THE BANK OF NOVA SCOTIA
(Panama Branch)

Financial Statements

October 31, 2007

(With Independent Auditors' Report)

(FREE ENGLISH LANGUAGE TRANSLATION
FROM SPANISH VERSION)

THE BANK OF NOVA SCOTIA
(Panama Branch)

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FREE ENGLISH LANGUAGE TRANSLATION FROM SPANISH VERSION

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF THE BANK OF NOVA SCOTIA

We have audited the accompanying financial statements of The Bank of Nova Scotia (Panama Branch), which comprise the balance sheet as at October 31, 2007, and the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Bank of Nova Scotia (Panama Branch) as of October 31, 2007, and its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards, as modified by prudential regulations enacted by the Superintendence of Banks of Panama for supervisory purposes, as described in note 2 to the financial statements.

Emphasis of Matter

As mentioned in notes 1 and 3 of the financial statements, the Panama Branch of The Bank of Nova Scotia depends significantly on its Head Office.

KPMG (SIGNED)

January 15, 2008
Panama, Republic of Panama

THE BANK OF NOVA SCOTIA
(Panama Branch)

Balance Sheet

October 31, 2007

(Stated in Balboas)

Assets	**Note**	**2007**	**2006**
Cash and cash items	4	1,463,976	625,574
Due from banks:	4		
Demand deposits with local banks		4,669,515	6,338,424
Time deposits with local banks		1,372,000	1,960,000
Time deposits with foreign banks	3	45,000,000	0
Total due from banks		51,041,515	8,298,424
Total cash, cash items and due from banks		52,505,491	8,923,998
Securities available for sale	5	1,852,518	1,931,379
Securities held to maturity	5	7,617,800	7,009,987
Loans:	6		
Local		555,509,099	495,909,047
Foreign		26,247,154	12,287,002
		581,756,253	508,196,049
Less:			
Unearned interest and commission		386,434	323,631
Allowance for loan losses		12,277	0
Loans, net		581,357,542	507,872,418
Premises, furniture, equipment and improvements, net	7	2,929,291	2,616,321
Other assets:			
Accrued interest receivable on:	3		
Loans		1,931,597	1,869,552
Time Deposits		35,550	0
Investment securities		90,195	93,632
Account receivables from related parties	3	11,495,504	11,941,652
Various debtors		259,666	122,686
Customers' liabilities under acceptances		5,630,919	1,199,307
Deferred income tax	14	3,683	0
Others	8	2,575,016	520,509
Total other assets		22,022,130	15,747,338
Total assets		668,284,772	544,101,441

The balance sheet should be read together with the accompanying notes that are an integral part of the financial statements.

Liabilities and Capital Funds	Note	2007	2006
Deposits:	3,9		
Demand deposits:			
Local		18,264,775	14,582,008
Foreign		3,782,040	1,943,989
Time deposits:			
Local		276,810,678	134,404,489
Foreign		4,503,346	3,610,917
Head Office and affiliates		229,474,258	221,324,323
Savings:			
Local		20,028,957	14,146,973
Foreign		722,779	409,765
Total deposits		553,586,833	390,422,464
Overdraft with Head Office	3, 10	88,702,365	134,974,955
Other liabilities:			
Drafts, certified and managers' checks		2,769,512	3,198,430
Accrued interest payable	3	3,682,124	1,776,459
Acceptances outstanding		5,630,919	1,199,307
Others		3,719,502	2,130,209
Total other liabilities		15,802,057	8,304,405
Total liabilities		658,091,255	533,701,824
Capital funds:			
Assigned capital from Head Office		10,000,000	10,000,000
Unrealized gain in investments	5	193,517	272,378
Retained earnings		0	127,239
Total capital funds		10,193,517	10,399,617
Commitments and contingencies	3, 13		
Total liabilities and capital funds		668,284,772	544,101,441

THE BANK OF NOVA SCOTIA

(Panama Branch)

Statement of Income

Year ended October 31, 2007

(Stated in Balboas)

	Note	2007	2006
Interest and commission income:	3		
Interest earned on:			
Loans		37,701,833	34,283,137
Bank deposits		933,376	167,677
Investments		853,691	653,190
Commissions on loans		621,133	298,284
Total interest and commission income		40,110,033	35,402,288
Interest expense	3	28,156,529	23,683,021
Net interest and commission income, before provision		11,953,504	11,719,267
(Provision) reversal for credit losses	6	(12,277)	133,458
Net interest and commission income, after provision		11,941,227	11,852,725
Other income:			
Letter of credit commission		1,047,140	741,007
Collection commission		27,458	20,046
Others		328,359	304,300
Total other income		1,402,957	1,065,353
Operating expenses:			
Salaries and other personnel expenses	3,11	3,783,064	2,978,012
Professional services		282,073	257,726
Advertising		234,421	199,217
Travel expenses		148,090	70,630
Communication and postage		165,265	160,794
Other taxes		393,743	392,919
Depreciation and amortization	7	430,118	328,581
Rent		529,967	321,603
Head Office charges		573,793	488,455
Others	11	1,155,999	1,179,944
Total operating expenses		7,696,533	6,377,881
Net income before income tax		5,647,651	6,540,197
Income tax	14	1,414,377	2,221,194
Net income		4,233,274	4,319,003

The statement of income should be read together with the accompanying notes that are an integral part of the financial statements.

THE BANK OF NOVA SCOTIA
(Panama Branch)

Statement of Changes in Capital Funds

Year ended October 31, 2007

(Stated in Balboas)

	Notes	Assigned capital	Unrealized gain (loss) on securities	Retained earnings	Total capital funds
Balance at October 31, 2005		10,000,000	194,058	150,348	10,344,406
Unrealized gain on investments available for sale	5	0	78,320	0	78,320
Income recognized directly in equity		0	78,320	0	78,320
Net income - 2006		0	0	4,319,003	4,319,003
Total income recognized in the period		0	78,320	4,319,003	4,397,323
Net transfer to Head Office		0	0	(4,342,112)	(4,342,112)
Balance at October 31, 2006		10,000,000	272,378	127,239	10,399,617
Unrealized gain on investments available for sale	5	0	(78,861)	0	(78,861)
Income recognized directly in equity		0	(78,861)	0	(78,861)
Net income - 2007		0	0	4,233,274	4,233,274
Total income recognized in the period		0	(78,861)	4,233,274	4,154,413
Net transfer to Head Office		0	0	(4,360,513)	(4,360,513)
Balance at October 31, 2007		10,000,000	193,517	0	10,193,517

The statement of changes in capital funds should be read together with the accompanying notes that are an integral part of the financial statements.

THE BANK OF NOVA SCOTIA
(Panama Branch)

Statement of Cash Flows

Year ended October 31, 2007

(Stated in Balboas)

	Note	2007	2006
Operating activities			
Net income		4,233,274	4,319,003
Adjustments to reconcile net income to net cash from operating activities:			
Provision (reversal) for loan losses		12,277	(133,458)
Depreciation and amortization		430,118	328,181
Deferred income tax		(3,683)	42,006
Interest income		(39,488,900)	(35,104,004)
Interest expense		28,156,529	23,683,021
Income tax expense		1,824,124	2,221,194
Changes in operating assets and liabilities			
Loans		(73,497,401)	(43,317,378)
Other assets		(1,665,761)	943,207
Demand and savings deposits received		11,715,816	12,903,855
Time deposits received		151,448,553	49,393,001
Other liabilities		1,442,070	2,869,205
Cash generated from the operations			
Interest received		39,394,742	34,934,017
Interest paid		(26,250,864)	(23,089,094)
Income tax paid		(2,105,819)	(2,291,307)
Cash flows from operating activities		95,645,075	27,701,449
Investing activities			
Acquisition of securities		(7,670,400)	(2,009,987)
Redemption of securities		7,062,587	10,208,231
Acquisition of furniture and equipment		(822,666)	(759,050)
Cash flows from investing activities		(1,430,479)	7,439,194
Financing activities			
Overdraft with Head Office		(46,272,590)	(31,771,840)
Net transfer to Head Office		(4,360,513)	(4,342,112)
Cash flows from financing activities		(50,633,103)	(36,113,952)
Net increase (decrease) in cash		43,581,493	(973,309)
Cash and cash equivalents at beginning of year		8,923,998	9,897,307
Cash and cash equivalents at end of year	4	52,505,491	8,923,998

The statement of income should be read together with the accompanying notes that are an integral part of the financial statements.

(1) Operations

The Bank of Nova Scotia (Panama Branch) referred to as "the Bank", started operations in the Republic of Panama on November 15, 1974, operating under a general banking license granted by the Superintendence of Banks of Panama, which allows banks incorporated in accordance with foreign legislation to engage in the banking business, both within and outside Panama.

The Bank directly provides a wide variety of financial services to entities and natural persons, mainly in Panama and abroad.

The Bank has significant transactions with related entities, which are substantially under the direction and authorization of its Head Office in Canada.

The Branch is located in Ave. Federico Boyd and 51st Street, Panama City.

Banks authorized to operate in Panama are regulated and supervised by the Superintendence of Banks of the Republic of Panama, in accordance with legislation established by Law Decree No. 9 of February 26, 1998 and its regulations.

The Branch's Management authorized the issuance of the financial statements on January 15, 2008.

(2) Summary of the Most Significant Accounting Policies

(a) Statement of Compliance

The financial statements of the Bank have been prepared in accordance with International Financial reporting Standards (IFRS), as modified by prudential regulations enacted by the Superintendence of Banks of Panama for supervisory purposes. The Superintendence of Banks has regulated that the annual financial statements prepared and filed to this entity, must include all the allowances for losses in financial assets, as provides by the prudential rules enacted by the Superintendence of Banks. The accounting treatment for recognition of loan losses in conformity with the prudential rules enacted by the Superintendence differs in some respects with the accounting treatment in conformity with International Financial reporting Standards (IFRS), specifically IAS 39. See Note 2 (f) Allowance for loan Losses.

(b) Basis of Preparation

The financial statements are prepared on a fair value basis for financial assets available for sale, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortized cost or historical cost.

The Bank uses the settlement date method to record its financial instruments.

(2) Summary of the Most Significant Accounting Policies, continued

The financial statements are stated in Balboas (B/.), the monetary unit of the Republic of Panama, which is at par and freely exchangeable with the United States of America dollar (US$). The Republic of Panama does not issue paper currency, and in lieu the United States of America dollar (US$) is used as legal tender.

(c) Foreign Currency Transactions

Assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Balboas (B/.) at the foreign exchange rate ruling at that date, except for transactions with previously agreed exchange rates. Foreign currency transactions during the period are translated at the foreign exchange rate ruling at the date of the transaction. Income or loss from foreign exchange differences are recognized in the other income or other expenses accounts, respectively.

(d) Investment Securities

The investment securities are classified at the time of their acquisition based on Management's ability and intention to sell or to hold them until their maturity date. The classifications used by Bank are as follows:

- *Securities Available for Sale*
  This category includes the securities acquired with the intention of holding them for an undetermined period of time. These securities are measured at their fair value and changes in fair value are recognized in equity accounts.

- *Securities Held to Maturity*
  This category includes those securities that the Bank has the intention and ability to hold until their maturities. These securities consist mainly of debt instruments, which are carried at amortized cost. The value of any security is reduced to its fair value for any material loss for a reason other than temporary impairment, by establishing a specific allowance for securities charged to the results of the period.

The fair value of a security is generally determined by its quoted market price at the balance sheet date. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques. When the fair value of a share equity investment cannot be reliably measured, the security is stated at cost.

The Bank assesses at each balance sheet date whether there is objective evidence that investment securities are impaired. In the case of securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss is removed from equity and recognized in the statement of income.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the income statement of income.

(2) Summary of the Most Significant Accounting Policies, continued

(e) Loans

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that are originated generally when providing money to a debtor. Loans granted are reported at their principal amounts outstanding, net of unearned interest and commission, less the allowance for loan losses. Interest on loans is calculated based on the principal amount outstanding and the agreed interest rates, and is recorded as income every month under the accrual method.

Corporate financing through the issuance of private bonds that the Bank had originated and has the intention to hold them in its portfolio are presented as part of its loan portfolio in the balance sheet.

(f) Allowance for Loan Losses

The Bank uses the allowance method in providing for loan losses. The amount of loan losses determined during the period is recognized as provision expense in the income statement and credited to an account of allowance for loan losses. Whenever a loan is deemed uncollectible, the irrecoverable amount is charge to the allowance account. Subsequent recoveries of loans previously charged off as uncollectible, are credited to the allowance account.

The Superintendence of Banks of Panama mandates the financial information filed by banks in Panama, including annual financial statements, include the accounting recognition and presentation of allowances for loan losses based on prudential rules for the constitution of such reserves, enacted by this regulatory entity. Based on the regulator's Agreement 6-2000, enacted by the Superintendence of Banks of Panama, the Bank classifies loans into five risk categories and determines the specific amounts of allowance for losses based on the balance of principal less the value of real collaterals backing these loans. The amounts of specific reserves mandated for loan losses are determined by classifying each loan by risk category and applying the minimum percentage of required reserve to each category of classified loans. Starting therefrom, in a term not higher than 90 days, the Bank must adjust the allowances of the classified loans, as follows: Special mention 2% up to 14.9%; Substandard 15% up to 49.9%; Doubtful 50% up to 99%; Irrecoverable 100%.

In addition, Agreement 6-2000 allows the creation of generic allowances for loan losses, on a provisional basis when knowledge is obtained of the impairment in the value of a group of loans with defined common characteristics and that had not been attributed to loans individually. Banks mandated to maintain at all times an allowance for loan losses no lower than 1% of the total loan portfolio less deposits collateralized in the bank itself.

Allowances for loan determined based on prudential rules enacted by the regulator may differ the allowance amount determined under International Accounting Standard No. 39, Financial Instruments: Recognition and Measurement. The allowance estimate under IAS 39 is based on the concept of impairment-incurred losses and uses two methodologies to asses if there is objective evidence of impairment, individually for loans that are individually significant and individually or collectively for loans that are not individually significant.

(2) Summary of the Most Significant Accounting Policies, continued

(g) Reserve for Risks of Contingent Credit

The Bank uses the allowance method to provide for possible losses on contingencies of a credit nature. The allowance is increased based on a provision charged to expenses of the period in the statement of income and is decreased by charge-offs due to losses related to these contingencies of credit nature.

(h) Premises, Furniture, Equipment and Improvements

Premises, furniture, equipment and improvements are stated at cost, net of accumulated depreciation and amortization. Improvements are capitalized while minor repairs and maintenance which do not extend the useful life or improve the asset are charged directly to expense when incurred.

Depreciation and amortization are charged to current operations on a straight-line basis, based on the estimated useful lives of the respective assets, which is detailed as follows:

Premises	2.5%
Improvements	10.0%
Furniture and equipment	15.0%
Vehicle	15.0%

(i) Interest Income and Expense

Interest income and expense are generally recognized in the statement of income for all financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the remaining period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, financial liability. When calculating the effective interest rate, the Bank estimates cash flow considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective rate, transaction costs and all other premiums or discounts.

(j) Impairment of Asset

The current values of the Bank assets are reviewed at the balance sheet date to determine if there is evidence of impairment. If such evidence exists, the asset's recoverable amount is estimated. An impairment loss is recognized between the difference of the asset's net carrying amount and the recoverable amount. The loss due to the impairment of assets is recognized as an expense in the statement of income.

(k) Income Tax

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

(2) Summary of the Most Significant Accounting Policies, continued

The deferred income tax represents the amount of taxes payable and/or receivable in future years, as a result of temporary differences between the financial balances of assets and liabilities in the balance sheet and its tax base, using taxable rates at the balance sheet date. These temporary differences are expected to be reversed in futures periods. Deferred tax assets or liabilities are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(l) Cash Equivalents

For purposes of the statement of cash flows, cash equivalents comprise time deposits due from banks, with original maturities of three months or less.

(m) Uniformity on the Presentation of the Financial Statements

The above mentioned accounting policies have been applied consistently in the periods presented in the financial statements, and have been applied consistently by the Bank.

Certain amounts in the 2006 financial statements have been reclassified to conform to the 2007 financial statements presentation.

(n) Commission, Transfer and Other Income

Generally, the commissions on letters of credit and other banking services are recognized as income on a cash basis due to their short-term maturity. The income recognized on a cash basis is not significantly different from the income under the accrual method. The commissions are included as “commissions earned” in the statement of income.

(o) New Standards and Interpretations Not Adopted

As of the balance sheet date, there are new standards, amendments and interpretations to standards, which are not effective for the period ended October 31, 2007, and therefore have not been applied in the preparation of these financial statements:

- *IFRS 7 Financial Instruments:* Disclosures and the Amendments to *IAS 1 Presentation of Financial Statements: Capital Disclosures:* The application of this Standard is mandatory for financial statements of periods that started on January 1, 2007, and will require additional disclosures with respect to financial instruments and equity shares.

In addition, the International Financial Reporting Interpretations Committee (IFRIC) has issued new interpretations, which are of mandatory application for the financial statements of the year 2007.

- *IFRIC 10* – Interim Financial Reporting and Impairment.

(3) Balances and Transactions with Related Parties

The Bank has incurred in transactions in the ordinary course of business with certain related parties such as key management personnel and related enterprises. As of October 31, 2007, the aggregated balances concerning transactions with related parties are the following:

	Key Management Personnel		Related enterprises	
	2007	2006	2007	2006
Deposits				
Time deposits	0	0	45,000,000	0
Accrued interest receivable	0	0	35,550	0
Loans				
Loans outstanding at beginning of the period	134,484	135,329	0	0
Loans granted during the period	402,100	15,000	0	0
Loan installments	(97,121)	(13,783)	0	0
Loans cancelled during the period	0	(2,062)	0	0
Loans outstanding at end of the period	439,463	134,484	0	0
Accrued interest receivable	2,050	300	0	0
Accounts receivable	0	0	11,495,504	11,941,652

As of October 31, 2007, no provisions have been recognized for impairment with respect to loans granted to related parties.

As of October 31, 2007, the Bank has no loans with directors of the Bank.

Loans to key management personnel are granted with the same terms and conditions available for other employees. The terms and conditions are generally based on those granted to third parties adjusted for a lower credit risk. Loans to key management personnel during the period have an interest rate average of 5.875% (2006: 6.972%).

	Key Management Personnel		Related enterprises	
	2007	2006	2007	2006
Deposits				
Demand deposits	11,531	13,271	17,318	91,810
Savings deposits	89,439	19,427	0	0
Time deposits	66,161	66,161	229,474,258	221,324,323
Accrued interest payable	299	358	831,644	1,103,795
Overdraft	0	0	88,702,365	134,974,955
Commitments and Contingencies				
Guarantees	0	153,000	0	0

(3) Balances and Transactions with Related Parties, continued

For the year ended October 31, 2007, the following items of income and expenses are included in the aggregated amounts generated by the related transactions above:

	Key Management Personnel 2007	Key Management Personnel 2006	Related enterprises 2007	Related enterprises 2006
Interest and commission earned on:				
Deposits	0	0	743,360	0
Loans	17,969	4,999	0	0
Interest expense on:				
Overdraft	0	0	5,387,632	6,219,605
Deposits	3,197	1,623	11,429,612	11,398,120
Operating expenses:				
Salaries	322,218	295,875	0	0
Employees' benefits	259,045	99,639	0	0

(4) Cash and Cash Equivalents

The cash and cash equivalents are detailed as follows for purposes of reconciliation to the statement of cash flows:

	2007	2006
Cash and cash items	1,463,976	625,574
Local demand deposits	4,669,515	6,338,424
Local time deposits	1,372,000	1,960,000
Foreign time deposits	45,000,000	0
Cash and cash equivalents in the statement of cash flows	52,505,491	8,923,998

(5) Investment Securities

At October 31, 2007 the securities available for sale are detailed as follows:

2007

Description	Interest Rate	Maturity	Acquisition Cost	Fair Value	Unrealized gains (losses)
Dominican Republic					
Discounted bonds	6.2500%	August 2024	1,659,000	1,654,853	(4,147)
Bonds PDI	6.2500%	August 2009	1	197,665	197,664
Total			1,659,001	1,852,518	193,517

2006

Description	Interest Rate	Maturity	Acquisition Cost	Fair Value	Unrealized gains (losses)
Dominican Republic					
Discount bonds	5.3579%	August 2024	1,659,000	1,634,115	(24,885)
Bonds PDI	4.0625%	August 2009	1	297,264	297,263
Total			1,659,001	1,931,379	272,378

(5) Investment Securities, continued

The balance of the changes in fair value is reported in equity. During the year 2007, an unrealized loss of B/.78,861 (2006 unrealized gain of: B/.78,320) was recorded resulting from the valuations of available for sale securities.

The estimated fair value of the different types securities available for sale was obtained from financial intermediaries.

Securities held to maturity

	2007		2006	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Private debt securities	7,106,985	7,617,800	6,988,897	7,009,987

As of October 31, 2007, the annual interest on securities held to maturity ranged between 6.75% and 7.1875% (2006: 6.25% and 6.90%).

(6) Loans

The loan portfolio by economic activity is detailed as follows:

	2007	2006
Local:		
Commercial	277,433,925	285,308,803
Financial institutions	1,371,060	23,557,881
Ports and railroads	1,662,500	0
Overdrafts	32,789,252	20,664,193
Mines and quarries	403,747	31,500
Agriculture	84,110	0
Fishing	2,842,230	667,500
Livestock	115,028	175,568
Mortgage	184,398,014	141,344,273
Construction	41,268,459	16,660,662
Personal	13,140,774	7,498,667
	555,509,099	495,909,047
Foreign:		
Commercial	25,801,713	12,287,002
Personal	445,441	0
	26,247,154	12,287.002
Total loans	581,756,253	508,196,049

(6) Loans, continued

Past due and matured loans are summarized as follows:

	2007	2006
Past due loans	288,709	796,118
Matured loans	555,261	526,023
Past due loans in non – accrual status	366,999	796,118

Loan portafolio classification:

2007					
Loan classification	**Standard**	**Special Mention**	**Sub-Standard**	**Doubtful**	**Total**
Corporate	382,400,965	0	0	0	382,400,965
Consumer	197,531,627	124,979	0	327,622	197,984,228
Others	1,100,000	271,060	0	0	1,371,060
Total	581,032,592	396,039	0	327,622	581,756,253

2006					
Loan classification	**Standard**	**Special Mention**	**Sub-Standard**	**Doubtful**	**Total**
Corporate	335,492,449	247,133	0	55,639	335,795,221
Consumer	148,102,467	0	0	740,480	148,842,947
Others	23,074,429	483,452	0	0	23,557,881
Total	506,669,345	730,585	0	796,119	508,196,049

During the year 2007, total restructured loans amounted to B/.428,800 (2006: B/.809,259).

The Bank classifies as past due those loans that have not been cancelled at their maturity date, and as matured those in arrears for 30 days or more in their payments to principal and interest, after the maturity of those payments.

As of October 31, 2007, the annual interest rate earned on loans ranged from 3.50% y 18% (2006: 3.90% y 18%). The average interest rate weighted was 6.87% for the year 2007 (2006: 6.95%).

The allowance for loan losses was determined based on the estimated net loss of loans classified as doubtful. Generic allowances are maintained by its Head Office.

(6) Loans, continued

The movement of the allowance for loan losses is as follows:

	2007	2006
Balance at beginning of year	0	140,021
Provision charged to operations	12,277	0
Loans charged off	0	(7,476)
Recoveries	0	913
Reversal of provisions	0	(133,458)
Balance at end of year	12,277	0

(7) Premises, Furniture, Equipment and Improvements

Premises, furniture, equipment and improvements are detailed as follows:

2007	Premises	Furniture and equipment	Improvements	Vehicles	Total
Cost:					
At beginning of year	1,249,572	1,401,957	1,726,166	48,100	4,425,795
Acquisitions	0	216,819	591,697	14,150	822,666
Disposals	0	10,211	84,231	0	94,442
At end of year	1,249,572	1,608,565	2,233,632	62,250	5,154,019
Accumulated depreciation and amortization:					
At beginning of year	249,913	761,613	762,448	35,500	1,809,474
Expense for the year	31,241	201,783	187,515	9,579	430,118
Disposals	0	10,211	4,653	0	14,864
At end of year	281,154	953,185	945,310	45,079	2,224,728
Net balances	968,418	655,380	1,288,322	17,171	2,929,291

2006	Premises	Furniture and equipment	Improvements	Vehicles	Total
Cost:					
At beginning of year	1,249,572	1,079,778	1,181,523	48,100	3,558,973
Acquisitions	0	322,179	544,643	0	866,822
At end of year	1,249,572	1,401,957	1,726,166	48,100	4,425,795
Accumulated depreciation and amortization:					
At beginning of year	218,674	616,787	618,332	27,100	1,480,893
Expense for the year	31,239	144,826	144,116	8,400	328,581
At end of year	249,913	761,613	762,448	35,500	1,809,474
Net balances	999,659	640,344	963,718	12,600	2,616,321

(8) Other Assets

The other assets include:

	2007	2006
Land for construction of branches	1,940,214	0
Branches’ improvements in process	300,111	106,199
Prepaid expenses	223,229	324,370
Guarantee deposits	55,250	28,158
Other	56,212	21,645
	2,575,016	480,372

(9) Deposits

Deposits from customers are summarized as follows:

	2007	2006
Local deposits:		
Demand	18,264,775	14,582,008
Savings	20,028,957	14,146,973
Time	276,810,678	134,404,489
Total local deposits	315,104,410	163,133,470
Foreign deposits:		
Demand	3,782,040	1,943,989
Savings	722,779	409,765
Time deposits	4,503,346	3,610,917
Time deposits – Head Office	229,474,258	221,324,323
Total foreign deposits	238,482,423	227,288,994
Total deposits	553,586,833	390,422,464

The annual interest rate for deposits from customers ranges between 2.313% and 5.7005% (2006: 4.50% and 5.25%).

(10) Head Office Overdraft

The Branch maintains an overdraft in US dollars with its Head Office, for the granting of loans over the limits prescribed in the country for the Bank, for an amount of B/.88,702,365 (2006: B/.134,974,955). The annual interest rated stood between 5.38% and 5.41% (2006: between 3.70% and 5.38%).

(11) Expenses

The breakdown of salary and other personnel expenses and other expenses is presented as follows:

	2007	2006
Salaries and other personnel expenses		
Salaries	2,600,827	2,006,964
Social Security	524,675	284,346
Employees' benefits	434,174	362,716
XIII Month Benefit	196,114	199,239
Other	27,274	124,747
	3,783,064	2,978,012
Other expenses		
Supply expenses	63,225	146,989
Water, electricity and telephone	136,314	97,364
Quotas and registrations	31,681	27,249
Cleanliness	65,191	47,351
Furniture and equipment maintenance	124,798	162,441
Transportation	32,855	45,417
Security service	133,870	81,848
Seminars	35,729	43,031
Donations	65,880	27,590
Cafeteria expenses	22,256	16,717
Educational expenses to expatriates	34,855	20,658
Other	409,345	463,289
	1,155,999	1,179,944

(12) Geographic Concentration of Assets and Liabilities

The geographical distribution of deposits due from banks, loans, investment securities, deposits due to depositors and overdraft with Head Office is the following:

2007	Panama	Other Latin American countries and the Caribbean	Canada and the United States of America	Europe and Asia	Total
Assets:					
Due from banks:					
Demand deposits	4,669,515	0	0	0	4,669,515
Time deposits	1,372,000	45,000,000	0	0	46,372,000
Loans	555,509,099	19,657,503	4,224,648	2,365,003	581,756,253
Securities available for sale	0	1,852,518	0	0	1,852,518
Securities held to maturity	7,617,800	0	0	0	7,617,800
	569,168,414	66,510,021	4,224,648	2,365,003	642,268,086
Liabilities:					
Deposits:					
Demand and savings	38,293,732	1,397,687	3,040,662	66,470	42,798,551
Time deposits	276,810,678	2,196,754	231,192,317	588,533	510,788,282
Overdraft with Head Office	0	0	88,702,365	0	88,702,365
	315,104,410	3,594,441	322,935,344	655,003	642,289,198

(12) Geographic Concentration of Assets and Liabilities, continued

2006	Panama	Other Latin American countries and the Caribbean	Canada and the United States of America	Europe and Asia	Total
Assets:					
Due from banks:					
Demand deposits	6,338,424	0	0	0	6,338,424
Time deposits	1,960,000	0	0	0	1,960,000
Loans	495,909,047	10,286,995	2,000,007	0	508,196,049
Securities available for sale	0	1,931,379	0	0	1,931,379
Securities held to maturity	7,009,987	0	0	0	7,009,987
	511,217,458	12,218,374	2,000,007	0	525,435,839
Liabilities:					
Deposits:					
Demand and savings	28,728,981	636,796	1,685,858	31,101	31,082,736
Time deposits	134,404,489	2,056,863	222,464,275	414,102	359,339,729
Overdraft with Head Office	0	0	134,974,955	0	134,974,955
	163,133,470	2,693,659	359,125,088	445,203	525,397,420

(13) Commitments and Contingencies

The Bank maintains off balance sheet commitments and contingencies, with credit and liquidity risk that derive from the normal course of business, as follows:

	2007	2006
Letters of credit	42,994,524	28,288,502
Guarantees	23,182,845	8,706,039
Loan commitments	66,209,095	39,977,658
Total	132,386,464	76,972,199

Guarantees on behalf of customers, letters of credit and loan commitments include some exposure to credit loss in the event of non-compliance of the customer, net of collateral guarantees securing these transactions. The Bank's credit policies and procedures to approve credit commitments and financial guarantees are the same as those for extension of credits recorded within the Bank's assets. It is Management's opinion that no losses to the Bank will result from these contingent liabilities on behalf of customers.

Loan commitments are commitments that the Bank accepts to make a payment once certain conditions are complied with, which have an average maturity of six months and are used mainly for the disbursements of mortgage loans.

The total amount of the portfolio of off balance sheet contingencies and commitments has been classified as current; therefore no reserve has been has been established for possible losses.

(13) Commitments and Contingencies, continued

The Bank maintains commitments related to operating leases that expire over the next five (5) years, which can be extended. Lease payments for the next five years amount approximately to:

Year	Amount
2008	432,954
2009	446,188
2010	476,116
2011	502,550
2012	510,077

Rent expense for 2007 amounted to B/.529,967 (2006: B/.321,603).

(14) Taxes

The income tax return of the Bank for the year ended October 31, 2007 is subject to examination by the local tax authorities, according to current fiscal regulations.

According to current fiscal regulation, the Bank is exempt from payment of income taxes on earnings derived from foreign transactions. Also, exempt from income taxes are interest earned on time deposits with local banks, interest earned on Panama Government securities and on securities issued through the Panama Stocks Exchange.

The income tax expense is detailed as follows:

	2007	2006
Income tax	1,418,060	2,221,194
Deferred income tax related to temporary differences	(3,683)	0
Total income tax expense	1,414,377	2,221,194

The amounts of deferred tax relating to temporary differences originated in the allowance for loan losses. As of October 31, 2006, the Bank did not require an allowance for loan losses, since it did not have impairment; therefore the total deferred income tax was reversed.

(14) Taxes, continued

A reconciliation of income tax and dividend tax computed based on the financial income using actual tax rates of 30% and 10%, respectively, and the income tax, and the dividend tax computed based on fiscal income, is as follows:

	2007	**2006**
Financial income (income before income tax)	5,647,651	6,540,197
Tax at the applicable tax of 30% and 10% (income and dividend taxes)	2,089,631	2,419,873
Tax effect on foreign income and expenses	(615,322)	(65,432)
Tax effect on exempt income and other non taxable income	(249,555)	(361,292)
Tax effect on exempt and non deductible cost and expenses	193,306	228,045
Income and dividend taxes estimated based on fiscal income	1,418,060	2,221,194

The effective rate of the financial income tax is 25.11 (2006: 33.96%) and the applicable income tax rate was 30% and 10% for both year dividend tax according to existing tax legislation.

(15) Fair Value of Financial Instruments

The following assumptions were made by Management to estimate the fair value of each category of financial instruments in the balance sheet and off the balance sheet:

(a) Cash and cash equivalent, demand deposit and time deposit in banks
For the above financial instruments, carrying value approximates fair value due to their short-term nature.

(b) Investments Securities
For these investments, the fair value is based in price quotation obtained from financial intermediaries.

(c) Loans
The estimated fair value of loans represents the discounted amount of estimated future cash flows to be received. The forecasted cash flows are discounted at current market rates to determine their fair value.

(d) Deposits due to customers
For time deposits, the fair value is based on discounted cash flows using market interest rates for new debts with similarly remaining maturities.

(e) Overdraft
The carrying value of borrowing with maturities up to one year or less approximates fair value due to the short-term nature of these transactions.

(15) Fair Value of Financial Instruments, continued

Estimates of fair value are made at a determined date, based on market estimations and information about the financial instruments. These estimates do not reflect any premium or discount that may arise from the offer to sell a particular financial instrument at a given date. The estimations are subjective for their nature, involve uncertainly and elements of judgment, therefore, they cannot be determined with accuracy. Changes made to the assumptions can significantly affect these estimations

The following table summarizes the carrying value and fair value of those significant financial assets and liabilities not presented in the Bank's balance sheet at fair value. Market rates are used to calculate the fair value of financial assets and liabilities.

	2007		2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Demand deposits	4,669,515	4,669,515	6,338,424	6,338,424
Time deposits	46,372,000	46,372,000	1,960,000	1,960,000
Investment securities	9,470,318	8,959,503	8,941,366	8,920,276
Loans	581,357,542	567,525,631	507,872,418	496,552,431
	641,869,375	627,526,649	525,112,208	513,771,131
Financial liabilities:				
Demand deposits	22,046,815	22,046,815	16,525,997	16,525,997
Savings deposits	20,751,736	20,751,736	14,556,738	14,556,738
Time deposits	510,788,282	507,768,473	359,339,729	357,215,293
Overdrafts	88,702,365	88,702,365	134,974,955	134,974,955
	642,289,198	639,269,389	525,397,419	523,272,983

(16) Risk Management of Financial Instruments

Financial instruments are any contracts that originate a financial asset in one enterprise and a financial liability or equity instrument in another enterprise. The Branch's balance sheet is primarily composed of financial instruments.

These instruments expose the Bank to various types of risks. The Bank of Nova Scotia's Head Office has approved a Risk Management Policy which: identifies each significant risk the Bank is exposed to; creates a Market Risk Management and Policy Committee composed of key executives that engage in prudentially monitoring, controlling and managing those risks; and establishes limits for each one of those risks. Additionally, the Bank is subject to the regulations issued by the Superintendence of Banks of the Republic of Panama, related to risk concentration, liquidity and capitalization, among others.

Main types of risks identified by the Bank are credit, liquidity risk and market. The market risk includes interest rate risk and price risk:

(a) Credit Risk

It is the risk that the borrower or issuer of a financial asset, property of the Bank, does not comply, entirely and on time, with any payment due to the Bank according to the terms and conditions established at the time the Bank acquired the respective financial asset.

(16) Risk Management of Financial Instruments, continued

To mitigate the credit risk, management policies establish limits by country, sovereignty, industry and debtor limit. Moreover, Market Risk Management and Policy Committee evaluates and previously approves each commitment that involves a credit risk for the Bank, and periodically monitors the financial condition of the respective debtors or issuers.

At the balance sheet date, there are no significant credit risk concentrations. The maximum exposure to credit risk is represented by the carrying value of each financial asset on the balance sheet.

(b) Counterpart Risk

Risk that a counterparty does not comply with the settlement of purchase or sales of instruments and other instruments by other participants in the securities market

Risk Management policies set counterpart limits that determine, at every moment, the maximum amount of net exposure of transactions not yet settled that the Bank could have with a counter party. The Commercial Risk Committee is responsible for identifying acceptable counter parties, taking into considerations the counter party's history with respect to the fulfillment of obligations, as well as indications of capability and position to comply with obligations in the future.

(c) Market Risk

Risk that the value of a financial asset of the Bank is reduced as a result of charges in interest rates, foreign currency exchange rates, stock prices and other financial variables, and market participants' reaction to political and economic events. Bank operations are subject to the interest rate fluctuation risk, since assets in different periods and amount vary.

Risk management policies provides for compliance with limits by financial instrument, limits with respect to maximum loss amounts that trigger the settlement of the position that caused such loss; and the requirement that, except with approval by the Head Office, substantially all assets and liabilities are denominated in US Dollars or Balboas.

(d) Liquidity Risk

It is the risk that the Bank could not comply with all its obligations caused by, among others, the unexpected withdrawal of all clients' and lender's funds, the impairment of the credit quality of the credit portfolio, the reduction on the fair value of the investments, the excessive concentration of liabilities in a particular source, the mismatch between assets and liabilities, the lack of liquidity of assets, or the funding of long term assets with short term liabilities.

The risk management policies establish a liquidity limit that determines the portion of the Bank assets that should be maintained in high liquidity instruments, limits to the funding composition, leverage limits, and duration limits.

(17) Interest Rate Risk

The interest rate risk of the cash flow is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The interest rate risk in the fair value is the risk that the value of the financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

The table below summarizes the Bank's exposure to interest rate risks. Included in the table are the Company's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

2007	**Up to 1 year**	**From 1 to 3 years**	**From 3 to 5 years**	**More than 5 years**	**Total**
Assets					
Time deposits due from banks	46,372,000	0	0	0	46,372,000
Securities available for sale	1,852,518	0	0	0	1,852,518
Securities held to maturity	7,617,800	0	0	0	7,617,800
Loans	200,326,806	69,299,876	126,653,013	185,476,558	581,756,253
Total assets	256,169,124	69,299,876	126,653,013	185,476,558	637,598,571
Liabilities					
Deposits:					
Savings	20,751,736	0	0	0	20,751,736
Time	509,500,791	1,287,491	0	0	510,788,282
Overdraft – Head Office	88,702,365	0	0	0	88,702,365
Total liabilities	618,954,892	1,287,491	0	0	620,242,383
Interest sensitivity gap	(362,785,768)	68,012,385	126,653,013	185,476,558	17,356,188

2006	**Up to 1 year**	**From 1 to 3 years**	**From 3 to 5 years**	**More than 5 years**	**Total**
Assets					
Time deposits due from banks	1,960,000	0	0	0	1,960,000
Securities available for sale	1,931,379	0	0	0	1,931,379
Securities held to maturity	7,009,987	0	0	0	7,009,987
Loans	372,092,140	18,780,297	15,998,338	101,325,274	508,196,049
Total assets	382,993,506	18,780,297	15,998,338	101,325,274	519,097,415
Liabilities					
Deposits:					
Savings	14,556,738	0	0	0	14,556,738
Time	358,464,729	875,000	0	0	359,339,729
Overdraft – Head Office	134,974,955	0	0	0	134,974,955
Total liabilities	507,996,422	875,000	0	0	508,871,422
Interest sensitivity gap	(125,002,916)	17,905,297	15,998,338	101,325,274	10,225,993

(18) Liquidity Risk

The Bank is exposed to daily calls on its available cash resources for overnight deposits, current accounts, deposits with maturities, loan disbursements, guarantees and margin requirements. The Bank does not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Assets and Liabilities Committee monitors these maturities, in order to ensure the existence of fund requirements, as well as of contingent plans, such as inter-bank facilities and/or loans that should be in place to cover at unexpected levels of demand.

The table below analyzes the Bank's assets and liabilities grouped by their residual maturities at the balance sheet date with respect to the maturity date of the contractual flow of the operation.

2007	Up to 1 year	From 1 to 3 years	From 3 to 5 years	More than 5 years	Total
Assets					
Cash and Cash Items	1,463,976	0	0	0	1,463,976
Deposits due from banks	51,041,515	0	0	0	51,041,515
Securities available for sale	0	197,665	0	1,654,853	1,852,518
Securities held to maturity	7,617,800	0	0	0	7,617,800
Loans	267,759,035	117,169,660	61,598,336	135,229,222	581,756,253
Other assets	8,397,758	892,296	892,296	9,264,764	19,447,114
Total assets	336,280,084	118,259,621	62,490,632	146,148,839	663,179,176
Liabilities					
Deposits:					
Demand	22,046,815	0	0	0	22,046,815
Savings	20,751,736	0	0	0	20,751,736
Time	509,500,791	1,287,491	0	0	510,788,282
Overdraft – Head Office	88,702,365	0	0	0	88,702,365
Other liabilities	15,802,057	0	0	0	15,802,057
Total liabilities	656,803,764	1,287,491	0	0	658,091,255
Net liquidity gap	(320,523,680)	116,972,130	0	146,148,839	5,087,921

(18) Liquidity Risk, continued

2006	Up to 1 year	From 1 to 3 years	From 3 to 5 years	More than 5 years	Total
Assets					
Cash and Cash Items	625,574	0	0	0	625,574
Deposits due from banks	8,298,424	0	0	0	8,298,424
Securities available for sale	0	0	297,264	1,634,115	1,931,379
Securities held to maturity	0	5,000,000	2,009,987	0	7,009,987
Loans	247,364,528	101,628,677	54,568,431	104,634,413	508,196,049
Other assets	3,569,460	761,462	707,642	10,188,265	15,226,829
Total assets	259,857,986	107,390,139	57,583,324	116,456,793	541,288,242
Liabilities					
Deposits:					
Demand	16,525,997	0	0	0	16,525,997
Savings	14,556,738	0	0	0	14,556,738
Time	358,464,729	875,000	0	0	359,339,729
Overdraft – Head Office	134,974,955	0	0	0	134,974,955
Other liabilities	8,304,405	0	0	0	8,304,405
Total liabilities	532,826,824	875,000	0	0	533,701,824
Net liquidity gap	(272,968,838)	106,515,139	57,583,324	116,456,793	7,586,418

(19) Critical Accounting Estimates and Judgments in Applying Accounting Policies

The Bank has made estimates and assumptions that effect the reporting of assets and liabilities, within the following fiscal year estimates and decisions are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Impairment losses on loans

The Bank reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank takes in consideration the procedures described in note 2 (f).

(b) Impairment of available-for-sale investments

The Bank determines that investment securities are impaired when there has been a significant or prolonged decline in the fair value below its cost.

(20) Banking Law in Panama

In force since June 13, 1998, the banking law was promulgated in Panama under Law Decree No.9 of February 26, 1998 ("Law No. 9"), whereby the banking system is reformed and the Superintendence of Banks is created.

Among others, Law No. 9 mandates banks with general banking license to maintain Capital Funds of at least 8% of total weighted assets and off-balance sheet operations. In addition, the banks are forbidden to grant loans to a sole economic group up to 25% of their Capital Funds, and also banks are forbidden to grant loans to related parties (individually or the same economic group) up to 5% without guarantee and 10% with real guarantee, except those guaranteed with cash that can be until 100%. However, for the branches of foreign banks with general license, the requirements of capital funds and the limits to grant loans will be measured in regard with the Consolidated Capital Funds of their head offices, in accordance with the ratios required by the legislation of the Head Office country.

(20) Banking Law in Panama, continued

The accrual of loans with or without real guarantee that are not deposits granted to related parties may not exceed 25% of the Capital Funds. This percentage was set to 50% starting in the year 2002, and it will be set to 25% starting in the year 2005.