Scotia OnLine for Internet banking and discount brokerage
- offered alternate delivery channels to small business clients

Performance

Canadian Retail and Commercial Banking serves well over 3.5 million households and more than 225,000 businesses, through branches, ABMs and electronic delivery channels.

In late fiscal 1997, the Bank acquired National Trust, a Canadian trust company with a substantial base of retail business, including 500,000 households, $9 billion in residential mortgages and $12 billion in personal deposits. The financial results of National Trust will be reported with Canadian Retail and Commercial Banking beginning in fiscal 1998.

In 1997, this business line produced net income of $520 million, up 28% from 1996, and contributed 34% of the Bank's net income.

Financial Results*

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

* excludes National Trust

Total revenues were substantially higher in 1997 across most categories. Net interest income rose because of higher volumes and a better interest margin. Average earning assets rose by $4 billion, of which the largest component was an increase of $2 billion or 8% in residential mortgages. This was accompanied by growth in personal lending (including Scotia Plan Loans, ScotiaLine and VISA) of 4%.

In the priority area of commercial lending, mainly to small and medium businesses, volumes rose by 8% in 1997.

Average deposits grew by 3% during the year. Personal deposits were almost unchanged over the prior year because of customer migration to mutual funds. This shift in customer preference contributed to growth of 38% in the Bank's Scotia Excelsior mutual funds to $7 billion at the end of fiscal 1997. Current account deposits also rose substantially, by 17% in 1997, continuing the strong growth trend of the past few years.

Fee income was strong in 1997, rising 11%, with good contributions from mutual funds, commercial lending, foreign exchange, and payment services.

Expenses rose 6%, with higher employment, new delivery channels, and an increase in advertising.

Credit losses improved from the prior year in commercial, but were higher in personal lending, including student loans.

Looking forward

- timely and cost-effective integration of National Trust operations
- expand alternate delivery services for retail and commercial clients
- improve management of relationships with Canadian families and small businesses

Business plans

A key goal is the timely and cost-effective integration of National Trust, while ensuring customers receive a continued high standard of service.

The Bank intends to enable customers to use the channel of their choice, for example, the new Scotia OnLine Internet service, mobile sales officers or new electronic delivery services for businesses.

The Bank is deepening its knowledge of consumer behaviour, with the aim of building better financial solutions for different customer needs.

Many retail initiatives will also improve relationships with Canadian families, such as:

- strengthening contacts with customers at times of investment and mortgage rollovers
- making it easier for customers to deal with the Bank by rationalizing and simplifying its products and using new systems to facilitate high-quality advice
- improving sales capacity by reducing work in branches through paperless teller transactions and enhancing the sales capabilities in call centres
- further developing employee skills with new training programs, with an emphasis on accreditation
- offering home and auto insurance in Alberta and other provinces.

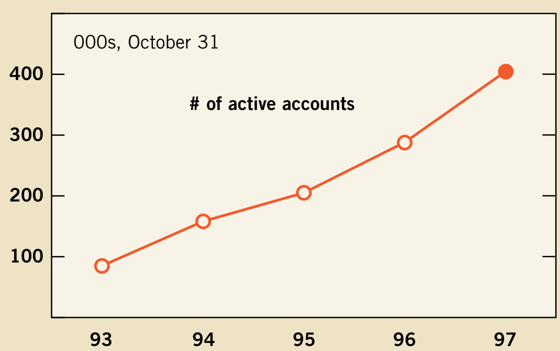
On the commercial side, the Bank is re-engineering its operations while maintaining the benefits of its presence in local markets across Canada:

- branch employees will be freed up for business development. As well, with the pilot of credit scoring for small commercial credits, response times will be shortened and lending decisions will be more consistent
- the Bank will continue to develop programs aimed at particular market segments, such as professionals (building on the highly successful Scotia Professional Plan), the agricultural sector, automotive dealers, knowledge-based industries and Aboriginal communities.

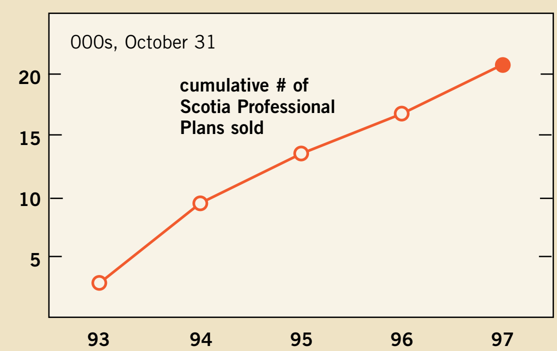
Outlook

Economic expansion is expected to be robust in Canada in 1998, and the Bank is looking for good business growth. Some benefits from the National Trust acquisition should be realized in 1998, with most to come in 1999 and beyond. Overall, the Bank expects earnings growth to continue in 1998.

Rapid growth in mutual fund accounts



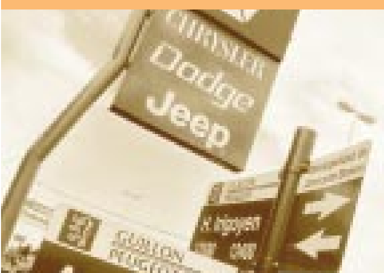
The bank of choice for professionals



SUPERIOR CLIENT RELATIONSHIPS

CORPORATE BANKING'S SUCCESS IN BUILDING SUPERIOR CLIENT RELATIONSHIPS GLOBALLY ARE FOUNDED ON HIGH-QUALITY CREDIT SKILLS THAT ARE INCREASINGLY BASED ON INDUSTRY SPECIALIZATION; A GROWING SET OF VALUE-ADDED SERVICES IN CASH AND TREASURY MANAGEMENT; CORPORATE TRUST AND CREDIT; AND EFFECTIVE TEAMWORK WITH OTHER SCOTIABANK GROUPS.

ACCOMPLISHMENTS



- maintained top-tier status in loan origination and syndication in global markets
- expanded full-service financing capabilities with Scotia Merchant Banking and high yield expertise, together with Scotia Capital Markets
- established strategic alliance for cash management in Canada, United States and Mexico

Performance

Corporate Banking manages the Bank's global relationships with large corporations, institutions and major governments, marketing the full capabilities of the Scotiabank Group to these clients.

In fiscal 1997, Corporate Banking earned a record $357 million, 43% higher than in 1996, marking the fifth year of growth.

Financial Results

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

Corporate Banking divisions, other than real estate, continued to provide strong and stable earnings. For real estate, the turnaround continued in 1997, with results improving substantially because of a lower cost of carrying impaired loans, as well as significant recoveries and reversals of provisions made in previous years.

Average assets rose by 19% in 1997. There was very strong demand for bank loans among major corporations during the past year. Substantial growth in business from existing customers, taken together with an expansion of the Bank's base of corporate customers, led to a large increase in global syndicated loan transactions agented by the Bank.

Total revenues were up by 8% across the Corporate Banking group in 1997, from higher assets, the lower cost of carrying impaired real estate loans in North America and from fees generated by arranging and syndicating large corporate financings. Conversely, lower loan spreads held revenues down. The expansion of Montreal Trust's stock transfer and corporate trust services partially offset the reduction in revenues from the sale of its custody services in 1997.

Provision for credit losses amounted to a net credit of $46 million in 1997, reflecting substantial recoveries and reversals in real estate, which more than offset a provision for one large corporate account in the U.S.

In an environment of lower loan spreads, the Bank continues to carefully examine client relationships to ensure that they produce acceptable returns to the Bank.

Looking forward

- build client relationships using a range of innovative, high-value services
- expand linkages with Scotia Capital Markets and the international network
- balance growth in assets and market share, with return on equity

Business plans

Corporate Banking will continue to stress effective management of client relationships using the Scotiabank Group's full range of services. This includes:

- strengthening relationships with profitable clients for whom the Bank is a principal or lead bank
- building on global corporate finance and syndication capabilities in North America, Europe and Asia
- increasing the proportion of revenues from fees, in part from the integration of Montreal Trust's Corporate Services with the Bank's cash and treasury management services
- adding value for clients through industry expertise, for example in mining, energy, media and transportation
- cross-selling cash management services in Canada, the United States and Mexico.

Concurrently, Corporate Banking expects to maintain its excellent management of credit risk, through careful adjudication of credit proposals and broad diversification of its portfolio.

Meeting Corporate Banking's goals will entail working effectively with other parts of the Scotiabank Group. This includes:

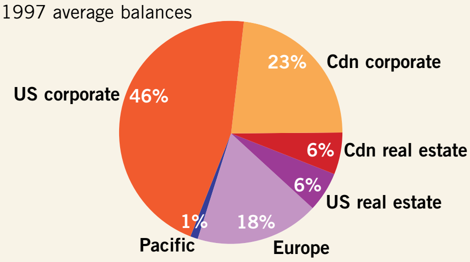
- together with Scotia Capital Markets, providing clients with a full range of financial solutions, by using a sophisticated new system for managing the development of client relationships
- expanding high-yield debt business in the United States, also in collaboration with Scotia Capital Markets
- with International Banking, emphasizing the Bank's global reach as a key benefit to clients with diverse business activities
- exploring possibilities for extending Montreal Trust's stock transfer business to emerging markets.

Outlook

The Corporate Bank anticipates higher syndications and loan sales in Canada, the United States and Europe. Economic trends in Corporate Banking's main markets and the emphasis on relationship profitability should lead to a strong performance again in 1998.

A diverse corporate loan portfolio

% distribution
1997 average balances



Top-tier standing in US loan syndications

domestic US syndications
1997 up to September 30

	Rank among banks	
	agent/co-agent	agent only
1997	8	9
1996	9	10
1995	11	11
1994	9	11
1993	9	11

source: Loan Pricing Corp.

SERVING CLIENTS BETTER

The focus of Scotiabank's Investment Banking group is on serving clients better than anyone else. Investment Banking's activities, initiatives and innovations are all aimed at providing value-added services to clients (including the Bank itself) and providing clients with access to global capital markets.

Accomplishments

- Scotia Capital Markets named Canada's "best securities firm" by *Euromoney*
- substantial gains from the sale of investment securities in 1997
- continued leadership in Canadian Income Trust market, with market share of 25%

Performance

Investment Banking comprises two groups: Global Treasury, which manages the Bank's investments and funding – and Scotia Capital Markets, which provides businesses, governments and investors with financial solutions.

Investment Banking had an exceptional year in 1997. In total, it contributed $401 million to the Bank's results, as compared with $232 million in 1996. Investment Banking provided 26% of the Bank's total net income in 1997.

Financial Results

$ millions	1997	1996
Net interest income	$ 309	$ 317
Other income	1,172	744
Provision for credit losses	–	1
Non-interest expenses	(794)	(667)
Income taxes	(286)	(163)
Net income	$ 401	$ 232
Average earning assets ($ billions)	$ 56	$ 50
Average deposits ($ billions)	$ 59	$ 52
Staffing	3,722	3,424

A major contributor to this strong growth in earnings was Global Treasury's very large gains on the sale of securities, including $321 million from equities, well above the average of the past few years.

Notwithstanding these sales, unrealized gains on investment securities remained large, and totalled $817 million at year end (refer to chart on page 29).

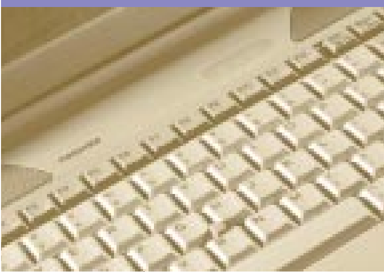
The other key factor behind Investment Banking's exceptional results, was the record performance in Scotia Capital Markets, significantly above their excellent contribution in 1996. Corporate Finance had another record year, from new equity issues, and merger and acquisition activity.

Another source of strong earnings was Private Client Financial Services, where revenues increased 30% in 1997. The development of ScotiaMcLeod's full-service retail brokerage has been a priority, with 11 new offices and 150 additional personal investment executives added in the past two years.

Euromoney magazine proclaimed Scotia Capital Markets the "best securities firm" in Canada, pointing out the firm's role in "high-profile and innovative deals", its "large presence" in mergers and acquisitions and its leadership in income trusts.

As part of the acquisition of National Trust, Global Treasury assumed responsibility for the well established firm, Cassels Blaikie Investment Management Limited, with assets under management of $6 billion.

Looking forward



- emphasize innovation, expertise and technology in providing value for clients
- work with other Scotiabank groups to lever Investment Banking's skills
- continue with strategy of expanding full service retail brokerage network in ScotiaMcLeod

Business plans

Scotiabank's Investment Banking group aims to continue offering innovative services globally to its clients. Accordingly, it will:

- expand the range of value-added services, in line with clients' emerging requirements, such as service packages in retail brokerage, structured products in fixed income, more research and options in foreign exchange, and new products and risk-control capabilities in derivatives
- strengthen industry specialization in equities, corporate finance and marketing
- push forward with connective technologies like the Internet and Intranets, for purposes such as electronic delivery of capital market's research to investors.

Investment Banking is working together with other Scotiabank Groups in order to:

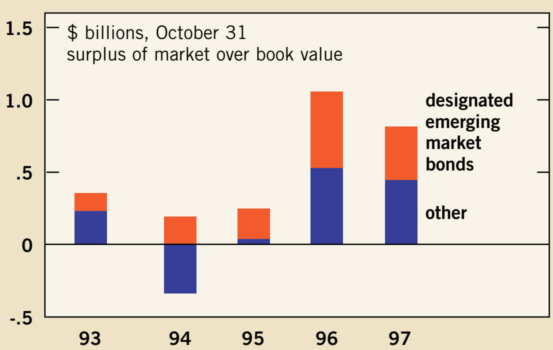
- widen Scotia Capital Markets' geographic franchise to selected emerging markets, using the local strengths of Scotiabank and its affiliates
- develop and roll-out a sophisticated new system for building client relationships, in conjunction with Corporate Banking
- expand high-yield debt business in the United States, in collaboration with Corporate Banking
- work with Retail Banking to meet the requirements of different types of retail investors.

In 1998, Investment Banking will also continue to enhance the application of Value at Risk (VAR) to control trading risk.

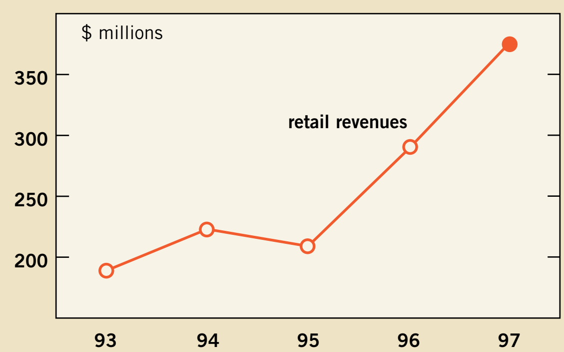
Outlook

Investment Banking's financial results fluctuate with conditions in securities markets. The Bank expects the Canadian economy and markets to be favourable through the coming year. As a result, excluding the above-average gains on the sale of investment securities this past year, 1998 results should be close to the very good results of 1997. In addition, the Bank expects that the financial performance of Investment Banking will improve over time because of a stronger ability to cross-sell services and expand into new activities and markets.

Large unrealized gains on investment securities



Strong growth in retail brokerage at ScotiaMcLeod



A LOCAL BANK IN 50+ COUNTRIES

SCOTIABANK HAS THE LEADING PAN-CARIBBEAN FRANCHISE, OPERATIONS IN ASIA, AND A GROWING NETWORK OF OFFICES AND AFFILIATED BANKS IN CENTRAL AND SOUTH AMERICA.

ACCOMPLISHMENTS

- new investments in banks in Central and South America
- completion of major, multi-year Caribbean automation program
- substantial progress towards improving the performance of Banco Inverlat in Mexico

Performance

In 1997, International Banking's earnings increased substantially to $434 million, $198 million higher than in 1996.

Financial Results

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

The main reason for the large increase in earnings was the reversal of $500 million ($290 million after tax) of the country risk provision established in the years 1987-1989. In addition, most international units had good operating performances in 1997. Together, these more than offset provisions for credit losses in Thailand, and start-up expenses of a joint venture for pensions in Mexico.

The Caribbean provided $128 million of International Banking's earnings in 1997. Assets and income in this region have more than doubled in the past five years.

While most operations in Asia provided higher earnings in 1997, Thailand and several other countries in Asia experienced considerable financial instability during the latter part of the year. The Bank responded quickly to this turbulence and increased its provision for credit losses in Thailand. In addition, the Bank wrote off its investment in Poonpipat, a Thai securities and finance company.

In Latin America, the Bank expanded its developing network in 1997 with new partners in El Salvador and Peru. These investments will further contribute to earnings in 1998.

The Bank has a 10% interest in Grupo Financiero Inverlat (which owns Banco Inverlat, one of Mexico's larger banks), and an option to acquire another 45% in the year 2000. A team of senior Scotiabankers is working with Inverlat management in restoring it to profitability.

In addition, in 1997, International Banking earned a net income of $67 million (before the reversal of the country risk provision) from its portfolio of loans and securities of designated emerging markets.

Looking forward

- more acquisitions or partnerships to complete representation in major Latin American economies
- strengthen sales and service culture in the Caribbean
- higher earnings from recent investments

Business plans

In the Caribbean, as in Canada, the focus is on reducing processing in branches, emphasizing sales and service, and offering a wider array of delivery channels.

To reduce work in branches, the Bank will:

- launch the Caribbean Improvement Program throughout the region, based on a very successful pilot
- centralize credit card processing.

The resource savings from these programs will be reallocated to sales and customer service. Additionally, a sales management platform is being developed for use in the Caribbean.

The Bank is also extending its range of delivery channels in the Caribbean. Major initiatives include:

- piloting a call centre
- broadening international ABM access
- adding new services and multiple sales channels.

In the Asia/Pacific region, the Bank looks forward to realizing important growth in these markets. Key elements of its strategy are to:

- expand the network of offices and affiliated banks
- work with Corporate Banking to build project finance business and corporate client relationships.

In Latin America, where the Bank is expanding its activity, it expects to:

- make acquisitions or enter into partnerships to broaden its representation
- continue to assist Banco Inverlat with plans for growth and profitability, and build on the franchise of Casa de Bolsa Inverlat, a top-tier Mexican investment bank
- develop trade finance and project finance business.

Outlook

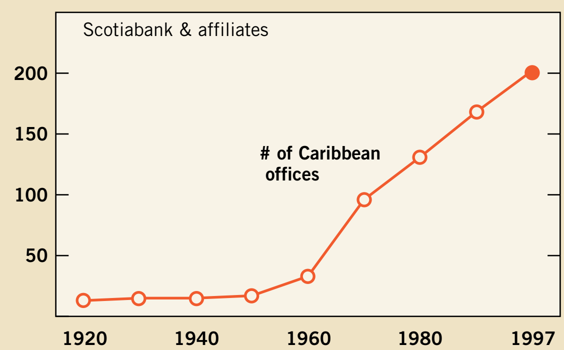
Caribbean operations are expected to continue their steady growth in volumes and earnings in 1998. In the Asia/Pacific region, the performance of the business units is dependent on the severity of the recent financial instability, although a major impact on 1998 earnings is currently not anticipated. In Latin America, the earnings contribution from the recent investments is anticipated to increase. Looking beyond 1998, the Bank expects that earnings from International Banking will provide an increasing share of overall net income, reflecting the investments of recent years.

Broad international representation*

1997	Offices	ABMs	Employees
Caribbean	202	183	5,982
Central & South America	651	574	17,955
Asia	142	73	3,519
Europe & Middle East	17	0	648

*includes associated companies in which Scotiabank has an equity interest

Vigorous growth in the long-standing Caribbean business



MAJOR ACQUISITIONS

During 1997, the Bank completed a number of major acquisitions that significantly broaden its representation in Canada and emerging markets. It also divested several non-core activities in Canada.

National Trust

On August 14, 1997, the Bank acquired National Trust, a long-established and well-known Canadian trust company, for $1.2 billion.

With $15 billion in total assets, National Trust's primary business included $9 billion in residential mortgages, and $12 billion in lower cost personal chequing, savings and term deposits. The addition of this base of business significantly increased the Bank's retail market share (refer to chart below).

The acquisition added 175 branches to Scotiabank's network, and significantly expanded the Bank's position in southwestern Ontario where it traditionally has had a relatively modest presence.

National Trust also brings with it a well-developed market position in personal trust services. With National Trust's 18 trust branches, Scotiabank can now offer personal trust services in almost every sizeable community in the country. Furthermore, the acquisition brought $6 billion in assets under management by Cassels Blaikie Investment Management Limited, including $1 billion in National Trust mutual funds.

Plans for the future of National Trust emphasize retaining customers, while realizing opportunities for marketing and operational synergies with the Bank.

Emerging markets

Fiscal 1997 saw substantial progress in building the Bank's business in emerging markets. The Bank made new investments in Banco Ahorromet in El Salvador ($35 million) and in Banco Sudamericano in Peru ($20 million). The Bank now has offices or affiliates in markets with more than 80% of the GDP of the Spanish-speaking jurisdictions in the Americas.

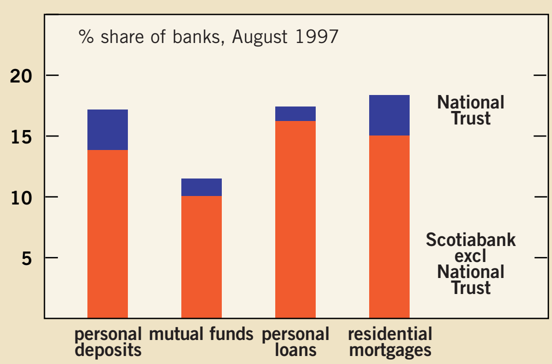
The Bank also signed letters of intent for an initial investment in Banco del Caribe in Venezuela, and for an increase to 100% ownership of Banco Quilmes in Argentina. Both are subject to regulatory approvals, as is the acquisition of a 35% interest in Bank Arya in Indonesia.

Other

In 1997, the Bank acquired the Mortgage Insurance Company of Canada. As well, it divested several non-core Canadian businesses, including its payroll operations, its interest in Montrusco Associates, pension and custody services, and a substantial part of the dealer finance business. Gains on these divestitures were $144 million.

The Bank has announced plans for the acquisition, in fiscal 1998, of Mocatta Bullion and Base Metals, a leader in metals trading and bullion.

National Trust broadens the retail base



New emerging market investments in 1997

	Ownership	Branches	Employees
Banco Ahorromet El Salvador	53%	30	620
Banco Sudamericano Peru	25%	9	278
Banco del Caribe Venezuela	25%	95	2,822
Bank Arya Indonesia	35%	15	610

SUSTAINED GROWTH

Revenues have been strong in recent years and the Bank continues to make investments to sustain growth in the future.

Accomplishments

- higher loan volumes across most of the Bank's operations
- large increase in retail brokerage commissions
- exceptional gains on the sale of investment securities

Performance

Scotiabank's revenues (net interest income plus other income) were $6.4 billion in 1997, 19% higher than in the prior year. Revenues have grown at 11% per year over the past five years.

While intermediation between depositors and borrowers remains the Bank's core activity, other income – fees, commissions and trading revenues – has increased to more than 40% of revenues. Furthermore, revenues are becoming more diversified by geography, mode of delivery, product, type of risk and nature of clients.

Over the past five years, for example, Canadian Retail and Commercial Banking has added customers by acquiring two major trust companies – Montreal Trust in 1994 and National Trust in 1997. ScotiaMcLeod's emphasis on full-service retail brokerage has paid off with noteworthy gains in customer assets and commission revenues. Corporate Banking's skills in corporate finance and loan syndication, proven in the United States, are being used in other countries, with considerable additions to fee income and interest revenues. International Banking has sought out many opportunities in selected markets.

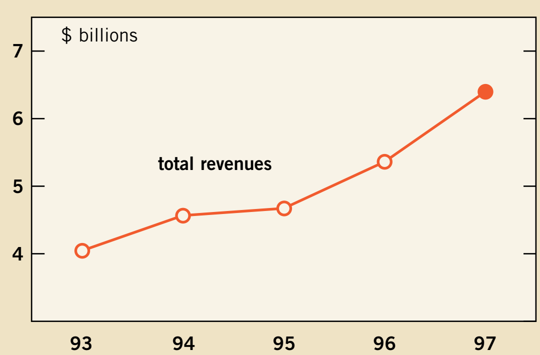
Also making a significant contribution to revenues were large gains from sales of businesses and investment securities during the year.

Cross reference information
Average balance sheet and interest margin; Table 2, Page 56
Volume/rate analysis of changes in net interest income; Table 3, Page 57
Other income; Table 4, Page 57
Trading revenue; Table 6, Page 58

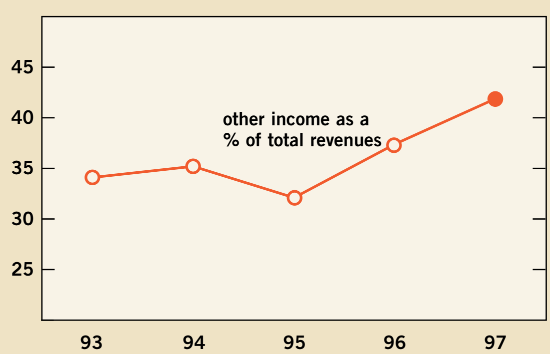
Outlook

The Bank has continued to invest in new customers, new products and new distribution channels. With these investments, the Bank expects revenues to continue to rise in the years ahead. In 1998, gains on the sale of securities and from the sale of businesses will be reduced from 1997's unusually high level. However, there should be economic expansion in most markets. National Trust will also provide a full year's contribution.

Continuing upward trend in revenues



Other income provides a larger share of revenues



NET INTEREST INCOME, EARNED FROM TAKING DEPOSITS AND INVESTING IN LOANS AND SECURITIES, IS THE BANK'S LARGEST SOURCE OF REVENUES. NET INTEREST INCOME HAS GROWN BY 40% OVER THE PAST FIVE YEARS, WITH THE NET INTEREST MARGIN BEING WELL MAINTAINED.

Performance

The Bank's growth in net interest income (taxable equivalent basis) in 1997 was 10% or $361 million, to $3.8 billion. The chief factor was the increase in average assets of 13% which included gains in most categories of loans and securities.

There were increases in net interest income across most of the Bank's main business lines, reflecting the breadth of the organization's progress.

The net interest margin, which expresses net interest income as a percentage of the Bank's average assets, was 2.13% as compared with 2.18% in 1996.

Contributing to the decline in the margin was a compression in the spread between the prime loan rate and the rate paid on savings accounts, alongside pressures on loan and deposit pricing in some markets. As well, the margin reflected the Bank's share of losses on its equity investment in Banco Quilmes in Argentina.

Also reducing the margin was the increase in average holdings of reverse repos from $7 billion to $10 billion between 1996 and 1997. While these assets earn a low margin, they are extremely low risk and have small operating costs, so they can still provide satisfactory overall results.

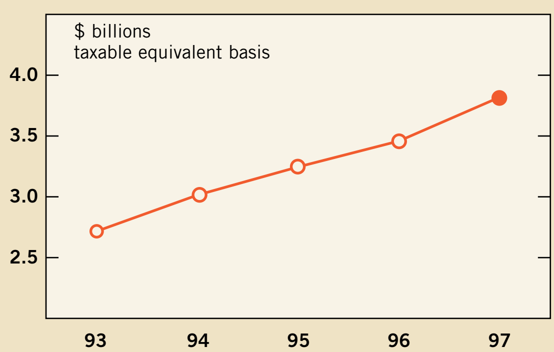
However, the margin was supported in 1997 by a 40% reduction in the average volume of net impaired loans. Furthermore, in Canada, increases in personal chequing and savings deposits, combined with the very successful new stock-indexed GICs and growth in commercial current accounts, contained requirements for more expensive wholesale funding. The Bank's careful management of the mix and term of its assets and liabilities also helped to sustain the margin.

Outlook

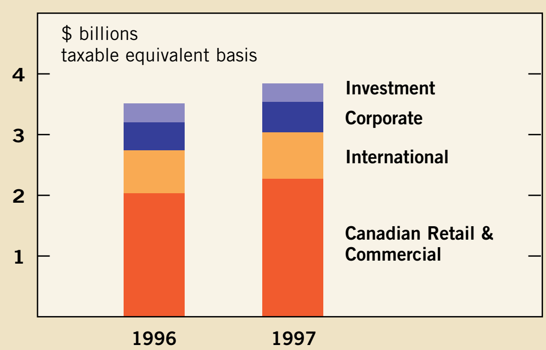
The Bank expects moderately higher interest rates in Canada and the United States in 1998. Nevertheless, the net interest margin is expected to be relatively stable. The inclusion of National Trust for a full twelve months, combined with growth in assets in other parts of the Bank's business, should result in a further increase in net interest income next year.

Cross reference information
Average balance sheet and interest margin; Table 2, Page 56
Volume/rate analysis of changes in net interest income; Table 3, Page 57
Interest recorded as income on impaired loans; Table 17, Page 62

Consistent growth in net interest income



Net interest income by business line



IN FISCAL 1997, SCOTIABANK ACHIEVED LARGE GROWTH IN LOANS, DEPOSITS AND ASSETS UNDER MANAGEMENT IN MOST PARTS OF ITS OPERATIONS, AND FURTHER DIVERSIFIED ITS BALANCE SHEET.

Performance

Scotiabank's portfolio of loans and acceptances (excluding reverse repos) averaged $109 billion in 1997, an increase of $13 billion or 13% from the previous year.

Average loans and bankers' acceptances in Canada rose $7 billion in 1997. National Trust, which was acquired during the fourth quarter, accounted for approximately $3 billion of the average 1997 increase.

The growth in Canadian lending was dominated by residential mortgages. Those originated by the Bank's operations increased by more than $2 billion, and National Trust added a further $2 billion.

Business lending, including bankers' acceptances, also rose by more than $2 billion. The largest contributor was lending to small and medium business customers served by the branch network. Further contributing to the increase were wholesale business lending and the acquisition of National Trust.

The U.S. business loan markets were active in 1997 and the Bank's U.S. loans grew by $3 billion, despite the syndication of a large proportion of the originated volume.

In the overseas markets of the Caribbean and Asia, there was steady loan growth – accompanied by good gains in corporate lending in Europe.

The large increase of $2 billion in the Bank's securities holdings was mainly in securities held in Scotia Capital Markets' trading portfolios.

Also rising substantially during the year were reverse repos, which grew by 40% to $10 billion.

On the deposit side, the National Trust acquisition accounted for all the gains in average Canadian dollar personal deposits for the year. The flat trend in bank-originated personal deposits was counterbalanced by sharp growth of $2 billion in Scotia Excelsior mutual funds. There was an increase of $1.2 billion in low-cost business chequing accounts in Canada. As well, personal deposits in foreign currencies rose $0.8 billion.

Outlook

In the light of continued economic expansion in most markets in 1998, the Bank foresees additional growth in lending, personal deposits and mutual funds. In addition, National Trust will be consolidated for a full year in 1998. However, sales and securitizations may reduce the growth of Canadian and U.S. assets.

Cross reference information
Average balance sheet and interest margin; Table 2, Page 56
Assets under administration and management; Table 5, Page 57
Securities; Note 3, Page 77
Loans; Note 4, Page 78

A worldwide loan portfolio

$ billions, average	1997	1996	1995
Canada	$ 67	$ 61	$ 58
United States	16	13	14
Caribbean	7	6	5
Europe/Middle East	6	5	5
Asia	5	4	3
Latin America	1	1	1
Bankers' acceptances*	7	6	5
Total	$ 109	$ 96	$ 91

*Primarily in Canada

Mutual funds counterbalance personal deposits

$ billions, average	1997	1996	1995
Canadian dollar deposits			
Personal	$ 44	$ 42	$ 39
Non-personal	22	20	18
Foreign currency deposits	61	52	47
Total deposits	$ 127	$ 114	$ 104
Mutual funds	$ 6	$ 4	$ 3

The growth in other income – now more than 40% of the Bank's revenues – reflects new or improved services, the expansion of the Bank's customer base, as well as favourable trends in securities markets.

Performance

Other income grew substantially in 1997. Even after excluding gains on the sales of certain non-core businesses, the gains on the sale of investment securities and the contribution of $29 million from National Trust after the acquisition, there was a notable increase of 14% from last year.

Much of the improvement of 6% in fees for deposit and payment services came from growth in retail transactions, both from personal customers using Interac Direct Payment and from merchants using Scotia 2020's point-of-sale terminals. Customer demand for the popular Scotia Value Account increased by 12%. Higher ABM fees reflected more machines and added services.

The principal factor behind the 9% increase in investment management and trust fees was mutual fund revenues. These rose by 60%, mainly because of growth in mutual funds to $8 billion at year end (including both Scotia Excelsior and National Trust funds) and the customer shift to higher fee equity funds. Investment management and custody fees declined by 21% because of the sale of the Bank's custody business during 1997. Going forward, the acquisition of National Trust will significantly add to revenues from personal trust activities.

The increase of 19% in credit fees reflects both the Bank's strength in structuring and syndicating wholesale credits, and success in building its base of small and medium commercial customers in Canada.

The large increase of 23% in investment banking revenues was mainly from a substantial growth of 42% in retail brokerage and underwriting fees, as investors and issuers were very active during the year. The Bank also realized record gains of $366 million on the sale of investment securities, mainly equities.

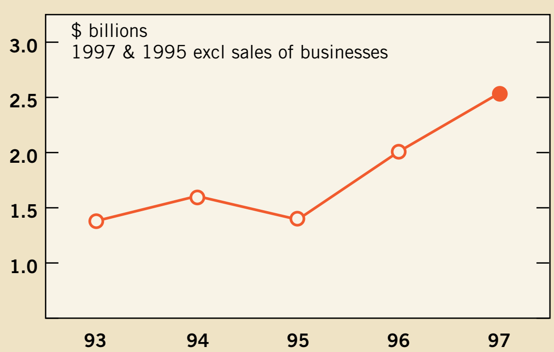
Gains of $144 million were also realized from the sale of certain non-core businesses during the year (refer to page 32).

Outlook

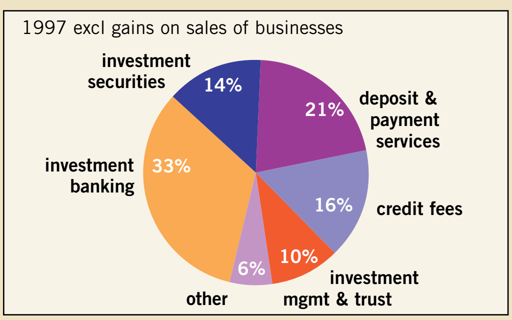
The Bank expects that its revenues from deposit and payment services, credit fees and investment management and trust will show steady growth in 1998, particularly with the addition of National Trust. Investment banking revenues depend on market conditions, but the Bank expects a modest increase in 1998. Gains on the sale of investment securities are expected to be smaller.

Cross reference information
Other income; Table 4, Page 57
Trading revenue; Table 6, Page 58
Reporting of gains and losses on securities; Note 2, Page 76

Substantial expansion in other income



Diversified sources of other income



STRONG PRODUCTIVITY RECORD

SCOTIABANK'S FOCUS ON SUPPLYING HIGH-QUALITY SERVICES IN A COST-EFFECTIVE MANNER HAS LED TO ONE OF THE BEST PRODUCTIVITY RECORDS IN CANADIAN BANKING.

ACCOMPLISHMENTS

- implementation of many strategic alliances for support activities
- expansion of central accounting unit coverage of Canadian branches
- Caribbean Improvement Program piloted, building on Canadian success

Performance

The accepted benchmark for efficiency in banking is the productivity ratio, which represents the expenses incurred to earn a dollar of revenues – the lower the better. By this benchmark, Scotiabank has a leadership position in Canada, and performs well by international standards. Scotiabank's goal is to keep its productivity ratio below 60%. In 1997, the reported ratio of 62.4% was higher than the target, mainly because of the restructuring charge related to the integration of National Trust among other unusual items. Excluding these factors, the productivity ratio remained below the 60% target.

The Bank made good progress in 1997 with its new strategic alliances. For example, with alliances for cheque processing in Montreal, Winnipeg and Vancouver, the Bank will soon operate just three cheque processing centres in Canada.

In Canadian Retail and Commercial Banking, which accounts for one-half of the Bank's operating expenditures, central accounting units expanded their coverage of the branch network to 592 branches in 1997. This allows workload reductions and enables increased focus on sales and customer service in branches.

The Caribbean Improvement Program leverages on the success with similar programs in Canada which reduced processing and workload in the branches.

Notwithstanding ongoing operational improvements, the Bank's emphasis on employment stability has allowed it to maintain high-quality customer service throughout periods of transition.

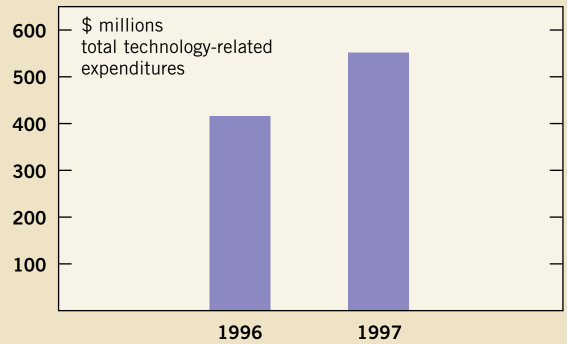
Outlook

For 1998, the Bank expects that its productivity ratio will be better than the target of 60%.

Major productivity initiatives for 1998

- integration of National Trust
- new paperless teller system
- more centralization of branch processing
- new investment system
- roll-out of Caribbean Improvement Program

A commitment to technology



FISCAL 1997 WAS A YEAR WHEN EXPENSE INCREASES WERE DRIVEN BY LARGE BUSINESS GROWTH IN ACTIVITIES WHERE PERFORMANCE-BASED COMPENSATION IS IMPORTANT – AND BY SPENDING ON NEW INITIATIVES IN SEVERAL KEY AREAS.

Performance

Performance-based compensation, higher business volumes, the Bank's many initiatives, and a restructuring charge relating to the integration of National Trust were the chief factors behind the large growth in non-interest expenses in 1997.

Growth in remuneration and benefits was 15% in total and 14% excluding National Trust. Half of the latter increase came from higher performance-based compensation. The largest contributor to such payments was Scotia Capital Markets, where the increase in performance-based compensation was tied to the strong growth in revenues. Also contributing were incentive programs based on the price of the Bank's shares, and the broadly based employee incentive plan. In addition, there were new personnel costs for the joint venture for managing pensions in Mexico.

There were 4,056 employees added during the year, including 3,440 from National Trust. The balance of the increase in Canada was chiefly in retail sales positions, commercial account management and in telephone call centres. Higher employment in Investment Banking was mainly the result of additional personal investment executives, following the strategy to expand the Bank's retail presence. International growth was from new branches, higher volumes and acquisitions.

The 17% increase in premises and equipment spending arose mainly from very large technology expenditures, including new initiatives, alternate delivery channels and depreciation on technology investments.

The increases in the other categories of expenses were widespread, including advertising, training and new initiatives. Business and capital taxes and deposit insurance also rose. Total taxes on the Bank were $1.2 billion in 1997, as compared with $1.1 billion in 1996. The level of bank taxation remains among the highest of all Canadian industries.

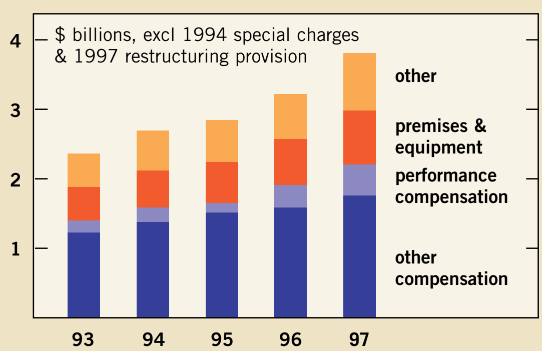
Also included in expenses was a restructuring charge of $250 million relating to the integration of National Trust and a write-off of goodwill of $26 million.

Outlook

Excluding the restructuring provision in 1997, the Bank expects lower growth in non-interest expenses in the coming year, assuming a steady increase in business volumes and low inflation in North America.

Cross reference information
Non-interest expenses; Table 7, Page 58
Direct and indirect taxes; Table 8, Page 58

Expense growth driven by performance compensation and investments



Employee growth was mainly in customer service positions

000s, full-time equivalent staff, October 31

	1997	1996	1995
Cdn Retail & Commercial*	23.7	20.1	19.5
Corporate	1.8	1.9	1.8
Investment	3.7	3.4	3.3
International	5.9	5.8	5.5
Subtotal	35.1	31.2	30.1
Other	3.5	3.4	3.6
Total	38.6	34.6	33.7

*includes call centres and, in 1997, National Trust

A CORNERSTONE

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.

ACCOMPLISHMENTS

- strengthened risk measurement and management processes
- devoted more people and technology to risk management processes

SCOTIABANK'S RISK MANAGEMENT PROCESSES

Risk management is given top priority throughout the Scotiabank organization. Active, hands-on senior management play a key role in the evaluation and management of all risks. Management is supported by a comprehensive structure of independent controls, review, reporting and audit processes. Material risks are subject to prudent constraints and are properly measured, reported and acknowledged.

Responsibility for the Bank's risk management policies and level of risk assumed, lies with the Board of Directors. The Board charges management with developing, presenting and implementing these policies.

On a daily basis, senior management keeps in close contact with line units and receives reports covering all aspects of operations. Major credit and investment decisions require direct senior management approval.

To ensure a thorough and objective analysis of all risk factors, extensive reporting, control and review processes are conducted independently from the business lines, by middle and back offices. New products and related systems, development of policies and procedures, and review of limits and controls are subject to independent analysis by the relevant risk and policy departments prior to approval by executive management. All policies, controls and limits are designed to ensure that no single event, whether related to a currency, market, position or portfolio, customer, product, industry, or geographic area, will adversely affect the well-being of the Bank.

Periodic reviews of all aspects of the Bank's business and management information systems groups are conducted by internal Audit and Compliance Departments. Finally, all procedures and policies are subject to ongoing review by regulatory bodies.

Process improvements

During 1997, enhancements were made to the risk management processes, accompanied by substantial investment in new technology, in order to keep pace with changes in global product offerings and emerging risk patterns. Risk management staffing levels were also increased significantly to improve the quality of testing, control and risk administration.

Outlook

Scotiabank is committed to the continued development of its risk management processes. With continued focus on risk management, Scotiabank is well-positioned to take advantage of growth and opportunities in its key markets.

All aspects of the risk management processes are reviewed on a regular basis by committees with cross-departmental representation drawn from executive and senior line management. The key committees are described below.

Risk Policy Committee

Consisting of the Chief Executive Officer, President and other senior executives, the Committee reviews all large risk exposures, ensures wide portfolio diversification and establishes risk policies reflecting business priorities.

Senior Credit Committees

Three 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.

Market Risk Management and Policy Committee

This Committee is chaired by one of the Bank's senior credit officers and includes the heads of trading and risk management. It reviews and evaluates all aspects of the trading process including the initiation of new products, development of market risk policies and practices, and setting limits.

Liability Committee

Consisting of the Chief Executive Officer, President and other senior executives, the Liability Committee meets weekly to appraise market trends, economic and political developments, and to provide global strategic direction in the management of interest rate risk, liquidity risk, and trading and investment portfolio decisions.

Scotia Capital Markets Risk Committee

This Committee is chaired by the Chairman of Scotia Capital Markets. It includes heads of trading, as well as representatives from Risk Management and Control. It meets weekly to assess and monitor overall principal risk, risk control mechanisms, credit risk and compliance issues.

CREDIT QUALITY IS A CORE COMPETENCY AT SCOTIABANK AND RESULTS FROM WELL-DEFINED STRATEGIES FOR CONTROLLING CREDIT RISK.

Credit processes

Scotiabank's credit disciplines are based on a division of authority, a centralized credit review system, a committee system for dealing with all major exposures, and periodic independent review by the Audit Department.

Banking officers, who have client contact, develop and structure individual proposals. Each proposal is adjudicated by a credit department which analyzes the financial strength of the customer and the risks inherent in the proposals. All exceptions to the credit policies of the Bank must be referred to a Senior Credit Committee for its decision or recommendation to the Risk Policy Committee. Higher risk exposures are subject to mandatory referral to a Senior Credit Committee. These committees are composed of senior officers of both credit and banking, bringing a range of skills and backgrounds to bear on decisions.

The Bank uses a risk rating system to quantify and evaluate proposed credits in order to assist officers in understanding the risks inherent in credit proposals and, if they are acceptable, to ensure appropriate returns. In this analytical process, the Bank is particularly sensitive to the risks posed to credit quality by environmental exposures.

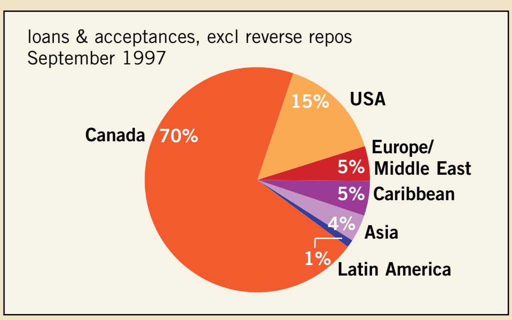
At least annually, banking officers meet formally with each client to review their financial affairs and to assess the appropriateness of their credit requirements. The results are formalized into a presentation which is adjudicated in the same manner as a new credit. Where unusual risks exist, credits are reviewed more frequently. In this way, the Bank remains fully aware of customers' risk profiles. Risk ratings are reassessed with each credit presentation or review. These individual risk ratings are the input for a risk rating system across the portfolio.

Credit lines for off-balance sheet instruments such as foreign exchange and swap contracts, letters of credit and guarantee, are managed as an integral part of this same process.

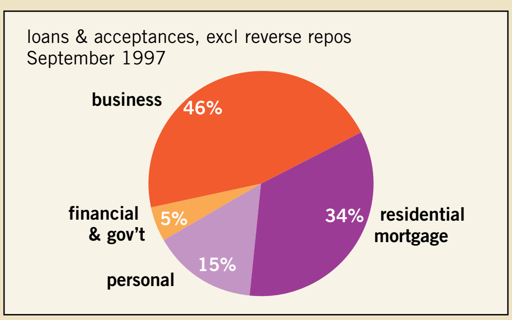
The Bank is continually striving to develop more effective and efficient means of assessing and managing risk. During the year, the Bank developed a statistically based, credit risk scoring model for smaller commercial and single proprietor businesses in Canada. This program, which is now in the pilot-testing phase, is designed to shorten the turnaround time for credit approvals while ensuring greater consistency and objectivity in risk assessment.

Retail credits are normally assessed and authorized in branches within lending criteria established by the Bank. Computer-driven credit scoring systems ensure credit policies are applied consistently and objectively.

Diversification by geography



Diversification by borrowing sector



Consumer credit portfolios are reviewed monthly using advanced statistical techniques. Sophisticated computer tracking systems give early warning signs of impending difficulties.

Portfolio diversification

The Bank's policies to control credit risk are designed to reflect the Bank's business priorities and to ensure, through diversification, that no single event, whether related to a customer, product, industry or geographic area, will adversely affect the well-being of the Bank.

Scotiabank is the most geographically diverse of the major Canadian banks and this is reflected in the distribution of its loan portfolio.

As shown in the chart below, the Bank's four business lines provide for a strong degree of diversification. Each business line serves a unique clientele with different patterns of credit risk. Canadian Retail and Commercial Banking, with 43% of the Bank's average earning assets, targets individual branch markets. The Corporate Banking portfolio, 19% of the total, comprises loans to governments and large national and multinational enterprises. International Banking serves all categories of borrowers in regions outside North America, while Investment Banking is responsible for money market investments, capital markets, foreign exchange and other services through a network of offices in North America, Europe and the Pacific.

The second chart below shows the diversification by industry of the Bank's business lending. The Bank's credit adjudication processes maintain wide risk diversification by industry.

Statistical techniques for portfolio analysis

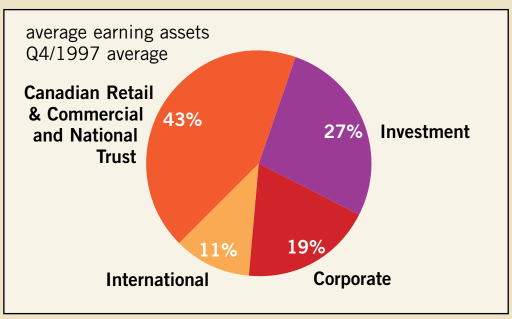
During the year, the Bank has continued to develop its formal statistical techniques for portfolio analysis and measurement of risk exposures.

The Bank's risk rating system provides the basis for quarterly reviews of the overall risk levels within each segment of the Bank's credit portfolios. If the risk profile in a particular portfolio segment rises, appropriate action is taken to ensure risks are contained.

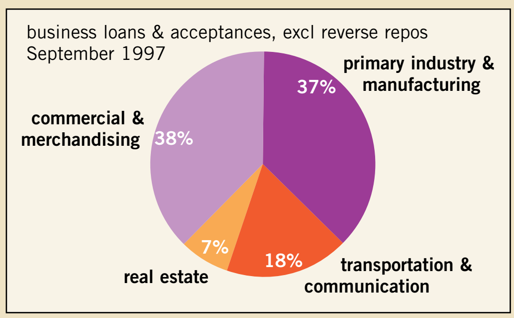
The Bank has continued to build its level of General provisions. During the year, the Bank implemented an analytical methodology to assist in the determination of the appropriate level of General provisions. This process is based on the Bank's risk rating system, combined with a statistical analysis of historical loan loss in the business lines, as well as management's qualitative assessment of evolving economic and political influences on risk exposures.

Cross reference information
CREDIT RISK; Tables 9-20, Pages 59-63
Financial instruments: Credit exposure; Note 17c), Page 88
Derivative instruments: Credit risk; Note 18c), Page 91

Diversification by business line



Diversification among business clients



Net impaired loans experienced their fourth consecutive year of decline in 1997.

Performance

Net impaired loans, which take account of provisions for credit losses that have been established, declined to $593 million at the end of 1997, an improvement of 20% from 1996. This decline occurred notwithstanding the inclusion of $137 million in net impaired loans following the acquisition of National Trust. The 1997 level of net impaired loans is about one-quarter of their recent peak at the end of 1993.

As a percentage of loans and acceptances, net impaired loans were 0.5% at the end of 1997 and, as shown in the chart below, have steadily improved since 1993.

Gross impaired loans were $2.2 billion at 1997 year end, or $39 million higher than last year, entirely due to the inclusion of $273 million for National Trust.

Within the Bank's retail business, there was an increase of $78 million in net impaired personal loans and mortgages. This was primarily in student loans, where the credit risks are borne partially, or in full, by the Government of Canada or a province.

For real estate loans, both in Canada and elsewhere, net impaired loans were reduced to $65 million at the end of 1997, reflecting an improvement in the portfolio, and asset sales and restructurings during the year.

In other business lending, there was a reduction in net impaired loans to $221 million at the end of 1997. However, gross impaired business loans rose during the year, resulting from one large U.S. account and an increase in Thailand. With the financial difficulties in Thailand, the Bank classified $172 million in loans as impaired and established specific provisions of $134 million against these accounts.

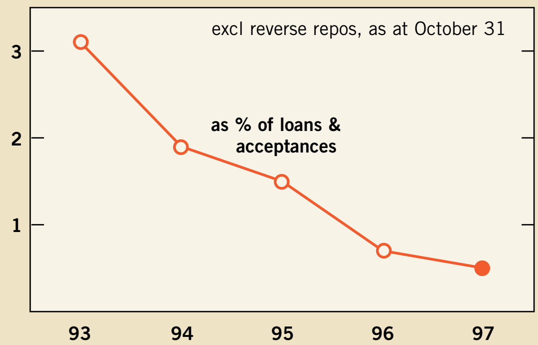
Outlook

While there could be some deterioration in the Asian portfolio in the medium-term, economic conditions in the Bank's major markets are favourable. On balance, the Bank expects to see stable credit quality across its portfolio in 1998.

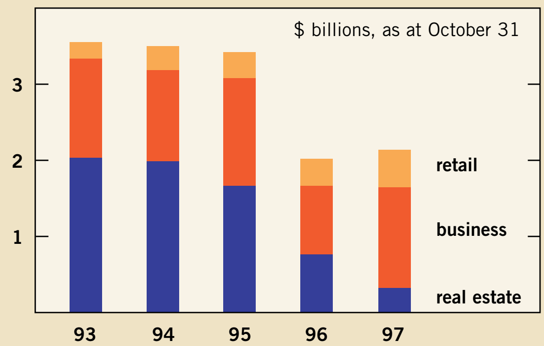
Cross reference information

Impaired loans; Table 16, Page 61
Interest recorded as income on impaired loans; Table 17, Page 62
Impaired loans and allowance for credit losses; Note 5, Page 78

Consistent improvement in net impaired loan ratio



Gross impaired loans



IN 1997, SPECIFIC PROVISIONS FOR CREDIT LOSSES CONTINUED THEIR FIVE-YEAR DECLINE. IN ADDITION, THE BANK INCREASED ITS GENERAL PROVISIONS AND REVERSED $500 MILLION OF THE COUNTRY RISK PROVISION ESTABLISHED IN THE LATE 1980S.

Performance

Fiscal 1997 was another year of lower specific provisions against credit losses. They declined from $380 million or 0.39% of the loan portfolio in 1996 to $360 million or 0.33% this year, the lowest ratio since 1989.

The $360 million in specific provisions included $5 million related to National Trust since the date of acquisition.

Specific provisions in Canada fell by $91 million or 30% from 1996, with declines in real estate lending and other business lending.

Partially offsetting, provisions for Canadian personal loans rose $47 million, mainly for consumer loans and for student loans where federal or provincial governments share part of the risk.

Total specific credit losses outside Canada rose $71 million from 1996. Real estate showed another sharp improvement, with large reversals and recoveries. However, provisions rose relating to one large U.S. business customer.

In addition, provisions in the Asia/Pacific region increased to $134 million, in reflection of financial difficulties in Thailand.

The Bank also added $175 million to its General provisions in 1997, bringing them to $500 million or 0.41% of loans and acceptances at year end.

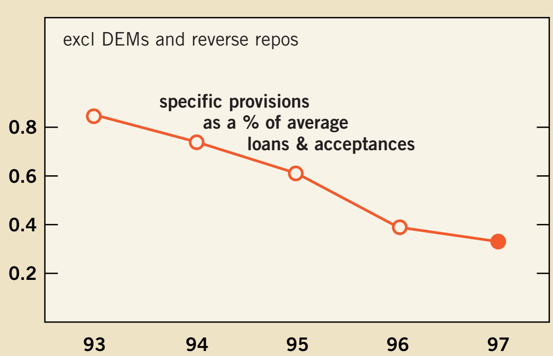
During 1997, the Bank evaluated its country risk provisions, established in the late 1980s against loans to certain designated emerging market (DEM) countries. Since then, almost all of these countries have restructured their debts and improved their economic performance. In these circumstances, in the fourth quarter, the Bank concluded that not all its country risk provisions were still required and, accordingly, $500 million was reversed into income. This still left a surplus of market value over book value for the DEM portfolio of $417 million at year end.

Outlook

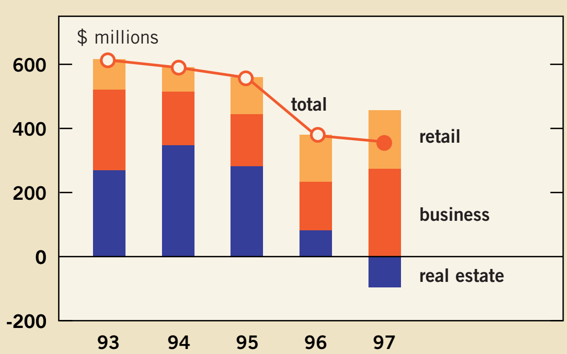
The Bank expects a continuation of favourable economic conditions in its major markets. With improvements in loss experience for real estate credits now largely complete, the outlook is for a modest decline in specific provisions for credit losses in 1998.

Cross reference information
Provisions for credit losses; Table 18, Page 62
Specific provisions for credit losses by geography and type; Table 19, Page 62
Provisions for credit losses as a percentage of average loans and acceptances; Table 20, Page 63

Improvement in credit losses



Specific provisions by type of borrower



MEASUREMENT, MANAGEMENT AND CONTROL

Asset Liability Management (ALM) refers to the process whereby interest rate and liquidity 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. The most important source of interest rate risk is the Bank's lending, funding and investment activities, where 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 (refer to Trading Risk on page 48).

For the purposes of interest rate risk management, the Bank has four distinct operations:

Domestic banking

The Bank's domestic banking operations offer a wide range of funding and investment products to retail and commercial customers. The variety of maturities and options embedded in these products, cause a structural gap within the domestic banking portfolio that has increased the complexity of interest rate risk management. The Liability Committee manages this interest rate risk, including embedded options exposure, using simulation modelling and scenario analysis which are applied on a regular basis.

International branches

Individually, most international branches are relatively small. Regional treasury functions are subject to strict interest rate risk limits, determined centrally. Within each operation, exposure is generally managed locally by currency and regularly reviewed on a consolidated basis by executive management.

Investment and emerging market bond portfolios

These portfolios of bonds and other investment securities are managed with a longer-term perspective. The Liability Committee reviews these security holdings at least weekly.

Wholesale banking

The Bank's wholesale money market desks implement the prescribed interest rate risk management strategy. Portfolios undergo regular stress testing, and interest rate gaps are carefully monitored and adjusted for changing market conditions. In addition, the Liability Committee reviews global positions in major currencies on a weekly basis.

Gap management

The interest rate gap is a common form of interest rate sensitivity measurement. A liability gap is created when more liabilities than assets are subject to rate changes during a prescribed time period. The chart on page 46 shows trends in the one-year liability gaps.

Scotiabank strives to achieve a balance between reducing risk to earnings from adverse movements in interest rates, and enhancing net interest income through correct anticipation of the direction and extent of interest rate changes.

During 1997, the one-year Canadian dollar liability gap remained at about the same level as in 1996, reflecting mortgage customer preferences for longer terms and the Bank maintaining its mid-term securities portfolio to benefit from the favourable interest rate environment. At year end, this liability gap fell to $3.0 billion, following the securitization of $1.5 billion of consumer auto loans, as well as the inclusion of an asset gap in National Trust.

In foreign currencies, the Bank maintained an asset gap during 1997, rising to \$3.6 billion at year end, as a protective measure in anticipation of a rise in U.S. interest rates.

Interest rate simulation

Simulation models enable the Bank to assess interest rate risk dynamically. The models incorporate assumptions about growth, mix of new business, changes in interest rates, shape of the yield curve and embedded product options. They 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 that management takes no action). Based on the Bank's interest rate positions at year-end 1997, an immediate and sustained 100 basis point rise in interest rates, across all currencies and maturities, would lower net income after tax by approximately \$13 million over the next 12 months (refer to table below). The same rate shock would reduce the present value of the Bank's net assets by approximately \$251 million.

In addition, the Bank conducts Value at Risk (VAR) analysis on the Canadian dollar, and some of the US dollar, funding and investment portfolios. The Bank's VAR process is described on page 49.

Cross reference information
Interest rate gap; Table 21, Page 63
Securities; Note 3, Page 77
Deposits; Note 8, Page 79
Financial instruments; Note 17, Page 85

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 manages liquidity conservatively, using policies which include:

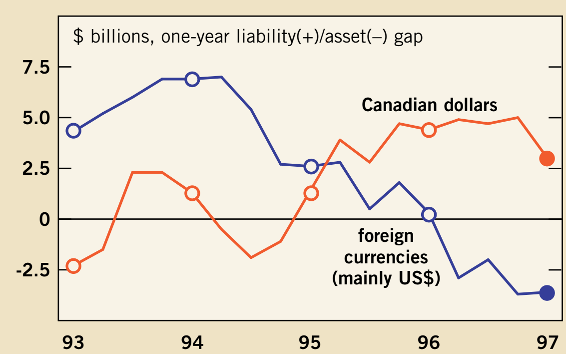
- measuring and forecasting cash commitments
- building a large, stable base of core deposits from retail and commercial customers
- ensuring immediate availability of large pools of liquid assets to meet unforeseen events
- maintaining a strong credit rating to ensure timely access to borrowing on favourable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

Liquidity risk management

The Bank has designated Canadian and US dollars, Deutschemarks, and Sterling as global currencies for its liquidity monitoring. For Canadian and US dollar assets, which comprise the bulk of the balance sheet, liquidity management is centralized in Toronto. For Sterling and Deutschemarks, it is centralized in London.

The Bank applies limit controls on the net cash flow gaps of all global currencies. Holdings of liquid assets must meet a prescribed minimum proportion of the net cash flow gap. The liquidity profile is subject to weekly review by the Liability Committee. Contingency plans, covering all aspects of the Bank's operations, have been developed to address potential liquidity crises or market disruptions.

Interest rate gap



Simulation of interest rate change

\$ millions, October 31	1997	1996
100 bp interest rate rise:		
reduction in 12-month earnings	\$ 13	\$ 17
reduction in net assets	\$ 251	\$ 191

In addition, the Bank conducts scenario testing programs to evaluate its liquidity assumptions and ability to sustain operations under duress. These tests are consistent with regulatory requirements. Scenario testing includes a modelling exercise which indicates the length of time the Bank can sustain its operations before liquidity reserves will be exhausted.

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 sources is a cornerstone of prudent liquidity management, and is achieved by applying a number of limits and controls. Scotiabank's extensive domestic and international branch network facilitates this diversification.

Core funds, primarily capital and core deposits, total $95 billion, up from $76 billion in 1996 (refer to chart below). As in previous years, half of total funding consists of core funds, thereby providing considerable stability to the Bank's liquidity.

Of particular note, National Trust added $12 billion in core deposits in 1997. These deposits, similar to those in the Bank's branch operations, provide a very stable base of funding since they are sourced from thousands of customers widely dispersed across Canada.

In late 1997, the Bank securitized $1.5 billion in auto loans through ATLAS Auto Loan Funding Trust 1997-A. This provides an additional method of diversifying the funding of the Bank's assets.

Securities

To sustain operations in the event of unexpected disruptions, the Bank maintains large holdings of highly liquid assets. As at October 31, 1997, liquid assets were $40 billion, representing 20% of total assets. These liquid assets were comprised of securities of the governments of Canada and the United States and other high-quality issuers (54%), deposits with other banks (43%) and cash (3%).

Total securities holdings as at October 31, 1997 were $28 billion, held in two portfolios, trading and investment. The market value of the trading portfolio at year end was $11 billion, having increased by 8% due to the growth in securities markets, and higher volumes held as hedges in the Bank's derivatives portfolio.

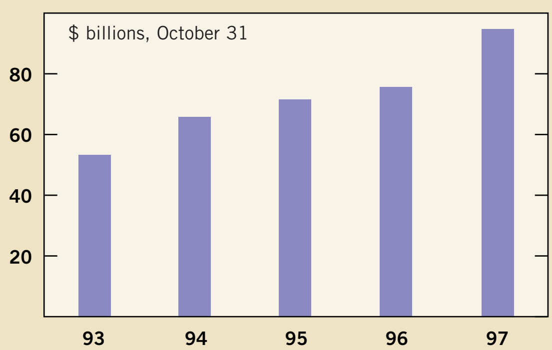
The investment portfolio, which is carried at cost (net of impairment writedowns and the country risk provision), includes securities that are held for liquidity and longer-term investment. At year end, investment securities totalled $17 billion. After associated hedges, their market value exceeded carrying value by $817 million (refer to table below).

Pledging

The Bank pledges assets to support its participation in certain markets and business activities. As at October 31, 1997 total assets pledged were $20 billion. Repos and securities borrowing account for $19 billion of pledging activity.

Cross reference information
Regulatory Capital; Table 22, Page 63
Securities; Note 3, Page 77

Substantial core funds



Large surpluses on investment securities

$ millions	Surplus of market over book value
designated emerging market (DEM) securities	
past due interest bonds	$ 297
other DEM securities	75
subtotal	$ 372
other issuers	445
total	$ 817
DEM loans	$ 45

CONTINUED ENHANCEMENT OF THE BANK'S MARKET RISK PROCESSES HAS FURTHER STRENGTHENED THE MANAGEMENT, REPORTING, LIMITS AND TESTING THAT THE BANK APPLIES TO CONTROL MARKET RISK.

Accomplishments

- implemented an improved calculation of the Value at Risk (VAR)
- expanded the application of the VAR to all significant trading portfolios
- established middle office staff in London, New York and Singapore

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 from consumer and corporate loans, position taking, and trading and investment activities.

The strategy for controlling market risk includes:

- direct involvement of experienced line management
- stringent controls and limits
- strict segregation of front and back office duties
- comprehensive daily reporting of positions
- regular independent review 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 discussion of the Asset Liability Management process, and the following sections on Trading Risk, Foreign Exchange Risk, Equities Risk and Commodities Risk.

TRADING RISK

Continued enhancement of the Bank's trading risk management systems and processes has kept pace with market developments.

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

Trading risk management

Trading management participates in the daily trading process, in both a supervisory and trading capacity. Executive management keeps in close contact with front-line staff in the Bank's major trading centres. New products and trading processes are also subject to the approval of executive management.

Management's role is supported by extensive limits and management information systems. Explicit limits are established by counterparty, currency, instrument, position and term. All limits are reviewed and approved by the Market Risk Management and Policy Committee.

The back office and middle office independently review and report on various aspects of trading activity. They provide daily reports of profit and loss, limit overruns and compliance. These are circulated to all appropriate departments and executive management for evaluation.

Pricing and hedging for most trading activity are done on a real time basis, and portfolios are marked to market at least daily.

Rigorous analysis and testing programmes are applied to measure risk, and to verify accuracy of various controls and limits. These include stress testing, sensitivity analysis, and the daily application of Scotiabank's Value at Risk system.

Value at Risk

Value at Risk (VAR) is an estimation of the potential for loss of value that could result from holding a position for a specified period of time with a given level of statistical confidence. Development of a comprehensive VAR system has been a high priority. The project began in 1994 and by mid-1995 the VAR captured most major trading portfolios. In 1997, resources were focussed on a major project to improve the VAR calculation and expand its application.

VAR is currently calculated daily for all significant trading portfolios at a 99% confidence level, for one and ten-day holding periods, using historical simulation based on 300 days of market data. With a 99% confidence interval, the VAR equates to the fourth worst loss out of the 300 scenarios applied. As at October 31, 1997, the aggregate one-day VAR for all major trading books was less than $10 million. The Bank is now setting a limit on the total VAR, as well as limits by business line.

Reports on VAR, using one- and ten-day holding periods, are delivered to senior and executive management daily. VAR is reported by desk, site, business line and legal entity.

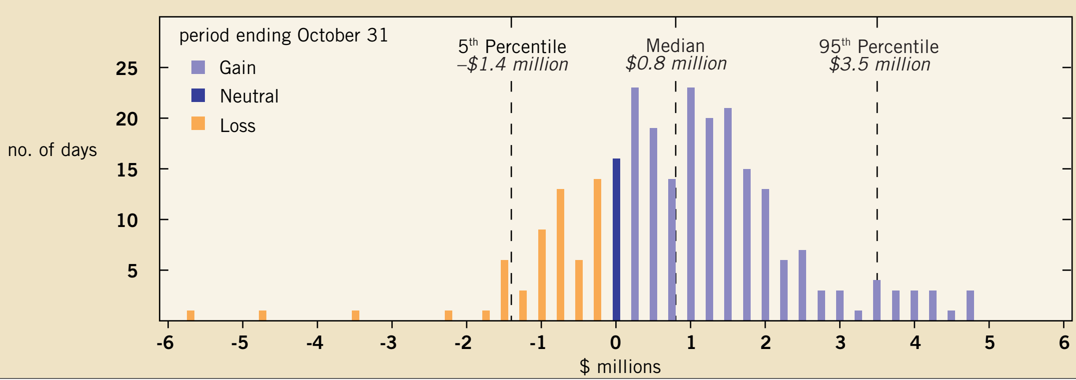
Commencing January 1998, the Bank for International Settlements and the Office of the Superintendent of Financial Institutions Canada require that banks set aside capital for market risk. However, assets in the trading portfolio such as bonds and equities, will no longer be included in the current capital calculation based on credit risk.

Banks may use internal models for calculating market risk capital requirements, provided that the model meets specified quantitative and qualitative criteria. Scotiabank has applied to OSFI for approval of its VAR for this purpose. VAR results as at year end indicate that capital required for market risk would be approximately $100 million below current requirements that are based on credit risk.

The VAR system also provides a scenario analysis tool which is used for stress testing and sensitivity analysis on the consolidated trading exposures. While VAR measures the expected losses in normally active markets, stress testing examines the impact of abnormally large market swings and periods of prolonged inactivity. The Bank has implemented a program of regular stress tests which simulate over 100 scenarios involving substantial moves in interest and foreign exchange rates, equity prices, and option volatilities in various combinations. Stress test results are analysed and reported to the Market Risk Management and Policy Committee at least monthly.

The VAR is validated against actual profit and loss (P&L) results on an ongoing basis. This "backtesting" uses both the actual P&L of each desk and the theoretical P&L, which excludes the impact of fees and intraday trading and is, therefore, more directly comparable with the VAR. The Market Risk Management and Policy Committee reviews these backtesting results at least quarterly.

Daily distribution of net trading revenues in 1997



Net trading revenue

The chart on page 49 presents a frequency distribution of the history of the daily trading revenue for the one-year period ending October 31, 1997. For most days, the P&L was positive. On only five trading days did the loss exceed $1.75 million, with the largest loss of only $5.7 million. This P&L history demonstrates the low risk of the Bank's trading portfolio.

The middle office

In response to the diversity, complexity and expansion of global markets, the Bank has continued to expand its middle office to complement the preventative controls previously outlined. The middle office conducts independent checks on the accuracy of models and valuations used by the traders; develops and supervises stress testing, sensitivity analysis and VAR calculations; reviews P&L performance, and participates in new product development. Full-time middle office staff is located in Toronto, London, New York and Singapore to support trading activity in each market. Middle office staff is highly skilled in computer analytics and quantitative analysis.

FOREIGN EXCHANGE RISK

Foreign exchange risk arises in three areas of the Bank's global operations: trading, foreign currency operations and its investment in foreign subsidiaries.

Trading operations

The Bank buys and sells currencies in the spot, forward and options markets to assist customers in meeting their business needs, as well as for its own account. The Bank assumes risks related to counterparties and fluctuations in the price of currencies. The controls applied to manage risks that arise in trading are described in Trading Risk on page 48.

Foreign exchange trading is a high volume activity which exposes the Bank to counterparty settlement risk. This risk arises when a bank is required to deliver value before it will receive value from the counterparty. Scotiabank controls this risk by imposing prudent credit and settlement limits on each counterparty.

Further control of counterparty settlement risk is achieved through netting. Bilateral and multilateral netting has received growing support from national and international regulators, as a method of reducing credit and settlement exposure. The Bank actively pursues bilateral netting arrangements where supported by legal opinions.

In addition, the Bank is actively participating in the development of several national and international clearing and settlement systems designed to reduce settlement risk.

Foreign currency operations

The Bank has no significant foreign exchange exposure in its international business because assets are customarily funded by liabilities in the same currency. While staff in each country manages local currency exchange risk, the Bank monitors its overall position centrally. The Liability Committee reviews and manages currency exposure that arises 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. Management and review of these exposures is conducted by the Liability Committee.

EQUITIES RISK

The Bank trades equities for its customers through Scotia Capital Markets and for its own account. In addition, the Bank has substantial investment portfolios consisting of a variety of equity and debt securities. For each portfolio, stated objectives and parameters clearly identify eligible investments, ensure appropriate diversification, and set limits on the size of each investment.

The Bank manages some of the equity portfolios itself and delegates the management of others through arm's length management agreements. Generally, management philosophy is to hold equities for a substantial period of time, subject to rotation in accordance with prudent risk management practices as dictated by changing market conditions. For portfolios managed by the Bank, each investment is typically made on the basis of written recommendation and approval at an appropriate level.

COMMODITIES RISK

Commodities trading activity has been concentrated in precious metals, specifically, gold, silver, platinum and to a lesser extent palladium, as well as related options and futures. Outside these activities, the Bank has no significant commodities exposure.

Since commodities activity is focussed in precious metals, the Bank applies gap and other market risk limit structures similar to those applied to control interest rate risk and foreign exchange risk. The application of these limits is explained under the ALM and Trading Risk sections. Limit controls are supplemented by further analysis of precious metals trading by the middle office.

DERIVATIVE PRODUCTS

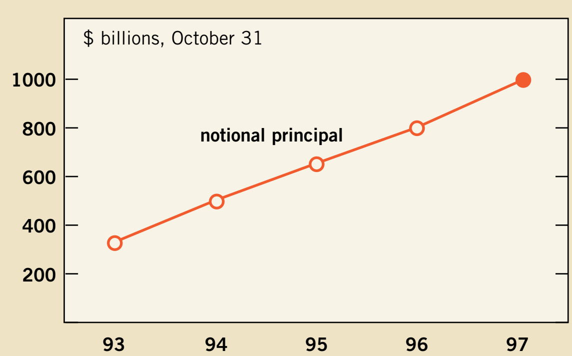
Derivative products are financial contracts whose value is derived from the level of an underlying price, interest rate, exchange rate or price index. Swaps, forwards and options are all types of derivative instruments. The risk associated with derivatives include all of the risks described in the preceding pages.

Globally, the market for derivative products continues to expand, especially in traditional products, although new products continue to be developed. Scotiabank's activity has kept pace with the market and has been focussed in generic products, where it is well ranked for Canadian dollar products.

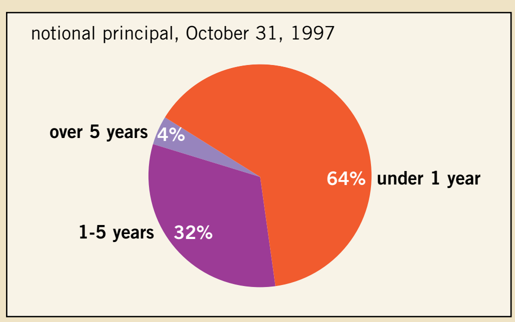
Derivatives are an important risk management tool for both Scotiabank and its customers. For the Bank, derivatives are fundamental to asset and liability management. To manage interest rate risk associated with the Bank's fixed rate lending activities, the Bank uses interest rate swaps, futures, FRAs and options. To control foreign exchange risk, the Bank uses forwards and swaps. Derivatives are also used to improve the cost effectiveness of the Bank's capital. As of October 31, 1997, derivatives used for the Bank's own account represented 15% of the notional principal outstanding, with the remainder associated with customer accounts.

As a dealer, the Bank responds to customer needs, taking into consideration its own views of the market. The selective positioning of the Bank's portfolios is complemented by a comprehensive risk management process to monitor trading activities. All derivative trading portfolios are marked to market at least daily to

Increasing client demand for derivatives



Derivatives portfolio mostly comprised of short maturities



reflect the changes in value caused by the market. Daily management reports ensure compliance with comprehensive and rigorous policies and limits, which are also supplemented with testing, analysis and VAR processes (refer to page 49).

Derivative credit risk management

To control derivative credit risk, the Bank applies the following key principles:

- Limits are established and thereafter monitored daily for each individual counterparty
- Exposure is measured as the current fair value plus an add-on for potential future exposure
- Credit mitigation techniques such as netting and collateralization are applied, where appropriate, to reduce the exposure to counterparties.

Credit Risk Amount (CRA) measures the replacement cost of all contracts. As such, the CRA primarily depends on the levels of interest rates and foreign exchange rates, between the date of measurement and the date of the contract.

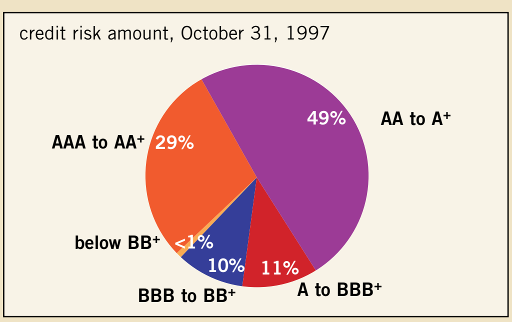
The chart below illustrates CRA by credit quality. Every approved derivative counterparty is assigned a credit rating based on the Bank's internal rating systems. Of the credit exposure as at October 31, 1997, 78% is to counterparties who are rated A+ or better. Banks account for the bulk of the portfolio.

Netting

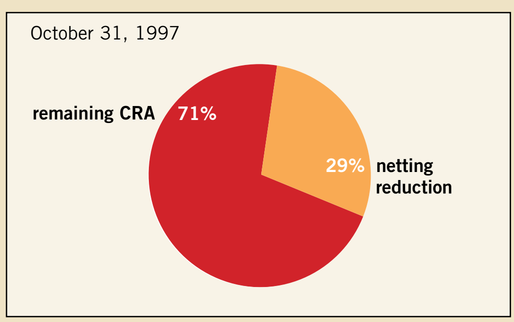
Capital adequacy guidelines permit the netting of off-balance sheet contracts for capital adequacy purposes, provided that they meet stringent conditions for netting. The chart below illustrates the level of risk reduction the Bank currently enjoys as a result of netting. As at October 31, 1997, netting reduced the Bank's CRA by 29%. With the growing global interest in netting, the Bank expects to achieve further risk reduction in the future.

Cross reference information
Risk-adjusted assets; Table 23, Page 64
Financial instruments; Note 17, Page 85
Derivative instruments; Note 18, Page 89

High-quality derivative counterparties



Netting reduces the credit risk amount



MINIMIZING EXPOSURE

Proper control over operating risk is a Scotiabank standard. Ongoing improvement of the Bank's Human Resources and Information Systems, and prudent audit and legal oversight, are designed to work together to minimize risk exposure.

Operating risk is the risk of loss caused by internal or external events such as systems or procedural failures, errors or fraud. The key elements of the Bank's strategy for minimizing operating risk are: the quality of its human resources; separation of duties; comprehensive audit oversight; and continued prudent use of, and investment in, technology.

Staffing and training

A knowledgeable and experienced management team committed to risk management is fundamental to the minimization of operating risk. The Bank also strives to attract, develop and retain staff who share its strong risk management culture. Training and development programmes emphasize the importance of risk management.

Separation of duties

The Bank's policies, procedures and systems have been designed to ensure that there are built-in checks and balances and clear separation of duties. Staff responsibilities are clearly defined and organized to avoid overlap and duplication between key areas. Credit, risk management, and transaction processing functions are fully independent of the business units.

Legal risk

To control legal risk, the Bank's policies and procedures require that documentation be reviewed, and issues of suitability and legal capacity be evaluated. Legal opinions are obtained from internal and external counsel to support various aspects of the Bank's business. In its derivatives trading activities, the Bank uses internationally recognized master netting agreements.

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 under adverse conditions. As well, all key operations areas have developed business resumption plans and procedures.

Year 2000

The year 2000 poses a significant challenge to businesses who are reliant on computer systems that use the last two digits to represent a year. The Bank has been preparing to meet the year 2000 challenge for several years and has established December 31, 1998 as the date it will be year 2000 compliant internally. The Bank is confident that careful testing and upgrades of its systems, and its work with third parties, will ensure a smooth transition for the Bank and its customers.

Outlook

Technological advances continue to improve transaction processing, information management and control systems. The Bank is making significant ongoing investments in the front, middle and back offices to improve the efficiency and security of transaction processing and to reduce the risk of error.

A STRONG CAPITAL BASE supports the Bank's high credit rating, contributes to its undoubted safety and allows it to take advantage of growth opportunities.

Accomplishments

- implemented plans to enhance capital ratios
- issued $895 million in Tier 1 securities in 1997, including innovative *Scotia Booms*
- issued $1.9 billion in subordinated debentures in 1997
- used mortgage insurance and securitization to reduce capital requirements

Performance

As part of its program of capital management, Scotiabank took several actions during 1997 which further strengthened its capital ratios.

Tier 1 capital is made up of those forms of capital considered the most permanent, mainly common shareholders' equity and non-cumulative preferred shares, less unamortized goodwill. This measure of capital increased by $1.6 billion over last year to $9.4 billion at October 31, 1997.

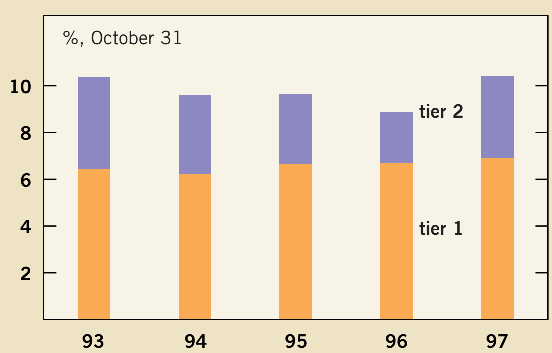
The largest part of this addition was from the substantial increase of $1.1 billion in retained earnings. In addition, $335 million was added to common shareholders' equity because of the new shares issued in partial payment for National Trust.

The remainder of the Tier 1 capital growth was from the issuance of new, non-cumulative preferred shares eligible for inclusion in Tier 1 capital. During 1997, there were issues of $489 million of such preferred shares. This allowed the redemption or conversion of $346 million of outstanding preferred shares, replacing them with less expensive capital.

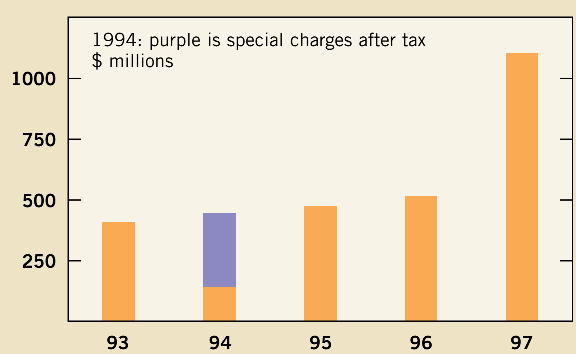
The preferred shares issued in 1997 included $250 million of a new form of Tier 1 capital, called *Scotia Booms*. These were issued through a special-purpose subsidiary, Scotia Mortgage Investment Corporation (SMIC). Since the dividends paid by SMIC are tax deductible, this capital is very cost effective. Although these shares were issued by a subsidiary, they form part of the Bank's regulatory capital on consolidation.

Cross reference information
CAPITAL; Table 22-24, Pages 63-65
Subordinated debentures; Note 10, Page 80
Capital stock; Note 11, Page 81

Strength in Scotiabank capital ratios



Large internal generation of capital



The Tier 1 capital ratio was 6.90% at year end 1997, versus 6.69% at October 31, 1996. (For this calculation, capital is measured against risk-adjusted assets, using weights based on credit risk for each class of counter-party.)

During 1997, the Bank issued $1.9 billion in new subordinated debentures eligible for inclusion in Tier 2 capital. In addition, under OSFI's new policy, Canadian banks may now include General provisions in Tier 2 capital, subject to certain limits, which brings the Canadian rules more in line with international practice. This allowed Scotiabank to include its $500 million in General provisions in Tier 2 capital. In total, Tier 2 capital rose by $2.3 billion to $4.8 billion at October 31, 1997. The Tier 2 capital ratio at year end was 3.52%, an increase from 2.16% as at October 31, 1996.

The total capital ratio, the sum of the Tier 1 and Tier 2 ratios, increased to 10.42% at the end of 1997, from 8.85% in 1996.

In 1997, the Bank employed a variety of methods for balance-sheet management as part of its program of enhancing its capital ratios. Most notably, it acquired credit insurance on $5 billion of its Canadian conventional residential mortgage portfolio from a private insurer. The purchase of mortgage insurance reduced the risk weighting applied to these assets from 50% to 5%, thereby reducing risk-adjusted assets by $2.3 billion.

The Bank also made its first issue of securitized consumer auto loans, totalling $1.5 billion, by selling the loans to a special-purpose entity, ATLAS Auto Loan Funding Trust 1997-A. This securitization reduced the requirement to hold capital and opened up a new source of funding for the Bank.

Outlook

The Bank expects to increase its capital ratios over the course of 1998, while continuing to provide a good return to shareholders.

EARNINGS

Table 1 Unusual items in reported 1997 Net Income

The following unusual items (after-tax) were included in 1997 net income and are provided for discussion and analysis purposes.

$ millions	1997
Reported Net Income	**$1,514**
Restructuring charge of $250 relating to National Trust acquisition	**141**
Increase in General provisions of $175	**100**
Reversal of $500 of the country risk provision	**(290)**
Above average securities gains of $226[1]	**(127)**
Gains on sales of businesses of $144	**(80)**
Other	**(35)**
1997 earnings adjusted for unusual items	**$1,223**

(1) These represent gains in excess of $35 million per quarter in 1997, which approximates the average quarterly gains over the prior two years.

REVENUES

Table 2 Average balance sheet and interest margin

taxable equivalent basis $ billions For the financial years	**1997** **Average balance**	 **Average rate**	1996 Average balance	 Average rate
Assets				
Deposits with other banks	**$ 15.4**	**5.01%**	$ 14.0	5.31%
Securities	**27.9**	**6.22**	26.1	7.14
Reverse repos	**10.0**	**3.63**	7.2	4.95
Loans:				
Residential mortgages	**33.7**	**7.28**	29.5	8.06
Personal and credit card	**17.4**	**8.90**	16.1	10.17
Business and governments	**51.0**	**7.29**	44.9	7.81
Subtotal	**102.1**	**7.56**	90.5	8.31
Total earning assets	**155.4**	**6.81**	137.8	7.61
Customers' liability under acceptances	**7.4**	**–**	6.1	–
Other assets	**16.4**	**–**	14.9	–
Total assets	**$179.2**	**5.91%**	$ 158.8	6.60%
Liabilities				
Deposits:				
Personal	**$ 49.8**	**4.17%**	$ 46.6	5.35%
Other	**76.8**	**4.74**	67.1	5.18
Subtotal	**126.6**	**4.51**	113.7	5.25
Debentures	**4.0**	**6.41**	3.3	6.49
Other interest-bearing liabilities	**19.1**	**4.18**	15.6	5.38
Total interest-bearing liabilities	**149.7**	**4.52**	132.6	5.30
Other liabilities including acceptances	**21.2**	**–**	18.5	–
Shareholders' equity	**8.3**	**–**	7.7	–
Total liabilities and equity	**$179.2**	**3.78%**	$ 158.8	4.42%
Net interest margin		**2.13%**		2.18%

Table 3 Volume/rate analysis of changes in net interest income

taxable equivalent basis $ millions For the financial years	1997 versus 1996 Increase (decrease) due to change in:		
	Average volume	Average rate	Net change
Net interest income			
Assets	$ 1,204	$(1,097)	$ 107
Liabilities	(770)	1,024	254
Total	$ 434	$ (73)	$ 361

Table 4 Other income

$ millions For the financial years	1997	1996	1995	1994	1993	1997 versus 1996
Deposit and payment services						
Deposit services	$ 317	$ 289	$ 262	$ 235	$ 215	10%
Card revenues	153	145	125	111	90	6
Other payment services	61	65	60	55	51	(6)
Subtotal	531	499	447	401	356	6
Investment management and trust						
Mutual funds	82	51	39	38	12	60
Investment management and custody	89	113	108	58	8	(21)
Personal and corporate trust	79	66	60	39	9	20
Subtotal	250	230	207	135	29	9
Credit fees						
Commitment/other credit fees	329	272	239	212	176	21
Acceptance fees	66	61	50	48	32	7
Subtotal	395	333	289	260	208	19
Investment banking						
Foreign exchange and precious metals	154	164	118	150	136	(6)
Underwriting fees and brokerage commissions	597	422	267	347	307	42
Capital market fees	96	103	46	128	129	(7)
Subtotal	847	689	431	625	572	23
Net gain (loss) on investment securities	366(1)	129	(107)	52	119	100+
Other	150	128	126	133	96	17
Total of above	2,539	2,008	1,393	1,606	1,380	26
Gains on sale of businesses	144(1)	–	105	–	–	n/a
Total other income	$ 2,683	$ 2,008	$ 1,498	$ 1,606	$ 1,380	34%
Percentage increase over previous year	34%	34%	(7)%	16%	15%	

(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 on investment securities.

Table 5 Assets under administration and management

$ billions As at September 30	1997	1996	1995	1994
Assets under administration(1)				
Institutional trust and custodial services	$ 32.9	$ 160.6	$ 148.3	$ 136.9
Personal trust and custodial services	65.9	34.4	30.0	19.0
Retail mutual funds	7.9	4.7	3.3	3.4
Serviced mortgages	3.1	1.4	1.7	2.2
Total	$ 109.8	$ 201.1	$ 183.3	$ 161.5
Assets under management				
Institutional	$ 2.0	$ 6.6	$ 6.0	$ 4.4
Personal	7.1	2.4	2.3	0.9
Retail mutual funds	5.0	4.7	3.3	3.4
Total	$ 14.1	$ 13.7	$ 11.6	$ 8.7

(1) On October 1, 1997, the Bank securitized $1.5 billion of consumer auto loans which are now being administered by the Bank.

Table 6 Trading revenue

taxable equivalent basis $ millions For the financial years	1997	1996
Reported in other income		
Securities trading	**$ 42**	$ 53
Foreign exchange and precious metals contracts	**65**	82
Swaps and other interest rate contracts	**54**	53
Subtotal	**161**	188
Reported in net interest income		
Securities trading	**48**	48
Total trading revenue	**$ 209**	$ 236
% of total revenues (net interest income plus other income)	**3.2%**	4.3%

EXPENSES

Table 7 Non-interest expenses

$ millions For the financial years	1997	1996	1995	1994	1993	1997 versus 1996
Salaries	**$1,973**	$ 1,702	$ 1,438	$ 1,401	$ 1,255	**16%**
Benefits	**229**	208	214	182	144	**10**
Premises and equipment						
Occupancy costs	**334**	307	275	263	243	**9**
Technology	**259**	195	172	149	126	**33**
Depreciation	**185**	162	141	121	112	**14**
Subtotal	**778**	664	588	533	481	**17**
Other						
Communications and marketing	**320**	272	265	230	207	**18**
Capital and business taxes, and deposit insurance premiums	**192**	174	157	136	103	**10**
Miscellaneous	**291**	217	182	212	173	**34**
Subtotal	**803**	663	604	578	483	**21**
Total of above	**3,783**	3,237	2,844	2,694	2,363	**17**
Restructuring costs	**250**	(20)	–	175	–	**n/a**
Write-off of goodwill	**26**	–	–	162	–	**n/a**
Total non-interest expenses	**$4,059**	$ 3,217	$ 2,844	$ 3,031	$ 2,363	**26%**

Table 8 Direct and indirect taxes

$ millions For the financial years	1997	1996	1995	1994	1993	1997 versus 1996	Five-year compound growth
Income taxes							
Provision for income taxes	**$ 758(1)**	$ 665	$ 371	$ 455	$ 490	**14%**	**9%**
Taxable equivalent adjustment	**103**	105	72	54	51	**(2)**	**22**
Taxable equivalent provision	**861**	770	443	509	541	**12**	**10**
Indirect taxes							
Payroll taxes	**107**	98	94	85	75	**10**	**9**
Property taxes	**33**	34	36	41	41	**(5)**	**(4)**
Capital taxes	**81**	68	60	55	44	**20**	**14**
Business taxes	**36**	37	34	33	29	**(3)**	**6**
Goods and services tax (GST)	**48**	38	40	33	30	**29**	**9**
Deposit insurance premiums	**75**	69	63	48	30	**9**	**26**
Total indirect taxes	**380**	344	327	295	249	**11**	**11**
Total taxes	**$1,241**	$1,114	$ 770	$ 804	$ 790	**11%**	**11%**

(1) The 1997 provision for income taxes of $758 million reported in the Consolidated Statement of Income represents $509 million of Canadian income taxes and $249 million of income taxes in foreign jurisdictions.

Table 9 **Geographic distribution of earning assets**

$ billions As at September 30	1997	1996	1995	1994	1993	1997 % of earning assets	1997 Net cross-border exposure
North America							
Canada	**$111.9**	$ 92.7	$ 82.7	$ 78.2	$ 60.2	**63.1%**	**$ –**
United States	**28.2**	22.5	23.9	20.7	19.7	**15.9**	**–**
Subtotal	**140.1**	115.2	106.6	98.9	79.9	**79.0**	**–**
Europe							
United Kingdom	**6.5**	5.4	3.9	4.0	3.7	**3.7**	**2.4**
Germany	**1.6**	2.2	1.3	1.7	0.9	**0.9**	**0.7**
France	**2.2**	2.0	1.6	1.5	0.9	**1.2**	**2.0**
Other	**5.5**	4.9	4.1	2.9	3.1	**3.1**	**4.6**
Subtotal	**15.8**	14.5	10.9	10.1	8.6	**8.9**	**9.7**
Asia/Pacific							
Japan	**4.6**	4.2	4.5	4.6	4.0	**2.5**	**4.0**
Hong Kong	**1.4**	1.1	0.8	0.7	0.5	**0.8**	**0.7**
Other	**4.7**	4.1	2.9	2.4	2.1	**2.7**	**3.6**
Subtotal	**10.7**	9.4	8.2	7.7	6.6	**6.0**	**8.3**
Caribbean							
Puerto Rico	**1.5**	1.5	1.4	1.2	1.2	**0.8**	**–**
Jamaica	**1.8**	1.4	1.1	0.7	0.6	**1.0**	**0.2**
Bahamas	**0.9**	0.8	0.6	0.5	0.5	**0.5**	**0.3**
Trinidad & Tobago	**0.8**	0.7	0.6	0.6	0.5	**0.5**	**0.1**
Other	**3.0**	2.5	2.2	2.0	1.7	**1.7**	**1.0**
Subtotal	**8.0**	6.9	5.9	5.0	4.5	**4.5**	**1.6**
Latin America							
Mexico	**1.0**	1.2	1.1	1.2	0.9	**0.6**	**1.0**
Chile	**0.2**	0.3	0.5	0.5	0.5	**0.1**	**0.2**
Other	**1.8**	1.1	1.1	1.1	1.1	**1.0**	**1.6**
Subtotal	**3.0**	2.6	2.7	2.8	2.5	**1.7**	**2.8**
Middle East and Africa	**0.2**	0.2	0.4	0.5	0.4	**0.1**	**0.2**
General provisions	**0.5**	0.3	0.3	0.4	0.2	**0.2**	**–**
Total	**$177.3**	$ 148.5	$ 134.4	$ 124.6	$ 102.3	**100%**	**$ 22.6**

Table 10 **Loans and acceptances by type of borrower**

excludes reverse repos $ billions As at September 30	1997	1996	1995	1994	1993	Percentage mix 1997	Percentage mix 1993
Loans to households							
Residential mortgages	**$ 41.7**	$ 30.6	$ 28.4	$ 26.6	$ 18.5	**33.9%**	25.7%
Personal loans	**19.0**	16.7	15.1	13.2	11.6	**15.5**	16.1
Subtotal	**60.7**	47.3	43.5	39.8	30.1	**49.4**	41.8
Loans to businesses and governments							
Primary industry and manufacturing	**20.8**	16.5	15.3	14.0	12.9	**16.9**	17.9
Commercial and merchandising	**21.7**	18.2	16.6	15.2	10.6	**17.7**	14.7
Real estate	**3.7**	4.1	4.9	5.4	6.3	**3.0**	8.7
Transportation and communication	**10.2**	8.3	7.6	6.9	5.7	**8.4**	7.9
Banks and other financial services	**5.4**	4.9	4.0	4.9	5.5	**4.4**	7.6
Foreign governments and central banks	**0.4**	0.4	0.6	0.9	1.0	**0.3**	1.4
Canadian governments	**0.4**	0.3	0.3	0.2	0.2	**0.3**	0.3
Subtotal	**62.6**	52.7	49.3	47.5	42.2	**51.0**	58.5
General provisions	**0.5**	0.3	0.3	0.4	0.2	**0.4**	0.3
Total loans and acceptances	**$122.8**	$ 99.7	$ 92.5	$ 86.9	$ 72.1	**100.0%**	100.0%

Table 11 Loans and acceptances by geography

excludes reverse repos $ billions As at September 30	1997	1996	1995	1994	1993	Percentage mix 1997	1993
Canada							
Atlantic provinces	**$ 8.4**	$ 8.1	$ 7.6	$ 7.4	$ 6.4	**6.8%**	8.9%
Quebec	**7.2**	6.1	5.7	5.4	3.2	**5.8**	4.4
Ontario	**46.6**	33.9	32.7	30.5	23.9	**38.0**	33.2
Manitoba and Saskatchewan	**3.9**	3.6	3.4	3.0	2.2	**3.2**	3.0
Alberta	**8.7**	6.8	6.5	6.3	5.0	**7.1**	7.0
British Columbia	**11.2**	9.3	8.7	7.8	5.6	**9.1**	7.7
Subtotal	**86.0**	67.8	64.6	60.4	46.3	**70.0**	64.2
International							
United States	**18.0**	15.2	14.1	13.9	13.5	**14.7**	18.8
Europe	**6.7**	5.7	4.8	4.3	4.7	**5.4**	6.5
Caribbean	**6.3**	5.7	4.8	4.0	3.7	**5.2**	5.1
Asia/Pacific	**5.3**	4.6	3.1	3.1	2.7	**4.3**	3.8
Latin America	**0.9**	0.8	1.1	1.2	1.1	**0.7**	1.5
Middle East/Africa	**0.1**	0.2	0.3	0.4	0.3	**0.1**	0.4
Subtotal	**37.3**	32.2	28.2	26.9	26.0	**30.4**	36.1
General provisions	**0.5**	0.3	0.3	0.4	0.2	**0.4**	0.3
Total loans and acceptances	**$122.8**	$ 99.7	$ 92.5	$ 86.9	$ 72.1	**100.0%**	100.0%

Table 12 Off-balance sheet credit instruments

$ billions As at October 31	1997	1996	1995	1994	1993
Guarantees and letters of credit	**$ 10.1**	$ 8.3	$ 8.1	$ 7.0	$ 6.0
Commitments to extend credit	**88.9**	79.7	67.6	61.1	54.2
Securities lending transactions	**1.2**	2.5	3.4	2.7	0.7
Total	**$100.2**	$ 90.5	$ 79.1	$ 70.8	$ 60.9

Table 13 Commercial real estate exposure by geography(1)

$ billions As at October 31	1997	1996	1995	1994	1993
Canada	**$ 2.6**	$ 2.4	$ 2.9	$ 3.1	$ 3.2
United States	**1.4**	1.6	2.0	2.4	2.8
Other	**0.2**	0.3	0.3	0.2	0.3
Total	**$ 4.2**	$ 4.3	$ 5.2	$ 5.7	$ 6.3
Total as a % of total loans and acceptances(2)	**3.4%**	4.2%	5.5%	6.5%	8.8%

(1) Comprises loans, bankers' acceptances, letters of credit and guarantees, and stated after deducting specific provisions.
(2) Excludes reverse repos.

Table 14 Commercial real estate exposure by property type(1)

$ billions As at October 31	1997	1996	1995	1994	1993
Commercial	**$ 1.9**	$ 2.3	$ 2.9	$ 3.5	$ 3.9
Land and land development	**0.8**	0.7	0.9	1.1	1.3
Residential	**0.6**	0.5	0.5	0.4	0.5
Industrial	**0.7**	0.6	0.7	0.5	0.5
Other	**0.2**	0.2	0.2	0.2	0.1
Total	**$ 4.2**	$ 4.3	$ 5.2	$ 5.7	$ 6.3

(1) Comprises loans, bankers' acceptances, letters of credit and guarantees, and stated after deducting specific provisions.

Table 15 Designated emerging market (DEM) provisionable exposures[(1)(2)(3)]

$ millions As at October 31	1997	1996	1995	1994	1993
Brazil	**$ 542**	$ 577	$ 583	$ 824	$ 976
Venezuela	**279**	269	333	459	453
Argentina	**230**	293	309	281	277
Other Latin American countries	**198**	216	252	335	366
The Philippines	**–**	–	146	212	229
Caribbean countries	**42**	41	207	185	230
European countries	**41**	123	125	126	154
African countries	**23**	22	28	28	48
Gross exposure	**1,355**	1,541	1,983	2,450	2,733
Country risk provision	**(534)[(5)]**	(1,049)	(1,135)	(1,424)	(1,624)
Net exposure	**821**	492	848	1,026	1,109
Market value[(4)]	**1,238**	1,291	1,234	1,351	1,649
Excess of market value over book value	**$ 417[(6)]**	$ 799	$ 386	$ 325	$ 540

(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 1997 exposure to Brazil, Venezuela, Argentina, the Dominican Republic, Ecuador, Panama, Peru and Poland is after deducting $154 million (US$109 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 $45 million (1996 – $269 million) relating to loans, $297 million (1996 – $254 million) relating to past due interest bonds and $75 million (1996 – $276 million) relating to DEM restructured bonds.

Table 16 Impaired loans[(1)]

$ millions As at October 31	1997 Net	1997 Allowance for credit losses[(2)]	1997 Gross	1996	1995	1994	1993
Domestic							
Residential mortgages	**$ 151**	**$ (79)**	**$ 230**	$ 177	$ 224	$ 202	$ 83
Personal loans	**116**	**(90)**	**206**	143	94	94	115
Primary industry and manufacturing	**79**	**(35)**	**114**	104	121	145	262
Real estate	**102**	**(119)**	**221**	343	852	739	531
Other	**196**	**(232)**	**428**	440	893	629	339
Subtotal	**644**	**(555)**	**1,199**	1,207	2,184	1,809	1,330
International							
Real estate	**68**	**(47)**	**115**	421	812	1,245	1,501
DEM	**–**	**(56)**	**56**	133	280	385	1,545
Other	**381**	**(442)**	**823**	393	420	443	717
Subtotal	**449**	**(545)**	**994**	947	1,512	2,073	3,763
Gross impaired loans			**$2,193**	2,154	3,696	3,882	5,093
Allowance for credit losses							
– specific and country risk provisions		**(1,100)**		(1,086)	(1,924)	(1,915)	(2,550)
– General provisions	**(500)**	**(500)**		(325)	(325)	(325)	(350)
Subtotal	**(500)**	**$(1,600)**		(1,411)	(2,249)	(2,240)	(2,900)
Total net impaired loans	**$ 593**			$ 743	$ 1,447	$ 1,642	$ 2,193
Total net impaired loans as a % of total loans and acceptances[(3)]	**0.5%**			0.7%	1.5%	1.9%	3.1%
Allowance for credit losses as a % of gross impaired loans, excluding DEM		**72%**		63%	58%	53%	45%

(1) At October 31, 1997, the Bank had $2 million (1996 – $12 million) in other past due loans.
(2) Comprises specific provisions, General provisions and related country risk provision.
(3) Excludes reverse repos.

Table 17 Interest recorded as income on impaired loans

$ millions For the financial years	1997	1996	1995	1994	1993
Interest					
Domestic	**$ –**	$ –	$ 2	$ 13	$ 21
DEM	**27**	23	16	90	154
Other international	**–**	–	16	1	3
Total interest	**$ 27**	$ 23	$ 34	$ 104	$ 178
Average net impaired loans[1]					
Domestic	**$ 583**	$ 859	$1,099	$1,046	$ 968
Other international	**407**	462	749	1,215	1,281
Total average impaired loans, excluding DEM	**$ 990**	$1,321	$1,848	$2,261	$2,249

(1) Excludes General provisions.

Table 18 Provisions for credit losses

$ millions For the financial years	1997	1996	1995	1994	1993
Specific provisions for credit losses					
New specific provisions	**$ 674**	$ 576	$ 713	$ 798	$ 775
Reversals	**(244)**	(158)	(120)	(149)	(124)
Recoveries	**(70)**	(38)	(33)	(57)	(36)
Net specific provisions for credit losses	**360**	380	560	592	615
Other provisions					
General provisions	**175**	–	–	(25)	–
Country risk provision	**(500)**	–	–	–	(150)
Net provisions for credit losses	**$ 35**	$ 380	$ 560	$ 567	$ 465

Table 19 Specific provisions for credit losses by geography and type

$ millions For the financial years	1997	1996	1995	1994	1993
Domestic					
Residential mortgages	**$ 20**	$ 33	$ 19	$ 12	$ 7
Personal loans	**152**	105	93	65	85
Primary industry and manufacturing	**26**	11	16	81	29
Real estate	**(11)**	60	110	140	84
Other	**23**	92	116	69	129
Subtotal	**210**	301	354	367	334
International					
Residential mortgages and personal loans	**10**	9	5	1	2
Real estate	**(85)**	22	172	208	185
Other	**225**	48	29	16	94
Subtotal	**150**	79	206	225	281
International consists of:					
United States	**(12)**	37	168	157	143
Europe/Middle East/Africa	**(9)**	(9)	16	52	124
Caribbean	**37**	35	14	15	9
Asia/Pacific	**134**	16	8	1	5
Subtotal	**150**	79	206	225	281
Total specific provisions for credit losses	**$ 360**	$ 380	$ 560	$ 592	$ 615

Table 20 **Provisions for credit losses as a percentage of average loans and acceptances**[1]

% For the financial years	1997	1996	1995	1994	1993
Domestic					
Residential mortgages and personal	**0.35%**	0.32%	0.28%	0.23%	0.33%
Business	**0.15**	0.73	1.07	1.45	1.32
International	**0.42**	0.26	0.72	0.87	1.08
Weighted subtotal – specific provisions[2]	**0.33**	0.39	0.61	0.74	0.85
General provisions	**0.16**	–	–	(0.03)	–
Country risk provision	**n/a**	–	–	–	(8.10)
Weighted total	**0.03%**	0.39%	0.61%	0.71%	0.63%

(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 21 **Interest rate gap**

Interest rate sensitivity position[1] $ billions As at October 31, 1997	Within 3 months	3 to 12 months	Over 1 year	Non-interest rate sensitive	Total
Canadian dollars					
Assets	$ 54.7	$ 16.1	$ 35.4	$ 7.4	**$ 113.6**
Liabilities	54.6	19.2	22.3	17.5	**113.6**
Gap	0.1	(3.1)	13.1	(10.1)	**–**
Cumulative gap	0.1	(3.0)	10.1	–	**–**
Foreign currencies					
Assets	54.4	14.4	6.4	6.4	**81.6**
Liabilities	62.9	2.3	7.4	9.0	**81.6**
Gap	(8.5)	12.1	(1.0)	(2.6)	**–**
Cumulative gap	(8.5)	3.6	2.6	–	**–**
Total					
Gap	$ (8.4)	$ 9.0	$ 12.1	$ (12.7)	**$ –**
Cumulative gap	(8.4)	0.6	12.7	–	**–**
As at October 31, 1996:					
Gap	$ (6.8)	$ 2.1	$ 14.0	$ (9.3)	**$ –**
Cumulative gap	(6.8)	(4.7)	9.3	–	**–**

(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 22 **Regulatory capital**

$ millions As at October 31	1997	1996	1995	1994	1993
Tier 1 capital					
Common shareholders' equity	**$ 7,930**	$ 6,424	$ 5,745	$ 5,140	$ 4,604
Non-cumulative preferred shares (including SMIC)[1]	**1,468**	1,325	1,225	750	950
Non-controlling interest in subsidiaries	**137**	101	84	75	56
Less: Goodwill	**(123)**	(11)	(8)	(5)	(170)
Subtotal	**9,412**	7,839	7,046	5,960	5,440
Tier 2 capital					
Subordinated debentures (net of amortization)	**4,616**	2,851	3,039	2,975	3,116
General provisions	**500**	–	–	–	–
Cumulative preferred shares (including subsidiaries)	**–**	–	399	450	350
Less: Investments in associated corporations and other items	**(323)**	(318)	(295)	(180)	(157)
Subtotal	**4,793**	2,533	3,143	3,245	3,309
Total capital	**$14,205**	$ 10,372	$ 10,189	$ 9,205	$ 8,749
Total risk-adjusted assets ($ billions)	**$ 136.4**	$ 117.2	$ 105.6	$ 95.8	$ 84.3
Capital ratios					
Tier 1 capital ratio	**6.90%**	6.69%	6.67%	6.22%	6.45%
Total capital ratio	**10.42%**	8.85%	9.65%	9.61%	10.38%

(1) Scotia Mortgage Investment Corporation.

Table 23 Risk-adjusted assets

$ billions As at October 31			1997		1996	
Conversion factor	Weighting factor		**Gross**	**Risk-adjusted**	Gross	Risk-adjusted
On-balance sheet						
–	0%	Cash and claims on Canada, provinces, and OECD governments	**$ 59.3**	**$ –**	$ 50.0	$ –
–	5%	Privately insured residential mortgages[1]	**6.2**	**0.3**	1.1	0.1
–	20%	Claims on banks and municipalities	**19.9**	**4.0**	16.0	3.2
–	50%	Uninsured residential mortgages[1]	**12.8**	**6.4**	17.8	8.9
–	100%	Loans and acceptances	**74.2**	**74.2**	61.6	61.6
–	100%	Other assets	**22.8**	**22.8**	18.8	18.8
		Total on-balance sheet	**195.2**	**107.7**	165.3	92.6
Off-balance sheet						
		Indirect credit instruments:				
0%	–	One year and under credit commitments	**47.0**	**–**	42.8	–
20%	0 –100%	Short-term trade letters of credit	**1.2**	**0.2**	1.0	0.1
50%	0 –100%	Longer term credit commitments	**41.8**	**20.3**	36.8	17.5
50%	0 –100%	Non-financial guarantees, standby letters of credit, NIFs and RUFs	**3.2**	**1.6**	3.0	1.5
100%	0 –100%	Financial guarantees, standby letters of credit and securities lending	**7.0**	**4.1**	6.9	2.8
		Subtotal	**100.2**	**26.2**	90.5	21.9
		Interest rate instruments:				
0 –1.5%	0 –50%	Futures and forward rate agreements	**211.6**	**–**	123.5	–
0 –1.5%	0 –50%	Interest rate swaps	**419.5**	**1.5**	309.2	1.5
0 –1.5%	0 –50%	Interest rate options	**95.2**	**0.1**	107.5	0.1
		Subtotal	**726.3**	**1.6**	540.2	1.6
		Foreign exchange instruments:				
1 –7.5%	0 –50%	Futures and foreign exchange contracts	**191.8**	**1.1**	201.7	1.0
1 –7.5%	0 –50%	Currency swaps	**30.7**	**0.5**	32.7	0.5
1 –7.5%	0 –50%	Currency options	**29.0**	**0.1**	20.8	0.1
		Subtotal	**251.5**	**1.7**	255.2	1.6
6 –15%	0 –50%	**Other derivative instruments**	**10.6**	**0.2**	6.5	0.1
		Total off-balance sheet	**1,088.6**	**29.7**	892.4	25.2
		Total gross and risk-adjusted assets	**1,283.8**	**137.4**	1,057.7	117.8
		Impact of master netting	**–**	**(1.0)**	–	(0.6)
		Total	**$1,283.8**	**$ 136.4**	$ 1,057.7	$ 117.2

(1) Excludes NHA guaranteed mortgages which are grouped with claims on Canada.

Table 24 Capital funding activity

Issues		Redemptions/Conversions	
November 21, 1996:	$350 million 6.00% debentures due 2006	October 29, 1997:	$250 million non-cumulative preferred shares Series 5
June 12, 1997:	$300 million 6.25% debentures due 2007	October 29, 1997:	$96 million non-cumulative preferred shares Series 10 converted to non-cumulative preferred shares Series 11
July 16, 1997:	$500 million 6.25% debentures due 2012		
July 21, 1997:	US $500 million 6.50% debentures due 2007		
October 29, 1997:	$239 million non-cumulative preferred shares Series 11 issued through conversion of non-cumulative preferred shares Series 10 and exercise of non-cumulative preferred shares Series 11 purchase warrants		
October 31, 1997:	$250 million non-cumulative preferred shares Class A issued by Scotia Mortgage Investment Corporation, a wholly-owned subsidiary of the Bank		

OTHER INFORMATION

Table 25 Components of net income as a percentage of average total assets[1]

taxable equivalent basis % For the financial years	1997	1996
Net interest income	**2.13%**	2.18%
Provision for credit losses	**(0.02)**	(0.24)
Other income	**1.50**	1.26
Net interest and other income	**3.61**	3.20
Non-interest expenses	**(2.11)**	(2.03)
Restructuring costs and goodwill write-off	**(0.15)**	0.01
Net income before the undernoted:	**1.35**	1.18
Provision for income taxes and non-controlling interest	**(0.50)**	(0.51)
Net income	**0.85%**	0.67%
Average total assets ($ billions)	**$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: 1997 – $103 million; 1996 – $105 million.

Table 26 **Quarterly information**

	1997				1996			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Statement of income ($ millions)								
Interest income	**$2,788**	**$2,611**	**$2,536**	**$2,553**	$ 2,631	$ 2,611	$ 2,523	$ 2,613
Interest expense	**1,832**	**1,687**	**1,629**	**1,623**	1,718	1,778	1,711	1,817
Net interest income	**956**	**924**	**907**	**930**	913	833	812	796
Provision for credit losses (reversal)	**(406)**	**88**	**264**	**89**	95	95	95	95
Other income	**665**	**711**	**686**	**621**	490	513	485	520
Net interest and other income	**2,027**	**1,547**	**1,329**	**1,462**	1,308	1,251	1,202	1,221
Non-interest expenses	**1,298**	**911**	**878**	**972**	840	799	774	804
Income before the undernoted:	**729**	**636**	**451**	**490**	468	452	428	417
Provision for income taxes	**188**	**245**	**143**	**182**	176	169	159	161
Non-controlling interest	**8**	**7**	**8**	**11**	9	8	7	7
Net income	**533**	**384**	**300**	**297**	283	275	262	249
Preferred dividends paid	**25**	**24**	**24**	**26**	29	29	27	28
Net income available to common shareholders	**$ 508**	**$ 360**	**$ 276**	**$ 271**	$ 254	$ 246	$ 235	$ 221
Common dividends paid	**$ 91**	**$ 88**	**$ 88**	**$ 88**	$ 81	$ 80	$ 72	$ 72
Average assets ($ billions)	**$193.8**	**$179.0**	**$174.7**	**$169.1**	$ 163.7	$ 162.9	$ 156.8	$ 151.3
Return on common shareholders' equity (%)	**26.3%**	**20.3%**	**16.7%**	**16.5%**	16.0%	16.0%	16.1%	15.2%
Balance sheet ($ billions)								
Cash resources	**$ 18.2**	**$ 16.1**	**$ 17.3**	**$ 14.1**	$ 14.7	$ 16.8	$ 15.3	$ 14.8
Securities	**28.0**	**26.0**	**27.7**	**27.0**	25.9	28.0	25.8	24.7
Reverse repos	**8.5**	**14.7**	**9.7**	**8.5**	9.1	8.3	8.4	6.2
Loans and acceptances:								
Residential mortgages	**41.6**	**32.5**	**31.9**	**31.4**	30.7	30.1	29.3	28.9
Personal and credit card loans	**17.7**	**17.3**	**17.3**	**16.8**	16.7	16.4	16.1	15.7
Business and government loans and acceptances	**64.0**	**59.7**	**57.4**	**56.1**	54.2	52.0	50.7	49.5
Total loans and acceptances	**$123.3**	**$109.5**	**$106.6**	**$104.3**	$ 101.6	$ 98.5	$ 96.1	$ 94.1
Total assets	**$195.2**	**$181.7**	**$176.1**	**$168.7**	$ 165.3	$ 164.3	$ 158.3	$ 153.9
Deposits	**139.0**	**124.0**	**126.7**	**121.9**	117.9	118.5	113.4	111.7
Subordinated debentures	**5.2**	**5.1**	**3.6**	**3.6**	3.3	3.3	3.3	3.1
Preferred shares	**1.5**	**1.3**	**1.3**	**1.3**	1.3	1.7	1.7	1.6
Common shareholders' equity	**7.9**	**7.1**	**6.9**	**6.6**	6.4	6.2	6.0	5.8
Asset quality								
Net impaired loans ($ millions)	**$ 593**	**$ 446**	**$ 364**	**$ 690**	$ 743	$ 805	$ 937	$ 1,048
As a % of loans and acceptances(1)	**0.5%**	**0.4%**	**0.3%**	**0.7%**	0.7%	0.8%	1.0%	1.1%
Risk-adjusted capital ratios (%)								
Tier 1 capital ratio	**6.90%**	**6.67%**	**6.61%**	**6.71%**	6.69%	6.71%	6.78%	6.69%
Total capital ratio	**10.42**	**9.98**	**8.87**	**9.08**	8.85	9.37	9.63	9.42
Common equity to risk-adjusted assets	**5.82**	**5.56**	**5.48**	**5.53**	5.48	5.47	5.50	5.47
Common share information								
Shares outstanding (millions)								
End of period	**244.9**	**238.9**	**238.3**	**237.8**	237.4	236.3	234.9	233.6
Average	**243.8**	**238.5**	**238.0**	**237.6**	236.4	235.0	233.7	232.3
Net income per share ($)	**$ 2.10**	**$ 1.51**	**$ 1.16**	**$ 1.14**	$ 1.08	$ 1.04	$ 1.01	$ 0.95
Dividends per share ($)	**0.37**	**0.37**	**0.37**	**0.37**	0.34	0.34	0.31	0.31
Book value per share ($)	**32.38**	**29.92**	**28.89**	**27.86**	27.05	26.43	25.64	24.99
Share price ($)								
– high	**68.20**	**66.25**	**57.40**	**48.00**	42.40	33.85	31.88	32.25
– low	**57.80**	**53.05**	**47.60**	**41.10**	33.00	30.65	29.63	28.38
– close	**62.15**	**66.00**	**53.05**	**47.60**	42.25	32.95	30.85	31.50
Dividend yield (%)	**2.3%**	**2.5%**	**2.8%**	**3.3%**	3.6%	4.2%	4.0%	4.1%
Dividend payout ratio (%)	**17.8**	**24.6**	**32.0**	**32.4**	31.6	32.5	30.9	32.5

(1) Excludes reverse repos.

1997 CONSOLIDATED FINANCIAL STATEMENTS

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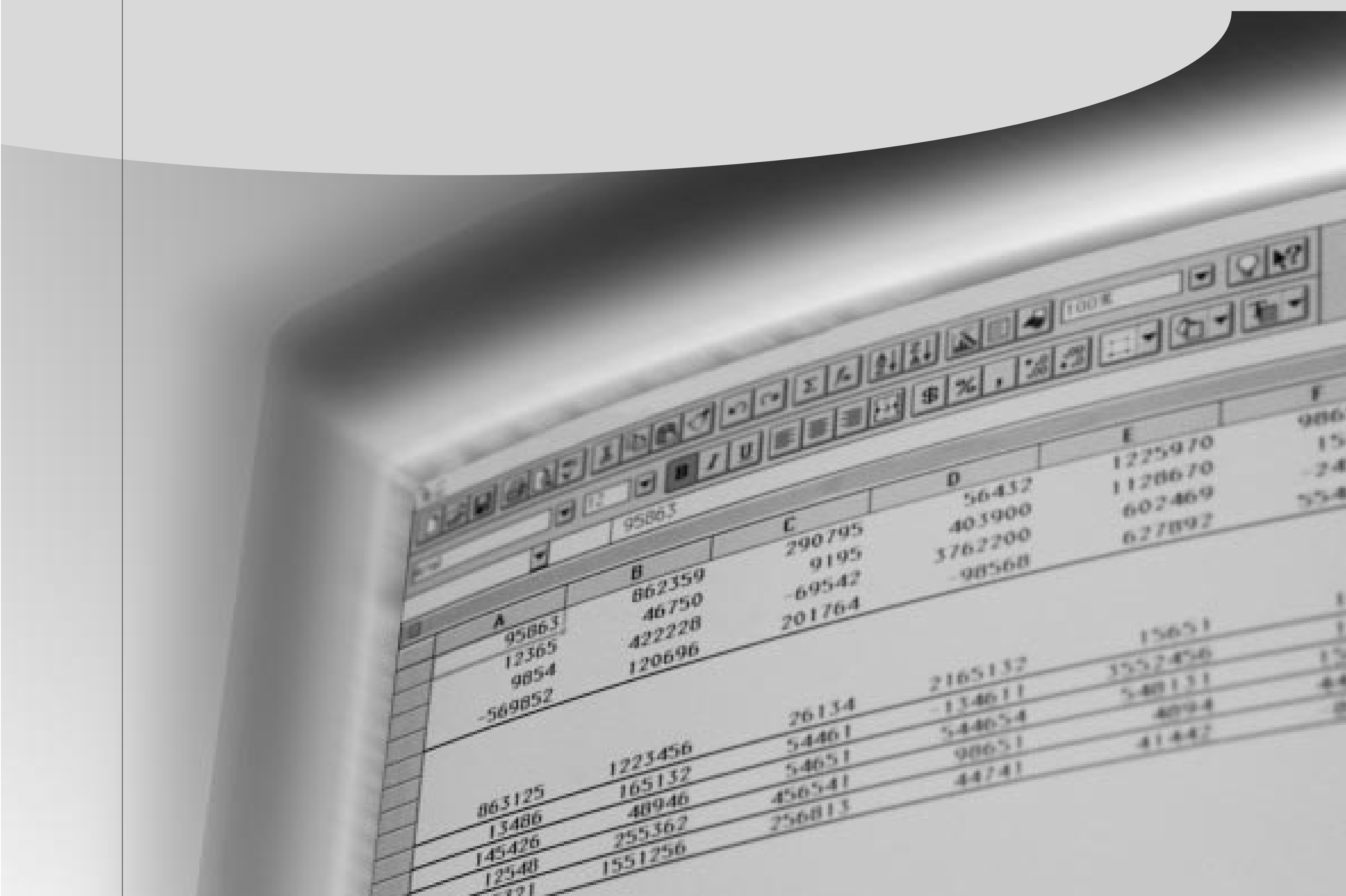

Report of Management

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 the Audit Committee of the Board of Directors.

The Superintendent of Financial Institutions Canada, at least once a year, 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 and Price Waterhouse, 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

Robert W. Chisholm
Vice-Chairman and
Chief Financial Officer

Toronto, November 26, 1997

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, 1997 and 1996, and the Consolidated Statements of Income, Changes in Shareholders' Equity and Changes in Financial Position 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 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, 1997 and 1996, and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles including the accounting requirements of the Superintendent of Financial Institutions Canada.

KPMG
Chartered Accountants

Price Waterhouse
Chartered Accountants

Toronto, November 26, 1997

As at October 31 ($ millions)	1997	1996
Assets		
Cash resources		
Cash and deposits with Bank of Canada	$ 1,058	$ 1,485
Deposits with other banks	17,116	13,252
	18,174	14,737
Securities (Note 3)		
Issued or guaranteed by:		
Canada	8,782	9,101
Provinces and municipalities	1,869	2,289
Other securities	17,348	14,515
	27,999	25,905
Assets purchased under resale agreements	8,520	9,112
Loans (Note 4)		
Residential mortgages	41,647	30,653
Personal and credit card	17,668	16,718
Business and governments	56,450	48,250
	115,765	95,621
Other		
Customers' liability under acceptances	7,575	5,945
Land, buildings and equipment (Note 6)	1,716	1,523
Other assets (Note 7)	15,404	12,458
	24,695	19,926
	$ 195,153	$ 165,301
Liabilities and Shareholders' Equity		
Deposits (Note 8)		
Personal	$ 59,239	$ 47,768
Business and governments	56,928	44,981
Banks	22,808	25,145
	138,975	117,894
Other		
Cheques and other items in transit, net	340	459
Acceptances	7,575	5,945
Obligations related to assets sold under repurchase agreements	11,559	7,894
Obligations related to securities sold short	3,739	6,509
Other liabilities (Note 9)	18,263	15,499
Non-controlling interest in subsidiaries	137	101
	41,613	36,407
Subordinated debentures (Note 10)	5,167	3,251
Shareholders' equity		
Capital stock (Note 11)		
Preferred shares	1,468	1,325
Common shares	2,567	2,161
Retained earnings (Note 2)	5,363	4,263
	9,398	7,749
	$ 195,153	$ 165,301

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)	1997	1996
Interest income		
Loans	$ 8,082	$ 7,881
Securities	1,636	1,757
Deposits with banks	770	740
	10,488	10,378
Interest expense		
Deposits	5,714	5,969
Subordinated debentures	260	214
Other	797	841
	6,771	7,024
Net interest income	3,717	3,354
Provision for credit losses (Note 5)	35	380
Net interest income after provision for credit losses	3,682	2,974
Other income		
Deposit and payment services	531	499
Investment management and trust	250	230
Credit fees	395	333
Investment banking	847	689
Net gains on investment securities	403	129
Other	257	128
	2,683	2,008
Net interest and other income	6,365	4,982
Non-interest expenses		
Salaries	1,973	1,702
Pension contributions and other staff benefits	229	208
Premises and equipment, including depreciation	778	664
Other	829	663
Restructuring costs (Note 19)	250	(20)
	4,059	3,217
Income before the undernoted:	2,306	1,765
Provision for income taxes (Note 12)	758	665
Non-controlling interest in net income of subsidiaries	34	31
Net income	$ 1,514	$ 1,069
Preferred dividends paid	$ 99	$ 113
Net income available to common shareholders	$ 1,415	$ 956
Average number of common shares outstanding (000's)	239,486	234,358
Net income per common share	$ 5.91	$ 4.08
Dividends per common share	$ 1.48	$ 1.30

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

For the year ended October 31 ($ millions)	1997	1996
Operating activities		
Net income	$ 1,514	$ 1,069
Adjustments to determine net cash provided by (used in) operating activities:		
Restructuring costs	250	–
Depreciation and amortization	185	162
Provision for credit losses	35	380
Deferred income taxes	6	(47)
Change in accrued interest receivable	(883)	139
Change in accrued interest payable	545	84
Change in trading securities	(838)	(1,916)
Other changes, net	(775)	420
Cash provided by operating activities	39	291
Financing activities		
Increase in deposits	7,862	6,549
Increase in obligations related to assets sold under repurchase agreements	3,665	540
Change in obligations related to securities sold short	(2,770)	1,093
Increase in other financing	566	263
Subordinated debentures:		
Proceeds from issues	1,835	300
Redemption of issues	–	(244)
Foreign exchange adjustments[1]	81	(54)
Capital stock:		
Proceeds from preferred shares issued	393	100
Preferred shares redeemed	(250)	(350)
Proceeds from common shares:		
Issued on acquisition of National Trustco Inc. (Note 19)	335	–
Issued under Shareholder Dividend and Share Purchase Plan and Stock Option Plan	71	167
Dividends paid	(454)	(418)
Other changes, net	(44)	(98)
Cash provided by financing activities	11,290	7,848
Total cash available for investing activities	11,329	8,139
Investing activities		
Increase (decrease) in:		
Deposits with other banks	2,916	(2,307)
Investment securities	(556)	1,886
Assets purchased under resale agreements	(592)	734
Loans	8,049	7,493
Land, buildings and equipment, net of disposals	285	199
Acquisition of National Trustco Inc. (Note 19)	1,236	–
Cash used in investing activities	11,338	8,005
(Decrease) increase in cash and cash equivalents	(9)	134
Cash and cash equivalents, beginning of year	2,169	2,035
National Trustco Inc. – cash and cash equivalents, at date of acquisition	70	–
Cash and cash equivalents, end of year	$ 2,230	$ 2,169
Represented by:		
Cash resources per Consolidated Balance Sheet[2]	$ 17,834	$ 14,278
Deposits with other banks: non-operating	(15,604)	(12,109)
Cash and cash equivalents, end of year	$ 2,230	$ 2,169

(1) Offset by a comparable adjustment in foreign currency assets.
(2) Includes a liability of $340 (1996 – $459) reported in Cheques and other items in transit.

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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. 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 generally accepted accounting principles.

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 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 country risk provisions. 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 general country risk provisions apply, 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, provisions for doubtful credits, and general country risk provisions, 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.

Provisions for doubtful credits (General provisions) are 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 provision for doubtful credits was established in respect of exposures to particular industries or geographic regions.

Country risk provisions are maintained in accordance with instructions issued by the Superintendent based on total transborder 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.

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.

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. 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

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. Annual changes in net pension assets or obligations arising from experience gains or losses, changes in assumptions, plan amendments and the net asset position at the date the policy was implemented are amortized on a straight-line basis over the expected average remaining service life of the employee groups covered by the plan. The cumulative difference between pension expense and funding contributions is included in Other Assets or Other Liabilities, as appropriate.

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. New accounting and reporting changes

a) Financial instruments

In fiscal 1997, the Bank completed its adoption of the new accounting pronouncements established by the Canadian Institute of Chartered Accountants on disclosure and presentation of financial instruments. The principal impact on the Bank's Consolidated Financial Statements of completing the adoption of these pronouncements relates to the presentation of unrealized gains and losses on trading derivative instruments which are now reported on a gross basis, whereas previously they were reported on a net basis in either Other Assets or Other Liabilities, as appropriate. The 1996 comparative amounts have been restated to reflect such amounts on a gross basis, resulting in both Other Assets and Other Liabilities increasing by $8,040 million.

b) Change in the impaired loans accounting policy

In accordance with guidelines issued by the Superintendent, in fiscal 1996 the Bank adopted new impaired loans accounting principles established by the Canadian Institute of Chartered Accountants. Under these guidelines, there is a requirement to measure impairment by discounting the expected future cash flows associated with the impaired loan at the effective interest rate inherent in the loan at the date of impairment. 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 million and a corresponding cumulative charge to opening Retained Earnings of $116 million (being net of deferred income taxes of $86 million) in fiscal 1996.

c) Reporting of gains and losses on securities

Gains and losses on securities are now reported in Other Income, whereas previously they were reported in Interest Income.

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	1997 Carrying value	1996 Carrying value
Investment securities							
Canadian federal government debt	$ 762	$ 1,666	$ 2,196	$ 413	$ –	**$ 5,037**	$ 5,405
Canadian provincial and municipal debt	30	86	284	164	–	**564**	728
Foreign government debt	455	1,180	840	1,662	–	**4,137**	3,307
Bonds of designated emerging markets(1)	–	–	–	1,201	–	**1,201**	1,001
Other debt	213	777	1,252	448	–	**2,690**	2,310
Preferred shares	31	–	4	–	963(2)	**998**	760
Common shares	–	–	–	–	1,516	**1,516**	1,314
Associated corporations	–	–	–	251	317(3)	**568**	596
Total investment securities	1,491	3,709	4,576	4,139	2,796	**16,711**	15,421
Loan substitute securities(4)	47	–	333	–	–	**380**	414
Trading securities(5)							
Canadian federal government debt	214	743	1,599	1,189	–	**3,745**	3,696
Canadian provincial and municipal debt	186	113	471	535	–	**1,305**	1,561
Foreign government debt	59	14	947	521	–	**1,541**	1,170
Common shares	–	–	–	–	2,497	**2,497**	2,130
Other	580	115	576	466	83	**1,820**	1,513
Total trading securities	1,039	985	3,593	2,711	2,580	**10,908**	10,070
Total securities	$ 2,577	$ 4,694	$ 8,502	$ 6,850	$ 5,376	**$ 27,999**	$ 25,905
Total by currency: (in Canadian equivalent)							
Canadian dollar	$ 1,790	$ 2,866	$ 5,524	$ 2,911	$ 4,041	**$ 17,132**	$ 16,889
U.S. dollar	229	1,055	2,123	3,101	1,269	**7,777**	5,960
Other currencies	558	773	855	838	66	**3,090**	3,056
Total securities	$ 2,577	$ 4,694	$ 8,502	$ 6,850	$ 5,376	**$ 27,999**	$ 25,905

(1) This includes restructured bonds of designated emerging markets after deducting a country risk provision of $453 (1996 – $737). Refer to Note 5(b).
(2) Although these securities have no stated term, most of these securities provide the Bank with the contractual right to retract or otherwise 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)	1997 Carrying value	1997 Gross unrealized gains	1997 Gross unrealized losses	1997 Estimated market value	1996 Carrying value	1996 Gross unrealized gains	1996 Gross unrealized losses	1996 Estimated market value
Investment securities								
Canadian federal government debt	**$ 5,037**	**$ 111**	**$ –**	**$ 5,148**	$ 5,405	$ 174	$ –	$ 5,579
Canadian provincial and municipal debt	**564**	**35**	**–**	**599**	728	38	–	766
Foreign government debt	**4,137**	**147**	**12**	**4,272**	3,307	55	5	3,357
Bonds of designated emerging markets	**1,201**	**460**	**–**	**1,661**	1,001	601	–	1,602
Other debt	**2,690**	**36**	**6**	**2,720**	2,310	53	2	2,361
Preferred shares	**998**	**84**	**8**	**1,074**	760	69	1	828
Common shares	**1,516**	**228**	**37**	**1,707**	1,314	215	17	1,512
Associated corporations	**568**	**–**	**–**	**568**	596	–	–	596
Total investment securities	**$ 16,711**	**$ 1,101**	**$ 63**	**$ 17,749**	$ 15,421	$ 1,205	$ 25	$ 16,601

The net unrealized gains on investment securities of $1,038 million (1996 – $1,180 million) decreased to $817 million (1996 – $1,056 million) after the net fair value of derivative instruments associated with these securities is 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)	1997	1996
Canada		
Residential mortgages	$ 40,982	$ 30,123
Personal and credit card	15,397	15,049
Business and governments	21,820	18,863
	78,199	64,035
United States	19,042	15,398
Other international	20,149	17,756
	117,390	97,189
Less allowance for credit losses	1,625	1,568
Total(1)	$ 115,765	$ 95,621

(1) Loans denominated in U.S. dollars amount to $30,568 (1996 – $25,746) and loans denominated in other foreign currencies amount to $10,417 (1996 – $9,223). Segmentation of assets is based upon the location of ultimate risk of the underlying assets.

5. Impaired loans and allowance for credit losses

a) Impaired loans

As at October 31 ($ millions)							1997	1996
	Gross impaired loans	Specific provisions Individual	Specific provisions By group	Country risk provision	Net impaired loans before provision for doubtful credits	Provision for doubtful credits	Net impaired loans	Net impaired loans
By loan type:								
Residential mortgages	$ 249	$ 48	$ 31	$ –	$ 170	$ 13	$ 157	$ 147
Personal and credit card	246	27	69	–	150	–	150	82
Business and governments:								
Real estate	336	166	–	–	170	105	65	161(1)
Other businesses	1,306	703	–	–	603	382	221	353(1)
Designated emerging markets	56	–	–	56	–	–	–	–
Total(2) (3)	$ 2,193	$ 944	$ 100	$ 56	$ 1,093	$ 500	$ 593	$ 743
By country:								
Canada							$ 644	$ 611
United States							200	268
Other international							249	189
Net impaired loans before provision for doubtful credits							1,093	1,068
Provision for doubtful credits							500	325(1)
Net impaired loans							$ 593	$ 743

(1) Prior to 1997, the provision for doubtful credits was established in respect of exposures to particular industries or geographic regions. In 1996, $225 was established against the real estate sector and $100 was allocated across other industrial sectors or geographic regions.

(2) Included in the gross impaired loans and the specific provisions are foreclosed assets held for sale of $184 (1996 – $339) and $109 (1996 – $194) respectively.

(3) Gross impaired loans in U.S. dollars amount to $795 (1996 – $763) and those denominated in other foreign currencies amount to $210 (1996 – $201).

b) Allowance for credit losses

As at October 31 ($ millions)	Specific provisions	Country risk provision[1]	Provision for doubtful credits	1997	1996
Balance, beginning of year	$ 953	$ 1,049	$ 325	**$ 2,327**	$ 3,104
Implementation of impaired loans accounting policy (Note 2)	–	–	–	**–**	202
Write-offs[2]	(519)	(68)	–	**(587)**	(1,388)
Recoveries	70	–	–	**70**	38
Provision for credit losses	360[3]	(500)[4]	175	**35**	380[3]
National Trustco Inc. – balance at date of acquisition	138	–	–	**138**	–
Other, including foreign currency adjustment[5]	42	53	–	**95**	(9)
Balance, end of year	$ 1,044	$ 534	$ 500	**$ 2,078**	$ 2,327

(1) *Includes $453 (1996 – $737) which has been deducted from Securities. Of the $453, an amount of $317 (1996 – $535) relates to the restructured collateralized bonds of designated emerging markets. The balance of $136 (1996 – $202) relates to non-collateralized bonds of designated emerging markets.*
(2) *Includes $16 (1996 – $102) of write-offs of loans restructured during the year.*
(3) *Amounts are after reversing provisions no longer required of $244 (1996 – $158).*
(4) *Represents reversal of provision no longer required.*
(5) *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 1997	Net book value 1996
Land	$ 231	$ –	**$ 231**	$ 219
Buildings	984	209	**775**	717
Equipment	1,604	1,085	**519**	428
Leasehold improvements	416	225	**191**	159
Total	$ 3,235	$ 1,519	**$ 1,716**	$ 1,523

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

7. Other assets

As at October 31 ($ millions)	1997	1996
Unrealized gains on derivatives (Note 2)	**$ 9,113**	$ 8,667
Accrued interest	**2,061**	1,178
Accounts receivable	**1,752**	900
Deferred income taxes	**542**	528
Identifiable intangibles	**246**	–
Goodwill	**123**	11
Other	**1,567**	1,174
Total	**$ 15,404**	$ 12,458

8. Deposits

As at October 31 ($ millions)	Payable on demand	Payable after notice	Payable on a fixed date	1997	1996
Canada					
Personal	$ 1,609	$ 13,850	$ 37,675	**$ 53,134**	$ 42,801
Business and governments	4,447	5,233	16,476	**26,156**	21,858
Banks	48	–	1,057	**1,105**	536
	6,104	19,083	55,208	**80,395**	65,195
United States					
Personal	4	87	467	**558**	536
Business and governments	125	448	14,886	**15,459**	10,441
Banks	27	168	1,947	**2,142**	4,385
	156	703	17,300	**18,159**	15,362
Other international					
Personal	139	2,661	2,747	**5,547**	4,431
Business and governments	1,106	992	13,215	**15,313**	12,682
Banks	255	857	18,449	**19,561**	20,224
	1,500	4,510	34,411	**40,421**	37,337
Total[1]	$ 7,760	$ 24,296	$ 106,919	**$ 138,975**	$ 117,894

(1) *Deposits denominated in U.S. dollars amount to $42,379 (1996 – $36,993) and deposits denominated in other foreign currencies amount to $19,489 (1996 – $17,634). Segmentation of deposits is based upon residency of depositor.*

9. Other liabilities

As at October 31 ($ millions)	1997	1996
Unrealized losses on derivatives (Note 2)	**$ 8,834**	$ 8,467
Accrued interest	**2,531**	1,986
Accounts payable and accrued expenses	**1,202**	565
Deferred income	**289**	184
Liabilities of subsidiaries, other than deposits	**1,429**	1,328
Gold and silver certificates	**2,512**	1,946
Other	**1,466**	1,023
Total	**$ 18,263**	$ 15,499

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)	1997	1996
October, 1998	7 7/20%	¥10,000 with interest payable in Australian dollars	**$ 117**	$ 117
November, 1998	4 7/8%	SFr 150	**151**	158
October, 1999	9%	US $200	**282**	267
March, 2001	11 2/5%		**100**	100
March, 2001	10 3/4%		**150**	150
July, 2001	10 7/20%	Redeemable in whole or in part at any time	**200**	200
March, 2003	8 1/10%		**300**	300
May, 2003	6 7/8%	US $250	**352**	335
March, 2004	7 2/5%	¥10,000 with interest payable in Australian dollars redeemable in whole, but not in part, on March 29, 1999	**117**	117
December, 2006	6%	Redeemable in whole or in part 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**	–
June, 2007	6 1/4%	Redeemable in whole or in part 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**	–
July, 2007	6 1/2%	US $500. Redeemable in whole or in part 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%	**704**	–
September, 2008	6 1/4%	US $250	**352**	335
February, 2011	7 2/5%	Redeemable in whole or in part 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 1/4%	Redeemable in whole or in part at any time. On or after July 16, 2007, interest will be payable at an annual rate equal to the 90 day Bankers' Acceptance rate plus 1%	**500**	–
September, 2013	8 3/10%	Redeemable in whole or in part on or after September 27, 1998	**250**	250
June, 2025	8 9/10%	Redeemable in whole or in part on or after June 20, 2000	**250**	250
August, 2085	Floating	US $278 bearing interest at a floating rate of 1/8 of 1% over the offered rate for six month Eurodollar deposits; redeemable in whole or in part on any interest payment date	**392**	372
Total			**$ 5,167**	$ 3,251

The aggregate maturities of the debentures, assuming holders redeem at the earliest possible dates under the terms of issue, are as follows:

Less than 1 year	$ 117
From 1 to 2 years	433
From 2 to 5 years	450
From 5 to 10 years	2,123
Over 10 years	2,044
	$ 5,167

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

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)	**1997**		1996	
	Number of shares outstanding	**Amount**	Number of shares outstanding	Amount
Series 5 Preferred Shares[1]	**–**	**$ –**	10,000,000	$ 250
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]	**438,278**	**4**	10,000,000	100
Series 11 Preferred Shares[6]	**9,561,722**	**239**	–	–
Preferred Shares issued by the Bank	**49,000,000**	**$ 1,218**	59,000,000	$ 1,325
Preferred Shares issued by Scotia Mortgage Investment Corporation[7]	**250,000**	**250**	–	–
Total Preferred Shares	**49,250,000**	**$ 1,468**	59,000,000	$ 1,325
Common Shares:				
Outstanding at beginning of year	**237,446,611**	**$ 2,161**	232,256,402	$ 1,994
Issued to acquire National Trustco Inc. (Note 19)	**5,682,167**	**335**	–	–
Issued under Shareholder Dividend and Share Purchase Plan[8]	**786,814**	**43**	5,098,734	164
Issued under Stock Option Plan[9]	**990,560**	**28**	91,475	3
Outstanding at end of year[8] [9]	**244,906,152**	**$ 2,567**	237,446,611	$ 2,161
Total capital stock		**$ 4,035**		$ 3,486

(1) 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. With regulatory approval, the shares were redeemed by the Bank on October 29, 1997.

(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 Preferred Shares Series 6 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 Preferred Shares Series 7 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 Preferred

Shares Series 8 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 Preferred Shares Series 9 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) On March 28, 1996, the Bank issued 10,000,000 Units for $100 million. Each Unit consists of one Non-cumulative Preferred Shares Series 10 and one Non-cumulative Preferred Shares Series 11 Purchase Warrant. The Preferred Shares Series 10 were entitled to non-cumulative preferential cash dividends, payable quarterly in an amount per share of $0.16625. From and after October 29, 1997, such quarterly cash dividends have been reduced to $0.02 per share. On each of October 29, 1997, January 28, 1998, and April 28, 1998, the Preferred Shares Series 10 are convertible into Non-cumulative Preferred Shares Series 11 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 Preferred Shares Series 10, the exercise of one Warrant and a cash payment of $15.00 will entitle the holder to receive one Preferred Shares Series 11. 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.

On October 29, 1997, 9,561,722 Units were converted into Preferred Shares Series 11. The Preferred Shares Series 11 are entitled to non-cumulative preferential cash dividends payable quarterly in an amount per share of $0.375. The first of such dividends, if declared, shall be paid on January 28, 1998. 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 Preferred Shares Series 11 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.

(7) On October 31, 1997, Scotia Mortgage Investment Corporation, a subsidiary of the Bank, issued 250,000 Preferred Shares Class A for $250 million. Each Preferred Share Class A will be 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, if declared, shall be 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 Preferred Shares Class A, 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, Preferred Shares Class A 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 Preferred Shares Class A 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 Preferred Shares Class A of Scotia Mortgage Investment Corporation will be automatically exchanged, without the consent of the holder, into Non-cumulative Preferred Shares Series Z of the Bank which would bear the same dividend rate and similar redemption features.

(8) As at October 31, 1997, common shares totalling 7,938,958 have been reserved for future issue under terms of the Shareholder Dividend and Share Purchase Plan. On November 1, 1996, the Bank amended the Shareholder Dividend and Share Purchase Plan to eliminate the 5% share price discount and to provide that the Bank may elect whether common shares issued under the plan are either newly issued treasury shares or purchased on the open market.

(9) 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 12,000,000. Options to purchase 6,957,390 common shares at a weighted average price per share of $37.82 were outstanding as at October 31, 1997. During 1997, options to purchase 990,560 shares were exercised at a weighted average price of $28.12 and 168,875 options were forfeited.

12. Income taxes

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

For the year ended October 31 ($ millions)	1997		1996	
Income taxes in the Consolidated Statement of Income vary from the amount that would be computed by applying the composite federal and provincial statutory income tax rate for the following reasons:				
Income taxes at statutory rate	**$ 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	**(128)**	**(5.5)**	(96)	(5.4)
Tax-exempt income from securities	**(59)**	**(2.6)**	(56)	(3.2)
Other, net	**(44)**	**(1.9)**	60	3.4
Total income taxes and effective tax rate	**$ 758**	**32.9%**	$ 665	37.7%

As at October 31 ($ millions)	1997	1996
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	**$ 325**	$ 495
Deferred income	**77**	67
Securities	**140**	100
Other	**314**	164
	856	826
Deferred income tax liability:		
Premises and equipment	**81**	68
Pension fund	**179**	166
Other	**54**	64
	314	298
Net deferred income tax asset	**$ 542**	$ 528

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, 1995.

Total pension fund assets as at October 31, 1997, were $2,338 million (1996 – $1,967 million). The present value of accrued pension benefits attributed to service rendered to October 31, 1997, was approximately $1,783 million (1996 – $1,517 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 ($ millions)	Canada 1997	Canada 1996	United States 1997	United States 1996	Other international 1997	Other international 1996	Total 1997	Total 1996
Net interest income	**$ 2,561**	$ 2,296	**$ 287**	$ 270	**$ 877**	$ 822	**$ 3,725**	$ 3,388
Provision for credit losses	**(204)**	(291)	**12**	(40)	**337**	(43)	**145**	(374)
Other income	**1,756**	1,445	**485**	279	**274**	256	**2,515**	1,980
Non-interest expenses	**(2,689)**	(2,459)	**(204)**	(194)	**(662)**	(551)	**(3,555)**	(3,204)
Provision for income taxes	**(548)**	(356)	**(244)**	(126)	**(292)**	(156)	**(1,084)**	(638)
Non-controlling interest in net income of subsidiaries	**–**	(2)	**–**	–	**(34)**	(27)	**(34)**	(29)
Income	**$ 876**	$ 633	**$ 336**	$ 189	**$ 500**	$ 301	**$ 1,712**	$ 1,123
Corporate adjustments							**(198)**	(54)
Net income							**$ 1,514**	$ 1,069
Average total assets	**$106,070**	$ 98,063	**$ 23,471**	$ 19,810	**$ 39,309**	$ 33,638	**$ 168,850**	$ 151,511
Corporate adjustments							**10,326**	7,292
Average total assets including corporate adjustments							**$ 179,176**	$ 158,803

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)	1997	1996
Guarantees and standby letters of credit	**$ 8,888**	$ 7,298
Documentary and commercial letters of credit	**1,195**	1,028
Commitments to extend credit:		
Original term to maturity of one year or less	**47,010**	42,824
Original term to maturity of more than one year	**41,827**	36,823
Securities lending	**1,236**	2,503
Total off-balance sheet indirect credit commitments	**$ 100,156**	$ 90,476

b) Lease commitments

Minimum future rental commitments at October 31, 1997, for buildings and equipment under long-term, non-cancellable leases are shown below.

For the year ($ millions)	
1998	**$ 161**
1999	**142**
2000	**116**
2001	**87**
2002	**71**
2003 and thereafter	**379**
Total	**$ 956**

Building rent expense, net of rental income from subleases, included in the Consolidated Statement of Income was $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)	**1997**	1996
Assets pledged to:		
Bank of Canada[(1)]	**$ 65**	$ 65
Foreign governments and central banks[(1)]	**296**	277
Clearing systems, payment systems and depositories[(1)]	**403**	219
Assets pledged in relation to:		
Exchange traded derivative transactions	**54**	55
Assets pledged as collateral related to:		
Securities borrowed	**7,780**	5,439
Obligations related to assets sold under repurchase agreements	**11,559**	7,894
Call loans	**112**	242
Total	**$ 20,269**	$ 14,191

(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.

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.

	1997					1996		
	Fair value							
As at October 31 ($ millions)	Trading	Non-trading	**Total**	**Total book value**	**Fair value over/(under) book value**	Total fair value	Total book value	Fair value over/(under) book value
Assets								
Cash resources	$ –	$ 18,174	**$ 18,174**	**$18,174**	**$ –**	$ 14,737	$ 14,737	$ –
Securities (Note 3)	10,908	18,129	**29,037**	**27,999**	**1,038**	27,085	25,905	1,180
Assets purchased under resale agreements	8,520	–	**8,520**	**8,520**	**–**	9,112	9,112	–
Loans	–	117,430	**117,430**	**115,765**	**1,665**	97,138	95,621	1,517
Customers' liability under acceptances	–	7,575	**7,575**	**7,575**	**–**	5,945	5,945	–
Other	–	4,120	**4,120**	**4,120**	**–**	2,511	2,511	–
Liabilities								
Deposits	–	140,407	**140,407**	**138,975**	**1,432**	119,245	117,894	1,351
Acceptances	–	7,575	**7,575**	**7,575**	**–**	5,945	5,945	–
Obligations related to assets sold under repurchase agreements	11,559	–	**11,559**	**11,559**	**–**	7,894	7,894	–
Obligations related to securities sold short	3,739	–	**3,739**	**3,739**	**–**	6,509	6,509	–
Other	–	9,138	**9,138**	**9,138**	**–**	7,279	7,279	–
Subordinated debentures	–	5,445	**5,445**	**5,167**	**278**	3,406	3,251	155
Derivatives (Note 18)	53	716	**769**	**704**(1)	**65**	740	455(1)	285

(1) 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.

	1997						
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	$ 1,239	$ 11,655	$ 3,874	$ –	$ –	$ 1,406	$ 18,174
Trading securities	262	949	940	3,567	2,634	2,556	10,908
Investment and loan substitute securities	894	2,041	4,125	3,872	3,483	2,676[2]	17,091
Assets purchased under resale agreements	–	7,651	765	104	–	–	8,520
Loans	20,113	40,425	17,480	35,717	1,462	568[3]	115,765
Other assets	–	–	–	–	–	24,695[4]	24,695
Total assets	22,508	62,721	27,184	43,260	7,579	31,901	195,153
Deposits	10,609	70,941	28,133	19,864	250	9,178	138,975
Obligations related to assets sold under repurchase agreements	–	11,328	231	–	–	–	11,559
Obligations related to securities sold short	–	80	420	1,325	1,619	295	3,739
Subordinated debentures	–	–	509	883	3,775	–	5,167
Other liabilities	–	–	277	257	–	25,781[4]	26,315
Shareholders' equity	–	–	–	–	–	9,398[4]	9,398
Total liabilities and shareholders' equity	10,609	82,349	29,570	22,329	5,644	44,652	195,153
On-balance sheet gap	11,899	(19,628)	(2,386)	20,931	1,935	(12,751)	–
Off-balance sheet gap	–	(2,593)	8,640	(4,107)	(1,940)	–	–
Interest rate sensitivity gap based on contractual repricing	11,899	(22,221)	6,254	16,824	(5)	(12,751)	–
Adjustment to expected repricing	29	1,870	2,742	(4,229)	(495)	83	–
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**	**–**	**–**
As at October 31, 1996							
Total interest rate sensitivity gap	$ 11,790	$ (18,632)	$ 2,123	$ 13,545	$ 452	$ (9,278)	$ –
Cumulative gap	11,790	(6,842)	(4,719)	8,826	9,278	–	–

(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 (%)	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**

As at October 31 (%)	1996[5] Unadjusted Immediately rate sensitive	Within 3 months	Three to 12 months	One to 5 years	Over 5 years	Total	Adjusted total[1]
Cash resources	5.20%	5.19%	5.45%	–%	–%	5.27%	5.27%
Investment and loan substitute securities[2]	5.90	6.24	7.20	6.54	7.53	6.75	6.52
Assets purchased under resale agreements[3]	–	4.03	–	–	–	4.03	4.03
Loans[4]	7.88	7.35	8.40	8.17	6.98	7.83	7.83
Deposits[3]	4.04	4.39	5.52	7.06	8.20	4.96	5.05
Obligations related to assets sold under repurchase agreements[3]	–	4.38	–	–	–	4.38	4.38
Subordinated debentures[3]	–	–	5.87	9.10	7.20	7.63	6.46

(1) After adjusting for the impact of related derivatives.
(2) Yields are based upon book values, net of general country risk provisions, 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.
(5) Effective rates for trading securities and obligations related to securities sold short were not reasonably determinable.

c) Credit exposure

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

As at September 30 ($ millions)	1997 Loans and acceptances[1]	Guarantees and letters of credit	Derivative instruments[2]	**Total**	1996
Primary industry and manufacturing	$ 20,795	$ 2,932	$ 272	**$ 23,999**	$ 19,135
Commercial and merchandising	21,710	2,726	95	**24,531**	20,342
Real estate	3,714	476	12	**4,202**	4,548
Transportation and communication	10,252	1,651	478	**12,381**	10,212
Banks and other financial services	5,356	1,225	8,241	**14,822**	13,052
Foreign governments and central banks	398	139	72	**609**	574
Canadian governments	369	32	1,508	**1,909**	2,551
Total	$ 62,594	$ 9,181	$ 10,678	**$ 82,453**	$ 70,414
Provision for doubtful credits				**487**[3]	325
				$ 81,966	$ 70,089

(1) Excludes assets purchased under resale agreements.
(2) Credit risk amount as at October 31, 1997.
(3) The remaining $13 of the $500 provision for doubtful credits 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, 1997, and 1996, 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)	1997			1996		
	Trading	ALM	**Total**	Trading	ALM	Total
Interest rate contracts						
Exchange traded:						
Futures	$ 42,549	$ 18,589	**$ 61,138**	$ 32,969	$ 10,711	$ 43,680
Options purchased	14,352	–	**14,352**	15,001	68	15,069
Options written	586	–	**586**	4,932	–	4,932
	57,487	18,589	**76,076**	52,902	10,779	63,681
Over-the-counter:						
Forward rate agreements	106,335	44,107	**150,442**	46,276	33,522	79,798
Swaps	357,650	61,813	**419,463**	269,642	39,588	309,230
Options purchased	35,084	2,059	**37,143**	40,330	–	40,330
Options written	43,176	–	**43,176**	47,196	–	47,196
	542,245	107,979	**650,224**	403,444	73,110	476,554
Total	$ 599,732	$ 126,568	**$ 726,300**	$ 456,346	$ 83,889	$ 540,235
Foreign exchange contracts						
Exchange traded:						
Futures	$ 100	$ –	**$ 100**	$ 487	$ –	$ 487
Options purchased	182	–	**182**	745	–	745
Options written	141	–	**141**	476	–	476
	423	–	**423**	1,708	–	1,708
Over-the-counter:						
Spot and forwards	179,579	12,119	**191,698**	175,189	26,065	201,254
Swaps	25,965	4,686	**30,651**	30,482	2,262	32,744
Options purchased	13,446	–	**13,446**	10,014	–	10,014
Options written	15,268	–	**15,268**	9,594	–	9,594
	234,258	16,805	**251,063**	225,279	28,327	253,606
Total	$ 234,681	$ 16,805	**$ 251,486**	$ 226,987	$ 28,327	$ 255,314
Other derivative contracts(1)						
Exchange traded	$ 208	$ –	**$ 208**	$ 194	$ –	$ 194
Over-the-counter	8,632	1,730	**10,362**	6,054	215	6,269
Total	$ 8,840	$ 1,730	**$ 10,570**	$ 6,248	$ 215	$ 6,463
Total notional amounts outstanding	$ 843,253	$ 145,103	**$ 988,356**	$ 689,581	$ 112,431	$ 802,012

(1) Consists of equity, precious metals, and base metals 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:

As at October 31 ($ millions)	1997 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	183,319	7,667	712	**191,698**
Swaps	4,624	16,539	9,488	**30,651**
Options purchased	11,892	1,736	–	**13,628**
Options written	14,206	1,203	–	**15,409**
	214,141	27,145	10,200	**251,486**
Other derivative contracts	6,889	3,657	24	**10,570**
Total	$ 632,591	$ 312,617	$ 43,148	**$ 988,356**

As at October 31 ($ millions)	1996 Within 1 year	One to 5 years	Over 5 years	Total
Interest rate contracts				
Futures	$ 27,295	$ 16,385	$ –	$ 43,680
Forward rate agreements	58,442	21,356	–	79,798
Swaps	122,600	159,011	27,619	309,230
Options purchased	31,579	22,303	1,517	55,399
Options written	23,171	26,990	1,967	52,128
	263,087	246,045	31,103	540,235
Foreign exchange contracts				
Futures	484	3	–	487
Spot and forwards	193,792	7,192	270	201,254
Swaps	6,132	16,048	10,564	32,744
Options purchased	9,401	1,357	1	10,759
Options written	9,528	540	2	10,070
	219,337	25,140	10,837	255,314
Other derivative contracts	6,102	361	–	6,463
Total	$ 488,526	$ 271,546	$ 41,940	$ 802,012

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.

					1997		1996
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	$ 61,138	$ –	$ –	$ –	**$ –**	$ –	$ –
Forward rate agreements	150,442	73	27	100	**22**	79	39
Swaps	419,463	6,291	1,464	7,755	**1,522**	6,212	1,523
Options purchased	51,495	216	127	343	**93**	283	101
Options written	43,762	–	–	–	**–**	–	–
	726,300	6,580	1,618	8,198	**1,637**	6,574	1,663
Foreign exchange contracts							
Futures	100	–	–	–	**–**	–	–
Spot and forwards	191,698	2,330	2,017	4,347	**1,126**	2,314	1,044
Swaps	30,651	1,286	1,585	2,871	**499**	1,408	469
Options purchased	13,628	159	195	354	**79**	43	49
Options written	15,409	–	–	–	**–**	–	–
	251,486	3,775	3,797	7,572	**1,704**	3,765	1,562
Other derivative contracts	10,570	323	385	708	**159**	36	72
Total derivatives	$ 988,356	$ 10,678	$ 5,800	$ 16,478	**$ 3,500**	$ 10,375	$ 3,297
Less: impact of master netting agreements		3,141			**957**	3,213	621
Total		$ 7,537			**$ 2,543**	$ 7,162	$ 2,676

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).

	1997						1996	
	Trading(1)		ALM(1)(2)		**Total**		Total	
As at October 31 ($ millions)	Favourable	Unfavourable	Favourable	Unfavourable	**Favourable**	**Unfavourable**	Favourable	Unfavourable
Interest rate contracts								
Forward rate agreements	$ 59	$ 60	$ 14	$ 24	**$ 73**	**$ 84**	$ 79	$ 74
Swaps	5,464	4,662	827	669	**6,291**	**5,331**	6,212	5,069
Options	211	263	5	–	**216**	**263**	283	301
	5,734	4,985	846	693	**6,580**	**5,678**	6,574	5,444
Foreign exchange contracts								
Forwards	2,028	2,014	302	237	**2,330**	**2,251**	2,314	2,482
Swaps	899	1,697	387	107	**1,286**	**1,804**	1,408	1,581
Options	159	104	–	–	**159**	**104**	43	50
	3,086	3,815	689	344	**3,775**	**4,159**	3,765	4,113
Other derivative contracts	105	72	218	–	**323**	**72**	36	78
Total fair value	$ 8,925	$ 8,872	$ 1,753	$ 1,037	**$ 10,678**	**$ 9,909**	$ 10,375	$ 9,635
Less: impact of master netting agreements					**3,141**	**3,141**	3,213	3,213
Total					**$ 7,537**	**$ 6,768**	$ 7,162	$ 6,422

(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 5,682,167 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 results of National Trustco Inc.'s operations since August 14, 1997, have been included in the Bank's income.

The acquisition, which was accounted for using the purchase method, is summarized in the table below:

As at August 14, 1997 ($ millions)		
Fair value of:		
Identifiable assets acquired:		
Cash and deposits with other banks	$ 649	
Securities	1,409	
Loans	12,130	
Intangibles	250	
Land, buildings and equipment	93	
Other	194	$ 14,725
Less identifiable liabilities assumed:		
Deposits	$ 13,219	
Subordinated debentures	178	
Other	216	13,613
Fair value of identifiable net assets acquired		$ 1,112
Goodwill		124
Total purchase consideration		$ 1,236

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. This amount was charged to income in the fourth quarter of fiscal 1997 and is included in Other Liabilities in the Consolidated Balance Sheet. It is expected that the restructuring 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] ($ thousands)	Percentage of issued and outstanding voting shares owned by the Bank and its subsidiaries
BNS International (Hong Kong) Limited	Hong Kong	$ 7,024	100%
BNS Investments Inc.[3]	Toronto, Ontario	$ 148,538	100
Scotia Merchant Capital Corporation			
Scotia Holdings (US) Inc.	Atlanta, Georgia		
Scotiabanc Inc.			
Banco Ahorromet Scotiabank, S.A.	San Salvador, El Salvador	$ 18,741	53
The Bank of Nova Scotia Asia Limited	Singapore	$ 892,734	100
The Bank of Nova Scotia Berhad	Kuala Lumpur, Malaysia	$ 64,572	100
The Bank of Nova Scotia International Limited[3]	Nassau, Bahamas	$ 2,766,392	100
BNS International (Barbados) Limited	Warrens, Barbados		
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		
Scotiabank (Ireland) Limited	Dublin, Ireland		
Scotia Insurance (Barbados) Limited	Warrens, Barbados		
Scotia Realty Bahamas Limited	Nassau, Bahamas		
The Bank of Nova Scotia Jamaica Limited[3]	Kingston, Jamaica	$ 123,835	70
Scotia Jamaica Building Society			
Scotia Jamaica Insurance Agency Limited			
Scotiabank Jamaica Trust & Merchant Bank Limited			
The West India Company of Merchant Bankers Limited			
The Bank of Nova Scotia Properties Inc.[3]	Toronto, Ontario	$ 92,161	100
Kings Place II Limited			
The Bank of Nova Scotia Trinidad and Tobago Limited[4]	Port of Spain, Trinidad	$ 40,699	47
The Bank of Nova Scotia Trust Company of Trinidad and Tobago Limited			
The Bank of Nova Scotia Trust Company	Toronto, Ontario	$ 32,814	100
The Bank of Nova Scotia Trust Company (Caribbean) Limited	Bridgetown, Barbados	$ 992	100
The Bank of Nova Scotia Trust Company of New York	New York, U.S.A.	$ 2,386	99
Boracay Limited	Hong Kong	$ 957	100
KBI Investment Fund Inc.	Toronto, Ontario	$ 10	100
Kings Place Operations Ltd.	Fredericton, New Brunswick	$ 84	53
Market Square Leaseholds Ltd.	Saint John, New Brunswick	$ 1	100
Montreal Trustco Inc.[3]	Toronto, Ontario	$ 1,157,806	100
Montreal Trust Company	Montreal, Quebec		
Montreal Trust Company of Canada			
MTCC Security Agent Corporation			
MontroServices Corporation			
RoyNat Inc.	Toronto, Ontario		
RoyNat Management Inc.			
RoyNat Capital Inc.			
The Mortgage Insurance Company of Canada	Toronto, Ontario	$ 3,662,428	100

(1) Excludes inactive subsidiaries.
(2) Investments held in foreign currencies have been translated to Canadian dollars using October 31, 1997, closing spot rates of exchange.
(3) The parent company holds 100% of issued and outstanding voting shares, unless otherwise indicated.
(4) Associated corporation effectively controlled by the Bank.

Name	Principal office address	Carrying value of shares owned by the Bank and its subsidiaries(2) ($ thousands)	Percentage of issued and outstanding voting shares owned by the Bank and its subsidiaries
National Trustco Inc.(3)	Toronto, Ontario	$ 1,169,513	100 %
National Trust Company			
Victoria & Grey Mortgage Corporation			
Cassels Blaikie & Co. Limited			
Cassels Blaikie Investment Management Limited			
Natrusco Investment Funds Limited			
N.T. Insurance Company Inc.	Bridgetown, Barbados		
National Trust and Banking Corporation (Caribbean) Limited	Grand Cayman, Cayman Islands		
Nova Scotia Inversiones Limitada	Santiago, Chile	$ 57,435	100
ScotiaMcLeod Corporation(3)	Toronto, Ontario	$ 281,011	100
ScotiaMcLeod Holdings Inc.			
ScotiaMcLeod Inc.			
ScotiaMcLeod Financial Services Inc.			
Scotia Capital Markets (USA) Inc.	New York, U.S.A.		
ScotiaMcLeod Realty Services Inc.	Toronto, Ontario		
Structured MBS Incorporated			
Scotia Export Finance Corporation	Toronto, Ontario	$ 25	100
Scotia General Insurance Company	Toronto, Ontario	$ 24,521	100
Scotia International Limited(3)	Nassau, Bahamas	$ 18,231	100
Scotiabank (Anguilla) Limited	The Valley, Anguilla, West Indies		
Corporacion Mercaban de Costa Rica, S.A. (80%)	San Jose, Costa Rica		
Scotiabank de Costa Rica, S.A.			
ScotiaValores Puesto de Bolsa, S.A.			
Scotia Mercantile Bank (80%)	Grand Cayman, Cayman Islands		
Scotia Investment Management Ltd.	Toronto, Ontario	$ 9,582	100
Scotia Life Insurance Company	Toronto, Ontario	$ 23,044	100
Scotia Mortgage Corporation	Scarborough, Ontario	$ 325,662	100
Scotia Mortgage Investment Corporation	St. John's, Newfoundland	$ 58,975	100
Scotia Properties Quebec Inc.	Toronto, Ontario	$ 20,398	100
Scotia Realty Limited	Toronto, Ontario	$ 51,790	100
Scotia Realty Antilles N.V.	St. Maarten, Netherlands Antilles	$ 2,891	100
Scotia Realty Cayman Limited	Grand Cayman, Cayman Islands	$ 7,282	100
Scotia Securities Inc.(3)	Toronto, Ontario	$ 90,407	100
Scotia Discount Brokerage Inc.			
Scotiabank de Puerto Rico	Hato Rey, Puerto Rico	$ 168,086	99
Scotiabank Europe plc	London, England	$ 407,936	100
Tour Scotia Ltée	Montreal, Quebec	$ 125	50

As at October 31 ($ millions)	1997	1996	1995[2]
Assets			
Cash resources			
Cash and deposits with Bank of Canada	**$ 1,058**	$ 1,485	$ 1,233
Deposits with other banks	**17,116**	13,252	15,495
Cheques and other items in transit, net	**–**	–	–
	18,174	14,737	16,728
Securities			
Issued or guaranteed by:			
Canada	**8,782**	9,101	8,235
Provinces and municipalities	**1,869**	2,289	1,561
Other securities	**17,348**	14,515	12,178
	27,999	25,905	21,974
Assets purchased under resale agreements	**8,520**	9,112	8,378
Loans			
Residential mortgages	**41,647**	30,653	28,581
Personal and credit card	**17,668**	16,718	15,274
Business and governments	**56,450**	48,250	44,855
	115,765	95,621	88,710
Other			
Customers' liability under acceptances	**7,575**	5,945	5,563
Land, buildings and equipment	**1,716**	1,523	1,485
Other assets	**15,404**	12,458	4,351
	24,695	19,926	11,399
	$ 195,153	$ 165,301	$ 147,189
Liabilities and Shareholders' Equity			
Deposits			
Personal	**$ 59,239**	$ 47,768	$ 45,538
Business and governments	**56,928**	44,981	41,747
Banks	**22,808**	25,145	24,060
	138,975	117,894	111,345
Other			
Cheques and other items in transit, net	**340**	459	277
Acceptances	**7,575**	5,945	5,563
Obligations related to assets sold under repurchase agreements	**11,559**	7,894	7,354
Obligations related to securities sold short	**3,739**	6,509	5,416
Other liabilities	**18,263**	15,499	6,532
Non-controlling interest in subsidiaries	**137**	101	133
	41,613	36,407	25,275
Subordinated debentures	**5,167**	3,251	3,249
Shareholders' equity			
Capital stock			
Preferred shares	**1,468**	1,325	1,575
Common shares	**2,567**	2,161	1,994
Retained earnings	**5,363**	4,263	3,751
	9,398	7,749	7,320
	$ 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

For the year ended October 31 ($ millions except per share amounts)	1997	1996	1995
Interest income			
Loans	$ 8,082	$ 7,881	$ 8,007
Securities	1,636	1,757	1,991
Deposits with banks	770	740	597
	10,488	10,378	10,595
Interest expense			
Deposits	5,714	5,969	6,166
Subordinated debentures	260	214	209
Other	797	841	1,046
	6,771	7,024	7,421
Net interest income	3,717	3,354	3,174
Provision for credit losses	35	380	560
Net interest income after provision for credit losses	3,682	2,974	2,614
Other income	2,683	2,008	1,498
Net interest and other income	6,365	4,982	4,112
Non-interest expenses			
Salaries	1,973	1,702	1,438
Pension contributions and other staff benefits	229	208	214
Premises and equipment expenses, including depreciation	778	664	588
Other	803	663	604
Restructuring costs	250	(20)	–
Write off of goodwill	26	–	–
	4,059	3,217	2,844
Income before the undernoted:	2,306	1,765	1,268
Provision for income taxes	758	665	371
Non-controlling interest in net income of subsidiaries	34	31	21
Net income	$ 1,514	$ 1,069	$ 876
Preferred dividends paid	$ 99	$ 113	$ 104
Net income available to common shareholders	$ 1,415	$ 956	$ 772
Average number of common shares outstanding (000's)	239,486	234,358	228,598
Net income per common share(2)	$ 5.91	$ 4.08	$ 3.38
Dividends per common share	$ 1.48	$ 1.30	$ 1.24

(1) Certain comparative amounts have been reclassified to conform with current year presentation.
(2) Net income per common share has been calculated on the daily average of equivalent fully paid common shares outstanding.
(3) 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.

1994	1993	1992	1991[3]	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
218,713	208,282	203,083	197,449	190,198	185,149	175,613
$ 1.76	$ 2.98	$ 2.94	$ 2.81	$ 2.33	$ 1.01	$ 2.74
$ 1.16	$ 1.12	$ 1.04	$ 1.00	$ 1.00	$ 0.88	$ 0.76

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

TEN-YEAR STATISTICAL REVIEW

	1997	1996	1995
Common Share Information			
Return on equity (%)	**20.2**	15.8	14.2
Earnings per share ($)[3]	**5.91**	4.08	3.38
Dividends per share ($)	**1.48**	1.30	1.24
Dividend payout (%)[4]	**25.1**	31.9	36.7
Dividend yield (%)[5]	**2.7**	3.7	4.6
Price/earnings ratio[5]	**9.2:1**	8.7:1	8.1:1
Number of shares outstanding (000's)	**244,906**	237,447	232,256
Book value per common share ($)	**32.38**	27.05	24.73
Share price ($)[6]:			
High	**68.20**	42.40	30.25
Low	**41.10**	28.38	24.25
Close – October 31	**62.15**	42.25	28.88
Capital Ratios			
Capital ratios (%):			
Risk-adjusted			
Tier 1	**6.90**	6.69	6.67
Total	**10.42**	8.85	9.65
Assets to capital ratio[7]	**14.2:1**	16.4:1	15.2:1
Common equity to total assets	**4.06**	3.89	3.90
Other Information			
Average total assets ($ millions)	**179,176**	158,803	137,988
Return on assets (%)	**.85**	.67	.64
Number of branches and offices	**1,658**	1,464	1,460
Number of employees[8]	**38,648**	34,592	33,717
Number of Cashstop banking machines	**1,801**	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) 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]

1994	1993	1992	1991	1990	1989	1988
7.9	14.4	15.7	16.7	14.9	6.5	18.7
1.76	2.98	2.94	2.81	2.33	1.01	2.74
1.16	1.12	1.04	1.00	1.00	0.88	0.76
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
226,259	211,272	206,187	201,061	194,784	187,694	183,625
22.72	21.79	19.78	17.59	16.04	14.90	14.85
33.25	29.50	24.75	20.00	18.13	19.25	16.00
23.13	21.88	19.00	10.50	11.00	13.63	11.50
27.50	29.00	24.00	19.75	11.00	17.25	15.00
6.22	6.45	5.70	5.54	4.61	4.11	3.88
9.61	10.38	8.58	8.49	7.34	6.83	5.97
15.2:1	12.9:1	14.8:1	14.9:1	16.5:1	17.1:1	18.8:1
3.87	4.32	4.19	4.01	3.60	3.46	3.65
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

(5) Based on the average of high and low common share prices and earnings per share.
(6) Based on trading on The Toronto Stock Exchange.
(7) 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).
(8) Includes all personnel (part-time stated on a full-time equivalent basis) of the Bank and all its subsidiaries.

The Board of Directors and management of the Bank believe that good corporate governance is essential to the effective, efficient and prudent operation of the Bank's business. Accordingly, the Bank has established an internal control environment with strong corporate governance structures and procedures in place. These structures and procedures are in compliance with guidelines for effective corporate governance adopted by the Toronto and Montreal Stock Exchanges in 1995 in connection with corporate governance disclosure requirements (the "Exchange guidelines").

The Bank's governance system is founded 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 adherence 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.

The Compliance Department's mandate includes specific administrative, consultative and educative 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. A primary focus of compliance activities is consumer and investor protection.

The policies and procedures of National Trust are being integrated with the Corporate Governance system of the Bank and its wholly owned domestic subsidiaries.

The Mandate of the Board of Directors

The Board of Directors supervises the management of the Bank's business and affairs with the objective of maintaining the strength and integrity of the Bank. In particular, the Board oversees the Bank's strategic direction and organization structure to reflect these objectives and to serve the interests of the Bank, its customers, investors and employees.

Board responsibilities include establishing the Bank's principal risk management policies and related monitoring systems. The Board monitors the integrity of internal control systems and oversees the major activities performed by the Bank. Also, the Board appoints the Chief Executive Officer and other senior management and establishes appropriate officer compensation. Specific decisions requiring Board approval are outlined in the Bank Act, as are specific duties of the Board and its committees.

The Board fulfills its responsibilities and duties in a variety of ways. For example, at least annually, the Board is apprised of internal control and risk management policies and practices related to credit, capital, foreign exchange, interest rates, liquidity, trading (including derivative products), securities portfolio management, real estate appraisals and country risk.

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. Results are compared and measured against previously established and approved plans, performance in past years and against industry peers.

Throughout the year, the Board holds meetings where management is invited to make presentations and respond to questions. To facilitate fulfillment of some responsibilities and to assist its decision making, the Board has formed committees of the Board to review in greater depth specific areas of its mandate.

The assessment of management performance by the Board is conducted with the assistance of the Human Resources Committee. These assessments are based on both quantitative and qualitative information, taking into account 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 customer safety and security as determined by various regulatory and audit reviews, and continuance as a superior employer.

In order to maintain good communications with various constituencies, the Board has required the Bank to put in place facilities and mechanisms so that investors, customers and the general public may easily obtain information and make enquiries. Shareholders and investment institutions may direct their questions to the Secretary of the Bank or Investor Relations, Finance Division.

The Board has ensured that the Bank has established 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. 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 have the additional option to access the Scotia Business Credit Mediation Program. As a last resort, customers can go directly to the Canadian Banking Ombudsman, whose mandate has expanded to include personal banking complaints, for an impartial review of the situation. The Public and Corporate Affairs Department is also available to respond to queries from the media and general public.

The Board approves the Management Discussion and Analysis of Financial Condition and the results of operations in the Annual Report. In addition, senior officers meet with industry analysts each quarter to discuss the Bank's operating results and banking trends.

The Board of Directors

At the fiscal year end, the Bank's Board of Directors was composed of 29 members — business and community leaders, active on the regional, national and international scene — providing an important breadth of expertise. In order to reflect the broad geographic and industrial diversity of their customer bases, the boards of major international banks, such as Scotiabank, are typically larger than those of companies in other industries. The number of directors authorized by by-law ranges from a minimum of seven, as required by the Bank Act, to a maximum of 35 directors.

There were 11 meetings of the Board during the 1997 fiscal year.

The maintenance of 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, is charged with identifying, evaluating and recommending nominees for directorship, assisted by submissions made by directors and management. The committee assesses nominee candidates based on their individual suitability, keeping in mind the size of the Board and the desired diversity of composition. 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.

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

The Exchange guidelines recommend that the majority of every board and board committee be comprised of unrelated directors. An unrelated director is a director who is independent of management and is free from any interest and any business or other relationship which 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 corporation, other than interests and relationships arising from shareholding. Directors drawn from the ranks of management are related directors.

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

In addition, the Bank Act contains provisions concerning self-dealing, the definition of affiliated directors and the composition of the Board and certain Board committees. Pursuant to Bank Act provisions, affiliated directors may comprise not more than two-thirds of the Board. Of the 29 members of the Bank's Board, six are affiliated as defined in 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 six related directors, which include all of the affiliated directors.

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.

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, Robert B. Findlay, M. Keith Goodrich, 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 statement 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;

iii) meeting with the independent Auditors and, similarly, meeting with the Bank's internal Audit Department to discuss the annual statement of the Bank, the returns and relevant transactions and the effectiveness of the Bank's internal control procedures.

The committee met five times during this fiscal year, and the independent Auditors and the Bank's internal Audit Department were invited to attend all the meetings. Once a year, 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 two 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, H. Harrison McCain, Robert L. Pierce, Jonathan A. Wolfe.

The committee's mandate is to enhance the Bank's corporate governance through a process of continuing assessment and making policy recommendations on the Bank's approach to corporate governance. Further, the members determine suitable candidates for nominees as directors, periodically review the mandates of committees of the Board, propose agenda items and content of submissions for Board meetings and review the relationship between management and the Board.

The committee met three times during this fiscal year.

Executive Committee

Chair: Robert L. Pierce

Members: E. Kendall Cork, Sir Graham Day, Peter C. Godsoe, Henry N.R. Jackman, Pierre J. Jeanniot, Gerald J. Maier, H. Harrison McCain, David Morton, Paul J. Phoenix, David H. Race, Cedric E. Ritchie, Allan C. Shaw.

Generally, the committee serves as an advisor to management and reviews credits and special risks prior to these items being put before the Board. 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 14 meetings of the committee during this fiscal year.

Human Resources Committee

Chair: Sir Graham Day

Members: L. Lemaire, H. Harrison McCain, 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 and Procedures, 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, 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 1997 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.

Newly appointed as directors during the year were Mr. Arthur R.A. Scace, Chairman, McCarthy Tétrault, the Honourable Henry N.R. Jackman, Chairman and President, E-L Financial Corporation Limited, and Ms. N. Ashleigh Everett, President, Royal Canadian Securities Limited.

Because of the age limitation provision in the By-laws of the Bank, Mr. H. Harrison McCain and Mr. Cedric E. Ritchie will not be standing for re-election to the Board at the upcoming Annual Meeting. Mr. McCain has served the Bank and the Board since January 1971 and Mr. Ritchie since September 1972. As well, Mr. Robert B. Findlay will not be standing for re-election. Mr. Findlay has served the Board since January 1995.

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. Albert T. Baker. A Director from 1955 through 1977, and Honorary Director to June 1997, Mr. Baker served the Bank and the Board faithfully and well.

Honorary Directors

David W. Barr
Toronto

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

George C. Hitchman
Toronto

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

Malcolm H.D. McAlpine
Herts, England

William S. McGregor
Edmonton

Cyrus H. McLean, LL.D.
Vancouver

David E. Mitchell
Calgary

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

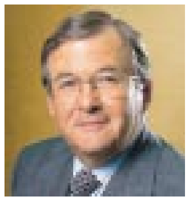
Judson W. Sinclair
Toronto

Marie Wilson, Q.C.
Toronto

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

Board of Directors

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



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.

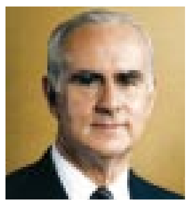
Lloyd I. Barber, C.C., S.O.M., LL.D., Ph.D.
Dr. Barber is President Emeritus of the University of Regina. He has been a Scotiabank director since September 28, 1976, and currently sits on the Audit, Conduct Review and Pension Committees. He lives in Regina Beach, Saskatchewan.

Robert B. Findlay
Mr. Findlay is the former President and Chief Executive Officer of MacMillan Bloedel Limited. He has been a Scotiabank director since January 31, 1995, and currently sits on the Audit Committee. He lives in West Vancouver, British Columbia.

Malcolm R. Baxter
Mr. Baxter is Chairman, President 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.

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.

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

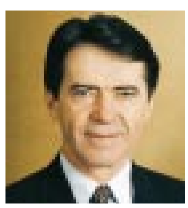


The Honourable Henry N.R. Jackman
Mr. Jackman is Chairman and President of E-L Financial Corporation Limited. He has been a Scotiabank director since September 30, 1997, and currently sits on the Executive and Audit Committees. He lives in Toronto, Ontario.

C.J. Chen
Mr. Chen is Managing Partner of Allen & Gledhill. He has been a Scotiabank director since October 30, 1990, and currently sits on the Conduct Review and Pension Committees. He lives in Singapore.

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 Executive and Corporate Governance Committees. He lives in Canton de Vaud, Switzerland.

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 Executive and Audit Committees. He lives in Toronto, Ontario.



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 Kingsey Falls, Quebec.

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

Gerald J. Maier
Mr. Maier is Chairman of TransCanada PipeLines Limited. He has been a Scotiabank director since February 25, 1986, and currently sits on the Executive and Corporate Governance 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 Committee. He lives in Burlington, Ontario.

H. Harrison McCain, C.C., LL.D.
Mr. McCain is Chairman of the Board of McCain Foods Limited. He has been a Scotiabank director since January 13, 1971, and currently sits on the Executive, Corporate Governance and Human Resources Committees. He lives in Florenceville, New Brunswick.

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.

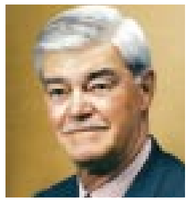
David Morton
Mr. Morton is a company director and former Chairman and Chief Executive Officer of Alcan Aluminium Limited. He has been a Scotiabank director since March 31, 1987, and currently sits on the Executive, Audit and Human Resources Committees. He lives in Westmount, Quebec.

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 Pension and Conduct Review 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 Pension and Conduct Review 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 Executive and Audit Committees. He lives in Burlington, Ontario.

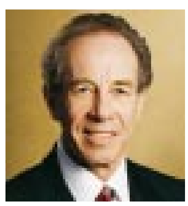


Robert L. Pierce, Q.C.
Mr. Pierce is Chairman and Chief Executive Officer of Foothills Pipe Lines Ltd. and Chairman of Gasoducto GasAndes (Argentina) S.A., Gasoducto GasAndes, S.A. He has been a Scotiabank director since February 16, 1971, and currently sits on the Executive, Corporate Governance and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

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

Cedric E. Ritchie, O.C.
Mr. Ritchie is a corporate director, and former Chairman of the Board and Chief Executive Officer of The Bank of Nova Scotia. He has been a Scotiabank director since September 26, 1972, and currently sits on the Executive Committee. He lives in Don Mills, 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 Committee. 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 President and Chief Operating Officer of The Oshawa Group Limited. He has been a Scotiabank director since January 26, 1993, and currently sits on the Corporate Governance Committee. He lives in Toronto, Ontario.

EXECUTIVE OFFICERS

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

President
Bruce R. Birmingham

Vice-Chairman
Finance & Administration
and President & CEO,
National Trust Company
Robert W. Chisholm

Vice-Chairman
Corporate Banking
Richard E. Waugh

Chairman &
Chief Executive Officer
Scotia Capital Markets and
ScotiaMcLeod Inc.
Gordon F. Cheesbrough

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

Executive Vice-President
Investment Banking Credit &
Credit Policy
S. Dennis N. Belcher

Executive Vice-President
Investment Banking
Robert L. Brooks

Executive Vice-President
Human Resources
Sylvia D. Chrominska

Executive Vice-President
International Banking
Malcolm C. Johnston

Executive Vice-President
Corporate Banking
Eastern U.S.A.
Barry R.F. Luter

Executive Vice-President
Retail Banking
Robert J. Marshall

Executive Vice-President
Finance
Sarabjit S. Marwah

Executive Vice-President
Pacific Region
Kevin S. Rowe

President of the Executive
Committee
Grupo Financiero Inverlat
Mexico
William P. Sutton

Executive Vice-President
Operations
Albert E. Wahbe

President & Deputy Chief
Executive Officer
ScotiaMcLeod Inc.
W. David Wilson

CANADIAN COMMERCIAL & RETAIL BANKING

COMMERCIAL BANKING

Senior Vice-President
Dieter W. Jentsch

Vice-President
Stephen H. Klein

Agriculture/Aboriginal Banking

Vice-President
Gerald E. Chamberlain

Lending Services

Vice-President
A. William Jensen

Scotia Leasing

Vice-President
C. Richard Jeffery

Business Banking/ Innovation & Growth Sectors

Vice-President
Audrey J. Vrooman

RETAIL BANKING

Executive Vice-President
Robert J. Marshall

Automotive Finance & Retail Lending

Senior Vice-President
Barbara Godin

Automotive Finance

Vice-President
Ronald E. Porter

Credit Risk Management

Vice-President
Ronald R.C. Boulter

Card Products & Marketing

Senior Vice-President
Robert K. Lounsbury

Self-Service Banking

Vice-President
Robert J. Grant

Mortgages

Senior Vice-President
A. Edward Taylor

Retail Deposits & Services

Senior Vice-President
Ron E. Laursen

Retail Marketing

Senior Vice-President
Barbara F. Mason

Advertising & Direct Marketing

Vice-President
O.E. Richard White

Marketing Information & Planning

Vice-President
Janet H. Beatty

ScotiaService

Vice-President
Pam F. LaPalme

PRIVATE BANKING

Senior Vice-President
J. Rory MacDonald

CANADIAN REGIONAL & VICE-PRESIDENTS' OFFICES

ATLANTIC REGION

Halifax
Senior Vice-President
John G. Keith

Vice-President
Dennis J. Migel

Credit
Vice-President
Gary L. Lawrence

Halifax Commercial Banking Centre
Vice-President & Centre Manager
G. Thomas Brennan

Newfoundland & Labrador
Branches: 61

St. John's
Vice-President
George A. Bradbury

Nova Scotia North & East
Branches: 36

Dartmouth
Vice-President
David G. Martin

Nova Scotia South & West
Branches: 39

Halifax
Vice-President
Don A. MacVicar

New Brunswick South & West
Branches: 35

Saint John
Senior Vice-President
Barry R. Monroe

New Brunswick Northeast & Prince Edward Island
Branches, New Brunswick
Northeast: 22
Branches, P.E.I.: 9

Moncton
Vice-President
Eileen M. Kearns

QUEBEC REGION

Montreal
Senior Vice-President
J. Guy Bisaillon

Vice-President
Jean-Luc Rich

Vice-President
Special Projects
Michel Ducharme

Credit
Vice-President
Gaston M. Latour

Quebec
Branches: 54

Montreal
Vice-President
Robert L'Ecuyer

Place Quebec Commercial Banking Centre
Vice-President & Centre Manager
Philippe Bertrand

Montreal & North Shore
Branches: 60

Montreal
Vice-President
E. André Roussy

Chabanel Commercial Banking Centre
Vice-President & Centre Manager
Fred G. McCoy

Tour Scotia
Montreal
Vice-President & Manager
François Camirand

TORONTO REGION

Toronto
Senior Vice-President
John A. Young

Vice-President
Paul A. Lamothe

Credit
Vice-President
William L. Wrightson

Scotia Plaza
Branches: 11

Toronto
Vice-President & Manager
Rod M. Reynolds

Toronto Commercial
Branches: 16

Vice-President
R. Wayne MacDonald

Toronto East
Branches: 62

Vice-President
B. Jim Shields

Toronto Midtown
Branches: 64

Vice-President
Wendy G. Hannam

Toronto North
Branches: 53

Vice-President
Joe E. Brandt

Toronto West
Branches: 64

Vice-President
Garry B. Preston

Commercial Banking Centres

Etobicoke Commercial Banking Centre
Vice-President & Manager
James R. Gervais

Midtown Commercial Banking Centre
Vice-President & Manager
Mary Jo Field

North York Commercial Banking Centre
Vice-President & Manager
Brendan J. Fox

Vaughan Commercial Banking Centre
Vice-President & Manager
Les R. Neate

York Commercial Banking Centre
Vice-President & Manager
Ian C. McFetters

ONTARIO REGION

Toronto
Senior Vice-President
Warren K. Walker

Vice-President
Firdos Somji

Credit
Vice-Presidents
William H. Hunter
Greg B. Hurst

Central Ontario & Muskoka
Branches: 53

Barrie
Vice-President
Wayne K. Haley

Hamilton & Peninsula
Branches: 54

Hamilton
Vice-President
Aziz Haque

Ontario Central West
Branches: 52

Kitchener
Vice-President
Heidi Ryan

Kitchener-Waterloo Commercial Banking Centre
Vice-President & Manager
Steve Cannon

Ontario North
Branches: 32

Sudbury
Vice-President
Steve F. Varey

Ontario West
Branches: 53

London
Vice-President
David M. Poole

London Commercial Banking Centre
Vice-President & Manager
Tom J. Jesty

Windsor Commercial Banking Centre
Vice-President & Manager
Don E.F. Marlatt

Ottawa & West
Branches: 49

Kanata
Vice-President
Lorne B. Babcock

Ottawa Centre & East
Branches: 42

Ottawa
Vice-President
Claude S. Norfolk

Ottawa Commercial Banking Centre
Vice-President & Manager
Thomas F. Mesman

PRAIRIE REGION

Calgary
Senior Vice-President
David J. Chapman

Vice-President
H. Dennis Chambers

Credit
Vice-President
Blayne F. Lensen

Manitoba & Northwestern Ontario
Branches, Manitoba: 40
Branches, N.W. Ontario: 8

Winnipeg
Vice-President
Kenneth J. Cranston

Saskatchewan
Branches: 49

Saskatoon
Vice-President
Jack F. McEwen

Alberta North & Northwest Territories
Branches: 66

Edmonton
Vice-President
Laurence G. Beatty

Alberta South
Branches: 66

Calgary
Vice-President
R. Alexander Connolly

BRITISH COLUMBIA & YUKON REGION

Vancouver
Senior Vice-President
George E. Marlatte

Vice-President
Tom J. Malone

Credit
Vice-President
Colin D. Laight

Multicultural Banking
Vice-President
Robert L. O'Keefe

Real Estate
Vice-President
Brian M. McGuire

Greater Vancouver
Branches: 51

Vancouver
Vice-President
D. Ray Tripp

Vancouver Commercial Banking Centre & Main Branch
Vice-President & Centre Manager
Brian W. Fowles

British Columbia Northwest & Yukon
Branches, B.C.: 43
Branch, Yukon Territory: 1

Vancouver
Vice-President
Beverley V. Voice

British Columbia Southeast
Branches: 45

Vancouver
Vice-President
R. Jack McKinty

CORPORATE BANKING

Group Head
Richard E. Waugh

Corporate Banking, Strategic Planning & Development

Division Head
Raymond G. Darke

Unit Head
Alex R. Bortoluzzi

Corporate Banking, Administration

Unit Head
David W. Whitaker

AUTOMATED SERVICES, COMMERCIAL & CORPORATE BANKING

Division Head
J. Drew Brown

Unit Head
Mark A. Boot

CASH & TREASURY MANAGEMENT SERVICES

Division Head
L. Paul LeBlanc

Unit Head
Carmen Giordano

CORPORATE BANKING

Division Heads
John C. Eby
Barry R.F. Luter
John E. Oliver
Borden R. Osmak
Kevin R. Ray

Atlanta
Office Head
William J.G. Brown

Boston
Office Head
Terrance M. Pitcher

Calgary
Office Head
Michael S. Jackson

Chicago
Office Head
Christopher J. Allen

Halifax
Office Head
Randy S. Hartlen

Houston
Office Head
Larry D. Lloyd

Montreal
Office Head
René Faribault

New York
Division Head
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

Toronto
Unit Heads
Robert V. Finlay
Robert A. Gray
Stephen P. Hart
Michael G. Locke

Vancouver
Office Head
Donald R. German

INTERNATIONAL PROJECT FINANCE

Unit Heads
Anthony S. Courtwright
Peter D.E. Wilson

CORPORATE BANKING LATIN AMERICA

Argentina
Representative Office
Vice-President & Managing Director
Roy D. Scott

Mexico
Representative Office
Vice-President & Country Head
Antonio J. Uribe

Peru
Senior Vice-President & Country Head
Jim T. Meek

Toronto
Unit Head
Brian E. Maloney

Venezuela
Representative Office
Vice-President & Country Head
John W. Stevens

CORPORATE BANKING EUROPE

London
Managing Head, European Operations
Kevin R. Ray

Unit Heads
Kevin C. Clark
Gerald P. Ferris
Robyn L. Harrington
John R. Heeds

MONTREAL TRUST CORPORATE SERVICES

Division Head
L. Paul LeBlanc

Unit Head
Operations
Robert Mackenzie

Regional Office Heads
Quebec
Guy Langevin

Central
Jane Matthews

Western Canada
Mark L.P. Ferguson

Pacific
J. Robert Morris

REAL ESTATE BANKING

Division Head
John E. Oliver

Real Estate Banking Offices

Calgary
Office Head
Michael S. Jackson

Quebec
Office Head
Gary R. Graham

New York
Office Head
Melvin J. Mandelbaum

San Francisco
Office Head
B. Lorne Ogmundson

Toronto
Unit Head
James A. Gaiger

Vancouver
Office Head
Donald R. German

CREDIT & RISK MANAGEMENT

Senior Executive Vice-President
John F.M. Crean

COMMERCIAL CREDIT

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

Vice-Presidents
Richard O. Bubb-Clarke
Stanford A. Hierons
Larry T. Kenyon
Lorne W. Mitton
Henry Reimer
Frank I. Verseghy

CORPORATE CREDIT

Senior Vice-Presidents
Richard W. Hale-Sanders
Barry J. Webb

Vice-Presidents
David F. Ablett
John B. Chisholm
G. Walter Miller
Allan G. Portis

INTERNATIONAL BANKING CREDIT

Senior Vice-President
S.M. (Mickey) Kitchell

Vice-Presidents
Brian G. Cunningham
Mark L. Green

REAL ESTATE AND SPECIAL ACCOUNTS MANAGEMENT CREDIT

Senior Vice-President
John W. Agnew

Vice-Presidents
Steven E. Benford
F. George Wilson

INVESTMENT BANKING CREDIT & CREDIT POLICY

Executive Vice-President
S. Dennis N. Belcher

Investment Banking Credit

Vice-Presidents
Fred M. Goddard
Donna M. Groskorth

Special Accounts Management

Vice-President
Jameel E. Sethi

Policy & Information Systems

Senior Vice-President
Ameen Karmally

Vice-President
Edward D. Moriarty

Senior Vice-President, Credit & Risk Management
Peter F.J. Heffernan

Analytics

Vice-President, Trading Policy
Richard Haines

INVESTMENT BANKING

SCOTIA CAPITAL MARKETS

Chairman of the Board & CEO
Scotia Capital Markets and ScotiaMcLeod Inc.
Gordon F. Cheesbrough

President & Deputy CEO
ScotiaMcLeod Inc.
W. David Wilson

Chief Administrative Officer, Scotia Capital Markets, and Senior Vice-President & Head of Integrated Support Services
Mark I. Greenspan

Chairman & CEO
Scotia Capital Markets (USA) Inc.
F. Edward Price

Managing Director & Chief Administrative Officer
Scotia Capital Markets (USA) Inc.
Joseph M. Spillane

Managing Head, Scotia Capital Markets & Corporate Banking Europe Operations
Kevin Ray

Managing Director, Head of Scotia Capital Markets Europe and Global Head of Precious & Base Metals
Lawrence J. Scott

Managing Director, Head of Asian Operations
Ian A. Berry

Singapore
Managing Director
Glenn W.D. Martin

Tokyo
Managing Director & Head of Tokyo Operations
Jeffrey P. Fairley

Managing Director & Head of Global Compliance
Joan C. Smart

Managing Director & Head of Scotia Capital Markets Human Resources
Ruth G. Woods

Global Trading

Managing Directors & Co-Heads
Thomas A. Healy
J. Anthony Woodward

Managing Director & Global Head of Fixed Income
John Madden

Managing Director & Global Head of Derivative Products
C. John Schumacher

Managing Director & Global Head of Foreign Exchange
Barry M. Wainstein

Investment Dealer

Deputy Chairmen
ScotiaMcLeod Inc.
Gordon J. Homer
Richard E. Lint
Daniel F. Sullivan

Managing Director & Head of Investment Banking
Scot A. Martin

Managing Director & Head of Mergers & Acquisitions
William N. Gula

Managing Director & Head of Western Canada
Ian D. Bruce

Managing Director & Global Head of Institutional Equity
Brian J. Porter

Managing Director & Head of Equity Research
Diane Urquhart

Managing Director & Head of Private Client Financial Services
Christopher J. Hodgson

Managing Director & Head of Quebec Region
Jacques O. Nadeau

Investment Banking Centres

Director
Garry B. Fredrickson

Atlantic Investment Banking Centre
Halifax
Associate Director
Andrew R. Thomas

Quebec Investment Banking Centre
Montreal
Director
Shaun Casey

Branch Treasury Services
Toronto
Director
Wilson G. Dow

Ontario Investment Banking Centre
Director
Carrie M.P. Denton

Manitoba & Saskatchewan Investment Banking Centre
Winnipeg
Director
Walter Sikora

Alberta Investment Banking Centre
Calgary
Director
Richard M. Masters

Pacific Investment Banking Centre
Vancouver
Director
Todd K. McLaughlin

GLOBAL TREASURY

Executive Vice-President
Robert L. Brooks

Investments
Senior Vice-President
Russell A. Morgan

Funding – Mid-Term
Vice-President
Marc C. Durocher

Bond Investments/Security Lending
Vice-President
Gary J. Bundscho

Integrated Support Services (ISS)

Managing Director &
Chief Financial Officer,
ScotiaMcLeod Inc. &
Deputy Head, ISS
T. Hugh McNabney

Senior Vice-Presidents
Norman K.J. Graham
Jeffrey C. Heath
Gail J. Smith

Vice-Presidents
Ian D. Ballard
Keith C. Bird
Anthony L. Daley
Edward E. Jablonky
Christopher Massiah
Brian D. McKenzie
Kimberlee B. McKenzie
Lorne G. Rintoul
Kathryn E. Ward
Michael Warman
Charles M. Wickett

INTERNATIONAL BANKING

Executive Vice-President
Malcolm C. Johnston

ASIA/PACIFIC

Executive Vice-President
Kevin S. Rowe

Senior Vice-President
Robin S. Hibberd

Vice-Presidents
Gary M. Gorton
D. Matt Harris
Susan E. Lewandowski
Stuart J. Spence

LATIN AMERICA

Executive Vice-President
William P. Sutton

CARIBBEAN AND CENTRAL AMERICA

Senior Vice-President
Robert H. Pitfield

Vice-Presidents
Colin D. McKie
Mario J. Nobrega

Retail Banking

Vice-President
Jim Louttit

Marketing

Vice-President
David R. Lewis

Trade Finance & Correspondent Banking

Senior Vice-President
Timothy G. Plumptre

Vice-Presidents
James G. Liddell
George K. Morton

BRANCHES, REPRESENTATIVE OFFICES & SUBSIDIARIES

Anguilla
Scotiabank Anguilla Ltd.
Managing Director
A. Walter MacCalman

Antigua
Manager
Leonard Wright

Argentina
Vice-President & Managing
Director, Latin America
Roy D. Scott

Bahamas
(13 branches)
Vice-President
Anthony C. Allen

Barbados
(8 branches)
Vice-President
Peter F. Van Schie

N.T. Insurance Company Inc.
Chairman
Keith Lewis

Scotia Insurance (Barbados) Limited
Managing Director
Walter P. Meinig

Belize
(4 branches)
Manager
Claude E. Marcel

Cayman Islands
(2 branches)
Vice-President
Alan Brodie

China
Beijing
Chief Representative
Bohua Guo

Guangzhou
Manager
Kenneth K. Lam

Costa Rica
Scotiabank de Costa Rica, S.A.
(4 branches)
General Manager
Alberto R. Tarabotto

Dominica
Manager
C. Monte Smith

Dominican Republic
(14 branches)
Vice-President
Ariel D. Perez

Egypt
Country Manager
Mohamed Jahangir

El Salvador
Banco Ahorromet Scotiabank, S.A.
(30 branches)
President
Juan Federico Salaverria

Executive Director
José Carlos Bonilla

Managing Director
Luis Boggiano

Greece
(7 branches)
Vice-President
Albert Horsting

Grenada
(2 branches)
Manager
Lawrence A. Aqui

Guyana
(3 branches)
Manager
J.F. (Ian) Cooper

Haiti
(3 branches)
Manager
Bernard A. Theard

Hong Kong
Vice-President & Manager
Patrick N. Rooney

BNS International (Hong Kong) Limited
Managing Director
D. Matt Harris

India
(3 branches)

South Asia Sub Continent
Senior Vice-President
Douglas H. Stewart

Mumbai
Vice-President & Manager
Bhaskar Desai

Coimbatore
Manager
Denis Vaz

New Delhi
Asst. General Manager & Manager
Ashok Khanna

Jamaica
The Bank of Nova Scotia Jamaica Limited
(45 branches)
Managing Director
William E. Clarke

Japan
(2 branches)

Tokyo
Vice-President
Robert Ulmer

Osaka
Manager
Kazumi Suzuki

Republic of Korea
Vice-President & Manager
Claude D. Morin

Lebanon
Manager
Vahe Kouyoumjian

Malaysia
Labuan
Manager
M.S. (Corito) Sevilla

The Bank of Nova Scotia Berhad
Managing Director
Rasool Khan

Mexico
Senior Representative
Antonio J. Uribe

Netherlands Antilles
(2 branches)

St. Maarten
Manager
Robert G. Judd

Panama
Manager
Terry S. McCoy

The Philippines
Manager
Cristina Sadler

Puerto Rico
Scotiabank de Puerto Rico
(13 branches)

Chairman & CEO
David F. Babensee

President & Chief
Operating Officer
Ivan Mendez

St. Kitts & Nevis
(3 branches)
Manager
Wayde A. Christie

St. Lucia
(3 branches)
Vice-President
James A. Batterton

St. Vincent
Manager
Tom Wilkins

Singapore
Manager, Credit & Marketing
Y.K. Heng

The Bank of Nova Scotia Asia Limited
Managing Director
Wah Sun Seong Koon

Taiwan
Vice-President & Manager
Benny S.H. Cheong

Thailand
(2 branches)

Bangkok International Banking Facility
Vice-President & Manager
Kobsak Duangdee

Provincial International Banking Facility
Manager
Virut Danarthikhom

Turks & Caicos Islands
(2 branches)
Manager
Timothy J. Augustin

Vietnam
Representative
Eric Naggiar

Virgin Islands (British)
Manager
Terry C. Bell

Virgin Islands (U.S.)
(5 branches)
Vice-President – St. Thomas
Robert Haines

(4 branches)
Vice-President – St. Croix
Ralph T. Chan

CORPORATE ADMINISTRATION

FINANCE & ADMINISTRATION

Vice-Chairman
Robert W. Chisholm

Finance

Executive Vice-President
Sarabjit S. Marwah

Senior Vice-President &
Chief Accountant
John K. Mitchell

Senior Vice-President &
Comptroller
Daniel L. Chui

Vice-Presidents
Kevin Harraher
Colleen M. Johnston
Lawrence R. Masterman
Linda D. McNeil
Michael W. O'Bee
William E. Park

Pensions

Senior Vice-President
Ramsay R. Holmes

Taxation

Senior Vice-President
Reginald W. Kowalchuk

Vice-Presidents
Munir A. Suleman
Deborah J. Toaze
Richard S. Tucker

Real Estate

Senior Vice-President
Andrew B. Lennox

Vice-Presidents
William D. Hulme
John O. Lemyre
David R. Morley
Stephen M. Morson
Jack G. Nixon

Executive Offices Administration

Senior Vice-President & Secretary
R. Peter Gerad

Vice-President
Morley A. Smith

Audit

Senior Vice-President &
Chief Inspector
Peggy Mulligan

Senior Vice-President &
Deputy Chief Inspector
Thomas C. Nicol

Senior Vice-President, Loan Audit
John W. Roblin

Vice-Presidents
Ronald C. Black
Carol Brandt
David F. Cooper
David H. Daye
Marianne B. Hasold-Schilter
Steve R. Hawkins
Azeem H. Kassam
Marian Lawson
Steven Lucken
Richard D. McLean
Karen Ott
Bradley J. Rowse
Lister M. Smith
Clay Ullrich
Pierre W. Wong

GENERAL COUNSEL

Senior Vice-President &
General Counsel
George E. Whyte

Vice-President &
Asst. General Counsel
Madelaine A. Hare

Asst. General Counsels
Ronald B. Lindsay
William J. Mandzia
Kenneth E. Thorlakson

Compliance

Senior Vice-President
L. Louise Cannon

Vice-President
David A. Smith

HUMAN RESOURCES

Executive Vice-President
Sylvia D. Chrominska

Senior Vice-President
Shirley P. Fudge

Vice-Presidents
Marjory R. Buttrum
Diane S. Caravan
Noel G. Green
Patricia Krajewski
Lloyd A. Lavalley
David G. Merrow

OPERATIONS

Executive Vice-President
Albert E. Wahbe

Banking Operations

Senior Vice-President
Alan R. Macdonald

Vice-Presidents
Barry F. Dolan
Gary D. Ewert
Gary W. MacDonald
Henry A. Regnitter

Domestic & Executive Offices Systems Development

Senior Vice-President
Michael D. Evans

Vice-Presidents
Harry Glaser
Susan Harrison
Gordon Jang

Domestic Branch Platform

Senior Vice-President
Terry C. Maloney

Vice-President
Alan P. Hosey

Domestic Customer Service Centres

Senior Vice-President
W. Robert Stark

Vice-Presidents
Mary Anne Chambers
Michael Hayes
Brian A. King
Frank She

Planning, Administration & Project Management

Vice-President
Thomas E. Russell

Systems Operations & Technical Services

Senior Vice-President
Jean-Charles Petitclerc

Vice-Presidents
Donald H. Cockburn
Karl B. Loney
Mary Ellen Trimble

Systems Security & Controls

Vice-President
Paul K. Wing

Wholesale & International Systems Development

Senior Vice-President
David K. Gill

Vice-Presidents
Lise Contant
William R. Flint
Carol Davis-Kiborn
Wayne W. Heath

PUBLIC & CORPORATE AFFAIRS AND ECONOMICS

Senior Vice-President &
Chief Economist
Warren Jestin

Public Affairs

Vice-President
Sandra N. Stewart

Corporate & Government Affairs

Vice-President
Ian R. McIntosh

Economics

Vice-Presidents
Aron Gampel
Patricia M. Mohr

SECRETARY

Senior Vice-President
& Secretary
R. Peter Gerad

Security & Investigation

Vice-President and
Chief Security Officer
Wally Kalichuk

INTERNATIONAL SUBSIDIARIES AND ASSOCIATED COMPANIES

Argentina

Banco Quilmes, S.A.
Buenos Aires

Chairman
Ricardo P. Fiorito

Director
Anatol von Hahn

Managing Director
Gabriel Coqueuigniot

Vice-Presidents
Rick G. Durham
Nolan Miller
Glen Tugman

Bahamas

Prime Bank and Trust (Bahamas) Limited

Chairman
Roberto C. Cavanna

The Bank of Nova Scotia International Limited
The Bank of Nova Scotia Trust Company (Bahamas) Limited
Scotia International Limited
Nassau

Managing Director
Christopher A. Barnes

Cayman Islands

The Bank of Nova Scotia Trust Company (Cayman) Limited

Managing Director
Ronald E. Tompkins

National Trust and Banking Corporation (Caribbean) Limited

Chairman
Keith Lewis

Scotia Mercantile Bank

General Manager
Alberto R. Tarabotto

Channel Islands

The Bank of Nova Scotia Channel Islands Limited
The Bank of Nova Scotia Trust Company Channel Islands Limited
St. Helier, Jersey

Managing Director
Kenneth C. Brierley

Chile

Banco Sud Americano
Santiago

Chairman
José Borda Aretxabala

Vice-President & Senior
Representative
Robert Garneau

England
Scotiabank Europe plc
London

Managing Director
Roger A. Ellis

Hong Kong
Scotiatrust (Asia) Limited

Managing Director
Clement C.H. Tay

Indonesia
P.T. Bank Arya Panduarta Tbk.

Ireland
Scotiabank (Ireland) Limited
Dublin

Managing Director
Peter Kluge

Unit Head
Robert Masters

Mexico
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Mohan Y. Kulkarni
Jose L. Querubin

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(21 branches)

The Bank of Nova Scotia Trust Company of Trinidad & Tobago Limited
(2 branches)

Port of Spain

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New York

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Scotiabanc Inc.
Scotia Holdings (US) Inc.
Atlanta

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Barry R.F. Luter

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RoyNat Inc.
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Vice-President
Woodrow L. Pelley

Victoria & Grey Mortgage Corporation
Toronto
President & CEO
Robert W. Chisholm

SHAREHOLDERS' INFORMATION

Annual Meeting

Shareholders are invited to attend the 166th Annual Meeting of The Bank of Nova Scotia, to be held on January 27, 1998, at The Westin Hotel, 11 Colonel By Drive, Ottawa, Ontario, Canada, beginning at 10:00 a.m. (eastern standard time).

Shareholdings and Dividends

Information regarding your shareholdings and dividends may be obtained by writing to or calling 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

Common and preferred shareholders wishing to acquire additional common shares of the Bank may take advantage of a cost-free Dividend and Share Purchase Plan. The Plan provides a convenient method for eligible shareholders either to invest cash dividends in new common shares of the Bank, or to receive dividends in the form of additional common shares of the Bank (stock dividends), as defined in the Plan. As well, eligible shareholders may invest up to $20,000 per fiscal year of the Bank and debenture holders may apply interest received on fully registered Bank subordinated debentures in the purchase of additional common shares, as defined in the Plan. Participants pay no brokerage commission or service charges of any kind, and all administrative costs of the Plan are paid by the Bank. For additional information on participation in the Plan, please write to 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 exchange.

Series 6, 7, 8, 9 and 11 Preferred Shares and Units of the Bank are listed on the Toronto and Montreal stock exchanges.

Stock Symbols

The trading symbols for the Bank's shares on Canadian exchanges are:

Common–BNS

Series 6, Preferred–BNS.PR.E	Series 9, Preferred–BNS.PR.H
Series 7, Preferred–BNS.PR.F	Series 11, Preferred–BNS.PR.I
Series 8, Preferred–BNS.PR.G	Units–BNS.UN.

The CUSIP numbers for the Bank's shares on Canadian exchanges are:

Common–064149 10 7

Series 6, Preferred–064149 70 1	Series 9, Preferred–064149 87 5
Series 7, Preferred–064149 80 0	Series 11, Preferred–064149 84 2
Series 8, Preferred–064149 88 3	Units–064149 86 7.

Dividend Record and Payment Dates

Subject to approval by the Board of Directors, the payment date for common and all preferred shares, is usually the third last business day of each fiscal quarter, being the months of January, April, July and October.

The record date is the first Tuesday of the month in which dividends are paid. If the first Tuesday falls on a statutory holiday, it will be the next business day.

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 $5.188 after adjustment for the two-for-one stock split in 1976 and the three-for-one stock split in 1984.

Quarterly Earnings Reporting

For 1998, Scotiabank's quarterly earnings are anticipated to be announced around the last Tuesday of February, May and August and the first Wednesday of December.

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 when shares of the same class or series are registered in different names and/or addresses, multiple mailings result.

Shareholders who receive, but do not require, more than one mailing for the same ownership are requested to write to the Transfer Agent and arrangements will be made to combine the accounts.

CONTACT AND GENERAL INFORMATION

BY MAIL

Corporate Headquarters
Scotiabank, Scotia Plaza, 44 King Street West, Toronto, Ontario, Canada M5H 1H1

Transfer Agent
Montreal Trust Company of Canada, 151 Front Street West, 8th Floor, Toronto, Ontario, Canada M5J 2N1

The Secretary
Scotiabank, 44 King Street West, Toronto, Ontario, Canada M5H 1H1

ONLINE

http://www.scotiabank.ca
For product, corporate and financial information

BY PHONE, FAX AND E-MAIL

Corporate Headquarters
Tel.: (416) 866-6161
Fax: (416) 866-3750
E-mail: email@scotiabank.ca

Annual Report and Other Financial Reports
Tel.: (416) 866-3925
Fax: (416) 866-4988

Financial Analysts, Portfolio Managers and other Institutional Investors
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Transfer Agent
Tel.: (416) 981-9633; 1-800-663-9097
Fax: (416) 981-9507

Secretary's Department
Tel.: (416) 866-4790
Fax: (416) 866-5090

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
Tel.: (416) 866-3925
Fax: (416) 866-4988

OFFICE OF THE OMBUDSMAN

William E. Bailey, 44 King Street West, Toronto, Ontario, Canada M5H 1H1
Tel.: (416) 933-3299; 1-800-785-8772
Fax: (416) 933-3276

CREDIT RATINGS

Senior Long-Term Debt

CBRS	A+(high)
DBRS	AA
IBCA	AA-
Moody's	Aa3
Standard & Poor's	AA-

Commercial Paper

CBRS	A-1+
DBRS	R-1(middle)
Moody's	P-1
Standard & Poor's	A-1+

Non-Cumulative Preferred Shares

CBRS	P-2
DBRS	Pfd-1(low)

Design: Sutton/Javelin Communications, Toronto **Principal photography:** Michael Fiala, Larry Newland **Typesetting:** Graphic Services, Scotiabank **Printing:** Arthurs-Jones Inc.
Translation: KPMG (Management's Discussion and Analysis), Price Waterhouse (Consolidated Financial Statements), Translation Department, Quebec Regional Office, Scotiabank
Produced by: Public and Corporate Affairs, Scotiabank

Since welcoming its first customers in 1832, Scotiabank has grown into a major international financial institution, with over 1,600 branches and offices in more than 50 countries around the world – as well as affiliates and joint venture partners in Latin America and Asia. Our assets now total $195 billion.

Scotiabank

Executive Offices

Scotia Plaza, 44 King Street West, Toronto, Ontario, Canada M5H 1H1