

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 40-F**

[Check one]

- ☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934**
- or**
- ☒ **ANNUAL REPORT PURSUANT TO SECTION 13(a) OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended October 31, 2011**

**Commission File Number 002-09048**

**THE BANK OF NOVA SCOTIA**  
(Exact name of Registrant as specified in its charter)

**CANADA**  
(Province or other jurisdiction of incorporation or organization)

**6029**  
(Primary Standard Industrial Classification Code Number (if applicable))

**Not Applicable**  
(I.R.S. Employer Identification Number (if applicable))

**44 King St. West, Scotia Plaza, 8<sup>th</sup> floor,  
Toronto, Ontario, Canada M5H 1H1  
(416) 866-3672**  
(Address and telephone number of Registrant's principal executive offices)

**The Bank of Nova Scotia, One Liberty Plaza, 25<sup>th</sup> floor,  
New York, N.Y., U.S.A. 10006  
Attention: William R. Ebbels  
(212) 225-5000**  
(Name, address (including zip code) and telephone number (including area code)  
of agent for service in the United States)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act.

**Not applicable**  
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

**Not applicable**  
(Title of Class)

For annual reports, indicate by check mark the information filed with this Form:

☒ Annual information form      ☒ Audited annual financial statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Common Shares	1,089,478,980
Preferred Shares, Series 12	12,000,000
Preferred Shares, Series 13	12,000,000
Preferred Shares, Series 14	13,800,000
Preferred Shares, Series 15	13,800,000
Preferred Shares, Series 16	13,800,000
Preferred Shares, Series 17	9,200,000
Preferred Shares, Series 18	13,800,000
Preferred Shares, Series 20	14,000,000
Preferred Shares, Series 22	12,000,000
Preferred Shares, Series 24	10,000,000
Preferred Shares, Series 26	13,000,000
Preferred Shares, Series 28	11,000,000
Preferred Shares, Series 30	10,600,000
Preferred Shares, Series 32	16,345,767

Indicate by check mark whether the Registrant by filing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934 (the "Exchange Act"). If "Yes" is marked, indicate the filing number assigned to the Registrant in connection with such Rule.

Yes ☐ 82-      No ☒

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒      No ☐

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## **CONTROLS AND PROCEDURES**

Management's responsibility for financial information contained in the Annual Report is described on page 110 of Exhibit 3, 2011 Consolidated Financial Statements. In addition, the Bank's Audit and Conduct Review Committee of the Board of Directors has reviewed, and the Board of Directors has reviewed and approved, the 2011 Consolidated Financial Statements and Management's Discussion and Analysis prior to release. Scotiabank is committed to providing timely, accurate and balanced disclosure of all material information and to providing fair and equal access to such information. The Bank's disclosure policies and practices are published on its website.

### **Disclosure Controls and Procedures**

The Bank's disclosure controls and procedures are designed to provide reasonable assurance that information is accumulated and communicated to the Bank's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate, to allow timely decisions regarding required disclosure.

As of October 31, 2011, the Bank's management, with the participation of the CEO and CFO, evaluated the effectiveness of its disclosure controls and procedures, as defined under the rules adopted by the United States Securities and Exchange Commission ("SEC") and the Canadian securities regulatory authorities, and have concluded that the Bank's disclosure controls and procedures are effective.

### **Internal control over financial reporting**

Management of the Bank is responsible for establishing and maintaining adequate internal control over financial reporting. These controls include policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Bank; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with Canadian generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Bank; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Bank's assets that could have a material effect on the financial statements.

All control systems contain inherent limitations, no matter how well designed. As a result, the Bank's management acknowledges that its internal control over financial reporting will not prevent or detect all misstatements due to error or fraud. In addition, management's evaluation of controls can provide only reasonable, not absolute, assurance that all control issues that may result in material misstatements, if any, have been detected.

Management assessed the effectiveness of internal control over financial reporting, using the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework, and based on that assessment concluded that internal control over financial reporting was effective, as at October 31, 2011.

### **Changes in internal control over financial reporting**

There have been no changes in the Bank's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Bank's internal control over financial reporting during the year ended October 31, 2011.

### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management's Report on Internal Control over Financial Reporting and the Report of Independent Registered Public Accounting Firm are provided in Exhibit 4.

### **AUDIT COMMITTEE FINANCIAL EXPERT**

All of the members of the Bank's Audit and Conduct Review Committee of the Board of Directors ("audit committee") are financially literate and independent, and one or more members of the audit committee meet the definition of a financial expert. The Bank's Board of Directors has determined that Mr. Ronald A. Brenneman is an audit committee financial expert and is independent, as that term is defined by the New York Stock Exchange's corporate governance standards applicable to the Bank.

The SEC has indicated that the designation of a person as an audit committee financial expert does not impose on such person any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of the audit committee and board of directors in the absence of such designation.

### **CODE OF ETHICS**

The Bank has adopted a code of ethics, entitled "Guidelines for Business Conduct" (the "Guidelines"). These Guidelines have been in place for many years and apply to all directors, officers and employees of the Bank. Effective August 1, 2008, the Guidelines were updated to reflect current industry best practices. A copy of the revised Guidelines was filed as an exhibit to Form 6-K filed with the SEC (EDGAR Company Filings) on August 1, 2008. The Guidelines are available on the Bank's website at [www.scotiabank.com](http://www.scotiabank.com), in the Corporate Governance section, and are available in print to any person, without charge, upon written request to the Secretary of the Bank at the Toronto executive office address shown above. A supplement to the Guidelines, entitled Financial Reporting Whistleblower Policy, is also posted on the Bank's website. Amendments to the Guidelines and waivers, if any, for directors and executive officers will be disclosed on the Bank's website. There were no such waivers granted in fiscal 2011.

### **PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The disclosure provided in Table 55 "Fees paid to the shareholders' auditors" on page 98 of Exhibit 2, Management's Discussion and Analysis, is incorporated by reference herein. The nature of these services is described below:

- Audit services generally relate to the statutory audits and review of financial statements, professional services associated with the Bank's International Financial Reporting Standards ("IFRS") transition, regulatory required attestation reports, as well as services associated with registration statements, prospectuses, periodic reports and other documents filed with securities regulatory bodies or other documents issued in connection with securities offerings.
- Audit-related services include attest services required by regulatory bodies not directly linked to the financial statements, review of controls and procedures related to regulatory reporting, audits of employee benefit plans, special attest services not required by statute or regulation, but requested by a party to a specific transaction, consultation and training on accounting and financial reporting under IFRS.
- Tax services outside of the audit scope relate primarily specified review procedures required by local tax authorities, attestation on tax returns of certain subsidiaries as required by local tax authorities, and review to determine compliance with an agreement with the tax authorities.
- Other non-audit services are primarily for the review and translation of English language financial statements into other languages.

None of the above services were approved pursuant to an exemption under paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X from the requirement that the audit committee pre-approve the services. The majority of the hours expended on the audits of the 2011 and 2010 consolidated financial statements were attributable to work performed by the full-time permanent employees of the Bank's independent auditors, KPMG LLP or its affiliates. The Audit and Conduct Review Committee's pre-approval policies and procedures, as revised effective March 5, 2007, were attached as Exhibit 7 to the Form 40-F filed on December 19, 2007 for the fiscal year ended October 31, 2007. The pre-approval policies and procedures have been subsequently approved without changes at each annual review.

### **OFF-BALANCE SHEET ARRANGEMENTS**

The disclosure provided under "Off-Balance Sheet Arrangements" on pages 47 to 50 and "Variable Interest Entities" on page 81 of Exhibit 2, Management's Discussion and Analysis, is incorporated by reference herein. Additional information from note 1 on pages 117 to 122, note 4(c) on pages 127 and 128, note 6 on page 130, note 13 on pages 133 and 134, note 14 on pages 135 and 136, note 15 on page 137, note 24 on pages 150 to 152, note 25 on pages 152 to 159, note 26 on pages 159 to 161, and note 28 on pages 162 to 166 of Exhibit 3, 2011 Consolidated Financial Statements, is incorporated by reference into "Off-Balance Sheet Arrangements" in Management's Discussion and Analysis.

### **CONTRACTUAL OBLIGATIONS**

The disclosure provided under "Contractual Obligations" on page 75 of Exhibit 2, Management's Discussion and Analysis, is incorporated by reference herein. Additional information from note 10 on page 132, note 20 on pages 144 to 146, note 24 on pages 150 to 152, note 25 on pages 152 to 159, and note 26 on pages 159 and 161 of Exhibit 3, 2011 Consolidated Financial Statements, is incorporated by reference into "Contractual Obligations" in Management's Discussion and Analysis.

### **IDENTIFICATION OF THE AUDIT COMMITTEE**

The Bank's audit committee is composed of the following directors: Michael J.L. Kirby (Chair), Ronald A. Brenneman, Thomas C. O'Neill, Alexis E. Rovzar de la Torre, Indira V. Samarasekera, Paul D. Sobey, and Barbara S. Thomas. Ex-officio member: John T. Mayberry. Ms. Susan Segal was appointed a director of the Bank and a member of the Audit and Conduct Review Committee effective as at the close of the Board of Directors meeting on December 2, 2011.

### **SUMMARY OF SIGNIFICANT CORPORATE GOVERNANCE DIFFERENCES**

A summary of significant ways corporate governance practices followed by the Bank differ from corporate governance practices required to be followed by U.S. domestic companies under the New York Stock Exchange's listing standards (disclosure required by Section 303A.11 of the NYSE Listed Company Manual) is available on the Bank's website at [www.scotiabank.com/governance](http://www.scotiabank.com/governance).

### **Undertaking**

Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities registered pursuant to Form 40-F; the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

### **Signatures**

Pursuant to the requirements of the Exchange Act, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereto duly authorized.

Registrant:

**THE BANK OF NOVA SCOTIA**

By: /s/ Luc A. Vanneste

Name: Luc A. Vanneste

Title: Executive Vice President and  
Chief Financial Officer

Date: December 2, 2011

## EXHIBIT INDEX

Exhibit No.	Description
1.	Annual Information Form dated December 2, 2011
2.	Management's Discussion and Analysis (pages 24 through 107 of the 2011 Annual Report)
3.	2011 Consolidated Financial Statements (pages 109 through 173 of the 2011 Annual Report)
4.	Management's Report on Internal Control over Financial Reporting and Report of Independent Registered Public Accounting Firm (page 108 of the 2011 Annual Report)
5.	Corporate Governance
6.	Auditors' Consent
7.	Certifications required by Rule 13a-14(a) or Rule 15d-14(a), pursuant to Section 302 of the U.S. Sarbanes-Oxley Act of 2002
8.	Certifications required by Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of the U.S. Sarbanes-Oxley Act of 2002



**The Bank of Nova Scotia**

**ANNUAL  
INFORMATION  
FORM**

**DECEMBER 2, 2011**



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## **Distribution Notice**

When this annual information form is provided to security holders or other interested parties, it must be accompanied by copies of all the documents (or excerpts thereof) incorporated herein by reference. Portions of this Annual Information Form of The Bank of Nova Scotia (the “Bank”) dated December 2, 2011 (the “AIF”), are disclosed in the Management’s Discussion and Analysis for the year ended October 31, 2011 (the “MD&A”). The MD&A is also available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **Financial Data**

Except as otherwise noted, all information is given at or for the year ended October 31, 2011. Amounts are expressed in Canadian dollars. Financial information is presented in accordance with Canadian generally accepted accounting principles.

## **Forward-looking Statements**

Our public communications often include oral or written forward-looking statements. Statements of this type are included in this document, and may be included in other filings with Canadian securities regulators or the U.S. Securities and Exchange Commission, or in other communications. All such statements are made pursuant to the “safe harbour” provisions of the United States Private Securities Litigation Reform Act of 1995 and any applicable Canadian securities legislation. Forward-looking statements may include comments with respect to the Bank’s objectives, strategies to achieve those objectives, expected financial results (including those in the area of risk management), and the outlook for the Bank’s businesses and for the Canadian, United States and global economies. Such statements are typically identified by words or phrases such as “believe,” “expect,” “anticipate,” “intent,” “estimate,” “plan,” “may increase,” “may fluctuate,” and similar expressions of future or conditional verbs such as “will,” “should,” “would” and “could”.

By their very nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, and the risk that predictions and other forward-looking statements will not prove to be accurate. Do not unduly rely on forward-looking statements, as a number of important factors, many of which are beyond our control, could cause actual results to differ materially from the estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to: the economic and financial conditions in Canada and globally; fluctuations in interest rates and currency values; liquidity; significant market volatility and interruptions; the failure of third parties to comply with their obligations to us and our affiliates; the effect of changes in monetary policy; legislative and regulatory developments in Canada and elsewhere, including changes in tax laws; the effect of changes to our credit ratings; amendments to, and interpretations of, risk-based capital guidelines and reporting instructions and liquidity regulatory guidance; operational and reputational risks; the risk that the Bank’s risk management models may not take into account all relevant factors; the accuracy and completeness of information the Bank receives on customers and counterparties; the timely development and introduction of new products and services in receptive markets; the Bank’s ability to expand existing distribution channels and to develop and realize revenues from new distribution channels; the Bank’s ability to complete and integrate acquisitions and its other growth strategies; changes in accounting policies and methods the Bank uses to report its financial condition and the results of its operations, including uncertainties associated with critical accounting assumptions and estimates; the effect of applying future accounting changes, including International Financial Reporting Standards; global capital markets activity; the Bank’s ability to attract and retain key executives; reliance on third parties to provide components of the Bank’s business infrastructure; unexpected changes in consumer spending and saving habits; technological developments; fraud by internal or external parties, including the use of new technologies in unprecedented ways to defraud the Bank or its customers; consolidation in the Canadian financial services sector; competition, both from new entrants and established competitors; judicial and regulatory proceedings; acts of God, such as earthquakes and hurricanes; the possible impact of international conflicts and other developments, including terrorist acts and war on terrorism; the effects of disease or illness on local, national or international economies; disruptions to public infrastructure, including transportation, communication, power and water; and the Bank’s anticipation of and success in managing the risks implied by the foregoing. A substantial amount of the Bank’s business involves making loans or otherwise committing resources to specific companies, industries or countries. Unforeseen events affecting such borrowers, industries or countries could have a material adverse effect on the Bank’s financial results, businesses, financial condition or liquidity. These and other factors may cause the Bank’s actual performance to differ materially from that contemplated by forward-looking statements. For more information, see the discussion on pages 63 to 77 inclusive, of the Bank’s 2011 MD&A and those pages are incorporated herein by reference.

The preceding list of important factors is not exhaustive. When relying on forward-looking statements to make decisions with respect to the Bank and its securities, investors and others should carefully consider the preceding factors, other uncertainties and potential events. The Bank does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by or on its behalf.

## **CORPORATE STRUCTURE**

### **Name, Address and Place of Incorporation**

The Bank was granted a charter under the laws of the Province of Nova Scotia in 1832 and commenced operations in Halifax, Nova Scotia in that year. Since 1871, the Bank has been a chartered bank under the *Bank Act* (Canada) (the “Bank Act”). The Bank is a Schedule I bank under the Bank Act and the Bank Act is its charter. The head office of the Bank is located at 1709 Hollis Street, Halifax, Nova Scotia, B3J 3B7 and its executive offices are at Scotia Plaza, 44 King Street West, Toronto, Ontario, M5H 1H1. A copy of the Bank’s by-laws is available on [www.sedar.com](http://www.sedar.com).

### **Intercorporate Relationships**

Each international principal subsidiary of the Bank is incorporated or established and existing under the laws of the jurisdiction in which its principal office is located, with the exceptions of Scotia Holdings (US) Inc. and Scotiabanc Inc., which are incorporated and existing under the laws of the State of Delaware. Each Canadian principal subsidiary of the Bank is incorporated or established and existing under the laws of Canada, with the exceptions of: DundeeWealth Inc., Scotia Asset Management L.P., Scotia Capital Inc., Scotia Securities Inc., Scotiabank Capital Trust, Scotiabank Subordinated Notes Trust and Scotiabank Tier 1 Trust, which are incorporated or established and existing under the laws of the Province of Ontario.

The Bank’s principal subsidiaries are listed on Schedule “A”.

## **GENERAL DEVELOPMENT OF THE BANK’S BUSINESS**

### **Three-Year History**

The Bank is one of North America’s premier financial institutions and Canada’s most international bank. Through its team of more than 75,000 employees, the Bank and its affiliates offer a broad range of products and services, including personal, commercial, corporate and investment banking to more than 19 million customers in more than 55 countries around the world.

In the fiscal year ended October 31, 2011, the Bank’s net income available to common shareholders was \$4,959 million, an increase of \$921 million or 23% higher than 2010. Earnings per share (on a diluted basis) were \$4.62, up 18% from \$3.91 in 2010. Return on equity was 18.8%. In fiscal 2011, the Bank’s actual dividend payout ratio was 44.4%, compared to 50% in 2010.

In the fiscal year ended October 31, 2010, the Bank’s net income available to common shareholders was \$4,038 million, an increase of \$677 million or 20% higher than 2009. Earnings per share (on a diluted basis) were \$3.91, up 18% from \$3.31 in 2009. Return on equity was 18.3%. In fiscal 2010, the Bank’s actual dividend payout ratio was 50%, compared to 59% in 2009.

In the fiscal year ended October 31, 2009, the Bank’s net income available to common shareholders was \$3,361 million, an increase of \$328 million or 10.8% higher than 2008. Earnings per share (on a diluted basis) were \$3.31, up 8.5% from \$3.05 in 2008. Return on equity was 16.7%. In fiscal 2009, the Bank’s actual dividend payout ratio was 59%, down from 63% in 2008.

## DESCRIPTION OF THE BANK'S BUSINESS

### General Summary

A profile of each of the Bank's four major business lines is discussed below and additional information on the Bank's business lines is available in the 2011 MD&A, on pages 53 to 62 inclusive, and those pages are herein incorporated by reference.

#### *Canadian Banking*

Canadian Banking provides a range of banking and investing services to more than 7.6 million customers across Canada, through a network of 1,030 branches, 3,027 ABMs, as well as internet, mobile and telephone banking, and third party channels. Canadian Banking is comprised of two main businesses: Retail and Small Business Banking, and Commercial Banking. A description of each is outlined below:

- Retail and Small Business Banking provides financial advice and solutions that include day-to-day banking products, including debit cards, deposit accounts, credit cards, investments, mortgages, loans, and related creditor insurance products to individuals and small businesses.
- Commercial Banking delivers advisory services and a full product suite to medium and large businesses, including banking, cash management, and a broad array of lending and deposit services.

#### *International Banking*

International Banking encompasses the Bank's retail and commercial banking operations in more than 50 countries outside Canada – an international presence unmatched by other Canadian banks. With operations in the Caribbean and Central America, Latin America and Asia, the Bank has more than 62,000 employees (including subsidiaries and affiliates) who provide a full range of Personal and Commercial financial services to more than 11.5 million customers through a network of over 2,500 branches and offices, 5,670 ABMs, telephone and Internet banking, in-store banking kiosks, and specialized sales forces.

#### *Scotia Capital*

Scotia Capital is the wholesale banking arm of the Bank. It offers a wide variety of products to corporate, government and institutional investor clients. Scotia Capital is a full-service lender and investment dealer in Canada and Mexico and offers a wide range of products in the United States and other parts of Latin America. It also provides select products and services to niche markets in Europe and Asia. Scotia Capital provides corporate lending, equity and debt underwriting, and mergers and acquisitions advisory services, as well as capital markets products and services, such as fixed income, derivatives, prime brokerage, securitization, foreign exchange, equity sales, trading and research and, through ScotiaMocatta, precious and base metals.

#### *Global Wealth Management*

Global Wealth Management combines the wealth management and insurance operations in Canada and internationally. Global Wealth Management is diversified across multiple geographies, product lines and strong businesses.

#### *Competition*

The Canadian banking system consists of six major Canadian banks, each of which maintains an extensive branch network, augmented with ABMs, telephone, Internet and mobile banking facilities. In addition to the six major Canadian banks, the banking system includes 17 smaller domestic banks, 54 foreign banks and more than 800 credit unions and caisses populaires. In total, the Canadian financial services industry includes more than 3,500 institutions such as life insurance companies, property and casualty insurers, consumer finance companies, independent investment dealers and independent retail mutual fund management companies.

The Bank provides a broad range of banking and other financial services to retail, commercial and corporate banking

clients in Canada, the United States, Mexico, the Caribbean and Central America, Latin America and Asia either directly or through subsidiaries. In providing these services, the Bank competes with local and international banks and other financial institutions.

Competition is reflected in the range of products and services offered, innovation in features, services, technology and delivery and the different pricing adopted. Canada was ranked second in the world in terms of the variety of financial products and services offered here, according to 2010 survey by the World Economic Forum. Another good measure of the competition in the sector is the narrow margins in Canada. Canada has ranked among the countries with the lowest interest rate spreads in recent years. Increased access to the Canadian payments system has also contributed to increased competition in the marketplace. Recent changes to the Canadian Payments Act allow life insurance companies, securities dealers and money market mutual funds to offer clients chequing privileges on their accounts and permits clients to conduct electronic commerce through direct access to the Interac debit system. The number of new entrants into the financial services sector in recent years has also underscored the level of competition. A total of 18 new entrants, including seven banks and 11 foreign bank branches or subsidiaries, received charters from the federal bank regulator between 2006 and 2011.

### *Supervision and Regulation in Canada*

As a Canadian Schedule I Bank, the Bank's activities in Canada are governed by the Bank Act, which is one of four main federal statutes governing the financial services industry in Canada. The other three statutes cover trust and loan companies, insurance companies and co-operative credit associations.

In accordance with the Bank Act, an organization may engage in and carry on the business of banking and such business generally as pertains to the business of banking. The Bank Act grants Canadian chartered banks broad powers of investment in the securities of other corporations and entities, but imposes limits upon substantial investments. Under the Bank Act, generally a bank has a substantial investment in a body corporate when (a) voting rights attached to the voting shares beneficially owned by the bank and by entities controlled by the bank exceed 10% of the voting rights attached to the outstanding voting shares of the body corporate, or (b) the total number of shares of the body corporate that are beneficially owned by the bank and entities controlled by the bank represent more than 25% of the total shareholders' equity of the body corporate. In addition, under the Bank Act, a bank has a substantial investment in an unincorporated entity where the ownership interests in such entity beneficially owned by that bank and by entities controlled by that bank exceed 25% of all ownership interests in such entity. A Canadian chartered bank is permitted to have a substantial investment in entities whose activities are consistent with those of certain prescribed permitted substantial investments. In general, a bank will be permitted to invest in an entity that carries on any financial services activity whether that entity is regulated or not. Further, a bank may generally invest in entities that carry on commercial activities that are related to the promotion, sale, delivery or distribution of a financial product or service, or that relate to certain information services. A bank may also invest in entities that invest in real property, or mutual funds or act as mutual fund distributors or that service financial institutions and the bank may have downstream holding companies to hold these investments. In certain cases, the approval of the Minister of Finance (the "Minister") or the Superintendent of Financial Institutions Canada (the "Superintendent") is required prior to making the investment and/or the bank is required to control the entity. Canadian chartered banks may offer through their branch network credit or charge-card related insurance, creditors' disability insurance, creditor's life insurance, creditors' loss of employment insurance, creditors' vehicle inventory insurance, export credit insurance, mortgage insurance and travel insurance. Outside bank branches, a bank may offer insurance only in the limited circumstances prescribed by the Bank Act.

Without Minister approval, no person or group of associated persons may own more than 10% of any class of shares of the Bank. No person may be a major shareholder of a bank if the bank has equity of \$8 billion or more (which would include the Bank). A person is a major shareholder of a bank if: (a) the aggregate of shares of any class of voting shares beneficially owned by that person and that are beneficially owned by any entities controlled by that person is more than 20% of that class of voting shares; or (b) the aggregate of shares of any class of non-voting shares beneficially owned by that person and that are beneficially owned by any entities controlled by that person is more than 30% of that class of non-voting shares. Ownership of the Bank's shares by Canadian or foreign governments is prohibited under the Bank Act. However, in 2009 certain amendments were made to the Bank Act that would permit the Canadian federal government to acquire shares of a bank, including the Bank, if the Minister and Governor in Council were to conclude that to do so was necessary to promote stability in the financial system. While the government holds any shares of a bank, including the

Bank, the Minister may impose certain terms and conditions, including conditions on the payment by the Bank of dividends on any of its shares.

The Superintendent is responsible to the Minister for the administration of the Bank Act. The Superintendent provides guidelines for disclosure of a bank's financial information. The Superintendent is also required to make an annual examination of each bank to ensure compliance with the Bank Act and to ensure that each bank is in sound financial condition. The report of the Superintendent's examination is submitted to the Minister. The Bank is subject to regulation by the Canada Deposit Insurance Corporation and the Financial Consumer Agency of Canada, and the activities of the Bank in Canada are subject to various other federal statutory provisions, including the Proceeds of Crime (Money Laundering) and Terrorist Financing Act which applies to all of the Bank's businesses in Canada. The activities of the Bank's trust subsidiaries and insurance subsidiaries are regulated in Canada under the Trust and Loan Companies Act and the Insurance Companies Act, respectively, and under provincial laws in respect of their activities in the provinces. Certain activities of the Bank and its subsidiaries acting as securities brokers, dealers (including investment and mutual fund dealers), underwriters and advisors (including investment counsel and portfolio managers) are regulated in Canada under provincial securities legislation and, in some cases, by self regulatory organizations, such as the Investment Industry Regulatory Organization of Canada for broker dealers and the Mutual Fund Dealers Association for mutual fund dealers.

### *International Supervision and Regulation*

Capital adequacy for Canadian banks is regulated by OSFI and remains consistent with international standards set by the Bank for International Settlements (BIS). Regulatory capital and risk-weighted assets are determined in accordance with the capital framework based on the International Convergence of Capital Measurement and Capital Standards, commonly known as Basel II. On December 16, 2010, the Basel Committee on Banking Supervision (BCBS) published the final revised capital adequacy rules, commonly referred to as Basel III, that increases capital requirements and introduces an internationally harmonized leverage ratio. The increased capital requirements are to be phased-in commencing January 1, 2013 through January 1, 2019. As of January 2019, the Bank will be required to meet a new minimum Common Equity Tier 1 ratio of 4.5% plus a capital conservation buffer of 2.5%, collectively 7% of risk-weighted assets.

### *Supervision and Regulation Outside Canada*

#### *United States*

The activities of the Bank and its subsidiaries in the United States are subject to federal and state supervision, regulation and examination by bank regulatory and other governmental agencies. The Bank is subject to the Bank Holding Company Act of 1956 ("BHCA") and the International Banking Act of 1978 and associated regulations of the Board of Governors of the Federal Reserve System (the "Board"). The Board and other banking regulators oversee the operation of the Bank's branches, offices and subsidiaries in the United States. The Securities and Exchange Commission, state securities regulators and self-regulatory organizations, such as the Financial Industry Regulatory Authority, regulate its broker-dealer subsidiary.

The Bank is a "financial holding company" under the BHCA. This status allows a broad range of financial activities, including merchant banking activities, to be undertaken in the United States. In addition, the Bank owns a commercial and retail bank in the Commonwealth of Puerto Rico that is subject to various laws and regulation and examination by the Commonwealth of Puerto Rico and federal regulators and is an FDIC-insured depository institution. Provisions of the Federal Reserve Act place certain limitations and restrictions on the transactions that the Bank's United States branches, agencies and subsidiary bank can engage in with affiliates of the Bank.

The Bank, as a non-U.S. bank with U.S. operations, is required by the U.S. Bank Secrecy Act as amended by the USA PATRIOT Act of 2001, to take certain steps to prevent, detect and report individuals and entities involved in international money laundering and the financing of terrorism. Failure of a financial institution to comply with these requirements could have serious legal and reputational consequences for the institution.

A wide-ranging U.S. financial regulatory reform package, known as the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"), was enacted into U.S. federal law on July 21, 2010. In general, Dodd-Frank lays out numerous financial reforms in broad terms with more specific interpretive issues left to administrative rulemaking by U.S. federal financial agencies. The rulemaking process has commenced but is still in a relatively early stage. Many of the

provisions of Dodd-Frank, and the administrative rules interpreting and implementing these provisions, will come into effect over the next couple of years, but some may be implemented over a longer timeframe.

As a result of the enactment of Dodd-Frank, it is expected that the activities of the Bank and its subsidiaries in the United States will become subject to certain new restrictions and heightened requirements, but the precise application and potential impact of the reforms on the Bank (both within and outside of the United States) cannot yet be predicted. Several Dodd-Frank reforms are likely to have an impact on large global banks with U.S. wholesale and retail operations, such as the Bank, and include the following:

- New limits on the ability of banking groups to invest their own money in, and manage, “proprietary trading” and private funds activities (“Volcker Rule”);
- Regulation of the over-the-counter derivatives markets, including mandatory clearing and exchange trading requirements for some derivatives products, imposition of lending limits and enhanced affiliate transactions restrictions, and registration of derivatives activities in separate dealer entities (with such activities “pushed out” of bank entities);
- Credit-risk retention requirements in connection with the issuance of an asset-backed security;
- Enhanced supervision and prudential standards (including liquidity and capital standards) for large banking groups operating in the United States;
- Enhanced “financial holding company” qualification requirements (including new capital requirements for “bank holding companies”);
- Restrictions on fees charged to retailers by credit card networks; and
- Reform of consumer mortgage practices, and administration of U.S. federal consumer laws by a new federal agency, the Bureau of Consumer Financial Protection.

#### *Mexico*

Grupo Financiero Scotiabank Inverlat, S.A. de C.V. is an “affiliate holding company” pursuant to the Law for the Regulation of Financial Groups of Mexico and to the Rules for the Establishment of Foreign Affiliate Financial Institutions of Mexico. The governing authority is the Ministry of Finance of Public Credit of Mexico and the supervising and regulatory authorities are the Central Bank of Mexico, the National Banking and the Securities Commission and the National Commission for the Protection of the Users of Financial Services.

#### *Other Jurisdictions*

The Bank is also regulated by the Financial Supervisory Authority (“FSA”) through The London Branch of The Bank of Nova Scotia, covering prudential supervision, conduct of business, market conduct and anti-money laundering. The FSA also authorizes and regulates Scotiabank Europe plc, a wholly owned subsidiary of the Bank which is a UK incorporated deposit taker. Outside of the United States, Mexico and the United Kingdom, each of the Bank’s branches, agencies and subsidiaries, many of which are banks in their own right, is also subject to the regulatory requirements of the jurisdiction in which it conducts its business.

#### *General Supervision and Regulation*

As a result of the recent turmoil in Canada and international banking and financial industries, the Bank may face increased regulation. It is not possible to anticipate what form any new regulation may take, or its impact on the Bank. However, compliance with such regulation could increase the Bank’s costs and impact its ability to pursue business opportunities.



## Social and Environmental Policies

Each year the Bank publishes its Corporate Social Responsibility Report, which provides details of the Bank's social and environmental policies. This document and additional social and environmental information can be found on the Bank's website in the Corporate Social Responsibility section.

## Risk Factors

The risks faced by the Bank are described on pages 63 to 77 inclusive of the MD&A and those pages are incorporated herein by reference.

## DIVIDENDS

### *Restrictions on the Payment of Dividends*

Under the Bank Act, the Bank is prohibited from declaring any dividends on its common shares or preferred shares when the Bank is, or would be placed by such a declaration, in contravention of the capital adequacy, liquidity or any other regulatory directives issued under the Bank Act. In addition, common share dividends cannot be paid unless all dividends to which preferred shareholders are then entitled have been paid or sufficient funds have been set aside to do so. In fiscal 2011, the Bank paid all of the non-cumulative preferred share dividends.

In the event that applicable cash distributions on any of the Scotiabank Trust Securities (meaning securities issued by Scotiabank Capital Trust and Scotiabank Tier 1 Trust) are not paid on a regular distribution date, the Bank has undertaken not to declare dividends of any kind on its preferred shares or common shares. Similarly, should the Bank fail to declare regular dividends on any of its directly issued outstanding preferred shares or common shares, cash distributions will also not be made on any of the Scotiabank Trust Securities.

Currently, these limitations do not restrict the payment of dividends on preferred shares or common shares.

The Bank's preferred shares are entitled to preference over the common shares and over any other shares of the Bank ranking junior to the preferred shares with respect to the payment of dividends.

### *Dividend Payments*

In fiscal 2011, the Bank's actual common share dividend payout ratio was 44.4%, compared to 50% in 2010. The Bank has declared and paid the following dividends on its common shares and preferred shares over the past three completed financial years:

	2011	2010	2009
<b>Common Shares</b>	\$ 2.05	\$ 1.96	\$ 1.96
<b>Series 12</b>	\$1.3125	\$ 1.3125	\$ 1.3125
<b>Series 13</b>	\$ 1.20	\$ 1.20	\$ 1.20
<b>Series 14</b>	\$ 1.125	\$ 1.125	\$ 1.125
<b>Series 15</b>	\$ 1.125	\$ 1.125	\$ 1.125
<b>Series 16<sup>1</sup></b>	\$1.3125	\$ 1.3125	\$ 1.3125
<b>Series 17<sup>2</sup></b>	\$ 1.40	\$ 1.40	\$ 1.40
<b>Series 18<sup>3</sup></b>	\$ 1.25	\$ 1.25	\$ 1.25
<b>Series 20<sup>4</sup></b>	\$ 1.25	\$ 1.25	\$ 1.25
<b>Series 22<sup>5</sup></b>	\$ 1.25	\$ 1.25	\$ 1.4204
<b>Series 24<sup>6</sup></b>	\$1.5624	\$ 1.5624	\$ 1.3677
<b>Series 26<sup>7</sup></b>	\$1.5625	\$ 1.5625	\$1.19649
<b>Series 28<sup>8</sup></b>	\$1.5625	\$ 1.5625	\$1.15796
<b>Series 30<sup>9</sup></b>	\$0.9625	\$0.522825	
<b>Series 32<sup>10</sup></b>	\$0.6780		

1 13.8 million Preferred Shares, Series 16 were issued and commenced trading on October 12, 2007. The initial dividend was paid  
2 on January 29, 2008 and was \$0.39195 per share. Thereafter, quarterly dividends were at a rate of \$0.328125 per share.  
3 9.2 million Preferred Shares, Series 17 were issued and commenced trading on January 31, 2008. The initial dividend was paid  
4 on April 28, 2008 and was \$0.33753 per share. Thereafter, quarterly dividends were at a rate of \$0.35000 per share.  
5 12 million Preferred Shares, Series 18 were issued and commenced trading on March 25, 2008, and pursuant to the exercise of  
6 the underwriters' over-allotment option, an additional 1.8 million Preferred Shares, Series 18 were issued and commenced  
7 trading on March 27, 2008. The initial dividend was paid on July 29, 2008 and was \$0.4315 per share. Thereafter, quarterly  
8 dividends were at a rate of \$0.3125 per share.  
9 14 million Preferred Shares, Series 20 were issued and commenced trading on June 10, 2008. The initial dividend was paid on  
10 July 29, 2008 and was \$0.1678 per share. Thereafter, quarterly dividends were at a rate of \$0.3125 per share.  
11 12 million Preferred Shares, Series 22 were issued and commenced trading on September 9, 2008. The initial dividend was paid  
12 on January 28, 2009 and was \$0.4829 per share. Thereafter, quarterly dividends were at a rate of \$0.3125 per share.  
13 10 million Preferred Shares, Series 24 were issued by the Bank to Sun Life Financial Inc. ("Sun Life") as partial consideration  
14 for the acquisition by the Bank from Sun Life of 104,609,895 trust units of CI Financial Income Fund on December 12, 2008.  
15 The initial dividend was paid on April 28, 2009 and was \$0.5865 per share. Thereafter, quarterly dividends were at a rate of  
16 \$0.3906 per share.  
17 13 million Preferred Shares, Series 26 were issued and commenced trading on January 21, 2009. The initial dividend was paid  
18 on April 28, 2009 and was \$0.41524 per share. Thereafter, quarterly dividends were at a rate of \$0.390625 per share.  
19 11 million Preferred Shares, Series 28 were issued and commenced trading on January 30, 2009. The initial dividend was paid  
20 on April 28, 2009 and was \$0.37671 per share. Thereafter, quarterly dividends were at a rate of \$0.390625 per share.  
21 10.6 million Preferred Shares, Series 30 were issued and commenced trading on April 12, 2010. The initial dividend was paid on  
22 July 28, 2010 and was \$0.2822 per share. Thereafter, quarterly dividends were at a rate of \$0.240625 per share.  
23 16.346 million Preferred Shares, Series 32 were issued and commenced trading on February 1, 2011. The initial dividend was  
24 paid on April 27, 2011 and was \$0.21541 per share. Thereafter, quarterly dividends were at a rate of \$0.23125 per share.

## DESCRIPTION OF THE BANK'S CAPITAL STRUCTURE

### Common Shares

The authorized common share capital of the Bank consists of an unlimited number of common shares, without nominal or par value, of which 1,089,478,980 common shares were issued and outstanding as at October 31, 2011.

Holders of the Bank's common shares are entitled to vote at all meetings of the shareholders of the Bank except meetings at which only the holders of preferred shares of the Bank are entitled to vote. Common shareholders are entitled to receive dividends, as and when declared on the common shares.

After the payment to the holders of the preferred shares of the amount or amounts to which they may be entitled, the holders of the Bank's common shares shall be entitled to receive the remaining property of the Bank upon liquidation, dissolution or winding-up thereof.

## **Preferred Shares - General**

The authorized preferred share capital of the Bank consists of an unlimited number of preferred shares without nominal or par value issuable in series. As at October 31, 2011, 12,000,000 non-cumulative preferred shares, series 12 (the “Preferred Shares, Series 12”), 12,000,000 non-cumulative preferred shares, series 13 (“Preferred Shares, Series 13”), 13,800,000 non-cumulative preferred shares, series 14 (“Preferred Shares, Series 14”), 13,800,000 non-cumulative preferred shares, series 15 (“Preferred Shares, Series 15”), 13,800,000 non-cumulative preferred shares, series 16 (“Preferred Shares, Series 16”), 9,200,000 non-cumulative preferred shares, series 17 (“Preferred Shares, Series 17”), 13,800,000 non-cumulative preferred shares, series 18 (“Preferred Shares, Series 18”), 14,000,000 non-cumulative preferred shares, series 20 (“Preferred Shares, Series 20”), 12,000,000 non-cumulative preferred shares, series 22 (“Preferred Shares, Series 22”), 10,000,000 non-cumulative preferred shares, series 24 (“Preferred Shares, Series 24”), 13,000,000 non-cumulative preferred shares, series 26 (“Preferred Shares, Series 26”), 11,000,000 non-cumulative preferred shares, series 28 (“Preferred Shares, Series 28”), 10,600,000 non-cumulative preferred shares, series 30 (“Preferred Shares, Series 30”), and 16,345,767 non-cumulative preferred shares, series 32 (“Preferred Shares, Series 32”) were issued and outstanding. In addition, non-cumulative preferred shares, series 19 (“Preferred Shares, Series 19”), non-cumulative preferred shares, series 21 (“Preferred Shares, Series 21”), non-cumulative preferred shares, series 23 (“Preferred Shares, Series 23”), non-cumulative preferred shares, series 25 (“Preferred Shares, Series 25”), non-cumulative preferred shares, series 27 (“Preferred Shares, Series 27”), non-cumulative preferred shares, series 29 (“Preferred Shares, Series 29”), non-cumulative preferred shares, series 31 (“Preferred Shares, Series 31”), and non-cumulative preferred shares, series 33 (“Preferred Shares, Series 33”) were authorized. None of the Preferred Shares, Series 19, Preferred Shares, Series 21, Preferred Shares, Series 23, Preferred Shares, Series 25, Preferred Shares, Series 27, Preferred Shares, Series 29, Preferred Shares, Series 31, and Preferred Shares, Series 33 are currently outstanding. The term “Preferred Shares” shall refer to the Preferred Shares, Series 12, the Preferred Shares, Series 13, the Preferred Shares, Series 14, the Preferred Shares, Series 15, the Preferred Shares, Series 16, the Preferred Shares, Series 17, the Preferred Shares, Series 18, the Preferred Shares, Series 20, the Preferred Shares, Series 22, the Preferred Shares, Series 24, the Preferred Shares, Series 26, the Preferred Shares, Series 28, the Preferred Shares, Series 30, and the Preferred Shares, Series 32.

The Preferred Shares are entitled to preference over the common shares and over any other shares of the Bank ranking junior to the Preferred Shares with respect to the payment of dividends and upon any distribution of assets in the event of liquidation, dissolution or winding-up of the Bank.

The Bank may not create, without the approval of the holders of Preferred Shares, any other class of shares ranking prior to or on a parity with the Preferred Shares, increase the authorized number of Preferred Shares or amend the provisions attaching to the Preferred Shares.

Any approval to be given by the holders of the Preferred Shares may be given by a resolution carried by the affirmative vote of not less than 66 2/3% of the votes cast at a meeting of holders of Preferred Shares at which a majority of the outstanding Preferred Shares is represented or, if no quorum is present at such meeting, at any adjourned meeting at which no quorum requirements would apply.

## **Certain Provisions of the Preferred Shares**

### **Dividends**

The holders of the Preferred Shares will be entitled to receive a fixed quarterly non-cumulative preferential cash dividend, as and when declared by the Board of Directors of the Bank, subject to the provisions of the Bank Act, on the third last business day of each of January, April, July and October in each year at the rate specified in the terms of each series. If the Board of Directors of the Bank does not declare the dividends, or any part thereof, on a series of Preferred Shares on or before the dividend payment date for a particular quarter, then the entitlement of the holders of such series of Preferred Shares to receive such dividends, or to any part thereof, for such quarter shall be forever extinguished.

The holders of the Preferred Shares, Series 18, Preferred Shares, Series 20, Preferred Shares, Series 22, Preferred Shares, Series 24, Preferred Shares, Series 26, Preferred Shares, Series 28, Preferred Shares, Series 30, and Preferred Shares, Series 32 are entitled to receive fixed quarterly, non-cumulative cash dividends, as and when declared by the Board of

Directors of the Bank, for the specified initial period as set out in the terms of each series, and thereafter the dividend rate for each series will reset every five years at the rate specified in the terms for such series.

### **Redemption**

The Preferred Shares will not be redeemable prior to the date specified in the terms for each series. On and after such dates, but subject to the provisions of the Bank Act and to the prior consent of the Superintendent and to certain conditions being met, the Bank may redeem at the time specified in the terms of each series all or any part of an outstanding series of Preferred Shares at the Bank's option without the consent of the holder, by the payment of an amount in cash for each such share so redeemed as specified in the terms of each series.

Notice of any redemption of any series of Preferred Shares will be given by the Bank at least 30 days and not more than 60 days prior to the date fixed for redemption. Other than the Preferred Shares, Series 12 and Preferred Shares, Series 13 which grant discretion to the Board of Directors of the Bank in the case of a partial redemption, if less than all the outstanding Preferred Shares in any series are at any time to be redeemed, the shares to be redeemed will be redeemed pro rata, disregarding fractions.

### **Rights Upon Dissolution or Winding-Up**

In the event of the liquidation, dissolution or winding-up of the Bank, the holders of the Preferred Shares shall be entitled to receive \$25.00 per share, together with all dividends declared and unpaid to the date of payment before any amount shall be paid or any assets of the Bank distributed to the holders of any shares ranking junior to the Preferred Shares. The holders of the Preferred Shares shall not be entitled to share in any further distribution of the assets of the Bank.

### **Restrictions on Dividends and Retirement of Shares**

So long as any of the Preferred Shares are outstanding, the Bank will not, without the approval of the holders of the Preferred Shares given as specified below:

- (a) declare, pay or set apart for payment any dividends on the common shares of the Bank or any other shares ranking junior to the Preferred Shares (other than stock dividends payable in shares ranking junior to the Preferred Shares);
- (b) redeem, purchase or otherwise retire any common shares or any other shares ranking junior to the Preferred Shares (except out of the net cash proceeds of a substantially concurrent issue of shares ranking junior to the Preferred Shares);
- (c) redeem, purchase or otherwise retire less than all of the Preferred Shares; or
- (d) except pursuant to any purchase obligation, sinking fund, retraction privilege or mandatory redemption provisions attaching to any series of preferred shares of the Bank, redeem, purchase or otherwise retire any other shares ranking on a parity with the Preferred Shares;

unless, in each case, all dividends up to and including those payable on the dividend payment date for the last completed period for which dividends shall be payable shall have been declared and paid or set apart for payment in respect of each series of cumulative preferred shares of the Bank then issued and outstanding and on all other cumulative shares ranking on a parity with the preferred shares of the Bank and there shall have been paid or set apart for payment all declared dividends in respect of each series of non-cumulative preferred shares of the Bank (including the Preferred Shares) then issued and outstanding and on all other non-cumulative shares ranking on a parity with the preferred shares of the Bank.

### **Exchange Rights**

Upon notice being given by the Bank from time to time with the prior approval of the Superintendent, a holder of Preferred Shares, Series 12 may exchange all but not less than all of the Preferred Shares, Series 12 held by such holder into an equal number of a new issue of a series of fully-paid and freely tradeable preferred shares issued by the Bank

which at the time of such issue qualifies as Tier 1 capital for regulatory capital purposes of the Bank on the date fixed for exchange in such notice.

### **Conversion Rights**

Holders of Preferred Shares, Series 18 will have the right, at their option, on April 26, 2013 and on April 26 every five years thereafter to convert, subject to certain restrictions on conversion and the payment or delivery to the Bank of evidence of payment of the tax (if any) payable, all or any of their Preferred Shares, Series 18 registered in their name into Preferred Shares, Series 19 on the basis of one Preferred Share, Series 19 for each Preferred Share, Series 18.

Holders of Preferred Shares, Series 20 will have the right, at their option, on October 26, 2013 and on October 26 every five years thereafter to convert, subject to certain restrictions on conversion and the payment or delivery to the Bank of evidence of payment of the tax (if any) payable, all or any of their Preferred Shares, Series 20 registered in their name into Preferred Shares, Series 21 on the basis of one Preferred Share, Series 21 for each Preferred Share, Series 20.

Holders of Preferred Shares, Series 22 will have the right, at their option, on January 26, 2014 and on January 26 every five years thereafter to convert, subject to certain restrictions on conversion and the payment or delivery to the Bank of evidence of payment of the tax (if any) payable, all or any of their Preferred Shares, Series 22 registered in their name into Preferred Shares, Series 23 on the basis of one Preferred Share, Series 23 for each Preferred Share, Series 22.

Holders of Preferred Shares, Series 24 will have the right, at their option, on January 26, 2014 and on January 26 every five years thereafter to convert, subject to certain restrictions on conversion and the payment or delivery to the Bank of evidence of payment of the tax (if any) payable, all or any of their Preferred Shares, Series 24 registered in their name into Preferred Shares, Series 25 on the basis of one Preferred Share, Series 25 for each Preferred Share, Series 24.

Holders of Preferred Shares, Series 26 will have the right, at their option, on April 26, 2014 and on April 26 every five years thereafter to convert, subject to certain restrictions on conversion and the payment or delivery to the Bank of evidence of payment of the tax (if any) payable, all or any of their Preferred Shares, Series 26 registered in their name into Preferred Shares, Series 27 on the basis of one Preferred Share, Series 27 for each Preferred Share, Series 26.

Holders of Preferred Shares, Series 28 will have the right, at their option, on April 26, 2014 and on April 26 every five years thereafter to convert, subject to certain restrictions on conversion and the payment or delivery to the Bank of evidence of payment of the tax (if any) payable, all or any of their Preferred Shares, Series 28 registered in their name into Preferred Shares, Series 29 on the basis of one Preferred Share, Series 29 for each Preferred Share, Series 28.

Holders of Preferred Shares, Series 30 will have the right, at their option, on April 26, 2015 and on April 26 every five years thereafter to convert, subject to certain restrictions on conversion and the payment or delivery to the Bank of evidence of payment of the tax (if any) payable, all or any of their Preferred Shares, Series 30 registered in their name into Preferred Shares, Series 31 on the basis of one Preferred Share, Series 31 for each Preferred Share, Series 30.

Holders of Preferred Shares, Series 32 will have the right, at their option, on February 2, 2016 and on February 2 every five years thereafter to convert, subject to certain restrictions on conversion and the payment or delivery to the Bank of evidence of the payment of the tax (if any) payable, all or any of their Preferred Shares, Series 32 registered in their name into Preferred Shares, Series 33 on the basis of one Preferred Share, Series 33 for each Preferred Share, Series 32.

### **Purchase for Cancellation**

Subject to the provisions of the Bank Act, the prior consent of the Superintendent and certain conditions being met, the Bank may at any time purchase for cancellation any series of Preferred Share outstanding, in the open market at the lowest price or prices at which in the opinion of the Board of Directors of the Bank such shares are obtainable.

### **Issuance of Other Series of Preferred Shares**

The Bank may issue other series of preferred shares ranking on parity with the Preferred Shares without the authorization of the holders of the Preferred Shares.

## **Voting Rights**

Subject to the provisions of the Bank Act, the holders of a series of Preferred Shares as such will not be entitled to receive notice of, attend, or vote at, any meeting of the shareholders of the Bank unless and until the first time at which the Board of Directors of the Bank has not declared the whole dividend on such series of Preferred Shares in respect of any quarter. In that event, the holders of such shares will be entitled to receive notice of, and to attend, meetings of shareholders at which directors of the Bank are to be elected and will be entitled to one vote for each Preferred Share held. The voting rights of the holders of such series of Preferred Shares shall forthwith cease upon payment by the Bank of the first dividend on the series of Preferred Shares to which the holders are entitled subsequent to the time such voting rights first arose until such time as the Bank may again fail to declare the whole dividend on such series of Preferred Shares in any quarter, in which event such voting rights shall become effective again and so on from time to time.

## **Certain Provisions of Authorized Preferred Shares of the Bank - Preferred Shares, Series 19, Preferred Shares, Series 21, Preferred Shares, Series 23, Preferred Shares, Series 25, Preferred Shares, Series 27, Preferred Shares, Series 29, Preferred Shares, Series 31 and Preferred Shares, Series 33**

None of the Preferred Shares, Series 19, Preferred Shares, Series 21, Preferred Shares, Series 23, Preferred Shares, Series 25, Preferred Shares, Series 27, Preferred Shares, Series 29, Preferred Shares, Series 31 and Preferred Shares, Series 33 (collectively, the “Converted Preferred Shares”) are currently outstanding.

## **Dividends**

The holders of the Converted Preferred Shares will be entitled to receive a floating rate quarterly non-cumulative preferential cash dividend, as and when declared by the Board of Directors of the Bank, subject to the provisions of the Bank Act, on the third last business day of January, April, July and October in each year at the rate specified in the terms of each series. If the Board of Directors of the Bank does not declare the dividends, or any part thereof, on a series of Converted Preferred Shares on or before the dividend payment date for a particular quarter, then the entitlement of the holders of such series of Converted Preferred Shares to receive such dividends, or to any part thereof, for such quarter shall be forever extinguished.

## **Redemption**

Subject to the provisions of the Bank Act and to the prior consent of the Superintendent and to certain conditions being met, the Bank may redeem at the time specified in the terms of each series all or any part of an outstanding series of Converted Preferred Shares at the Bank’s option without the consent of the holder, by the payment of an amount in cash for each such share so redeemed as specified in the terms of each series together with declared and unpaid dividends to the date fixed for redemption.

Notice of any redemption of any series of Converted Preferred Shares will be given by the Bank at least 30 days and not more than 60 days prior to the date fixed for redemption. If less than all the outstanding Converted Preferred Shares in any series are at any time to be redeemed, the shares to be redeemed will be redeemed pro rata, disregarding fractions.

## **Rights Upon Dissolution or Winding-Up**

In the event of the liquidation, dissolution or winding-up of the Bank, the holders of the Converted Preferred Shares shall be entitled to receive \$25.00 per share, together with all dividends declared and unpaid to the date of payment before any amount shall be paid or any assets of the Bank distributed to the holders of any shares ranking junior to the Converted Preferred Shares. The holders of the Converted Preferred Shares shall not be entitled to share in any further distribution of the assets of the Bank.

## **Restrictions on Dividends and Retirement of Shares**

So long as any of the Converted Preferred Shares are outstanding, the Bank will not, without the approval of the holders of the Converted Preferred Shares given as specified below:

- (a) declare, pay or set apart for payment any dividends on the common shares of the Bank or any other shares ranking junior to the Converted Preferred Shares (other than stock dividends payable in shares ranking junior to the Converted Preferred Shares);
- (b) redeem, purchase or otherwise retire any common shares or any other shares ranking junior to the Converted Preferred Shares (except out of the net cash proceeds of a substantially concurrent issue of shares ranking junior to the Converted Preferred Shares);
- (c) redeem, purchase or otherwise retire less than all of the Converted Preferred Shares then outstanding; or
- (d) except pursuant to any purchase obligation, sinking fund, retraction privilege or mandatory redemption provisions attaching to any series of preferred shares of the Bank, redeem, purchase or otherwise retire any other shares ranking on a parity with the Converted Preferred Shares;

unless, in each case, all dividends up to and including those payable on the dividend payment date for the last completed period for which dividends shall be payable shall have been declared and paid or set apart for payment in respect of each series of cumulative preferred shares of the Bank then issued and outstanding and on all other cumulative shares ranking on a parity with the preferred shares of the Bank and there shall have been paid or set apart for payment all declared dividends in respect of each series of non-cumulative preferred shares of the Bank (including the Converted Preferred Shares) then issued and outstanding and on all other non-cumulative shares ranking on a parity with the preferred shares of the Bank.

### **Conversion Rights**

Holders of Preferred Shares, Series 19 will have the right, at their option, on April 26, 2018 and on April 26 every five years thereafter to convert, subject to certain restrictions on conversion and the payment or delivery to the Bank of evidence of payment of the tax (if any) payable, all or any of their Preferred Shares, Series 19 registered in their name into Preferred Shares, Series 18 on the basis of one Preferred Share, Series 18 for each Preferred Share, Series 19.

Holders of Preferred Shares, Series 21 will have the right, at their option, on October 26, 2018 and on October 26 every five years thereafter to convert, subject to certain restrictions on conversion and the payment or delivery to the Bank of evidence of payment of the tax (if any) payable, all or any of their Preferred Shares, Series 21 registered in their name into Preferred Shares, Series 20 on the basis of one Preferred Share, Series 20 for each Preferred Share, Series 21.

Holders of Preferred Shares, Series 23 will have the right, at their option, on January 26, 2019 and on January 26 every five years thereafter to convert, subject to certain restrictions on conversion and the payment or delivery to the Bank of evidence of payment of the tax (if any) payable, all or any of their Preferred Shares, Series 23 registered in their name into Preferred Shares, Series 22 on the basis of one Preferred Share, Series 22 for each Preferred Share, Series 23.

Holders of Preferred Shares, Series 25 will have the right, at their option, on January 26, 2019 and on January 26 every five years thereafter to convert, subject to certain restrictions on conversion and the payment or delivery to the Bank of evidence of payment of the tax (if any) payable, all or any of their Preferred Shares, Series 25 registered in their name into Preferred Shares, Series 24 on the basis of one Preferred Share, Series 24 for each Preferred Share, Series 25.

Holders of Preferred Shares, Series 27 will have the right, at their option, on April 26, 2019 and on April 26 every five years thereafter to convert, subject to certain restrictions on conversion and the payment or delivery to the Bank of evidence of payment of the tax (if any) payable, all or any of their Preferred Shares, Series 27 registered in their name into Preferred Shares, Series 26 on the basis of one Preferred Share, Series 26 for each Preferred Share, Series 27.

Holders of Preferred Shares, Series 29 will have the right, at their option, on April 26, 2019 and on April 26 every five years thereafter to convert, subject to certain restrictions on conversion and the payment or delivery to the Bank of evidence of payment of the tax (if any) payable, all or any of their Preferred Shares, Series 29 registered in their name into Preferred Shares, Series 28 on the basis of one Preferred Share, Series 28 for each Preferred Share, Series 29.

Holders of Preferred Shares, Series 31 will have the right, at their option, on April 26, 2020 and on April 26 every five years thereafter to convert, subject to certain restrictions on conversion and the payment or delivery to the Bank of

evidence of payment of the tax (if any) payable, all or any of their Preferred Shares, Series 31 registered in their name into Preferred Shares, Series 30 on the basis of one Preferred Share, Series 30 for each Preferred Share, Series 31.

Holders of Preferred Shares, Series 33 will have the right, at their option, on February 2, 2021 and on February 2 every five years thereafter to convert, subject to certain restrictions on conversion and the payment or delivery to the Bank of evidence of payment of the tax (if any) payable, all or any of their Preferred Shares, Series 33 registered in their name into Preferred Shares, Series 32 on the basis of one Preferred Share, Series 32 for each Preferred Share, Series 33.

### **Purchase for Cancellation**

Subject to the provisions of the Bank Act, the prior consent of the Superintendent and certain conditions being met, the Bank may at any time purchase for cancellation any series of Converted Preferred Shares outstanding in the open market at the lowest price or prices at which in the opinion of the Board of Directors of the Bank such shares are obtainable.

### **Issuance of Other Series of Preferred Shares**

The Bank may issue other series of preferred shares ranking on parity with the Converted Preferred Shares without the authorization of the holders of the Converted Preferred Shares.

### **Voting Rights**

Subject to the Bank Act, the holders of a series of Converted Preferred Shares as such will not be entitled to receive notice of or to attend or to vote at any meeting of the shareholders of the Bank unless and until the first time at which the Board of Directors of the Bank has not declared the whole dividend on such series of Converted Preferred Shares in respect of any quarter. In that event, the holders of such shares will be entitled to receive notice of, and to attend, meetings of shareholders at which directors of the Bank are to be elected and will be entitled to one vote for each Converted Preferred Share held. The voting rights of the holders of such series of Converted Preferred Shares shall forthwith cease upon payment by the Bank of the first dividend on the series of Converted Preferred Shares to which the holders are entitled subsequent to the time such voting rights first arose until such time as the Bank may again fail to declare the whole dividend on such series of Converted Preferred Shares in respect of any quarter, in which event such voting rights shall become effective again and so on from time to time.

### **Constraints on Ownership of the Bank's Shares**

The Bank Act contains restrictions on the issue, transfer, acquisition, beneficial ownership and voting of all shares of a chartered bank. Please refer to the section above entitled "Description of the Bank's Business – General Summary – Supervision and Regulation in Canada" for a summary of these restrictions.

### **Credit Ratings of Securities and Liquidity**

The Bank maintains large holdings of liquid assets to support its operations. Credit ratings are important to the Bank's borrowing costs and ability to raise funds. A rating's downgrade could potentially have adverse consequences by reducing the Bank's access to capital markets and increasing its borrowing costs. In the event the Bank's credit ratings are downgraded, this could also affect the Bank's position to post additional collateral. While the Bank maintains access to sufficient collateral to meet its obligations, in the event of a downgrade of its ratings by one or more of the rating agencies noted below, a downgrade could affect the Bank's ability, and increase the borrowing costs, to enter into normal course derivative or hedging transactions.

The following ratings have been assigned to the Bank's securities by the rating agencies noted below. Credit ratings, including stability or provisional ratings, are not recommendations to purchase, sell or hold a security as they do not comment on market price or suitability for a particular investor. Ratings may not reflect the potential impact of all risks on the value of securities. In addition, real or anticipated changes in the rating assigned to a security will generally affect the market value of that security. Ratings are subject to revision or withdrawal at any time by the rating agency. Each rating listed in the chart below should be evaluated independently of any other rating applicable to our debt and preferred shares.



	Moody's Investor Service	Standard & Poor's	Fitch Ratings	DBRS
Senior long-term debt / deposits	Aa1	AA-	AA-	AA
Subordinated debt	Aa2	A+	A+	AA (low)
Short-term deposits / commercial paper	P-1	A-1+	F1+	R-1 (high)
Non-cumulative preferred shares	A3	A/P-1 (low)*	Not rated	Pfd-1 (low)

\* Canadian scale

The above-noted ratings have the following meanings:

#### ***Moody's Investor Service ("Moody's")***

- Moody's long-term ratings are opinions of the relative credit risk of financial obligations with an original maturity of one year or more.
- Obligations rated Aa are judged to be of high quality and are subject to very low credit risk. The numerical modifiers (1), (2) and (3) indicate higher, middle and lower rankings respectively within the Aa rating category.
- Moody's short-term ratings are opinions of the issuer's ability to honour short-term financial obligations. A P-1 rating indicates that an issuer has a superior ability to repay short-term debt obligations.

#### ***Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. ("S&P")***

- An obligation rated AA differs from the highest rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong. The minus sign (-) is a modifier to show relative standing within the AA category.
- An obligation rated A is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong. The plus sign (+) is a modifier to show relative standing within the A category.
- A short-term obligation rated A-1 is in the highest category by S&P. The obligor's capacity to meet its financial commitments is strong. The plus sign (+) indicates that the obligor's capacity to meet its financial commitment is extremely strong.
- The Bank's non-cumulative preferred shares are rated A using S&P's global scale. The Bank's non-cumulative preferred shares are also rated P-1 (low) on S&P's Canadian scale for preferred shares. The "P-1" rating is in the highest of the five categories used by S&P on its Canadian preferred share scale. A reference to "high" or "low" reflects the relative strength within the rating category.

S&P has announced revisions to its criteria, methodologies and assumptions for rating banks. As of December 2, 2011, S&P's ratings of the Bank's securities under the new methodologies have not been released.

#### ***Fitch Ratings***

- AA rated securities have a very high credit quality and denote expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events. The minus sign (-) is a modifier denoting relative status within the AA category.
- A rated securities have a high credit quality and denote a low expectation of credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to business or economic conditions than is the case for higher ratings. The plus sign (+) is a modifier denoting relative status within the A category.
- F1 is the highest credit quality and indicates the strongest intrinsic capacity for timely payment of financial commitments. The plus sign (+) denotes an exceptionally strong credit feature.

#### ***DBRS Limited ("DBRS")***

- Long-term debt rated AA is of superior credit quality. The capacity for the payment of financial obligations is considered high and credit quality differs from AAA only to a small degree. Obligations with the AA rating are

unlikely to be significantly vulnerable to future events. Each rating category is denoted by the subcategories “high” and “low”. The absence of either a “high” or “low” designation indicates the rating is in the middle of the category.

- Short-term debt rated R-1 (high) is of the highest credit quality, and indicates the capacity for the payment of short-term financial obligations as they fall due is exceptionally high and unlikely to be adversely affected by future events. The category is further denoted by the subcategories “high”, “middle”, and “low”.
- Preferred shares rated Pfd-1 are of superior credit quality, and are supported by entities with strong earnings and balance sheet characteristics. Pfd-1 securities generally correspond with companies whose senior bonds are rated in the AAA or AA categories. As is the case with all rating categories, the relationship between senior debt ratings and preferred share ratings should be understood as one where the senior debt rating effectively sets a ceiling for the preferred shares issued by the entity. However, there are cases where the preferred share rating could be lower than the normal relationship with the issuer’s senior debt rating. Each rating category is denoted by the subcategories “high” and “low”. The absence of either a “high” or “low” designation indicates the rating is in the middle of the category.

## MARKET FOR SECURITIES OF THE BANK

The Bank’s common shares are listed under the stock symbol “BNS” on the Toronto Stock Exchange (“TSX”) and the New York Stock Exchange (“NYSE”). The Preferred Shares are listed on the TSX under the stock symbols “BNS.PR.J” for the Preferred Shares, Series 12, “BNS.PR.K” for the Preferred Shares, Series 13, “BNS.PR.L” for the Preferred Shares, Series 14, “BNS.PR.M” for the Preferred Shares, Series 15, “BNS.PR.N” for the Preferred Shares, Series 16, “BNS.PR.O” for the Preferred Shares, Series 17, “BNS.PR.P” for the Preferred Shares, Series 18, “BNS.PR.Q” for the Preferred Shares, Series 20, “BNS.PR.R” for the Preferred Shares, Series 22, “BNS.PR.S” for the Preferred Shares, Series 24, “BNS.PR.T” for the Preferred Shares, Series 26, “BNS.PR.X” for the Preferred Shares, Series 28, “BNS.PR.Y” for the Preferred Shares, Series 30, and “BNS.PR.Z” for the Preferred Shares, Series 32. The Bank also has deposit notes and debentures listed on the London Stock Exchange and the Swiss Exchange.

## Trading Price and Volume of the Bank’s Common and Preferred Shares on the Toronto Stock Exchange

The following table sets out the price range and trading volume of the Bank’s securities on the TSX (as reported by Bloomberg) for the periods indicated.

		Preferred Shares													
	Common Shares	Series 12	Series 13	Series 14	Series 15	Series 16	Series 17	Series 18	Series 20	Series 22	Series 24 <sup>(1)</sup>	Series 26	Series 28	Series 30	Series 32 <sup>(2)</sup>
November 2010															
-High Price (\$)	54.90	25.49	24.38	22.95	23.01	25.19	26.30	26.76	26.87	26.93	—	28.24	28.16	25.89	—
-Low Price (\$)	52.11	24.77	23.36	22.28	22.21	24.65	25.36	26.11	26.16	26.47	—	27.56	27.64	25.00	—
-Volume ('000)	56,561	362	489	684	514	822	277	745	426	305	—	231	329	333	—
December 2010															
-High Price (\$)	57.71	24.99	23.85	22.77	22.63	24.93	25.55	26.50	26.60	26.69	—	28.00	28.20	25.50	—
-Low Price (\$)	53.63	24.30	23.05	21.35	21.40	24.19	25.03	25.80	25.83	26.02	—	27.35	27.01	24.80	—
-Volume ('000)	58,319	205	218	292	392	221	164	271	830	130	—	399	288	264	—
January 2011															
-High Price (\$)	57.16	25.12	24.50	23.55	23.30	25.26	25.80	26.44	26.35	26.74	—	27.60	27.60	25.35	—
-Low Price (\$)	55.38	24.54	23.31	22.01	22.00	24.51	25.05	25.90	26.00	26.05	—	27.00	27.16	24.90	—
-Volume ('000)	53,759	408	247	373	515	347	167	146	492	254	—	519	298	424	—
February 2011															
-High Price (\$)	61.28	25.31	24.65	24.24	24.13	25.23	25.82	26.17	26.28	26.24	—	27.74	27.84	25.14	24.85
-Low Price (\$)	56.64	24.96	24.12	23.26	23.18	24.99	25.51	25.83	26.00	26.01	—	26.86	26.99	24.71	23.00
-Volume ('000)	50,115	186	366	347	756	247	139	203	174	355	—	202	147	206	16

		Preferred Shares													
	Common Shares	Series 12	Series 13	Series 14	Series 15	Series 16	Series 17	Series 18	Series 20	Series 22	Series 24 <sup>(1)</sup>	Series 26	Series 28	Series 30	Series 32 <sup>(2)</sup>
<b>March 2011</b>															
-High Price (\$)	60.43	25.75	25.00	24.25	24.29	25.73	26.26	26.36	26.40	26.60	—	27.88	27.85	25.15	24.86
-Low Price (\$)	56.86	25.10	24.00	23.38	23.33	25.05	25.52	26.00	25.97	26.10	—	27.11	27.20	24.76	24.18
-Volume ('000)	64,242	166	356	276	452	239	271	336	201	223	—	212	455	282	78
<b>April 2011</b>															
-High Price (\$)	59.85	25.54	24.95	24.10	24.10	25.51	26.06	26.20	26.18	26.43	—	27.63	27.39	25.13	24.55
-Low Price (\$)	56.25	24.97	24.08	23.61	23.65	25.00	25.50	25.90	25.88	25.91	—	27.01	27.06	24.72	24.31
-Volume ('000)	37,356	184	402	298	298	352	318	227	261	236	—	118	267	253	123
<b>May 2011</b>															
-High Price (\$)	59.73	25.62	25.15	24.95	24.89	25.79	26.50	26.20	26.35	26.37	—	27.55	27.49	25.31	25.50
-Low Price (\$)	57.00	25.27	24.85	24.00	23.94	25.25	25.77	25.90	26.04	26.01	—	27.13	27.14	24.90	24.40
-Volume ('000)	33,812	184	290	401	362	243	214	103	330	378	—	146	231	297	35
<b>June 2011</b>															
-High Price (\$)	59.70	25.88	25.45	25.09	24.98	25.96	26.67	26.30	26.49	26.46	—	27.62	27.54	25.60	25.23
-Low Price (\$)	56.62	25.30	24.81	24.45	24.39	25.56	26.00	25.85	26.00	25.81	—	27.00	26.91	25.00	24.75
-Volume ('000)	46,625	262	205	403	448	255	156	848	239	153	—	263	376	260	73
<b>July 2011</b>															
-High Price (\$)	58.44	25.69	25.45	24.98	25.00	25.91	26.49	26.08	26.27	26.25	—	27.33	27.24	25.65	24.83
-Low Price (\$)	53.77	25.35	24.96	24.25	24.44	25.51	25.75	25.75	25.75	25.96	—	27.07	26.98	25.02	23.65
-Volume ('000)	37,150	130	153	261	325	212	251	333	254	108	—	368	183	221	2,663
<b>August 2011</b>															
-High Price (\$)	54.96	25.97	25.55	25.10	25.10	26.07	26.61	26.07	26.18	26.19	—	27.35	27.40	25.40	25.70
-Low Price (\$)	49.13	25.09	24.43	24.20	24.10	25.31	25.92	25.60	25.72	25.65	—	26.70	26.85	24.95	24.25
-Volume ('000)	66,276	210	219	516	502	343	112	708	686	120	—	652	285	192	106
<b>September 2011</b>															
-High Price (\$)	54.88	26.09	25.69	25.41	25.40	26.34	26.94	26.15	26.23	26.30	—	27.49	27.59	25.45	25.49
-Low Price (\$)	49.12	25.74	25.18	24.97	25.00	25.80	26.45	25.61	25.68	25.75	—	26.80	26.88	25.01	24.90
-Volume ('000)	58,892	138	159	310	515	182	172	210	140	396	—	303	189	185	58
<b>October 2011</b>															
-High Price (\$)	53.58	25.88	25.64	25.41	25.35	26.14	26.76	25.92	26.24	26.18	—	27.14	27.10	25.25	25.08
-Low Price (\$)	49.01	25.33	24.95	24.78	24.94	25.55	26.25	25.44	25.51	25.65	—	26.52	26.63	24.95	24.50
-Volume ('000)	51,963	127	130	321	237	568	113	106	239	249	—	241	115	219	951

- (1) The Preferred Shares, Series 24 were issued on December 12, 2008 by the Bank to Sun Life Financial Inc. as partial consideration for the acquisition by the Bank of trust units of CI Financial Income Fund (now CI Financial Corp.).
- (2) The Preferred Shares, Series 32 were issued on February 1, 2011 by the Bank to shareholders of DundeeWealth Inc. as partial consideration for the acquisition by the Bank of common shares, special shares, series C, special shares, series F and first preference shares, series X of DundeeWealth Inc.

## Prior Sales

In the most recently completed financial year, the Bank did not issue any securities not listed on an exchange or quoted in any marketplace.

For a list of all outstanding subordinated indebtedness of the Bank see note 12 to the Bank's consolidated financial statements for its year ended October 31, 2011.

## DIRECTORS AND EXECUTIVE OFFICERS OF THE BANK

### Directors and Board Committees of the Bank

The following are the Bank's directors as of December 2, 2011. The term of office of each director expires at the close of the Bank's next annual meeting of shareholders following the election of the director. Information concerning the nominees proposed by management for election as directors at the annual meeting of shareholders will be contained in the Bank's 2011 Management Proxy Circular.

<u>Name and Municipality and Province of Residence</u>	<u>Board Committee Memberships</u>	<u>Principal Occupation</u>	<u>Shares / DDSUs Owned</u>
Ronald A. Brenneman Calgary, Alberta, Canada (Director since March 28, 2000)	ACRC HRC	Corporate Director and retired Executive Vice-Chairman, Suncor Energy Inc., an integrated energy company	75,219 / 42,004
C.J. Chen Singapore (Director since October 30, 1990)	CGPC	Counsel to Rajah & Tann LLP, Transnational Legal Solutions, specializing in corporate and capital markets, securities and trusts	33,624 / 25,928
David A. Dodge, O.C. Ottawa, Ontario, Canada (Director since April 8, 2010)	ERC	Senior Advisor to Bennett Jones LLP, a law firm	4,000 / 2,705
N. Ashleigh Everett Winnipeg, Manitoba, Canada (Director since October 28, 1997)	CGPC – Chair ERC	President, Corporate Secretary and director of Royal Canadian Securities Limited, the principal businesses of which include Domo Gasoline Corporation (a gasoline retailer), Royal Canadian Properties Limited (a real estate and property development company), and L'Eau-1 Inc. operating as Corpell's water (a water purification company specializing in home and office delivery of bottled water)	16,284 / 36,122
John C. Kerr, C.M., O.B.C., LL.D. Vancouver, British Columbia, Canada (Director since March 30, 1999)	HRC – Chairman ERC	Chairman of Lignum Investments Ltd., a privately-held investment company, and managing partner of Lignum Forest Products LLP, a privately-held forest products distribution company, and President of the Vancouver Professional Baseball LLP, owner of the Vancouver Canadians minor league baseball team	11,812 / 39,272

<b>Name and Municipality and Province of Residence</b>	<b>Board Committee Memberships</b>	<b>Principal Occupation</b>	<b>Shares / DDSUs Owned</b>
The Honourable Michael J.L. Kirby, O.C. Ottawa, Ontario, Canada (Director since March 28, 2000)	ACRC - Chairman ERC	Chairman of The Mental Health Commission of Canada, Chairman of Partners for Mental Health (a charity) and a Corporate Director	1,607 / 50,371
John T. Mayberry, C.M. Burlington, Ontario, Canada (Director since March 29, 1994)	CGPC ERC Ex officio member of ACRC and HRC	Chairman of the Board of the Bank and Corporate Director	13,467 / 52,892
Thomas C. O'Neill Toronto, Ontario, Canada (Director since May 26, 2008)	ACRC CGPC	Corporate Director and retired Chair of the Board of PwC Consulting, a management consulting firm	11,300 / 11,256
Alexis E. Rovzar de la Torre New York, New York U.S.A. (Director since December 31, 2005)	ACRC CGPC	Partner of Counsel, in the Latin America practice group of White & Case LLP, a global law firm	18,494 / 0
Dr. Indira V. Samarasekera, O.C., Ph.D. Edmonton, Alberta, Canada (Director since May 26, 2008)	ACRC HRC	President and Vice-Chancellor of the University of Alberta	1,948 / 10,462
Allan C. Shaw, C.M., LL.D. Halifax, Nova Scotia, Canada (Director since September 30, 1986)	ERC – Chairman HRC	Non-Executive Chairman of The Shaw Group Holding Limited, a manufacturer of residential and construction products and a real estate developer	43,629 / 43,746
Paul D. Sobey Chance Harbour, Pictou County, Nova Scotia, Canada (Director since August 31, 1999)	ACRC CGPC	President and Chief Executive Officer of Empire Company Limited, a food distributor, real estate and investment company	30,000 / 42,311
Barbara S. Thomas Belleair, Florida, U.S.A. (Director since September 28, 2004)	ACRC HRC	Corporate Director	13,021 / 3,148
Richard E. Waugh Toronto, Ontario, Canada (Director since March 25, 2003)	ERC	President and Chief Executive Officer of the Bank	253,921 / 464,408

\* Ms. Susan Segal was appointed as a director of the Bank and a member of the Audit and Conduct Review Committee effective as at the close of the Board of Directors meeting on December 2, 2011.

#### Notes:

ACRC – Audit and Conduct Review Committee

CGPC – Corporate Governance and Pension Committee

ERC – Executive and Risk Committee

HRC – Human Resources Committee

The information as to shares owned or over which control or direction is exercised has been furnished by the respective directors, and is as of October 31, 2011.

All directors have held the positions, or other executive positions with the same, predecessor or associated firms, set out in this AIF for the past five years with the exception of Ronald A. Brenneman, who, prior to August 2009, was President and Chief Executive Officer of Petro-Canada, an oil and gas company; David A. Dodge, who, prior to January 2008, was Governor of the Bank of Canada; and The Honourable Michael J.L. Kirby, who, prior to October 2006, was a Member of the Senate of Canada.

### **Executive Officers of the Bank**

The following are the Bank's executive officers, their titles and municipalities of residence in Canada as of December 2, 2011:

<u><b>Name and Principal Occupation</b></u>	<u><b>Municipality of Residence</b></u>
Richard E. Waugh President and Chief Executive Officer	Toronto, Ontario
Sarabjit S. Marwah Vice-Chairman and Chief Operating Officer	Toronto, Ontario
Sylvia D. Chrominska Group Head, Global Human Resources and Communications	Toronto, Ontario
J. Michael Durland Group Head, Global Capital Markets, and Co-Chief Executive Officer, Scotia Capital	Mississauga, Ontario
Christopher J. Hodgson Group Head, Global Wealth Management	Toronto, Ontario
Stephen D. McDonald Group Head, Global Corporate and Investment Banking, and Co-Chief Executive Officer, Scotia Capital	Toronto, Ontario
Robert H. Pitfield Group Head, Chief Risk Officer	Toronto, Ontario
Brian J. Porter Group Head, International Banking	Toronto, Ontario
Anatol von Hahn Group Head, Canadian Banking	Toronto, Ontario
Deborah M. Alexander Executive Vice-President, General Counsel and Secretary	Toronto, Ontario
Alberta G. Cefis Executive Vice-President and Head, Global Transaction Banking	Toronto, Ontario
Wendy G. Hannam Executive Vice-President, Sales and Service, Products and Marketing, International Banking	Toronto, Ontario
Stephen P. Hart	Oakville, Ontario

<u>Name and Principal Occupation</u>	<u>Municipality of Residence</u>
Executive Vice-President, Chief Credit Officer	
Timothy P. Hayward Executive Vice-President and Chief Administrative Officer, International Banking	Oakville, Ontario
Jeffrey C. Heath Executive Vice-President and Group Treasurer	Toronto, Ontario
Robin S. Hibberd Executive Vice-President, Retail Products and Services, Canadian Banking	Toronto, Ontario
Dieter W. Jentsch Executive Vice-President, Latin America	Toronto, Ontario
Barbara F. Mason Executive Vice-President, Wealth Management, Canada	Toronto, Ontario
Kimberlee B. McKenzie Executive Vice-President, Information Technology and Solutions	Oakville, Ontario
Anne Marie O'Donovan Executive Vice-President and Chief Administration Officer, Scotia Capital	Oakville, Ontario
Nicole Reich de Polignac Executive Vice-President, Mexico, and President & CEO, BNS Mexico	Mexico City, Mexico
Luc A. Vanneste Executive Vice-President and Chief Financial Officer	Toronto, Ontario
Troy K. Wright Executive Vice-President, Retail Distribution, Canadian Banking	Toronto, Ontario

All of the executive officers of the Bank have been actively engaged for more than five years in the affairs of the Bank in executive or senior management capacities, except: J. Michael Durland and Stephen D. McDonald who, prior to December 3, 2010, were senior officers solely of Scotia Capital Inc.; Anatol von Hahn who, prior to October 29, 2007, was Chief Executive Officer of Scotiabank Inverlat, S.A. and Grupo Financiero Scotiabank Inverlat, S.A. de C.V., Nicole Reich de Polignac who, prior to April 7, 2010 was Senior Vice-President, President and CEO, BNS Mexico, and prior to October 29, 2007 was Senior Vice-President and Country Head, Dominican Republic, and Troy Wright who, prior to July 18, 2011 was Senior-Vice President and Country Head, Puerto Rico.

#### **Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

To the best of the Bank's knowledge, after having made due inquiry, the Bank confirms that as at the date hereof, no director or executive officer of the Bank:

- (a) is, as at the date of this AIF or has been within the last 10 years, a director, chief executive officer or chief financial officer of any company that was the subject of a cease trade order or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days that was issued:
  - (i) while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or

- (ii) after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer;
- (b) is, as at the date of this AIF, or has been within the last 10 years, a director or executive officer of any company that, while that person was acting in that capacity or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (c) has, or within 10 years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director or executive officer,

except Ms. Everett who was, prior to April 2005, a director and officer of Tereve Holdings Ltd., which filed for protection under the Companies' Creditors Arrangement Act (Canada) in August 2005, and Ms. Thomas who was, until September 2, 2009, a director of Spectrum Brands, Inc., which filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code in February 2009.

To the best of the Bank's knowledge, after due inquiry, none of the directors or executive officers of the Bank have been subject to (a) any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or have entered into a settlement agreement with a Canadian securities regulatory authority; or (b) any other penalties or sanctions imposed by a court or a regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

### **Shareholdings of Management**

The directors and executive officers of the Bank as a group own, or exercise control or direction over, less than one per cent of the outstanding common shares of the Bank.

### **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

In the ordinary course of business, the Bank and its subsidiaries are routinely defendants in or parties to a number of pending and threatened legal actions and proceedings, including actions brought on behalf of various classes of claimants.

In view of the inherent difficulty of predicting the outcome of such matters, the Bank cannot state what the eventual outcome of such matters will be; however, based on current knowledge, management does not believe that liabilities, if any, arising from pending litigation will have a material adverse effect on the consolidated financial position, or the results of operations of the Bank.

In the ordinary course of business, the Bank and its subsidiaries may be subject to penalties or sanctions imposed by regulatory authorities or enter into settlement agreements with regulatory authorities from time to time. As the Bank and its subsidiaries are subject to numerous regulatory authorities around the world, fees, administrative penalties and sanctions may be categorized differently by each regulator. Any such penalties imposed under these categories against the Bank, however, are not material and would include penalties such as late filing fees. The Bank has not entered into any settlement agreements with a court relating to securities legislation or with a securities regulatory authority.<sup>(1)</sup>

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(1) National Instrument 14-101 limits the meaning of "securities legislation" to Canadian provincial and territorial legislation and "securities regulatory authority" to Canadian provincial and territorial securities regulatory authorities.

### **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

To the best of the Bank's knowledge, the Bank confirms that there are no directors or executive officers or any associate or affiliate of a director or executive officer with a material interest in any transaction within the three most recently



completed financial years or during the current financial year that has materially affected or will materially affect the Bank.

## **TRANSFER AGENT AND REGISTRAR**

Computershare Trust Company of Canada is the Bank's transfer agent and registrar main agent at the following addresses: Computershare Trust Company of Canada, 100 University Avenue, 9th Floor, Toronto, Ontario, M5J 2Y1 and Computershare Trust Company N.A., 250 Royall Street, Canton, Massachusetts, 02021, U.S.A.

## **CONFLICTS OF INTEREST**

To the knowledge of the Bank, no director or executive officer of the Bank has an existing or potential conflict of interest with the Bank or any of its subsidiaries.

## **EXPERTS**

The Bank's Shareholders' Auditors are KPMG LLP, Bay Adelaide Centre, 333 Bay Street, Suite 4600, Toronto, Ontario, M5H 2S5. KPMG LLP is independent of the Bank within the meaning of the Rules of Professional Conduct / Code of Ethics of various Canadian provincial institutes/ordre and within the meaning of the U.S. Securities Act of 1933, as amended, and the applicable rules and regulations thereunder.

## **THE BANK'S AUDIT AND CONDUCT REVIEW COMMITTEE**

A copy of the Bank's Audit and Conduct Review Committee charter is attached to this AIF as Schedule "B" and can also be found on the Bank's website at [www.scotiabank.com](http://www.scotiabank.com) in the Corporate Governance section.

The following directors are members of the Audit and Conduct Review Committee: Michael J.L. Kirby (Chairman), Ronald A. Brenneman (financial expert), Thomas C. O'Neill, Alexis E. Rovzar de la Torre, Indira V. Samarasekera, Paul D. Sobey and Barbara S. Thomas. John T. Mayberry is an ex-officio member of the Audit and Conduct Review Committee. All of the members of the Committee are financially literate and independent, and one or more members of the Committee meet the definition of a financial expert. The Bank's Board of Directors has determined that Mr. Ronald A. Brenneman is an audit committee financial expert and is independent, as that term is defined by the NYSE's corporate governance standards applicable to the Bank. The United States Securities and Exchange Commission has indicated that the designation of a person as an audit committee financial expert does not impose on such person any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of the Audit and Conduct Review Committee and Board of Directors of the Bank in the absence of such designation.

The education and related experience (as applicable) of each Audit and Conduct Review Committee member is described below.

**Michael J. L. Kirby** (Chairman) – Mr. Kirby completed his three year term as Vice-Chair of the Accounting Standards Oversight Council in 2005. He has been a faculty member at both the Business School at the University of Chicago and the Business School at Dalhousie University. He has previously served as Chair of the Standing Senate Committee on Banking, Trade and Commerce (from 1993 to 1997) during which time that committee developed substantive revisions to the *Canada Business Corporations Act* and other Canadian federal business legislation. He has also completed the twelve day Directors Education Course at the Rotman School of Business at the University of Toronto, which is under the auspices of the Institute of Corporate Directors.

**Ronald A. Brenneman** – Mr. Brenneman is a corporate director and has extensive employment experience directly related to the preparation of and supervision of the preparation of financial statements. He served as Executive Vice- Chairman of Suncor Energy Inc. from August 2009 to February 2010 and previously served as President and Chief Executive Officer of Petro-Canada (2000 to August 2009). Mr. Brenneman is a former CEO of Esso Benelux (1994 to 1997), was the President of Imperial Oil Ltd. (1992 to 1994) and prior to that was the Chief Financial Officer of Imperial Oil Limited.

**Thomas C. O'Neill** – Mr. O'Neill is a corporate director and the retired Chair of the Board of PwC Consulting. He was formerly Chief Executive Officer of PwC Consulting, Chief Operating Officer of PricewaterhouseCoopers LLP, Global, Chief Executive Officer of PricewaterhouseCoopers LLP, Canada and Chair of the Board and Chief Executive Officer of Price Waterhouse Canada. He holds a Bachelor of Commerce degree and is a chartered accountant. In 2008, Mr. O'Neill was awarded a Fellowship by the Institute of Corporate Directors of Canada and in 1988, he was awarded the Fellow Chartered Accountant designation by the Ontario Institute of Chartered Accountants.

**Alexis E. Rovzar de la Torre** – Mr. Rovzar is a Partner of Counsel in the Latin America practice of White & Case LLP, a global law firm. He has a J.D. and is authorized to practice law in Mexico. Mr. Rovzar sits on the boards of several companies and is a member of the audit committee of other public companies. Mr. Rovzar has also attended in-depth executive education courses addressing audit committee responsibilities and financial reporting, including those offered at Harvard Business School and Goizueta Business School at Emory University, among others.

**Indira V. Samarasekera** – Dr. Samarasekera is President and Vice-Chancellor of the University of Alberta and an ex-officio voting member of the committees of the Board of Governors of the University of Alberta, including the Audit Committee. She is also a former Vice-President, Research at the University of British Columbia (2000-2005). She holds a B.Sc and M.Sc (in mechanical engineering) and a Ph.D in metallurgical engineering.

**Paul D. Sobey** – Mr. Sobey has a Bachelor of Commerce from Dalhousie University, attended the Advanced Management Program at Harvard School of Business and is a chartered accountant. In 2005, Mr. Sobey was awarded the Fellow Chartered Accountant designation by the Institute of Chartered Accountants of Nova Scotia. He is currently the President and Chief Executive Officer of Empire Company Limited, a Canadian publicly-traded company.

**Barbara S. Thomas** – Ms. Thomas has previously served on the audit committee of each of The Dial Corporation and Spectrum Brands, Inc. (formerly Rayovac Corporation) and is a current member of the audit committee of Blue Cross/Blue Shield of Florida. Ms. Thomas is also chair of the Finance Committee for Blue Cross/Blue Shield of Florida. She has experience as a president and chief executive officer of a company or a division of a company as Ms. Thomas was Interim Chief Executive Officer of Ocean Spray Company from 2002 to 2003.

Please refer to Table 55 on page 98 of the MD&A, which is incorporated herein by reference, for disclosure relating to the fees paid by the Bank to the Bank's Shareholders' Auditors, KPMG LLP in each of the last two fiscal years. The nature of these services is described below:

- Audit services generally relate to the statutory audits and review of financial statements, professional services associated with the Bank's International Financial Reporting Standards ("IFRS") transition, regulatory required attestation reports, as well as services associated with registration statements, prospectuses, periodic reports and other documents filed with securities regulatory bodies or other documents issued in connection with securities offerings.
- Audit-related services include attest services required by regulatory bodies not directly linked to the financial statements, review of controls and procedures related to regulatory reporting, audits of employee benefit plans, special attest services not required by statute or regulation, but requested by a party to a specific transaction, consultation and training on accounting and financial reporting under IFRS.
- Tax services outside of the audit scope relate primarily to specified review procedures required by local tax authorities, attestation on tax returns of certain subsidiaries as required by local tax authorities, and review to determine compliance with an agreement with the tax authorities.
- Other non-audit services are primarily for the review and translation of English language financial statements into other languages.

The Audit and Conduct Review Committee has adopted policies and procedures (the "Policies") for the pre-approval of services performed by the Bank's Shareholders' Auditors. The objective of the Policies is to specify the scope of services permitted to be performed by the Bank's Shareholders' Auditors and to ensure the independence of the Bank's Shareholders' Auditors is not compromised through engaging them for other services. The Policies state that the Audit and Conduct Review Committee shall pre-approve the following: audit services (all such engagements provided by the Bank's Shareholders' Auditors as well as all such engagements provided by any other registered public accounting firm); and other permitted services to be provided by the Bank's Shareholders' Auditors (primarily audit and audit-related

services). The Bank's Shareholders' Auditors shall not be engaged in the provision of tax or other non-audit services, without the pre-approval of the Audit and Conduct Review Committee. The Policies also enumerate pre-approved services including specific audit, audit-related and other limited non-audit services that are consistent with the independence requirements of the United States Sarbanes-Oxley Act of 2002, Canadian independence standards for auditors and applicable legal requirements. The Policies are applicable to the Bank, its subsidiaries and entities that are required to be consolidated by the Bank. The Audit and Conduct Review Committee shall review and approve the Policies on at least an annual basis. The Policies do not delegate any of the Audit and Conduct Review Committee's responsibilities to management of the Bank.

#### **ADDITIONAL INFORMATION**

The Bank will provide to any person upon request to the Executive Vice-President, General Counsel and Secretary of the Bank: (a) when the securities of the Bank are in the course of a distribution under a preliminary short form prospectus or a short form prospectus: (i) one copy of the Bank's AIF, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in the AIF; (ii) one copy of the consolidated financial statements of the Bank for its most recently completed financial year for which financial statements have been filed, together with the accompanying report of the auditors, and one copy of the most recent interim financial statements of the Bank that have been filed, if any, for any period after the end of its most recently completed financial year; (iii) one copy of the Management Proxy Circular of the Bank in respect of its most recent annual meeting of shareholders; and (iv) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under (i) to (iii) above; or (b) at any other time, one copy of any other documents referred to in (a)(i), (ii) and (iii) above, provided the Bank may require the payment of a reasonable charge if the request is made by a person or company who is not a security holder of the Bank.

Additional information relating to the Bank may be found on the SEDAR website at [www.sedar.com](http://www.sedar.com) and on the United States Securities and Exchange Commission's website at [www.sec.gov](http://www.sec.gov). Additional information, including directors' and officers' compensation, indebtedness and options to purchase securities, principal holders of the Bank's securities and interests of insiders in material transactions, where applicable, is contained in the Management Proxy Circular. Additional financial information is provided in the Bank's consolidated financial statements and MD&A for its year ended October 31, 2011. A copy of such documents may be obtained upon request from the Executive Vice-President, General Counsel and Secretary of the Bank at Scotia Plaza, 44 King Street West, Toronto, Ontario, M5H 1H1.

## Schedule A

### Principal Subsidiaries<sup>(1)</sup>

As at October 31, 2011 (\$ millions)

	Principal office	Carrying value of shares
<b>Canadian</b>		
BNS Investments Inc.	Toronto, Ontario	\$ 11,259
Montreal Trust Company of Canada	Montreal, Quebec	
Scotia Merchant Capital Corporation	Toronto, Ontario	
Dundee Bank of Canada	Toronto, Ontario	\$ 752
Dundee Wealth Inc.	Toronto, Ontario	\$ 3,571
National Trustco Inc.	Toronto, Ontario	\$ 601
The Bank of Nova Scotia Trust Company	Toronto, Ontario	
National Trust Company	Stratford, Ontario	
RoyNat Inc.	Toronto, Ontario	\$ 19
Scotia Asset Management L.P.	Toronto, Ontario	\$ 322
Scotia Capital Inc.	Toronto, Ontario	\$ 421
Scotia Dealer Advantage Inc.	Burnaby, British Columbia	\$ 150
Scotia Insurance Agency Inc.	Toronto, Ontario	\$ 2
Scotia Life Insurance Company	Toronto, Ontario	\$ 109
Scotia Mortgage Corporation	Toronto, Ontario	\$ 307
Scotia Securities Inc.	Toronto, Ontario	\$ 46
Scotiabank Capital Trust <sup>(2)</sup>	Toronto, Ontario	\$ 22
Scotiabank Subordinated Notes Trust <sup>(2)</sup>	Toronto, Ontario	\$ 8
Scotiabank Tier 1 Trust <sup>(2)</sup>	Toronto, Ontario	\$ 4
<b>International</b>		
The Bank of Nova Scotia Berhad	Kuala Lumpur, Malaysia	\$ 240
The Bank of Nova Scotia International Limited	Nassau, Bahamas	\$ 9,580
BNS (Colombia) Holdings Limited (99.9%)	Nassau, Bahamas	
Scotiabank Caribbean Treasury Limited	Nassau, Bahamas	
BNS International (Barbados) Limited	Warrens, Barbados	
Grupo BNS de Costa Rica, S.A.	San Jose, Costa Rica	
The Bank of Nova Scotia Asia Limited	Singapore	
The Bank of Nova Scotia Trust Company (Bahamas) Limited	Nassau, Bahamas	
Scotiabank & Trust (Cayman) Ltd.	Grand Cayman, Cayman Islands	
Scotia Insurance (Barbados) Limited	Warrens, Barbados	
Scotiabank (Bahamas) Limited	Nassau, Bahamas	
Scotiabank (Belize) Ltd.	Belize City, Belize	
Scotiabank (British Virgin Islands) Limited	Road Town, Tortola, B.V.I.	
Scotiabank (Hong Kong) Limited	Hong Kong, China	
Scotiabank (Ireland) Limited	Dublin, Ireland	
Scotiabank (Turks and Caicos) Ltd.	Providenciales, Turks and Caicos Islands	
Grupo Financiero Scotiabank Inverlat, S.A. de C.V. (97.3%)	Mexico, D.F., Mexico	\$ 2,225
Nova Scotia Inversiones Limitada	Santiago, Chile	\$ 2,177
Scotiabank Chile, S.A. (99.5%)	Santiago, Chile	
Scotia Capital (Europe) Limited	London, England	\$ 79
Scotia Capital (USA) Inc	New York, New York	<sup>(3)</sup>
Scotia Group Jamaica Limited (71.8%)	Kingston, Jamaica	\$ 504
The Bank of Nova Scotia Jamaica Limited	Kingston, Jamaica	
Scotia Investments Jamaica Limited (77.0%)	Kingston, Jamaica	
Scotia Holdings (US) Inc.	Houston, Texas	<sup>(4)</sup>
The Bank of Nova Scotia Trust Company of New York	New York, New York	
Scotiabanc Inc.	Houston, Texas	
Scotia International Limited	Nassau, Bahamas	\$ 745
Scotiabank Anguilla Limited	The Valley, Anguilla	
Scotiabank Brasil S.A. Banco Multiplo	San Paulo, Brazil	\$ 155
Scotiabank de Puerto Rico	Hato Rey, Puerto Rico	\$ 798
Scotiabank El Salvador, S.A. (99.5%)	San Salvador, El Salvador	\$ 406
Scotiabank Europe plc	London, England	\$ 1,847
Scotiabank Peru S.A.A. (97.7%)	Lima, Peru	\$ 2,016

- (1) The Bank owns 100% of the outstanding voting shares of each subsidiary unless otherwise noted. The listing includes major operating subsidiaries only.
- (2) In terms of current accounting standards, this entity is not consolidated as the Bank is not the primary beneficiary.
- (3) The carrying value of this subsidiary is included with that of its parent, Scotia Capital Inc.
- (4) The carrying value of this subsidiary is included with that of its parent, BNS Investments Inc.

**CHARTER**

**THE BANK OF NOVA SCOTIA**

**AUDIT AND CONDUCT REVIEW COMMITTEE OF THE BOARD**

The Audit and Conduct Review Committee of the Board of Directors (the “Committee”) has the responsibilities and duties as outlined below:

**AUDIT**

**A. Mandate**

1. To perform such duties as may be required by:
  - the *Bank Act* (the “Bank Act”) and the regulations thereunder; and
  - other applicable legislation and regulations including those of the Ontario Securities Commission and the Canadian Securities Administrators, the Toronto Stock Exchange, the New York Stock Exchange (“NYSE”), the Securities and Exchange Commission and the *Sarbanes-Oxley Act, 2002*,as more fully described under the heading “**Duties**” below.
2. To assist the Board of Directors (the “Board”) in fulfilling its oversight responsibilities for:
  - the integrity of the Bank’s consolidated financial statements and related quarterly results press releases;
  - the Bank’s compliance with legal and regulatory requirements;
  - the system of internal control, including internal control over financial reporting and disclosure controls and procedures (“internal controls”);
  - the independent auditor’s qualifications and independence;
  - the performance of the Bank’s internal audit function and independent auditors; and
  - the Bank’s internal audit, finance and compliance functions.
3. To perform such other duties as may from time to time be assigned to the Committee by the Board.
4. To act as the audit committee for any federally chartered Canadian financial institution beneficially owned by the Bank as determined by the Board.

**B. Authority**

The Committee has authority to:

- conduct or authorize investigations into any matters within its scope of responsibility;
- retain, as appropriate and at the Bank’s expense, independent counsel, accountants or others to advise the Committee or assist in the conduct of an investigation;
- meet with Bank officers, the external auditor or outside counsel, as necessary;
- determine appropriate funding for independent advisors; and
- communicate directly with the internal and external auditors.

**C. Duties**

The Committee shall:

**Financial Information**

- review the quarterly and annual consolidated financial statements of the Bank prior to approval by the Board and disclosure to the public; review should include discussion with management and the external auditor of significant issues, including significant accounting policies, regarding the financial results, accounting principles, practices and management estimates and judgments;
- review the quarterly and annual Management's Discussion & Analysis of Financial Condition and Results of Operations ("MD&A") prior to review and approval by the Board;
- review any material proposed changes in accounting standards and securities policies or regulation relevant to the Bank's consolidated financial statements and approve any material changes in accounting policies related to the Bank's consolidated financial statements;
- be satisfied that adequate procedures are in place for the review of the Bank's public disclosure of all consolidated financial statements, related quarterly results press releases and financial information extracted or derived from the Bank's consolidated financial statements and periodically assess the adequacy of these procedures;
- review material financial press releases prior to public disclosure;
- review earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies prior to public disclosure;
- discuss significant financial risk exposures and the steps management of the Bank has taken to monitor, control and report such exposures;
- review with management and the external auditor all matters required to be communicated to the Committee under generally accepted auditing standards;
- review the Annual Information Form; and
- review the process relating to and the certifications of the Chief Executive Officer and the Chief Financial Officer on the integrity of the Bank's quarterly and annual consolidated financial statements.

**Finance Function:**

- oversee the Finance Department, having regard to its independence, by:
  - reviewing and approving the appointment and/or removal of the Chief Financial Officer of the Bank;
  - annually reviewing and approving the mandate of the Chief Financial Officer and the Charter of the Finance Department;
  - annually reviewing and approving the organizational structure of the Finance Department;
  - annually reviewing and approving the Finance Department's resources;
  - annually assessing the effectiveness of the Chief Financial Officer and the effectiveness of the Finance Department;
  - conveying its view on the assessment of the effectiveness of the Chief Financial Officer to the Human Resources Committee; and
  - periodically requesting independent reviews of the Finance Department, reviewing the results of such reviews and reporting such results to the Board.

### Compliance

- receive reports from management on the Bank's compliance with legal and regulatory requirements and the adequacy and effectiveness of the Bank's compliance controls, including:
  - review the annual and other periodic reports of Group Compliance, including compliance with the Bank's Guidelines for Business Conduct and any instances of material deviation therefrom with corrective actions taken;
  - review the quarterly report on litigation matters; and
  - review any plans to remediate any deficiencies identified;
- review the annual letter of certification from the Chief Executive Officer on the Bank's compliance with the Guidelines for Business Conduct;
- review investments and transactions that could adversely affect the well-being of the Bank brought to its attention by the external auditor or by any officer of the Bank;
- meet, on its own or with the Board, with representatives of the Office of the Superintendent of Financial Institutions of Canada ("OSFI") to discuss OSFI's supervisory results;
- meet with Bank management to review and discuss the Bank's response to OSFI's recommendations and suggestions pursuant to their supervisory activities;
- review such returns as specified by OSFI;
- oversee the Group Compliance Department, having regard to its independence, by:
  - reviewing and approving the appointment and/or removal of the Chief Compliance and Regulatory Officer;
  - annually reviewing and approving the job description of the Chief Compliance and Regulatory Officer and the mandate of the Group Compliance Department;
  - annually reviewing and approving the organizational structure of the Group Compliance Department;
  - annually reviewing and approving the Group Compliance Department's resources;
  - annually assessing the effectiveness of the Chief Compliance and Regulatory Officer and the effectiveness of the Group Compliance Department;
  - conveying its view on the assessment of the effectiveness of the Chief and Regulatory Compliance Officer to the Vice-Chairman and Chief Operating Officer; and
  - periodically requesting independent reviews of the Group Compliance Department, reviewing the results of such reviews and reporting such results to the Board.

### Internal Controls

- require Bank management to implement and maintain appropriate internal control procedures including anti-fraud controls and review, evaluate and approve these procedures;
- receive and review reports from management and internal audit on the design and operating effectiveness of internal controls and any significant control breakdowns, including any reports concerning significant deficiencies and material weaknesses in the design or operation of internal controls which are reasonably likely to adversely affect the Bank's ability to record, process, summarize and report financial information, and any fraud involving management or other employees who have a significant role in the Bank's internal controls;
- receive and review the external auditor's audit report on the Bank's internal controls over financial reporting as of the Bank's year end; and



- require management to establish procedures and review and approve the procedures established for processing complaints regarding accounting, internal accounting controls or auditing matters, including confidential, anonymous submissions from employees, as part of the Bank's Whistleblower Policy and Procedures.

#### Anti-Money Laundering and Anti-Terrorist Financing Program

- oversee the Bank's Anti-Money Laundering and Anti-Terrorist Financing program;
- review and approve the Bank's Anti-Money Laundering/Anti-Terrorist Financing Policy and the Mandate of the Bank's Chief Anti-Money Laundering Officer, and any significant changes thereto; and
- at least annually meet with the Chief Anti-Money Laundering Officer to receive a report on the Anti-Money Laundering and Anti-Terrorist Financing Program and receive other reports periodically.

#### Internal Audit

- review the quarterly and other reports of the Chief Internal Auditor;
- regularly meet with the Chief Internal Auditor, or the officer or employee of the Bank acting in a similar capacity, with and/or without management of the Bank, to discuss the effectiveness of the Bank's internal control procedures, risk management and governance processes;
- oversee the Audit Department, having regard to its independence, by:
  - reviewing and approving the appointment and/or removal of the Chief Internal Auditor;
  - annually reviewing and approving the Charter for the Audit Department and the job description for the Chief Internal Auditor;
  - annually reviewing and approving the organizational structure of the Audit Department;
  - annually reviewing and approving the annual audit plan, annual budgets and resources of the Audit Department;
  - annually reviewing the effectiveness of the Chief Internal Auditor and the Audit Department, taking into consideration the objectivity and independence of the Bank's internal audit function;
  - conveying its view on the assessment of the effectiveness of the Chief Internal Auditor to the Vice-Chairman and Chief Operating Officer;
  - reviewing the annual performance appraisal of the Chief Internal Auditor; and
  - periodically requesting independent reviews of Internal Audit, reviewing the results of such reviews and reporting such results to the Board;
- ensure the Audit Department has a direct and independent reporting line to the Committee;
- provide for an open avenue of communication between the Audit Department and the Board; and
- ensure that the Audit Department's recommendations are adequately considered and acted on, by providing the Audit Department with the authority to follow-up on observations and recommendations.

#### External Auditor

- have responsibility for the oversight of the external auditor who reports directly to the Committee;

- recommend to the Board the retention or termination of the Bank's external auditor, subject to shareholder ratification;
- review the annual audit plan and letter(s) of engagement;
- at least annually review the report of the external auditor;
- review and evaluate the external auditor's qualifications, performance and independence, including a review and evaluation of the lead audit partner;
- review and recommend to the Board the annual fee for the audit of the Bank's consolidated financial statements;
- review and pre-approve in accordance with established pre-approval policy, all services to be provided by the external auditor, including audit and audit related services and permitted tax and non-audit services;
- review external auditor services pre-approved by the delegate of the Committee;
- review annually the total fees paid to the external auditor by required categories;
- at least annually, obtain and review a report from the external auditor describing:
  - the firm's internal quality-control procedures;
  - any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and
  - to assess all relationships between the external auditor and the Bank that pertain to independence;
- review the rotation plan for partners on the engagement;
- meet with the external auditor and with management to discuss the quarterly and the annual consolidated financial statements including the Bank's disclosure under MD&A;
- review with the external auditor any audit problems or difficulties and management's response;
- discuss with the external auditor the OSFI returns, investments or transactions reviewed by the Committee pursuant to the Compliance responsibilities in this charter;
- resolve any disputes between the external auditor and management; and
- review and approve policies for the Bank's employment of current and former employees or partners of the current or former external auditor.

#### Other Duties

- provide for an open avenue of communication between internal audit, the external auditor and the Board of Directors;
- meet separately, at least quarterly, with management, the Chief Internal Auditor and with the external auditor;
- annually, review the charter for the Committee and evaluate the Committee's effectiveness in fulfilling its mandate;
- provide consent, where appropriate, for a director's service on more than three audit committees of public company boards;
- annually, approve a core plan of reports to be presented to the Committee on matters within its mandate;
- to prepare a committee report for inclusion in the Bank's management proxy circular; and
- institute and oversee special investigations as needed.

## **CONDUCT REVIEW**

### **D. Mandate**

1. To perform the duties with respect to the Bank's procedures for ensuring its transactions with its related parties comply with Part XI of the Bank Act and any regulations thereunder as more fully described under the heading "**Duties**" below.
2. In the event a widely held bank holding company or insurance holding company has a significant interest in any class of shares of the Bank:
  - to establish policies for entering into transactions referred to in subsection 495.1(1) of the Bank Act, including transactions with a holding company or any other related party of the Bank that is an entity in which the holding company has a substantial investment; and
  - to review certain of the Bank's transactions that are referred to in subsection 495.3(1) of the Bank Act including any transaction with a widely held insurance or bank holding company or any other related party in which they hold a substantial investment.
3. To perform such duties as are required by the Bank Act to be dealt with by a committee of the Board concerning the monitoring of adherence to procedures for identifying potential conflicts of interest and for resolving such conflicts of interest, for restricting the use of confidential information, for providing disclosure of information to customers and for dealing with customer complaints as required under subsection 455(1) of the Bank Act, and as more fully described under the heading "**Duties**" below.
4. To perform such other duties as are required under the Bank Act or by OSFI, or as may from time to time be assigned by the Board.
5. To monitor and fulfill the compliance requirements of the Bank in respect of the Financial Consumer Agency of Canada.
6. To act as the Conduct Review Committee for any federally chartered Canadian financial institution beneficially owned by the Bank as determined by the Board.

### **E. Duties**

1. Establish criteria for determining whether the value of transactions with related parties of the Bank is nominal or immaterial to the Bank;
2. Approve the terms and conditions of:
  - loans, other than margin loans, to senior officers of the Bank on terms and conditions more favourable to the senior officers than those offered to the public;
  - loans to spouses of senior officers of the Bank on the security of mortgages of the principal residences of such spouses on terms and conditions more favourable than those offered to the public;
3. Approve the practice of the Bank making financial services, other than loans or guarantees, available to senior officers of the Bank or to spouses, or children who are less than 18 years of age of senior officers of the Bank, on terms and conditions more favourable than those offered to the public, provided the financial services are offered by the Bank to its employees on those favourable terms and conditions;

4. Require Bank management to establish procedures to enable the Bank to verify that its transactions with related parties of the Bank comply with Part XI of the Bank Act and to review those procedures and their effectiveness. These procedures should, among other things, enable management to verify that:
  - all related party transactions are on terms and conditions at least as favourable to the Bank as market terms and conditions, other than transactions referred to in clauses 2 and 3 above; and
  - loans to full-time senior officers, other than margin loans and mortgages on their principal residences, do not exceed the greater of twice their annual salaries and \$100,000; and
  - aggregate loans or guarantees to, and investments in the securities of any related party (subject to certain exceptions) do not exceed 2% of the Bank's regulatory capital unless the approval of 2/3 of the Board has been obtained; and
  - aggregate loans or guarantees to, and investments in the securities of all related parties (subject to certain exceptions) do not exceed 50% of the Bank's regulatory capital;
5. Review the practices of the Bank to identify any transactions with related parties of the Bank that may have a material effect on the stability or solvency of the Bank;
6. Monitor the procedures established by the Board to resolve conflicts of interest, including techniques for the identification of potential conflict situations, and to restrict the use of confidential information; and
7. Monitor the procedures established by the Board to provide disclosure to customers of the Bank of information that is required to be disclosed by the Bank Act, and for dealing with and reporting complaints made by customers of the Bank who have requested or received products or services in Canada and to satisfy itself that these procedures are being adhered to by the Bank.

## **COMMITTEE OPERATIONS**

### **F. Reporting**

After each meeting of the Committee, the Committee is required to report to the Board on matters reviewed by the Committee.

The Chair of the Committee shall review, for completeness, the Board's report with respect to conduct review matters to the Superintendent of Financial Institutions on the Committee's activities during the year. This report must be filed within 90 days after the Bank's financial year-end.

The Committee shall review and assess the adequacy of this Charter on an annual basis and report the results of this review to the Corporate Governance and Pension Committee of the Board.

### **G. Composition**

#### **Structure**

The Committee shall consist of a minimum of 3 Directors, a majority of whom shall be resident Canadians.

Each member must be financially literate or become financially literate within a reasonable period of time subsequent to his/her appointment to the Committee. At least one member must be a financial expert and at all times a majority of members must be financially literate.

### Independence

No member of the Committee may be a current or former officer or employee of the Bank or of any of its subsidiaries or affiliates. No member may be a person who is affiliated with the Bank or any of its subsidiaries or affiliates or be related or non-independent as determined by the Board for the purposes of the NYSE Corporate Governance Rules or Multilateral Instrument 52-110. No member may hold 5% or more of the voting shares of the Bank.

Directors' fees (annual retainer and/or attendance fees) are the only compensation a member of the Committee may be paid by the Bank.

### Appointment of Committee Members

Members of the Committee are appointed or reappointed annually by the Board, such appointments to take effect immediately following the annual meeting of the shareholders of the Bank. Members of the Committee shall hold office until their successors are appointed, or until they cease to be Directors of the Bank.

### Vacancies

Vacancies may be filled for the remainder of the current term of appointment of members of the Committee by the Board, subject to the requirements under the headings "Structure" and "Independence" above.

### Appointment and Qualifications of Committee Chair

The Board shall appoint from the Committee membership, a Chair for the Committee to preside at meetings. In the absence of the Chair, one of the other members of the Committee present shall be chosen by the Committee to preside at that meeting.

The Chair for the Committee must have all of the qualifications for Committee membership and have accounting or related financial management expertise.

## **H. Meetings**

### Calling of Meetings

Meetings of the Committee may be called by the Chair, by any member of the Committee or the external auditor. Members may participate in meetings in person or by telephone, electronic or other communications facilities.

The Committee shall not transact business at a meeting unless a majority of the members present are resident Canadians except where:

- a resident Canadian member who is unable to be present approves in writing or by telephone, electronic or other communications facilities the business transacted at the meeting; and

- a resident Canadian majority of members would have been present if the absent member had been present.

Written resolutions in lieu of a meeting are not permitted.

The Committee shall hold an in camera session immediately prior to and/or following the conclusion of the regular agenda matters. The Committee shall also hold in camera sessions, separately at each Committee meeting, with each of the Chief Financial Officer, Chief Internal Auditor, Chief Compliance and Regulatory Officer and the external auditor.

The Committee may invite any director, officer or employee or any other person to attend meetings to assist the Committee with its deliberations.

#### Notice of Meetings

Notice of meeting of the Committee shall be sent by prepaid mail, by personal delivery or other means of transmitted or recorded communication or by telephone at least 12 hours before the meeting to each member of the Committee at the member's address or communication number last recorded with the Secretary. A Committee member may in any manner waive notice of a meeting of the Committee and attendance at a meeting is a waiver of notice of the meeting, except where a member attends for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called.

#### Notice to the Internal Auditor and External Auditor

The Chief Internal Auditor and the external auditor are entitled to receive notice of every meeting of the Committee and, at the expense of the Bank, to attend and be heard at each meeting and to have the opportunity to discuss matters with the independent directors, without the presence of management.

#### Frequency

The Committee shall meet at least quarterly.

#### Quorum

The quorum for a meeting of the Committee shall be 40% of the number of members, subject to a minimum of 2 members.

#### Secretary and Minutes

The Secretary or, in the absence of the Secretary, an Assistant Secretary of the Bank shall act as Secretary of the Committee.

Minutes of meetings of the Committee shall be recorded and maintained by the Secretary and subsequently presented to the Committee and to the Board, if required by the Board.

**This Charter was last reviewed and approved by the Board on December 2, 2011.**

# Management's Discussion and Analysis

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## FORWARD-LOOKING STATEMENTS

Our public communications often include oral or written forward-looking statements. Statements of this type are included in this document, and may be included in other filings with Canadian securities regulators or the United States Securities and Exchange Commission, or in other communications. All such statements are made pursuant to the "safe harbour" provisions of the United States Private Securities Litigation Reform Act of 1995 and any applicable Canadian securities legislation. Forward-looking statements may include comments with respect to the Bank's objectives, strategies to achieve those objectives, expected financial results (including those in the area of risk management), and the outlook for the Bank's businesses and for the Canadian, United States and global economies. Such statements are typically identified by words or phrases such as "believe," "expect," "anticipate," "intent," "estimate," "plan," "may increase," "may fluctuate," and similar expressions of future or conditional verbs, such as "will," "should," "would" and "could."

By their very nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, and the risk that predictions and other forward-looking statements will not prove to be accurate. Do not unduly rely on forward-looking statements, as a number of important factors, many of which are beyond our control, could cause actual results to differ materially from the estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to: the economic and financial conditions in Canada and globally; fluctuations in interest rates and currency values; liquidity; significant market volatility and interruptions; the failure of third parties to comply with their obligations to us and our affiliates; the effect of changes in monetary policy; legislative and regulatory developments in Canada and elsewhere, including changes in tax laws; the effect of changes to our credit ratings; amendments to, and interpretations of, risk-based capital guidelines and reporting instructions and liquidity regulatory guidance; operational and reputational risks; the risk that the Bank's risk management models may not take into account all relevant factors; the accuracy and completeness of information the Bank receives on customers and counterparties; the timely development and introduction of new products and services in receptive markets; the Bank's ability to expand existing distribution channels and to develop and realize revenues from new distribution channels; the Bank's ability to complete and integrate acquisitions and its other growth strategies; changes in accounting policies and methods the Bank uses to report its financial condition and the results of its operations, including uncertainties associated with critical accounting assumptions and

estimates; the effect of applying future accounting changes, including International Financial Reporting Standards; global capital markets activity; the Bank's ability to attract and retain key executives; reliance on third parties to provide components of the Bank's business infrastructure; unexpected changes in consumer spending and saving habits; technological developments; fraud by internal or external parties, including the use of new technologies in unprecedented ways to defraud the Bank or its customers; consolidation in the Canadian financial services sector; competition, both from new entrants and established competitors; judicial and regulatory proceedings; acts of God, such as earthquakes and hurricanes; the possible impact of international conflicts and other developments, including terrorist acts and war on terrorism; the effects of disease or illness on local, national or international economies; disruptions to public infrastructure, including transportation, communication, power and water; and the Bank's anticipation of and success in managing the risks implied by the foregoing. A substantial amount of the Bank's business involves making loans or otherwise committing resources to specific companies, industries or countries. Unforeseen events affecting such borrowers, industries or countries could have a material adverse effect on the Bank's financial results, businesses, financial condition or liquidity. These and other factors may cause the Bank's actual performance to differ materially from that contemplated by forward-looking statements. For more information, see the discussion starting on page 63 of the MD&A.

The preceding list of important factors is not exhaustive. When relying on forward-looking statements to make decisions with respect to the Bank and its securities, investors and others should carefully consider the preceding factors, other uncertainties and potential events. The Bank does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by or on its behalf.

The "Outlook" sections in this document are based on the Bank's views and the actual outcome is uncertain. Readers should consider the above-noted factors when reviewing these sections.

Additional information relating to the Bank, including the Bank's Annual Information Form, can be located on the SEDAR website at [www.sedar.com](http://www.sedar.com) and on the EDGAR section of the SEC's website at [www.sec.gov](http://www.sec.gov).

December 2, 2011



## T1 Financial Highlights

As at and for the years ended October 31	2011	2010	2009	2008	2007
<b>Operating results</b> (\$ millions)					
Net interest income	9,270	8,621	8,328	7,574	7,098
Net interest income (TEB <sup>(1)</sup> )	9,557	8,907	8,616	7,990	7,629
Total revenue	17,288	15,505	14,457	11,876	12,490
Total revenue (TEB <sup>(1)</sup> )	17,575	15,791	14,745	12,292	13,021
Provision for credit losses	1,046	1,239	1,744	630	270
Non-interest expenses	9,564	8,182	7,919	7,296	6,994
Provision for income taxes	1,410	1,745	1,133	691	1,063
Provision for income taxes (TEB <sup>(1)</sup> )	1,697	2,031	1,421	1,107	1,594
Net income <sup>(2)</sup>	5,268	4,339	3,661	3,259	4,163
Net income attributable to common shareholders	4,959	4,038	3,361	3,033	3,994
<b>Operating performance</b>					
Basic earnings per share (\$)	4.62	3.91	3.32	3.07	4.04
Diluted earnings per share (\$)	4.62	3.91	3.31	3.05	4.01
Diluted cash earnings per share <sup>(1)</sup> (\$)	4.71	3.97	3.37	3.11	4.05
Return on equity <sup>(1)</sup> (%)	18.8	18.3	16.7	16.7	22.0
Productivity ratio (%) (TEB <sup>(1)</sup> )	54.4	51.8	53.7	59.4	53.7
Net interest margin on total average assets (%) (TEB <sup>(1)</sup> )	1.68	1.73	1.68	1.75	1.89
<b>Balance sheet information</b> (\$ millions)					
Cash resources and securities	174,344	162,590	160,572	125,353	118,030
Loans and acceptances	306,874	291,840	275,885	300,649	238,685
Total assets	575,256	526,657	496,516	507,625	411,510
Deposits	396,376	361,650	350,419	346,580	288,458
Preferred shares	4,384	3,975	3,710	2,860	1,635
Common shareholders' equity	28,376	23,656	21,062	18,782	17,169
Assets under administration <sup>(1)</sup>	325,334	243,817	215,097	203,147	195,095
Assets under management <sup>(1)</sup> (3)	103,020	53,532	46,304	40,460	36,092
<b>Capital measures<sup>(4)</sup></b>					
Tier 1 capital ratio (%)	12.2	11.8	10.7	9.3	9.3
Total capital ratio (%)	13.9	13.8	12.9	11.1	10.5
Tangible common equity to risk-weighted assets <sup>(1)</sup> (5) (%)	9.6	9.7	8.3	6.6	7.4
Assets-to-capital multiple	16.6	17.0	16.6	18.0	18.2
Risk-weighted assets (\$ millions)	233,970	215,034	221,656	250,591	218,337
<b>Credit quality</b>					
Net impaired loans <sup>(6)</sup> (\$ millions)	2,623	3,044	2,563	1,191	601
General allowance for credit losses (\$ millions)	1,352	1,410	1,450	1,323	1,298
Sectoral allowance (\$ millions)	—	—	44	—	—
Net impaired loans as a % of loans and acceptances <sup>(6)</sup>	0.85	1.04	0.93	0.40	0.25
Specific provision for credit losses as a % of average loans and acceptances	0.38	0.48	0.54	0.24	0.13
<b>Common share information</b>					
Share price (\$)					
High	61.28	55.76	49.19	54.00	54.73
Low	49.00	44.12	23.99	35.25	46.70
Close	52.53	54.67	45.25	40.19	53.48
Shares outstanding (millions)					
Average – Basic	1,072	1,032	1,013	987	989
Average – Diluted	1,074	1,034	1,016	993	997
End of period	1,089	1,043	1,025	992	984
Dividends per share (\$)	2.05	1.96	1.96	1.92	1.74
Dividend yield (%) <sup>(7)</sup>	3.7	3.9	5.4	4.3	3.4
Market capitalization (\$ millions)	57,204	57,016	46,379	39,865	52,612
Book value per common share (\$)	26.06	22.68	20.55	18.94	17.45
Market value to book value multiple	2.0	2.4	2.2	2.1	3.1
Price to earnings multiple	11.3	14.0	13.6	13.1	13.2
<b>Other information</b>					
Employees	75,362	70,772	67,802	69,049	58,113
Branches and offices	2,926	2,784	2,686	2,672	2,331

(1) Non-GAAP measure. Refer to the non-GAAP measures on page 29.

(2) Refer to Note 1 of the Consolidated Financial Statements for the impact of the new accounting standards adopted effective November 1, 2010. Prior period information has been reclassified to conform with current period presentation.

(3) Prior period amounts have been restated to reflect the updated definition of assets under management. Refer to page 29 for a discussion on non-GAAP measures.

(4) Effective November 1, 2007, regulatory capital, risk-weighted assets and capital ratios are determined in accordance with Basel II rules. Comparative amounts for 2007 were determined in accordance with Basel I rules.

(5) Amounts have been restated to reflect the revised definition of tangible common equity to risk-weighted assets. Refer to page 29 for a discussion of non-GAAP measures.

(6) Net impaired loans are impaired loans less the specific allowance for credit losses.

(7) Based on the average of the high and low common share price for the year.

## MD&A Overview

### Financial Results

Scotiabank had record results in 2011 and met or exceeded all of its financial objectives. Net income was \$5,268 million, \$929 million or 21% higher than last year. Diluted earnings per share (EPS) were \$4.62, up 18% from \$3.91 in 2010. The negative impact of foreign currency translation was \$107 million relative to 2010, reducing EPS by 10 cents. Return on equity of 18.8% remains strong.

Total revenues increased 11% from last year to \$17,575 million on a taxable equivalent basis (TEB), including the negative impact of foreign currency translation of \$232 million and the \$286 million acquisition-related gains.

Net interest income (TEB) rose \$650 million to \$9,557 million in 2011, notwithstanding the negative impact of foreign currency translation of \$138 million. The increase was mainly from volume growth in Canadian Banking, higher contributions across International Banking, including acquisitions, and the lower cost of long-term wholesale funding.

Other income was \$8,018 million, up \$1,134 million or 16% from last year or 18% excluding the negative impact of foreign currency translation. The increase reflected \$286 million acquisition-related gains and contribution from acquisitions of \$744 million, offset by the significant decline in trading revenues year over year. There were also increases in securitization income, credit fees, card revenues and deposit-based fees, as well as, organic growth in mutual fund and brokerage revenues.

The provision for credit losses was \$1,046 million for the year, down \$193 million from the previous year, primarily from reduction of specific provisions of \$217 million. Last year's provision included a reversal of the sectoral allowance of \$44 million and a reduction of \$40 million in the general allowance, while there was a \$60 million reduction in the general allowance this year.

Non-interest expenses were \$9,564 million in 2011, an increase of \$1,382 million or 17% from 2010. This includes the favourable impact of foreign currency translation of \$87 million. Acquisitions contributed \$651 million to the increase. The remaining growth was primarily in remuneration related expenses. Salary expenses were up from annual merit increases and ongoing growth initiatives. Pension and benefits rose primarily from changes in actuarial assumptions and plan asset values. Growth in advertising, premises, and technology reflects the Bank's investment in expansion initiatives.

The overall tax rate was 21.1% in 2011, down from 28.7% last year, due mainly to the non-taxable acquisition-related gains, a drop in the Canadian statutory tax rate, lower taxes in foreign subsidiaries and higher tax exempt income, partially offset by a future tax asset valuation allowance recorded this year.

Tier 1 capital ratio at 12.2% and the total capital ratio at 13.9% remained well above the regulatory minimum and were strong by international standards.

### Outlook

Global prospects are being pressured again by the recurring financial market volatility resulting from the euro zone's sovereign debt crisis and the political delay in finalizing the United States' deficit-reduction plan.

In contrast, Canada and the emerging economies remain on a faster growth trajectory. Canada, and the Asia-Pacific and Latin American regions should continue to benefit from ongoing strength in domestic spending, foreign investment, and much more supportive economic and fiscal fundamentals. The widening performance differential between the advanced and emerging economies will likely persist, particularly with the pace of activity in the euro zone and the United States set to moderate as governments join households in reducing their debt.

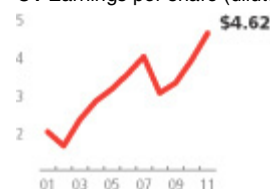
The Bank is very fortunate to be well positioned in all Business Lines to benefit from growth in these markets. The Bank's exposures are very limited in the areas of concern and its focus is on client-driven businesses and adding customers, particularly in the higher growth markets. As a result, Scotiabank expects continued growth through this business cycle and beyond.

### CHANGE IN ACCOUNTING STANDARDS

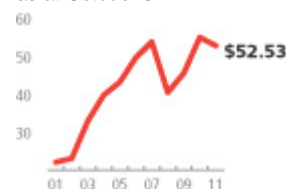
Effective November 1, 2010, the Bank adopted new Canadian accounting standards on Business Combinations, Consolidated Financial Statements and Non-Controlling Interests. The adoption of these standards resulted in the recognition of acquisition-related gains of \$286 million. The gains arose substantially from the accounting for the Bank's acquisition of an additional ownership interest in DundeeWealth Inc. This additional investment was considered a step-acquisition and accounted for on a fair value basis. A gain of \$260 million was recognized on the revaluation of the Bank's original 18% investment in DundeeWealth.

The remaining \$26 million gain related to accounting for another acquisition, which was purchased at a price lower than fair value. The new standards require negative goodwill to be recognized in income without first reducing non-monetary assets, resulting in a higher gain in income under the new standards. Under prior Canadian GAAP, \$26 million would have been recorded as negative goodwill. With the change, the total negative goodwill recognized for the acquisition was \$52 million.

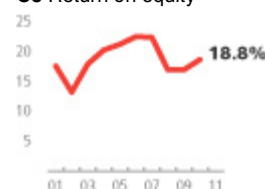
**C1 Earnings per share (diluted)**



**C2 Closing common share price as at October 31**

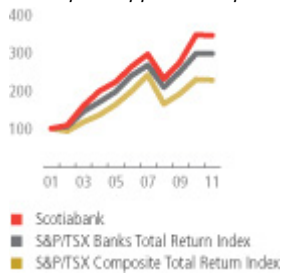


**C3 Return on equity**



**C4** Return to common shareholders

Share price appreciation plus dividends reinvest.

**Shareholder Returns**

A turbulent global economic environment weighed on investors' sentiments in 2011, resulting in total shareholder return for the Bank of negative 0.4%, a substantial decrease from positive 25.7% in 2010, as shown in Table 2.

The total compounded annual shareholder return on the Bank's shares over the past five years was 5.4% and 13.1% over the past 10 years. This exceeded the total return of the S&P/TSX Composite Index of 2.7% over the past five years and 8.5% over the last ten years, as shown in Chart 4.

Quarterly dividends were raised 6% in the second quarter. Dividends per share totaled \$2.05 for the year, up 5% from 2010. The Bank was within its target payout ratio of 40-50%, at 44% for the year.

The Bank's Return on Equity was 18.8% for fiscal 2011, an increase from 18.3% in the previous year.

**T2** Shareholder returns

For the years ended October 31	2011	2010	2009	2008	2007	5-yr CAGR <sup>(1)</sup>
Closing market price per common share (\$)	52.53	54.67	45.25	40.19	53.48	1.3%
Dividends paid (\$ per share)	2.05	1.96	1.96	1.92	1.74	6.5%
Dividends paid (%)	3.7	4.3	4.9	3.6	3.5	
Increase (decrease) in share price (%)	(3.9)	20.8	12.6	(24.9)	8.5	
Total annual shareholder return (%) <sup>(2)</sup>	(0.4)	25.7	18.8	(21.6)	12.2	

(1)Compound annual growth rate (CAGR)

(2)Total annual shareholder return assumes reinvestment of quarterly dividends, and therefore may not equal the sum of dividend and share price returns in the table.

**T3** Impact of foreign currency translation

Average exchange rate	2011	2010	2009
U.S. dollar/Canadian dollar	1.013	0.963	0.855
Impact on income (\$ millions except EPS)	2011 vs. 2010	2010 vs. 2009	2009 vs. 2008
Net interest income	\$ (138)	\$ (413)	\$ 235
Other income	(94)	(306)	111
Non-interest expenses	87	252	(55)
Other items (net of tax)	38	165	(79)
Net income	\$ (107)	\$ (302)	\$ 212
Earnings per share (diluted)	\$ (0.10)	\$ (0.29)	\$ 0.21
Impact by business line (\$ millions)			
International Banking	\$ (53)	\$ (107)	\$ 69
Scotia Capital	\$ (22)	\$ (91)	\$ 103
Global Wealth Management	\$ (15)	\$ (35)	\$ 18
Canadian Banking	\$ (5)	\$ (13)	\$ 16
Other	\$ (12)	\$ (56)	\$ 6
	\$ (107)	\$ (302)	\$ 212

**T4** Impact of acquisitions<sup>(1)</sup>

(\$ millions)	2011	2010
Net interest income	\$ 331	\$125
Other income	1,064	34
Non-interest expenses	(709)	(58)
Other items (net of tax)	(137)	(40)
Net income	\$ 549	\$ 61

(1)Includes acquisitions and investments in associated corporations made in 2010 and 2011, excluding funding costs.

## Impact of foreign currency translation

The foreign currency average exchange rates had a negative impact on the Bank's earnings in 2011. On average, the Canadian dollar appreciated 5% over the U.S. dollar, 3% against the Peruvian sol, and against many other currencies in which the Bank conducts its business. The movement in the average exchange rates impacted net income, as seen in Table 3.

## Impact of acquisitions

The Bank made a number of acquisitions in 2010 and 2011, which contributed to growth mainly in Global Wealth Management and International Banking operations. The impact on selected income statement categories is shown in Table 4.

## Non-GAAP measures

The Bank uses a number of financial measures to assess its performance. Some of these measures are not calculated in accordance with Generally Accepted Accounting Principles (GAAP), are not defined by GAAP and do not have standardized meanings that would ensure consistency and comparability between companies using these measures. These non-GAAP measures are used throughout this report and defined below.

### Taxable equivalent basis

The Bank analyzes net interest income and total revenues on a taxable equivalent basis (TEB). This methodology grosses up tax-exempt income earned on certain securities reported in net interest income to an equivalent before tax basis. A corresponding increase is made to the provision for income taxes; hence, there is no impact on net income. Management believes that this basis for measurement provides a uniform comparability of net interest income arising from both taxable and non-taxable sources and facilitates a consistent basis of measurement. While other banks also use TEB, their methodology may not be comparable to the Bank's methodology. The TEB gross-up to net interest income and to the provision for income taxes for 2011 was \$287 million versus \$286 million in 2010.

For purposes of segmented reporting, a segment's net interest income and provision for income taxes are grossed up by the taxable equivalent amount. The elimination of the TEB gross up is recorded in the "Other" segment.

### Diluted cash earnings per share

The diluted cash earnings per share is calculated by adjusting the diluted earnings per share to add back the non-cash after-tax amortization of intangible assets.

### Productivity Ratio (TEB)

Management uses the productivity ratio as a measure of the Bank's efficiency. This ratio represents non-interest expenses as a percentage of total revenue on a taxable equivalent basis.

### Net interest margin on total average assets (TEB)

This ratio represents net interest income on a taxable equivalent basis as a percentage of total average assets.

## Operating leverage

The Bank defines operating leverage as the rate of growth in total revenue, on a taxable equivalent basis, less the rate of growth in expenses.

## Return on equity

Return on equity is a profitability measure that presents the net income attributable to common shareholders as a percentage of common shareholders' equity. The Bank calculates its return on equity using average common shareholders' equity.

## Economic equity and Return on economic equity

For internal reporting purposes, the Bank attributes capital to its business segments based on their risk profile and uses a methodology that considers credit, market, operational and other risks inherent in each business segment. The amount of risk capital attributed is commonly referred to as economic equity. Commencing this year, return on economic equity for the business segments is calculated as a ratio of Adjusted Net Income of the business segment and the economic equity attributed. Adjusted Net Income is net income available to common shareholders grossed up for the incremental cost of non-common equity capital instruments. Return on economic equity for the business segments has been restated for the comparative periods.

## Tangible common equity to risk-weighted assets

Tangible common equity to risk-weighted assets is an important financial measure for rating agencies and the investing community. Tangible common equity is total common shareholders' equity plus non-controlling interest in subsidiaries, less goodwill and unamortized intangible assets (net of taxes). Tangible common equity is presented as a percentage of risk-weighted assets. Regulatory capital ratios, such as Tier 1 and Total Capital ratios, have standardized meanings as defined by the Office of the Superintendent of Financial Institutions Canada (OSFI).

## Assets Under Administration (AUA)

AUA are assets administered by the Bank which are beneficially owned by clients and therefore not reported on the Bank's balance sheet. Services provided for AUA are of an administrative nature, such as trusteeship, custodial, safekeeping, income collection and distribution; securities trade settlements, customer reporting, and other similar services.

## Assets Under Management (AUM)

AUM are assets managed by the Bank on a discretionary basis and in respect of which the Bank earns investment management fees. AUM are beneficially owned by clients and are therefore not reported on the Bank's balance sheet. Some AUM are also administered assets and are included in assets under administration.

**C5 Net interest income by business line<sup>(1)</sup>**

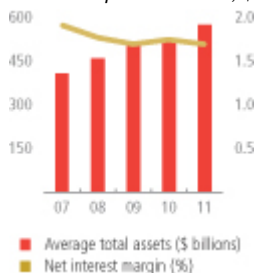
Taxable equivalent basis, \$ millions



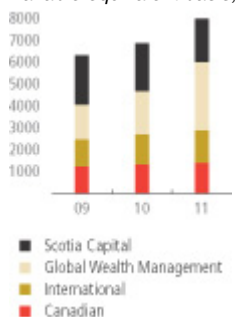
(1) Excludes Other segment

**C6 Average total assets and net interest margin**

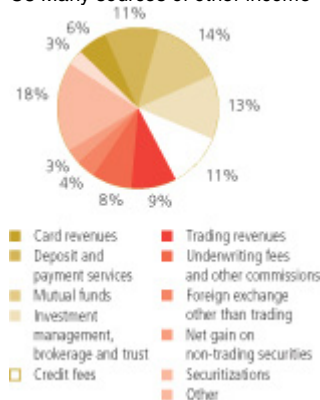
Taxable equivalent basis, \$ millions

**C7 Other income by business line<sup>(1)</sup>**

Taxable equivalent basis, \$ millions



(1) Excludes Other segment

**C8 Many sources of other income****GROUP FINANCIAL PERFORMANCE****Total revenue**

Total revenue on a taxable equivalent basis was \$17,575 million in 2011, an increase of \$1,784 million or 11% from the prior year, notwithstanding a \$232 million or 1% negative impact from foreign currency translation arising from a stronger Canadian dollar. Both net interest income and other income rose in 2011 although the rate of increase in other income was more than double that of net interest income.

The increase in net interest income was due to growth in average earning assets and the positive impact of changes in the fair value of financial instruments used for asset/liability management purposes, which were partially offset by a lower margin.

Other income was up a substantial \$1,134 million or 16%, including acquisition-related gains of \$286 million. The remaining growth was primarily from the contributions of acquisitions and higher mutual fund fees and revenues from existing investment management, brokerage and trust services. In addition, transaction-based fees and securitization revenues were up year over year. These increases more than offset significantly lower trading revenues and lower net gains on securities.

Canadian Banking revenues were relatively flat compared to the previous year as lower net interest income was offset by higher other income. The reduction in net interest income reflected a narrower margin as average earning assets grew by 6%. The main components of the increase in other income were higher fees from deposit and payment services, and growth in acceptance and card revenues.

In International Banking, total revenues were up 9%, notwithstanding the \$128 million negative impact from foreign currency translation. Net interest income rose \$372 million or 10% from both growth in average earning assets and a wider margin. Retail and commercial lending grew significantly with increases throughout the regions. The wider margin was a reflection of higher earnings from associated corporations as well as wider spreads in the Pacific region. The increase in other income was mainly from the contribution of acquisitions and higher credit-related activity in Peru. In addition, 2010 included a devaluation loss on the investment in a Venezuelan affiliate, while this year's results included \$79 million of negative goodwill related to recent acquisitions.

Total revenues in Global Wealth Management were up a substantial 51%, almost entirely in other income from the contribution of acquisitions. While the inclusion of revenues from DundeeWealth was the major component of this increase, fees were also higher in ScotiaFunds, Mexico and Chile and full service brokerage and there was growth in insurance revenues.

Scotia Capital's total revenues fell \$219 million or 7% from 2010, most of which was in other income. Net interest income fell \$27 million, due primarily to the negative impact of foreign currency translation. The reduction in other income was mainly in trading revenues due to challenging market conditions in the latter half of the year. The decline was partially offset by stronger precious metals and foreign exchange trading, higher net gains on securities and increased investment banking revenues and credit fees.

**Net interest income**

Net interest income on a taxable equivalent basis was \$9,557 million in 2011, an increase of \$650 million or 7% over the prior year. This included a negative impact from foreign currency translation of \$138 million.

Average assets grew by \$53 billion to \$569 billion, with growth in every major category. Securities purchased under resale agreements rose \$10 billion or 44%, residential mortgages grew \$10 billion or 9%, securities were up \$9 billion or 8%. In addition, deposits with banks rose \$8 billion or 16% and business and government lending grew \$5 billion or 6%. Non-earning assets were up \$10 billion or 17%.

Canadian Banking's average earning assets grew by \$12 billion or 6% to \$210 billion, primarily in residential mortgages, consumer auto loans and commercial lending.

International Banking's average earning assets were up \$8 billion or 9% to \$92 billion. Personal lending grew in Puerto Rico, from the acquisition of R-G Premier Bank, and in Chile and Peru. Business and government lending rose in Peru and Mexico.

Global Wealth Management's average earning assets were up \$1 billion or 8% to \$9 billion, primarily in personal lending and residential mortgages.



Scotia Capital's earning assets rose \$21 billion or 15% to \$160 billion. Securities purchased under resale agreements and trading securities increased significantly in global capital markets. Corporate lending volumes fell in the United States and Europe and to a lesser extent in Canada.

The Bank's net interest margin was 1.68%, a five basis points reduction from last year, primarily from higher levels of low-spread securities in Scotia Capital. The margin also narrowed from higher volumes of non-earning assets, growth in low spread deposits with banks, and narrower spreads on the Canadian dollar fixed rate asset portfolio. These factors were partially offset by a favourable change in the fair value of financial instruments used for asset/liability management purposes, the contributions from acquisitions in International Banking, and a lower cost of wholesale long-term funding.

Canadian Banking's margin fell due to consumer preferences for lower yielding floating rate mortgages, competitive pricing pressures and higher short term wholesale funding rates used for transfer pricing.

International Banking's margin widened year over year from higher earnings from associated corporations as well as wider spreads in the Pacific.

Global Wealth Management's margin compressed slightly.

Scotia Capital's margin fell during the year from a changing business mix as an increasing proportion of narrower spread capital market assets more than offset wider corporate loan spreads.

#### Outlook

The Bank's net interest income is expected to increase in 2012, driven by moderate asset growth as well as the full year impact of acquisitions made in 2011. The margin is expected to largely remain at current levels due to the continuing low interest rate environment and competitive pricing, offset by the run-off of higher-cost long-term funding.

#### Other income

Other Income was a record \$8,018 million in 2011, an increase of \$1,134 million or 16% from the prior year, notwithstanding a negative impact of \$94 million from foreign currency translation. This increase was primarily from higher mutual fund fees, investment management and trust fees and acquisition-related gains of \$286 million.

#### T5 Net interest income and margin<sup>(1)</sup>

(\$ millions, except percentage amounts)	2011	2010	2009	2008	2007
Average assets	568,859	515,991	513,149	455,539	403,475
Net interest income <sup>(1)</sup>	9,557	8,907	8,616	7,990	7,629
Net interest margin	1.68%	1.73%	1.68%	1.75%	1.89%

(1) Taxable equivalent basis. Refer to the non-GAAP measures on page 29.

#### T6 Average balance sheet<sup>(1)</sup> and interest margin

	2011		2010	
Taxable equivalent basis <sup>(2)</sup> For the fiscal years (\$ billions)	Average balance	Average rate	Average balance	Average rate
<b>Assets</b>				
Deposits with banks	\$ 60.4	0.57%	\$ 52.2	0.56%
Securities	126.7	4.08	117.6	3.84
Securities purchased under resale agreements	34.0	1.11	23.6	0.85
Loans:				
Residential mortgages	121.4	4.04	111.6	3.97
Personal and credit cards	60.8	7.05	60.5	6.80
Business and government	97.6	4.01	92.1	3.94
	279.8	4.68	264.2	4.61
Total earning assets	501.0	3.79	457.6	3.75
Customers' liability under acceptances	7.9	—	8.1	—
Other assets	60.0	—	50.3	—
Total assets	\$ 568.9	3.34%	\$ 516.0	3.33%
<b>Liabilities and shareholders' equity</b>				
Deposits:				
Personal	\$ 129.3	1.88%	\$ 124.4	2.04%
Business and government	239.0	2.10	212.9	1.93
Banks	24.0	0.64	23.2	0.54
	392.3	1.94	360.5	1.88
Obligations related to securities sold under repurchase agreements	45.1	1.07	40.3	0.72
Subordinated debentures	5.9	5.32	5.9	4.87
Capital instrument liabilities	0.1	6.22	0.5	7.34
Other interest-bearing liabilities	41.2	2.52	33.7	2.63
Total interest-bearing liabilities	484.6	1.95	440.9	1.88
Other liabilities including acceptances	53.1	—	48.6	—
Shareholders' equity <sup>(3)</sup>	31.2	—	26.5	—
Total liabilities and equity	\$ 568.9	1.66%	\$ 516.0	1.60%
Net interest margin		1.68%		1.73%

(1) Average of daily balances.

(2) Refer to the non-GAAP measures on page 29.

(3) Includes non-controlling interests of \$0.6 billion in 2010 and 2011.

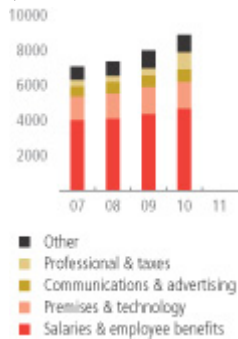
#### T7 Trading revenue

Taxable equivalent basis<sup>(1)</sup>

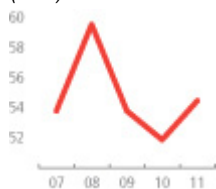
For the fiscal years (\$ millions)	2011	2010	2009
Reported in:			
Other income	\$ 740	\$ 1,016	\$ 1,057
Net interest income	375	405	423
Total trading revenue	\$1,115	\$ 1,421	\$ 1,480
By trading products:			
Interest rate and credit	\$ 257	\$ 534	\$ 498
Equities	291	379	365
Precious metals and commodities	335	270	260
Foreign exchange	243	233	285
Other	(11)	5	72
Total trading revenue	\$1,115	\$ 1,421	\$ 1,480
% of total revenues (net interest income plus other income)	6%	9%	10%

(1) Refer to the non-GAAP measures on page 29.

### C9 Expenses well controlled \$ millions



### C10 Productivity non-interest expenses as a % of revenue (TEB)



(Source: published financial data)

Card revenues of \$469 million were \$43 million higher than last year. Canadian Banking revenues were up 12% (the second year of double digit growth) mainly from higher interchange fees related to growth in credit card payment volumes. Increases in International Banking reflected the two acquisitions in Uruguay.

Revenues from deposit and payment services earned from retail, commercial and corporate customers of \$922 million were \$39 million or 4% higher than 2010. Canadian Banking revenues were 5% above the previous year. International Banking fees were 2% above last year as higher fees in the Caribbean more than offset lower ABM fees in Mexico due to regulatory-driven reductions.

Mutual funds fees rose a substantial \$518 million or 89% to \$1,100 million, with the acquisition of DundeeWealth contributing \$469 million of the increase. Higher average assets under management in ScotiaFunds, and higher fees in Mexico and Chile were the main components of the remaining increase. Earnings from associated corporations fell year-over-year.

Revenues from investment management, brokerage and trust services were up a substantial \$232 million or 30% year over year, primarily from the acquisition of DundeeWealth. In addition, full service brokerage fees grew 11% from a combination of higher fee-based revenues and increased trading volumes. Discount brokerage fees were up slightly as higher trading volumes offset a reduction in average commission per trade following the introduction of lower pricing.

Credit fees were \$37 million or 4% higher than the previous year. Acceptances fees increased 23% in Canadian Banking from both higher stamping fees and higher volumes but were slightly lower in Scotia Capital. Commitment and credit fees were higher in the United States, Europe and Canada.

Trading revenues of \$740 million were \$276 million below the prior year. Global fixed income and institutional equity businesses accounted for most of this reduction, reflecting challenging market conditions. Foreign exchange trading was up modestly from 2010 while precious metals revenue rose 23% to record levels from growing investor demand and commodity volatility.

Underwriting fees and commissions rose \$63 million or 11% to \$624 million. Both institutional brokerage commissions and fees earned by Scotia Waterous were up significantly from the previous year. Equity underwriting fees also grew compared to 2010. Non-trading foreign exchange revenues increased \$31 million or 9% with higher revenues in International Banking, primarily in Mexico and Chile, Canadian Banking and Global Wealth Management.

### T8 Other income

For the fiscal years (\$ millions)

	2011	2010	2009	2008	2007	2011 versus 2010
<b>Card revenues</b>	<b>\$ 469</b>	<b>\$ 426</b>	<b>\$ 424</b>	<b>\$ 397</b>	<b>\$ 366</b>	<b>10%</b>
<b>Deposit and payment services</b>						
Deposit services	710	686	707	675	652	4
Other payment services	212	197	198	187	165	8
	922	883	905	862	817	4
<b>Mutual funds</b>	<b>1,100</b>	<b>582</b>	<b>371</b>	<b>317</b>	<b>296</b>	<b>89</b>
<b>Investment management, brokerage and trust services</b>						
Retail brokerage	733	541	507	538	553	35
Investment management and custody	133	106	94	96	87	25
Personal and corporate trust	147	134	127	126	120	10
	1,013	781	728	760	760	30
<b>Credit fees</b>						
Commitment and other credit fees	680	652	658	436	403	4
Acceptance fees	188	179	208	143	127	5
	868	831	866	579	530	4
<b>Trading revenues</b>	<b>740</b>	<b>1,016</b>	<b>1,057</b>	<b>188</b>	<b>450</b>	<b>(27)</b>
Underwriting fees and other commissions	624	561	620	402	498	11
Foreign exchange, other than trading	368	337	373	314	239	9
Net gain (loss) on securities, other than trading	239	355	(412)	(374)	488	(33)
Securitization revenues	236	124	409	130	34	90
Other	1,439	988	788	727	914	46
<b>Total other income</b>	<b>\$ 8,018</b>	<b>\$ 6,884</b>	<b>\$ 6,129</b>	<b>\$ 4,302</b>	<b>\$ 5,392</b>	<b>16%</b>
Percentage increase (decrease) over previous year	16%	12%	42%	(20)%	12%	

Net gains on securities were \$239 million, compared to \$355 million in 2010, with lower gains in International Banking being partly offset by higher gains in Group Treasury. Securitization revenues almost doubled year over year to \$236 million from higher volumes of mortgages securitized, partly offset by a slightly lower spread.

Other revenues of \$1,439 million were \$451 million higher than last year, due primarily to the acquisition-related gains of \$286 million and the recognition of negative goodwill on recent acquisitions.

#### Outlook

The ongoing challenging global market conditions will temper growth in some other income categories. However, the Bank expects increases in most other income categories in 2012, from the full year impact of acquisitions, and higher customer activity.

#### Non-interest expenses

Non-interest expenses were \$9,564 million in 2011, an increase of \$1,382 million or 17% from last year, notwithstanding the positive impact of foreign currency translation of \$87 million. Recent acquisitions accounted for \$651 million or 47% of the growth in non-interest expenses.

Salaries and employee benefits were \$5,399 million in 2011, up \$752 million or 16% from last year. Salaries increased by \$267 million or 10%, reflecting the impact of acquisitions, annual pay increases, and increased staffing to support growth initiatives. Performance-based compensation was up \$261 million or 24% from last year. Excluding the impact of acquisitions and foreign currency translation, performance-based compensation was up \$114 million. Stock-based compensation increased by \$52 million or 25%, largely in Scotia Capital and from acquisitions. Pensions and other employee benefit costs rose by \$172 million or 29%, due mainly to an increase in payroll taxes from higher staffing, and growth in pension costs. The latter increase was due in part to changes in actuarial assumptions and plan asset values, partially offset by a gain on the wind up of a subsidiary's pension plan during the year.

**C11 Direct and indirect taxes**  
\$ millions



(1) Includes taxable-equivalent adjustment

#### T9 Non-interest expenses and productivity

	2011	2010	2009	2008	2007	2011 versus 2010
<b>For the fiscal years (\$ millions)</b>						
<b>Salaries and employee benefits</b>						
Salaries	\$ 3,018	\$ 2,751	\$ 2,676	\$ 2,549	\$ 2,315	10%
Performance-based compensation	1,349	1,088	1,035	913	1,017	24
Stock-based compensation	257	205	79	89	133	25
Pensions and other employee benefits	775	603	554	558	518	29
	5,399	4,647	4,344	4,109	3,983	16
<b>Premises and technology</b>						
Net premises rent	276	243	243	217	197	13
Premises repairs and maintenance	90	85	87	83	75	6
Property taxes	75	73	72	65	65	3
Computer equipment, software and data processing	760	685	687	650	603	11
Depreciation	274	236	234	208	203	16
Other premises costs	244	204	220	194	192	20
	1,719	1,526	1,543	1,417	1,335	13
<b>Communications</b>						
Telecommunications	82	79	80	79	73	5
Stationery, postage and courier	262	261	266	247	227	—
	344	340	346	326	300	1
<b>Advertising and business development</b>						
Advertising and promotion	284	250	202	206	193	14
Travel and business development	145	114	105	114	118	27
	429	364	307	320	311	18
<b>Professional</b>	262	224	216	227	227	17
<b>Business and capital taxes</b>						
Business taxes	154	125	129	90	107	23
Capital taxes	29	46	48	26	36	(37)
	183	171	177	116	143	7
<b>Other</b>						
Employee training	45	39	26	43	53	16
Amortization of goodwill and other intangibles	137	98	96	83	64	40
Other	1,046	773	864	655	578	35
	1,228	910	986	781	695	35
<b>Total non-interest expenses</b>	<b>\$ 9,564</b>	<b>\$ 8,182</b>	<b>\$ 7,919</b>	<b>\$ 7,296</b>	<b>\$ 6,994</b>	<b>17%</b>
<b>Productivity ratio (TEB)<sup>(1)</sup></b>	<b>54.4%</b>	<b>51.8%</b>	<b>53.7%</b>	<b>59.4%</b>	<b>53.7%</b>	

(1) Taxable equivalent basis. Refer to the Non-GAAP measures on page 29.



Premises and technology expenses were \$1,719 million in 2011, an increase of \$193 million or 13% from last year. The higher premises costs reflected the impact of acquisitions, branch expansion in International operations and Canada, and higher depreciation costs. Technology expenses increased \$75 million or 11%, as the Bank continued to invest in new and ongoing technology projects.

Advertising and business development expenses were \$429 million in 2011, an increase of \$65 million or 18% over last year, due mainly to the impact of acquisitions and various advertising campaigns and sponsorships in Canada, Mexico, and the Caribbean.

Professional expenses rose \$38 million or 17% to \$262 million, as a result of project-related spending and the impact of acquisitions.

Other expenses were \$1,228 million in 2011, an increase of \$318 million or 35% from last year. Excluding the impact of acquisitions and foreign currency translation, other expenses were up \$104 million due to increases in volume-related securitization expenses, loyalty reward point costs, amortization of intangibles and employee training.

The productivity ratio of 54.4% for 2011, increased from a record low of 51.8% last year.

#### Outlook

Expense control is a key strength of the Bank, and will be an area of even greater focus in 2012. Expenses are expected to increase in 2012, reflecting the full-year impact of acquisitions, and technology, regulatory and business growth initiatives to be undertaken in 2012. Notwithstanding, we expect the productivity ratio to remain below 58%.

### Provision for income taxes

The provision for income taxes was \$1,410 million in 2011, a decrease from \$1,745 million last year. The Bank's overall effective tax rate for

the year was 21.1%, down from 28.7% last year. This decrease was due primarily to a reduction in the statutory tax rate in Canada, higher tax-exempt income, lower taxes in foreign subsidiaries and reduced future tax adjustments. In addition, the current year's rate benefitted from the non-taxable acquisition-related gains of \$286 million. These items were partially offset by a valuation allowance recorded against a future tax asset related to a loss on disposal of subsidiary operations in a prior year.

#### Outlook

The Bank's consolidated effective tax rate is expected to be in the range of 20 to 24% in 2012.

### Credit quality

#### Provision for credit losses

The total provision for credit losses was \$1,046 million in 2011, down \$193 million or 16% from \$1,239 million last year. The total provision for credit losses was net of a reduction of the general provision of \$60 million in 2011 and \$40 million in 2010 as well as reversal in 2010 of the sectoral provision of \$44 million that was established for the automotive sector in 2009.

The total specific provision for credit losses was \$1,106 million, a decrease of \$217 million or 16% from 2010.

The specific provision for credit losses in Canadian Banking was \$590 million, a decrease of \$122 million from \$712 million last year, with lower retail and commercial provisions. The prior year included a reversal of \$7 million of the sectoral allowance specific to the automotive sector.

#### T10 Impaired loans by business line

	Net impaired loans		Specific Allowance for credit losses			Gross impaired loans			
As at October 31 (\$ millions)	2011	2010	2011	2010	2011	2010	2009	2008	2007
<b>Canadian Banking</b>									
Retail	\$ 374	\$ 424	\$ (452)	\$ (451)	\$ 826	\$ 875	\$ 869	\$ 523	\$ 391
Commercial	88	184	(217)	(157)	305	341	302	238	197
	462	608	(669)	(608)	1,131	1,216	1,171	761	588
<b>International Banking</b>									
Mexico	61	110	(98)	(140)	159	250	238	216	188
Caribbean and Central America	1,321	1,502	(287)	(188)	1,608	1,690	931	560	397
Latin America	546	588	(324)	(346)	870	934	1,015	801	285
Asia and Europe	2	9	(38)	(31)	40	40	83	32	27
	1,930	2,209	(747)	(705)	2,677	2,914	2,267	1,609	897
<b>Global Wealth Management</b>	11	N/A	(2)	N/A	13	N/A	N/A	N/A	N/A
<b>Scotia Capital</b>									
Canada	39	34	(12)	(26)	51	60	87	—	18
United States	115	154	(10)	(25)	125	179	408	107	11
Europe	66	39	(25)	(13)	91	52	6	17	30
	220	227	(47)	(64)	267	291	501	124	59
Gross impaired loans					\$4,088	\$4,421	\$ 3,939	\$ 2,494	\$ 1,544
Specific allowance for credit losses			\$(1,465)	\$(1,377)			\$(1,376)	\$(1,303)	\$ (943)
Net impaired loans <sup>(1)</sup>	\$ 2,623	\$ 3,044					\$ 2,563	\$ 1,191	\$ 601
General allowance for credit losses	(1,352)	(1,410)					(1,450)	(1,323)	(1,298)
Sectoral allowance	—	—					(44)	—	—
Net impaired loans after general and sectoral allowances	\$ 1,271	\$ 1,634					\$ 1,069	\$ (132)	\$ (697)
Gross impaired loans as a % of total allowance for credit losses and shareholders' equity <sup>(2)</sup>	11.3%	14.3%					14.0%	10.1%	7.2%
Net impaired loans <sup>(1)</sup> as a % of loans and acceptances	0.85%	1.04%					0.93%	0.40%	0.25%
Specific allowance for credit losses as a % of gross impaired loans	36%	31%					35%	52%	61%

(1) Net impaired loans after deducting specific allowance for credit losses.

(2) Refer to Note 1 of the Consolidated Financial Statements for the impact of the new accounting standards adopted effective November 1, 2010 on shareholders' equity. Prior period information has been restated to conform with current period presentation.

**T11 Specific provisions for credit losses by business line**

For the fiscal years (\$ millions)	2011	2010	2009	2008	2007
<b>Canadian Banking</b>					
Retail <sup>(1)</sup>	\$ 466	\$ 573	\$ 542	\$316	\$ 274
Commercial	124	139	151	83	21
	590	712	693	399	295
<b>International Banking</b>					
Mexico	137	168	185	141	68
Caribbean and Central America <sup>(1)</sup>	202	243	149	89	48
Latin America	142	193	202	—	(11)
Asia and Europe	4	12	40	6	(4)
	485	616	576	236	101
<b>Global Wealth Management<sup>(1)</sup></b>	2	1	3	N/A	N/A
<b>Scotia Capital</b>					
Canada	27	(1)	109	(11)	—
United States	(13)	(13)	192	16	(91)
Europe	15	8	—	(10)	(10)
	29	(6)	301	(5)	(101)
<b>Total</b>	<b>\$1,106</b>	<b>\$1,323</b>	<b>\$1,573</b>	<b>\$630</b>	<b>\$ 295</b>

(1)2009 and 2010 amounts have been restated for changes in business line structure effective 2011.

**T12 Provisions for credit losses as a percentage of average loans and acceptances**

For the fiscal years (%)	2011	2010	2009	2008	2007
<b>Canadian Banking<sup>(1)</sup></b>					
Retail	0.25%	0.33%	0.34%	0.22%	0.22%
Commercial	0.49	0.58	0.61	0.31	0.09
	0.28	0.36	0.37	0.23	0.19
<b>International Banking<sup>(1)</sup></b>					
Retail	1.88	2.17	2.34	1.74	1.13
Commercial	0.03	0.30	0.13	(0.24)	(0.25)
	0.72	1.00	0.90	0.44	0.25
	0.10	(0.02)	0.60	(0.01)	(0.33)
<b>Scotia Capital<sup>(2)</sup></b>					
Weighted subtotal – specific provisions	0.38	0.48	0.54	0.24	0.13
General and sectoral provisions	(0.02)	(0.03)	0.06	—	(0.01)
<b>Weighted total</b>	<b>0.36%</b>	<b>0.45%</b>	<b>0.60%</b>	<b>0.24%</b>	<b>0.12%</b>

(1)2007 and 2008 ratios for Canadian Banking and International Banking have not been restated for changes in business line structure effective 2011.

(2)Corporate Banking only.

**T13 Net charge-offs<sup>(1)</sup> as a percentage of average loans and acceptances**

For the fiscal years (%)	2011	2010	2009	2008	2007
<b>Canadian Banking<sup>(2)</sup></b>					
Retail	0.24%	0.31%	0.28%	0.20%	0.20%
Commercial	0.23	0.61	0.52	0.23	0.25
	0.24	0.34	0.31	0.20	0.21
<b>International Banking<sup>(2)</sup></b>					
Retail	1.61	2.21	2.52	1.54	1.14
Commercial	0.07	0.36	0.09	—	0.15
	0.64	1.06	0.94	0.53	0.51
<b>Scotia Capital<sup>(3)</sup></b>	0.13	(0.01)	0.53	0.03	(0.05)
<b>Weighted total</b>	<b>0.34%</b>	<b>0.49%</b>	<b>0.49%</b>	<b>0.24%</b>	<b>0.23%</b>

(1)Write-offs net of recoveries.

(2)2007 and 2008 ratios for Canadian Banking and International Banking have not been restated for changes in business line structure effective 2011.

(3)Corporate Banking only.

The specific provision for credit losses in International Banking was \$485 million in 2011, a decrease of \$131 million from \$616 million last year. The lower provisions were primarily attributable to commercial portfolios in the Caribbean and Peru, and lower retail provisions in Mexico and Chile, partially offset by higher retail provisions in the Caribbean.

The provision for credit losses in Global Wealth Management was \$2 million in 2011, an increase of \$1 million from last year.

The specific provision for credit losses for Scotia Capital was \$29 million in 2011, versus a net recovery of \$6 million in 2010. The specific provisions this year were primarily in Canada and Europe, somewhat offset by net recoveries in the United States. The prior year included a \$37 million reversal of the sectoral allowance.

**Allowance for credit losses**

The total allowance for credit losses increased to \$2,825 million as at October 31, 2011 from \$2,796 million last year. The \$29 million increment was attributable primarily to the \$88 million increase in the specific allowance, partially offset by \$58 million reduction in the general allowance during the year.

Specific allowances in Canadian Banking increased by \$61 million, primarily in the commercial portfolios, where new provisions exceeded loan write-offs.

In International Banking, specific allowances increased by \$42 million to \$747 million, mainly in the Caribbean, Peru and Other Latin America regions, partially offset by decrease in Mexico, Chile and Central America.

Scotia Capital's specific allowances declined to \$47 million from \$64 million, with a decline in the United States and Canadian portfolios, offsetting increases in the European portfolio.

The general allowance for credit losses decreased by \$58 million in 2011 due to improved credit quality. This compared to a decrease of \$40 million in 2010.

**Impaired loans**

Gross impaired loans decreased to \$4,088 million as at October 31, 2011 from \$4,421 million last year.

Impaired loans in Canadian Banking fell by \$85 million, attributable to retail and commercial portfolios.

In International Banking, impaired loans decreased by \$237 million largely due to declines in the Caribbean, Chile, Peru, Central America, and Mexico's commercial portfolio.

In Global Wealth Management impaired loans increased to \$13 million due to minor new formations in Canadian and International portfolios.

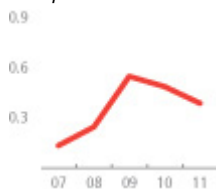
Scotia Capital's impaired loans decreased by \$24 million, attributable primarily to the United States and Canadian portfolios, partially offset by increases in impaired loans in the European portfolio.

Net impaired loans, after deducting the specific allowance for credit losses, were \$2,623 million as at October 31, 2011, a decrease of \$421 million from a year ago.

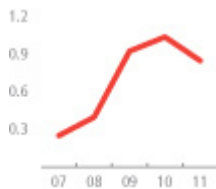
As shown in Chart 13, net impaired loans as a percentage of loans and acceptances were 0.85% as at October 31, 2011, an improvement from 1.04% a year ago.

**C12 Credit losses**

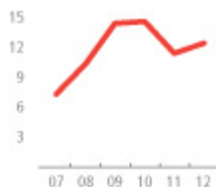
*specific provisions as a % of average loans & acceptances*

**C13 Net impaired loan ratio**

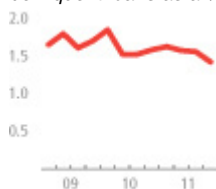
*as a % of loans & acceptances, as at October 31*

**C14 Gross impaired loans**

*as a % of equity & allowances for credit losses*

**C15 Low delinquency in Canadian retail portfolio**

*delinquent loans as a % of total loans*

**Portfolio review****Canadian Banking**

The overall credit quality of the consumer portfolio in Canada improved year over year. Reportable delinquency decreased 16 basis points to 1.43%. The specific provisions for credit losses in the Canadian retail portfolio were \$466 million, down \$107 million or 19% from last year. The specific provisions for credit losses as a percentage of average loans was 0.25%, compared to 0.33% last year.

Gross impaired loans in the retail portfolio improved from 2010, decreasing by 6% or \$49 million. Portfolio quality continued to benefit from high secured lending, with 92% of total retail loans being secured by an underlying asset such as a house or an automobile. This high level of secured lending reflects the growth in Scotia Total Equity Plan, where all products, including lines of credit and credit cards, are secured by residential real estate. Currently, 63% of the ScotiaLine line of credit and ScotiaLine VISA portfolios are secured.

The specific provision for credit losses in the Canadian commercial loan portfolio was \$124 million, down \$15 million or 11% from last year. Gross impaired loans decreased by \$36 million to \$305 million.

**International Banking**

Retail credit quality stabilized in most regions with the exception of the Caribbean, where economic conditions remained weak. In retail, gross impaired loans increased by \$7 million to \$1,582 million during the year with an increase attributable to Caribbean, Peru and Central America. The growth was partially offset by decreases in Mexico and Chile.

The specific provision for credit losses in the retail portfolio declined to \$471 million from \$502 million last year, with lower provisions in Mexico, Chile and Peru, partially offset by higher provisions in the Caribbean and Central America. Total reported delinquency improved year over year, primarily related to Mexico, and to a lesser extent in Peru and Chile.

In commercial banking, gross impaired loans were \$1,095 million, a decrease of \$244 million over the prior year, with declines in all areas except certain Latin American countries.

The specific provision for credit losses in the commercial portfolio was \$14 million in 2011 versus \$114 million in 2010. The decrease was attributable to lower provisions in all areas except certain Latin American countries and Mexico. The specific provisions for credit losses as a percentage of average loans was 0.03% compared to 0.30% last year.

**Global Wealth Management**

Global Wealth Management overall credit quality was strong in 2011. The specific provision for credit losses was \$2 million in the Canadian portfolio. Gross impaired loans of \$13 million due to minor new formations in Canadian and International portfolios.

**Scotia Capital**

The specific provision for credit losses was \$29 million in 2011, versus a net recovery of \$6 million in 2010. The specific provisions this year were primarily in Canada and Europe, somewhat offset by net recoveries in the United States. The prior year benefited from a \$37 million reversal of the sectoral allowance specific to the automotive sector.

Gross impaired loans in Scotia Capital declined by \$24 million in 2011 to \$267 million. Most of the decline was attributable to the United States portfolio, where impaired loans decreased by \$54 million year over year to \$125 million. Impaired loans in the Canadian portfolio declined by \$9 million to \$51 million, while impaired loans in the Europe portfolio increased by \$39 million to \$91 million.

**Risk diversification**

The Bank's exposures to various countries and types of borrowers are well diversified. (See Charts 16 and 17; Tables 39 and 44 on pages 91 and 93). Chart 16 shows loans and acceptances by geography. Ontario represents the largest Canadian exposure, at 35% of the total. Latin America has 9% of the total exposure and the United States has 7%.

Chart 17 shows loans and acceptances by type of borrower. Excluding loans to households, the largest industry exposures were in financial services, 7.2%; wholesale and retail, 3.7%, and real estate, 3.5%.

**Sovereign credit risk**

As a result of the Bank's broad international operations, the Bank has sovereign credit risk exposure to a number of countries. The Bank actively manages this sovereign risk, including the use of risk limits calibrated to the credit worthiness of the sovereign exposure.

**European Exposures – Greece, Ireland, Italy, Portugal, Spain**

The Bank's exposure to certain European countries that have come under recent focus – Greece, Ireland, Italy, Portugal and Spain (GIIPS) – is not significant. As at October 31, 2011, the Bank's funded exposure to the GIIPS sovereign entities, as well as banks and non-bank financial institutions and corporations domiciled in these countries, totaled approximately \$2.15 billion. The Bank believes that these exposures are manageable. The current funded exposure is provided below:

As at October 31, 2011 (\$ millions)

Country	Sovereign	Bank	Corporate <sup>(1)</sup>	Current Funded Exposures <sup>(2)</sup>
Greece	\$ –	\$ –	\$ 340	\$ 340
Ireland	114	46	25	185
Italy	–	976	66	1,042
Portugal	–	103	–	103
Spain	–	113	367	480
<b>Total</b>	<b>\$ 114</b>	<b>\$1,238</b>	<b>\$ 798</b>	<b>\$ 2,150<sup>(3)</sup></b>

(1)Corporate includes financial institutions that are not banks.

(2)Risk exposures exclude trading securities.

(3)The majority of the funded credit exposure is in the form of funded loans which are recorded on an accrual basis. Funded credit exposures related to derivatives, repurchase agreements, and securities lending and borrowing transactions are reported net of collateral.

The Bank does not use credit default swaps (CDS) as a risk mitigation technique to reduce its sovereign exposures. With respect to banks and non-bank financial institutions and corporations, the Bank may on occasion use CDS to partially offset its exposures. As at October 31, 2011, the Bank had CDS protection on the funded exposure on only one account, a Spanish corporation.

As at October 31, 2011, the Bank's only direct sovereign exposure is to Ireland in the amount of \$114 million in the form of central bank deposits arising from regulatory reserves requirements to support the Bank's operations in Ireland. The Bank had exposures to Italian banks of \$976 million, primarily related to short-term precious metals trading and lending activities.

Total unfunded commitments were \$375 million as follows:

As at October 31, 2011 (\$ millions)

Country	Bank	Corporate	Unfunded Commitments <sup>(1)</sup>
Greece	\$ –	\$ 76	\$ 76
Ireland	–	43	43
Italy	18	33	51
Portugal	2	–	2
Spain	53	150	203
<b>Total</b>	<b>\$ 73</b>	<b>\$ 302</b>	<b>\$ 375</b>

(1)There are no unfunded commitments to sovereigns.

The Bank's net trading securities exposure is not significant. The Bank's exposure for trading securities is on a fair value basis. As at October 31, 2011 the Bank was net long sovereign securities of Italy (\$50 million), Spain (\$31 million); and the Bank had no sovereign securities holdings of Greece or Portugal. The Bank was net short Irish sovereign securities of \$55 million. With respect to bank bonds held in the trading portfolio, the Bank held \$69 million of Irish bank securities.

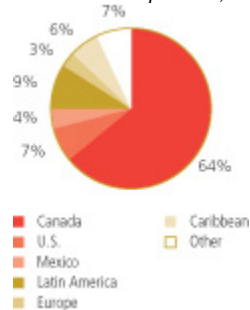
Like other banks, Scotiabank also provides settlement and clearing facilities for a variety of clients in these countries and actively monitors and manages these intra-day exposures. However, Scotiabank has no funded exposure in these countries to retail customers or small businesses.

**Other European Exposures**

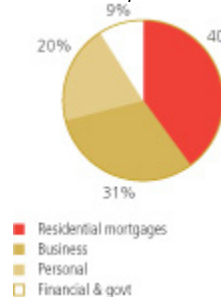
In addition to the specific European countries mentioned above, the Bank also has funded credit exposures to sovereign entities, banks (including those that are systemically important) and non-bank financial institutions and corporations domiciled in other European countries. Below is the funded credit exposures related to other European countries. The Bank believes that these exposures are manageable.

**C16 Well diversified in Canada and internationally...**

*loans and acceptances, September 2011*

**C17 ... and in household and business lending**

*loans & acceptances*



As at October 31, 2011 (\$ millions)

Country	Sovereign	Bank	Corporate	Total <sup>(1)</sup>
United Kingdom <sup>(2)</sup>	\$ 1,202	\$2,483	\$ 2,845	\$ 6,530
Germany	417	1,161	1,231	2,809
France	248	690	570	1,508
Netherlands	179	741	458	1,378
Switzerland	—	626	703	1,329
Other <sup>(3)</sup>	186	342	1,097	1,625
Total	\$ 2,232	\$6,043	\$ 6,904	\$15,179

(1) Risk exposures exclude trading securities.

(2) Sovereign exposure includes \$844 million in short-term deposits with the Bank of England. Bank exposure includes \$898 million in short-term deposits with banks.

(3) Remaining European exposure is distributed across 15 countries, each of which has a net exposure below \$1 billion as at October 31, 2011.

Total unfunded loan commitments to corporations in the above-noted countries was \$4.3 billion as at October 31, 2011. As well, as part of its lending activities to its corporate customers, the Bank may issue letters of credit on behalf of other banks in a syndicated bank lending arrangement. As at October 31, 2011, these unfunded commitments amounted to \$3.4 billion.

The Bank had trading securities of \$1.1 billion of certain European sovereigns and banks, predominately related to issuers in the United Kingdom, Germany and France. Substantially all holdings have strong market liquidity.

#### Risk mitigation

To mitigate exposures in its performing corporate portfolios, the Bank uses loan sales and credit derivatives. In 2011, loan sales totaled \$412 million, compared to \$192 million in 2010. The largest volume of loans sales in 2011 related to loans in the mining industry.

At October 31, 2011, credit derivatives used to mitigate exposures in the portfolios totaled \$92 million (notional amount), compared to \$61 million at October 31, 2010.

The Bank actively monitors industry and country concentrations. As is the case with all industry exposures, the Bank continues to closely follow developing trends and takes additional steps to mitigate risk as warranted. Forestry, gaming, hotels, media and shipping are being closely managed, along with the Caribbean hospitality portfolio in light of a relatively weak tourism recovery.

#### Outlook

The Bank's balance sheet will remain strong reflecting the absence of any significant troubled assets from the previous crisis and low exposures to areas of concern. Overall, the Bank's loan loss ratio is expected to stay relatively stable in 2012, unless global economies weaken significantly and affect the Bank's more insulated markets. The provision for credit losses is expected to increase in line with portfolio growth.

## Fourth quarter review

### Q4 2011 vs Q4 2010

#### Net income

Net income was \$1,240 million in the fourth quarter, an increase of \$125 million or 11% from the same quarter last year. The increase mainly reflected the contributions of acquisitions, growth in earning assets, and stronger securitization revenues. These were offset in part by the negative impact of foreign currency translation and decreased trading revenues due to weaker market conditions.

#### Total revenue

Total revenue (on a taxable equivalent basis) was \$4,420 million, an increase of \$408 million or 10% from the same period last year, or \$465 million or 12% excluding the negative impact of foreign currency translation. The year-over-year growth reflected higher net interest income from growth in earning assets, and increased other income from the contribution of recent acquisitions, higher securitization revenues and growth in brokerage commissions, despite lower trading revenues.

#### Net interest income

Net interest income (on a taxable equivalent basis) was a record \$2,472 million, an increase of \$159 million or 7% from the same quarter last year. This increase was entirely from growth in earning assets of \$57 billion as the margin narrowed. Residential mortgages were up and business and government lending grew significantly. There was also growth in deposits with banks and securities.

The Bank's net interest margin was 1.63% in the fourth quarter, a reduction of 12 basis points compared to the same quarter last year. The main drivers of this decrease were higher volumes of low-spread deposits with banks, growth in non-earning assets and slightly lower gains from changes in the fair value of instruments used for asset/liability management purposes.

#### Other income

Other income was \$1,948 million in the fourth quarter, an increase of \$249 million or 15% from the same quarter last year from the contribution of acquisitions and growth in client-driven transactions. Excluding acquisitions, there were increases in securitization revenues from higher volumes, negative goodwill related to a recent acquisition, growth in brokerage commissions, mutual fund fees and credit and acceptance fees. In addition, card revenues and deposit and payment service fees were higher, primarily in Canadian Banking. Trading revenues were significantly lower in both fixed income and institutional equity but were partly offset by stronger precious metals revenues.

#### Provision for credit losses

The provision for credit losses was \$272 million in the fourth quarter, comprised of \$302 million in specific provisions and a \$30 million reduction in the general allowance. The total provision increased by \$18 million from the same period last year, reflecting higher provisions in International Banking and Scotia Capital, partially offset by a decline in provisions in Canadian Banking.

The specific provision for credit losses was \$135 million in Canadian Banking, down from \$172 million in the same quarter last year. The decrease was due mainly to lower retail provisions in the consumer automotive portfolio and personal lines of credit and improvements in commercial portfolios.



The provision for credit losses in International Banking was \$152 million this quarter, compared to \$128 million in the same period last year. The increase was due mainly to higher commercial provisions in the Caribbean and in Chile, which benefited from recoveries last year. Retail provisions were in line with the same period last year.

The provision for credit losses in Global Wealth Management was \$1 million this quarter due to new provisions in Canada, compared to \$2 million in the same period last year.

Scotia Capital had specific provisions of \$14 million this quarter, compared to net recoveries of \$8 million in the fourth quarter of last year. The specific provisions in the current quarter were primarily related to higher provisions in Canada, the United States, and one corporate account in Europe.

Total net impaired loans, after deducting the allowance for specific credit losses, were \$2,623 million as at October 31, 2011, a decrease of \$421 million from a year ago.

The general allowance for credit losses was \$1,352 million as at October 31, 2011, a decrease of \$58 million from last year, reflecting a \$60 million reduction in the general allowance and an increase of \$2 million due to acquisitions.

#### Non-interest expenses and productivity

Non-interest expenses were \$2,519 million in the fourth quarter, an increase of \$336 million or 15% over the same quarter last year, notwithstanding a favourable impact of \$28 million from foreign currency translation. Acquisitions accounted for \$201 million of the growth in non-interest expenses. The increase was due mainly to higher salaries and benefits from annual pay increases, additional staff for business expansion, an increase in pension costs, and higher performance-based compensation. As well, premises and technology expenses rose, reflecting ongoing growth initiatives. Partially offsetting this were declines in stock-based compensation and capital taxes.

The productivity ratio was 57.0% in the fourth quarter, up from 54.4% in the same quarter last year.

#### Provision for income taxes

The Bank's effective tax rate was 20.3%, compared to 25.9% reported in the same period last year. The decrease was due primarily to a reduction in the statutory tax rate in Canada, higher tax-exempt income and lower taxes in foreign subsidiaries. These items were partially offset by a valuation allowance recorded against a future tax asset related to a loss on disposal of subsidiary operations in a prior year.

#### Q4 2011 vs Q3 2011

##### Net income

Net income was \$1,240 million this quarter, down 4% compared to \$1,285 million in the previous quarter. This quarter included a seasonal increase in operating expenses and an increase in the provision for credit losses. These were offset in part by higher interest income as a result of growth in earning assets and strong securitization revenues.

##### Total revenue

Total revenue (on a taxable equivalent basis) was \$4,420 million, an increase of \$47 million or 1% from the previous quarter. There was a positive impact of \$10 million from foreign currency translation. Net interest income was higher as a result of growth in earning assets. Other income was up slightly from the previous quarter as stronger securitization revenues and the contribution from acquisitions was partly offset by a decline in net gains on securities and lower trading revenues.

##### Net interest income

Net interest income (on a taxable equivalent basis) was \$2,472 million, an increase of \$41 million or 2%. This increase was entirely from growth in earning assets of \$12 billion as the margin narrowed from the previous quarter. Business and government lending grew in both International Banking and Scotia Capital, and residential mortgages were the main area of growth in Canadian Banking.

The Bank's net interest margin narrowed by 4 basis points to 1.63%. The decrease was driven by higher volumes of non-earning assets and low-spread deposits with banks, as well as narrower spreads in Chile and Mexico. These items were partly offset by higher gains from changes in the fair value of instruments used for asset/liability management purposes, and lower wholesale long-term funding costs.

##### Other income

Other income of \$1,948 million in the fourth quarter was up \$6 million from the prior quarter. The increase was mainly from stronger securitization revenues due to higher volumes and wider spreads, the recognition of negative goodwill related to a recent acquisition, the contribution from an acquisition in Uruguay and higher card revenues. These were partly offset by lower net gains on securities, reduced underwriting and advisory fees, and a decline in investment management and trust fees and mutual fund fees. While trading revenues declined in institutional equity, they were partly offset by an improvement in fixed income.

##### Provision for credit losses

The provision for credit losses of \$272 million for the fourth quarter was up \$29 million from last quarter. Quarter-over-quarter changes in provisions were mixed, with increases in International Banking and Scotia Capital, partially offset by lower provisions in Canadian Banking.

The specific provision for credit losses of \$135 million in Canadian Banking was down from \$145 million in the previous quarter, due primarily to lower provisions in the commercial portfolio, partially offset by higher provisions in retail lending.

The provision for credit losses in International Banking was \$152 million this quarter, compared to \$120 million last quarter. The increase was due primarily to higher commercial provisions and retail provisions in the Caribbean and Peru, somewhat offset by lower retail provisions in Mexico.

The provision for credit losses in Global Wealth Management increased by \$1 million due to new provisions in Canada. There were no provisions in the prior quarter.

Scotia Capital had specific provisions of \$14 million this quarter, compared to \$8 million in the previous quarter, with higher provisions in the United States and Europe, the latter due to one corporate account, partially offset by lower provisions in Canada.

Total net impaired loans, after deducting the allowance for specific credit losses, were \$2,623 million as at October 31, 2011, a decrease of \$148 million from last quarter.

The general allowance for credit losses was \$1,352 million as at October 31, 2011, down \$30 million from last quarter, due primarily to lower estimates of inherent losses.

##### Non-interest expenses and productivity

Quarter over quarter, non-interest expenses were up \$138 million or 6%, due mainly to the acquisition in Uruguay and higher levels of investment in customer-focused initiatives, reflected in increased advertising, business development, technology and professional expenses.

The productivity ratio was 57.0% in the fourth quarter, a 250 basis point increase from the prior quarter.

**Provision for income taxes**

The Bank's effective tax rate was 20.3%, compared to 23.3% last quarter. This decrease was due primarily to lower taxes in foreign subsidiaries and higher tax-exempt income, partially offset by a valuation allowance recorded against the future tax asset related to a loss on disposal of subsidiary operations in a prior year.

## Summary of Quarterly Results

The Bank reported four quarters of solid performance during a time of challenging markets and slow global economic growth. The Canadian dollar reached par and remained strong throughout the year. This had an overall negative impact on whole year results.

Net interest income rose progressively throughout the year, falling slightly in the second quarter mainly from fewer days in the quarter. Average loan volumes rose in each quarter of the year, with larger increases in the third and fourth quarter.

The Bank's net interest margin declined during 2011. The first quarter was consistent with the high rate achieved in the fourth quarter of 2010, but it subsequently decreased in the following quarters. Canadian Banking's margin decreased throughout the year as customers moved to lower-yielding variable rate products. The margin in International Banking was impacted by changes in the fair value of financial instruments during the year, declining in the first quarter, widening in the second quarter and then falling for the remainder of the year. Spreads in Scotia Capital's corporate lending portfolios peaked in the first quarter, and then declined modestly over the balance of the year.

Other income reached record levels in 2011 from the impact of acquisitions and a strong second quarter. Credit fees rose strongly in the last half of the year as did card revenues. Volatile financial markets and economic uncertainty led to a declining trend in trading revenues and lower returns from fixed income and equity trading. The level of net gains on securities was affected by the timing of write-downs on available-for-sale securities and changes in the fair value of financial instruments. Securitization revenues varied due to the volume of securitizations.

Loan losses trended lower during the first three quarters of the year before moving higher in the fourth quarter. This year's performance was an improvement from the prior year, reflecting signs of recovery in the first half of the year, followed by challenges in some markets in the latter half.

Non-interest expenses steadily increased over 2011 in large part reflecting the effect of acquisitions this year. The remaining increases were mainly from growth initiatives, and project spending.

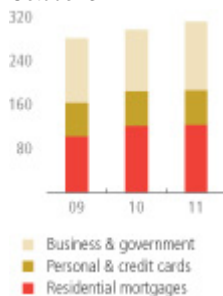
The effective tax rate ranged between 24% and 18% reflecting different levels of income earned in lower tax jurisdictions and changes in the valuation of future tax assets.

An eight quarter trend in net income and other selected information is provided on page 99.

## GROUP FINANCIAL CONDITION

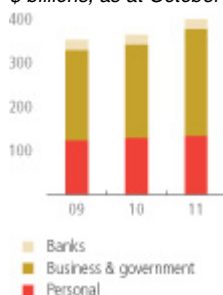
### C18 Loan portfolio

loans & acceptances, \$ billions, as at October 31



### C19 Deposits

\$ billions, as at October 31



### T14 Condensed balance sheet

As at October 31 (\$ billions)	2011	2010	2009	2008	2007
<b>Assets</b>					
Cash resources	\$ 54.5	\$ 46.0	\$ 43.3	\$ 37.3	\$ 29.2
Securities	119.9	116.6	117.3	88.0	88.8
Securities purchased under resale agreements	34.6	27.9	17.8	19.5	22.5
Loans	298.7	284.2	266.3	288.7	227.2
Other	67.6	52.0	51.8	74.1	43.8
<b>Total assets</b>	<b>\$ 575.3</b>	<b>\$ 526.7</b>	<b>\$ 496.5</b>	<b>\$ 507.6</b>	<b>\$ 411.5</b>
<b>Liabilities and shareholders' equity</b>					
Deposits	\$ 396.4	\$ 361.7	\$ 350.4	\$ 346.6	\$ 288.5
Obligations related to securities sold under repurchase agreements	46.1	40.3	36.6	36.5	28.1
Other liabilities	93.5	90.1	77.8	97.5	73.4
Subordinated debentures	5.9	5.9	5.9	4.4	1.7
Capital instrument liabilities	—	0.5	0.5	0.5	0.5
<b>Total liabilities</b>	<b>541.9</b>	<b>498.5</b>	<b>471.2</b>	<b>485.5</b>	<b>392.2</b>
Shareholders' equity <sup>(1)</sup>	33.4	28.2	25.3	22.1	19.3
<b>Total liabilities and shareholders' equity</b>	<b>\$ 575.3</b>	<b>\$ 526.7</b>	<b>\$ 496.5</b>	<b>\$ 507.6</b>	<b>\$ 411.5</b>

(1) Includes non-controlling interests of \$0.6 billion in 2010 and 2011, and \$0.5 billion in 2007, 2008 and 2009. Refer to Note 1 of the Consolidated Financial Statements for the impact of the new accounting standards adopted effective November 1, 2010.

### Balance sheet

#### Assets

The Bank's total assets at October 31, 2011 were \$575 billion, up \$49 billion from last year. Excluding the negative impact of foreign currency translation total assets rose \$54 billion or 10%.

Cash resources grew by \$8 billion, due to increases in interest bearing deposits with banks and precious metals.

Securities purchased under resale agreements increased by \$7 billion in line with expansion of the fixed income business in Scotia Capital.

#### Securities

Total securities were up \$3 billion from October 31, 2010. Excluding the negative impact of foreign currency translation total securities increased by \$4 billion.

Available-for-sale securities increased by \$5 billion due mainly to increased holdings of NHA mortgage-backed securities related to the mortgages securitized and retained by the Bank, and foreign government debt. This growth was partially offset by a decrease in other debt.

Trading securities decreased \$1 billion due to reductions in holdings of Canadian government debt, partially offset by increased holdings of equities.

Equity accounted investments decreased \$160 million due primarily to the acquisition of the remaining shares of DundeeWealth.

As at October 31, 2011, the unrealized gain on available-for-sale securities, after the impact of qualifying hedges is taken into account, was \$1,028 million, a decrease of \$161 million from October 31, 2010.

The change was due mainly to decreases in the values of foreign government debt, corporate bonds and equities as a result of weaker capital markets.

#### Loans

The Bank's loan portfolio increased \$14 billion from last year, or \$17 billion or 6% excluding the negative impact of foreign currency translation.

Business and government loans increased \$12 billion due mainly to growth in Latin America, including new acquisitions in Uruguay and Brazil, and growth in Asia and ScotiaMocatta from increased volumes and gold prices.

In retail lending, residential mortgages increased \$3 billion.

#### Liabilities

Total liabilities were \$542 billion as at October 31, 2011, up \$43 billion from last year. Excluding the negative impact of foreign currency translation, total liabilities rose \$49 billion or 10%.



### Deposits

Total deposits increased by \$35 billion, net of foreign currency translation of \$4 billion. Business and government deposits grew by \$31 billion, mainly in the United States. Personal deposits increased by \$4 billion, primarily from growth in high interest savings accounts in Canada and the new acquisition in Uruguay. Deposits by banks decreased \$1 billion.

### Other Liabilities

Obligations related to securities sold under repurchase agreements grew by \$6 billion. Derivative instrument liabilities increased by \$9 billion, which was similar to the increase in derivative instrument assets. Partially offsetting this growth was a \$6 billion decrease in obligations related to securities sold short.

### Shareholders' equity

Total shareholders' equity increased \$5,190 million from last year. The increase was driven by internal capital generation of \$2,759 million, the issuance of common shares of \$1.8 billion and preferred shares of \$409 million for the purchase of DundeeWealth, as well as \$783 million common shares issued through the Dividend Reinvestment Plan and the exercise of options. Partially offsetting this growth was an increase of \$667 million in accumulated other comprehensive loss. This arose from a \$654 million increase in unrealized foreign exchanges losses from the strengthening of the Canadian dollar and a reduction of the unrealized gains on available-for-sale securities, partially offset by an improvement in the unrealized losses on cash flow hedges.

### Outlook

Moderate asset and deposits growth is expected in the business lines in 2012 as the Bank benefits from its diversified footprint. This reflects uneven economic growth globally, particularly in the developed economies.

## Capital management

### Overview

Scotiabank is committed to maintaining a solid capital base to support the risks associated with its diversified businesses. Strong capital levels contribute to safety for the Bank's customers, foster investor confidence and support strong credit ratings. It also allows the Bank to take advantage of growth opportunities as they arise and enhance shareholder returns through increased dividends or share repurchases.

The Bank's capital management framework includes a comprehensive internal capital adequacy assessment process (ICAAP), aimed at ensuring that the Bank's capital is adequate to meet current and future risks and achieve its strategic objectives. Key components of the Bank's ICAAP include sound corporate governance; creating a comprehensive risk appetite of the Bank; managing and monitoring capital, both currently and prospectively; and utilizing appropriate financial metrics which relate risk to capital, including economic and regulatory capital measures.

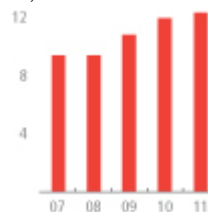
### Governance and oversight

The Bank has a sound capital management framework to measure, deploy and monitor its available capital and assess its adequacy. Capital is managed in accordance with the Board-approved Capital Management Policy. In addition, the Board reviews and approves the Bank's annual capital plan. The Liability Committee and senior executive management provide governance over the capital management process. The Bank's Finance, Treasury and Global Risk Management groups take a coordinated approach to implementing the Bank's capital plan.

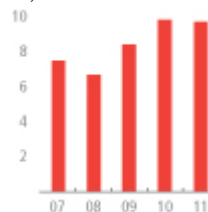
### Risk appetite

The risk appetite framework that establishes enterprise wide risk tolerances in addition to capital targets is detailed in the Risk Management section "Risk appetite framework" on page 65. The framework encompasses medium to long-term targets with respect to regulatory capital thresholds, earnings, economic capital and other risk-based parameters. These targets ensure the Bank achieves the following overall objectives: exceed regulatory and internal capital targets, manage capital levels commensurate with the risk profile of the Bank, maintain strong credit ratings and provide the Bank's shareholders with acceptable returns.

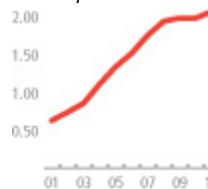
**C20 Tier 1 capital**  
%, as at October 31



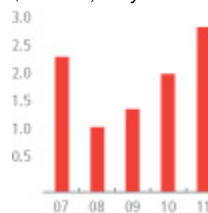
**C21 Tangible common equity**  
%, as at October 31



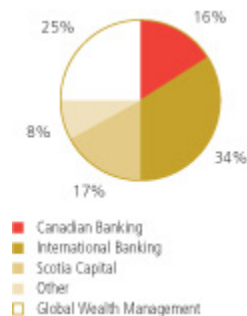
**C22 Dividend growth**  
dollars per share



**C23 Internally generated capital**  
\$ billions, for years ended October 31



**C24 Total economic capital by business line**  
as at October 31, 2011



**Managing and monitoring capital**

Capital is managed and monitored based on planned changes in the Bank's strategy, identified changes in its operating environment or changes in its risk profile.

As part of the Bank's comprehensive ICAAP, sources and uses of capital are continuously measured and monitored through financial metrics, including regulatory thresholds, economic capital and tangible common equity. In addition, the Bank assesses its capital adequacy in the context of its current position and in relation to its expected future risk profile and position. The capital adequacy assessment considers the impact of various stress scenarios on the Bank's current and future capital position. Specific scenarios are selected based on the current economic conditions and business events facing the Bank. In addition, the Bank's forward looking capital adequacy assessment includes consideration of the results of enterprise-wide stress testing. This testing is used to determine the extent to which severe, but plausible events, impact the Bank's capital. These results are used in capital planning and strategic decision-making.

The Bank has a comprehensive risk management framework to ensure that the risks taken while conducting its business activities are consistent with its risk appetite, and that there is an appropriate balance between risk and return. Refer to the Risk Management section on page 63 for further discussions on the Bank's risk management framework.

In managing the Bank's capital base, close attention is paid to the cost and availability of the various types of capital, desired leverage, changes in the balance sheet and risk-weighted assets, and the opportunities to profitably deploy capital. The amount of capital required for the business risks being assumed, and to meet regulatory requirements, is always balanced against the goal of generating an appropriate return for the Bank's shareholders.

**Capital generation**

Capital is generated through net earnings after dividend payments, refer to Chart 23 for an illustration. This is augmented by the issuance of common shares, preferred shares, Tier 1 innovative instruments and Tier 2 subordinated debentures.

**Capital utilization**

The Bank deploys capital to support sustainable, long-term revenue and net income growth. The growth can be through existing businesses by attracting new customers, increasing cross-selling activities to existing customers, adding new products and enhancing sales productivity, or through acquisitions. All major initiatives to deploy capital are subject to rigorous analysis, validation of business case assumptions and evaluation of expected benefits. Key criteria include impact on earnings per share, capital ratios, return on invested capital, expected payback period and internal rate of return based on discounted cash flows. Any potential acquisitions, investments or strategic initiatives are reviewed and approved by the Bank's Strategic Transaction Investment Committee, to ensure effective deployment of capital.

**Regulatory capital**

Capital adequacy for Canadian banks is regulated by the Canadian regulator, the Office of the Superintendent of Financial Institutions Canada (OSFI). These standards are consistent with international standards set by the Bank for International Settlements (BIS).

Bank regulatory capital consists primarily of two components – Tier 1 capital and Tier 2 capital. Both components of capital provide support for banking operations and protect depositors. Tier 1 capital, which is more permanent, is of particular importance to regulators, financial markets and investors. Tier 1 capital consists primarily of common shareholders' equity (excluding unrealized gains and losses on available-for-sale debt securities and cash flow hedges), non-cumulative preferred shares, innovative Tier 1 instruments and non-controlling interests less various capital deductions. Tier 2 capital consists mainly of subordinated debentures and the eligible allowances for credit losses less prescribed capital deductions.

Capital ratios are a means to monitor the capital adequacy and the financial strength of banks. The two primary regulatory capital ratios, Tier 1 and Total, are determined by dividing capital components by risk-weighted assets.

Regulatory capital and risk-weighted assets are determined in accordance with the capital framework based on the International Convergence of Capital Measurement and Capital Standards, commonly known as Basel II. Under this framework, the computation of risk-weighted assets aligns risk weight parameters with the individual risk profile of banks. Risk-weighted assets are calculated for credit, market and operational risks.

- *Credit Risk:* There are two main methods for computing credit risk: a standardized approach, which uses prescribed risk weights; and internal ratings-based approaches, which allow the use of a bank's internal models to calculate some, or all, of the key inputs into the regulatory capital calculation. Users of the Advanced Internal Ratings Based Approach (AIRB) are required to demonstrate that they have sophisticated risk management systems for the calculation of credit risk regulatory capital and obtain OSFI approval for the use of this approach. The Bank applies the AIRB approach for material Canadian, U.S. and European portfolios and since November 1, 2010 for a significant portion of international corporate and commercial portfolios. The bank applies the standardized approach for all other portfolios. The Bank is assessing the remaining portfolios for application of AIRB in the future.
- *Market Risk:* The Bank uses both internal models and standardized approaches to calculate market risk capital.
- *Operational Risk:* the Bank uses the Standardized Approach to calculate operational risk capital requirements.

The Basel II capital framework took effect on November 1, 2007. Capital floors are in place for those applying the AIRB approach and these minimum capital floors are based on a percentage of capital required under the previous capital framework, Basel I.

**Tier 1 capital**

Tier 1 capital rose to \$28.5 billion, an increase of \$3.2 billion over last year primarily due to:

- growth in retained earnings of \$2.7 billion;
- common share and preferred share issuances of \$1.8 and \$0.4 billion as partial consideration for the purchase of DundeeWealth;
- capital issuance of \$0.8 billion through the Dividend Reinvestment Plan and employee option plans

**T15 Regulatory capital<sup>(1)</sup>**

As at October 31

(\$ millions)

	<b>Basel II</b>				<b>Basel I</b>
	<b>2011</b>	2010	2009	2008	2007
<b>Tier 1 capital</b>					
Common shareholders' equity <sup>(2)</sup>	\$ 27,932	\$ 23,199	\$ 20,945	\$ 20,197	\$ 16,477
Innovative capital instruments	2,900	3,400	3,400	2,750	2,750
Non-cumulative preferred shares	4,384	3,975	3,710	2,860	1,635
Non-controlling interest in subsidiaries	640	579	554	502	497
Less: Goodwill	(4,377)	(3,050)	(2,908)	(2,273)	(1,134)
Other capital items <sup>(3)</sup>	(2,990)	(2,769)	(2,051)	(773)	—
	<b>28,489</b>	<b>25,334</b>	<b>23,650</b>	<b>23,263</b>	<b>20,225</b>
<b>Tier 2 capital</b>					
Subordinated debentures <sup>(4)</sup>	5,723	5,790	5,833	4,227	1,452
Trust subordinated notes	1,000	1,000	1,000	1,000	1,000
Eligible amounts of general allowance <sup>(5)</sup>	353	574	570	534	1,298
Net unrealized equity gains <sup>(6)</sup>	152	176	6	—	298
	<b>7,228</b>	<b>7,540</b>	<b>7,409</b>	<b>5,761</b>	<b>4,048</b>
Less: other capital deductions <sup>(7)</sup>	(3,184)	(3,275)	(2,471)	(1,177)	(1,292)
<b>Total capital</b>	<b>\$ 32,533</b>	<b>\$ 29,599</b>	<b>\$ 28,588</b>	<b>\$ 27,847</b>	<b>\$ 22,981</b>
<b>Risk-weighted assets<sup>(1)</sup> (\$ billions)</b>					
Credit risk	200.8	180.5	187.8	214.5	208.3
Market risk	5.9	10.5	11.4	15.5	10.0
Operational risk	27.3	24.0	22.4	20.6	—
<b>Total risk-weighted assets</b>	<b>\$ 234.0</b>	<b>\$ 215.0</b>	<b>\$ 221.6</b>	<b>\$ 250.6</b>	<b>\$ 218.3</b>
<b>Capital ratios<sup>(1)</sup></b>					
Tier 1 capital ratio	12.2%	11.8%	10.7%	9.3%	9.3%
Total capital ratio	13.9%	13.8%	12.9%	11.1%	10.5%
Assets-to-capital multiple	16.6	17.0	16.6	18.0	18.2

(1) Effective November 1, 2007, regulatory capital, risk weighted assets and capital ratios are determined in accordance with Basel II rules. Comparative amounts for prior periods are determined in accordance with Basel I rules.

(2) Effective November 1, 2007, balance excludes unrealized gains and losses on available-for-sale securities and cash flow hedges.

(3) Comprised of net after-tax losses on available-for-sale equity securities, 50/50 deduction of certain investments in associated corporations, non-qualifying intangibles and other items.

(4) Net of amortization.

(5) Under Basel I, the general allowance is included in Tier 2 capital up to a maximum of 0.875% of risk-weighted assets as per OSFI guidelines. Under Basel II, eligible general allowances in excess of expected losses for advanced internal ratings based exposures and the allocated portion for standardized exposures can be included in capital, subject to certain limitations.

(6) Net unrealized gains (after-tax) on available-for-sale equity securities.

(7) Comprised of investments in insurance entities, 50/50 deduction of certain investments in associated corporations and other items.

**T16 Changes in regulatory capital<sup>(1)</sup>**

For the fiscal years

(\$ millions)

	<b>Basel II</b>				<b>Basel I</b>
	<b>2011</b>	2010	2009	2008	2007
<b>Total capital, beginning of year</b>	<b>\$ 29,599</b>	<b>\$ 28,588</b>	<b>\$ 27,847</b>	<b>\$ 22,981</b>	<b>\$ 22,986</b>
<b>Internally generated capital</b>					
Net income attributable to equity holders of the Bank	5,175	4,239	3,547	3,140	4,045
Preferred and common share dividends	(2,416)	(2,224)	(2,176)	(2,003)	(1,771)
	<b>2,759</b>	<b>2,015</b>	<b>1,371</b>	<b>1,137</b>	<b>2,274</b>
<b>External financing</b>					
Subordinated debentures <sup>(2)</sup>	(67)	(43)	1,606	2,775	(594)
Trust subordinated notes	—	—	—	—	1,000
Preferred shares	409	265	850	1,225	1,035
Innovative capital instruments	(500)	—	650	—	(250)
Common shares and contributed surplus	2,657	829	1,117	263	141
Purchase of shares – premium on redemption	—	—	—	(37)	(586)
	<b>2,499</b>	<b>1,051</b>	<b>4,223</b>	<b>4,226</b>	<b>746</b>
<b>Other</b>					
Net after-tax unrealized gains/losses on available-for-sale equity securities	(24)	170	201	(493)	298
Net unrealized foreign exchange translation gains (losses)	(654)	(590)	(1,736)	2,368	(2,228)
Non-controlling interest in subsidiaries	61	24	52	5	62
Other <sup>(3)</sup>	(1,707)	(1,659)	(3,370)	(2,377)	(1,157)
	<b>(2,324)</b>	<b>(2,055)</b>	<b>(4,853)</b>	<b>(497)</b>	<b>(3,025)</b>
<b>Total capital generated (used)</b>	<b>2,934</b>	<b>1,011</b>	<b>741</b>	<b>4,866</b>	<b>(5)</b>
<b>Total capital, end of year</b>	<b>\$ 32,533</b>	<b>\$ 29,599</b>	<b>\$ 28,588</b>	<b>\$ 27,847</b>	<b>\$ 22,981</b>

(1) Effective November 1, 2007, regulatory capital determined in accordance with Basel II rules. Comparative amounts for prior periods are determined in accordance with Basel I rules.

(2) Net of amortization.

(3) Represents changes to eligible general allowance, regulatory capital deductions for goodwill, non-qualifying intangibles, investments in insurance entities and associated corporations, securitization-related amounts, and other charges (credits) to retained earnings.

These were partially offset by:

- capital deductions of \$1.6 billion, largely relating to goodwill and intangibles from the Bank's increased investment in DundeeWealth;
- an increase in cumulative unrealized foreign currency translation losses of \$0.7 billion, net of hedges and related taxes, due to the strengthening of the Canadian dollar; and
- redemptions of innovative capital instruments of \$0.5 billion.

Over the past five years, the Bank's level of internal capital generation has been consistently strong. The Bank has generated \$9.6 billion of internal capital, notwithstanding an increase in dividends of 48% during this period.

#### Tier 2 capital

Tier 2 capital decreased by \$0.2 billion to \$4.0 billion in 2011, due mainly to reductions in the eligible general allowance resulting from the implementation of the AIRB approach in certain international non-retail portfolios.

#### Risk-weighted assets

Risk-weighted assets increased by \$19 billion over the prior year to \$234 billion. This increase was due primarily to underlying volume growth in business and retail loans and off balance sheet commitments.

#### Regulatory capital ratios

In 2011, both of the Bank's regulatory capital ratios remained strong as a result of prudent capital management and consistently solid earnings. Tier 1 and Total capital ratios as at year end were 12.2% and 13.9%. These ratios continued to be well in excess of OSFI's minimum capital ratios of 7% and 10% and were strong by international standards.

In addition to the regulatory capital ratios, banks are also subject to a maximum leverage test, the assets to capital multiple (ACM) as established by OSFI. The ACM is calculated by dividing a bank's total assets, including specified off-balance sheet items, such as direct credit substitutes and performance letters of credit, by its total capital. As at October 31, 2011 the Bank's ACM of 16.6:1 was within the regulatory maximum thresholds.

#### T17 Selected capital management activity

For the fiscal years (\$ millions)	2011	2010	2009
Dividends			
Common	\$ 2,200	\$ 2,023	\$ 1,990
Preferred	216	201	186
Common shares issued <sup>(1)(2)</sup>	2,586	804	1,117
Preferred shares issued <sup>(3)</sup>	409	265	850
Subordinated debentures issued <sup>(4)</sup>	—	—	2,000
Repurchase and redemption of subordinated debentures <sup>(4)</sup>	—	(11)	(359)
Issuance/(redemption) of trust subordinated notes and trust securities <sup>(5)</sup>	(500)	—	650

(1)Represents primarily cash received for stock options exercised during the year, common shares issued pursuant to the Dividend and Share Purchase Plan and shares issued for acquisitions.

(2)For further details, refer to Note 15 of the Consolidated Financial Statements.

(3)For further details, refer to Note 14 of the Consolidated Financial Statements.

(4)For further details, refer to Note 12 of the Consolidated Financial Statements.

(5)For further details, refer to Note 13 of the Consolidated Financial Statements.

#### Tangible common equity ratio

Tangible common equity (TCE) is generally considered to be an important measure of a bank's capital strength, and is often used by rating agencies and investors in their assessment of the quality of a bank's capital position. At year end, the Bank's TCE ratio continued to be strong at 9.6%.

#### Economic capital

Economic capital is a measure of the unexpected losses inherent in the Bank's business activities. Economic capital is also a key metric in the Bank's ICAAP. The calculation of Economic Capital relies on models that are subject to objective vetting and validation as required by the Bank's Model Risk Management Policy. Management assesses its risk profile to determine those risks for which the Bank should attribute economic capital. The major risk categories included in economic capital are:

- *Credit risk* which measures the risk that a borrower or counterparty will fail to honour its financial or contractual obligations to the Bank. Measurement is based on the Bank's internal credit risk ratings for derivatives, corporate or commercial loans, and credit scoring for retail loans. It is also based on the Bank's actual experience with recoveries and takes into account differences in term to maturity, probabilities of default, expected severity of loss in the event of default, and the diversification benefits of certain portfolios.
- *Market risk* which is the risk of loss from changes in market prices including interest rates, credit spreads, equity prices, foreign exchange rates, and commodity prices, the correlations among them, and their levels of volatility. Exposure is measured based on the internal VaR models used in the trading book; the VaR on the Bank's structural interest rate risk, structural foreign exchange risk, and equity market risk; and embedded options risk.
- *Operational risk* which is the risk of loss, whether direct or indirect, to which the Bank is exposed due to external events, human error, or the inadequacy or failure of processes, procedures, systems or controls. Measurement is based on the distribution of the Bank's actual losses, supplemented with external loss data where needed.
- *Other risk* includes additional risks for which Economic Capital is attributed, such as business risk, goodwill, significant investments, insurance risk and real estate risk.

The Bank uses its Economic Capital framework to attribute capital to the business lines, refer to non-GAAP measures, page 29. Chart 24 shows the attribution of economic capital by business line which allows the Bank to appropriately compare and measure the returns from the business lines, based upon their inherent risk. For further discussion on risk management and details on credit, market and operational risks, refer to the Risk Management section.

**Share data and other capital instruments**

The Bank's common and preferred share data, as well as other capital instruments, are shown in Table 18. Further details, including exchangeability features, are discussed in Notes 12, 13, 14 and 15 of the Consolidated Financial Statements.

**T18 Shares and other capital instruments**

As at October 31, 2011

<b>Share data</b>	<b>Amount (\$ millions)</b>	<b>Dividend</b>	<b>Coupon (%)</b>	<b>Number outstanding (000s)</b>
Common shares <sup>(1)</sup>	\$ 8,336	\$ 0.52	—	1,088,972
Preferred shares				
Preferred shares Series 12 <sup>(2)</sup>	\$ 300	\$ 0.328125	5.25%	12,000
Preferred shares Series 13 <sup>(2)</sup>	300	0.300000	4.80	12,000
Preferred shares Series 14 <sup>(2)</sup>	345	0.281250	4.50	13,800
Preferred shares Series 15 <sup>(2)</sup>	345	0.281250	4.50	13,800
Preferred shares Series 16 <sup>(2)</sup>	345	0.328125	5.25	13,800
Preferred shares Series 17 <sup>(2)</sup>	230	0.350000	5.60	9,200
Preferred shares Series 18 <sup>(2)(3)(4)</sup>	345	0.312500	5.00	13,800
Preferred shares Series 20 <sup>(2)(3)(5)</sup>	350	0.312500	5.00	14,000
Preferred shares Series 22 <sup>(2)(3)(6)</sup>	300	0.312500	5.00	12,000
Preferred shares Series 24 <sup>(2)(3)(7)</sup>	250	0.390600	6.25	10,000
Preferred shares Series 26 <sup>(2)(3)(8)</sup>	325	0.390625	6.25	13,000
Preferred shares Series 28 <sup>(2)(3)(9)</sup>	275	0.390625	6.25	11,000
Preferred shares Series 30 <sup>(2)(3)(10)</sup>	265	0.240625	3.85	10,600
Preferred shares Series 32 <sup>(2)(11)</sup>	409	0.231250	3.70	16,346

<b>Trust securities</b>	<b>Amount (\$ millions)</b>	<b>Distribution</b>	<b>Yield (%)</b>	<b>Number outstanding (000s)</b>
Scotiabank Trust Securities – Series 2002-1 issued by Scotiabank Capital Trust (12)(13)	\$ 750	\$ 33.13	6.626%	750
Scotiabank Trust Securities – Series 2003-1 issued by Scotiabank Capital Trust (12)(13)	750	31.41	6.282	750
Scotiabank Trust Securities – Series 2006-1 issued by Scotiabank Capital Trust (12)(13)	750	28.25	5.650	750
Scotiabank Tier 1 Securities – Series 2009-1 issued by Scotiabank Tier 1 Trust (12)(13)	650	39.01	7.802	650

<b>Trust subordinated notes</b>	<b>Amount (\$ millions)</b>	<b>Interest rate (%)</b>	<b>Number outstanding (000s)</b>
Scotiabank Trust Subordinated Notes – Series A issued by Scotiabank Subordinated Notes Trust <sup>(13)(14)</sup>	\$ 1,000	5.25%	1,000

<b>Options</b>	<b>Number outstanding (000s)</b>
Outstanding options granted under the Stock Option Plans to purchase common shares <sup>(1)(15)</sup>	22,446

- (1) Dividends on common shares are paid quarterly. As at November 18, 2011, the number of outstanding common shares and options was 1,089,037 thousand and 22,367 thousand, respectively. This includes 31 million common shares issued on February 1, 2011 as consideration for the acquisition of DundeeWealth Inc. and 1,293 thousand options in respect of DundeeWealth Inc.'s stock option plans.
- (2) These shares are entitled to non-cumulative preferential cash dividends payable quarterly.
- (3) These preferred shares have conversion features (refer to Note 14 of the Consolidated Financial Statements for further details).
- (4) Dividends, if and when declared, are for the initial five-year period ending on April 25, 2013. Subsequent to the initial five-year fixed rate period, and resetting every five years thereafter, the dividends will be determined by the sum of the five-year Government of Canada Yield plus 2.05%, multiplied by \$25.00.
- (5) Dividends, if and when declared, are for the initial five-year period ending on October 25, 2013. Subsequent to the initial five-year fixed rate period, and resetting every five years thereafter, the dividends will be determined by the sum of the five-year Government of Canada Yield plus 1.70%, multiplied by \$25.00.
- (6) Dividends, if and when declared, are for the initial five-year period ending on January 25, 2014. Subsequent to the initial five-year fixed rate period, and resetting every five years thereafter, the dividends will be determined by the sum of the five-year Government of Canada Yield plus 1.88%, multiplied by \$25.00.
- (7) Dividends, if and when declared, are for the initial five-year period ending on January 25, 2014. Subsequent to the initial five-year fixed rate period, and resetting every five years thereafter, the dividends will be determined by the sum of the five-year Government of Canada Yield plus 3.84%, multiplied by \$25.00.
- (8) Dividends, if and when declared, are for the initial five-year period ending on April 25, 2014. Subsequent to the initial five-year fixed rate period, and resetting every five years thereafter, the dividends will be determined by the sum of the five-year Government of Canada Yield plus 4.14%, multiplied by \$25.00.
- (9) Dividends, if and when declared, are for the initial five-year period ending on April 25, 2014. Subsequent to the initial five-year fixed rate period, and resetting every five years thereafter, the dividends will be determined by the sum of the five-year Government of Canada Yield plus 4.46%, multiplied by \$25.00.
- (10) Dividends, if and when declared, are for the initial five-year period ending on April 25, 2015. Subsequent to the initial five-year fixed rate period, and resetting every five years thereafter, the dividends will be determined by the sum of the five-year Government of Canada Yield plus 1.00%, multiplied by \$25.00.
- (11) Dividends, if and when declared, are for the initial five-year period ending on February 1, 2016. Subsequent to the initial five-year fixed rate period, and resetting every five years thereafter, the dividends will be determined by the sum of the five-year Government of Canada Yield plus 1.34%, multiplied by \$25.00.
- (12) Each security is entitled to receive non-cumulative fixed cash distributions payable semi-annually (refer to Note 13 of the Consolidated Financial Statements for further details).
- (13) Reported in deposits on the Consolidated Balance Sheet.
- (14) Holders are entitled to receive interest semi-annually until October 31, 2012 (refer to Note 13 of the Consolidated Financial Statements for further details).
- (15) Included are 14,163 thousand stock options with tandem stock appreciation right (SAR) features.



### Changing Regulatory Landscape

#### Basel II – Market Risk Amendment

In July 2009, the Basel Committee revised the market risk framework, in response to concerns arising from significant losses in trading books in the industry during 2007-2009. One of the key changes is the introduction of a Stressed Value at Risk (VaR) measure that will lead to an increase in market risk capital. BIS has also introduced an Incremental Risk Charge, to capture default and migration risk in debt portfolios over a one year period, at a 99.9% confidence level. In addition, securitized products in the trading book will receive the same capital charge as in the banking book, unless they are in a correlation trading portfolio that meets a number of conditions. The Bank has assessed the impact of these changes which are discussed on page 70.

#### Basel III

In December 2010, the Basel Committee on Banking Supervision (BCBS) put forth changes to the regulatory requirements that affect financial institutions. The reforms include a number of changes to the existing capital rules and the introduction of a global liquidity standard. These new global standards, referred to as 'Basel III' aim to strengthen the financial system by improving the quality, consistency and transparency of the capital base to better absorb losses and promote a more resilient banking sector.

Basel III requires increased capital requirements, including higher minimum common equity, introduces additional capital buffers and requires all existing and new capital deductions to be taken from common equity. The focus of the new rules is on high quality capital placing greater emphasis on common equity and a more restrictive definition of other qualifying capital instruments.

The BCBS have published the final revised Basel III capital adequacy rules. The key changes in Basel III are:

- Increased capital requirements:
  - The predominant form of Tier 1 capital must be common shareholders' equity;
  - Deductions will be applied at the level of common equity; and
  - Higher minimum capital requirements.
- Increased counterparty credit risk capital requirements;
- Introduction of an internationally harmonized leverage ratio that is an expansion of OSFI's existing assets-to-capital multiple; and
- Capital conservation and countercyclical buffers above the regulatory minimum.

To enable banks to meet the new standards, Basel III contains transitional arrangements commencing January 1, 2013 through January 1, 2019. Transitional requirements result in a phase-in of new deductions to common equity over 5 years, phase-out of nonqualifying capital instruments over 10 years and a phase-in of a capital conservation buffer over 5 years. As of January 2019, the banks will be required to meet new minimum requirements related to risk-weighted assets of: Common Equity Tier 1 ratio of 4.5% plus a capital conservation buffer of 2.5%, collectively 7%. Including the capital conservation buffer, the minimum Tier 1 ratio will be 8.5%, and the Total capital ratio will be 10.5%. The minimum leverage ratio (capital as a ratio of adjusted total assets) will be 3%.

Overall, the Basel III rules will increase regulatory deductions from common equity and result in higher risk-weighted assets for the Bank. Management has performed various analyses and projections and continues to believe that, with the Bank's proven record of strong internal capital generation and its lower-risk business model, the Bank is well positioned to meet the 2019 Basel III capital requirements early in the implementation period.

However, OSFI expects Canadian Banks to meet the 2019 Basel III capital requirements, including all deductions, by the first quarter of 2013.

Furthermore, on January 13, 2011, additional guidance was issued by the BCBS, with respect to requirements for loss absorbency of capital at the point of non-viability. An Advisory from the Office of Superintendent of Financial Institutions in Canada was issued on August 16, 2011 confirming these requirements as effective on January 1, 2013. These rules affect the eligibility of instruments for inclusion in regulatory capital and provide for a transition and phase-out of these instruments.

All of the Bank's current non-equity capital instruments do not meet these additional criteria and will be subject to phase-out commencing January 2013. Certain innovative Tier 1 capital instruments issued by the Bank contain regulatory event redemption rights. The Bank has no present intention of invoking any regulatory event redemption features in these capital instruments. However, the Bank reserves the right to redeem, call or repurchase any capital instruments within the terms of each offering at any time in the future.

#### Dividends

The strong earnings and capital position of the Bank allowed the quarterly dividend to be increased by 3 cents to 52 cents in 2011. Dividends have risen at a compound annual rate of 13% over the past 10 years.

#### Credit ratings

Credit ratings affect the Bank's access to capital markets and borrowing costs, as well as the terms on which the Bank can conduct derivatives and hedging transactions and obtain related borrowings. The Bank continues to have strong credit ratings. The current ratings are AA by DBRS, Aa1 by Moody's and AA- by Standard and Poor's and Fitch.

#### Outlook

The Bank will maintain its strong capital position. Capital will continue to be prudently managed to support organic growth initiatives, selective acquisitions and evolving regulatory changes. The Bank remains committed to achieving a Basel III common equity Tier 1 ratio in the range of 7 – 7.5% by the first quarter of 2013.

### Off-balance sheet arrangements

In the normal course of business, the Bank enters into contractual arrangements with entities that are not required to be consolidated in its financial statements, but could have a current or future impact on the Bank's results of operations or financial condition. These arrangements can be classified into the following categories: variable interest entities (VIEs), securitizations, and guarantees and other commitments.

**Variable interest entities (VIEs)**

Off-balance sheet arrangements with VIEs include:

- VIEs that are used to provide a wide range of services to customers, these include: VIEs established to allow clients to securitize their financial assets while facilitating cost-efficient financing, and to provide certain investment opportunities. The Bank creates, administers and manages personal and corporate trusts on behalf of its customers. The Bank also sponsors and actively manages mutual funds.
- VIEs that are used to provide alternative sources of funding for the Bank and to manage its capital position. The Bank may utilize these VIEs to securitize its own assets, primarily residential mortgages. The Bank may also establish VIEs in order to issue capital instruments that qualify as regulatory capital, such as Scotiabank Trust Securities and Scotiabank Subordinated Trust Notes.

All VIEs are subject to a rigorous review and approval process to ensure that all relevant risks are properly identified and addressed. For many of the VIEs that are used to provide services to customers, the Bank does not guarantee the performance of the VIE's underlying assets, and does not absorb any related losses. For other VIEs, such as securitization and investment vehicles, the Bank may be exposed to credit, market, liquidity or operational risks. The Bank earns fees based on the nature of its association with a VIE.

As at October 31, 2011, total consolidated assets related to VIEs were \$12.1 billion, compared to \$9.2 billion at the end of 2010. The increase is due primarily to additional assets held by the Scotia Covered Bond Trust in support of new issuances of Scotia Covered Bonds.

The Bank earned fees of \$46 million and \$42 million in 2011 and 2010, respectively, from certain VIEs in which it had a significant variable interest at the end of the year but did not consolidate. More information with respect to the Bank's involvement with VIEs, including details of liquidity facilities and maximum loss exposure by VIE category is provided below and in Note 6 to the Consolidated Financial Statements on page 130.

There are three primary types of association the Bank has with VIEs:

- Multi-seller conduits sponsored by the Bank,
- Funding vehicles, and
- Collateralized debt obligation entities.

Multi-seller conduits sponsored by the Bank

The Bank sponsors three multi-seller conduits, two of which are Canadian and one is based in the United States. The Bank earned commercial paper issuance fees, program management fees, liquidity

fees and other fees from these multi-seller conduits, which totaled \$43 million in 2011, compared to \$40 million in 2010.

The multi-seller conduits purchase high-quality financial assets and finance these assets through the issuance of highly rated commercial paper. For assets purchased, there are supporting backstop liquidity facilities that are generally equal to 102% of the assets purchased or committed to be purchased. The primary purpose of the backstop liquidity facility is to provide an alternative source of financing in the event the conduit is unable to access the commercial paper market. The Bank is obliged to purchase an interest in the assets owned by these conduits. The administration agent can require the liquidity provider to perform under its asset purchase agreement in the event the conduit is unable to access the commercial paper market. The Bank is not obliged to purchase assets from the conduits in the event the conduit meets the requirements of an insolvency event.

As further described below, the Bank's exposure to these off-balance sheet conduits primarily consists of liquidity support, program-wide credit enhancement and temporary holdings of commercial paper. The Bank has a process to monitor these exposures and significant events impacting the conduits to ensure there is no change in the primary beneficiary, which could require the Bank to consolidate the assets and liabilities of the conduits at fair value.

**Canada**

The Bank's primary exposure to the Canadian-based conduits is the liquidity support provided, with total liquidity facilities of \$2.4 billion as at October 31, 2011 (October 31, 2010 – \$1.4 billion). The year-over-year increase was due to growth in client business. As at October 31, 2011, total commercial paper outstanding for the Canadian-based conduits was \$1.7 billion (October 31, 2010 – \$0.9 billion) and the Bank held less than 0.1% of the total commercial paper issued by these conduits. Table 19 presents a summary of assets purchased and held by the Bank's two Canadian multi-seller conduits as at October 31, 2011 and 2010, by underlying exposure.

Substantially all of the conduits' assets have been structured to receive credit enhancements from the sellers, including overcollateralization protection and cash reserve accounts. Approximately 11% of the funded assets were externally rated AAA as at October 31, 2011, with the balance having an equivalent rating of AA- or higher based on the Bank's internal rating program. There were no non-investment grade assets held in these conduits as at October 31, 2011. All of the funded assets have final maturities falling within three years, and the weighted average repayment period, based on cash flows, approximates one year. There is no exposure to the United States subprime mortgage risk within these two conduits.

**T19** Assets held by Scotiabank-sponsored Canadian-based multi-seller conduits

	2011			2010		
	Funded assets <sup>(1)</sup>	Unfunded commitments	Total exposure <sup>(2)</sup>	Funded assets <sup>(1)</sup>	Unfunded commitments	Total exposure <sup>(2)</sup>
As at October 31 (\$ millions)						
Auto loans/leases	\$ 1,318	\$ 539	\$ 1,857	\$ 331	\$ 305	\$ 636
Equipment loans	–	–	–	339	7	346
Trade receivables	184	142	326	206	122	328
Canadian residential mortgages	174	30	204	19	–	19
Retirement savings plan loans	21	–	21	49	2	51
Total <sup>(3)</sup>	\$ 1,697	\$ 711	\$ 2,408	\$ 944	\$ 436	\$ 1,380

(1) Funded assets are reflected at original cost, which approximates estimated fair value.

(2) Exposure to the Bank is through global-style liquidity facilities and letters of guarantee.

(3) These assets are substantially sourced from Canada.

**United States**

The Bank's primary exposure to the United States-based conduit is the liquidity support and program-wide credit enhancement provided, with total liquidity facilities of \$7.0 billion as at October 31, 2011 (October 31, 2010 – \$6.5 billion). The year-over-year increase is due to growth in client business. As at October 31, 2011, total commercial paper outstanding for the United States-based conduit was \$3.5 billion (October 31, 2010 – \$3.1 billion) of which none was held by the Bank.

A significant portion of the conduit's assets have been structured to receive credit enhancements from the sellers, including overcollateralization protection and cash reserve accounts. Each asset purchased by the conduit has a deal-specific liquidity facility provided by the Bank in the form of a liquidity asset purchase agreement. This is available to absorb the losses on defaulted assets, if any, in excess of losses absorbed by deal-specific seller credit enhancement, and the subordinated note issued by the conduit. The Bank's liquidity agreements with the conduit generally call for the Bank to fund full par value of all assets, including defaulted assets, if any, of the conduit.

Table 20 presents a summary of assets purchased and held by the Bank's United States multi-seller conduit as at October 31, 2011 and 2010, by underlying exposure.

The conduit has investments in two pools of diversified asset-backed securities. The assets underlying these securities are primarily retail loans, including the United States home equity, student loans and residential mortgage-backed securities. A significant portion of these pools are guaranteed by monoline insurers which are rated non-investment grade by the external rating agencies.

As at October 31, 2011, approximately 81% of the conduit's funded assets were rated A or higher, comprised of external ratings of 19%, and internal ratings based upon the Bank's rating program of 62%. Substantially all of the assets held in this conduit were rated investment grade as at October 31, 2011. While 78% of the total funded assets have final maturities falling within five years, the weighted average repayment period, based on expected cash flows, approximates 1.1 years.

During fiscal 2011, there were no events that required a reassessment of the primary beneficiary of this conduit.

**Funding Vehicles**

The Bank uses special purpose entities (SPEs) to facilitate the cost-efficient financing of its operations. The Bank has three such SPEs that

facilitate the issuance of certain regulatory capital instruments of the Bank. These are Scotiabank Capital Trust, Scotiabank Subordinated Notes Trust and Scotiabank Tier 1 Trust. These SPEs are not consolidated on the Bank's balance sheet, as the Bank is not the primary beneficiary. Scotiabank Trust Securities, Scotiabank Tier 1 Securities and Scotiabank Trust Subordinated Notes issued by the trusts are not reported on the Consolidated Balance Sheet, but qualify as regulatory capital. The deposit notes issued by the Bank to Scotiabank Capital Trust, Scotiabank Subordinated Notes Trust and Scotiabank Tier 1 Trust are reported in deposits. Total deposits recorded by the Bank as at October 31, 2011 from these trusts were \$4 billion (October 31, 2010 – \$4 billion). The Bank recorded interest expense of \$242 million on these deposits in 2011 (2010 – \$243 million).

**Collateralized debt obligation entities**

The Bank holds an interest in VIEs structured to match specific investor requirements. Loans or credit derivatives are held by the VIE to create security offerings for investors that match their investment needs and preferences. The Bank's maximum exposure to loss from VIEs in which the Bank has a significant variable interest was \$53 million as at October 31, 2011 (October 31, 2010 – \$23 million) including the credit risk amounts relating to derivative contracts with these VIEs.

**Securitizations**

The Bank securitizes a portion of its residential mortgages and personal loans by transferring the assets on a serviced basis to trusts. Residential mortgage securitizations are principally conducted through the Bank's participation in the Canadian Government's Canada Mortgage Bond (CMB) program. If certain requirements are met, these transfers are treated as sales, and the transferred assets are removed from the Consolidated Balance Sheet which are discussed in Note 1 to the Consolidated Financial Statements on page 120. These securitizations enable the Bank to access alternative and more efficient funding sources, and manage liquidity and other risks. The Bank does not provide liquidity facilities to the CMB program, as such, the Bank is not exposed to significant liquidity risks in connection with these off-balance sheet arrangements.

The outstanding amount of off-balance sheet securitized mortgages was \$19.1 billion as at October 31, 2011, compared to \$16 billion last year. The increase in activity in 2011 stemmed from ongoing sales through the CMB program similar to last year.

**T20 Assets held by Scotiabank-sponsored United States-based multi-seller conduit**

As at October 31 (\$ millions)	2011			2010		
	Funded assets <sup>(1)</sup>	Unfunded commitments	Total exposure <sup>(2)</sup>	Funded assets <sup>(1)</sup>	Unfunded commitments	Total exposure <sup>(2)</sup>
Credit card/consumer receivables	\$ 22	\$ 29	\$ 51	\$ 22	\$ 45	\$ 67
Auto loans/leases	1,046	1,009	2,055	1,198	902	2,100
Trade receivables	1,425	2,403	3,828	798	2,476	3,274
Loans to closed-end mutual funds	359	7	366	367	7	374
Diversified asset-backed securities	549	11	560	622	12	634
Corporate loans <sup>(3)</sup>	85	11	96	69	23	92
Total <sup>(4)</sup>	\$ 3,486	\$ 3,470	\$ 6,956	\$ 3,076	\$ 3,465	\$ 6,541

(1) Funded assets are reflected at original cost. The fair value of these assets as at October 31, 2011 was estimated to be \$3.3 billion (October 31, 2010 – \$2.7 billion).

(2) Exposure to the Bank is through global-style liquidity facilities in the form of liquidity asset purchase agreements.

(3) These assets represent secured loans that are externally rated investment grade.

(4) These assets are sourced from the United States.



The amount of off-balance sheet securitized personal loans was \$2 million as at October 31, 2011, compared to \$10 million last year.

Subsequent to the transfer of assets, the Bank may retain interests in securities issued by the trusts, may make payments to the trusts under certain limited circumstances, maintains relationships with the underlying customers, and provides administrative services to the trusts. Additional information on the commitments to the trusts is disclosed in Note 24 to the Consolidated Financial Statements on page 150.

The Bank recorded securitization revenues of \$236 million in 2011, compared to \$124 million in 2010. This increase was due mostly to increased volumes of securitized mortgages this year.

Additional information on the amount of securitizations and associated cash flows, servicing fees and retained interests is provided in Note 4(c) to the Consolidated Financial Statements on pages 127 to 128.

#### Guarantees and other commitments

Guarantees and other commitments are fee-based products that the Bank provides to its customers. These products can be categorized as follows:

- Standby letters of credit and letters of guarantee. As at October 31, 2011, these amounted to \$21.2 billion, compared to \$20.5 billion last year. These instruments are issued at the request of a Bank customer to secure the customer's payment or performance obligations to a third party. The year-over-year increase reflects a general increase in customer activity;
- Liquidity facilities. These generally provide an alternate source of funding to asset-backed commercial paper conduits in the event a general market disruption prevents the conduits from issuing commercial paper or, in some cases, when certain specified conditions or performance measures are not met. Within liquidity facilities are credit enhancements that the Bank provides, in the form of financial standby letters of credit, to commercial paper conduits sponsored by the Bank. As at October 31, 2011, these credit enhancements amounted to \$685 million, compared to \$669 million last year. Refer to the discussions under VIEs beginning on page 48;
- Indemnification contracts. In the ordinary course of business, the Bank enters into many contracts where it may indemnify contract counterparties for certain aspects of its operations that are dependent on other parties' performance, or if certain events occur. The Bank cannot estimate, in all cases, the maximum potential future amount that may be payable, nor the amount of collateral or assets available under recourse provisions that would mitigate any such payments. Historically, the Bank has not made any significant payments under these indemnities;
- Loan commitments. The Bank has commitments to extend credit, subject to specific conditions, which represent undertakings to make credit available in the form of loans or other financings for specific amounts and maturities. As at October 31, 2011, these commitments amounted to \$108 billion, compared to \$104 billion last year. Approximately half of these commitments are short-term in nature, with remaining terms to maturity of less than one year.

These guarantees and loan commitments may expose the Bank to credit or liquidity risks, and are subject to the Bank's standard review and approval processes. For the guaranteed products, the dollar amounts represent the maximum risk of loss in the event of a total default by the guaranteed parties, and are stated before any reduction for recoveries under recourse provisions, insurance policies or collateral held or pledged.

Fees from the Bank's guarantees and loan commitment arrangements, recorded as credit fees in other income in the Consolidated Statement of Income, were \$436 million in 2011, compared to \$426 million in the prior year. Detailed information on guarantees and loan commitments is disclosed in Note 24 to the Consolidated Financial Statements on pages 150 to 151.

## Financial instruments

Given the nature of the Bank's main business activities, financial instruments make up a substantial portion of the balance sheet and are integral to the Bank's business. Assets that are financial instruments include cash resources, securities, securities purchased under resale agreements, loans and customers' liability under acceptances. Financial instrument liabilities include deposits, acceptances, obligations related to securities sold under repurchase agreements, obligations related to securities sold short, subordinated debentures and capital instrument liabilities. In addition, the Bank uses derivative financial instruments for both trading and non-trading purposes, such as asset/liability management.

During fiscal 2009, the Bank reclassified certain debt securities from available-for-sale securities to loans pursuant to changes in accounting standards for financial instruments. Refer to changes in accounting policies on page 82.

Financial instruments are generally carried at fair value, except for loans and receivables, certain securities and most financial liabilities, which are carried at amortized cost unless designated as held for trading at inception.

Unrealized gains and losses on available-for-sale securities, net of related hedges, as well as gains and losses on derivatives designated as cash flow hedges, are recorded in other comprehensive income. Gains and losses on available-for-sale securities are recorded in the Consolidated Statement of Income when realized and cash flow hedges are recorded when the hedged item affects income.

All changes in the fair value of derivatives are recorded in the Consolidated Statement of Income, other than those designated as cash flow and net investment hedges which flow through other comprehensive income. The Bank's accounting policies for derivatives and hedging activities are further described in Note 1 to the Consolidated Financial Statements (see page 121).

Interest income and expense on interest-bearing financial instruments are recorded in the Consolidated Statement of Income as part of net interest income. Credit losses resulting from loans are recorded in the provision for credit losses. Net gains and losses on trading securities are recorded in other income – trading revenues. Realized gains and losses and writedowns for other-than-temporary impairment on available-for-sale securities and equity accounted investments are recorded in other income – net gains (losses) on securities, other than trading.

Several risks arise from transacting financial instruments, including credit risk, liquidity risk, operational risk and market risk. Market risk arises from changes in market prices and rates including interest rates, credit spreads, foreign exchange rates, equity prices and commodity prices. The Bank manages these risks using extensive risk management policies and practices, including various Board-approved risk management limits.

A discussion of the Bank's risk management policies and practices can be found in the Risk Management section on pages 63 to 77. In addition, Note 25 to the Consolidated Financial Statements on

pages 152 to 159 presents the Bank's exposure to credit risk, liquidity risk and market risks arising from financial instruments as well as the Bank's corresponding risk management policies and procedures.

There are various measures that reflect the level of risk associated with the Bank's portfolio of financial instruments. For example, the interest rate risk arising from the Bank's financial instruments can be estimated by calculating the impact of a 100 or 200 basis point increase in interest rates on annual income and the economic value of shareholders' equity, as described on page 72. For trading activities, the table on page 72 discloses the average one-day Value at Risk by risk factor. For derivatives, based on the Bank's maturity profile of derivative instruments, only 3% (2010 – 10%) had a term to maturity greater than five years.

Note 28 to the Consolidated Financial Statements (see pages 162 to 166) provides details about derivatives used in trading and non-trading activities, including notional amounts, remaining term to maturity, credit risk and fair values.

The fair value of the Bank's financial instruments is provided in Note 26 to the Consolidated Financial Statements (see pages 160 to 161) along with a description of how these amounts were determined.

The fair value of the Bank's financial instruments was favorable when compared to their carrying value by \$2,317 million as at October 31, 2011 (October 31, 2010 – unfavorable \$420 million). This difference relates to loan assets, deposit liabilities, subordinated debentures and capital instrument liabilities. The year-over-year change in the fair value over book value arose mainly from changes in interest rates. Fair value estimates are based on market conditions as at October 31, 2011, and may not be reflective of future fair values. Further information on how fair values are estimated is contained in the section on critical accounting estimates on pages 78 to 82.

Disclosures specific to certain financial instruments designated as held for trading under the fair value option can be found in Note 27 to the Consolidated Financial Statements (see pages 161 to 162). These designations were made primarily to avoid an accounting mismatch between two instruments, or to better reflect how the performance of a specific portfolio is evaluated by the Bank.

## Selected credit instruments

### Mortgage-backed securities

#### Non-trading portfolio

Total mortgage-backed securities held as available-for-sale securities represent approximately 4% of the Bank's total assets as at October 31, 2011 and are shown below in Table 21. Exposure to subprime mortgage risk in the United States is nominal.

#### Trading portfolio

Total mortgage-backed securities held as trading securities represent less than 0.1% of the Bank's total assets as at October 31, 2011 and are shown in Table 21.

### T21 Mortgage-backed securities

As at October 31 Carrying value (\$ millions)	2011		2010	
	Non-trading portfolio	Trading portfolio	Non-trading portfolio	Trading portfolio
Canadian NHA mortgage-backed securities <sup>(1)</sup>	\$ 21,941	\$ 396	\$ 18,370	\$ 416
Commercial mortgage-backed securities	3 <sup>(2)</sup>	18 <sup>(3)</sup>	10 <sup>(2)</sup>	28 <sup>(3)</sup>
Other residential mortgage-backed securities	138	–	201	–
Total	\$ 22,082	\$ 414	\$ 18,581	\$ 444

(1) Canada Mortgage and Housing Corporation provides a guarantee of timely payment to NHA mortgage-backed security investors.

(2) The assets underlying the commercial mortgage-backed securities in the non-trading portfolio relate primarily to non-Canadian properties.

(3) The assets underlying the commercial mortgage-backed securities in the trading portfolio relate to Canadian properties.

### Montreal Accord Asset-Backed Commercial Paper (ABCP)

As a result of the Montreal Accord ABCP restructuring in the first quarter of 2009, the Bank received longer-dated securities which were classified as available-for-sale. Approximately 45% of the new notes are A-rated Class A-1 notes and 36% are BBB (low)-rated A-2 notes. The Bank's carrying value of \$167 million represents approximately 74% of par value.

As part of the restructuring, the Bank participated in a margin funding facility, which was recorded as an unfunded loan commitment. The Bank's portion of the facility is \$198 million, it is currently undrawn.

### Collateralized debt obligations and collateralized loan obligations

#### Non-trading portfolio

The Bank has collateralized debt obligation (CDO) and collateralized loan obligation (CLO) investments in its non-trading portfolio. CDOs and CLOs generally achieve their structured credit exposure either synthetically through the use of credit derivatives, or by investing and holding corporate loans or bonds.

Since 2009, cash-based CDOs and CLOs are classified as loans and are carried at amortized cost. These are assessed for impairment like all other loans. Synthetic CDOs and CLOs continue to be classified as available-for-sale securities, with changes in the fair value reflected in net income.

As at October 31, 2011, the carrying value of cash-based CDOs and CLOs reported as loans on the Consolidated Balance Sheet was \$867 million (October 31, 2010 – \$943 million). The fair value was \$637 million (October 31, 2010 – \$623 million). None of these cash-based CDOs and CLOs are classified as impaired. Substantially all of the referenced assets of the Bank's CDOs and CLOs are corporate exposures, without any United States mortgage-backed securities.

The Bank's remaining exposure to synthetic CDOs and CLOs was \$99 million as at October 31, 2011 (October 31, 2010 – \$185 million). During the year, the Bank recorded a pre-tax gain of \$5 million in net income for changes in fair value of synthetic CDOs and CLOs (2010 – pre-tax gain of \$85 million). The change in fair value of the synthetic CDOs and CLOs was mainly driven by the tightening of credit spreads in the prior year and the maturity of certain CDOs in 2011.

The aggregate CDO and CLO portfolios are well diversified, with an average individual CDO and CLO holding of \$8 million, and no single industry exceeding 12% of the referenced portfolio on a weighted average basis. Based on their carrying values, these CDOs and CLOs have a weighted average rating of A. More than 89% of their investments are senior tranches with subordination of 10% or more, and 5% of the investments are in equity tranches.

Based on positions held at October 31, 2011, a 50 basis point widening of relevant credit spreads would result in a pre-tax decrease of approximately \$3 million in net income.

#### Trading portfolio

The Bank also holds synthetic CDOs in its trading portfolio as a result of structuring and managing transactions with clients and other financial institutions. To hedge its trading exposure, the Bank purchases or sells CDOs to other financial institutions, along with purchasing and/or selling index tranches or single name credit default swaps (CDSs). The main driver of the value of CDOs and CDSs is changes in credit spreads. Total CDOs purchased and sold in the trading portfolio are shown in Table 22 below.

#### T22 Collateralized debt obligations (CDOs)

##### Trading portfolio

	2011		2010	
	Notional Amount	Positive/(negative) fair value	Notional Amount	Positive/(negative) fair value
As at October 31 Outstanding (\$ millions)				
CDOs – sold protection	\$ 2,460	\$ (564)	\$ 2,890	\$ (498)
CDOs – purchased protection	\$ 2,047	\$ 393	\$ 2,719	\$ 491

The decrease in the notional amounts of the CDO portfolio is mainly due to trades that were unwound with counterparties during the year. The increase in the negative fair value of sold protection CDO's is due to widening in credit spreads that occurred late in the year. The reduction in the positive fair value of purchased protection is due to the significant decline in the notional amounts. Based on positions held at October 31, 2011, a 50 basis point widening of relevant credit spreads in this portfolio would result in a pre-tax decrease of approximately \$9 million in net income.

Over 61% of the Bank's credit exposure to CDO swap counterparties is to entities which are externally or internally rated investment grade equivalent. The referenced assets underlying the trading book CDOs are substantially all corporate exposures, with no mortgage-backed securities.

#### Exposure to monoline insurers

The Bank has insignificant direct exposure to monoline insurers. The Bank has indirect exposures of \$0.5 billion (October 31, 2010 – \$0.9 billion) in the form of monoline guarantees, which provide enhancement to public finance and other transactions, where the Bank has provided credit facilities to either the issuers of securities or facilities which hold such securities. These exposures were primarily composed of \$0.4 billion (October 31, 2010 – \$0.6 billion) of guarantees by two monolines on a significant portion of the diversified asset-backed securities held by the Bank's United States multi-seller conduit (as discussed on page 49 in the section on Multi-seller conduits sponsored by the Bank). As at October 31, 2011, the two monoline insurers were rated non-investment grade by the external rating agencies.

#### Other

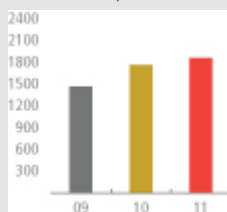
As at October 31, 2011, the Bank has insignificant exposure to highly leveraged loans awaiting syndication, auction-rate securities, Alt-A type loans and investments in structured investment vehicles.

## BUSINESS LINE OVERVIEW

### CANADIAN BANKING

Canadian Banking had record net income in 2011, earning \$1,862 million, an increase of \$92 million or 5% over last year. Higher revenues were mainly from solid asset and deposit growth in all businesses, initiative-driven growth in card revenues, and higher Commercial Banking fee income. Partly offsetting was margin pressure due to the low interest rate environment. A significant improvement in the provisions for credit losses was partly offset by a 3% increase in non-interest expenses.

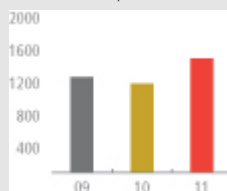
**C25** Canadian Banking  
net income \$ millions



### INTERNATIONAL BANKING

International Banking recorded strong earnings in 2011 with net income of \$1,485 million, up \$328 million or 28% year over year, notwithstanding the strengthening Canadian dollar. Acquisitions in Latin America and Asia along with organic growth and prudent risk management across all regions contributed to positive earnings. Loan volumes increased by 9% year-over-year, and there was a 21% improvement in provisions for credit losses.

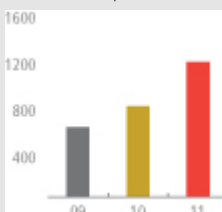
**C26** International Banking  
net income \$ millions



### GLOBAL WEALTH MANAGEMENT

Global Wealth Management reported net income of \$1,218 million, an increase of \$402 million or 49% from last year's earnings due mainly to the acquisition of DundeeWealth. Underlying organic growth in both Insurance and Wealth Management businesses in 2011 was driven by strong sales and growth initiatives.

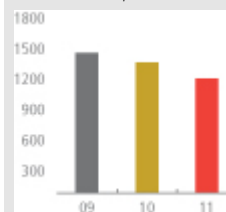
**C27** Global Wealth Management  
net income \$ millions



### SCOTIA CAPITAL

Scotia Capital reported net income of \$1,184 million in 2011, 12% below last year's earnings as a result of challenging market conditions, especially in the latter half of the year. Corporate lending spreads increased across all geographies. Loan volumes leveled off toward the end of 2011 after declining in 2010. Partly offsetting were higher provisions for credit losses and an increase in non-interest expenses this year.

**C28** Scotia Capital  
net income \$ millions



### T23 2011 financial performance

(\$ millions)	Canadian Banking	International Banking	Global Wealth Management	Scotia Capital	Other <sup>(1)</sup>	Total
Net interest income <sup>(2)</sup>	\$ 4,889	\$ 3,988	\$ 345	\$ 1,066	\$ (1,018)	\$ 9,270
Other income	1,351	1,420	2,973	1,894	380	8,018
Provision for credit losses	590	485	2	29	(60)	1,046
Non-interest expenses	3,069	3,056	1,890	1,409	140	9,564
Income taxes <sup>(2)</sup>	719	382	208	338	(237)	1,410
Net income	\$ 1,862	\$ 1,485	\$ 1,218	\$ 1,184	\$ (481)	\$ 5,268
Return on equity <sup>(3)</sup> (%)	37.9%	14.4%	18.2%	21.2%	N/A	18.8%
Average earning assets (\$ billions) <sup>(3)</sup>	\$ 210	\$ 92	\$ 9	\$ 188	\$ 70	\$ 569

(1) The Other category represents smaller operating segments, including Group Treasury, and other corporate adjustments that are not allocated to an operating segment. Corporate adjustments include the elimination of the tax-exempt income gross-up reported in net interest income and provision for income taxes, changes in the general allowance, differences in the actual amount of costs incurred and charged to the operating segments, and the impact of securitizations.

(2) Taxable equivalent basis. See non-GAAP measures on page 29.

(3) Non-GAAP measure. Return on equity for the business segments is based on economic equity attributed. See non-GAAP measures on page 29.

N/A Not applicable

# Canadian Banking

## 2011 Achievements

- **Mobile Banking**
  - Recognizing early that customers want multiple banking options and a seamless customer experience, Canadian Banking launched the Scotiabank Mobile Banking channel to meet these evolving needs.
  - Key facts: +500,000 customers using mobile banking, +100,000 logins per day, +10 million transactions to-date. It is one of the most rapid adoptions of any new technology in banking.
- **ScotiaOnline Banking Refresh**
  - The new ScotiaOnline, introduced in November 2011, enables the Bank to deliver a significantly improved customer experience by providing more robust self service capabilities, and ensures that the Bank continues to meet the evolving needs of its customers. There are over 1.5 million power users.
- **Payment & Product Innovation**
  - The Bank has made significant progress in payment and product innovation, including launching the VISA payWave feature on select VISA credit cards, and becoming the first bank in Canada to launch Interac Flash contactless debit on our ScotiaCards. These enhancements allow customers to make quick and easy every-day purchases.
  - The newly launched *Scotia Momentum* VISA Infinite and *Scotia Moneyback* cards provide a strong competitive advantage for Canadian Banking by offering clients money back for everyday use.
- **Recognized for excellence:**
  - Canadian Customer Contact Centres were recognized as *Call Centre of the Year*, *Call Center World Class Call Certification* and *Highest Employee Satisfaction* for the Call Centre & Banking Industries, by SQM's Service Quality Excellence Awards.
  - The Toronto Customer Contact Centre achieved the prestigious *Platinum level Contact Center Employer of Choice®* (CCEOC) Certification for 2011. For the third consecutive year, the Centre attained the highest score of any financial institution.
  - In March 2011, the recently launched Mobile Banking channel was awarded the *Celent Model Bank Award*. Scotiabank was recognized for its innovative and effective use of technology in banking.

## Business Profile

Canadian Banking provides a range of banking and investing services to more than 7.6 million customers across Canada, through a network of 1,030 branches, 3,027 ABMs, as well as internet, mobile and telephone banking, and third party channels. Canadian Banking is comprised of two main businesses: Retail and Small Business Banking, and Commercial Banking.

- **Retail and Small Business Banking** provides financial advice and solutions that include day-to-day banking products, including debit cards, deposit accounts, credit cards, investments, mortgages, loans, and related creditor insurance products to individuals and small businesses.
- **Commercial Banking** delivers advisory services and a full product suite to medium and large businesses, including banking, cash management, and a broad array of lending and deposit services.

## Strategy

Canadian Banking has refined its customer value proposition to become a truly customer-centric organization by delivering advice and solutions, supported by an excellent customer experience.

Canadian Banking will significantly improve its competitive position by achieving superior growth across payments and deposits businesses, while sustaining the growth of its other core businesses. Canadian Banking will continue to support Global Wealth Management partners by distributing Global Transaction Banking, Insurance and Wealth Management products.

This will be achieved by offering practical advice and solutions tailored to its customers' financial priorities, supported by an excellent customer experience.

## 2012 Priorities

- Continue to invest in deposits and payments businesses.
- Partner with Global Wealth Management to drive revenue growth in mutual funds and ensure that clients' wealth management needs are being met.
- Investments will be made in the following enablers to support the business line's strategy and customer value proposition:
  - Optimizing distribution channels to ensure a fully integrated customer experience.
  - Achieving operational efficiencies through organizational streamlining, process re-engineering, and product/service rationalization.
  - Building a strong leadership team for the future.
  - Strengthening MIS infrastructure to better support and manage capital, pricing, risk and customer profitability.

## T24 Canadian Banking financial performance

(\$ millions)	2011	2010 <sup>(1)</sup>	2009 <sup>(1)</sup>
Net interest income <sup>(2)</sup>	\$ 4,889	\$ 4,919	\$ 4,537
Other income	1,351	1,302	1,203
Provision for credit losses	590	705	700
Non-interest expenses	3,069	2,974	2,892
Income taxes <sup>(2)</sup>	719	772	679
Net income	\$ 1,862	\$ 1,770	\$ 1,469
<b>Key ratios</b>			
Return on economic equity	37.9%	38.4%	31.3%
Productivity <sup>(1)</sup>	49.2%	47.8%	50.4%
Net interest margin <sup>(1)</sup>	2.33%	2.49%	2.44%
PCL as a percentage of loans and acceptances	0.28%	0.36%	0.37%
<b>Selected balance sheet data (average balances)</b>			
Earning assets	209,637	197,549	186,068
Deposits	141,265	135,849	121,322
Economic equity	5,007	4,740	4,826

(1)2009 and 2010 amounts have been restated for the business line re-organization effective 2011.

(2)Taxable equivalent basis.



## Financial Performance

Canadian Banking's net income was \$1,862 million in 2011, \$92 million or 5% higher than last year. Return on economic equity of 38.0% was in line with 2010.

### Assets and liabilities

Average assets before securitization rose \$12 billion or 6% year over year. This included substantial growth in residential mortgages (before securitization) of \$10 billion or 8% and consumer auto loans of \$1 billion or 11%. Average deposits grew \$5 billion or 4%, including \$3 billion or 18% in high-interest savings deposits and \$1 billion or 8% in retail chequing. This growth reflected the ongoing success of the "Let the Saving Begin" campaign as well as innovative deposit and payments solutions launched this year such as the new *Scotia Moneyback* Account (Canada's first account that pays customers money back with every debit purchase). There was also strong deposit growth in Small Business and Commercial Banking in both current accounts and term deposits.

### Revenues

Total revenues were \$6,240 million, up \$19 million from last year.

Net interest income decreased 1% to \$4,889 million. The impact of solid retail volume growth was offset by a decline of 16 basis points in the interest profit margin to 2.33%. The margin decrease was due to higher wholesale funding rates used for transfer pricing, general competitive pressure on spreads and consumer preferences for lower-spread variable-rate mortgages in the current low interest rate environment.

Other income was \$1,351 million in 2011, up \$49 million or 4%, mainly from higher transaction-based fees, reflecting in part the success of the new *Scotia Momentum* VISA Infinite card, launched this summer, which allows customers to earn more money back than ever before. There were also higher revenues in Small Business Banking and Commercial Banking as a result of programs focused on advisory and referral services, and targeted customer segments.

#### Retail & Small Business Banking

Total revenues were \$4,730 million, up \$119 million or 3% from last year. Net interest income rose by \$79 million or 2% due mainly to growth in mortgages and deposits. Other income rose \$46 million or 5% mainly from solid growth in card revenues of \$24 million or 13% and transaction-based deposit fees of \$27 million or 5%.

#### Commercial Banking

Total revenues declined \$99 million or 6% to \$1,510 million in 2011. The impact of asset growth of \$2 billion or 6% was offset by a lower margin, particularly in automotive lending, due to higher wholesale funding costs, consumer preference for variable rate loans and targeted higher credit quality. Year over year, other income was up \$9 million or 2% to \$416 million mainly in credit fees and card revenues.

### Non-interest expenses

Non-Interest Expenses continued to be subject to tight management control, increasing by \$95 million or 3% in 2011. This growth was due mainly to the impact of annual merit increases on salaries, higher pension costs and the full year impact of the Harmonized Sales Tax introduced in certain provinces effective July 2010. Higher pension costs arose from changes in actuarial assumptions and plan asset volumes and were partly offset by a gain on the wind up of a subsidiary pension plan this year.

Canadian Banking continued to invest in future growth in 2011 with costs related to new card products such as *Scotia Momentum* VISA Infinite and *Scotia Moneyback*, upgrades to our Scotia Online internet service and Scotiabank.com website, substantial increases in mobile banking transactions and new sponsorship relationships with a number of NHL teams, as the Bank's reach expands as "Canada's hockey bank".

### Credit quality

The 2011 provision for credit losses was \$590 million, down from \$705 or 16% from last year, with significant decreases in Retail Banking in consumer auto and lines of credit, and in Commercial Banking. Last year included a reversal of the sectoral allowance of \$7 million.

### Provision for income taxes

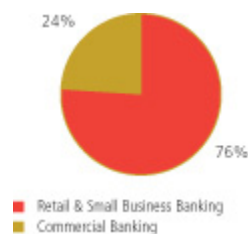
The effective tax rate of 28% declined from 30% last year, due primarily to the reduction in the statutory tax rate in Canada.

### Outlook

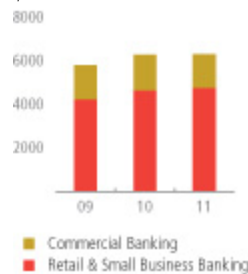
In 2012, it is expected that asset growth will moderate in Retail Banking but remain relatively strong in Small Business and Commercial Banking. Deposit growth will likely be tempered by continued low interest rates and increasing competition.

Growth in other income will be moderate in 2012. Provisions for credit losses will remain relatively stable in 2012.

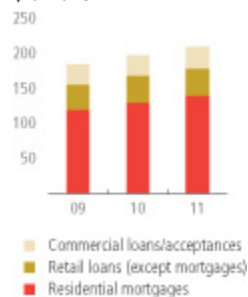
**C29 Canadian Banking total revenue**  
As at October 31, 2011



**C30 Total revenue by sub-segment**  
\$ millions



**C31 Average loans and acceptances**  
\$ billions



# International Banking

## 2011 Achievements

- Commercial Banking:
  - Made significant progress on process re-engineering to improve efficiency and customer satisfaction.
  - Created a Central America Hub to drive commercial business in the region.
- Retail Banking:
  - Improved distribution productivity and capacity with upgrades to Sales & Service disciplines.
  - Expanded non-branch channels, especially in award-winning Contact Centres.
  - Launched an exciting new brand strategy, along with the new tagline "Discover what's possible".
- Opened 33 new branches, 19 of which were in Peru.
- Integrated Siam City Bank with Thanachart Bank in Thailand, in which the Bank has a 49% ownership interest.
- Added to the Bank's presence in China through a 19.99% stake in Bank of Guangzhou, the 29<sup>th</sup> largest bank in Mainland China (expected to close in the first quarter of 2012).
- Expanded the Bank's presence in Colombia through a 51% interest in Banco Colpatria, Colombia's 5<sup>th</sup> largest financial group (closing expected in the first quarter of 2012).
- Completed several acquisitions: Pronto! (Uruguay's 3<sup>rd</sup> largest consumer finance company); Nuevo Banco Comercial (Uruguay's 4<sup>th</sup> largest private bank); Royal Bank of Scotland's wholesale operations in Chile; and Dresdner Bank Brazil.
- Recognized for excellence:
  - For the second year in a row Scotiabank was named the Best Consumer Internet Bank in 20 Caribbean countries by Global Finance. The Bank was also recognized as the Best Corporate/Institutional Internet Bank in 11 countries by the International Finance magazine.
  - Scotiabank assisted international agencies in distributing aid to 100,000 Haitians following a devastating earthquake in 2011. These efforts were recognized by three international awards:
    - 2011 Global Telecoms Business Innovation Award for Consumer Services
    - Beyond Banking Award by the Inter-American Development Bank
    - "First to Market Award" from the Bill and Melinda Gates Foundation
  - Two Contact Centres were recognized this year: Dominican Republic, for the second year in a row, was certified as "World Class Centre" by SQM, and, Jamaica was awarded a Silver Medal for Best Contact Centre in The Americas from Contact Centre World.
  - Multiple countries were recognized by Global Finance Magazine for Best Consumer Internet Bank.
  - Scotiabank's Guangzhou branch was recognized for Best Performance in Foreign Exchange business in China.

## Business Profile

International Banking encompasses Scotiabank's retail and commercial banking operations in more than 50 countries outside Canada – an international presence unmatched by other Canadian banks. With operations in the Caribbean and Central America, Latin America and Asia, Scotiabank has more than 62,000 employees (including subsidiaries and affiliates) who provide a full range of Personal and Commercial financial services to more than 11.5 million customers through a network of over 2,500 branches and offices, 5,670 ABMs, telephone and Internet banking, in-store banking kiosks, and specialized sales forces.

## Strategy

International Banking has a clear strategy, the foundation for which is a focus on driving sustainable and profitable revenue growth. This strategy has three key elements:

- A commitment to the Personal & Commercial footprint that is being built in the Americas and Asia, which features stronger economic growth than developed countries, attractive demographics and increasing demand for financial services.
- Growth will be balanced appropriately between organic initiatives and selective acquisitions.
- A commitment to strong partnerships internally to fully leverage the Bank's international network and to maximize customer satisfaction between the Retail & Commercial Banking, Wealth Management, Insurance and Wholesale Banking groups.

## 2012 Priorities

- Focus on sustainable and profitable revenue growth, through a combination of organic initiatives and selective acquisitions.
- Commercial Banking: Expand coverage of the mid-market commercial segment; expand and enhance product offerings to achieve deeper penetration; and continue to refine and improve process efficiencies to drive customer satisfaction.
- Retail Banking: Enhance the distribution model to increase efficiency; expand payment offerings, leverage core capabilities, especially in auto and mortgages; expand the small business, emerging markets and micro-finance segments; and continue to support growth initiatives through enhanced risk management.
- Emphasize balance sheet strength through deposit growth, capital management and funding/liquidity strategies.

## T25 International Banking financial performance

(\$ millions)	2011	2010 <sup>(1)</sup>	2009 <sup>(1)</sup>
Net interest income <sup>(2)</sup>	\$ 3,988	\$ 3,616	\$ 3,585
Other income	1,420	1,323	1,182
Provision for credit losses	485	616	576
Non-interest expenses	3,056	2,662	2,695
Income taxes <sup>(2)</sup>	382	504	256
Net income	\$ 1,485	\$ 1,157	\$ 1,240
<b>Key ratios</b>			
Return on economic equity	14.4%	12.5%	13.5%
Productivity <sup>(1)</sup>	56.5%	53.9%	56.5%
Net interest margin <sup>(1)</sup>	4.33%	4.27%	4.12%
PCL as a percentage of loans and acceptances	0.72%	1.00%	0.90%
<b>Selected balance sheet data (average balances)</b>			
Earning assets	92,196	84,648	87,013
Deposits	45,320	43,464	46,999
Economic equity	10,482	9,557	9,209

(1)2009 and 2010 amounts have been restated for the business line re-organization effective 2011.

(2)Taxable equivalent basis.

## Financial Performance

International Banking's net income was a record \$1,485 million, up \$328 million or 28% from last year. The business benefited from the favourable contribution from recent acquisitions, strong underlying revenue growth, and lower loan losses, offset in part by the \$54 million adverse impact of a stronger Canadian dollar. Return on economic equity was 14.4% compared to 12.5% last year.

### Assets and liabilities

Average assets increased \$8 billion or 9%. Growth through acquisitions, mainly R-G Premier Bank of Puerto Rico, combined with strong organic loan growth, more than offset the negative impact of foreign currency translation. Underlying commercial loans increased \$5 billion or 13%, with growth across all regions, particularly Asia and Peru. Retail loans increased \$1 billion or 7% (excluding acquisitions), mainly from residential mortgages in the Caribbean and Latin America. Underlying growth in low-cost deposits was strong at 11% and broad-based.

### Revenues

Total revenues were \$5,408 million in 2011, an increase of \$469 million or 9% from last year, despite a \$128 million negative impact of foreign currency translation. Net interest income was \$3,988 million, up \$372 million from the prior year, driven mainly by the acquisition of R-G Premier Bank of Puerto Rico, higher contributions from associated corporations in Asia, and broad-based organic loan growth. The net interest margin was relatively stable at 4.33%. Other income increased \$97 million or 7% year-over-year to \$1,420 million, reflecting the positive contributions from acquisitions and \$79 million of negative goodwill related to recent acquisitions. There was solid growth in transaction-based fees and investment banking revenues, partly offset by lower net gains on securities.

## Caribbean and Central America

Total revenues were \$1,835 million in 2011, an increase of \$90 million or 5%, largely because of the acquisition of R-G Premier Bank, offset partly by the negative impact of foreign exchange translation.

Net interest income was up \$76 million from 2010. The full year impact of R-G Premier Bank, was partly offset by lower earnings from associated corporations and foreign currency translation. Underlying commercial and retail loan growth was up 6% and 2% respectively. Other income increased \$14 million, mainly from higher transaction-based fees, and increased trading revenue, partly offset by the negative impact of foreign currency translation.

## Mexico

Total revenues were \$1,173 million in 2011, an increase of \$73 million or 7% from last year. Net interest income was up \$67 million, driven by growth in retail and commercial volumes, and higher retail and funding spreads. Other income was up \$7 million due mainly to growth in credit card revenues and cash management fees.

## Latin America, Asia & Other

Total revenues were \$2,400 million in 2011, an increase of \$306 million or 15% compared to last year, with strong contributions from recent acquisitions, solid growth in retail and commercial volumes, and the negative goodwill related to acquisitions. Net interest income was up \$229 million from last year, partly due to the contribution from recent acquisition in Uruguay, and higher earnings from associated corporations in Asia. Underlying retail loan growth was 18%, primarily in Peru and Chile, accompanied by commercial loan growth of 16%, largely in Asia and Peru. Other income increased \$77 million compared to last year as higher contributions from acquisitions, and the negative goodwill were in part offset by lower net gains on securities and foreign currency translation.

### Non-interest expenses

Non-interest expenses were \$3,056 million in 2011, up 15% or \$394 million from 2010, with one third of the increase due to new acquisitions, particularly in Puerto Rico, Uruguay and Colombia. The remaining growth reflected higher compensation, premises, technology, professional expenses and advertising costs, to support revenue growth and expansion initiatives.

### Credit quality

The provision for credit losses was \$485 million in 2011, a decrease of \$131 million from 2010. The decline in provisions was primarily attributable to commercial portfolios in the Caribbean and Peru, and lower retail provisions in Mexico and Chile, partially offset by higher retail provisions in the Caribbean.

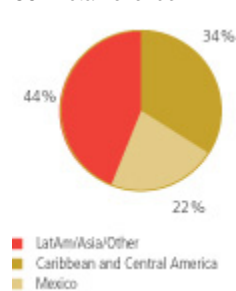
### Provision for income taxes

The effective tax rate dropped to 20% from 30% in 2010, largely from non-deductible losses in 2010 and adjustments to future tax assets in 2011.

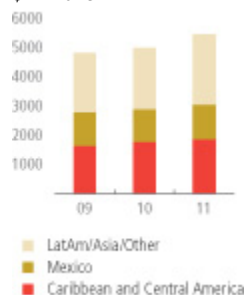
### Outlook

Despite the current global uncertainty, the outlook remains positive. It is expected that International Banking will benefit from its diversified global footprint, particularly in Latin America. Asset and deposit volumes will continue to grow at a favourable rate and margins are expected to remain relatively stable. Expenses will be carefully managed and initiatives will be advanced to improve customer satisfaction and drive efficiencies.

**C32 Total revenue**



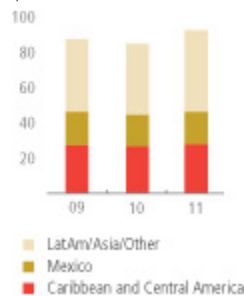
**C33 Total revenue by region  
\$ millions**



**C34 Average loans and acceptances  
\$ billions**



**C35 Average earning assets by region  
\$ billions**





## 2011 Achievements

- Completed the acquisition of DundeeWealth, making Scotiabank the second largest bank mutual fund provider in Canada.
- Crossed a major milestone surpassing \$100 billion in assets under management.
- As of September 30, 2011, ScotiaFunds and Dynamic Funds rank #1 in total year-to-date net mutual fund sales.
- Growth in ScotiaMcLeod resulted in market share gains, accompanied by improvements in efficiency.
- Launched new proprietary mutual funds in Canada (Dynamic and ScotiaFunds), Peru, Chile, Jamaica and Costa Rica.
- Launched market leading customer initiatives in Online Brokerage including: 'Buck-a-Bond' fixed income initiative, the U.S.-Friendly RRSP, the Active Trader platform FlightDesk, and the first Commission-Free ETF trading offer in Canada.
- Expanded life and health product offerings in Canada with the launch of three new term insurance products.
- Launched commercial insurance in Barbados and in the Dominican Republic, small business insurance in Barbados and Puerto Rico and micro finance insurance in Peru.
- Global Transaction Banking launched Euro and Sterling accounts, a Commercial Deposit ScotiaCard with ABM access, the Scotia Power Savings account and a U.S. Scotia VISA for business customers.
- Recognized for excellence:
  - Dynamic Funds earned sixteen Lipper Awards, Canadian industry awards recognizing excellence – the most of any firm for the second year in a row.
  - ScotiaTrust ranked #1 in total estate assets based on Investor Economic's Summer 2011 Fee Based Report.
  - Thanachart Bank won the Morningstar Fund Award Thailand for best short-term bond fund.

*Global Transaction Banking* – offers comprehensive business solutions – cash management and payment services, business deposits, and trade services, on a global basis to the small business, commercial and corporate customers of the Bank. It also provides correspondent banking products and services to other financial institutions globally. The results of this unit are included in Canadian Banking, International Banking and Scotia Capital.

- Recognized for excellence:
  - Global Finance magazine recognized Scotiabank as the World's Best Trade Finance Bank in Canada in 2011 for the fourth year in a row.
  - Trade Finance Magazine awarded Scotiabank Best Overall Trade Bank In Central America and The Caribbean in 2011 and Best International Trade Bank In Peru in 2011.

## Business Profile

Scotiabank's Global Wealth Management (GWM) division combines the wealth management and insurance operations in Canada and internationally. GWM is diversified across multiple geographies, product lines and strong businesses.

*Wealth Management* – The business is comprised of two segments: Global Asset Management and Global Wealth Distribution.

*Global Asset Management* represents the investment manufacturing business including product development and oversight, sales and marketing. It is focused on developing innovative investment solutions for both retail and institutional investors.

*Global Wealth Distribution* represents the global client-facing wealth businesses including private client, online and full service brokerage and the independent advisor channel. Its focus is on providing investment advice and solutions for affluent and high net worth clients in Canada and internationally.

*Insurance* – is provided to retail customers in Canada and internationally. Insurance Canada has four main business lines which include; creditor insurance, life and health insurance, home and auto insurance and travel insurance. International Insurance offers a full range of insurance products (creditor, non-creditor, life and health, and property) to bank customers. Products are provided through a number of different Scotiabank channels.

## Strategy

GWM is focused on driving strong organic growth. This will be achieved by delivering investment solutions and advice and an excellent customer experience by leveraging its employees, international reach, global platform and expertise. GWM will continue to improve its competitive position by building on existing strengths as well as exploring new strategic opportunities.

## 2012 Priorities

- Leverage new GWM organizational structure to accelerate growth and increase effectiveness in asset management and distribution.
- Further capitalize on the acquisition of DundeeWealth.
- Increase collaboration with partners in Canadian Banking, International Banking and Scotia Capital to drive additional referrals and cross-sell.
- Complete relaunch of Scotia iTRADE.
- Increase market penetration of insurance in Canada and internationally.

## T26 Global Wealth Management financial performance

(\$ millions)	2011	2010 <sup>(2)</sup>	2009 <sup>(2)</sup>
Net interest income <sup>(1)</sup>	\$ 345	\$ 339	\$ 367
Other income	2,973	1,864	1,522
Provision for credit losses	2	1	3
Non-interest expenses	1,890	1,221	1,130
Income taxes <sup>(1)</sup>	208	165	131
Net income	\$ 1,218	\$ 816	\$ 625
<b>Key ratios</b>			
Return on economic equity	18.2%	19.1%	15.7%
Productivity <sup>(1)</sup>	57.0%	55.4%	59.8%
<b>Selected balance sheet data (average balances)</b>			
Earning assets	9,344	8,612	8,516
Deposits	11,826	11,343	10,969
Economic equity	6,852	4,354	3,993
<b>Other (\$ billions)</b>			
Assets under administration	271	195	161
Assets under management	103	54	46

(1) Taxable equivalent basis.

(2) 2009 and 2010 amounts have been restated for the business line re-organization effective 2011.

## Financial Performance

Global Wealth Management reported net income of \$1,218 million this year, up \$402 million or 49% from \$816 million last year. These results reflected a strong performance from the wealth management and insurance businesses. This increase also included a one-time acquisition-related gain of \$260 million on the Bank's initial investment in and subsequent increased ownership interest in DundeeWealth. Return on economic equity was 18.2% compared to 19.1% last year, due to the acquisition of DundeeWealth.

### Assets and liabilities

Assets under management (AUM) of \$103 billion, increased \$49 billion or 90% from the same quarter last year, due mainly to the acquisition of DundeeWealth. Excluding DundeeWealth, AUM was up 6% due to strong sales from Scotia Asset Management and the other Canadian and International wealth management businesses. Assets under administration (AUA) of \$271 billion increased \$76 billion or 39% also due largely to DundeeWealth. Excluding DundeeWealth, AUA for the other wealth management businesses grew by 4%. AUM and AUA for investments in CI Financial are not included in these results.

### Revenues

Total revenues for the year were \$3,318 million, an increase of \$1,114 million or 51% over last year. Excluding the acquisition-related gain, total revenue was up 39%.

Net interest income of \$345 million grew by \$5 million or 2% year over year, as growth in average assets and deposits were partly offset by some minor margin compression.

Other income of \$2,973 million grew by \$1,109 million or 60% due primarily to the revaluation gain on the original investment in DundeeWealth, strong contributions from DundeeWealth, growth in fee-based revenues from higher levels of AUM and AUA and growth in insurance revenue from stronger sales globally.

### Wealth Management

Total revenue of \$2,825 million, increased \$1,060 million or 60% compared to last year, reflecting the revaluation gain on the original investment in DundeeWealth, increased ownership interest in DundeeWealth and strong performances from DundeeWealth and Scotia Asset Management. There was also growth across all other Canadian and International wealth management businesses, particularly in full service brokerage, private client group and online brokerage driven by higher trading volumes and new sales.

### Insurance

Total revenue of \$491 million, increased \$53 million or 12% over last year, mainly reflecting higher sales globally. Insurance revenues represent approximately 15% of Global Wealth Management compared to 20% in 2010.

### Non-interest expenses

Non-interest expenses for the year were \$1,890 million, an increase of \$669 million or 55% from last year due mainly to the acquisition of DundeeWealth, higher volume related expenses and increases in expenses to support business growth.

### Provision for income taxes

The lower effective tax rate in 2011 mainly reflects the one-time acquisition-related gain as well as the business mix in Global Wealth Management.

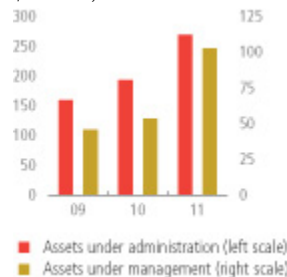
### Outlook

The outlook for Global Wealth Management remains positive but subject to market volatility. In global asset management we expect continued strong growth in sales in both Canada and internationally, particularly given the acquisition of DundeeWealth. In global wealth distribution, organic growth will be driven by new client acquisition, as well as deeper penetration of the Bank's customer base. The outlook for insurance is positive, driven by steady progress in cross-selling, the launch of new products and leveraging the Bank's extensive distribution network.

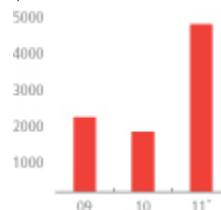
**C36 Total revenue**



**C37 Wealth management asset growth  
\$ billions, as at October 31**



**C38 Wealth management mutual fund sales  
\$ millions**



\* 2011 includes Dynamic Fund net sales from Feb-Oct 2011

# Scotia Capital

## 2011 Achievements

- Scotia Capital was named by Global Finance magazine as:
  - Best Investment Bank in Canada for the third consecutive year
  - Best Bank in Infrastructure Globally for the third consecutive year
  - Best Foreign Exchange Bank in Canada for the seventh consecutive year
- Scotia Capital was ranked #1 in Canadian Corporate Debt Underwriting (Bonus), by Bloomberg (2010) for the third year in a row.
- Scotia Capital's Risk Solutions Group was ranked #1 in Canada for the ninth year in a row by an independent third-party in its prestigious 2011 Survey of Derivatives Users in Canada.
- Scotia Capital was recognized by The Banker magazine in its 2011 Deal of the Year awards:
  - Highly commended in the M&A category: Sinopec/Repsol merger (2010). Scotia Waterous acted as Exclusive Financial Advisor to Sinopec.
  - Highly commended in the Infrastructure and Project Finance category: McGill University Health Centre (2010). Scotia Capital acted as Sole Bookrunner and Lead Underwriter.
- Scotia Capital was recognized with two Canadian Dealmaker Awards from The Globe and Mail:
  - Canadian Dealmaker award – IPO of the Year (2010): MEG Energy Corp. IPO. Scotia Capital acted as a Financial Advisor to MEG Energy Corp.
  - Canadian Dealmaker award – Mining industry (2010): Acquisition of Red Back Mining Inc. by Kinross Gold Corp. Scotia Capital acted as a Financial Advisor to Red Back Mining Inc.

Notable transactions during the year included:

- Scotia Waterous acted as Financial Advisor to BHP Billiton on its acquisition of Petrohawk Energy Corporation, for US\$15.1 billion. This transaction was the largest oil and gas M&A deal since 2009, and the largest non-Canadian deal ever advised by a member of a Canadian bank group. Scotia Waterous also acted as Financial Advisor to BHP Billiton on its acquisition of Fayetteville Shale Assets from Chesapeake Energy Corporation for \$4.75 billion.
- Scotia Capital participated in the US\$5.45 billion IPO of Hutchison Port Holdings Trust on the Singapore Stock Exchange. The offering represented the largest ever IPO in Singapore and South East Asia. Scotiabank acted as Co-Manager and also provided loan underwriting services in association with this transaction, acting as Underwriter and Mandated Lead Arranger in an accompanying US\$3 billion loan.

## Business Profile

Scotia Capital is the wholesale banking arm of the Bank. It offers a wide variety of products to corporate, government and institutional investor clients. Scotia Capital is a full-service lender and investment dealer in Canada and Mexico and offers a wide range of products in the United States and other parts of Latin America. It also provides select products and services to niche markets in Europe and Asia. Scotia Capital provides corporate lending, equity and debt underwriting, and mergers and acquisitions advisory services, as well as capital markets products and services, such as fixed income, derivatives, prime brokerage, securitization, foreign exchange, equity sales, trading and research and, through ScotiaMocatta, precious and base metals.

## Strategy

Scotia Capital's strategy remains focused on achieving sustainable revenue and net income growth and earning strong returns on capital while prudently managing risk. Scotia Capital's strategic vision is to achieve superior growth by being a leading financial partner for clients and a recognized global leader in key sectors. The business line leverages its people, international reach, market intelligence and technical expertise.

## 2012 Priorities

- Cross-sell capital markets products and services to lending relationships through the Bank's global wholesale banking initiative. Scotia Capital will expand capital markets sales and trading businesses, beginning in Mexico, Chile and Peru and continue to integrate recent acquisitions and build client relationships in Brazil and Colombia.
- Grow sustainable revenue and net income in core sectors – Oil and Gas, Mining, Power, Infrastructure, and in specific businesses including Corporate and Investment Banking, Global Fixed Income, Global Equity, Energy, Precious and Base Metals and Foreign Exchange.
- Prudently manage risks and expenses with global oversight and governance.
- Build leadership capability and foster a culture of collaboration.

## T27 Scotia Capital financial performance

(\$ millions)	2011	2010	2009
Net interest income <sup>(1)</sup>	\$ 1,066	\$ 1,093	\$ 1,427
Other income	1,894	2,086	2,138
Provision for (recovery of) credit losses	29	(43)	338
Non-interest expenses	1,409	1,195	1,072
Income taxes <sup>(1)</sup>	338	677	704
Net income	\$ 1,184	\$ 1,350	\$ 1,451
<b>Key ratios</b>			
Return on economic equity <sup>(2)</sup>	21.2%	20.4%	21.6%
Productivity <sup>(1)</sup>	47.6%	37.6%	30.1%
Net interest margin <sup>(1)</sup>	0.57%	0.67%	0.78%
PCL as a percentage of loans and acceptances <sup>(3)</sup>	0.10%	(0.02)%	0.60%
<b>Selected balance sheet data (average balances)</b>			
Total assets	187,946	164,193	183,272
Earning assets	160,064	139,442	147,159
Loans and acceptances	43,469	45,838	67,451
Securities purchased under resale agreements	28,768	19,888	14,123
Securities	71,532	60,372	54,973
Deposits	42,432	38,807	34,403
Economic equity	5,807	6,980	7,013

(1)Taxable equivalent basis.

(2)2009 and 2010 ratios have been restated to conform with current methodology.

(3)Corporate Banking only.

## Financial Performance

Scotia Capital reported net income of \$1,184 million in 2011, a decline of \$166 million or 12% from last year. This year's results were adversely impacted by challenging market conditions, particularly in the second half of the year, which reduced revenues. Expenses increased due to implementation of growth initiatives and there were also higher provisions for loan losses. Provisions for taxes were lower year over year mainly reflecting a higher level of tax-exempt income and recoveries this year. Return on economic equity was 21.2% compared to 20.4% last year.

### Assets and liabilities

Average assets increased by \$24 billion or 15% to \$188 billion this year. There were increases of \$11 billion in securities and \$9 billion in securities purchased under resale agreements, mainly driven by the expansion of the fixed income business. Derivative instrument assets also increased by \$3 billion year over year with a corresponding increase in derivative instrument liabilities. Corporate loans and acceptances fell by over \$3 billion but this was largely offset by higher deposits with banks.

### Revenues

Total revenues during 2011 were \$2,960 million compared to \$3,179 million last year, a decline of 7% due primarily to challenging market conditions faced by Global Capital Markets especially in the latter half of 2011. There was a significant decline in revenues in the global fixed income business which was partly offset by higher contributions from the precious metals and foreign exchange businesses. Global Corporate and Investment Banking reported marginally higher revenues this year from growth in investment banking and lending revenues in Canada. This was offset by a decline in the United States. Net interest income declined by 2% to \$1,066 million, due primarily to a year-over-year decline in corporate loan volumes which was partly offset by higher spreads. Interest from trading operations also dropped slightly. Other income fell 9% to \$1,894 million due mainly to lower trading revenues which were only partly offset by higher investment banking revenues and credit fees.

### Global Corporate and Investment Banking

Revenues in Global Corporate and Investment Banking were up marginally to \$1,405 million in 2011. Interest income declined 3% despite higher portfolio spreads due to lower asset volumes. Loan origination fees also declined marginally. Other income rose 3% due mainly to higher new issue revenue and advisory fees earned by Scotia Waterous this year. Credit fees also increased. This was partly offset by lower fair value changes in non-trading financial instruments.

### Global Capital Markets

Total revenues in Global Capital Markets fell 12% to \$1,554 million compared to record revenues achieved last year. Interest income from trading operations declined marginally. Other income dropped 16% due to challenging market conditions, especially in the global fixed income business. This was partly offset by stronger revenues in the precious metals and foreign exchange businesses.

### Non-interest expenses

Non-interest expenses increased by 18% to \$1,409 million in 2011. This increase was due primarily to higher salaries, benefits and stock-based compensation. Technology and other support costs also increased to assist business expansion.

### Credit quality

The specific provision for credit losses for Scotia Capital was \$29 million in 2011, versus a net recovery of \$6 million in 2010. The specific provisions this year were primarily in Canada and Europe, somewhat offset by net recoveries in the United States. The prior year included a \$37 million reversal of the sectoral allowance specific to the automotive sector.

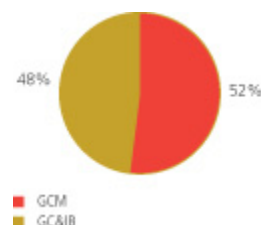
### Provision for income taxes

The lower effective tax rate in 2011 mainly reflects a higher level of tax-exempt income and recoveries in the current year.

### Outlook

Short-term market conditions will likely continue to be challenging but Scotia Capital expects the diversification of its products and geographies will mitigate the impact. Also, Scotia Capital expects to benefit from modest growth in the core businesses and products in which it has invested. Moderate pressure on corporate loan margins is anticipated given the low interest rate environment as well as competitive pressures, but pricing discipline will be maintained. Scotia Capital will continue to manage operating costs closely. We are seeing signs of better pricing for credit risk. The credit quality of the loan portfolio remains strong and loan loss provisions are expected to remain modest.

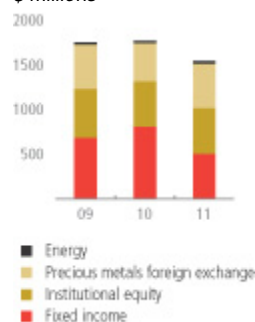
**C39** Total revenue



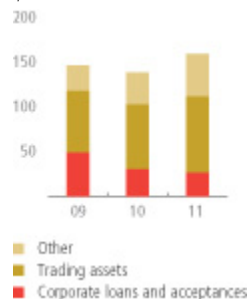
**C40** Global corporate and investment banking revenue  
\$ millions



**C41** Global capital markets revenue by business line  
\$ millions



**C42** Composition of average earning assets  
\$ billions



## Other

The Other category includes Group Treasury and other corporate items, which are not allocated to a business line.

### Financial performance

The Other segment had a net loss of \$481 million in 2011, compared to a net loss of \$754 million in 2010.

Net interest income and the provision for income taxes include the elimination of tax-exempt income gross-up. This amount is included in the operating segments, which are reported on a taxable equivalent basis. The elimination was \$287 million in 2011, compared to \$286 million in 2010.

#### Revenues

Net interest income was negative \$1,018 million this year, compared to negative \$1,346 million in 2010. The improvement was due to the increase in short-term wholesale rates used for transfer pricing with the business segments, lower long-term funding costs, and a favourable change in the fair value of financial instruments used for asset/liability management purposes.

Other Income was \$380 million in 2011, compared to \$309 million last year. The increase was mainly attributable to higher securitization revenues.

#### Non-interest expenses

Non-interest expenses were \$140 million in 2011, \$10 million above last year mainly from higher issuance costs associated with asset securitization.

#### Credit quality

The provision for credit losses in 2011 included a \$60 million reduction in the general allowance, compared to a \$40 million reduction in 2010.

#### Provision for income taxes

The provision for income taxes was a credit of \$237 million in 2011, an improvement of \$136 million from the prior year. The reduction in the provision for income taxes was mainly driven by stronger pre-tax earnings.

### T28 Other financial performance

(\$ millions)	2011	2010 <sup>(1)</sup>	2009 <sup>(1)</sup>
Net interest income <sup>(2)</sup>	\$ (1,018)	\$ (1,346)	\$ (1,588)
Other income	380	309	84
Provision for (recovery of) credit losses	(60)	(40)	127
Non-interest expenses	140	130	130
Income taxes <sup>(2)</sup>	(237)	(373)	(637)
Net income	\$ (481)	\$ (754)	\$ (1,124)

(1) 2009 and 2010 amounts have been restated to conform with current presentation.

(2) Includes the elimination of the tax-exempt income gross-up reported in net interest income and provision for income taxes in Canadian Banking, International Banking and Scotia Capital to arrive at the amount reported in the Consolidated Statement of Income (\$2011 – \$287; 2010 – \$286; 2009 – \$288).

### KEY PERFORMANCE INDICATOR FOR ALL BUSINESS LINES

Management uses a number of key metrics to monitor business line performance:

- Net income
- Return on economic equity
- Productivity ratio
- Loan loss ratio
- Value at risk
- Employee engagement

## RISK MANAGEMENT

Effective risk management is fundamental to the success of the Bank, and is recognized as one of the Bank's five strategic priorities. Scotiabank has a strong, disciplined risk management culture where risk management is a responsibility shared by all of the Bank's employees. A key aspect of this culture is to be well-diversified across business lines, geographies, products, and industries.

### Risk management framework

The primary goals of risk management are to ensure that the outcomes of risk-taking activities are consistent with the Bank's strategies and risk appetite, and that there is an appropriate balance between risk and reward in order to maximize shareholder returns. The Bank's enterprise-wide risk management framework provides the foundation for achieving these goals.

This framework is subject to constant evaluation to ensure that it meets the challenges and requirements of the global markets in which the Bank operates, including regulatory standards and industry best practices. For example, the Bank is currently assessing the potential impact of Basel III as well as the United States' Dodd-Frank Act. The risk management programs of the Bank's subsidiaries conform in all material respects to the Bank's risk management framework, although the actual execution of their programs may be different. For new acquisitions, or situations where control of a subsidiary has been recently established, the Bank assesses existing risk management programs and, if necessary, develops an action plan to make improvements in a timely fashion.

The Bank's risk management framework is applied on an enterprise-wide basis and consists of three key elements:

- Risk Governance,
- Risk Appetite, and
- Risk Management Techniques.



### Risk governance

Effective risk management begins with effective risk governance.

The Bank has a well-established risk governance structure, with an active and engaged Board of Directors supported by an experienced senior management team and a centralized risk management group that is independent of the business lines. Decision-making is highly centralized through a number of senior and executive risk management committees.

#### The Board of Directors

The Bank's risk management governance structure begins with oversight by the Board of Directors, either directly or through its committees to ensure that decision-making is aligned with the Bank's strategies and risk appetite. The Board receives regular updates on the key risks of the Bank – including a semi-annual comprehensive summary of the Bank's risk profile and performance of the portfolio against defined goals, which is also presented quarterly to the Executive and Risk Committee of the Board – and approves key risk policies, limits, strategies, and risk appetite. The Bank's Internal Audit department reports independently to the Board (through the Audit and Conduct Review Committee) on the effectiveness of the risk governance structure and risk management framework.

#### Management

Executive management, and in particular the Chief Executive Officer (CEO) and the Chief Risk Officer (CRO), are responsible for risk management under the direct oversight of the Board. The CRO, who oversees the Global Risk Management (GRM) division of the Bank, reports to the CEO but also has direct access to the Executive and Risk Committee of the Board.

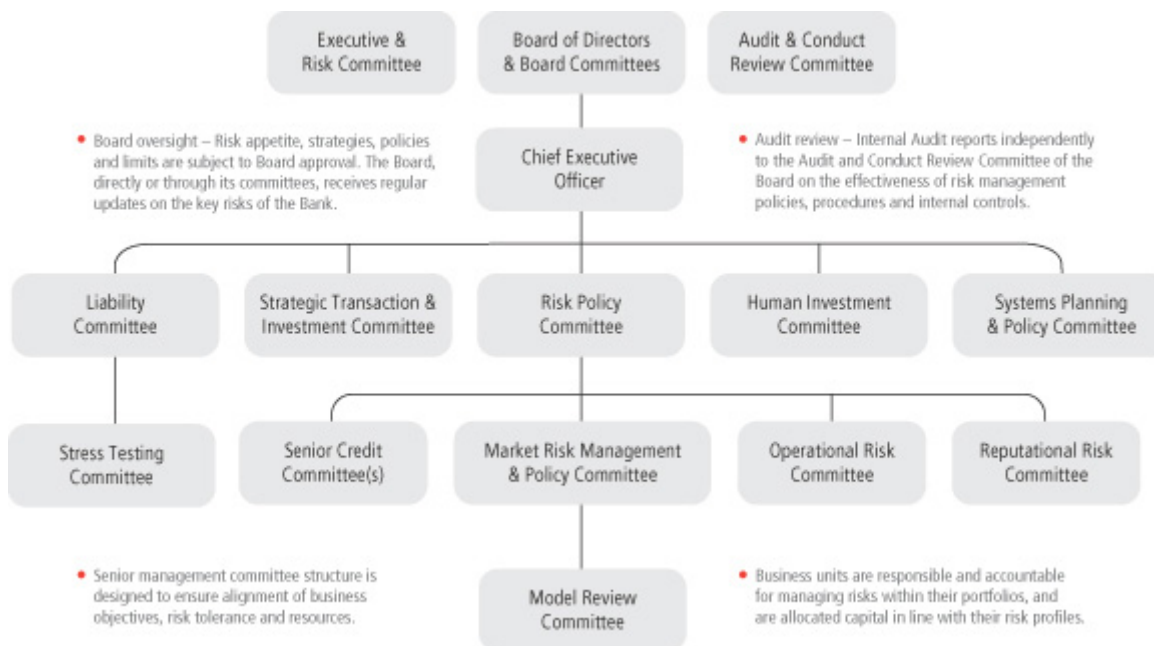
The CEO, CRO, and other senior executives chair the Bank's senior and executive risk management committees. Committee structures and key accountabilities are outlined on page 64.

#### Global Risk Management (GRM)

GRM is responsible for the design and application of the Bank's risk management framework, and is independent of the Bank's business units. It provides oversight of credit, market, liquidity, structural foreign exchange, structural interest rate, models and operational risks.



## SCOTIABANK'S RISK GOVERNANCE STRUCTURE



### Executive Committees:

**Risk Policy Committee:** reviews key risk exposures and risk policies, and adjudicates risk issues referred by the Senior Credit, Market, Operational and Reputational Risk committees.

**Liability Committee:** provides strategic direction in the management of global interest rate risk, foreign exchange risk, liquidity and funding risk, trading and investment portfolio decisions, and capital management.

**Strategic Transaction and Investment Committee:** reviews and approves all potential acquisitions, investments and strategic initiatives that require a major allocation of the Bank's capital.

**Systems Planning and Policy Committee:** reviews and approves significant business initiatives involving system and computing facilities in excess of designated executive approval limits.

**Human Investment Committee:** reviews and approves all major new and changing Bank-wide Human Resources objectives, strategies, policies and programs including all compensation matters. As well it reviews and approves all senior management appointments and the staffing of key positions.

### Senior Management Committees:

**Senior Credit Committees:** adjudicate credits within prescribed limits and establish the operating rules and guidelines for the implementation of credit policies. Separate committees cover commercial, international and corporate counterparties, and Canadian and international retail, small business, and wealth management.

**Market Risk Management and Policy Committee:** oversees and establishes standards for market and liquidity risk management processes within the Bank, including the review and approval of new products, limits, practices and policies for the Bank's principal trading and treasury activities.

**Operational Risk Committee:** promotes an enterprise-wide operational risk framework to ensure risks are understood, communicated, and appropriate actions are taken to mitigate related losses.

**Stress Testing Committee:** sets overall direction and makes key decisions relating to stress testing activities across the Bank, and guides the design, execution, and results assessment of the Enterprise Stress Testing program.

**Reputational Risk Committee:** upon referral from business lines or risk committees, reviews business activities, initiatives, products, services, transactions or processes and recommends either proceeding or not proceeding, based on an assessment of reputational risk, to ensure that the Bank is, and is seen to be, acting with high ethical standards.

**The Model Review Committee:** oversees model submissions, vetting, approval, and ongoing review processes primarily for market and liquidity risk models.

## Risk Management Culture

Effective risk management requires a strong, robust, and pervasive risk management culture.

The Business Lines are responsible for the development and execution of business plans that are aligned with the Bank's risk management framework, and are accountable for the risks they incur. Understanding and managing these risks is a fundamental element of each business plan. Business units work in partnership with Global Risk Management to ensure that risks arising from their business are thoroughly evaluated and appropriately addressed.

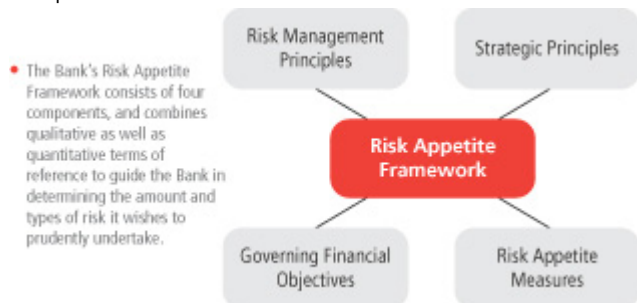
Risk education programs, and documented policies and procedures are jointly available to staff in the Business Lines and Global Risk Management.

Decision-making on risk issues is highly centralized. The membership of senior and executive management committees responsible for the review, approval and monitoring of transactions and the related risk exposures, includes Business Line Heads and senior risk officers from Global Risk Management. The flow of information and transactions to these committees keeps senior and executive management well informed of the risks the Bank faces, and ensures that transactions and risks are aligned with the Bank's risk appetite framework.

## Risk appetite

Effective risk management requires clear articulation of the Bank's risk appetite and how the Bank's risk profile will be managed in relation to that appetite.

The Bank's risk appetite framework governs risk taking activities on an enterprise-wide basis.



### Risk management principles

Provide the qualitative foundation of the risk appetite framework. These principles include:

- Promotion of a robust risk culture,
- Accountability for risk by the business lines,
- Independent oversight exercised by Global Risk Management (GRM),
- Avoidance of excessive risk concentrations, and
- Ensuring risks are clearly understood, measurable, and manageable.

### Strategic principles

Provide qualitative benchmarks to guide the Bank in its pursuit of the Governing Financial Objectives, and to gauge broad alignment between new initiatives and the Bank's risk appetite. Strategic principles include:

- Placing emphasis on the diversity, quality and stability of earnings,
- Focusing on core businesses by leveraging competitive advantages, and

- Making disciplined and selective strategic investments

### Governing financial objectives

Focus on long-term shareholder value. These objectives include sustainable earnings growth, maintenance of adequate capital in relation to the Bank's risk profile, and availability of financial resources to meet financial obligations on a timely basis at reasonable prices.

### Risk appetite measures

Provide objective metrics that gauge risk and articulate the Bank's risk appetite. They provide a link between actual risk taking activities and the risk management principles, strategic principles and governing financial objectives described above. These measures include capital and earnings ratios, market and liquidity risk limits, and credit and operational risk targets.

## Risk management techniques

Effective risk management includes techniques that are guided by the Bank's Risk Appetite Framework and integrated with the Bank's strategies and business planning processes.



### Strategies, Policies & Limits

#### Strategies

Provide quantitative and qualitative guidance. This guidance is, in turn, used to set limits and guidelines on the types of risk taking activities the Bank is prepared to assume in pursuit of its strategic and financial objectives.

#### Policies

Apply to specific types of risk or to the activities that are used to measure and control risk exposure. They are based on recommendations from risk management, audit, business lines, and senior executive management. They also reflect industry best practices and any regulatory requirements. Policies are guided by the Bank's risk appetite, and set the limits and controls within which the Bank and its subsidiaries can operate.

- Key risk policies are approved by the Board of Directors, either directly or through the Board's Executive and Risk Committee (the Board).
- Management level risk policies associated with processes such as model development and stress testing are approved by executive management and/or key risk committees.

#### Limits

Control risk-taking activities within the tolerances established by the Board and senior executive management. Limits also establish accountability for key tasks in the risk-taking process and establish the level or conditions under which transactions may be approved or executed.



## Guidelines, Processes and Standards

### Guidelines

Are the directives provided to implement policies as set out above. Generally, they describe the facility types, aggregate facility exposures and conditions under which the Bank is prepared to do business. Guidelines ensure the Bank has the appropriate knowledge of clients, products, and markets, and that it fully understands the risks associated with the business it underwrites. Guidelines may change from time to time, due to market or other circumstances. Risk taking outside of guidelines usually requires approval of the Bank's Senior Credit Committees, Market Risk Management and Policy Committee, or Risk Policy Committee.

### Processes

Are the activities associated with identifying, evaluating, documenting, reporting and controlling risk.

### Standards

Define the breadth and quality of information required to make a decision, and the expectations in terms of quality of analysis and presentation. Processes and standards are developed on an enterprise-wide basis, and documented in a series of policies, manuals and handbooks under the purview of GRM. Key processes cover the review and approval of new products, model validation and stress testing.

## Measurement, Monitoring, and Reporting

### Measurement

GRM is responsible for developing and maintaining an appropriate suite of risk management techniques to support the operations of the various business lines, and for supporting the measurement of economic capital on an enterprise-wide basis. The risk sections explain the application of these techniques.

Risk measurement techniques include the use of models and stress testing. The Bank uses models for a range of purposes including to estimate the value of transactions, risk exposures, credit risk ratings and parameters, and economic and regulatory capital. The use of quantitative risk methodologies and models is balanced by a strong governance framework and includes the application of sound and experienced judgement. The development, independent review, and approval of models are subject to formalized policies where applicable, including the oversight of senior management committees such as the Model Review Committee for market risk (including counterparty credit risk) and liquidity risk models.

### Monitoring

The Bank regularly monitors its risk exposures to ensure business activities are operating within approved limits or guidelines, and the Bank's strategies and risk appetite. Breaches, if any, of these limits or guidelines are reported to senior management, policy committees, and/or the Board depending on the limit or guideline.

### Reporting

Risk reports aggregate measures of risk across products and businesses, and are used to ensure compliance with policies, limits, and guidelines. They also provide a clear statement of the amounts, types, and sensitivities of the various risks in the Bank's portfolios. Senior management and the Board use this information to understand the Bank's risk profile and the performance of the portfolios.

Control and audit functions are also established that are independent of the organizations whose activities they review, and whose role includes ensuring that all of the components of the risk management framework are effective and being implemented on a day to day basis.

### Stress testing

The Bank uses stress testing programs at both enterprise-wide level and risk level to estimate the potential impact on the Bank's income and capital as a result of significant changes in market conditions, credit environment, liquidity demands, or other risk factors. Each program is developed with input from a broad base of stakeholders, and results are integrated into management decision-making processes for capital, funding, market risk limits, and credit risk strategy. Enterprise-wide stress testing is also integrated with both the strategic and financial planning processes. The development, approval and on-going review of the Bank's stress testing programs are subject to formalized policy, and are under the oversight of the Stress Testing Committee, which reports to the Liability Committee.

## Basel II

The Basel II regulatory capital framework governs minimum regulatory capital requirements to cover three broad categories of risk – credit risk, market risk and operational risk. This framework is organized under three broad categories or pillars:

- Pillar 1 stipulates the methodologies and parameters that must be applied to calculate minimum capital requirements.
- Pillar 2 introduces the requirement for formal internal assessment of capital adequacy in relation to strategies, risk appetite, and actual risk profile. Regulators are required to review this internal capital adequacy assessment process (ICAAP – for further discussion, refer to the Capital Management section on page 42).
- Pillar 3 enhances public disclosure (both quantitative and qualitative) of specific details of risks being assumed, and how capital and risk are being managed under the Basel II framework.

The following sections on Credit Risk, Market Risk, and Operational Risk include descriptions of the Pillar 1 methodologies and risk parameters, as well as some of the enhanced disclosure requirements associated with Pillar 3.

## Credit risk

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Bank. Credit risk arises in the Bank's direct lending operations, and in its funding, investment and trading activities where counterparties have repayment or other obligations to the Bank.

The effective management of credit risk requires the establishment of an appropriate credit risk culture. Key credit risk policies and credit risk management strategies are important elements used to create this culture.

The Board of Directors, either directly or through the Executive and Risk Committee (the Board), reviews and approves the Bank's credit risk strategy and credit risk policy on an annual basis:

- The objectives of the credit risk strategy are to ensure that:
  - target markets and product offerings are well defined at both the enterprise-wide and business line levels;

- the risk parameters for new underwritings and for the portfolios as a whole are clearly specified; and
- transactions, including origination, syndication, loan sales and hedging, are managed in a manner that is consistent with the Bank's risk appetite.
- The credit risk policy articulates the credit risk management framework, including:
  - aggregate limits, beyond which credit applications must be escalated to the Board for approval; and
  - single name/aggregation exposures, beyond which exposures must be reported to the Board.

Global Risk Management develops the credit risk management framework and policies that detail, among other things, the credit risk rating systems and associated parameter estimates; the delegation of authority for granting credit; the calculation of the allowance for credit losses; and the authorization of write-offs.

Corporate and commercial credit exposures are segmented by country and by major industry group. Aggregate credit risk limits for each of these segments are also reviewed and approved annually by the Board. Portfolio management objectives and risk diversification are key factors in setting these limits.

Consistent with the Board-approved limits, borrower limits are set within the context of established lending criteria and guidelines for individual borrowers, particular industries, countries and certain types of lending, to ensure the Bank does not have excessive concentration in any single borrower, or related group of borrowers, particular industry sector or geographic region. Through the portfolio management process, loans may be syndicated to reduce overall exposure to a single name. For certain segments of the portfolio, credit derivative contracts are also used to mitigate the risk of loss due to borrower default. Risk is also mitigated through the selective sale of loans.

Banking units and Global Risk Management regularly review the various segments of the credit portfolio on an enterprise-wide basis to assess the impact of economic trends or specific events on the performance of the portfolio, and to determine whether corrective action is required. These reviews include the examination of the risk factors for particular products, industries and countries. The results of these reviews are reported to the Risk Policy Committee and, when significant, to the Board.

#### Risk measures

The credit risk rating systems support the determination of key credit risk parameter estimates which measure credit and transaction risk. These risk parameters – probability of default, loss given default and exposure at default are transparent and may be replicated in order to provide consistency of credit adjudication, as well as minimum lending standards for each of the risk rating categories. The parameters are an integral part of enterprise-wide policies and procedures encompassing governance, risk management, and control structure, and are used in various internal and regulatory credit risk quantification calculations.

The Bank's credit risk rating system is subject to a rigorous validation, governance and oversight framework. The objectives of this framework are to ensure that:

- Credit risk rating methodologies and parameters are appropriately designed and developed, independently validated, and regularly reviewed; and
- The review and validation processes represent an effective challenge to the design and development process.

Credit risk rating methodologies and parameters are reviewed and validated at least annually. Units within Global Risk Management are responsible for design and development, validation and review, and are functionally independent from the business units responsible for originating transactions. Within Global Risk Management, they are also independent from the units involved in risk rating approval and credit adjudication.

Internal credit risk ratings and associated risk parameters affect loan pricing, computation of the general allowance for credit losses, and return on economic capital.

#### Corporate and commercial

Corporate and commercial credit exposure arises in Canadian Banking, International Banking, Global Wealth Management and Scotia Capital business lines.

##### Adjudication

Credit adjudication units within Global Risk Management analyze and evaluate all significant credit requests for corporate and commercial credit exposures, to ensure that risks are adequately assessed, properly approved, continually monitored and actively managed. The decision-making process begins with an assessment of the credit risk of the individual borrower or counterparty. Key factors considered in the assessment include:

- The borrower's management;
- The borrower's current and projected financial results and credit statistics;
- The industry in which the borrower operates;
- Economic trends; and
- Geopolitical risk.

Based on this assessment, a risk rating is assigned to the individual borrower or counterparty, using the Bank's risk rating systems.

A separate risk rating is also assigned at the facility level, taking into consideration additional factors, such as security, seniority of claim, structure, term and any other forms of credit risk mitigation that affect the amount of potential loss in the event of a default of the facility. Security typically takes the form of charges over inventory, receivables, real estate, and operating assets when lending to corporate and commercial borrowers; and cash or treasuries for trading lines such as securities lending, repurchase transactions, and derivatives. The types of acceptable collateral, and related valuation processes are documented in risk management policies and manuals. Other forms of credit risk mitigation include third party guarantees and, in the case of derivatives facilities, master netting agreements.

Internal borrower and facility risk ratings are assigned when a facility is first authorized, and are promptly re-evaluated and adjusted, if necessary, as a result of changes to the customer's financial condition or business prospects. Re-evaluation is an ongoing process, and is done in the context of general economic changes, specific industry prospects, and event risks, such as revised financial projections, interim financial results and extraordinary announcements. Global Risk Management is the final arbiter of internal risk ratings.

The internal credit risk ratings are also considered as part of the Bank's single borrower limits, as guidelines for hold levels are tied to different risk ratings. Single borrower limits are much lower for higher risk borrowers than low risk borrowers.

The credit adjudication process also uses a risk-adjusted return on equity profitability model to ensure that the client and transaction structure offers an appropriate return for a given level of risk. For the

corporate portfolio, and the large borrowers in International, the Loan Portfolio Management Group reviews the profitability model results, together with external benchmarks, and provides an opinion on the relative return and pricing of each transaction above a minimum threshold.

Individual credit exposures are regularly monitored by both the business line units and Global Risk Management for any signs of deterioration. In addition, a review and risk analysis of each borrower is conducted annually, or more frequently for higher-risk borrowers. If, in the judgement of management, an account requires the expertise of specialists in workouts and restructurings, it will be transferred to a special accounts group for monitoring and resolution.

#### *Traded Products*

Traded products are transactions such as derivatives, foreign exchange, commodities, repurchase/reverse repurchase agreements, and securities lending/borrowing. Credit risks arising from traded products cannot be determined with certainty at the outset, because during the tenure of a transaction the dollar value of the counterparty's obligation to the Bank will be affected by changes in the capital markets (such as changes in stock prices, interest rates, exchange rates). The Bank adjudicates credit exposures arising from transacting in traded products by considering their current fair value plus an additional component to reflect potential future changes in their mark-to-market value. The credit adjudication process also includes an evaluation of potential wrong way risk, which arises when the exposure to a counterparty is positively correlated to the probability of default of that counterparty.

Credit risk associated with traded products is managed within the same credit adjudication process as the lending business. The Bank considers the credit risk arising from lending activities, as well as the potential credit risk arising from transacting in traded products with that counterparty.

Most traded products transactions benefit from credit mitigation techniques, such as netting and collateralization, which are taken into consideration in the calculation of counterparty credit risk exposure. A master netting agreement allows for a single net settlement of all transactions covered by that agreement in the event of a default or early termination of the transactions. Collateral agreements with a counterparty allow for variation margin to be called if total uncollateralized mark-to-market exposure exceeds an agreed upon threshold.

Investment grade counterparties account for approximately 90% of the credit risk amount arising from the Bank's derivative transactions. Approximately 56% of the Bank's derivative counterparty exposures are to bank counterparties. After taking into consideration, where applicable, netting and collateral arrangements, no net credit risk amount arising from traded products transactions with any single counterparty was considered material to the financial position of the Bank as at October 31, 2011. No individual exposure to either a non-investment grade counterparty or a corporate counterparty exceeded \$173 million.

#### *Risk ratings*

The Bank's risk rating system utilizes internal grade (IG) codes – an 18 point scale used to differentiate the risk of default of borrowers, and the risk of loss on facilities. The general relationship between the Bank's internal borrower IG codes and external agency ratings is shown in Table 29.

#### **T29** Internal rating scale<sup>(1)</sup> and mapping to external rating agencies

Internal Grade	Description	Equivalent Rating		
		Moody's	S&P	DBRS
99 - 98	Investment	Aaa to Aa1	AAA to AA+	AAA to AA (high)
95 - 90	grade	Aa2 to A3	AA to A-	AA to A (low)
87 - 83		Baa1 to Baa3	BBB+ to BBB-	BBB (high) to BBB (low)
80 - 75	Non-investment	Ba1 to Ba3	BB+ to BB-	BB (high) to BB (low)
73 - 70	grade	B1 to B3	B+ to B-	B (high) to B (low)
65 - 30	Watch list			
27 - 21	Default			

(1) Applies to non-retail portfolio.

IG codes are also used to define credit adjudication authority levels appropriate to the size and risk of each credit application. Lower-rated credits require increasingly more senior management involvement depending upon the aggregate exposure. Where the decision is beyond their authority levels, credit units will refer the request – with its recommendation – to a senior credit committee for adjudication. Senior credit committees also have defined authority levels and, accordingly, forward certain requests to the Risk Policy Committee. In certain cases, these must be referred to the Executive and Risk Committee of the Board of Directors.

#### *Credit risk and capital*

The Bank uses the Advanced Internal Ratings Based (AIRB) approach under Basel II to determine minimum regulatory capital requirements for its domestic, U.S. and European credit portfolios. In 2011, certain international non-retail portfolios implemented the AIRB approach. The remaining credit portfolios are subject to the Standardized approach, which relies on the credit ratings of borrowers, if available, to compute regulatory capital for credit risk. For AIRB portfolios, the key risk measures used in the quantification of regulatory capital for credit risk include probability of default (PD), loss given default (LGD) and exposure at default (EAD).

- Probability of default (PD) measures the likelihood that a borrower, with an assigned IG code, will default within a one-year time horizon. Each of the Bank's internal borrower IG codes is mapped to a PD estimate.
- Loss given default (LGD) measures the severity of loss on a facility in the event of a borrower's default. The Bank's internal LGD grades are mapped to ranges of LGD estimates. LGD grades are assigned based on facility characteristics such as seniority, collateral type, collateral coverage and other structural elements.
- Exposure at default (EAD) measures the expected exposure on a facility in the event of a borrower's default.

All three risk measures are estimated using the Bank's historical data, as well as available external benchmarks, and are updated on a regular basis. Further analytical adjustments, as required under the Basel II Framework and OSFI's requirements set out in their Domestic Implementation Notes, are applied to estimates obtained from historical data. These analytical adjustments incorporate the regulatory requirements pertaining to:

- Long-run estimation of PD, which requires that PD estimates capture average default experience over a reasonable mix of high-default and low-default years of the economic cycle;
- Downturn estimation for LGD and EAD, which requires that these estimates appropriately reflect conditions observed during periods of economic stress; and

- The addition of an adequate level of conservatism, which should reflect the various sources of uncertainty inherent in historical estimates.

These risk measures are used in the calculation of regulatory capital requirements based on formulas specified by the Basel framework. The credit quality distribution of the Bank's AIRB non-retail portfolio is shown in Table 30.

#### Retail

Retail credit exposure arises in the Canadian Banking, International and Wealth Management business lines.

#### Adjudication

The decision-making process for retail loans ensures that credit risks are adequately assessed, properly approved, continually monitored and actively managed. Generally, decisions on consumer loans are based on risk ratings, which are generated using predictive credit scoring models. Individual credit requests are processed by proprietary adjudication software.

The Bank's credit adjudication and portfolio management methodologies are designed to ensure consistent underwriting and early identification of problem loans. The Bank's rigorous credit underwriting methodology and risk modeling in Canada is more customer focused than product focused. The Bank's view is that a customer-centric approach provides better risk assessment than product-based approaches, and should result in lower loan losses over time. The adjudication system calculates the maximum debt for which a customer qualifies, allowing customers to choose the products that satisfy all of their credit needs. International Banking uses a similar approach to risk modeling, adjudication and portfolio management.

#### T30 Credit risk assessment of exposures

##### Non-retail AIRB portfolio<sup>(1)</sup>

As at Oct. 31, 2011	Exposure at default <sup>(3)</sup> (\$ millions)	Exposure Weighted Average PD (%) <sup>(4)</sup>	Exposure Weighted Average LGD (%) <sup>(5)</sup>	Exposure Weighted Average RW (%) <sup>(6)</sup>
Investment grade <sup>(2)</sup>	<b>231,063</b>	<b>0.12</b>	<b>25</b>	<b>18</b>
Non-investment grade	<b>57,936</b>	<b>0.97</b>	<b>42</b>	<b>72</b>
Watch list	<b>3,019</b>	<b>30.16</b>	<b>42</b>	<b>204</b>
Default <sup>(7)</sup>	<b>1,799</b>	<b>100.00</b>	<b>41</b>	<b>248</b>
<b>Total</b>	<b>293,817</b>	<b>1.21</b>	<b>29</b>	<b>32</b>
Total as at Oct. 31, 2010	222,255	0.92	29	28

(1)Excludes securitization exposures.

(2)Includes government guaranteed residential mortgages.

(3)After credit risk mitigation.

(4)PD – Probability of Default.

(5)LGD – downturn Loss Given Default including a certain conservative factor as per Basel accord.

(6)RW – Risk Weight.

(7)Gross defaulted exposures, before any related allowances. Defaulted exposures under Basel II definition may be higher than those under accounting definition.

Credit scoring and policy changes are proposed by risk departments in the business lines with governance, oversight and key approvals made by Global Risk Management. Risk models and parameters are also subject to Global Risk Management's validation and ongoing review. The review process includes referral to the appropriate Senior Credit Committee for approval, where required. Consumer credit portfolios are reviewed monthly to identify emerging trends in loan quality and to assess whether corrective action is required.

#### Risk ratings

The Bank's consumer risk rating systems are oriented to borrower or transaction risk. Each retail exposure is assigned a risk grade based on the customer's credit history and/or internal credit score. The Bank's automated risk rating systems assess the ongoing credit-worthiness of individual customers on a monthly basis. This process provides for meaningful differentiation of risk, which allows for accurate, timely and consistent estimation of probability of default and loss, as well as early identification and management of problem loans.

The overall risk ratings system is reviewed annually with specific components evaluated frequently and more thoroughly if significant deterioration is detected in a portfolio or in the performance of a credit scorecard. Risk model validations are conducted independently from the areas responsible for rating system development and implementation, to ensure effective independence.

The Bank's Canadian retail portfolio uses the AIRB approach under Basel II, while the International portfolios are subject to the Standardized approach at this time.

#### Credit Risk and Capital – Canadian retail

The AIRB approach is used to determine minimum regulatory capital requirements for the retail credit portfolio. AIRB risk parameters – estimates of probability of default (PD), exposure at default (EAD), and loss given default (LGD) – are fundamental tools in credit review and risk management. They are used as part of the ongoing review and monitoring of policies and procedures. As well, these parameters, along with the estimation of expected loss, are used to determine the Bank's economic capital requirements. The expected loss calculation is also compared to the provisions in Canadian Banking to assess the reasonability of the risk parameters.

PD is estimated using a statistical model that is applied to all performing (non-defaulted) loans. The model predicts the probability that the facility will default within the next 12 months. The model uses all relevant information, including internal performance, credit bureau score, and certain macroeconomic factors. All retail portfolios use the Basel definition of default in calculating PD. The retail portfolio is comprised of the following Basel-based pools:

- Residential real estate secured exposures: consists of conventional and high ratio residential mortgages and all other products opened under the Scotia Total Equity Plan (STEP), such as loans, credit cards and secured lines of credit;
- Qualifying revolving retail exposures: consists of all unsecured credit cards and lines of credit;
- Other retail consists of term loans (secured and unsecured), as well as credit cards and lines of credit which are secured by assets other than real estate.

Fifteen PD bands are calculated for each retail portfolio, which are then summarized into fewer bands as shown in Table 31.

Retail facilities can generally be cancelled unconditionally at time of default, meaning no additional drawdown of a facility is possible after default. EAD measures the increases in the balance of revolving facilities from the time they are initially observed until the point of default. This historic experience is used to estimate the value of defaulted exposures in the portfolio over the next 12 months.

LGD is calculated by dividing the losses (less the present value of recoveries and collection costs) by EAD. The historic LGD is used to estimate the LGD that will be experienced in the portfolio in the following 12 months.

These risk measures are then converted into regulatory capital requirements by means of formulas specified by the Basel Committee. The credit quality distribution of the Bank's AIRB retail portfolio is shown below in Table 32.

#### International retail

International retail credit portfolios follow the Standardized approach and consist of the following components:

- Residential real estate secured lending;
- Qualifying revolving retail exposures consisting of all credit cards and lines of credit;
- Other retail consisting of term loans.

### Market Risk

Market risk is the risk of loss from changes in market prices and rates (including interest rates, credit spreads, equity prices, foreign exchange rates and commodity prices), the correlations among them, and their levels of volatility. A description of each market risk category is provided below:

#### Interest rate risk

The risk of loss due to changes in the level, slope and curvature of the yield curve; the volatility of interest rates; and mortgage prepayment rates.

#### Credit spread risk

The risk of loss due to changes in the market price of credit, or the credit-worthiness of a particular issuer.

#### Foreign currency risk

The risk of loss due to changes in spot and forward prices, and the volatility of currency exchange rates.

#### Equity risk

The risk of loss due to changes in the prices, and the volatility, of individual equity instruments and equity indices.

#### Commodity risk

The risk of loss due primarily to changes in, and volatility of, spot and forward prices of precious and base metals, and energy products.

FUNDING	INVESTMENTS	TRADING
Interest rate risk	Interest rate risk	Interest rate risk
Foreign currency risk	Credit spread risk	Credit spread risk
	Foreign currency risk	Foreign currency risk
	Equities risk	Equities risk
		Commodities risk

The Board of Directors reviews and approves market risk policies and limits annually. The Bank's Liability Committee (LCO) and Market Risk Management and Policy Committee (MRMPC) oversee the application of the framework set by the Board, and monitor the Bank's market risk exposures and the activities that give rise to these exposures. The MRMPC establishes specific operating policies, and sets limits at the product, portfolio, business unit and business line levels, and for the Bank in total. Limits are reviewed at least annually.

Global Risk Management provides independent oversight of all significant market risks, supporting the MRMPC and LCO with analysis, risk measurement, monitoring, reporting, proposals for standards and support for new product development. To ensure compliance with policies and limits, market risk exposures are independently monitored on a continuing basis, either by Global Risk Management or by the back offices. They provide senior management, business units, the LCO, and the MRMPC with a series of daily, weekly and monthly reports of market risk exposures by business line and risk type.

The Bank uses a variety of metrics and models to measure and control market risk exposures. These measurements are selected based on an assessment of the nature of risks in a particular activity. The principal measurement techniques are Value at Risk (VaR), stress testing, sensitivity analysis and simulation modeling, and gap analysis. The use and attributes of each of these techniques are noted in the Risk Measurement Summary. Models are independently validated prior to implementation and are subject to formal periodic review.

#### T31 Retail loan probability of default scale

Category of PD	PD Range
Grades	
Very low	0.0000% – 0.2099%
Low	0.2100% – 0.4599%
Medium	0.4600% – 3.1999%
High	3.2000% – 17.2899%
Very high	17.2900% – 99.9999%
Default	100%

#### T32 Credit risk assessment of exposures – Retail AIRB portfolio

As at October 31, 2011	Exposure at default (EAD) <sup>(1)</sup> (\$ millions)	Exposure Weighted Average PD (%) <sup>(2)(5)</sup>	Exposure Weighted Average LGD (%) <sup>(3)(5)</sup>	Exposure Weighted Average RW (%) <sup>(4)(5)</sup>
Very low	92,167	0.10	24	4
Low	16,370	0.37	44	18
Medium	27,682	1.33	43	36
High	6,253	6.60	44	83
Very high	1,104	38.10	41	129
Default <sup>(6)</sup>	542	100.00	66	–
<b>Total</b>	<b>144,118</b>	<b>1.31</b>	<b>31</b>	<b>16</b>
Total as at October 31, 2010	130,951	1.08	33	16

(1)After credit risk mitigation.

(2)PD – Probability of Default.

(3)LGD – Loss Given Default.

(4)RW – Risk Weight.

(5)Exposure at default used as basis for estimated weightings.

(6)Gross defaulted exposures, before any related allowances.



## Risk Measurement Summary

### Value at risk

Value at Risk (VaR) is a method of measuring market risk based upon a common confidence interval and time horizon. It is a statistical estimate of expected potential loss that is derived by translating the riskiness of any financial instrument into a common standard. The Bank calculates VaR daily using a 99% confidence level, and a one-day holding period for its trading portfolios. This means that about once in every 100 days, the trading positions are expected to lose more than the VaR estimate. The Bank calculates general market risk and equity specific risk VaR using historical simulation based on 300 days of market data. For debt specific risk VaR, the Bank uses a combination of Monte Carlo and historical simulation. Changes in VaR between reporting periods are generally due to changes in levels of exposure, volatilities and/or correlations among asset classes. VaR is also used to evaluate risks arising in certain funding and investment portfolios. Back testing is also an important and necessary part of the VaR process, by validating the quality and accuracy of the Bank's VaR model. The Board reviews VaR results quarterly.

### Stress testing

VaR measures potential losses in normally active markets. An inherent limitation of VaR is that it gives no information about how much losses could exceed their expected levels. Accordingly, stress testing examines the impact that abnormally large swings in market factors and periods of prolonged inactivity might have on trading portfolios. The stress testing program is designed to identify key risks and ensure that the Bank's capital can easily absorb potential losses from abnormal events. The Bank subjects its trading portfolios to more than 75 stress tests on a daily basis, and more than 250 stress tests on a monthly basis. The Bank also evaluates risk in its investment portfolios on a monthly basis, using stress tests based on risk factor sensitivities and specific market events. The stress testing program is an essential component of the Bank's comprehensive risk management framework which complements the current VaR methodology and other risk measures and controls employed by the Bank. The Board reviews stress testing results quarterly.

### Sensitivity analysis and simulation modeling

Sensitivity analysis assesses the effect of changes in interest rates on current earnings and on the economic value of shareholders' equity related to non-trading portfolios. It is applied globally to each of the major currencies within the Bank's operations. Simulation models enable the Bank to assess interest rate risk under a variety of scenarios over time. The models incorporate assumptions about changes in interest rates, shape of the yield curve, embedded product options, maturities and other factors. Simulation modeling under various scenarios is particularly important for managing risk in the deposit, lending and investment products the Bank offers to its retail customers.

### Gap analysis

Gap analysis is used to assess the interest rate sensitivity of the Bank's Canadian and international operations. Under gap analysis, interest rate sensitive assets, liabilities and off-balance sheet instruments are assigned to defined time periods on the basis of expected re-pricing dates.

### Funding and investment activities

Market risk arising from the Bank's funding and investment activities is identified, managed and controlled through the Bank's asset-liability management processes. The LCO meets weekly to review risks and opportunities, and evaluate performance including the effectiveness of hedging strategies.

### Interest Rate Risk

The Bank actively manages its interest rate exposures with the objective of enhancing net interest income within established risk tolerances. Interest rate risk arising from the Bank's lending, funding and investment activities is managed in accordance with Board-approved policies and global limits, which are designed to control the risk to income and economic value of shareholders' equity. The income limit measures the effect of a specified change in interest rates on the Bank's annual net interest income, while the economic value limit measures the impact of a specified change in interest rates on the present value of the Bank's net assets. Interest rate exposures in individual currencies are also controlled by gap limits. Gap analysis, simulation modeling, sensitivity analysis and VaR are used to assess exposures and for planning purposes.

Table 34 shows the after-tax impact of a 100 and 200 basis point shift on annual income and economic value of shareholder's equity. Based on the Bank's interest rate positions at year-end 2011, an immediate and sustained 100 basis point rise in interest rates across all currencies and maturities would increase net income after-tax by approximately \$178 million over the next 12-months. During fiscal 2011, this measure ranged between \$143 million and \$211 million. This same increase in interest rates would result in an after-tax decrease in the present value of the Bank's net assets of approximately \$144 million. During fiscal 2011, this measure ranged between \$121 million and \$249 million.

Interest rate risk exposure calculations are generally based on the earlier of contractual re-pricing or maturity of on-balance sheet and off-balance sheet assets and liabilities, although certain assets and liabilities such as credit cards and deposits without a fixed maturity are assigned a maturity profile based on the longevity of the exposure. Expected prepayments from loans and cashable investment products are also incorporated into the exposure calculations. Common shareholders' equity is assumed to be non-interest rate sensitive.

### T33 Interest rate gap

Interest rate sensitivity position <sup>(1)</sup> As at October 31, 2011 (\$ billions)	Within 3 months	3 to 12 months	Over 1 year	Non- interest rate sensitive	To
<b>Canadian dollars</b>					
Assets	\$ 196.0	\$ 22.1	\$ 77.2	\$ 7.2	\$302.5
Liabilities	171.1	34.0	83.9	13.5	302.5
Gap	24.9	(11.9)	(6.7)	(6.3)	
Cumulative gap	24.9	13.0	6.3	–	
<b>Foreign currencies</b>					
Assets	\$ 202.0	\$ 17.9	\$ 24.9	\$ 28.0	\$272.8
Liabilities	198.6	14.0	16.3	43.9	272.8
Gap	3.4	3.9	8.6	(15.9)	
Cumulative gap	3.4	7.3	15.9	–	
<b>Total</b>					
Gap	\$ 28.3	\$ (8.0)	\$ 1.9	\$ (22.2)	
Cumulative gap	28.3	20.3	22.2	–	
<b>As at October 31, 2010:</b>					
Gap	\$ 24.7	\$ (9.5)	\$ 6.4	\$ (21.6)	
Cumulative gap	24.7	15.2	21.6	–	

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

**C43 Interest rate gap**

\$ billions, one-year interest rate gap

**T34 Structural interest sensitivity**

	2011		2010	
	Economic Value of Shareholders' Equity	Annual Income	Economic Value of Shareholders' Equity	Annual Income
As at October 31 (\$ millions)				
After-Tax Impact of 100bp increase in rates	(144)	178	(415)	50
100bp decrease in rates	86	(185)	411	(35)
After-Tax Impact of 200bp increase in rates	(300)	368	(829)	102
200bp decrease in rates	124	(366)	858	(80)

**Foreign currency risk**

Foreign currency risk in the Bank's unhedged funding and investment activities arises primarily from the Bank's net investments in self-sustaining foreign operations as well as foreign currency earnings in its domestic and remitting foreign branch operations.

The Bank's foreign currency exposure to its net investments in self-sustaining foreign operations is controlled by a Board-approved limit. This limit considers factors such as potential volatility to shareholders' equity as well as the potential impact on capital ratios from foreign exchange fluctuations. On a quarterly basis, the LCO reviews the Bank's foreign currency net investment exposures and determines the appropriate hedging strategies. These may include funding the investments in the same currency or using other financial instruments, including derivatives.

In accordance with GAAP, foreign currency translation gains and losses from net investments in self-sustaining foreign operations, net of related hedging activities and tax effects, are recorded in accumulated other comprehensive income within shareholders' equity. However, the Bank's regulatory capital ratios are not materially affected by these foreign exchange fluctuations because the risk-weighted assets of the foreign operations tend to move in a similar direction.

The Bank is also subject to foreign currency translation risk on the earnings of its foreign operations which are not self-sustaining. The Bank forecasts foreign currency revenues and expenses, which are primarily denominated in U.S. dollars, over a number of future fiscal quarters. The LCO also assesses economic data trends and forecasts to determine if some or all of the estimated future foreign currency revenues and expenses should be hedged. Hedging instruments normally include foreign currency spot and forward contracts, as well as foreign currency options and swaps. Certain of these economic hedges may not qualify for hedge accounting resulting in a potential for a mismatch in the timing of the recognition of economic hedge gains/losses and the underlying foreign earnings translation gains/losses. In accordance with GAAP, foreign currency translation gains and losses from positions in operations that are not self-sustaining are recorded directly in earnings.

As at October 31, 2011, a one per cent increase in the Canadian dollar against all currencies in which the Bank operates, decreases the Bank's before-tax annual earnings by approximately \$33 million in the absence of hedging activity, primarily from exposure to U.S. dollars. A similar change in the Canadian dollar would increase the unrealized foreign currency translation losses in the accumulated other comprehensive income section of shareholders' equity by approximately \$216 million as at October 31, 2011, net of hedging.

**Investment portfolio risks**

The Bank holds investment portfolios to meet liquidity and statutory reserve requirements and for investment purposes. These portfolios expose the Bank to interest rate, foreign currency, credit spread and equity risks. Debt investments primarily consist of government, agency, and corporate bonds. Equity investments include common and preferred shares, as well as a diversified portfolio of third-party managed funds. The majority of these securities are valued using prices obtained from external sources. These portfolios are controlled by a Board-approved policy and limits.

**Trading activities**

Scotiabank's policies, processes and controls for trading activities are designed to achieve a balance between pursuing profitable trading opportunities and managing earnings volatility within a framework of sound and prudent practices. Trading activities are primarily customer focused, but also include a proprietary component.

Market risk arising from the Bank's trading activities is managed in accordance with Board-approved policies, and aggregate VaR and stress testing limits. The quality of the Bank's VaR is validated by regular backtesting analysis, in which the VaR is compared to theoretical and actual profit and loss results. A VaR at the 99% confidence interval is an indication of the probability that losses will exceed the VaR if positions remain unchanged during the next business day. Trading positions are however managed dynamically and as a result actual profit/loss backtesting exceptions are uncommon. During fiscal 2011 there were five theoretical profit/loss exceptions and one actual profit/loss exception.

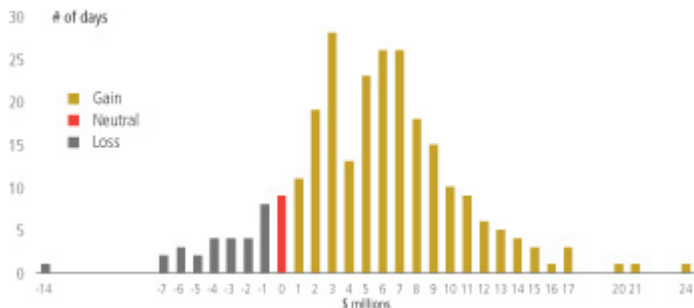
In fiscal 2011, the one-day VaR for trading activities averaged \$11.3 million, compared to \$12.5 million in 2010. The decrease was primarily due to lower interest rate risk.

Chart 44 shows the distribution of daily trading revenue for fiscal 2011. Trading revenue averaged \$4.3 million per day, compared to \$5.6 million for 2010. Revenue was positive on more than 88% of trading days during the year, unchanged from 2010. During the year the largest single day trading loss was \$14.4 million which occurred on August 8, 2011 and was higher than the general market risk VaR of \$10.8 million on the same day.

**T35 One-day VaR by risk factor**

(\$ millions)	2011				2010			
	Year end	Avg	High	Low	Year end	Avg	High	Low
Interest rate	8.3	10.3	20.9	6.2	9.0	11.7	19.0	7.3
Equities	1.7	4.8	10.9	1.1	3.4	5.1	14.1	2.3
Foreign exchange	1.3	1.2	2.4	0.4	0.9	1.7	4.6	0.6
Commodities	2.6	2.2	4.5	1.2	1.5	2.1	5.6	0.6
Diversification	(5.4)	(7.2)	N/A	N/A	(6.3)	(8.1)	N/A	N/A
All-Bank VaR	8.5	11.3	19.6	7.8	8.5	12.5	19.5	7.4

#### C44 Trading revenue distribution<sup>(1)</sup> Year ended October 31, 2011



(1) Taxable equivalent basis; refer to non-GAAP measures on page 29.

#### C45 Daily trading revenue vs. VaR<sup>(1)</sup> \$ millions, November 1, 2010 to October 31, 2011



(1) Taxable equivalent basis; refer to non-GAAP measures on page 29.

#### Calculation of market risk capital for trading

The assessment of market risk for trading activities includes both general market risk and specific risk. General market risk is defined as the risk of loss arising from adverse changes in market prices. Specific risk is defined as the risk of loss caused by an adverse price movement of a debt or equity instrument due principally to factors related to the issuer. Under the Basel II capital adequacy guidelines, the specific risk capital and general market risk capital requirements apply to interest rate risk and equity risk. The general market risk capital requirement also applies to commodities risk and foreign exchange risk.

For all material trading portfolios, the Bank applies its internal Value at Risk (VaR) model to calculate the capital charge for general market risk and specific risk. The attributes/parameters of this model are described in the Risk Measurement Summary on page 71. The Office of the Superintendent of Financial Institutions (OSFI) has approved the Bank's internal VaR model for the determination of its General Market Risk Capital and Equity and Debt Specific Risk Capital requirements.

For non-material trading portfolios, the Bank applies the Standardized Approach for calculating general market risk and debt specific risk capital. The standardized method uses a "building block" approach with the capital charge for each risk category calculated separately.

The Bank has assessed the quantitative impact on market risk capital of the new trading book rules under the Basel II market risk framework and estimates the increase will be up to \$12 billion in risk weighted assets despite the fact that trading risk appetite remains unchanged. This number is based on balances at October 31, 2011 and may change as a result of changes in the portfolio and other management action that has or may be taken.

#### Derivative instruments and structured transactions

##### Derivatives

The Bank uses derivatives to meet customer needs, generate revenues from trading activities, manage market and credit risks arising from its lending, funding and investment activities, and lowers its cost of capital. The Bank uses several types of derivative products, including interest rate swaps, futures and options, to hedge interest rate risk exposure. Forward contracts, swaps and options are used to manage foreign currency risk exposures. Credit exposures in its lending and investment books are managed using credit default swaps. As a dealer, the Bank markets a range of derivatives to its customers, including interest rate, foreign exchange, equity, commodity and credit derivatives.

Market risk arising from derivatives transactions is subject to the control, reporting and analytical techniques noted above in the Trading activities section. Additional controls and analytical techniques are applied to address certain market-related risks that are unique to derivative products.

##### Structured Transactions

Structured transactions are specialized transactions that may involve combinations of cash, other financial assets and derivatives designed to meet the specific risk management or financial requirements of customers. These transactions are carefully evaluated by the Bank to identify and address the credit, market, legal, tax, reputational and other risks, and are subject to a cross-functional review and sign-off by trading management, Global Risk Management, Taxation, Finance and Legal departments. Large structured transactions are also subject to review by senior risk management committees and evaluated in accordance with the procedures described below in Reputational Risk.

The market risk in these transactions is usually minimal, and returns are earned by providing structuring expertise and by taking credit risk. Once executed, structured transactions are subject to the same ongoing credit reviews and market risk analysis as other types of derivatives transactions. This review and analysis includes careful monitoring of the quality of the reference assets, and ongoing valuation of the derivatives and reference assets.

#### Liquidity Risk

Liquidity risk is the risk that the Bank is unable to meet its financial obligations in a timely manner at reasonable prices. Financial obligations include liabilities to depositors, payments due under derivative contracts, settlement of securities borrowing and repurchase transactions, and lending and investment commitments.

Effective liquidity risk management is essential in order to maintain the confidence of depositors and counterparties, and to enable the core businesses to continue to generate revenue, even under adverse circumstances.

Liquidity risk is managed within the framework of policies and limits that are approved by the Board of Directors. The Board receives reports on risk exposures and performance against approved limits. The Liability Committee (LCO) provides senior management oversight of liquidity risk and meets weekly to review the Bank's liquidity profile.

The key elements of the liquidity risk framework are:

- **Measurement and modeling** – the Bank's liquidity model measures and forecasts cash inflows and outflows, including off-balance sheet cash flows on a daily basis. Risk is managed by a set of key limits over the maximum net cash outflow by currency over specified short-term horizons (cash gaps) and a minimum level of core liquidity.



- Reporting – Global Risk Management provides independent oversight of all significant liquidity risks, supporting the LCO with analysis, risk measurement, stress testing, monitoring and reporting.
- Stress testing – the Bank performs liquidity stress testing on a regular basis, to evaluate the effect of both industry and Bank-specific disruptions on the Bank's liquidity position. Liquidity stress testing has many purposes including:
  - Helping the Bank to understand the potential behavior of various positions on its balance sheet in circumstances of stress; and
  - Based on this knowledge, facilitating the development of risk mitigation and contingency plans.
- The Bank's liquidity stress tests consider the effect of changes in funding assumptions, depositor behavior and the market value of liquid assets. The Bank also performs industry standard stress tests required by regulators and rating agencies. The stress test results are reviewed at senior levels of the organization and are considered in making liquidity management decisions.
- Contingency planning – the Bank maintains a liquidity contingency plan that specifies an approach for analyzing and responding to actual and potential liquidity events. The plan outlines an appropriate governance structure for the management and monitoring of liquidity events, processes for effective internal and external communication, and identifies potential counter measures to be considered at various stages of an event. A contingency plan is maintained both at the parent level as well as for major subsidiaries.
- Funding diversification – the Bank actively manages the diversification of its deposit liabilities by source, type of depositor, instrument, term and geographic market.
- Core liquidity – the Bank maintains a pool of highly liquid, unencumbered assets that can be readily sold, or pledged to secure borrowings, under stressed market conditions or due to company specific events. The Bank also maintains liquid assets to support its intra-day settlement obligations in payment, depository and clearing systems.

### Liquidity Profile

The Bank maintains large holdings of liquid assets to support its operations. These assets generally can be sold or pledged to meet the Banks' obligations. As at October 31, 2011 liquid assets were \$162 billion or 28% of total assets, compared to \$148 billion or 28% of total assets as at October 31, 2010. The mix of these assets between securities and other liquid assets, including cash and deposits with banks, was 65% and 35%, respectively (October 31, 2010 – 68% and 32%, respectively).

In the course of the Bank's day-to-day activities, securities and other assets are pledged to secure an obligation, participate in clearing or settlement systems, or operate in a foreign jurisdiction. Securities may also be sold under repurchase agreements. As at October 31, 2011, total assets pledged or sold under repurchase agreements were \$107 billion, compared to \$96 billion as at October 31, 2010. The year over year change was largely due to an increase in assets sold under repurchase agreements, pledging activity to support the Bank's covered bond program and collateral related to other funding activities. In some over-the-counter derivative contracts, the Bank would be required to post additional collateral in the event its credit rating was downgraded. The Bank maintains access to sufficient collateral to meet its obligations in the event of a downgrade of its ratings by one or more of the rating agencies.

### Funding

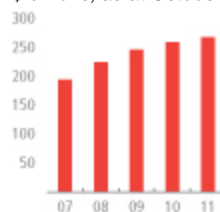
The Bank ensures that its funding sources are well diversified. Funding source concentrations are regularly monitored and analyzed by type and by industry. The principal sources of funding are capital, core deposits from retail and commercial clients through the Canadian and international branch network, and wholesale funding. The Bank also securitizes mortgages through the Canada Mortgage Bonds program as an alternative source of funding, and for liquidity and asset/liability management purposes. To ensure that the Bank does not place undue reliance on a single entity as a funding source, the Bank maintains a limit on the amount of deposits it will accept from any one entity.

### T36 Liquidity

As at October 31 (\$ millions)	2011	2010	2009	2008	2007
<b>Canadian dollar liquid assets</b>					
Cash and deposits with Bank of Canada	\$ 509	\$ 484	\$ 1,223	\$ 498	\$ 502
Deposits with other banks	2,345	2,558	1,371	1,654	4,152
Securities	79,429	79,086	81,613	46,558	53,429
	<b>82,283</b>	<b>82,128</b>	<b>84,207</b>	<b>48,710</b>	<b>58,083</b>
<b>Foreign currency liquid assets</b>					
Cash and deposits with Bank of Canada	10,053	7,150	6,170	3,064	4,503
Deposits with other banks	41,563	35,835	34,513	32,102	20,039
Securities	26,025	21,654	19,649	21,298	19,809
Call and short loans	1,708	1,498	1,538	1,087	874
	<b>79,349</b>	<b>66,137</b>	<b>61,870</b>	<b>57,551</b>	<b>45,225</b>
<b>Total liquid assets</b>					
Cash and deposits with Bank of Canada	10,562	7,634	7,393	3,562	5,005
Deposits with other banks	43,908	38,393	35,884	33,756	24,191
Securities	105,454	100,740	101,262	67,856	73,238
Call and short loans	1,708	1,498	1,538	1,087	874
	<b>\$ 161,632</b>	<b>\$ 148,265</b>	<b>\$ 146,077</b>	<b>\$ 106,261</b>	<b>\$ 103,308</b>
Liquid assets as a % of total assets	<b>28.1%</b>	<b>28.2%</b>	<b>29.4%</b>	<b>20.9%</b>	<b>25.1%</b>

### C46 Core funds

\$ billions, as at October 31



Core funds, represented by capital and core deposits of the Bank's retail and commercial clients, were \$265 billion as at October 31, 2011, versus \$256 billion last year (see Chart 46). This increase was attributable primarily to an increase in capital and higher balances of demand and notice deposits. As at October 31, 2011, the Bank's core funds represented 46% of total funding, versus 49% last year.

### Contractual Obligations

The Bank's contractual obligations include contracts and purchase obligations, including agreements to purchase goods and services, that are enforceable and legally binding on the Bank.

Table 37 provides aggregated information about the Bank's contractual obligations as at October 31, 2011, which affect the Bank's liquidity and capital resource needs.

The table excludes deposit liabilities (except term funding), pension and other retirement benefit obligations, lending commitments and other short-term financing arrangements which are discussed in Notes 10, 20 and 24, respectively, of the 2011 Consolidated Financial Statements.

The Bank prudently diversifies its wholesale funding activities by using a number of different funding programs to access the global financial markets and extend its maturity profile, as appropriate. In 2011, the Bank issued approximately \$21 billion of senior term funding in the domestic, United States and other markets.

The Bank leases a large number of its branches, offices and other locations. The vast majority of these leases are for a term of five years, with an option to renew. The total cost of these leases, net of rental income from subleases, was \$276 million in 2011 (2010 – \$243 million). The increase of \$33 million relates primarily to the acquisition of DundeeWealth and growth in Canadian and International service delivery platforms. Refer to Note 24 of the 2011 Consolidated Financial Statements.

Two major outsourcing contracts have been entered into by the Bank. The largest is a contract with IBM Canada entered into in 2001 to manage the Bank's domestic computer operations, including data centres, branches, Automated Banking Machines, and desktop computing environment. The contract was expanded in 2005 to also include the computer operations for the Caribbean, Central America, and Mexico. The contract for Canadian operations was renewed in 2007 and is now extended until 2013, co-terminus with Mexico, the Caribbean and Central America contracts.

The second is a three-year contract, with two optional five-year renewals, entered into in 2003 with Symcor Inc. to manage the Bank's cheque and bill payment processing, including associated statement

and report printing activities across Canada. The final 5-year option has been exercised.

These outsourcing contracts are cancellable with notice.

### Capital Expenditures

Scotiabank has an ongoing program of capital investment to provide the necessary level of technology and real estate resources to service our customers and meet new product requirements. All major capital expenditures go through a rigorous review and approval process.

Total capital expenditures in 2011 are estimated to be \$262 million, an increase of 25% from 2010. The increase is primarily in Technology, \$43 million or 57%, due largely to the ongoing ABM Replacement initiative in Canada and equipment upgrades in our International Branch network.

### Operational risk

Operational risk is the risk of loss, whether direct or indirect, to which the Bank is exposed due to inadequate or failed internal processes or systems, human error, or external events. Operational risk includes legal and regulatory risk, business process and change risk, fiduciary or disclosure breaches, technology failure, financial crime and environmental risk. It exists in some form in every Bank business and function. Operational risk can not only result in financial loss, but also regulatory sanctions and damage to the Bank's reputation. The Bank is very successful at managing operational risk with a view to safeguarding client assets and preserving shareholder value.

The Bank has developed policies, processes and assessment methodologies to ensure that operational risk is appropriately identified and managed with effective controls. The governing principles of the Bank's operational risk management program include:

- The individual business lines being accountable for management and control of the significant operational risks to which they are exposed.
- An organization structure through which there is effective oversight and in which operational risk is managed to an established risk appetite, including:
  - The Board of Directors are responsible for sound corporate governance and approves the Bank's Operational Risk Management Policy;
  - A senior level Operational Risk Committee comprised of Heads of Business Lines and key control functions, and chaired by the Group Head and Chief Risk Officer. This Committee provides consistent, Bank-wide oversight of operational risk management.

**T37** Contractual obligations

(\$ millions)	Under 1 year	1-3 years	4-5 years	Over 5 years	Total
<b>Term funding</b>					
Wholesale deposit notes	12,321	16,465	8,609	2,039	39,434
Euro medium term notes	1,904	1,133	30	52	3,119
Covered bonds	–	3,482	4,374	–	7,856
<b>Subordinated debentures</b>	–	251	–	5,672	5,923
<b>Other long-term liabilities</b>	806	3,122	445	3,175	7,548
<b>Subtotal</b>	15,031	24,453	13,458	10,938	63,880
<b>Operating leases</b>	234	383	256	325	1,198
<b>Outsourcing obligations</b>	181	243	74	–	498
<b>Total</b>	15,446	25,079	13,788	11,263	65,576

- Executive management with clearly defined areas of responsibility;
- A central unit in Global Risk Management responsible for: developing and applying methods to identify, assess, and monitor operational risks; and reporting on risks as well as actual loss events;
- Independent specialist units responsible for developing methods to mitigate specific components of operational risk, including codifying policies and processes required to control those specific risks;
- Separation of duties between key functions; and,
- An independent internal audit department responsible for verifying that significant risks are identified and assessed, and for testing controls to ensure that overall risk is at an acceptable level.

The following are key components of the Bank's operational risk management framework:

- The Bank's risk and control self-assessment program, which is managed by Global Risk Management's central operational risk unit, includes formal reviews of significant operations and processes to identify and assess operational risks. Scenario analysis has been successfully introduced to risk assessments as a tool that provides a more forward looking view of key risks. Overall, this program provides a basis for management to ensure that controls are functioning effectively. Business line management attests to the accuracy of each assessment and develops action plans to mitigate risks if controls are not identified as effective. Results of these reviews are summarized and reported to executive management and the Board of Directors.
- The Bank's centralized operational loss event database, which is managed and maintained by the central operational risk unit, captures key information on operational losses. This data is analyzed, benchmarked against industry loss data and significant metrics, then reported to executive management and the Board of Directors to provide insight into operational risk exposures and trends.
- The Bank's Fraud Management Office, which identifies threats of financial crime, implements systems and processes to mitigate loss and reports on fraud loss activity to senior management.
- The Bank's monitoring of industry events, identifies significant losses incurred at other financial institutions and provides a reference for reviewing and assessing the Bank's own risk exposure.
- The compliance risk management program led by Group Compliance through an established network and associated processes that include: monitoring regulatory changes; conducting compliance risk assessments; implementing policies and procedures; training; monitoring and resolving issues; and reporting on the status of compliance and compliance controls to executive management, the Board of Directors, and regulators as required.
- Processes in each business line for evaluation of risk in new businesses and products.
- The Bank's business continuity management policy, which requires that all business units develop business continuity capabilities for their respective functions. The Bank's Business Continuity Management Department is responsible for governance and oversight of the Bank's business continuity, and monitors units to ensure compliance with these policies.
- The Bank's model risk policy, which provides the framework for model review and approval under the oversight of the Operational Risk Committee.

- The Bank's training programs, such as the mandatory Anti-Money Laundering and Information Security examinations which ensure employees are aware and equipped to safeguard our customers' and the Bank's assets.
- Risk mitigation programs, which use insurance policies to transfer the risk of high severity losses, where feasible and appropriate.

The Bank applies the Standardized Approach for calculating operational risk capital under the Basel II capital framework. Total capital is determined as the sum of capital for each of eight Basel defined business activities. The capital for each activity is the product of the relevant risk factor, as defined by Basel, applied to the gross income of each respective business activity. Progress is underway to prepare for the more sophisticated Advanced Measurement Approach (AMA), which is expected to be fully implemented in fiscal 2014. Under AMA, regulatory capital measurement will more directly reflect the Bank's operational risk environment.

## Reputational risk

Reputational risk is the risk that negative publicity regarding Scotiabank's conduct, business practices or associations, whether true or not, will adversely affect its revenues, operations or customer base, or require costly litigation or other defensive measures.

Negative publicity about an institution's business practices may involve any aspect of its operations, but usually relates to questions of business ethics and integrity, or quality of products and services. Negative publicity and attendant reputational risk frequently arise as a by-product of some other kind of risk management control failure.

Reputational risk is managed and controlled throughout the Bank by codes of conduct, governance practices and risk management programs, policies, procedures and training. Many relevant checks and balances are outlined in greater detail under other risk management sections, particularly Operational risk, where reference is made to the Bank's well-established compliance program. All directors, officers and employees have a responsibility to conduct their activities in accordance with the Scotiabank Guidelines for Business Conduct, and in a manner that minimizes reputational risk. The activities of the Legal, Corporate Secretary, Public, Corporate and Government Affairs and Compliance departments, and the Reputational Risk Committee, are particularly oriented to the management of reputational risk.

In providing credit, advice, or products to customers, or entering into associations, the Bank considers whether the transaction, relationship or association might give rise to reputational risk. The Bank has an established, Board-approved reputational risk policy, as well as policy and procedures for managing reputational and legal risk related to structured finance transactions. Global Risk Management plays a significant role in the identification and management of reputational risk related to credit underwriting. In addition, the Reputational Risk Committee is available to support Global Risk Management, as well as other risk management committees and business units, with their assessment of reputational risk associated with transactions, business initiatives, and products and services.

The Reputational Risk Committee considers a broad array of factors when assessing transactions, so that the Bank meets, and will be seen to meet, high ethical standards. These factors include the extent, and outcome, of legal and regulatory due diligence pertinent to the transaction; the economic intent of the transaction; the effect of the transaction on the transparency of a customer's financial reporting; the need for customer or public disclosure; conflicts of interest; fairness issues; and public perception.

The Committee may impose conditions on customer transactions, including customer disclosure requirements to promote transparency in financial reporting, so that transactions meet Bank standards. In the event the Committee recommends not proceeding with a transaction and the sponsor of the transaction wishes to proceed, the transaction is referred to the Risk Policy Committee.

## Environmental risk

Environmental risk refers to the possibility that environmental concerns involving the Scotiabank Group or its customers could affect the Bank's financial performance.

To safeguard the Bank and the interests of its stakeholders, Scotiabank has an environmental policy, which is approved by the Bank's Board of Directors. The policy guides day-to-day operations, lending practices, supplier agreements, the management of real estate holdings and external reporting practices. It is supplemented by specific policies and practices relating to individual business lines.

Environmental risks associated with the business operations of each borrower and any real property offered as security are considered in the Bank's credit evaluation procedures. This includes an environmental assessment where applicable, and commentary on climate change where it could have a material impact (including regulatory, physical or reputational impacts) on the borrower. Global Risk Management has primary responsibility for establishing the related policies, processes and standards associated with mitigating environmental risk in the Bank's lending activities. Decisions are taken in the context of the risk management framework discussed on page 63.

In the area of project finance, the revised Equator Principles have been integrated into the Bank's internal processes and procedures since 2006. These are environmental and social guidelines for project finance transactions with a capital cost of U.S. \$10 million or higher, based on the policies of the International Finance Corporation, the private sector arm of the World Bank. The Equator Principles provide safeguards for sensitive projects to ensure protection of natural habitats and the rights of indigenous peoples, as well as safeguards against child and forced labour.

Environmental concerns also play a prominent role in shaping the Bank's real estate practices and purchasing decisions. The Real Estate Department adheres to an Environmental Compliance Policy to ensure responsible management of the Bank's real estate holdings. In addition, considerable recycling and resource management programs are in place in the Bank's corporate offices and branch networks. Internal tracking systems are in place with respect to energy use, greenhouse gas emissions (GHG) and paper consumption. A variety of reduction measures are in place for energy, paper and waste. In order to further reduce the Bank's environmental footprint, it has developed an internal Environmental Paper Policy and is in the process of developing and implementing more definitive management processes on energy.

To ensure it continues to operate in an environmentally responsible manner, the Bank monitors policy and legislative requirements through ongoing dialogue with government, industry and stakeholders in countries where it operates. Scotiabank has been meeting with environmental organizations, industry associations and socially responsible investment organizations with respect to the role that banks play to help address issues such as climate change, protection of biodiversity, promotion of sustainable forestry practices, and other environmental issues important to its customers and communities where it operates. The Bank has an ongoing process of reviewing its policies in these areas.

Scotiabank has a number of environmentally related products and services to meet demand and promote the "green" economy, including the Scotiabank Global Climate Change Fund, an EcoEnergy Financing program designed to support personal and small business customers who wish to install small-scale renewable energy projects, an Environmental Markets group, which assists corporate clients originate and trade carbon credits, and an eco-home renovation program, EcoLiving.

Scotiabank is also a signatory, participant and sponsor of the Carbon Disclosure Project in Canada, which provides corporate disclosure to the investment community on greenhouse gas emissions and climate change management. In 2010 Scotiabank was included on the Dow Jones Sustainability Index (DJSI)-(North America), an annual review that recognizes the world's financial, social and environmental corporate leaders. The Bank was also recognized as one of Canada's Green 30 by Maclean's and Canadian Business Magazine. For more information on Scotiabank's environmental policies and practices, please refer to:

- the Bank's annual Public Accountability Statement/Corporate Social Responsibility Report, which is also available online at [www.scotiabank.com](http://www.scotiabank.com);
- the Environment section of Scotiabank's website at [www.scotiabank.com/environment](http://www.scotiabank.com/environment);
- the Bank's EcoLiving website at [www.scotiabank.com/ecoliving](http://www.scotiabank.com/ecoliving); and
- Scotiabank's response to the Carbon Disclosure Project at [www.cdproject.net](http://www.cdproject.net).

## CONTROLS AND ACCOUNTING POLICIES

### Controls and procedures

Management's responsibility for financial information contained in this annual report is described on page 110.

#### Disclosure controls and procedures

The Bank's disclosure controls and procedures are designed to provide reasonable assurance that information is accumulated and communicated to the Bank's management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required disclosure.

As of October 31, 2011, the Bank's management, with the participation of the CEO and CFO, evaluated the effectiveness of its disclosure controls and procedures, as defined under the rules adopted by the United States Securities and Exchange Commission (SEC) and the Canadian securities regulatory authorities, and have concluded that the Bank's disclosure controls and procedures are effective.

#### Internal control over financial reporting

Management of the Bank is responsible for establishing and maintaining adequate internal control over financial reporting. These controls include policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Bank;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Bank; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Bank's assets that could have a material effect on the financial statements.

All control systems contain inherent limitations, no matter how well designed. As a result, the Bank's management acknowledges that its internal control over financial reporting will not prevent or detect all misstatements due to error or fraud. In addition, management's evaluation of controls can provide only reasonable, not absolute, assurance that all control issues that may result in material misstatements, if any, have been detected.

Management assessed the effectiveness of internal control over financial reporting, using the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework, and based on that assessment concluded that internal control over financial reporting was effective, as at October 31, 2011.

#### Changes in internal control over financial reporting

There have been no changes in the Bank's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Bank's internal control over financial reporting during the year ended October 31, 2011.

### Critical accounting estimates

The Bank's accounting policies are integral to understanding and interpreting the financial results reported in this annual report. Note 1 on pages 117 to 124 summarizes the significant accounting policies used in preparing the Bank's Consolidated Financial Statements. Certain of these policies require management to make estimates and subjective judgements that are difficult, complex, and often relate to

matters that are inherently uncertain. The policies discussed below are considered to be particularly important to the presentation of the Bank's financial position and results of operations, because changes in the judgements and estimates could have a material impact on the Bank's Consolidated Financial Statements. These estimates are adjusted in the normal course of business to reflect changing underlying circumstances.

#### Allowance for credit losses

The allowance for credit losses represents management's best estimate of the probable credit losses in the portfolio of deposits with other institutions, loans to borrowers, acceptances and other indirect credit commitments, such as letters of credit and guarantees. Management undertakes regular reviews of credit quality to assess the adequacy of the allowance for credit losses. This process requires the use of estimates and subjective judgements at many levels. These subjective judgements include identifying credits that are impaired, and considering factors specific to individual credits, as well as portfolio characteristics and risks. Changes to these estimates or use of other reasonable judgements and estimates could directly affect the provision for credit losses.

The allowance for credit losses is composed of specific and general, allowances.

Specific allowances are an estimate of probable incurred losses related to existing impaired loans. In establishing specific allowances applicable to individual credit exposures, management first forms a judgement as to whether a loan is impaired. Loan impairment is recognized when, in management's opinion, there is no longer reasonable assurance that interest and principal payments will be made on a timely basis. Once a loan is determined to be impaired, management estimates its net realizable value by making judgements relating to the timing of future cash flow amounts, the fair value of any underlying security pledged as collateral, costs of realization, observable market prices, and expectations about the future prospects of the borrower and any guarantors.

Management estimates specific allowances for certain homogenous portfolios, including residential mortgages, credit card loans and most personal loans on a group basis. This involves estimating the probable losses inherent in the portfolio by using a formulaic method that considers recent loss experience.

Specific provisions were lower in 2011 than in 2010, driven primarily by net recoveries in Scotia Capital, which more than offset moderate increases in Canadian Banking and International Banking.

The general allowance is an estimate of probable incurred losses that are inherent in the portfolio of loans and loan commitments, but have not yet been specifically identified on an individual basis. Management establishes the general allowance through an assessment of quantitative and qualitative factors. Using an internally developed model, management arrives at an initial quantitative estimate of the general allowance based on numerous factors, including historical average default probabilities, loss given default rates and exposure at default factors. Material changes in any of these parameters or assumptions would affect the range of expected credit losses and, consequently, could affect the general allowance level. For example, if either the probability of default or the loss given default rates for the non-retail portfolio were independently increased or decreased by 10%, the model would indicate an increase or decrease to the quantitative estimate of approximately \$62 million (2010 – \$69 million). Senior management determines whether it is necessary to adjust the quantitative estimate for the general allowance to account for portfolio conditions not reflected in the historically based credit parameters used in the model.



A qualitative assessment of the general allowance is made based on observable data, such as: economic trends and business conditions, portfolio concentrations, risk migrations and recent trends in volumes and severity of delinquencies and a component for the imprecision inherent in the model and model parameters. Management reviews the general allowance quarterly to assess whether the allowance is at the appropriate level in relation to the size of the portfolio, inherent credit risks and trends in portfolio quality. From time to time, the Bank may establish a sectoral allowance for specific adverse events and changes in economic conditions. These allowances are for losses which have not been specifically identified, and where the losses are not adequately covered by the general allowance. The level of the sectoral allowance considers the probability of default, loss given default and expected exposure at default.

The general allowance for credit losses as at October 31, 2011, was \$1,352 million, a decrease of \$58 million from a year earlier. The decrease was primarily attributable to improved credit quality. The general allowance amount is primarily attributable to business and government loans (\$1,109 million), with the remainder allocated to personal and credit cards (\$187 million) and residential mortgages (\$56 million). As noted above, the specific allowance for credit losses for personal loans, credit cards and mortgages is formula-based and also reflects incurred but not yet identified losses.

#### Fair value of financial instruments

All financial instruments are measured at fair value on initial recognition except certain related party transactions. Subsequent measurement of a financial instrument depends on its classification. Loans and receivables, certain securities and most financial liabilities are carried at amortized cost unless classified or designated as held for trading or available-for-sale at inception. All other financial instruments, including those designated as held-for-trading at inception, are carried at fair value.

Financial instruments in the Bank's trading portfolios are composed primarily of securities and derivatives. These trading instruments are carried at fair value on the Consolidated Balance Sheet, with changes in the fair values of trading instruments included in the Consolidated Statement of Income.

Securities designated as available-for-sale are recorded at fair value on the Consolidated Balance Sheet. Equity securities which do not have a quoted market price in an active market are measured at cost. The unrealized gains and losses as a result of changes in the fair values of available-for-sale securities are included in the Consolidated Statement of Comprehensive Income.

Derivatives used for asset/liability management are recorded at fair value on the Consolidated Balance Sheet. All changes in these derivative fair values other than those designated as cash flow hedges or net investment hedges are recorded in the Consolidated Statement of Income, while the latter flows through other comprehensive income.

Fair value is defined as the amount of consideration that would be agreed upon in an arms-length transaction, other than a forced sale or liquidation, between knowledgeable, willing parties who are under no compulsion to act. The best evidence of fair value is a quoted bid or ask price, as appropriate, in an active market. Where bid or ask prices are not available, such as in an illiquid or inactive market, the closing price of the most recent transaction of that instrument is used subject to appropriate adjustments, supplemented as required with internal valuation models. Where quoted market prices are not available, the

quoted price of similar financial instruments (i.e. with similar characteristics and risk profile) or internal models with observable market-based inputs are used to estimate the fair value.

Fair values are calculated using quoted market prices or observable market inputs for models and require minimal judgement by management. Greater subjectivity is required when making valuation adjustments for financial instruments in inactive markets or when using models where observable parameters do not exist.

Trading securities, available-for-sale securities, and obligations related to securities sold short are normally valued using quoted market prices, including prices obtained from external fund managers and dealers.

To determine the fair value of financial instruments in a less active or inactive market where market prices are not readily observable due to low trading volumes or lack of recent trades, appropriate adjustments are made to available indicative prices to reflect the lack of liquidity in the market for the instruments. Where quoted prices or observable market data is not readily available, for example due to less liquid markets, management's judgement on valuation inputs is necessary to determine fair value.

Most derivatives are not exchange traded and are therefore normally valued using models which incorporate significant observable market parameters. Securities that are fair valued using models include certain types of asset-backed securities. Market inputs used for the fair value determination include observable interest rates, foreign exchange rates, credit spreads, equity prices, commodity prices and option volatilities.

Certain derivative and other financial instruments are valued using significant unobservable market inputs such as default correlations, among others. These inputs are subject to significantly more quantitative analysis and management judgement. Where significant unobservable market data is used as a key input into the valuation of certain derivatives, the inception profit on those derivatives is deferred over the life of the derivative contract, or until the valuation inputs become observable. This amount was not material in fiscal 2011 and 2010.

Management also applies judgement in the selection of internal valuation models for financial assets and financial liabilities carried at fair value in trading and non-trading portfolios. This includes consideration of credit risk, liquidity and ongoing direct costs in the determination of the fair value of derivatives. Management therefore exercises judgement when establishing market valuation adjustments that would be required in order to arrive at the fair value. Valuation adjustments recorded against the fair value of financial assets and financial liabilities totaled \$568 million as at October 31, 2011 (2010 – \$441 million), net of any write-offs. These valuation adjustments are mainly due to counterparty credit risk considerations for derivative transactions.

Uncertainty in the estimates used in the models can affect the fair value and financial results recorded. Historically, the impact of any change in these estimates was not expected to be significant; however, in the recent volatile market conditions where significant and rapid changes in observable model inputs can occur, greater volatility in fair values derived from these models is possible.

The Financial Instruments Disclosure Standard requires expanded disclosures of financial instruments and in particular with classification of all financial instruments carried at fair value into a hierarchy based on the determination of fair value. The valuation hierarchy is as follows:

- Level 1 – fair value is based on unadjusted quoted prices in active markets for identical instruments,

- Level 2 – fair value is based on models using inputs other than quoted prices for the instruments, or
- Level 3 – fair value is based on models using inputs that are not based on observable market data.

The Bank's assets and liabilities which are carried at fair value as classified by the valuation hierarchy are reflected in Note 26 on pages 159 to 161. The percentage of each asset and liability category by fair value hierarchy level are outlined as follows:

Fair value hierarchy of financial instruments

Assets				Liabilities	
Fair value hierarchy	Trading securities	Available-for-sale securities	Derivatives	Obligations related to securities sold short	Derivatives
Level 1	66%	28%	3%	66%	4%
Level 2	31%	69%	96%	34%	92%
Level 3	3%	3%	1%	–	4%
	100%	100%	100%	100%	100%

#### Other-than-temporary impairment

Available-for-sale securities, except for equity securities which do not have a quoted market price in an active market, are recorded at fair value on the balance sheet. Any unrealized gains and losses on these available-for-sale securities are recorded in other comprehensive income until realized, at which time they are recorded in the Consolidated Statement of Income.

Management reviews the fair value of available-for-sale securities each quarter to determine whether a decline in fair value compared to cost or amortized cost is other-than-temporary. To assess whether an other than temporary impairment has occurred, management must make certain judgements and estimates, and consider factors such as the length of time and extent to which the fair value of a security has been below its cost or amortized cost, prospects for recovery in fair value, the issuer's financial condition and future prospects, and the Bank's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. Once management has determined that the security has experienced an other-than-temporary decline in value, the carrying value of the security is written down to its estimated fair value. To estimate fair value, management considers all of the data gathered during the impairment evaluation process, as well as the market liquidity and the Bank's plans for the security. Other-than-temporary impairment charges are recorded in net gains on securities, other than trading in the Consolidated Statement of Income.

As at October 31, 2011, the gross unrealized gains on available-for-sale securities recorded in accumulated other comprehensive income were \$1,681 million (2010 – \$1,687 million), and the gross unrealized losses were \$426 million (2010 – \$270 million). Net unrealized gains were therefore \$1,255 million (2010 – \$1,417 million) before related derivative and other hedge amounts. The net unrealized gains after related derivative and other hedge amounts were \$1,028 million (2010 – \$1,189 million).

At October 31, 2011, the unrealized loss recorded in accumulated other comprehensive income relating to securities in an unrealized loss position for more than 12 months was \$174 million (2010 – \$211 million). This unrealized loss was comprised of \$124 million (2010 – \$157 million) in debt securities, \$43 million (2010 – \$37 million) related to preferred shares and \$7 million (2010 – \$17 million) related to equity securities. The unrealized losses on the debt securities arose primarily from changes in interest rates and credit spreads. Based on a number of considerations, including underlying credit of the issuers,

the Bank expects that future interest and principal payments will continue to be received on a timely basis in accordance with the contractual terms of the security.

The Bank also holds a diversified portfolio of available-for-sale equities. Since the Bank has the ability and intent to hold these securities until there is a recovery of fair value, which may be at maturity for debt securities, these unrealized losses are considered temporary in nature. The total fair value of the securities with continuous unrealized losses of more than 12 months was \$1,921 million as at October 31, 2011, (2010 – \$3,064 million).

#### Pensions and other employee future benefits

The Bank sponsors various pension and other future benefit plans for eligible employees in Canada, the United States, Mexico and other international operations. The pension benefits are generally based on years of service and average earnings at retirement. Other future benefits generally include post-retirement health care, dental care and life insurance, along with post-employment benefits such as long-term disability.

Employee future benefit expense and the related benefit obligation are calculated using actuarial methods and certain actuarial assumptions. Most of these assumptions are based on management's best estimate and are reviewed and approved annually. The key assumptions include the long-term rate of investment return on plan assets, future compensation, health care costs, employee turnover, retirement age and mortality. When making these estimates, management considers expectations of future economic trends and business conditions, including inflation rates, as well as other factors. Management also reviews historical investment returns, salary increases and health care costs. Another important assumption is the discount rate used for measuring the benefit obligation which is generally prescribed to be equal to the current yield on long term, high-quality corporate bonds with durations similar to the benefit obligation. The management assumptions with the greatest potential impact are the assumed long-term rate of return on assets and the discount rate used for measuring the benefit obligation. If the assumed long-term rate of return on assets was 1% lower (higher), the benefit expense for 2011 would have been \$53 million higher (lower). If the assumed discount rate was 1% lower (higher), the benefit expense for 2011 would have been \$110 million higher (lower).

The Bank uses a measurement date of July 31 or August 31, depending on the employee future benefit plan. Based on these measurement dates, the Bank reported a deficit of \$57 million in its principal pension plans as disclosed in Note 20 to the Consolidated Financial Statements on pages 144 to 146. There has been a decline in the funded status of the plans since 2010 due to a sharp reduction in prescribed discount rates in most countries resulting in higher benefit obligations. In addition, plan asset values are still below their pre-2008 levels.

The decline in the funded status of the plans will impact the benefit expense for fiscal year 2011 and possibly future years.

Actual experience that differs from assumptions made by management will result in a net actuarial gain or loss, consequently increasing or decreasing the benefit expense for future years. In accordance with GAAP, this difference is not recognized immediately as income or expense, but rather is amortized into income over future periods.

Management determines whether the unrecognized net actuarial gain or loss is more than 10% of the greater of the plan assets or benefit obligation at the beginning of each year. Any unrecognized net actuarial gain or loss above this 10% threshold is generally amortized into income over the estimated average remaining service period of

active employees ranging from 10 to 20 years for the Bank's principal pension plans, and 8 to 27 years for the Bank's principal other benefit plans.

Note 20 on pages 144 to 146 of the 2011 Consolidated Financial Statements contains details of the Bank's employee future benefit plans, such as the disclosure of pension and other future benefit amounts, management's key assumptions, and a sensitivity analysis of changes in these assumptions on the employee future benefit obligation and expense.

#### Corporate income taxes

Management exercises judgement in determining the provision for income taxes and future income tax assets and liabilities. The provision is based on management's expectations regarding the income tax consequences of transactions and events during the period. Management interprets the tax legislation for each jurisdiction in which the Bank operates and makes assumptions about the expected timing of the reversal of future assets and liabilities. If management's interpretations of the legislation differ from those of the tax authorities or if the actual timing of the reversals of the future assets and liabilities is not as anticipated, the provision for income taxes could increase or decrease in future periods. The Bank records a valuation allowance if management assesses it is likely that the future income tax assets will not be realized prior to expiration.

Total gross future tax assets related to subsidiaries' unused income tax losses from operations arising in prior years were \$287 million as at October 31, 2011 (2010 – \$347 million). These future tax assets have been reduced by a valuation allowance of \$19 million (2010 – \$1 million) due to uncertainty about the utilization of these losses. In addition, a future tax asset of \$70 million (2010 – \$70 million) related to a capital loss on disposal of subsidiary operations in a prior year has been reduced by a valuation allowance of \$70 million (2010 – nil). Furthermore, one of the Bank's foreign subsidiaries has a valuation allowance of \$316 million (2010 – \$316 million) related to certain loan loss allowances available to be applied against future taxable earnings. If and when there is greater certainty of realizing these future tax assets, the Bank will adjust the valuation allowances. The Bank's total net future income tax asset was \$992 million as at October 31, 2011 (2010 – \$1,775 million). Note 19 on pages 142 to 143 of the 2011 Consolidated Financial Statements contains further details with respect to the Bank's provisions for income taxes.

#### Variable interest entities

In the normal course of business, the Bank enters into arrangements with variable interest entities (VIEs) on behalf of its customers and for its own purposes. These VIEs can be generally categorized as multi-seller commercial paper conduits, funding vehicles, structured finance entities and collateralized debt obligation entities. Further details are provided on pages 47 to 50 in the off-balance sheet arrangements section.

Management is required to exercise judgement to determine whether a VIE should be consolidated. This evaluation involves understanding the arrangements, determining whether the entity is considered a VIE under the accounting rules, and determining the Bank's variable interests in the VIE. These interests are then compared to those of the unrelated outside parties to identify the holder that is exposed to the majority of the variability in the VIE's expected losses, expected residual returns, or both, to determine whether the Bank should consolidate the VIE. The comparison uses both qualitative and quantitative analytical techniques and use of models and involves the use of a number of assumptions about the business environment in which the VIE operates and the amount and timing of future cash flows.

Management is required to exercise judgement to determine if a primary beneficiary reconsideration event has occurred. In applying the guidance under Canadian GAAP, the Bank considers the following to be reconsideration events for VIEs where the Bank has a variable interest: changes to the VIE's governing documents or contractual arrangements; the primary beneficiary disposing some or all of its variable interest to unrelated parties; or new variable interests issued to parties other than the primary beneficiary.

During 2011, there were no reconsideration events that would have required the Bank to re-assess the primary beneficiary of its multi-seller conduit VIEs.

As described in Note 6 to the Consolidated Financial Statements (on page 130) and in the discussion on off-balance sheet arrangements (starting on pages 47 to 50), the Bank is not the primary beneficiary of the three multi-seller asset-backed commercial paper (ABCP) conduits that it sponsors and is not required to consolidate them on the Bank's balance sheet.

In the future, if the Bank were to become the primary beneficiary of these three Bank-sponsored multi-seller ABCP conduits and consolidate them on the Bank's balance sheet, based on the values as at October 31, 2011, it would result in an increase in the Bank's reported assets of approximately \$5 billion, and a reduction in capital ratios of approximately 10 to 15 basis points.

#### Goodwill

Under GAAP, goodwill is not amortized but assessed for impairment on an annual basis at the reporting unit level, or more frequently if an event or change in circumstances indicates the asset might be impaired. Goodwill is assessed for impairment by comparing the fair value of the reporting unit to its carrying amount. If the fair value of the reporting unit exceeds its carrying amount, no further testing is required. If the fair value is less than the carrying amount of the reporting unit, the amount of impairment loss is quantified by comparing the carrying value of goodwill to its fair value, calculated as the fair value of the reporting unit less the fair value of its assets and liabilities.

The Bank determines its reporting units' fair values from internally developed valuation models that consider factors such as normalized earnings, projected earnings, and price earnings multiples. Management judgement is required in estimating the fair value of reporting units and imprecision in any assumptions and estimates used in the fair value calculations could influence the determination of goodwill impairment. Management believes the assumptions and estimates used are reasonable and supportable in the current environment.

Based on the assessment approach described above, the Bank did not record any goodwill impairment losses for any of its seven reporting units in 2011.

#### Contingent liabilities

In the ordinary course of business, the Bank and its subsidiaries are routinely defendants in, or parties to a number of pending and threatened legal actions and proceedings, including actions brought on behalf of claimants. According to GAAP, the Bank should accrue for a loss if, in management's opinion, it is likely that a future event will confirm a liability existed at the balance sheet date and the amount of loss can be reasonably estimated.

In some cases, it may not be possible to determine whether a liability has been incurred or to reasonably estimate the amount of loss until the case is closer to resolution. In these instances, no accrual can be



made until that time. If it can be determined that a liability existed as at the balance sheet date, but a reasonable estimate involves a range within which a particular amount appears to be a better estimate, that amount would be accrued. If no such better estimate within a range exists, the Bank is required to accrue the minimum amount in the range. On a regular basis, management and internal and external experts are involved in assessing the adequacy of the Bank's contingent loss accrual. Changes in these assessments may lead to changes in litigation accruals.

While there is inherent difficulty in predicting the outcome of such matters, based on current knowledge, management does not believe that liabilities, if any, arising from pending litigation will have a material adverse effect on the Bank's consolidated financial position, or results of operations.

## Changes in accounting policies

### Current year

#### *Business combinations, Consolidated Financial Statements and non-controlling interests*

In January 2009, the CICA issued new accounting standards on Business Combinations, Consolidated Financial Statements and Non-controlling Interests. These standards are aligned with International Financial Reporting Standards (IFRS) and are effective for periods beginning on or after January 1, 2011, with earlier adoption permitted. If an entity elects to early adopt, all three standards are required to be adopted concurrently.

The business combination standard addresses the valuation of the identified assets and liabilities acquired in a business combination and the date at which the valuations should be determined. The other two standards are revised to ensure that the requirements embedded in the business combination standards are applied appropriately to the preparation of Consolidated Financial Statements and the accounting for non-controlling interests after the acquisition date.

The Bank to early adopted all three standards effective November 1, 2010, and all business acquisitions that occurred from November 1, 2010 have been accounted for under the revised standards.

The key principle underlying the business combinations standard is that all acquisitions be measured at fair value on the acquisition date. The key changes in the standards are:

- The acquisition accounting is at fair value (under prior GAAP only the Bank's proportionate share of fair value adjustments were accounted for);
- Non-controlling interests are measured at fair value (may exclude the proportionate share of goodwill) and treated as equity;
- Acquisition-related costs and restructuring costs are expensed as incurred while prior GAAP permitted some costs to be set up at acquisition date;
- Contingent consideration and other contingent liabilities, if any, are recorded at fair value on acquisition and subsequent changes in fair value are recorded in income;
- When the purchase consideration is in the form of equity shares of the acquirer, they are measured at fair value at the acquisition date, rather than the prior GAAP requirement which is the announcement date; and

- Step-acquisitions are accounted for at fair value allowing for a gain/ loss to be recognized in income on the date of the transaction due to the revaluation of the original investment.

Application of the non-controlling interests standard in 2011 resulted in a reclassification of non-controlling interests. The reclassifications relating to non-controlling interests were as follows:

- Non-controlling interests have been reclassified from liabilities to equity in the Consolidated Balance Sheet.
- Non-controlling interests' portion of income is no longer a deduction when calculating the net income in the Consolidated Statement of Income. Instead, net income is apportioned between the Bank's equity holders and the non-controlling interests.
- Prior period information has been reclassified to conform with current period presentation.

With respect to 2011 Consolidated Financial Statements, the adoption of these new Canadian accounting standards resulted in a net gain of \$286 million being recorded in the Consolidated Statement of Income. The gain arose substantially from accounting for the Bank's investment in DundeeWealth. The additional investment was considered a step-acquisition and accounted for on a fair value basis resulting in a gain of \$260 million from the revaluation of the Bank's original 19% investment in DundeeWealth.

The remaining \$26 million gain related to the acquisition accounting for a recent acquisition which was purchased at a price lower than fair value. The new standards require negative goodwill to be recognized in income without first reducing non-monetary assets, resulting in a higher gain in income under the new standards.

Under prior Canadian GAAP, \$26 million would have been recorded as negative goodwill. With the change, the total negative goodwill recognized for the acquisition was \$52 million.

The adoption of these new accounting standards resulted in additional purchase consideration of approximately \$350 million on the acquisition of DundeeWealth. The increase was due primarily to the following:

- The gain from the revaluation of the Bank's original investment is considered part of the purchase consideration; and
- The common shares issued by the Bank as consideration for the acquisition were valued at closing date price versus announcement date price as per prior GAAP (incremental \$110 million).

### Prior year

There were no changes in accounting standards in 2010 that affected financial statement reporting.

### Prior to November 1, 2009

#### *Classification and impairment of financial assets*

In August 2009, the CICA amended Section 3855, Financial Instruments – Recognition and Measurement, to harmonize classification and related impairment accounting requirements of Canadian GAAP with International Financial Reporting Standards (IFRS). The amendments allow certain debt securities not quoted in an active market to be classified as loans and measured at amortized cost. The Bank still has the ability to classify these instruments as available-for-sale, in which case they are measured at fair value with unrealized gains and losses recorded through other comprehensive income. The amendments also allow the reversal of impairment charges for debt securities classified as available-for-sale on the

occurrence of specific events. Impairment charges for debt securities classified as loans are recorded as provisions for credit losses. As a result of this change, the Bank reclassified certain securities not quoted in an active market with carrying value of \$9,447 million to loans. This reclassification resulted in reduction of after-tax accumulated other comprehensive loss of \$595 million. Details of this change in accounting policy are included in Note 1 to the Consolidated Financial Statements on page 117.

## Future Accounting Changes

### Transition to International Financial Reporting Standards (IFRS)

Canadian publicly accountable enterprises are required to adopt IFRS for fiscal years beginning on or after January 1, 2011. For the Bank, IFRS is effective for interim and annual periods commencing November 1, 2011 (adoption date), and includes the preparation and reporting of one year of comparative figures, including an opening balance sheet as at November 1, 2010 (transition date).

In order to prepare for the transition to IFRS, the Bank set up a significant project, implemented a project governance structure and developed an implementation plan which consisted of three phases: (i) planning and governance; (ii) review and detailed assessment; and (iii) design, development and implementation. The Bank has substantially completed all stages in all critical areas.

### Key elements of the Bank's IFRS changeover plan

The Bank's IFRS transition project is substantially completed and the current focus is on the finalization of the 2011 quarterly comparative results under IFRS. The following summarizes the Bank's status on key activities and milestones achieved.

#### Financial statement presentation

- Detailed assessments of accounting differences between Canadian GAAP and IFRS accounting policies applicable to the Bank are complete.
- The Bank's IFRS 1 transition elections and accounting policy choices have been assessed, selected and approved.
- The quantification and preparation of the IFRS opening balance sheet is complete. Refer to the reconciliation of Canadian GAAP to IFRS on page 86 for details.
- The quantification and preparation of the IFRS comparative year quarterly results and note disclosures are close to finalization.
- The format of the annual and interim IFRS financial statements including note disclosures is substantially complete. The statements and notes may evolve as the Bank continues to assess best practices and industry views.

#### Training and communication

- A global training strategy for IFRS was developed, approved and implemented.
- Training programs for Finance employees and other key stakeholders, including the Board of Directors and senior management, were provided.
- Training provided to credit/loan officers across the organization was conducted through various channels, and has been increasingly focused on specialized subjects.
- External communication was provided through the quarterly reports.
- An industry-wide education session on the impact of IFRS for equity analysts and rating agencies was held in Q1 2011 through the Canadian Bankers Association.

#### Information technology systems

- A solution for the capture of 2011 comparative year financial information (including IFRS opening balance sheet) was developed and implemented.
- The Bank did not identify the need for any other significant modifications to its systems as a result of IFRS changes.

#### Business and process activities

- Process changes have been substantially implemented as required to address the impact on financial reporting, and on other areas such as the Bank's performance measurement processes, including planning and budgeting, and capital management. None of these changes have been assessed to be material as they are not pervasive or systematic and have followed the Bank's existing change identification and management processes.

#### Control environment

- The Bank did not identify any material changes in internal controls over financial reporting (ICFR) and disclosure controls and procedures (DC&P) as a result of IFRS. No changes have been identified that may have a pervasive or systematic impact to policies, processes and systems. Any enhancements to policies, processes and systems were assessed and documented prior to implementation.

## Key differences between Canadian GAAP and IFRS

The key areas of differences between Canadian GAAP and IFRS that impacted the Bank were identified as follows:

### Consolidation

Under IFRS, an entity (including a special purpose entity (SPE)) is consolidated based solely on control, which is evidenced by the power to govern the financial and operating policies of an entity to obtain benefit. When assessing control under IFRS, all relevant factors are considered, including qualitative and quantitative aspects.

Canadian GAAP determines consolidation of an entity using two different frameworks: the variable interest entity (VIE) and voting control models. The consolidation of a VIE under Canadian GAAP is based on whether the Bank is exposed to the majority of the VIE's expected losses or residual returns, or both and considered to be the primary beneficiary.

The differences in the criteria for consolidation between IFRS and Canadian GAAP have resulted in certain SPEs being consolidated under IFRS that were not previously consolidated under Canadian GAAP.

### Derecognition

Canadian GAAP uses a control-based model to assess derecognition, while IFRS primarily focuses on whether risks and rewards have been substantially transferred. As a result of the differences in the derecognition criteria between IFRS and Canadian GAAP, the Bank's insured residential mortgage securitizations through the Canadian Government's Canada Mortgage Bond (CMB) Programs do not meet the derecognition criteria under IFRS. Additionally, mortgages securitized and retained as mortgage-backed securities (MBS), currently classified as available-for-sale (AFS) on the Bank's balance sheet under Canadian GAAP, would be reclassified to residential mortgages under IFRS.

### Employee benefits

IFRS requires an entity to make an accounting policy choice regarding the treatment of actuarial gains and losses, subsequent to the transition date. Under IFRS, actuarial gains and losses may either be:

- Deferred and amortized, subject to certain provisions (corridor approach);
- Immediately recognized in profit or loss; or
- Immediately recognized in other comprehensive income without subsequent recycling to income.

Under current Canadian GAAP, the Bank follows the corridor approach in recognizing actuarial gains and losses under its defined benefit plans. The Bank has finalized its decision under IFRS to adopt the corridor approach.

Furthermore, under IFRS, the defined benefit obligation and plan assets are measured at the balance sheet date while under Canadian GAAP, the Bank applied a measurement date of two or three months prior to the financial reporting date. IFRS also requires the use of fair value for determining the expected return on plan assets. The Bank used a market-related value under Canadian GAAP.

IFRS will result in different values for plan assets and benefit obligations due to changes in actuarial assumptions applicable for the different measurement dates. In addition the use of fair value versus market-related value will also result in different plan asset values. Plan asset values and benefit obligations impact future employee benefit expenses.

### The effects of changes in foreign exchange rates

IFRS requires that the functional currency for each foreign operation be determined based on the primary economic environment in which the entity operates. IFRS distinguishes primary factors to be considered in determining the functional currency of foreign operations while Canadian GAAP does not place any priority on any factors for consideration. This has resulted in a change in functional currency of certain subsidiaries on transition to IFRS.

### Share-based payments

IFRS requires cash-settled (i.e., liability-classified) awards to be remeasured at each reporting date based on changes in fair value of the liability as compared to intrinsic value under Canadian GAAP. This results in measurement differences between IFRS and Canadian GAAP. Furthermore, under IFRS, forfeitures are required to be estimated on the grant date and included in the measurement of the liability. However, under Canadian GAAP, forfeitures may be recognized either as they occur, or estimated on initial recognition. The Bank currently recognizes forfeitures as they occur.

### Impairment of goodwill

IFRS uses a one-step approach for impairment testing of non-financial assets by comparing the asset's carrying value to its recoverable amount. The recoverable amount is the higher of fair value less costs to sell, and value in use. Canadian GAAP however, uses a two-step approach for impairment testing: first comparing an asset's carrying value with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing the asset's carrying value with its fair value.

IFRS requires that goodwill be allocated and tested for impairment at the level of cash generating unit (CGU) or group of CGUs. Under IFRS, each CGU or group of CGUs to which goodwill is allocated should represent the lowest level within the entity at which goodwill is monitored for internal management purposes. The Bank, based on its analysis, has concluded that under IFRS the level at which goodwill is tested is the same as under Canadian GAAP. Goodwill has been tested for impairment upon transition to IFRS on November 1, 2010 and no impairment was determined.

The impact of these changes on the Bank's financial position at November 1, 2010 is reflected in the opening equity and balance sheet reconciliation on pages 85 to 89.

## Future changes in IFRS standards

The Bank actively monitors developments and changes in standards from the IASB and the Canadian Accounting Standards Board (AcSB), as well as regulatory requirements from the Canadian Securities Administrators and OSFI. The IASB recently issued the following revised standards and amendments to existing standards which will impact the Bank beginning November 1, 2013:

- IFRS 10, *Consolidated Financial Statements*,
- IFRS 11, *Joint Arrangements*,
- IFRS 12, *Disclosure of Interests in Other Entities*,
- IFRS 13, *Fair Value Measurement*,
- IAS 19, *Employee Benefits*,
- IAS 27, *Separate Financial Statements*, and
- IAS 28, *Investments in Associates and Joint Ventures*.

The Bank is not permitted to early adopt any of the above standards or amendments per the OSFI Advisory issued in October 2011. The impact of these future changes in IFRS standards has not been determined. The IASB issued amendments to IAS 1, *Presentation of Financial*

*Statements* which would impact the Bank beginning November 1, 2012; however, amendments to IAS 1 affect presentation only with no financial impact.

In a recent exposure draft issued, the IASB is proposing to postpone the mandatory application of IFRS 9, *Financial Instruments* from fiscal years beginning after January 1, 2013 to fiscal years beginning after January 1, 2015. The proposed change will therefore impact the Bank beginning fiscal 2016. Additionally, the IASB has published an exposure draft on Investment Entities whereby entities that meet the definition of an Investment Entity would be required to apply fair value accounting for their investments. This exemption is not available to the parent company unless it also meets the definition of an Investment Entity.

The IASB also expects to finalize changes to standards on hedge accounting (excluding portfolio hedging) and offsetting of financial assets as well as issue a revised exposure draft on impairment of financial assets by the end of 2011. The proposed implementation dates are currently not known.

## Impact of key differences at November 1, 2010

The impact of the adoption of IFRS on the Bank's equity as at November 1, 2010 is reflected below:

As at November 1, 2010 (\$ millions)	Total equity attributable to equity holders of the Bank					Capital instruments	NCI	Total equity
	Common shares	Retained earnings	AOCI	Other reserves	Preferred shares			
<b>Total shareholders' equity - Canadian GAAP</b>	\$5,750	\$21,932	\$(4,051)	\$25	\$3,975	\$ –	\$579	<b>\$28,210</b>
<b>Adjustments under IFRS</b>								
IFRS 1	–	(5,798)	4,164	–	–	–	(6)	<b>(1,640)</b>
Consolidation	–	(270)	35	–	–	956	–	<b>721</b>
Financial instruments	–	6	180	–	–	–	–	<b>186</b>
Employee benefits	–	(178)	–	–	–	–	(12)	<b>(190)</b>
Business combinations	–	(43)	–	–	–	–	(1)	<b>(44)</b>
Other	–	35	(59)	–	–	–	(1)	<b>(25)</b>
Subtotal – Adjustments under IFRS	\$ –	\$ (6,248)	\$ 4,320	\$ –	\$ –	\$ 956	\$ (20)	<b>\$ (992)</b>
<b>Total shareholders' equity – IFRS</b>	<b>\$5,750</b>	<b>\$ 15,684</b>	<b>\$ 269</b>	<b>\$25</b>	<b>\$3,975</b>	<b>\$ 956</b>	<b>\$559</b>	<b>\$27,218</b>

Referto pages 87 to 89 for explanatory notes.

AOCI= Accumulated other comprehensive income

NCI= Non-controlling interests

## Reconciliation of Canadian GAAP Balance Sheet to IFRS as at November 1, 2010

The Consolidated Statement of Financial Position presented on page 86 has been prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB). Previously, the Consolidated Financial Statements were prepared in accordance with Canadian GAAP. The following notes and tables present reconciliations and provide explanations of how the transition to IFRS has impacted the Bank's financial position as at November 1, 2010.

The reconciliation is presented in two steps on the following table.

Step 1 changes the presentation from Canadian GAAP to IFRS using the Canadian GAAP amounts.

The change in presentation for the Consolidated Statement of Financial Position is to reflect the assets and liabilities in order of liquidity, versus the product-based categorization used for Canadian GAAP. There are no changes in values.

Step 2 reflects the reclassification and remeasurement adjustments to the Canadian GAAP amounts by IFRS standard to arrive at the IFRS financial statements.

## Reconciliation of Canadian GAAP Balance Sheet to IFRS as at November 1, 2010

(\$ millions)

Step 1

Step 2

Changes in presentation					Canadian GAAP balance under IFRS presentation	IFRS 1 - first-time adoption of IFRS (1)	Consolidation (2)	Financial instruments (3)	Employee benefits (4)	Other (5)
Canadian GAAP presentation	Canadian GAAP balance	From	To							
Assets					Assets					
Cash resources					Cash and deposits with banks	\$ 701	\$ –	\$ –	\$ –	\$ –
Precious metals	\$ 39,530	\$ –	\$ –	\$ 39,530	Precious metals	–	–	–	–	–
Securities	6,497	–	–	6,497	Trading assets					
Trading	64,684	(2,764)(a)	–	61,920	Securities	–	67	–	–	–
Available-for-sale	47,228	(47,228)(b)	–	–						
Equity accounted investments					Loans	2,098	–	–	–	–
	4,651	(4,651)(c)	–	–						
			9,329(d)	9,329						
			2,764(a)		Financial assets designated at fair value through profit or loss	(4,039)	–	–	–	–
			2,098(d)		Securities purchased under resale agreements	–	–	–	–	–
Securities purchased under resale agreements	27,920	–	–	27,920	Derivative financial instruments	9	47	–	–	–
			26,852(e)	26,852	Financial investments	(16,395)	304	244	–	–
			47,228(b)	47,228						
Loans					Loans to customers					
Residential mortgages					Residential mortgages	31,844	–	–	–	–
Personal and credit cards	120,482	–	–	120,482	Personal and credit cards	–	983	–	–	–
Business and government loans	62,548	–	–	62,548	Business and government loans	813	1,444	–	–	–
Allowance for credit losses	103,981	(11,427)(d)	–	92,554	Allowance for credit losses	–	–	(157)	–	–
	2,787	–	–	2,787						
Derivative instruments	26,852	(26,852)(e)	–	–	Investments in associates and joint ventures	–	(37)	–	–	–
			4,651(c)	4,651	Deferred tax assets	567	176	(61)	58	–
Other assets	25,071	(2,219)(f)	–	22,852	Other assets	(1,380)	(279)	8	(3)	–
Total assets	\$526,657	\$(95,141)	\$95,141	\$ 526,657	Total assets	\$ 14,218	\$ 2,705	\$ 348	\$ 55	\$ –
Liabilities and shareholders' equity					Liabilities and equity					
Deposits					Deposits					
Personal, Business and government	\$339,537	\$ (2)(g)	\$ –	\$ 339,535	Deposits from customers	\$ 23,661	\$ (997)	\$ –	\$ –	\$ –
Banks	22,113	–	–	22,113	Deposits from banks	–	–	–	–	–
Derivative instruments					Derivative financial instruments	(552)	–	–	–	–
Obligations related to securities sold under repurchase agreements	31,990	–	–	31,990	Obligations related to securities sold under repurchase agreements	(7,498)	–	–	–	–
	40,286	–	–	40,286	Deferred tax liabilities	(6)	–	5	1	–
			445(h)	445						

Other liabilities	64,521	(445)(h)	2(g)	64,078	Other liabilities	253	2,981	157	244
<b>Shareholders' equity</b>					<b>Equity</b>				
Retained earnings	21,932	—	—	21,932	Retained earnings	(5,798)	(270)	6	(178)
Accumulated other comprehensive income (loss)	(4,051)	—	—	(4,051)	Accumulated other comprehensive income (loss)	4,164	35	180	—
Other equity	9,750	—	—	9,750	Other equity	—	956	—	—
Non-controlling interests in subsidiaries	579	—	—	579	Non-controlling interests	(6)	—	—	(12)
<b>Total liabilities and shareholders' equity</b>	<b>\$ 526,657</b>	<b>\$ (447)</b>	<b>\$ 447</b>	<b>\$ 526,657</b>	<b>Total liabilities and equity</b>	<b>\$ 14,218</b>	<b>\$ 2,705</b>	<b>\$ 348</b>	<b>\$ 55</b>

Explanation for changes in presentation

- (a) Securities classified under the Trading option (\$2,764) now presented under a separate line Financial assets designated at fair value through profit or loss (FVTPL).
- (b),(c) and (e) – moved to a different order or line item.
- (d) Split out from Business and government loans (\$11,427) to FVTPL (\$2,098) and Trading assets – loans (\$9,329).
- (f) Split out from Other assets (\$2,219) to Deferred tax assets.
- (g) Split out from Deposits - Personal, Business and government (\$2) to Other liabilities.
- (h) Split out from Other liabilities (\$445) to Deferred tax liabilities.



## Explanation of significant adjustments from Canadian GAAP to IFRS

1. IFRS 1, First-time Adoption of International Financial Reporting Standards (IFRS 1) – Optional exemptions and mandatory exceptions  
IFRS 1 requires retrospective application of all IFRS standards with certain optional exemptions and mandatory exceptions.

### a) Optional exemptions

The Bank elected to take the following optional exemptions available under IFRS 1 at November 1, 2010. The impact of the Bank's elections with respect to the optional exemptions under IFRS is discussed below.

#### Employee benefits

The Bank elected to recognize all cumulative unamortized actuarial losses for employee defined benefit plans at the transition date against opening retained earnings, instead of retrospective restatement. The impact of this election on transition was a decrease of \$1,037 million in other assets, an increase of \$395 million in other liabilities and a decrease of \$1,432 million in equity.

#### Cumulative translation differences

The Bank elected to reset cumulative translation differences for all foreign operations to zero at the date of transition to IFRS, instead of retrospectively recalculating the impact under IFRS. As a result, cumulative translation losses of \$4,507 million were reclassified from accumulated other comprehensive income (AOCI) to opening retained earnings within equity on November 1, 2010.

#### Designation of previously recognized financial instruments

The Bank reclassified and redesignated certain financial assets at the date of transition as follows:

- Corporate loans of \$2,098 million currently designated under the fair value option under Canadian GAAP were reclassified to the held-for-trading loans category under IFRS. Canadian GAAP did not permit these loans to be classified as held-for-trading.
- Certain debt securities (\$555 million) traded in an inactive market were reclassified from AFS securities to business and government loans.

The following exemptions were also elected that did not have an impact on the Bank's opening balance sheet.

#### Business combinations

The Bank has elected to not restate any business combinations prior to November 1, 2010.

#### Deemed cost

The Bank has elected not to remeasure items of property, plant and equipment or investment property at fair value on the transition date.

#### Leases

The Bank has elected not to reassess its determinations made under Canadian GAAP regarding whether an agreement contains a lease.

#### Fair value measurement of financial assets or financial liabilities at initial recognition

The Bank will prospectively apply the guidance in IAS 39, *Financial Instruments*: Recognition and Measurement as this guidance is

substantially aligned with Canadian GAAP. This guidance relates specifically to financial assets or financial liabilities initially recognized at fair value, where the fair value is established through valuation techniques.

#### Share-based payments

The Bank is not required to apply IFRS 2, *Share-based Payment* (IFRS 2) to equity instruments that were granted prior to November 7, 2002. The Bank is also not required to apply IFRS 2 to liabilities arising from share-based payment transactions that were settled before the transition date. The Bank has elected to apply both of these exemptions.

#### Insurance contracts

The Bank applied IFRS 4, *Insurance Contracts*, prospectively for reporting periods beginning on or after January 1, 2005. In addition, the Bank continued with its existing insurance accounting policies under IFRS.

#### Borrowing costs

The Bank will prospectively capitalize borrowing costs directly attributable to the acquisition, construction or production of qualifying assets as prescribed by IFRS. Under Canadian GAAP, the Bank's accounting policy was to expense these costs as incurred.

### b) Mandatory exceptions

The impact of the mandatory exceptions under IFRS are noted below.

#### Derecognition

The Bank has applied the IFRS derecognition requirements retrospectively to January 1, 2004.

Application of the derecognition criteria has resulted in:

- Recognition of cash equivalents, mortgages, AFS securities, other assets, funding liability and derecognition of swaps and other liabilities. Cash and cash equivalents increased by \$0.7 billion, residential mortgages increased by \$14 billion, AFS securities increased by \$0.8 billion and deferred taxes and other assets increased by \$0.1 billion. In addition, customer deposits increased by \$23.7 billion, obligations related to securities sold under repurchase agreements decreased by \$7.5 billion, and derivatives and other liabilities decreased by \$0.7 billion.
- Reclassification of MBS securities retained from AFS securities to residential mortgages. Residential mortgages increased by \$17.8 billion, AFS securities decreased by \$18.3 billion and deferred tax assets increased by \$0.1 billion and AOCI reduced by \$0.4 billion.
- Securities designated as trading using fair value option requirements no longer meeting the criteria for fair value option resulting in a reclassification. AFS securities increased by \$1.9 billion with a corresponding decrease in fair value option securities.

In aggregate, opening retained earnings increased by \$140 million and AOCI decreased by \$336 million in relation to the AFS securities resulting in a decrease in total equity of \$196 million.

#### Hedge accounting

There is no significant impact as the Bank's current hedging strategies qualify for hedge accounting under IFRS.

## Assets and liabilities of subsidiaries

Since the Bank has adopted IFRS subsequent to certain of its international subsidiaries, the classification and carrying value of assets and liabilities of these subsidiaries for the Consolidated Financial Statements must be the same as the standalone financial statements of these subsidiaries. The impact of this mandatory exception was a decrease in AFS securities of \$543 million with a corresponding increase in held-to-maturity securities of \$270 million, an increase to business and government loans of \$258 million, an increase in deferred taxes of \$3 million and a decrease in equity of \$12 million.

## Estimates

Estimates made in accordance with IFRS at the date of transition are consistent with those determined under Canadian GAAP with adjustments made only to reflect any differences in accounting policies. Any additional estimates that are required under IFRS, that were not required under Canadian GAAP, are based on the information and conditions that existed at the date of transition.

## 2. Consolidation

As a result of the differences in criteria, certain Special Purpose Entities (SPEs) are consolidated under IFRS that were not consolidated under Canadian GAAP. The resulting overall impact on the Bank's financial position is reflected below.

(\$ millions) Increase/(Decrease)					As at November 1, 2010
Entity	Assets	Liabilities	Retained earnings	AOCI	Capital instruments equity
Bank funding vehicles					
Consolidation of trusts	\$ (121)	\$ (127)	\$ 6	\$ –	\$ –
Liabilities & equity	–	(956)	–	–	956
	(121)	(1,083)	6	–	956
Multi-seller conduit	2,951	3,084	(168)	35	–
Other	(125)	(17)	(108)	–	–
Total	\$ 2,705	\$ 1,984	\$ (270)	\$ 35	\$ 956

AOCI= Accumulated other comprehensive income

## Bank funding vehicles

The Bank issues certain of its regulatory capital instruments through trusts that were not consolidated under Canadian GAAP. The trusts' deposits with the Bank were included under deposits on the Bank's Consolidated Balance Sheet under Canadian GAAP. Under IFRS, these trusts are consolidated. The impact of consolidation is a reduction of deposits from customers (\$1.1 billion), an increase to subordinated debentures (\$1.0 billion), a reduction in assets of \$121 million mainly from the elimination of intercompany balances between the Bank and the trusts, and an increase to retained earnings of \$6 million.

In addition, certain capital instruments issued by these trusts have been assessed under IFRS as being equity instruments or compound instruments comprising both liability and equity components. The equity classification, in whole or for part of the instruments, is due to certain payment features in these instruments that do not create an unavoidable obligation to pay cash. The trusts' instruments with these equity-based features are classified, in whole or in part as applicable, as capital instruments equity. The combined impact of consolidation and the reclassification of these instruments was a reduction of deposits from customers (\$2.9 billion), an increase to capital instrument liabilities (\$1.9 billion), an increase of \$29 million to other liabilities and an increase of \$956 million to capital instruments equity.

## Multi-seller conduit

The Bank-sponsored U.S. multi-seller conduit was consolidated on transition to IFRS as the Bank meets the control criteria under IFRS. The consolidation of this conduit increased assets by approximately \$3.0 billion, comprised primarily of loans and AFS securities, and liabilities by approximately \$3.1 billion, comprised primarily of deposits from customers. A net decrease in opening retained earnings of \$168 million and an increase of \$35 million to AOCI were also recorded.

## Other

Due to the consolidation of certain other SPEs, the underlying variable of a financial guarantee changed causing it to be classified as a derivative instrument. The financial guarantee was recorded at amortized cost under Canadian GAAP and is recorded at fair value under IFRS. The resulting impact was a decrease in assets of \$125 million, a decrease in liabilities of \$17 million, and a corresponding decrease to opening retained earnings of \$108 million.

## 3. Financial instruments

## Loan loss provisions

IFRS requires that provisions on undrawn commitments be presented in other liabilities on the Bank's balance sheet, whereas under Canadian GAAP, these provisions were presented in the allowance for credit losses. As a result, under IFRS, \$157 million was reclassified from allowance for credit losses to other liabilities.

Canadian GAAP requires the cessation of the accrual of interest income on any loans identified as being impaired. Under Canadian GAAP, the

Bank classified certain non-performing loans as impaired but no allowance was recorded against the loans due to the adequacy of collateral or security. Under IFRS, a loan is considered not to be impaired if there is no allowance recorded against it, and interest income continues to be accrued and recognized using the original effective interest rate. A net increase of \$6 million was recorded in opening retained earnings, offset by an increase in other assets of \$8 million and a reduction to deferred tax assets of \$2 million as a result of this remeasurement.



**Securities carried at cost**

IFRS requires that all AFS securities be measured at fair value, whereas Canadian GAAP permits equity securities not quoted in an active market to be measured at cost. On transition, an increase to the fair value adjustment of financial investments of \$244 million has resulted in a corresponding increase in AOCI of \$180 million, a decrease in deferred tax assets of \$59 million and an increase in deferred tax liabilities of \$5 million.

**4. Employee benefits**

The impact on the Bank's opening balance sheet for measurement differences between IFRS and Canadian GAAP is an increase in assets of \$55 million, an increase in other liabilities of \$245 million and a decrease in retaining earnings of \$178 million and non-controlling interests of \$12 million.

**5. Business combinations**

The business combinations model under IFRS represents a fair value model of accounting which is substantially converged with Canadian GAAP that the Bank early adopted on November 1, 2010. Although the Bank elected to not restate any business combinations that occurred prior to November 1, 2010, certain adjustments are still required upon transition to IFRS which are not grandfathered under the IFRS 1 election.

The impact of these adjustments to the Bank's opening balance sheet was a net reduction to equity of \$44 million, a decrease in assets of \$2 million and an increase in liabilities of \$42 million, primarily as a result of recognizing contingent consideration at fair value.

**6. Other**

There are a number of other implications of adopting IFRS that individually were not significant and are summarized below.

**Investment property**

IFRS requires that property held to earn rental income or for capital appreciation purposes should be classified separately as investment property under IFRS. Under Canadian GAAP, this property was classified as land, buildings and equipment. As a result, \$255 million was reclassified from land, buildings and equipment to investment property on the Bank's opening balance sheet under IFRS.

**Property, plant and equipment**

IFRS requires a more granular level of assessment of components of property, plant and equipment with each major component depreciated separately over its estimated useful life. The impact of this remeasurement for certain components of buildings on transition was a reduction in the land, buildings and equipment balance of \$46 million, an increase to deferred tax assets of \$12 million and a reduction to opening retained earnings of \$34 million.

**The effects of changes in foreign exchange rates**

Due to changes in functional currencies of certain subsidiaries on transition to IFRS, a transition adjustment was required to record the cumulative foreign exchange impact on certain AFS equity securities and the related funding liability, resulting in a decrease of \$51 million in AOCI and an increase of \$51 million in retained earnings.

**Financial reporting in hyperinflationary economies**

Under IFRS, if the functional currency of a foreign operation is hyperinflationary, then purchasing power adjustments are made to the financial statements of the foreign operation prior to translation. The impact from this remeasurement was an increase of \$32 million to equity accounted investments with an offsetting increase to opening retained earnings and AOCI.

**Share-based payments**

As a result of the difference in measurement bases between IFRS (fair value) and Canadian GAAP (intrinsic value), the resulting adjustment for awards that have not settled on transition date was a decrease to opening retained earnings of \$21 million, a decrease to deferred tax assets of \$1 million and an increase in other liabilities of \$20 million.

**Income taxes**

Under IFRS, income tax relating to items charged or credited directly to other comprehensive income or equity, is charged or credited directly to those same balance sheet accounts regardless of the period in which the income tax is recognized. On transition, this resulted in an increase of \$18 million in retained earnings and a related decrease in accumulated other comprehensive income.

**Interests in joint ventures**

IFRS provides two acceptable methods to account for interests in joint ventures: proportionate consolidation or the equity method instead of only proportionate consolidation under Canadian GAAP. The Bank has elected to apply the equity method of accounting to all of its joint ventures. The impact is a decrease of \$13 million in other liabilities with offsetting decreases in investments in associates and joint ventures of \$11 million and other assets of \$2 million.

**Insurance contracts**

IFRS requires the presentation of reinsurance transactions on a gross basis. This resulted in an increase of \$5 million to other assets and other liabilities on the balance sheet.

**Customer loyalty programs**

IFRS applies a revenue approach to accounting for customer loyalty programs, which requires a portion of the revenue earned at the time of the transaction to be deferred, as compared to a liability approach under Canadian GAAP. As a result, on transition, other liabilities increased by \$1 million with an offsetting decrease to opening retained earnings.

**Impact on regulatory capital**

The impact of the IFRS adjustments to the Bank's regulatory capital ratios is a decline of approximately 77 basis points on the Bank's Tier 1 capital ratio and an increase of 0.9 to the assets-to-capital multiple. The Office of the Superintendent of Financial Institutions (OSFI) has allowed financial institutions to elect to take the impact over five quarters. The Bank has elected to phase in the impact over five quarters.

## Related party transactions

The Bank provides regular banking services to its associated and other related corporations in the ordinary course of business. These services are on terms similar to those offered to non-related parties.

Loans granted to Directors and Officers in Canada are at market terms and conditions. Prior to March 1, 2001, the Bank granted loans to officers and employees at reduced rates in Canada. The loans granted prior to March 1, 2001, are grandfathered until maturity. In some of the Bank's foreign subsidiaries and branches, in accordance with local practices and laws, loans may be made available to officers of those units at reduced rates or on preferred terms. Loans to executive officers of the Bank totaled \$11.0 million as at October 31, 2011 (2010 – \$7.3 million), and loans to directors \$0.3 million (2010 – \$0.3 million).

Directors can use some or all of their fees to buy common shares at market rates through the Directors' Share Purchase Plan. Non-Officer Directors may elect to receive all or a portion of their fees in the form of deferred stock units which vest immediately. Commencing in 2004, the Bank no longer grants stock options to non-officer directors (refer to Note 18 of the Consolidated Financial Statements on page 139).

The Bank may also provide banking services to companies affiliated with the Bank's Directors. These commercial arrangements are conducted at the same market terms and conditions provided to all customers and follow the normal credit review processes within the Bank. The Bank's committed credit exposure to companies controlled by Directors totaled \$4.4 million as at October 31, 2011 (2010 – \$4.6 million), while actual utilized amounts were \$2.0 million (2010 – \$2.8 million).

The oversight responsibilities of the Audit and Conduct Review Committee (ACRC) with respect to related party transactions include reviewing policies and practices for identifying transactions with related parties that may materially affect the Bank, and reviewing the procedures for ensuring compliance with the Bank Act for related party transactions. The Bank Act requirements encompass a broader definition of related party transactions than is set out in GAAP. In addition, the ACRC approves the terms and conditions of all transactions between the Bank and Bank-sponsored asset securitization special purpose vehicles to ensure that such transactions are at market terms and conditions. The Bank has various procedures in place to ensure that related party information is identified and reported to the ACRC on a semi-annual basis. The ACRC is provided with detailed reports that reflect the Bank's compliance with its established procedures.

The Bank's Internal Audit department carries out audit procedures as necessary to provide the ACRC with reasonable assurance that the Bank's policies and procedures to identify, authorize and report related party transactions are appropriately designed and operating effectively.

## SUPPLEMENTARY DATA\*

## Geographic information

## T38 Net income by geographic segment

	2011					2010 <sup>(1)</sup>					2009 <sup>(1)</sup>				
For the fiscal years (\$ millions)	Canada	United States	Mexico	Other Inter-national	Total	Canada	United States	Mexico	Other Inter-national	Total	Canada	United States	Mexico	Other Inter-national	Total
Net interest income	\$ 5,313	\$ 421	\$ 867	\$ 3,385	\$9,986	\$ 4,960	\$ 458	\$ 801	\$ 3,144	\$9,363	\$ 4,482	\$ 641	\$ 821	\$ 3,332	\$9,276
Provision for credit losses	619	(13)	137	363	1,106	709	(54)	168	456	1,279	744	296	185	392	1,617
Other income	4,762	495	452	2,079	7,788	3,770	609	438	1,912	6,729	3,211	452	424	1,673	5,760
Non-interest expenses	5,428	408	858	2,810	9,504	4,653	327	778	2,379	8,137	4,529	255	791	2,317	7,892
Provision for income taxes	713	210	73	380	1,376	767	330	76	558	1,731	538	222	69	380	1,209
Net income <sup>(1)</sup>	\$ 3,315	\$ 311	\$ 251	\$ 1,911	\$5,788	\$ 2,601	\$ 464	\$ 217	\$ 1,663	\$4,945	\$ 1,882	\$ 320	\$ 200	\$ 1,916	\$4,318
Corporate adjustments <sup>(2)</sup>				(520)	\$5,268				(606)	\$4,339				(657)	\$3,661
Net income attributable to:															
Non-controlling interests				93						100					114
Preferred shareholders				216						201					186
Common shareholders				\$4,959						\$4,038					\$3,361

(1) Refer to Note 1 of the Consolidated Financial Statements for the impact of the new accounting standards adopted effective November 1, 2010. Prior period information has been reclassified to conform with current presentation.

(2) Revenues and expenses which have not been allocated to specific operating business lines are reflected in corporate adjustments.

## T39 Loans and acceptances by geography

Excludes reverse repos

						Percentage mix	
As at September 30 (\$ billions)	2011	2010	2009	2008	2007	2011	2007
<b>Canada</b>							
Atlantic provinces	\$ 17.9	\$ 17.0	\$ 15.7	\$ 16.2	\$ 14.2	5.9%	6.2%
Quebec	18.8	17.7	16.0	16.7	14.2	6.2	6.2
Ontario	105.3	101.7	96.0	103.5	91.1	34.8	39.5
Manitoba and Saskatchewan	7.0	6.6	6.2	6.4	6.0	2.3	2.6
Alberta	23.0	21.7	20.3	22.4	19.9	7.6	8.6
British Columbia	22.4	21.1	18.8	21.2	18.8	7.4	8.1
	194.4	185.8	173.0	186.4	164.2	64.2	71.2
<b>United States</b>	22.6	21.1	22.0	20.6	14.9	7.5	6.5
<b>Mexico</b>	10.6	10.1	9.7	10.9	8.9	3.5	3.9
<b>Other International</b>							
Latin America	27.5	23.4	21.5	22.6	11.6	9.1	5.0
Europe	8.7	6.5	12.9	18.4	10.2	2.9	4.4
Caribbean	19.1	18.8	15.6	14.8	12.2	6.3	5.3
Other	21.1	17.0	15.1	16.1	9.9	6.9	4.3
	76.4	65.7	65.1	71.9	43.9	25.2	19.0
General allowance <sup>(1)</sup>	(1.3)	(1.4)	(1.4)	(1.3)	(1.3)	(0.4)	(0.6)
<b>Total loans and acceptances</b>	<b>\$ 302.7</b>	<b>\$ 281.3</b>	<b>\$ 268.4</b>	<b>\$ 288.5</b>	<b>\$ 230.6</b>	<b>100.0%</b>	<b>100.0%</b>

(1) As at October 31.

## T40 Gross impaired loans by geographic segment

As at October 31 (\$ millions)	2011	2010	2009	2008	2007
Canada	\$ 1,195	\$ 1,276	\$ 1,258	\$ 761	\$ 606
United States	125	179	408	107	11
Mexico	159	250	238	216	188
Other International	2,609	2,716	2,035	1,410	739
<b>Total</b>	<b>\$ 4,088</b>	<b>\$ 4,421</b>	<b>\$ 3,939</b>	<b>\$ 2,494</b>	<b>\$ 1,544</b>

\* Certain comparative amounts in the Supplementary Data section have been reclassified to conform with current year presentation.

**T41** Specific provision for credit losses by geographic segment

For the fiscal years (\$ millions)	2011	2010	2009	2008	2007
Canada	\$ 618	\$ 712	\$ 804	\$ 388	\$ 295
United States	(13)	(13)	192	16	(91)
Mexico	137	168	185	141	68
Other International	364	456	392	85	23
<b>Total</b>	<b>\$ 1,106</b>	<b>\$ 1,323</b>	<b>\$ 1,573</b>	<b>\$ 630</b>	<b>\$ 295</b>

**T42** Cross-border exposure to select countries<sup>(1)</sup>

As at October 31 (\$ millions)	Loans	Trade	Interbank deposits	Government and other securities	Investment in subsidiaries and affiliates	Other	2011 Total	2010 Total
<b>Mexico</b>	\$ 1,793	\$ 300	\$ —	\$ 201	\$ 2,225	\$ 59	<b>\$ 4,578</b>	\$ 4,945
<b>Asia</b>								
China	\$ 1,998	\$ 2,695	\$ 353	\$ 475	\$ 95	\$ 63	<b>\$ 5,679</b>	\$ 4,304
India	2,085	1,411	46	207	—	50	<b>3,799</b>	2,943
South Korea	1,306	888	—	428	—	133	<b>2,755</b>	2,863
Thailand	20	28	—	22	1,430	1	<b>1,501</b>	1,633
Hong Kong	685	358	120	283	—	3	<b>1,449</b>	1,343
Malaysia	522	129	—	373	240	10	<b>1,274</b>	994
Japan	249	43	30	242	—	158	<b>722</b>	516
Other <sup>(2)</sup>	654	391	78	97	—	15	<b>1,235</b>	979
	<b>\$ 7,519</b>	<b>\$ 5,943</b>	<b>\$ 627</b>	<b>\$ 2,127</b>	<b>\$ 1,765</b>	<b>\$ 433</b>	<b>\$ 18,414</b>	<b>\$ 15,575</b>
<b>Latin America</b>								
Chile	\$ 1,684	\$ 290	\$ —	\$ 24	\$ 2,355	\$ 4	<b>\$ 4,357</b>	\$ 3,769
Peru	790	93	—	2	2,016	4	<b>2,905</b>	2,590
Brazil	727	1,787	—	231	155	3	<b>2,903</b>	2,167
Costa Rica	1,017	146	—	1	566	—	<b>1,730</b>	1,422
Panama	1,778	63	21	—	—	17	<b>1,879</b>	1,460
El Salvador	179	5	—	—	406	—	<b>590</b>	584
Uruguay	141	41	—	18	279	—	<b>479</b>	21
Colombia	333	73	—	2	59	—	<b>467</b>	330
Venezuela	6	—	—	5	131	—	<b>142</b>	110
	<b>\$ 6,655</b>	<b>\$ 2,498</b>	<b>\$ 21</b>	<b>\$ 283</b>	<b>\$ 5,967</b>	<b>\$ 28</b>	<b>\$ 15,452</b>	<b>\$ 12,453</b>

(1) Cross-border exposure represents a claim, denominated in a currency other than the local one, against a borrower in a foreign country on the basis of ultimate risk.

(2) Includes Indonesia, the Philippines, Singapore and Taiwan.

## Credit Risk

## T43 Loans and acceptances by type of borrower

As at October 31 (\$ billions)	2011		2010	2009
	Balance	% of total		
<b>Loans to households</b>				
Residential mortgages	\$ 122.8	39.9%	\$ 120.2	\$ 101.3
Credit cards	10.9	3.5	10.8	11.1
Personal loans	51.2	16.6	51.1	49.3
	184.9	60.0	182.1	161.7
<b>Loans to businesses and governments</b>				
Financial services	22.1	7.2	19.3	18.8
Wholesale and retail	11.5	3.7	10.4	10.9
Real estate	10.9	3.5	10.7	11.7
Oil and gas	10.2	3.3	9.3	9.8
Transportation	7.9	2.6	7.0	7.8
Automotive	5.7	1.8	5.2	5.1
Agriculture	5.5	1.8	4.5	4.3
Government	4.5	1.4	4.2	3.3
Hotels and leisure	3.9	1.3	4.1	4.8
Mining and primary metals	6.7	2.2	5.3	5.7
Utilities	5.3	1.7	5.0	6.1
Health care	4.4	1.4	4.0	4.0
Telecommunications and cable	4.4	1.4	3.7	4.6
Media	1.8	0.6	1.9	2.7
Chemical	1.7	0.6	1.2	1.3
Food and beverage	3.0	1.0	2.8	3.8
Forest products	1.1	0.4	1.1	1.5
Other	12.7	4.1	11.4	9.5
	123.3	40.0	111.1	115.7
	308.2	100.0%	293.2	277.4
General and sectoral allowances	(1.3)		(1.4)	(1.5)
<b>Total loans and acceptances</b>	<b>\$ 306.9</b>		<b>\$ 291.8</b>	<b>\$ 275.9</b>

## T44 Off balance-sheet credit instruments

As at October 31 (\$ billions)	2011	2010	2009	2008	2007
Commitments to extend credit <sup>(1)</sup>	\$ 107.5	\$ 103.6	\$ 104.5	\$ 130.2	\$ 114.3
Standby letters of credit and letters of guarantee	21.1	20.4	21.9	27.8	18.4
Securities lending, securities purchase commitments and other	14.2	14.0	12.7	12.8	13.8
<b>Total</b>	<b>\$ 142.8</b>	<b>\$ 138.0</b>	<b>\$ 139.1</b>	<b>\$ 170.8</b>	<b>\$ 146.5</b>

(1) Excludes commitments which are unconditionally cancellable at the Bank's discretion at any time.

**T45** Changes in net impaired loans

For the fiscal years (\$ millions)	2011	2010	2009	2008	2007
<b>Gross impaired loans</b>					
Balance at beginning of year	\$ 4,421	\$ 3,939	\$ 2,494	\$ 1,544	\$ 1,870
Net additions					
New additions	3,007	3,298	4,461	2,158	1,338
Declassifications, payments and loan sales	(1,948)	(1,772)	(1,149)	(846)	(891)
	1,059	1,526	3,312	1,312	447
Acquisition of subsidiaries <sup>(1)</sup>	—	571	—	341	33
Writeoffs					
Residential mortgages	(130)	(82)	(64)	(59)	(5)
Personal loans	(374)	(804)	(669)	(424)	(301)
Credit cards	(628)	(352)	(470)	(268)	(183)
Business and government	(192)	(347)	(457)	(129)	(209)
	(1,324)	(1,585)	(1,660)	(880)	(698)
Foreign exchange and other	(68)	(30)	(207)	177	(108)
Balance at end of year	4,088	4,421	3,939	2,494	1,544
<b>Specific allowance for credit losses</b>					
Balance at beginning of year	1,377	1,376	1,303	943	1,300
Acquisition of subsidiaries	—	14	9	232	38
Specific provision for credit losses	1,106	1,323	1,573	630	295
Writeoffs	(1,324)	(1,585)	(1,660)	(880)	(698)
Recoveries by portfolio					
Residential mortgages	55	18	27	34	4
Personal loans	71	122	94	73	73
Credit cards	152	56	47	45	35
Business and government	71	68	55	79	74
	349	264	223	231	186
Foreign exchange and other <sup>(2)</sup>	(43)	(15)	(72)	147	(178)
Balance at end of year	1,465	1,377	1,376	1,303	943
<b>Net impaired loans</b>					
Balance at beginning of year	3,044	2,563	1,191	601	570
Net change in gross impaired loans	(333)	482	1,445	950	(326)
Net change in specific allowance for credit losses	(88)	(1)	(73)	(360)	357
Balance at end of year	2,623	3,044	2,563	1,191	601
General allowance for credit losses	1,352	1,410	1,450	1,323	1,298
Sectoral allowance	—	—	44	—	—
Balance after deducting general and sectoral allowance	\$ 1,271	\$ 1,634	\$ 1,069	\$ (132)	\$ (697)

(1) Represents primarily \$553 of impaired loans purchased as part of the acquisitions of R-G Premier Bank of Puerto Rico. These impaired loans are carried at fair value on date of acquisition and no allowance for credit losses is recorded at the acquisition date as credit losses are included in the determination of the fair value.

(2) Includes \$1 transferred to/from other liabilities in 2011, \$4 transferred to other liabilities in 2010, \$3 transferred from other liabilities in 2009, and \$3 transferred from other liabilities in 2008.

**T46** Provisions for credit losses

For the fiscal years (\$ millions)	2011	2010	2009	2008	2007
Specific provisions for credit losses					
Gross specific provisions	\$ 1,623	\$ 1,708	\$ 1,969	\$ 1,084	\$ 720
Reversals	(168)	(121)	(173)	(223)	(239)
Recoveries	(349)	(264)	(223)	(231)	(186)
Net specific provisions for credit losses	1,106	1,323	1,573	630	295
General provision	(60)	(40)	127	—	(25)
Sectoral provision	—	(44)	44	—	—
<b>Total net provisions for credit losses</b>	<b>\$ 1,046</b>	<b>\$ 1,239</b>	<b>\$ 1,744</b>	<b>\$ 630</b>	<b>\$ 270</b>

**T47** Specific provisions for credit losses by type of borrower

For the fiscal years (\$ millions)	2011	2010	2009	2008	2007
<b>Personal</b>					
Residential mortgages	\$ 176	\$ 104	\$ 25	\$ —	\$ (9)
Other personal loans	763	972	1,042	636	449
	939	1,076	1,067	636	440
<b>Businesses and governments</b>					
Financial services	(7)	6	199	7	(10)
Wholesale and retail	23	51	101	—	(39)
Real estate	14	16	59	(69)	(11)
Oil and gas	48	2	34	43	(1)
Transportation	41	44	(9)	(15)	(9)
Automotive	(2)	(4)	19	5	1
Agriculture	(1)	(4)	19	5	(4)
Government	—	1	(35)	(18)	2
Hotels and leisure	1	81	10	(4)	(5)
Mining and primary metals	1	(2)	3	(16)	(4)
Utilities	3	—	—	(2)	(18)
Health care	4	8	4	2	(1)
Telecommunications and cable	1	(4)	6	(3)	(5)
Media	15	(15)	52	11	(13)
Chemical	—	(3)	1	7	(22)
Food and beverage	2	2	8	(17)	(6)
Forest products	4	2	5	3	—
Other	20	66	30	55	—
	167	247	506	(6)	(145)
<b>Total specific provisions</b>	<b>\$ 1,106</b>	<b>\$ 1,323</b>	<b>\$ 1,573</b>	<b>\$ 630</b>	<b>\$ 295</b>

**T48** Impaired loans by type of borrower

As at October 31 (\$ millions)	2011			2010		
	Gross	Specific allowance for credit losses	Net	Gross	Specific allowance for credit losses	Net
<b>Personal</b>						
Residential mortgages	\$ 1,568	\$ (268)	\$ 1,300	\$ 1,694	\$ (222)	\$ 1,472
Other personal loans	853	(683)	170	756	(666)	90
	2,421	(951)	1,470	2,450	(888)	1,562
<b>Businesses and governments</b>						
Financial services	57	(24)	33	91	(38)	53
Wholesale and retail	187	(85)	102	225	(88)	137
Real estate	471	(86)	385	705	(88)	617
Oil and gas	55	(61)	(6)	8	(3)	5
Transportation	118	(51)	67	188	(51)	137
Automotive	15	(1)	14	15	(11)	4
Agriculture	63	(23)	40	78	(31)	47
Government	32	(6)	26	48	(10)	38
Hotels and leisure	221	(31)	190	331	(49)	282
Mining and primary metals	21	(10)	11	18	(11)	7
Utilities	13	(4)	9	2	–	2
Health care	44	(9)	35	23	(10)	13
Telecommunications and cable	27	(10)	17	18	(5)	13
Media	42	(16)	26	4	(3)	1
Chemical	1	–	1	1	(1)	–
Food and beverage	35	(14)	21	35	(16)	19
Forest products	22	(8)	14	14	(5)	9
Other	243	(75)	168	167	(69)	98
	1,667	(514)	1,153	1,971	(489)	1,482
<b>Total</b>	\$ 4,088	\$ (1,465)	\$ 2,623	\$ 4,421	\$ (1,377)	\$ 3,044

**T49** Total credit risk exposures by geography<sup>(1,2)</sup>

As at October 31 (\$ millions)	2011				2010	
	Non-Retail					
	Drawn	Undrawn	Other exposures <sup>(3)</sup>	Retail	Total	Total
<b>Canada</b>	\$ 53,446	\$ 25,240	\$ 25,092	\$ 201,866	\$ 305,644	\$ 280,984
<b>United States</b>	39,500	18,564	22,067	472	80,603	73,316
<b>Mexico</b>	6,906	161	760	4,674	12,501	12,658
<b>Other International</b>						
Europe	14,630	4,784	7,865	–	27,279	27,153
Caribbean	15,139	2,242	2,088	12,366	31,835	30,490
Latin America	18,541	820	1,684	8,431	29,476	25,267
Other	27,670	3,167	2,333	122	33,292	26,869
<b>Total</b>	\$ 175,832	\$ 54,978	\$ 61,889	\$ 227,931	\$ 520,630	\$ 476,737

(1) Geographic segmentation is based upon the location of the ultimate risk of the credit exposure. Includes all credit risk portfolios and excludes available-for-sale equities and other assets.

(2) Exposure at default.

(3) Includes off-balance sheet lending instruments such as letters of credit, letters of guarantee, derivatives, securitization and repo-style transactions after collateral.

**T50** AIRB credit risk exposures by maturity<sup>(1,2)</sup>

As at October 31 (\$ millions)	2011				2010	
	Drawn	Undrawn	Other exposures <sup>(3)</sup>	Total		Total
<b>Residual maturity</b>						
<b>Non-retail</b>						
Less than 1 year	\$ 83,771	\$ 19,136	\$ 27,782	\$ 130,689		\$ 88,543
One to 5 years	49,513	32,514	30,390	112,417		90,427
Over 5 years	8,063	1,302	2,260	11,625		10,055
<b>Total non-retail</b>	\$ 141,347	52,952	60,432	254,731		\$ 189,025
<b>Retail</b>						
Less than 1 year	\$ 15,515	\$ 12,410	\$ –	\$ 27,925		\$ 22,382
One to 5 years	120,296	–	–	120,296		115,298
Over 5 years	3,989	–	–	3,989		2,866
Revolving credits <sup>(4)</sup>	33,264	12,195	–	45,459		39,138
<b>Total retail</b>	\$ 173,064	\$ 24,605	\$ –	\$ 197,669		\$ 179,684
<b>Total</b>	\$ 314,411	\$ 77,557	\$ 60,432	\$ 452,400		\$ 368,709

(1) Remaining term to maturity of the credit exposure. Includes all credit risk portfolios and excludes available-for-sale equities and other assets.

(2) Exposure at default, before credit risk mitigation.

(3) Off-balance sheet lending instruments, such as letters of credit, letters of guarantee, securitization, derivatives and repo-style transactions after collateral.

(4) Credit cards and lines of credit with unspecified maturity.



**T51** Total credit risk exposures and risk-weighted assets

As at October 31 (\$ millions)	2011				2010	
	Exposure at Default <sup>(1)</sup>			Total Risk-weighted assets	Exposure at Default Total <sup>(1)</sup>	Total Risk-weighted assets
	AIRB	Standardized <sup>(2)</sup>	Total			
<b>Non-retail</b>						
<b>Corporate</b>						
Drawn	\$ 72,341	\$ 27,455	\$ 99,796	\$ 75,405	\$ 90,678	\$ 71,290
Undrawn	40,712	1,797	42,509	20,783	39,285	19,553
Other <sup>(3)</sup>	13,821	1,401	15,222	7,307	12,711	6,754
	126,874	30,653	157,527	103,495	142,674	97,597
<b>Bank</b>						
Drawn	22,373	3,651	26,024	8,473	25,835	6,107
Undrawn	11,153	188	11,341	2,851	11,744	3,162
Other <sup>(3)</sup>	10,369	56	10,425	1,536	10,496	1,800
	43,895	3,895	47,790	12,860	48,075	11,069
<b>Sovereign</b>						
Drawn	46,633	3,379	50,012	4,392	43,301	2,080
Undrawn	1,087	41	1,128	225	635	71
Other <sup>(3)</sup>	236	–	236	17	151	6
	47,956	3,420	51,376	4,634	44,087	2,157
<b>Total Non-retail</b>						
Drawn	141,347	34,485	175,832	88,270	159,814	79,477
Undrawn	52,952	2,026	54,978	23,859	51,664	22,786
Other <sup>(3)</sup>	24,426	1,457	25,883	8,860	23,358	8,560
	\$218,725	\$ 37,968	\$256,693	\$ 120,989	\$ 234,836	\$ 110,823
<b>Retail</b>						
<b>Retail residential mortgages</b>						
Drawn	\$127,349	\$ 16,592	\$143,941	\$ 10,446	\$ 137,931	\$ 12,107
Undrawn	–	–	–	–	8,068	132
	127,349	16,592	143,941	10,446	145,999	12,239
<b>Secured lines of credit</b>						
Drawn	17,937	–	17,937	4,651	18,066	967
Undrawn	11,780	–	11,780	1,393	78	1
	29,717	–	29,717	6,044	18,144	968
<b>Qualifying retail revolving exposures (QRRE)</b>						
Drawn	14,239	–	14,239	5,867	13,835	6,967
Undrawn	12,195	–	12,195	1,418	5,948	926
	26,434	–	26,434	7,285	19,783	7,893
<b>Other retail</b>						
Drawn	13,539	13,670	27,209	15,911	24,780	14,990
Undrawn	630	–	630	67	211	131
	14,169	13,670	27,839	15,978	24,991	15,121
<b>Total retail</b>						
Drawn	173,064	30,262	203,326	36,875	194,612	35,031
Undrawn	24,605	–	24,605	2,878	14,305	1,190
	\$197,669	\$ 30,262	\$227,931	\$ 39,753	\$ 208,917	\$ 36,221
Securitization exposures	14,466	–	14,466	4,423	15,503	4,606
Trading derivatives	21,540	–	21,540	5,612	17,481	5,425
<b>Subtotal</b>	<b>\$452,400</b>	<b>\$ 68,230</b>	<b>\$520,630</b>	<b>\$ 170,777</b>	<b>\$ 476,737</b>	<b>\$ 157,075</b>
Equities	3,184	–	3,184	6,606	2,984	5,664
Other assets	–	35,968	35,968	15,622	28,404	12,127
<b>Total credit risk, before scaling factor</b>	<b>\$455,584</b>	<b>\$ 104,198</b>	<b>\$559,782</b>	<b>\$ 193,005</b>	<b>\$ 508,125</b>	<b>\$ 174,866</b>
Add-on for 6% scaling factor <sup>(4)</sup>				7,743		5,649
<b>Total credit risk</b>	<b>\$455,584</b>	<b>\$ 104,198</b>	<b>\$559,782</b>	<b>\$ 200,748</b>	<b>\$ 508,125</b>	<b>\$ 180,515</b>

(1) Outstanding amount for on-balance sheet exposures and loan equivalent amount for off-balance sheet exposures, before credit risk mitigation.

(2) Net of specific allowances for credit losses.

(3) Other exposures include off-balance sheet lending instruments, such as letters of credit, letters of guarantee, non-trading derivatives and repo-style exposures, after collateral.

(4) Basel Committee imposed scaling factor (6%) on risk-weighted assets for Internal ratings-based credit risk portfolios.

## Revenues and Expenses

## T52 Volume/rate analysis of changes in net interest income

	Increase (decrease) due to change in:					
	2011 versus 2010			2010 versus 2009		
Taxable equivalent basis <sup>(1)</sup>	Average volume	Average rate	Net change	Average volume	Average rate	Net change
For the fiscal years (\$ millions)						
Net interest income						
Total earning assets	\$ 1,624	\$ 198	\$ 1,822	\$ 652	\$ (2,698)	\$ (2,046)
Total interest-bearing liabilities	(819)	(353)	(1,172)	(299)	2,636	2,337
Change in net interest income	\$ 805	\$ (155)	\$ 650	\$ 353	\$ (62)	\$ 291

(1) Refer to the non-GAAP measures on page 29.

## T53 Provision for income taxes

	2011	2010	2009	2008	2007	2011 versus 2010
For the fiscal years (\$ millions)						
Income taxes						
Provision for income taxes	\$ 1,410	\$ 1,745	\$ 1,133	\$ 691	\$ 1,063	(19)%
Taxable equivalent adjustment <sup>(1)</sup>	287	286	288	416	531	–
Provision for income taxes (TEB) <sup>(1)</sup>	1,697	2,031	1,421	1,107	1,594	(16)
Other taxes						
Payroll taxes	222	197	184	177	164	13
Business and capital taxes	183	171	177	116	143	7
Harmonized sales tax and other <sup>(2)</sup>	263	133	136	129	143	98
Total other taxes	668	501	497	422	450	33
Total income and other taxes (TEB) <sup>(3)</sup>	\$ 2,365	\$ 2,532	\$ 1,918	\$ 1,529	\$ 2,044	(7)%
Net income before income taxes	6,678	\$ 6,084	\$ 4,794	\$ 3,950	\$ 5,226	10%
Effective income tax rate (%)	21.1	28.7	23.6	17.5	20.3	(7.6)
Effective income tax rate (TEB) (%) <sup>(4)</sup>	24.4	31.9	28.0	25.4	27.7	(7.5)
Total tax rate (%) <sup>(5)</sup>	28.3	34.1	30.8	25.5	26.7	(5.8)

(1) Taxable equivalent basis. Refer to the non-GAAP measures on page 29.

(2) Harmonized sales tax was implemented effective July 2010. Prior to this, amounts include goods and services tax.

(3) Comprising \$1,398 of Canadian taxes (2010 – \$1,365; 2009 – \$675; 2008 – \$569; 2007 – \$1,175) and \$967 of foreign taxes (2010 – \$1,167; 2009 – \$1,243; 2008 – \$960; 2007 – \$869).

(4) Provision for income tax, expressed on a taxable equivalent basis, as a percentage of net income before income taxes.

(5) Total income and other taxes as a percentage of net income before income and other taxes.

## Other Information

T54 Assets under administration and management<sup>(1)</sup>

(\$ billions)	2011	2010	2009	2008	2007
Assets under administration					
Personal					
Retail brokerage	\$115.2	\$ 87.7	\$ 76.4	\$ 74.3	\$ 77.4
Investment management and trust	72.0	68.8	60.1	55.8	53.1
	187.2	156.5	136.5	130.1	130.5
Mutual funds	76.0	38.8	31.6	27.9	24.8
Institutional	62.1	48.5	47.0	45.1	39.8
Total	\$325.3	\$ 243.8	\$ 215.1	\$ 203.1	\$ 195.1
Assets under management <sup>(2)</sup>					
Personal	\$ 17.2	\$ 14.3	\$ 13.6	\$ 12.5	\$ 11.2
Mutual funds	67.0	33.2	27.5	23.4	20.6
Institutional	18.8	6.0	5.2	4.6	4.3
Total	\$103.0	\$ 53.5	\$ 46.3	\$ 40.5	\$ 36.1

(1) 2009 to 2011 data as at October 31; 2007 and 2008 data as at September 30.

(2) Prior period amounts have been restated to reflect the updated definition of assets under management. Refer to page 29 for a discussion on non-GAAP measures.

## T55 Fees paid to the shareholders' auditors

For the fiscal years (\$ millions)	2011	2010
Audit services	\$18.9	\$18.0
Audit-related services	1.4	0.6
Tax services outside of the audit scope	0.1	0.1
Other non-audit services	0.5	0.2
Total	\$20.9	\$18.9

## T56 Selected quarterly information

	2011				2010			
As at and for the quarter ended	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>Operating results</b> (\$ millions)								
Net interest income	2,398	2,358	2,214	2,300	2,243	2,173	2,058	2,147
Net interest income (TEB <sup>(1)</sup> )	2,472	2,431	2,283	2,371	2,313	2,243	2,129	2,222
Total revenue	4,346	4,300	4,517	4,125	3,942	3,784	3,873	3,906
Total revenue (TEB <sup>(1)</sup> )	4,420	4,373	4,586	4,196	4,012	3,854	3,944	3,981
Provision for credit losses	272	243	262	269	254	276	338	371
Non-interest expenses	2,519	2,381	2,378	2,286	2,183	2,023	1,967	2,009
Provision for income taxes	315	391	334	370	390	399	444	512
Provision for income taxes (TEB <sup>(1)</sup> )	389	464	403	441	460	469	515	587
Net income <sup>(2)</sup>	1,240	1,285	1,543	1,200	1,115	1,086	1,124	1,014
Net income attributable to common shareholders	1,168	1,204	1,464	1,123	1,040	1,011	1,048	939
<b>Operating performance</b>								
Basic earnings per share (\$)	1.08	1.11	1.36	1.08	1.00	0.98	1.02	0.92
Diluted earnings per share (\$)	1.07	1.11	1.36	1.07	1.00	0.98	1.02	0.91
Diluted cash earnings per share (\$) <sup>(1)</sup>	1.10	1.14	1.38	1.09	1.02	0.99	1.04	0.93
Return on equity (%) <sup>(1)</sup>	16.6	17.8	22.9	18.7	17.9	18.2	19.9	17.4
Productivity ratio (%) (TEB) <sup>(1)</sup>	57.0	54.5	51.8	54.5	54.4	52.5	49.9	50.5
Net interest margin on total average assets (%) (TEB) <sup>(1)</sup>	1.63	1.67	1.68	1.75	1.75	1.68	1.73	1.76
<b>Balance sheet information</b> (\$ billions)								
Cash resources and securities	174.3	184.4	200.3	175.5	162.6	167.4	181.4	173.5
Loans and acceptances	306.9	301.1	294.4	292.2	291.8	286.5	281.3	275.8
Total assets	575.3	567.7	571.5	541.3	526.7	523.4	526.1	507.6
Deposits	396.4	390.2	396.1	374.9	361.7	365.2	371.2	364.9
Preferred shares	4.4	4.4	4.4	4.0	4.0	4.0	4.0	3.7
Common shareholders' equity	28.4	27.4	26.4	24.1	23.7	22.5	21.6	21.6
Assets under administration <sup>(1)</sup>	325.3	329.8	333.0	252.9	243.8	229.3	231.0	226.3
Assets under management <sup>(1)(3)</sup>	103.0	104.9	106.8	55.8	53.5	49.9	50.5	48.9
<b>Capital measures</b>								
Tier 1 capital ratio (%)	12.2	12.3	12.0	11.8	11.8	11.7	11.2	11.2
Total capital ratio (%)	13.9	14.1	13.9	13.7	13.8	13.8	13.3	13.5
Tangible common equity to risk-weighted assets (%) <sup>(1)(4)</sup>	9.6	9.6	9.3	9.9	9.7	9.4	8.8	8.8
Asset-to-capital multiple	16.6	17.0	17.6	17.6	17.0	17.1	17.7	16.8
Risk-weighted assets (\$ billions)	234.0	224.8	222.3	215.3	215.0	213.0	215.1	215.9
<b>Credit quality</b>								
Net impaired loans <sup>(5)</sup> (\$ millions)	2,623	2,771	2,881	2,944	3,044	2,598	2,475	2,677
General allowance for credit losses (\$ millions)	1,352	1,382	1,412	1,410	1,410	1,450	1,450	1,450
Sectoral allowance (\$ millions)	—	—	—	—	—	—	24	43
Net impaired loans as a % of loans and acceptances <sup>(5)</sup>	0.85	0.92	0.98	1.01	1.04	0.91	0.88	0.97
Specific provision for credit losses as a % of average loans and acceptances (annualized)	0.40	0.38	0.38	0.38	0.41	0.43	0.55	0.55
<b>Common share information</b>								
Share price (\$)								
High	54.96	59.73	61.28	57.72	55.76	52.89	55.33	49.93
Low	49.00	53.77	56.25	52.11	49.00	47.71	44.39	44.12
Close	52.53	54.18	57.69	56.46	54.67	51.59	51.78	44.83
Shares outstanding (millions)								
Average – Basic	1,086	1,082	1,079	1,044	1,039	1,034	1,030	1,025
Average – Diluted	1,087	1,084	1,080	1,044	1,040	1,036	1,031	1,028
End of period	1,089	1,085	1,082	1,047	1,043	1,038	1,034	1,029
Dividends per share (\$)	0.52	0.52	0.52	0.49	0.49	0.49	0.49	0.49
Dividend yield (%) <sup>(6)</sup>	4.0	3.7	3.5	3.6	3.7	3.9	3.9	4.2
Market capitalization (\$ billions)	57.2	58.8	62.4	59.1	57.0	53.6	53.5	46.1
Book value per common share (\$)	26.06	25.21	24.39	23.03	22.68	21.67	20.87	21.04
Market value to book value multiple	2.0	2.1	2.4	2.5	2.4	2.4	2.5	2.1
Price to earnings multiple (trailing 4 quarters)	11.3	11.9	13.1	13.9	14.0	13.8	14.2	13.0

(1) Non-GAAP measure. Refer to the Non-GAAP Measures on page 29.

(2) Refer to Note 1 of the Consolidated Financial Statements for the impact of the new accounting standards adopted effective November 1, 2010. Prior period information has been reclassified to conform with current period presentation.

(3) Comparative amounts have been restated to reflect the updated definition of assets under management. Refer to page 29 for discussion on non-GAAP measures.

(4) Comparative amounts have been restated to reflect the revised definition of tangible common equity to risk-weighted assets. Refer to page 29 for discussion of non-GAAP measures.

(5) Net impaired loans are impaired loans less the specific allowance for credit losses.

(6) Based on the average of the high and low common share price for the year.

## Eleven-year Statistical Review

## T57 Consolidated Balance Sheet

As at October 31 (\$ millions)	2011	2010	2009	2008
<b>Assets</b>				
<b>Cash resources</b>	<b>\$ 54,471</b>	<b>\$ 46,027</b>	<b>\$ 43,278</b>	<b>\$ 37,318</b>
<b>Securities</b>				
Trading	63,327	64,684	58,067	48,292
Available-for-sale	52,055	47,228	55,699	38,823
Investment	—	—	—	—
Equity accounted investments	4,491	4,651	3,528	920
	119,873	116,563	117,294	88,035
<b>Securities purchased under resale agreements</b>	<b>34,582</b>	<b>27,920</b>	<b>17,773</b>	<b>19,451</b>
<b>Loans</b>				
Residential mortgages	123,082	120,482	101,604	115,084
Personal and credit cards	62,764	62,548	61,048	50,719
Business and government	115,673	103,981	106,520	125,503
	301,519	287,011	269,172	291,306
Allowance for credit losses	2,817	2,787	2,870	2,626
	298,702	284,224	266,302	288,680
<b>Other</b>				
Customers' liability under acceptances	8,172	7,616	9,583	11,969
Derivative instruments <sup>(1)</sup>	37,208	26,852	25,992	44,810
Land, buildings and equipment	2,552	2,450	2,372	2,449
Other assets <sup>(1)</sup>	19,696	15,005	13,922	14,913
	67,628	51,923	51,869	74,141
	\$ 575,256	\$ 526,657	\$ 496,516	\$ 507,625
<b>Liabilities and shareholders' equity</b>				
<b>Deposits</b>				
Personal	\$ 133,025	\$ 128,850	\$ 123,762	\$ 118,919
Business and government	242,006	210,687	203,594	200,566
Banks	21,345	22,113	23,063	27,095
	396,376	361,650	350,419	346,580
<b>Other</b>				
Acceptances	8,172	7,616	9,583	11,969
Obligations related to securities sold under repurchase agreements	46,062	40,286	36,568	36,506
Obligations related to securities sold short	15,450	21,519	14,688	11,700
Derivative instruments <sup>(1)</sup>	40,889	31,990	28,806	42,811
Other liabilities <sup>(1)</sup>	28,984	28,947	24,682	31,063
	139,557	130,358	114,327	134,049
<b>Subordinated debentures</b>	<b>5,923</b>	<b>5,939</b>	<b>5,944</b>	<b>4,352</b>
<b>Capital instrument liabilities</b>	<b>—</b>	<b>500</b>	<b>500</b>	<b>500</b>
<b>Shareholders' equity</b>				
Preferred shares	4,384	3,975	3,710	2,860
Common shareholders' equity				
Common shares and contributed surplus	8,432	5,775	4,946	3,829
Retained earnings	24,662	21,932	19,916	18,549
Accumulated other comprehensive income (loss)	(4,718)	(4,051)	(3,800)	(3,596)
Total common shareholders' equity	28,376	23,656	21,062	18,782
Total equity attributable to equity holders of the Bank	32,760	27,631	24,772	21,642
Non-controlling interest <sup>(2)</sup>	640	579	554	502
Total shareholders' equity	33,400	28,210	25,326	22,144
	\$ 575,256	\$ 526,657	\$ 496,516	\$ 507,625

(1) Amounts for years prior to 2004 have not been reclassified to conform with current period presentation for derivative accounting as the information is not readily available.

(2) Refer to Note 1 of the Consolidated Financial Statements for the impact of the new accounting standards adopted effective November 1, 2010. Prior period information has been reclassified to conform with current period presentation.

2007	2006	2005	2004	2003	2002	2001
\$ 29,195	\$ 23,376	\$ 20,505	\$ 17,155	\$ 20,581	\$ 20,273	\$ 20,160
59,685	62,490	50,007	43,056	42,899	34,592	27,834
28,426	—	—	—	—	—	—
—	32,870	23,285	15,576	20,141	21,439	25,256
724	142	167	141	152	163	194
88,835	95,502	73,459	58,773	63,192	56,194	53,284
22,542	25,705	20,578	17,880	22,648	32,262	27,500
102,154	89,590	75,520	69,018	61,646	56,295	52,592
41,734	39,058	34,695	30,182	26,277	23,363	20,116
85,500	76,733	62,681	57,384	64,313	77,181	79,460
229,388	205,381	172,896	156,584	152,236	156,839	152,168
2,241	2,607	2,469	2,696	3,217	3,430	4,236
227,147	202,774	170,427	153,888	149,019	153,409	147,932
11,538	9,555	7,576	7,086	6,811	8,399	9,301
21,960	12,098	12,867	15,488	15,308	15,821	15,886
2,061	2,103	1,836	1,823	1,944	2,101	2,325
8,232	7,893	6,777	7,119	6,389	7,921	8,037
43,791	31,649	29,056	31,516	30,452	34,242	35,549
\$ 411,510	\$ 379,006	\$ 314,025	\$ 279,212	\$ 285,892	\$ 296,380	\$ 284,425
\$ 100,823	\$ 93,450	\$ 83,953	\$ 79,020	\$ 76,431	\$ 75,558	\$ 75,573
161,229	141,072	109,389	94,125	93,541	93,830	80,810
26,406	29,392	24,103	22,051	22,700	26,230	29,812
288,458	263,914	217,445	195,196	192,672	195,618	186,195
11,538	9,555	7,576	7,086	6,811	8,399	9,301
28,137	33,470	26,032	19,428	28,686	31,881	30,627
16,039	13,396	11,250	7,585	9,219	8,737	6,442
24,689	12,869	13,004	16,002	14,758	15,500	15,453
21,138	24,799	18,983	13,785	14,145	15,678	15,369
101,541	94,089	76,845	63,886	73,619	80,195	77,192
1,710	2,271	2,597	2,615	2,661	3,878	5,344
500	750	750	2,250	2,500	2,225	1,975
1,635	600	600	300	300	300	300
3,566	3,425	3,317	3,229	3,141	3,002	2,920
17,460	15,843	14,126	13,239	11,747	10,398	9,674
(3,857)	(2,321)	(1,961)	(1,783)	(1,074)	102	239
17,169	16,947	15,482	14,685	13,814	13,502	12,833
18,804	17,547	16,082	14,985	14,114	13,802	13,133
497	435	306	280	326	662	586
19,301	17,982	16,388	15,265	14,440	14,464	13,719
\$ 411,510	\$ 379,006	\$ 314,025	\$ 279,212	\$ 285,892	\$ 296,380	\$ 284,425

**T58** Consolidated Statement of Income

For the year ended October 31 (\$ millions)	2011	2010	2009	2008
<b>Interest income</b>				
Loans	\$ 13,102	\$ 12,171	\$ 13,973	\$ 15,832
Securities	4,887	4,227	4,090	4,615
Securities purchased under resale agreements	377	201	390	786
Deposits with banks	346	292	482	1,083
	18,712	16,891	18,935	22,316
<b>Interest expenses</b>				
Deposits	7,598	6,768	8,339	12,131
Subordinated debentures	315	289	285	166
Capital instrument liabilities	6	37	37	37
Other	1,523	1,176	1,946	2,408
	9,442	8,270	10,607	14,742
Net interest income	9,270	8,621	8,328	7,574
Provision for credit losses	1,046	1,239	1,744	630
Net interest income after provision for credit losses	8,224	7,382	6,584	6,944
Other income	8,018	6,884	6,129	4,302
Net interest and other income	16,242	14,266	12,713	11,246
<b>Non-interest expenses</b>				
Salaries and employee benefits	5,399	4,647	4,344	4,109
Other <sup>(1)</sup>	4,165	3,535	3,575	3,187
	9,564	8,182	7,919	7,296
Income before income taxes	6,678	6,084	4,794	3,950
Provision for income taxes	1,410	1,745	1,133	691
<b>Net income<sup>(2)</sup></b>	<b>\$ 5,268</b>	<b>\$ 4,339</b>	<b>\$ 3,661</b>	<b>\$ 3,259</b>
Net income attributable to non-controlling interests <sup>(2)</sup>	93	100	114	119
Net income attributable to equity holders of the Bank <sup>(2)</sup>	5,175	4,239	3,547	3,140
Preferred shareholders	216	201	186	107
Common shareholders	\$ 4,959	\$ 4,038	\$ 3,361	\$ 3,033
Average number of common shares outstanding (millions):				
Basic	1,072	1,032	1,013	987
Diluted	1,074	1,034	1,016	993
Earnings per common share (in dollars):				
Basic	\$ 4.62	\$ 3.91	\$ 3.32	\$ 3.07
Diluted	\$ 4.62	\$ 3.91	\$ 3.31	\$ 3.05
Dividends per common share (in dollars)	\$ 2.05	\$ 1.96	\$ 1.96	\$ 1.92

(1) Other non-interest expenses include a loss on disposal of subsidiary operations in 2003 and 2002 of \$31 and \$237, respectively.

(2) Refer to Note 1 of the Consolidated Financial Statements for the impact of the new accounting standards adopted effective November 1, 2010. Prior period information has been reclassified to conform with current period presentation.

2007	2006	2005	2004	2003	2002	2001
\$ 13,985	\$ 11,575	\$ 9,236	\$ 8,480	\$ 9,073	\$ 9,635	\$ 11,530
4,680	4,124	3,104	2,662	2,859	3,087	3,062
1,258	1,102	817	594	872	1,073	1,519
1,112	881	646	441	442	573	872
21,035	17,682	13,803	12,177	13,246	14,368	16,983
10,850	8,589	5,755	4,790	5,222	5,519	8,233
116	130	134	112	139	203	303
53	53	53	164	182	158	136
2,918	2,502	1,990	1,410	1,735	1,971	2,247
13,937	11,274	7,932	6,476	7,278	7,851	10,919
7,098	6,408	5,871	5,701	5,968	6,517	6,064
270	216	230	390	893	2,029	1,425
6,828	6,192	5,641	5,311	5,075	4,488	4,639
5,392	4,800	4,529	4,320	4,015	3,942	4,071
12,220	10,992	10,170	9,631	9,090	8,430	8,710
3,983	3,768	3,488	3,452	3,361	3,344	3,220
3,011	2,675	2,555	2,410	2,370	2,630	2,442
6,994	6,443	6,043	5,862	5,731	5,974	5,662
5,226	4,549	4,127	3,769	3,359	2,456	3,048
1,063	872	847	786	777	594	869
\$ 4,163	\$ 3,677	\$ 3,280	\$ 2,983	\$ 2,582	\$ 1,862	\$ 2,179
118	98	71	75	160	154	102
4,045	3,579	3,209	2,908	2,422	1,708	2,077
51	30	25	16	16	16	16
\$ 3,994	\$ 3,549	\$ 3,184	\$ 2,892	\$ 2,406	\$ 1,692	\$ 2,061
989	988	998	1,010	1,010	1,009	1,001
997	1,001	1,012	1,026	1,026	1,026	1,018
\$ 4.04	\$ 3.59	\$ 3.19	\$ 2.87	\$ 2.38	\$ 1.68	\$ 2.06
\$ 4.01	\$ 3.55	\$ 3.15	\$ 2.82	\$ 2.34	\$ 1.65	\$ 2.02
\$ 1.74	\$ 1.50	\$ 1.32	\$ 1.10	\$ 0.84	\$ 0.73	\$ 0.62



**T59 Consolidated Statement of Changes in Shareholders' Equity**

For the year ended October 31 (\$ millions)	2011	2010	2009	2008
<b>Preferred shares</b>				
Balance at beginning of year	\$ 3,975	\$ 3,710	\$ 2,860	\$ 1,635
Issued	409	265	850	1,225
Balance at end of year	4,384	3,975	3,710	2,860
<b>Common shares and contributed surplus</b>				
Common shares:				
Balance at beginning of year	5,750	4,946	3,829	3,566
Issued	2,586	804	1,117	266
Purchased for cancellation	—	—	—	(3)
Balance at end of year	8,336	5,750	4,946	3,829
Contributed surplus:				
Balance at beginning of year	25	—	—	—
Stock-based compensation	71	25	—	—
Balance at end of year	96	25	—	—
Total	8,432	5,775	4,946	3,829
<b>Retained earnings</b>				
Balance at beginning of year	21,932	19,916	18,549	17,460
Adjustments	—	—	—	—
Net income attributable to equity holders of the Bank	5,175	4,239	3,547	3,140
Dividends: Preferred	(216)	(201)	(186)	(107)
Common	(2,200)	(2,023)	(1,990)	(1,896)
Purchase of shares and premium on redemption	—	—	—	(37)
Other	(29)	1	(4)	(11)
Balance at end of year	24,662	21,932	19,916	18,549
<b>Accumulated other comprehensive income (loss)</b>				
Balance at beginning of year	(4,051)	(3,800)	(3,596)	(3,857)
Cumulative effect of adopting new accounting policies	—	—	595 <sup>(5)</sup>	—
Other comprehensive income (loss)	(667)	(251)	(799)	261
Balance at end of year	(4,718)	(4,051)	(3,800)	(3,596)
<b>Non-controlling interests<sup>(6)</sup></b>				
Balance at beginning of year	579	554	502	N/A
Interest in net income of subsidiaries	93	100	114	N/A
Effect of foreign exchange and others	10	(40)	(26)	N/A
Dividends	(42)	(35)	(36)	N/A
Balance at end of year	640	579	554	502
Total shareholders' equity at end of year	\$ 33,400	\$ 28,210	\$ 25,326	\$ 22,144

(1) Relates to the adoption of new financial instruments accounting standards.

(2) Relates to the adoption of new stock-based compensation accounting standard.

(3) Relates to the adoption of new goodwill accounting standard.

(4) Relates to the adoption of new corporate income taxes accounting standard.

(5) Relates to the adoption of the new accounting standard for impairment and classification of financial instruments. Refer to Note 1 of the Consolidated Financial Statements for details.

(6) Refer to Note 1 of the Consolidated Financial Statements for the impact of the new accounting standards adopted effective November 1, 2010. Prior period information has been reclassified to conform with current period presentation.

**T60 Consolidated Statement of Comprehensive Income**

As at October 31 (\$ millions)	2011	2010	2009	2008
Net income <sup>(1)</sup>	\$ 5,268	\$ 4,339	\$ 3,661	\$ 3,259
Other comprehensive income (loss), net of income taxes:				
Net change in unrealized foreign currency translation gains (losses)	(654)	(591)	(1,736)	2,368
Net change in unrealized gains (losses) on available-for-sale securities	(119)	278	894	(1,588)
Net change in gains (losses) on derivative instruments designated as cash flow hedges	106	62	43	(519)
Other comprehensive income (loss)	(667)	(251)	(799)	261
Comprehensive income	\$ 4,601	\$ 4,088	\$ 2,862	\$ 3,520

(1) Refer to Note 1 of the Consolidated Financial Statements for the impact of the new accounting standards adopted effective November 1, 2010. Prior period information has been reclassified to conform with current period presentation.

2007	2006	2005	2004	2003	2002	2001
\$ 600	\$ 600	\$ 300	\$ 300	\$ 300	\$ 300	\$ 300
1,035	—	300	—	—	—	—
1,635	600	600	300	300	300	300
3,425	3,316	3,228	3,140	3,002	2,920	2,765
184	135	172	117	163	101	155
(43)	(26)	(84)	(29)	(25)	(19)	—
3,566	3,425	3,316	3,228	3,140	3,002	2,920
—	1	1	1	—	—	—
—	(1)	—	—	1	—	—
—	—	1	1	1	—	—
3,566	3,425	3,317	3,229	3,141	3,002	2,920
15,843	14,126	13,239	11,747	10,398	9,674	8,275
(61) <sup>(1)</sup>	(25) <sup>(2)</sup>	—	—	—	(76) <sup>(3)</sup>	(39) <sup>(4)</sup>
4,045	3,579	3,209	2,908	2,422	1,708	2,077
(51)	(30)	(25)	(16)	(16)	(16)	(16)
(1,720)	(1,483)	(1,317)	(1,110)	(849)	(732)	(621)
(586)	(324)	(973)	(290)	(201)	(154)	—
(10)	—	(7)	—	(7)	(6)	(2)
17,460	15,843	14,126	13,239	11,747	10,398	9,674
(2,321)	(1,961)	(1,783)	(1,074)	102	239	160
683	—	—	—	—	—	—
(2,219)	(360)	(178)	(709)	(1,176)	(137)	79
(3,857)	(2,321)	(1,961)	(1,783)	(1,074)	102	239
N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A	N/A
497	435	306	280	326	662	586
\$ 19,301	\$ 17,982	\$ 16,388	\$ 15,265	\$ 14,440	\$ 14,464	\$ 13,719

2007	2006	2005	2004	2003	2002	2001
\$ 4,163	\$ 3,677	\$ 3,280	\$ 2,983	\$ 2,582	\$ 1,862	\$ 2,179
(2,228)	(360)	(178)	(709)	(1,176)	(137)	79
(67)	—	—	—	—	—	—
76	—	—	—	—	—	—
(2,219)	(360)	(178)	(709)	(1,176)	(137)	79
\$ 1,944	\$ 3,317	\$ 3,102	\$ 2,274	\$ 1,406	\$ 1,725	\$ 2,258

## T61 Other statistics

For the year ended October 31	2011	2010	2009	2008
<b>Operating performance</b>				
Basic earnings per share (\$)	4.62	3.91	3.32	3.07
Diluted earnings per share (\$)	4.62	3.91	3.31	3.05
Return on equity (%) <sup>(1)</sup>	18.8	18.3	16.7	16.7
Productivity ratio (%) (TEB <sup>(1)</sup> )	54.4	51.8	53.7	59.4
Return on assets <sup>(2)</sup> (%)	0.93	0.84	0.71	0.72
Net interest margin on total average assets (%) (TEB <sup>(1)</sup> )	1.68	1.73	1.68	1.75
<b>Capital measures<sup>(3)</sup></b>				
Tier 1 capital ratio (%)	12.2	11.8	10.7	9.3
Total capital ratio (%)	13.9	13.8	12.9	11.1
Tangible common equity to risk-weighted assets <sup>(1), (4)</sup> (%)	9.6	9.7	8.3	6.6
Assets-to-capital multiple	16.6	17.0	16.6	18.0
<b>Common share information</b>				
Share price (\$):				
High	61.28	55.76	49.19	54.00
Low	49.00	44.12	23.99	35.25
Close	52.53	54.67	45.25	40.19
Number of shares outstanding (millions)	1,089	1,043	1,025	992
Dividends per share (\$)	2.05	1.96	1.96	1.92
Dividend yield (%) <sup>(5)</sup>	3.7	3.9	5.4	4.3
Price to earnings multiple <sup>(6)</sup>	11.3	14.0	13.6	13.1
Book value per common share (\$)	26.06	22.68	20.55	18.94
<b>Other information</b>				
Average total assets (\$ millions)	568,859	515,991	513,149	455,539
Number of branches and offices	2,926	2,784	2,686	2,672
Number of employees	75,362	70,772	67,802	69,049
Number of automated banking machines	6,260	5,978	5,778	5,609

(1) Non-GAAP measure. Refer to non-GAAP measures on page 29.

(2) Net income, used in the calculation of return on assets, no longer includes non-controlling interest. Refer to Note 1 of the Consolidated Financial Statements for the impact of the new accounting standards adopted effective November 1, 2010. Prior period information has been restated to conform with current period presentation.

(3) Effective November 1, 2007, regulatory capital ratios are determined in accordance with Basel II rules. Comparative amounts for prior periods are determined in accordance with Basel I rules.

(4) Amounts have been restated to reflect the revised definition of tangible common equity to risk-weighted assets. Refer to page 29 for discussion of non-GAAP measures.

(5) Based on the average of the high and low common share price for the year.

(6) Based on the closing common share price.

2007	2006	2005	2004	2003	2002	2001
4.04	3.59	3.19	2.87	2.38	1.68	2.06
4.01	3.55	3.15	2.82	2.34	1.65	2.02
22.0	22.1	20.9	19.9	17.6	13.0	17.3
53.7	55.3	56.3	56.9	55.9	55.7	54.6
1.03	1.05	1.06	1.05	0.89	0.63	0.80
1.89	1.95	2.00	2.10	2.16	2.29	2.32
9.3	10.2	11.1	11.5	10.8	9.9	9.3
10.5	11.7	13.2	13.9	13.2	12.7	13.0
7.4	8.3	9.3	9.7	8.8	8.3	7.8
18.2	17.1	15.1	13.8	14.4	14.5	13.5
54.73	49.80	44.22	40.00	33.70	28.10	25.25
46.70	41.55	36.41	31.08	22.28	21.01	18.65
53.48	49.30	42.99	39.60	32.74	22.94	21.93
984	990	990	1,009	1,011	1,008	1,008
1.74	1.50	1.32	1.10	0.84	0.73	0.62
3.4	3.3	3.3	3.1	3.0	3.0	2.8
13.2	13.7	13.5	13.8	13.8	13.7	10.6
17.45	17.13	15.64	14.56	13.67	13.39	12.74
403,475	350,709	309,374	283,986	288,513	296,852	271,843
2,331	2,191	1,959	1,871	1,850	1,847	2,005
58,113	54,199	46,631	43,928	43,986	44,633	46,804
5,283	4,937	4,449	4,219	3,918	3,693	3,761

# Consolidated Financial Statements

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## Management's Responsibility for Financial Information

The management of The Bank of Nova Scotia (the Bank) is responsible for the integrity and fair presentation of the financial information contained in this Annual Report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The consolidated financial statements also comply with the accounting requirements of the Bank Act.

The consolidated financial statements, where necessary, include amounts which are based on the best estimates and judgement of management. Financial information presented elsewhere in this Annual Report is consistent with that shown in the 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.

Management, under the supervision of and the participation of the Chief Executive Officer and the Chief Financial Officer, have a process in place to evaluate disclosure controls and procedures and internal control over financial reporting in line with Canadian and U.S. securities regulations.

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 Auditor has

full and free access to, and meets periodically with the Audit and Conduct Review Committee of the Board of Directors. In addition, the Bank's compliance function maintains policies, procedures and programs directed at ensuring compliance with regulatory requirements, including conflict of interest rules.

The Office of the Superintendent of Financial Institutions Canada, which is mandated to protect the rights and interests of the depositors and creditors of the Bank, examines and enquires into the business and affairs of the Bank, as deemed necessary, to determine whether the provisions of the Bank Act are being complied with, and that the Bank is in a sound financial condition.

The Audit and Conduct Review 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 Audit and Conduct Review Committee reviews and reports their findings to the Board of Directors on all related party transactions that may have a material impact on the Bank.

KPMG LLP, the independent auditors appointed by the shareholders of the Bank, have audited the consolidated balance sheets of the Bank as at October 31, 2011 and 2010 and the consolidated statement of income, changes in shareholders' equity, comprehensive income and cash flows for each of the years in the three-year period ended October 31, 2011 in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States) and have expressed their opinions upon completion of such audits in the following report to the shareholders. The Shareholders' Auditors have full and free access to, and meet periodically with, the Audit and Conduct Review Committee to discuss their audit, including any findings as to the integrity of the Bank's accounting, financial reporting and related matters.

Rick Waugh  
President and Chief Executive Officer

Luc Vanneste  
Executive Vice-President  
and Chief Financial Officer

Toronto, Canada  
December 2, 2011

# Independent Auditors' Report of Registered Public Accounting Firm

To the Shareholders of The Bank of Nova Scotia

We have audited the accompanying consolidated financial statements of The Bank of Nova Scotia, which comprise the consolidated balance sheets as at October 31, 2011 and October 31, 2010, the consolidated statements of income, changes in shareholders' equity, comprehensive income and cash flows for each of the years in the three-year period then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

## *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the

consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. 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 consolidated financial statements.

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

## *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of The Bank of Nova Scotia as at October 31, 2011 and October 31, 2010, and its consolidated results of operations and its consolidated cash flows for each of the years in the three-year period ended October 31, 2011 in accordance with Canadian generally accepted accounting principles.

## *Other Matter*

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), The Bank of Nova Scotia's internal control over financial reporting as of October 31, 2011, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated December 2, 2011 expressed an unmodified (unqualified) opinion on the effectiveness of The Bank of Nova Scotia's internal control over financial reporting.

KPMG LLP  
Chartered Accountants, Licensed Public Accountants  
December 2, 2011  
Toronto, Canada



## Consolidated Balance Sheet

As at October 31 (\$ millions)	2011	2010
<b>Assets</b>		
Cash resources		
Cash and non-interest-bearing deposits with banks	\$ 4,294	\$ 3,730
Interest-bearing deposits with banks	40,928	35,800
Precious metals	9,249	6,497
	<u>54,471</u>	<u>46,027</u>
Securities (Note 3)		
Trading	63,327	64,684
Available-for-sale	52,055	47,228
Equity accounted investments	4,491	4,651
	<u>119,873</u>	<u>116,563</u>
<b>Securities purchased under resale agreements</b>	<u>34,582</u>	<u>27,920</u>
Loans (Note 4)		
Residential mortgages	123,082	120,482
Personal and credit cards	62,764	62,548
Business and government	115,673	103,981
	<u>301,519</u>	<u>287,011</u>
Allowance for credit losses (Note 5 (b))	2,817	2,787
	<u>298,702</u>	<u>284,224</u>
Other		
Customers' liability under acceptances	8,172	7,616
Derivative instruments (Note 28 (d))	37,208	26,852
Land, buildings and equipment (Note 7)	2,552	2,450
Goodwill (Note 8)	4,377	3,050
Other intangible assets (Note 8)	3,287	589
Other assets (Note 9)	12,032	11,366
	<u>67,628</u>	<u>51,923</u>
	<u>\$ 575,256</u>	<u>\$ 526,657</u>
<b>Liabilities and shareholders' equity</b>		
<b>Deposits (Note 10)</b>		
Personal	\$ 133,025	\$ 128,850
Business and government	242,006	210,687
Banks	21,345	22,113
	<u>396,376</u>	<u>361,650</u>
<b>Other</b>		
Acceptances	8,172	7,616
Obligations related to securities sold under repurchase agreements	46,062	40,286
Obligations related to securities sold short	15,450	21,519
Derivative instruments (Note 28 (d))	40,889	31,990
Other liabilities (Note 11)	28,984	28,947
	<u>139,557</u>	<u>130,358</u>
<b>Subordinated debentures (Note 12)</b>	<u>5,923</u>	<u>5,939</u>
<b>Capital instrument liabilities (Note 13)</b>	<u>—</u>	<u>500</u>
<b>Shareholders' equity</b>		
Preferred shares (Note 14)	4,384	3,975
Common shareholders' equity		
Common shares and contributed surplus (Note 15)	8,432	5,775
Retained earnings	24,662	21,932
Accumulated other comprehensive loss (Note 17)	(4,718)	(4,051)
Total common shareholders' equity	<u>28,376</u>	<u>23,656</u>
Total equity attributable to equity holders of the Bank	32,760	27,631
Non-controlling interests <sup>(1)</sup>	640	579
	<u>33,400</u>	<u>28,210</u>
	<u>\$ 575,256</u>	<u>\$ 526,657</u>

(1) Refer to Note 1 of the consolidated financial statements for the impact of the new accounting standards adopted effective November 1, 2010. Prior period information has been reclassified to conform with current period presentation.

John T. Mayberry  
Chairman of the Board

Rick Waugh  
President and Chief Executive Officer

The accompanying notes are an integral part of these consolidated financial statements.

## Consolidated Statement of Income

For the year ended October 31 (\$ millions)

	2011	2010	2009
<b>Interest income</b>			
Loans	\$ 13,102	\$ 12,171	\$ 13,973
Securities	4,887	4,227	4,090
Securities purchased under resale agreements	377	201	390
Deposits with banks	346	292	482
	<b>18,712</b>	<b>16,891</b>	<b>18,935</b>
<b>Interest expenses</b>			
Deposits	7,598	6,768	8,339
Subordinated debentures	315	289	285
Capital instrument liabilities	6	37	37
Other	1,523	1,176	1,946
	<b>9,442</b>	<b>8,270</b>	<b>10,607</b>
Net interest income	<b>9,270</b>	<b>8,621</b>	<b>8,328</b>
Provision for credit losses (Note 5 (b))	<b>1,046</b>	<b>1,239</b>	<b>1,744</b>
Net interest income after provision for credit losses	<b>8,224</b>	<b>7,382</b>	<b>6,584</b>
<b>Other income</b>			
Card revenues	469	426	424
Deposit and payment services	922	883	905
Mutual funds	1,100	582	371
Investment management, brokerage and trust services	1,013	781	728
Credit fees	868	831	866
Trading revenues	740	1,016	1,057
Underwriting fees and other commissions	624	561	620
Foreign exchange other than trading	368	337	373
Net gain (loss) on securities, other than trading (Note 3 (d))	239	355	(412)
Securitization revenues	236	124	409
Other	1,439	988	788
	<b>8,018</b>	<b>6,884</b>	<b>6,129</b>
Net interest and other income	<b>16,242</b>	<b>14,266</b>	<b>12,713</b>
<b>Non-interest expenses</b>			
Salaries and employee benefits	5,399	4,647	4,344
Premises and technology	1,719	1,526	1,543
Communications	344	340	346
Advertising and business development	429	364	307
Professional	262	224	216
Business and capital taxes	183	171	177
Other	1,228	910	986
	<b>9,564</b>	<b>8,182</b>	<b>7,919</b>
Income before the undernoted	<b>6,678</b>	<b>6,084</b>	<b>4,794</b>
Provision for income taxes (Note 19)	<b>1,410</b>	<b>1,745</b>	<b>1,133</b>
Net income <sup>(1)</sup>	<b>\$ 5,268</b>	<b>\$ 4,339</b>	<b>\$ 3,661</b>
Net income attributable to non-controlling interests <sup>(1)</sup>	93	100	114
Net income attributable to equity holders of the Bank <sup>(1)</sup>	<b>5,175</b>	<b>4,239</b>	<b>3,547</b>
Preferred shareholders	216	201	186
Common shareholders	<b>4,959</b>	<b>4,038</b>	<b>3,361</b>
Average number of common shares outstanding (millions) (Note 21):			
Basic	<b>1,072</b>	<b>1,032</b>	<b>1,013</b>
Diluted	<b>1,074</b>	<b>1,034</b>	<b>1,016</b>
Earnings per common share (in dollars) <sup>(2)</sup> (Note 21):			
Basic	<b>\$ 4.62</b>	<b>\$ 3.91</b>	<b>\$ 3.32</b>
Diluted	<b>\$ 4.62</b>	<b>\$ 3.91</b>	<b>\$ 3.31</b>
Dividends per common share (in dollars)	<b>\$ 2.05</b>	<b>\$ 1.96</b>	<b>\$ 1.96</b>

(1) Refer to Note 1 of the consolidated financial statements for the impact of the new accounting standards adopted effective November 1, 2010. Prior period information has been reclassified to conform with current period presentation.

(2) The calculation of earnings per share is based on full dollar and share amounts.

The accompanying notes are an integral part of these consolidated financial statements.

## Consolidated Statement of Changes in Shareholders' Equity

For the year ended October 31 (\$ millions)	2011	2010	2009
<b>Preferred shares (Note 14)</b>			
Balance at beginning of year	\$ 3,975	\$ 3,710	\$ 2,860
Issued	409	265	850
Balance at end of year	4,384	3,975	3,710
<b>Common shares and contributed surplus</b>			
Common shares (Note 15):			
Balance at beginning of year	5,750	4,946	3,829
Issued	2,586	804	1,117
Balance at end of year	8,336	5,750	4,946
Contributed surplus:			
Balance at beginning of year	25	—	—
Stock-based compensation (Note 18)	71	25	—
Balance at end of year	96	25	—
Total	8,432	5,775	4,946
<b>Retained earnings</b>			
Balance at beginning of year	21,932	19,916	18,549
Net income attributable to equity holders of the Bank	5,175	4,239	3,547
Dividends: Preferred	(216)	(201)	(186)
Common	(2,200)	(2,023)	(1,990)
Other	(29)	1	(4)
Balance at end of year <sup>(1)</sup>	24,662	21,932	19,916
<b>Accumulated other comprehensive loss</b>			
Balance at beginning of year as previously reported	(4,051)	(3,800)	(3,596)
Cumulative effect of adopting new accounting policies	—	—	595 <sup>(2)</sup>
Balance at beginning of year as restated	(4,051)	(3,800)	(3,001)
Other comprehensive loss (Note 17)	(667)	(251)	(799)
Balance at end of year	(4,718)	(4,051)	(3,800)
<b>Non-controlling interests<sup>(3)</sup></b>			
Balance at beginning of year	579	554	502
Interest in net income of subsidiaries	93	100	114
Effects of foreign exchange and others	10	(40)	(26)
Dividends	(42)	(35)	(36)
Balance at end of year	640	579	554
Total shareholders' equity at end of year	\$ 33,400	\$ 28,210	\$ 25,326

(1) Includes undistributable retained earnings of \$34 (2010 – \$28; 2009 – \$26) of a foreign associated corporation, which are subject to local regulatory restriction.

(2) The new accounting policy, adopted in 2009, relates to the classification and impairment of financial assets. Refer to changes in accounting standards prior to November 1, 2009, in Note 1.

(3) Refer to Note 1 of the consolidated financial statements for the impact of the new accounting standards adopted effective November 1, 2010. Prior period information has been reclassified to conform with current period presentation.

## Consolidated Statement of Comprehensive Income

For the year ended October 31 (\$ millions)	2011	2010	2009
Net income <sup>(1)</sup>	\$ 5,268	\$ 4,339	\$ 3,661
Other comprehensive income (loss), net of income taxes (Note 17):			
Net change in unrealized foreign currency translation losses	(654)	(591)	(1,736)
Net change in unrealized gains (losses) on available-for-sale securities	(119)	278	894
Net change in gains on derivative instruments designated as cash flow hedges	106	62	43
Other comprehensive income (loss)	(667)	(251)	(799)
Comprehensive income	\$ 4,601	\$ 4,088	\$ 2,862
Comprehensive income attributable to:			
Common shareholders of the Bank	4,292	3,787	2,562
Preferred shareholders of the Bank	216	201	186
Non-controlling interests	93	100	114
Comprehensive income	\$ 4,601	\$ 4,088	\$ 2,862

(1) Refer to Note 1 of the consolidated financial statements for the impact of the new accounting standards adopted effective November 1, 2010. Prior period information has been reclassified to conform with current period presentation.

The accompanying notes are an integral part of these consolidated financial statements.

# Consolidated Statement of Cash Flows

Sources (uses) of cash flows for the year ended October 31 (\$ millions)	2011	2010	2009
<b>Cash flows from operating activities</b>			
Net income <sup>(1)</sup>	\$ 5,268	\$ 4,339	\$ 3,661
Adjustments to determine net cash flows from (used in) operating activities:			
Depreciation and amortization	411	334	330
Provision for credit losses	1,046	1,239	1,744
Future income taxes	201	557	162
Net gain (loss) on securities, other than trading	(239)	(355)	412
Gains resulting from new acquisition-related accounting standards	(286)	—	—
Changes in operating assets and liabilities:			
Net accrued interest receivable and payable	(176)	186	(229)
Trading securities	1,118	(7,052)	(10,898)
Derivative assets	(10,772)	(2,642)	17,320
Derivative liabilities	9,509	4,353	(12,009)
Other, net <sup>(1)</sup>	(5,017)	(3,829)	(11,472)
	<b>1,063</b>	<b>(2,870)</b>	<b>(10,979)</b>
<b>Cash flows from financing activities</b>			
Deposits	36,850	14,248	17,031
Obligations related to securities sold under repurchase agreements	6,554	4,104	1,109
Obligations related to securities sold short	(5,939)	6,872	3,165
Subordinated debentures issued	—	—	2,000
Subordinated debentures redemptions/repayments	—	(11)	(359)
Capital instruments liabilities redemptions/repayments	(500)	—	—
Preferred shares issued	—	265	600
Common shares issued	736	753	585
Cash dividends paid	(2,416)	(2,224)	(2,176)
Other, net <sup>(1)</sup>	(1,947)	5,107	(1,857)
	<b>33,338</b>	<b>29,114</b>	<b>20,098</b>
<b>Cash flows from investing activities</b>			
Interest-bearing deposits with banks	(4,875)	(3,383)	(5,781)
Securities purchased under resale agreements	(7,462)	(9,789)	980
Loans, excluding securitizations	(37,466)	(26,725)	(12,583)
Loan securitizations	8,253	3,762	11,879
Securities, other than trading			
Purchases	(23,238)	(28,125)	(40,197)
Maturities	13,775	11,307	7,422
Sales	18,145	28,214	31,985
Land, buildings and equipment, net of disposals	(366)	(304)	(199)
Other, net <sup>(2)</sup>	(544)	(690)	(1,635)
	<b>(33,778)</b>	<b>(25,733)</b>	<b>(8,129)</b>
Effect of exchange rate changes on cash and cash equivalents	(59)	(136)	(209)
<b>Net change in cash and cash equivalents</b>	<b>564</b>	<b>375</b>	<b>781</b>
Cash and cash equivalents at beginning of year	3,730	3,355	2,574
<b>Cash and cash equivalents at end of year<sup>(3)</sup></b>	<b>\$ 4,294</b>	<b>\$ 3,730</b>	<b>\$ 3,355</b>
Cash disbursements made for:			
Interest	\$ 9,575	\$ 8,415	\$ 11,138
Income taxes	\$ 1,304	\$ 1,795	\$ 1,234

(1) Refer to Note 1 of the consolidated financial statements for the impact of the new accounting standards adopted effective November 1, 2010. Prior period information has been reclassified to conform with current period presentation.

(2) Comprises investments in subsidiaries, associated corporations and business units, and the purchase of assets related to these investments, which are net of non-cash consideration consisting of common shares issued from treasury of \$1,796 (2010 – nil; 2009 – \$523), net of cash and cash equivalents at the date of acquisition of \$75 (2010 – \$203; 2009 – \$4), and net of non-cumulative preferred shares issued of \$409 (2010 – nil; 2009 – \$250).

(3) Represents cash and non-interest-bearing deposits with banks.

The accompanying notes are an integral part of these consolidated financial statements.

# Consolidated Financial Statements

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## 1 Significant accounting policies

The consolidated financial statements of The Bank of Nova Scotia (the Bank) have been prepared in accordance with Section 308 of 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 Canadian generally accepted accounting principles (GAAP). The significant accounting policies used in the preparation of these consolidated financial statements, including the accounting requirements of the Superintendent, are summarized on the following pages. These accounting policies conform, in all material respects, to GAAP. In addition, Note 30 describes and reconciles the significant measurement differences between Canadian and U.S. GAAP affecting the accompanying consolidated financial statements.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, and income and expenses during the reporting period. Key areas where management has made difficult, complex or subjective judgements, often as a result of matters that are inherently uncertain, include those relating to the allowance for credit losses, the fair value of financial instruments, corporate income taxes, pensions and other employee future benefits, other-than-temporary impairment of available-for-sale securities, the determination of the primary beneficiary of a variable interest entity (VIE), goodwill and other indefinite life intangibles impairment, and contingent liabilities. Actual results could differ from these and other estimates.

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

### Changes in accounting standards and policies

#### *Business combinations, consolidated financial statements, and non-controlling interests*

In January 2009, the Canadian Institute of Chartered Accountants (CICA) issued new accounting standards on Business Combinations, Consolidated Financial Statements and Non-controlling Interests. These standards are aligned with International Financial Reporting Standards (IFRS) and are effective for periods beginning on or after January 1, 2011, with earlier adoption permitted. If an entity elects to early adopt, all three standards are required to be adopted concurrently.

The business combination standard addresses the valuation of the identified assets and liabilities acquired in a business combination and the date at which the valuations should be determined. The other two standards are revised to ensure that the requirements embedded in the business combination standards are applied appropriately to the preparation of consolidated financial statements and the accounting for non-controlling interests after the acquisition date.

The Bank has early adopted all three standards effective November 1, 2010, and all business acquisitions that occurred from November 1, 2010 have been accounted for under the revised standards.

The key principle underlying the business combinations standard is that all acquisitions be measured at fair value on the acquisition date. The key changes in the standards are:

- The acquisition accounting is at fair value (under GAAP prior to adoption, only the Bank's proportionate share of fair value adjustments were accounted for);
- Non-controlling interests are measured at fair value (excludes proportionate share of goodwill) and treated as equity;
- Acquisition-related costs and restructuring costs are expensed as incurred while prior GAAP permitted some to be set up at acquisition date;

- Contingent consideration and other contingent liabilities, if any, are recorded at fair value on acquisition and subsequent changes in fair value are recorded in income;
- When the purchase consideration is in the form of equity shares of the acquirer, they are measured at fair value at the acquisition date, rather than the prior GAAP requirement which is the announcement date; and
- Step-acquisitions are accounted for at fair value allowing for a gain/loss to be recognized in income on the date of the transaction due to revaluation of the original investment.

The reclassifications relating to non-controlling interests were as follows:

- Non-controlling interests have been reclassified from liabilities to equity in the Consolidated Balance Sheet.
- Non-controlling interests' portion of income is no longer a deduction when calculating the net income in the Consolidated Statement of Income. Net income is now apportioned between the Bank's equity holders and non-controlling interests.
- Prior period information has been reclassified to conform with current period presentation.

The adoption of these new accounting standards has resulted in a net gain of \$286 million being recorded in the Consolidated Statement of Income. The gain arose substantially from accounting for the Bank's additional investment in DundeeWealth Inc. (DundeeWealth). This additional investment was considered a step-acquisition and accounted for on a fair value basis resulting in a net gain of \$260 million from the revaluation of the Bank's original 19% investment in DundeeWealth.

The remaining \$26 million gain related to the acquisition accounting for a recent acquisition which was purchased at a price lower than fair value. The new standards require negative goodwill to be recognized in income without first reducing non monetary assets, resulting in a higher gain in income under the new standards. Under prior GAAP \$26 million would have been recorded as negative goodwill. With the change, the total negative goodwill recognized in income was \$52 million.

The adoption of new accounting standards, resulted in additional purchase consideration of approximately \$350 million on the acquisition of DundeeWealth. The increase was due primarily to the following:

- The gain from the revaluation of the original investment, is considered part of the purchase consideration; and
- The common shares issued by the Bank as consideration for the acquisition were valued at acquisition date price versus announcement date price as per prior GAAP (incremental \$110 million).

### Prior year changes in accounting standards and policies

There were no changes to accounting policies in the prior fiscal year.

### Changes in accounting standards prior to November 1, 2009

#### *Classification and impairment of financial assets*

In August 2009, the Canadian Institute of Chartered Accountants (CICA) issued amendments to its Financial Instruments – Recognition and Measurement standard to achieve substantial consistency with International Financial Reporting Standards (IFRS). The amendments were effective for the Bank commencing November 1, 2008 and adopted the definition of loans and receivables from IFRS. The definition of loans and receivables allows debt securities that are not quoted in an active market to be classified as loans and carried at amortized cost. The amendments require that only credit-related impairment charges be recognized in the Consolidated Statement of Income for debt securities carried at amortized cost. Impairment charges for debt securities classified as loans are recorded through the

provision for credit losses. The reversal of impairment charges through the Consolidated Statement of Income for debt instruments classified as available-for-sale is allowed.

The Bank reclassified certain securities not quoted in an active market and not managed on a fair value basis to loans measured at amortized cost. Impairment of debt securities classified as loans are assessed and recorded in accordance with the Bank's accounting policies for Loans and Allowance for Credit Losses.

In accordance with these amendments, changes were made effective November 1, 2008. Periods prior to November 1, 2008 were not restated as a result of implementing these amendments.

The following table summarizes the impact of the reclassifications as at November 1, 2008:

(\$ millions)	Increase/ (Decrease)
Balance sheet category	
Securities	\$ (8,529)
Loans	9,447
Future income tax assets (Other assets)	(323)
Accumulated other comprehensive income (after-tax)	595

#### Basis of consolidation

The consolidated financial statements include the assets, liabilities, results of operations and cash flows of the Bank and all of its subsidiaries 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.

Investments where the Bank has significant influence, which is normally, but not always, evidenced by direct or indirect ownership of between 20% and 50% of the voting shares, are accounted for using the equity method and are recorded as equity accounted investments in the Consolidated Balance Sheet. The Bank's share of earnings of such corporations is included in interest income – securities or other income, as appropriate, in the Consolidated Statement of Income.

The Bank consolidates variable interest entities (VIEs) when it is the primary beneficiary of the VIEs. An entity is a VIE when, by design, one or both of the following conditions exist: (a) total equity investment at risk is insufficient to permit the entity to finance its activities without additional subordinated support from others; and/or (b) as a group, the holders of the equity investment at risk lack certain essential characteristics of a controlling financial interest. The primary beneficiary is the enterprise that absorbs or receives the majority of the VIE's expected losses, expected residual returns, or both.

#### Translation of foreign currencies

Foreign currency monetary assets and liabilities of the Bank's integrated foreign operations and all foreign currency denominated assets and liabilities of its self-sustaining foreign operations are translated into Canadian dollars at rates prevailing at the end of the financial period. Foreign currency non-monetary assets and liabilities of the Bank's integrated foreign operations are translated into Canadian dollars at historical rates.

Unrealized gains and losses arising upon translation of net foreign currency investment positions in self-sustaining operations, together with any gains or losses arising from hedges of those net investment

positions to the extent effective, are credited or charged to net change in unrealized foreign currency translation gains/losses in the Consolidated Statement of Comprehensive Income. Upon sale, reduction or substantial liquidation of an investment position, the previously recorded net unrealized gains or losses thereon in accumulated other comprehensive income are reclassified to the Consolidated Statement of Income.

Translation gains and losses arising in the Bank's integrated foreign operations, as well as those arising from self-sustaining foreign operations in highly inflationary environments, if any, are included in other income – trading revenues in the Consolidated Statement of Income.

Revenues and expenses denominated in foreign currencies are translated using average exchange rates, except for depreciation and amortization of foreign currency denominated buildings, equipment and leasehold improvements of the Bank's integrated foreign operations, which are translated using historical rates.

Unrealized foreign currency translation gains and losses arising from available-for-sale financial assets are included in other comprehensive income as unrealized gains/losses on available-for-sale securities until realized, at which time they are reclassified from accumulated other comprehensive income to the Consolidated Statement of Income.

#### Precious metals

Precious metals are carried at fair value and are included in cash resources in the Consolidated Balance Sheet. The liability arising from outstanding certificates is also carried at fair value and included in other liabilities in the Consolidated Balance Sheet.

#### Securities

Securities are categorized as available-for-sale, trading, held-to-maturity or equity accounted investments. Securities designated as available-for-sale are recorded at fair value with unrealized gains and losses recorded in other comprehensive income until realized, at which time they are recorded in the Consolidated Statement of Income. Available-for-sale equity securities that do not have a quoted price in an active market are recorded at cost.

Premiums, discounts and related transaction costs on available-for-sale debt securities are amortized over the expected life of the instrument to interest income – securities in the Consolidated Statement of Income using the effective interest method. When there has been a decline in value of available-for-sale debt or equity instrument that is other than temporary, the carrying value of the securities is reduced to fair value. Such reductions, if any, together with realized gains and losses on disposals, which are determined on an average cost basis, are reclassified from other comprehensive income and included in other income – net gain (loss) on securities, other than trading in the Consolidated Statement of Income.

Interest income on these debt securities is recognized thereafter using the revised effective interest rate applicable. Recoveries in fair value due to events occurring after the date of impairment are included in net income to a maximum of the original impairment charge. Prior to fiscal 2009, these recoveries in fair value were included in other comprehensive income.

Trading securities are those securities intended to be held for a short period of time and are carried at fair value. Gains and losses realized on



disposal and unrealized gains and losses due to market fluctuations are included in other income – trading revenues in the Consolidated Statement of Income.

Debt securities which are not trading securities or have not been designated as available-for-sale, and that are not quoted in an active market are classified as loans. Debt securities classified as loans are carried at amortized cost.

The Bank accounts for the purchase and sale of securities using settlement date accounting for purposes of the Consolidated Balance Sheet and the Consolidated Statement of Income.

#### Securities purchased under resale agreements and obligations related to securities sold under repurchase agreements

The purchase and sale of securities under resale and repurchase agreements are accounted for as collateralized lending and borrowing transactions and are recorded at cost. The related interest income and interest expense are recorded on an accrual basis in the Consolidated Statement of Income.

#### Obligations related to securities sold short

The Bank's obligation to deliver securities sold that were not owned at the time of sale is recorded at fair value. Realized and unrealized gains and losses are recorded in other income – trading revenues in the Consolidated Statement of Income. Interest expense accruing on debt securities sold short is recorded in interest expense in the Consolidated Statement of Income.

#### Transactions costs

The transaction costs relating to non-trading financial assets and non-trading financial liabilities are capitalized and, where applicable, these amounts are recognized in net interest income over the expected life of the instrument using the effective interest method. Transaction costs relating to trading financial assets and trading financial liabilities are immediately recognized in other income-trading revenue in the Consolidated Statement of Income.

#### Loans

The definition of loans includes debt instruments that are not quoted in an active market and have fixed or determinable cash flows. As a result, certain debt securities which are not classified as trading securities or have not been designated as available-for-sale, and are not quoted in an active market are classified as loans on the Consolidated Balance Sheet.

Loans are accounted for at amortized cost, except those classified or designated as trading, which are carried at fair value.

Loans transacted after October 31, 2009 that are purchased to economically hedge credit derivatives transacted for customers are classified as trading loans, and those outstanding as at October 31, 2009 are designated as trading (see Notes 4 and 27, respectively).

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. Loan origination costs are deferred and amortized into income using the effective interest method over the expected term of the loan. Loan fees are recognized in interest income over the appropriate lending or commitment period. Mortgage prepayment fees are recognized in interest income when received, unless they relate to a minor modification to the terms of the mortgage, in which case the fees are deferred and amortized using the effective interest method over the remaining period of the original mortgage. Loan syndication fees are included in credit fees in other income.

A loan is classified as impaired when, in management's opinion, there has been a deterioration in credit quality to the extent that there no longer is 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 ceases. Interest received on impaired loans is credited to the carrying value of the loan. 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.

Foreclosed assets meeting specified criteria are considered to be held for sale and are recorded at fair value less costs to sell. If the specified criteria are not met, the asset is considered to be held for use, measured initially at fair value and accounted for in the same manner as a similar asset acquired in the normal course of business.

#### Allowance for credit losses

The Bank maintains an allowance for credit losses which, in management's opinion, is adequate to absorb all incurred credit-related losses in its portfolio of the following on-and off-balance sheet items: deposits with banks, securities purchased under resale agreements, loans, acceptances and other indirect credit commitments, such as letters of credit and guarantees. The allowance for credit losses consists of specific allowances, general allowance and a sectoral allowance which are reviewed on a regular basis. Full or partial write-offs of loans are generally recorded when management believes there is no realistic prospect of full recovery. Actual write-offs, net of recoveries, are deducted from the allowance for credit losses.

#### Specific allowances

Specific allowances, except those relating to credit card loans, residential mortgages and most personal loans, are determined on an item-by-item basis and reflect the associated estimated credit loss. In the case of loans, the specific allowance 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 determined 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 allowances for credit card loans, residential mortgages and most personal loans are calculated using a formula method taking into account recent loss experience. The allowance for credit losses against on-balance sheet items is reflected as a reduction of the related asset category, and allowances relating to off-balance sheet items are included in other liabilities in the Consolidated Balance Sheet.



### *General allowance*

The general allowance is established against the loan portfolio in respect of the Bank's core business lines where prudent assessment by the Bank of past experience and existing economic and portfolio conditions indicate that it is probable that losses have occurred, but where such losses cannot be determined on an item-by-item basis.

The general allowance for business and government loans is underpinned by a risk rating process in which internal risk ratings are assigned at the time of loan origination, monitored on an ongoing basis, and adjusted to reflect changes in underlying credit risk. With the internal risk ratings as the foundation, the allowance is initially calculated through the application of migration and default statistics by risk rating, loss severity in the event of default, and exposure at default patterns within each of the business line portfolios. Based upon recent observable data, senior management forms a judgement whether adjustments are necessary to the initially calculated (quantitative) allowance and the amount of any such adjustments. In making this judgement, management considers observable factors such as economic trends and business conditions, portfolio concentrations, and trends in volumes and severity of delinquencies.

For mortgage portfolios, expected losses are estimated through analysis of historical loss migration and write-off trends.

The level of the general allowance is re-assessed quarterly and may fluctuate as a result of changes in portfolio volumes, concentrations and risk profile; analysis of evolving trends in probability of loss, severity of loss and exposure at default factors; and management's current assessment of factors that may have affected the condition of the portfolio.

While the total general allowance is established through a step-by-step process that considers risk arising from specific segments of the portfolio, the resulting total general allowance is available to absorb all incurred losses in the loan portfolio for which there has been no specific allowance.

The general allowance for credit losses is recorded as a reduction of loans in the Consolidated Balance Sheet.

### *Sectoral allowances*

A sectoral allowance is established when an industry sector or geographic region experiences specific adverse events or changes in economic conditions and it is considered necessary to establish an additional allowance for loan losses for the group of loans as a whole, even though the individual loans comprising the group are still classified as performing. These allowances are considered sectoral and are established for losses which have not been specifically identified, and where the losses are not adequately covered by the general allowance.

The sectoral allowance for credit losses is recorded as a reduction of loans in the Consolidated Balance Sheet.

### **Sales of loans**

Transfers of loans to unrelated parties are treated as sales provided that control over the transferred loans has been surrendered and consideration other than beneficial interests in the transferred loans has been received in exchange. If these criteria are not satisfied, then the transfers are treated as financing transactions. If treated as sales, the loans are removed from the Consolidated Balance Sheet and a gain or loss is recognized in income immediately based on the carrying value of the loans transferred, allocated between the assets sold and the retained interests in proportion to their fair values at the date of transfer. The fair values of loans sold, retained interests and recourse liabilities are determined using either quoted market prices, pricing models which take into account management's best estimates of key assumptions such as expected losses, prepayments and discount rates

commensurate with the risks involved, or sales of similar assets. Where the Bank continues to service the loans sold, a servicing liability or asset is recognized and amortized over the servicing period as servicing fees.

Retained interests in securitizations that can be contractually prepaid or otherwise settled in such a way that the Bank would not recover substantially all of its recorded investment are classified in available-for-sale securities in the Consolidated Balance Sheet. Such retained interests are tested regularly for other-than-temporary impairment and, if required, the retained interest's carrying value is reduced to fair value by a charge to other income – net gain (loss) on securities, other than trading in the Consolidated Statement of Income. Other retained interests are classified and accounted for as loans.

For securitizations of loans, gains and losses on sale and servicing fee revenues are reported in other income – other in the Consolidated Statement of Income. Where a servicing liability or asset is recognized, the amount is recorded in other liabilities or other assets in the Consolidated Balance Sheet.

For the sale of performing loans (other than by way of securitization), which is one of the Bank's credit risk management strategies, gains and losses are reported in other income – other. Gains and losses on sales of impaired loans are reported in the provision for credit losses in the Consolidated Statement of Income.

### **Acceptances**

The Bank's potential liability under acceptances is reported as a liability in the Consolidated Balance Sheet. The Bank has equivalent claims against its customers in the event of a call on these commitments, which are reported as an asset. Fees earned are reported in other income – credit fees in the Consolidated Statement of Income.

### **Land, buildings and equipment**

Land is carried at cost. Buildings, equipment and computer software, 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 and computer software – 3 to 10 years, and leasehold improvements – term of lease.

The Bank performs impairment testing on its long-lived assets when events or changes in circumstance indicate that an asset's carrying value may not be recoverable. The asset is written down to fair value when the carrying value of the asset exceeds the projected future undiscounted cash flows.

Net gains and losses on disposal are included in other income – other, in the Consolidated Statement of Income, in the year of disposal.

### **Goodwill and other intangible assets**

Goodwill is the excess of the purchase price paid over the fair value of the net assets purchased in the acquisition of a subsidiary or a VIE that is a business where the Bank is the primary beneficiary.

Other intangible assets are mainly comprised of fund management contracts, computer software costs and core deposit intangibles.

Goodwill and other intangible assets with indefinite useful lives are not amortized, but are subject to impairment tests on at least an annual basis. Goodwill is allocated to seven reporting units and any potential goodwill impairment is identified by comparing the carrying value of a reporting unit with its fair value. If any potential impairment is indicated, then it is quantified by comparing the carrying value of goodwill to its fair value, calculated as the fair value of the reporting unit less the fair value of its assets and liabilities. The fair value of the reporting units is determined using an internally developed valuation model using a market approach. The market approach considers

various factors including normalized earnings, projected forward earnings and price earnings multiples.

Intangible assets, other than goodwill and fund management contracts, which do not have indefinite useful lives are amortized on a straight-line basis over their useful lives not exceeding 20 years. These intangible assets are subject to an impairment test when events and circumstances indicate the carrying amounts may not be recoverable. The amortization of intangible assets is recorded in other non-interest expenses in the Consolidated Statement of Income.

#### Capital instrument liabilities

Capital instruments that must or can be settled by issuing a variable number of the issuer's own equity instruments are required to be presented as liabilities rather than as equity. These instruments are classified as either deposit liabilities or capital instrument liabilities in the Consolidated Balance Sheet, with the disbursements recorded in interest expense.

#### Corporate income taxes

The Bank follows the asset and liability method of accounting for corporate income taxes. Under this method, future tax assets and liabilities represent the cumulative amount of tax applicable to temporary differences between the carrying amount of the assets and liabilities, and their values for tax purposes. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Changes in future income taxes related to a change in tax rates are recognized in income in the period in which the tax change was enacted or substantively enacted.

Future tax assets and liabilities are included in other assets and other liabilities in the Consolidated Balance Sheet.

#### 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 and gold contracts, equity contracts or credit contracts. Derivative instruments are either exchange-traded contracts or negotiated over-the-counter contracts. Negotiated over-the-counter contracts include swaps, forwards and options.

The Bank enters into these derivative contracts for trading purposes, as well as to manage its exposures. Trading derivatives are entered into with customers to accommodate their risk management needs and are used to reduce or adjust the Bank's risk profile arising from its market making activities that support its client-based transactions. Derivative instruments designated as "asset/liability management" are those used to manage the Bank's non-trading interest rate, foreign currency and other exposures. These include instruments that meet specified criteria to be designated as hedges for accounting purposes.

All derivatives, including embedded derivatives for which separate accounting is required, are recorded at fair value in the Consolidated Balance Sheet. The determination of the fair value of derivatives includes consideration of credit risk and ongoing direct costs over the life of the instruments. Inception gains or losses on derivatives are only recognized where the valuation is dependent on observable market data, otherwise, they are deferred over the life of the related contract, or until the valuation inputs become observable. The gains and losses resulting from changes in fair values of trading derivatives are included in other income – trading revenues in the Consolidated Statement of Income.

Changes in the fair value of asset/liability management derivatives that do not qualify for hedge accounting are carried at fair value in the

Consolidated Balance Sheet, and subsequent changes in their fair values are recorded in the Consolidated Statement of Income as follows: interest-related contracts in net interest income; options used in managing non-trading securities in net gain (loss) on securities, other than trading; and other derivative contracts in other income – other. Where derivative instruments are used to manage the volatility of stock-based compensation, these derivatives are carried at fair value with changes in the fair value included in salaries and employee expense in the Consolidated Statement of Income.

#### Hedge accounting

The Bank formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking hedge transactions. This process includes linking these derivatives to specific assets and liabilities on the Consolidated Balance Sheet or to specific firm commitments or forecasted transactions. The Bank also formally assesses both at a hedge's inception and on an ongoing basis whether the derivatives used in hedging transactions are highly effective in offsetting changes in the fair value or cash flows of hedged items.

Hedge ineffectiveness is measured and recognized in the Consolidated Statement of Income. When either a fair value hedge or cash flow hedge is discontinued, any cumulative adjustment to either the hedged item or other comprehensive income is recognized in income over the remaining term of the original hedge, or when the hedged item is derecognized. If a designated hedge is no longer effective, the associated derivative instrument is subsequently carried at fair value without any offset from the hedged item.

There are three types of hedges: (i) fair value hedges, (ii) cash flow hedges and (iii) net investment hedges.

#### Fair value hedges

For fair value hedges, the change in fair value of the hedging derivative is offset in the Consolidated Statement of Income by the change in fair value of the hedged item relating to the hedged risk. The Bank utilizes fair value hedges primarily to convert fixed rate financial assets and liabilities to floating rate exposures. The main financial instruments designated as fair value hedged items include debt securities, loans, deposit liabilities and subordinated debentures.

#### Cash flow hedges

For cash flow hedges, the change in fair value of the hedging derivative is recorded in other comprehensive income, to the extent it is effective, until the hedged item affects the Consolidated Statement of Income. The Bank utilizes cash flow hedges primarily to convert floating rate deposit liabilities to fixed rate exposures.

#### Net investment hedges

For net investment hedges, the change in fair value of the hedging instrument, to the extent effective, is recorded in other comprehensive income. The Bank designates foreign currency liabilities and derivatives as hedging instruments. These amounts are recognized in income when the corresponding cumulative translation adjustments from self-sustaining foreign operations are recognized in income.

#### Employee future benefits

The Bank provides pension and other future benefit plans for qualified employees in Canada, the United States and other international operations. Pension benefits are generally based on an employee's length of service and the final five years' average salary. Other future benefits provided include post-retirement health care, dental care and life insurance, along with post-employment benefits and compensated absences.

The cost of these employee future benefits is actuarially determined each year using the projected benefit method prorated on service. The

calculation uses management's best estimate of a number of assumptions – including the long-term rates of investment return on plan assets, future compensation, health care costs, mortality, as well as the retirement age of employees. The discount rate is based on market conditions as at the calculation date. The expected return on plan assets is generally based on a market-related value of plan assets, where gains or losses on equity investments are recognized over three years; fixed income investments are recognized at market value. The Bank's main pension plan uses a measurement date of August 31, while the other principal employee future benefit plans use a July 31 date.

Past service costs, from plan amendments that impact previously earned employee benefits, are amortized on a straight-line basis over the estimated average remaining period to full benefit eligibility for active employees. For the Bank's principal pension plans, these periods range from 9 to 18 years. For principal other benefit plans, these periods range from 8 to 27 years. If the unrecognized net actuarial gain or loss is more than 10% of the greater of the plan assets or benefit obligation at the beginning of the year, the excess above this 10% threshold is generally amortized over the estimated average remaining service period of employees. For the Bank's principal pension plans and principal other benefit plans, these periods range from 9 to 18 years and from 8 to 27 years, respectively. A pension valuation allowance is recognized if the prepaid benefit expense (the cumulative difference between pension income/expense and funding contributions) is more than the Bank's expected future benefit.

The cumulative difference between pension income/expense and funding contributions is included in other assets and other liabilities, as appropriate, in the Consolidated Balance Sheet. The difference between other future benefits expense and payments to qualified plan members is included in other assets and other liabilities in the Consolidated Balance Sheet.

Certain employees outside of Canada participate in defined contribution pension plans. The costs for such plans are equal to Bank contributions made to employees' accounts during the year.

#### Stock-based compensation

The Bank has stock option plans and other stock-based compensation plans for certain eligible employees and non-officer directors that are described more fully in Note 18.

Employee stock options with Tandem Stock Appreciation Rights (Tandem SARs), provide the employee the choice to either exercise the stock option for shares, or to exercise the Tandem SAR and thereby receive the intrinsic value of the stock option in cash. Options with Tandem SARs are awards that may call for settlement in cash and, therefore, are recorded in other liabilities in the Consolidated Balance Sheet. Changes in this liability, which primarily arise from fluctuations in the market price of the Bank's common shares, are recorded in salaries and employee benefits expense in the Consolidated Statement of Income on a graded vesting basis. If an employee chooses to exercise the option, thereby cancelling the Tandem SAR, both the exercise price and the accrued liability are credited to common shares in the Consolidated Balance Sheet.

Stock options that do not contain the tandem share appreciation features require settlement in shares only. These stock options are

expensed on a graded vesting basis using the grant date fair-value (Black-Scholes pricing model) and are recorded in salaries and employee benefits expense in the Consolidated Statement of Income with a corresponding credit to contributed surplus in the Consolidated Balance Sheet. If the employee exercises the option, both the exercise price proceeds together with the amount recorded in contributed surplus are credited to common shares in the Consolidated Balance Sheet.

For stock options granted prior to November 1, 2002, the Bank accounts for these options using the intrinsic method. Under this method, the Bank does not recognize any compensation expense, since the exercise price was set at an amount equal to the closing price on the day prior to the grant of the stock options. When these stock options are exercised, the proceeds received by the Bank are credited to common shares in the Consolidated Balance Sheet.

The Bank's other liability-classified stock-based compensation plans are accounted for in a similar manner as stock options with Tandem SAR features, except that other stock-based compensation expense is recognized evenly over an applicable vesting period.

For SARs, including Tandem SARs and other stock-based compensation, the Bank recognizes i) the compensation costs attributable to stock-based compensation awards granted to employees who are eligible to retire on the grant date immediately on the grant date; and ii) compensation costs attributable to stock-based compensation awards granted to employees who will become eligible to retire during the vesting period over the timeframe between the grant date and the date of retirement eligibility.

Stock options granted to non-officer directors do not have Tandem SAR features.

#### Earnings per share (EPS)

Basic EPS is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS is computed by dividing net income available to common shareholders by the weighted-average number of diluted common shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur if additional common shares are assumed to be issued under securities or contracts that entitle their holders to obtain common shares in the future. The number of additional shares for inclusion in diluted EPS is determined using the treasury stock method. The treasury stock method determines the number of incremental common shares by assuming that the outstanding stock options, whose exercise price is less than the average market price of the Bank's common stock during the period, are exercised and the proceeds used to purchase common shares at the average market price. The incremental number of common shares is included in the calculation of diluted shares.

#### Guarantees

A liability is recorded for the fair value of the obligation assumed at the inception of certain guarantees. The guarantees affected include standby letters of credit, letters of guarantee, credit enhancements and other similar contracts. The fair value of the obligation at inception is generally based on the discounted cash flow of the premium to be received for the guarantee, resulting in a corresponding asset.

## 2 Future accounting changes

The following summarizes future accounting changes that will be relevant to the Bank's consolidated financial statements subsequent to October 31, 2011.

#### International Financial Reporting Standards (IFRS)

International Financial Reporting Standards will replace current Canadian GAAP for the Bank, effective for interim and annual periods commencing November 1, 2011 (adoption date), including the

preparation and reporting of one year of comparative figures and an opening balance sheet as at November 1, 2010 (transition date). Accordingly, these financial statements will be the last prepared by the Bank under pre-conversion Canadian GAAP, and the conversion to IFRS will be applicable to the Bank's reporting for the first quarter of 2012, for which current and comparative information will be prepared under IFRS.

The Bank has determined a number of key differences between current Canadian GAAP and IFRS that have the potential to significantly affect the financial statements, operations or capital of the Bank. IFRS also allows for certain one time elections on the transition date. The areas of significant differences that impact the Bank include consolidation, business combinations, shared-based payments, employee benefits, cumulative translation differences and derecognition.

#### Key financial impacts

##### **Key differences between current accounting policies and IFRS requirements**

Net adjustments to the Bank's opening balance sheet resulting from differences between Canadian GAAP and IFRS will be recorded against retained earnings on transition, or other components of equity.

The Bank is in the process of finalizing its comparative periods. Estimates for certain significant opening balance sheet impacts based on accounting policies selected and elections made are discussed below. The total estimated negative impact of the cumulative adjustments on total shareholders' equity is approximately \$1 billion and the resultant net negative impact on the Bank's Tier 1 capital ratio is approximately 77 basis points.

#### Consolidation

Canadian GAAP determines consolidation of an entity using two frameworks: the variable interest entity (VIE) and voting control models. The consolidation of a VIE under Canadian GAAP is based on whether the Bank is exposed to the majority of the VIE's expected losses or residual returns, or both and considered to be the primary beneficiary.

Under IFRS, an entity (including a special purpose entity (SPE)) is consolidated based solely on control, which is evidenced by the power to govern the financial and operating policies of an entity to obtain benefit. When assessing control under IFRS, all relevant factors are considered, including qualitative and quantitative aspects.

As a result of the differences in criteria, certain SPEs are required to be consolidated under IFRS that were not consolidated under Canadian GAAP, including one Bank-sponsored multi-seller conduit and the Bank's capital instrument trusts. In addition, certain capital instruments issued by the Bank's capital instrument trusts which are now consolidated have been assessed under IFRS as being equity instruments or compound instruments comprising both liability and equity components. The equity classification, in whole or for part of the instrument, is due to certain payment features in these instruments that do not create an unavoidable obligation to pay cash. The trusts' instruments with these equity-based features will be classified, in whole or in part as applicable, as capital instruments equity.

The estimated overall impact is an increase in the Bank's assets of \$2.7 billion, an increase in liabilities of \$2.0 billion, an increase in capital instruments equity of \$1.0 billion, and a decrease in opening retained earnings of \$0.3 billion.

#### Business combinations

Under IFRS 1, *First-Time Adoption of International Financial Reporting Standards* (IFRS 1), an entity may elect to not retrospectively restate any business combinations that occurred prior to the transition date.

Although the Bank has elected to not restate any business combinations that occurred prior to November 1, 2010, certain adjustments are still required upon transition to IFRS such as fair valuing contingent consideration. The impact from these adjustments is a decrease in assets of \$2 million, an increase in liabilities of \$42 million and a decrease to equity of \$44 million.

#### Share-based payments

IFRS requires cash-settled (i.e., liability-classified) awards to be remeasured at each reporting date based on changes in the fair value of the liability. Under Canadian GAAP, liability-classified awards are remeasured at each reporting date based on changes in the intrinsic value of such awards.

IFRS 1 allows the choice of not having to remeasure liability-classified awards to their fair value for those awards that have already settled by the transition date. The impact on transition for the awards that have not settled by the date of transition is a decrease to opening retained earnings of \$21 million, an increase in other liabilities of \$20 million and a decrease in deferred tax assets of \$1 million.

#### Employee benefits

Under IFRS 1, an entity may elect to recognize all cumulative unamortized actuarial gains and losses for employee defined benefit plans at transition date instead of retrospective restatement, with an offsetting adjustment against opening retained earnings.

The Bank has elected this exemption. The estimated impact of this election would be a reduction to opening retained earnings of \$1.4 billion. The impact under IFRS differs from Canadian GAAP amounts due to adjustments for items such as using an October 31 measurement date for the actuarial valuation, and using fair values for determining the expected return on plan assets.

#### Cumulative translation differences

IFRS 1 allows cumulative translation differences for all foreign operations to be deemed zero at the date of transition to IFRS, instead of recalculating from inception. This would result in the reclassification of amounts in accumulated other comprehensive income (AOCI) to opening retained earnings on transition.

The Bank has elected to use this exemption. The reclassification of the cumulative translation loss from AOCI to opening retained earnings is \$4.5 billion, which was the Canadian GAAP amount as at October 31, 2010.

#### Derecognition

Canadian GAAP uses a control-based model to assess derecognition, while IFRS primarily focuses on whether risks and rewards have been substantially transferred. As a result of the differences in criteria, transfers of certain financial assets that previously qualified for derecognition under Canadian GAAP will no longer qualify under IFRS.

The Bank's insured residential mortgage securitizations through the Canadian Government's Canada Mortgage Bond (CMB) Programs receive off-balance sheet treatment under Canadian GAAP. These mortgage securitization transactions do not meet the derecognition criteria under IFRS. Additionally, mortgages securitized and retained as mortgage-backed securities (MBS), currently classified as available-for-sale on the Bank's Consolidated Balance Sheet under Canadian GAAP, would be classified as residential mortgages under IFRS.

In December 2010, the International Accounting Standards Board (IASB) issued amendments to IFRS 1 to allow first-time adopters the option of applying the IFRS derecognition requirements prospectively to transactions occurring on or after an entity's transition date; or retrospectively from a date of the entity's choosing. In February 2011,



OSFI issued an advisory requiring all federally regulated entities to apply the derecognition requirements retrospectively from January 1, 2004. Application of the derecognition criteria from January 1, 2004, is estimated to result in an increase in residential mortgages and other

assets of \$31 billion, an increase in deposits and other liabilities of \$15 billion and a decrease in available-for-sale securities of \$16 billion. The net impact to opening retained earnings would be an increase of \$140 million. In addition, there would be a decrease in AOCI of \$336 million related to the available-for-sale securities.

### 3 Securities

(a) An analysis of the carrying value of securities is as follows:

As at October 31 (\$ millions)	Remaining term to maturity					2011	2010
	Within 3 months	Three to 12 months	One to 5 years	Over 5 years	No specific maturity	Carrying value	Carrying value
<b>Trading securities:</b>							
Canadian federal government debt	\$ 984	\$ 1,711	\$ 5,252	\$ 5,573	\$ –	\$ 13,520	\$ 18,127
Canadian provincial and municipal debt	564	554	651	2,459	–	4,228	4,487
U.S. treasury and other U.S. agencies' debt	1	468	1,873	1,150	–	3,492	5,065
Other foreign governments' debt	1,173	1,007	1,765	1,178	–	5,123	4,755
Common shares	–	–	–	–	26,757	26,757	22,264
Other	1,638	2,517	4,545	1,507	–	10,207	9,986
Total	4,360	6,257	14,086	11,867	26,757	63,327 <sup>(1)</sup>	64,684 <sup>(1)</sup>
<b>Available-for-sale securities:</b>							
Canadian federal government debt	410	898	7,272	615	–	9,195	9,092
Mortgage-backed securities <sup>(2)</sup>	67	560	21,315	140	–	22,082	18,581
Canadian provincial and municipal debt	100	10	2,159	50	–	2,319	1,131
U.S. treasury and other U.S. agencies' debt	188	451	36	8	–	683	1,240
Other foreign governments' debt	1,844	1,504	2,713	1,529	–	7,590	5,705
Bonds of designated emerging markets	–	–	57	214	–	271	312
Other debt	862	1,521	3,565	790	–	6,738	8,206
Preferred shares	–	–	–	–	427	427	475
Common shares <sup>(3)</sup>	–	–	–	–	2,750	2,750	2,486
Total	3,471	4,944	37,117	3,346	3,177	52,055	47,228
<b>Equity accounted investments:</b>							
Total securities	–	–	–	–	4,491 <sup>(4)</sup>	4,491	4,651
Total securities	\$ 7,831	\$ 11,201	\$51,203	\$15,213	\$34,425	\$119,873	\$ 116,563
<b>Total by currency (in Canadian equivalent):</b>							
Canadian dollar	\$ 3,122	\$ 5,382	\$39,001	\$10,467	\$26,586	\$ 84,558	\$ 84,035
U.S. dollar	736	2,593	6,725	2,112	3,513	15,679	16,954
Mexican peso	1,318	493	819	460	135	3,225	2,862
Other currencies	2,655	2,733	4,658	2,174	4,191	16,411	12,712
Total securities	\$ 7,831	\$ 11,201	\$51,203	\$15,213	\$34,425	\$119,873	\$ 116,563

(1) Includes \$414 (2010 – \$444) in mortgage-backed securities.

(2) Includes NHA mortgage-backed securities created and retained by the Bank. The outstanding balance of these mortgage-backed securities is \$21,446 (2010 – \$17,809). Canada Mortgage and Housing Corporation provides a guarantee of timely payment to NHA mortgage-backed security investors.

(3) The carrying value of available-for-sale equity securities that are not quoted in an active market is \$794 (2010 – \$918).

(4) Equity accounted investments have no stated term, and as a result, have been classified in the "No specific maturity" column.

In accordance with certain CICA amendments to the accounting standard on Financial Instruments – Recognition and Measurement, the Bank reclassified certain trading securities to available-for-sale securities effective August 1, 2008. These assets were comprised of \$303 million of bond assets and \$91 million of preferred shares that were no longer traded in an active market and which management intends to hold for the foreseeable future. As of the reclassification date, the weighted average effective interest rate on the reclassified bond asset portfolio was 4.0%, with expected recoverable cash flows of \$366 million.

As at October 31, 2011, the fair values of the remaining bond assets and preferred shares were \$24 million (2010 – \$128 million) and

\$38 million (2010 – \$52 million) respectively. Due to the reclassification of the bond assets and preferred shares, for the year ended October 31, 2011, the Bank recorded after-tax losses in other comprehensive income of \$13 million (2010 – gains of \$9 million; 2009 – gains of \$26 million) and \$1 million (2010 – gains of \$3 million; 2009 – gains of \$6 million), respectively, relating to fair value movements. If the reclassifications of these bond assets and preferred shares had not been made, pre-tax losses of \$18 million (2010 – gains of \$12 million; 2009 – gains of \$33 million) and \$2 million (2010 – gains of \$4 million; 2009 – gains of \$9 million), respectively, would have been recorded in the Consolidated Statement of Income.

(b) An analysis of unrealized gains and losses on available-for-sale securities is as follows:

As at October 31 (\$ millions)	2011				2010			
	Cost <sup>(1)</sup>	Gross unrealized gains	Gross unrealized losses	Fair value	Cost <sup>(1)</sup>	Gross unrealized gains	Gross unrealized losses	Fair value
Canadian federal government debt	\$ 8,991	\$ 209	\$ 5	\$ 9,195	\$ 8,927	\$ 166	\$ 1	\$ 9,092
Mortgage-backed securities <sup>(2)</sup>	21,595	538	51	22,082	18,100	494	13	18,581
Canadian provincial and municipal debt	2,285	38	4	2,319	1,102	29	—	1,131
U.S. treasury and other U.S. agencies' debt	685	—	2	683	1,226	18	4	1,240
Other foreign governments' debt	7,357	264	31	7,590	5,458	287	40	5,705
Bonds of designated emerging markets	163	108	—	271	180	132	—	312
Other debt	6,780	141	183	6,738	8,132	217	143	8,206
Preferred shares	453	18	44	427	488	24	37	475
Common shares	2,491	365	106	2,750	2,198	320	32	2,486
Total available-for-sale securities	\$ 50,800	\$ 1,681	\$ 426	\$ 52,055	\$ 45,811	\$ 1,687	\$ 270	\$ 47,228

(1) Cost for debt securities is amortized cost.

(2) Includes NHA mortgage-backed securities created and retained by the Bank.

The net unrealized gain on available-for-sale securities of \$1,255 million (2010 – \$1,417 million) decreases to a net unrealized gain of \$1,028 million (2010 – decreases to \$1,189 million) after the net fair value of derivative instruments and other hedge amounts

associated with these securities are taken into account. The net unrealized gain on available-for-sale securities is recorded in accumulated other comprehensive income.

(c) An analysis of available-for-sale securities with continuous unrealized losses:

As at October 31 (\$ millions)	2011						2010		
	Less than 12 months			12 months or greater			Total		
	Cost	Fair value	Unrealized losses	Cost	Fair value	Unrealized losses	Cost	Fair value	Unrealized losses
Canadian federal government debt	\$ 1,927	\$ 1,922	\$ 5	\$ —	\$ —	\$ —	\$ 1,927	\$ 1,922	\$ 5
Mortgage-backed securities	3,300	3,249	51	374	374	—	3,674	3,623	51
Canadian provincial and municipal debt	629	625	4	10	10	—	639	635	4
U.S. treasury and other U.S. agencies' debt	35	33	2	42	42	—	77	75	2
Other foreign governments' debt	2,597	2,569	28	204	201	3	2,801	2,770	31
Other debt	2,078	2,016	62	1,100	979	121	3,178	2,995	183
Preferred shares	9	8	1	336	293	43	345	301	44
Common shares	682	583	99	29	22	7	711	605	106
Total	\$ 11,257	\$ 11,005	\$ 252	\$ 2,095	\$ 1,921	\$ 174	\$ 13,352	\$ 12,926	\$ 426

As at October 31 (\$ millions)	2010						2010		
	Less than 12 months			12 months or greater			Total		
	Cost	Fair value	Unrealized losses	Cost	Fair value	Unrealized losses	Cost	Fair value	Unrealized losses
Canadian federal government debt	\$ 893	\$ 892	\$ 1	\$ —	\$ —	\$ —	\$ 893	\$ 892	\$ 1
Mortgage-backed securities	97	96	1	461	449	12	558	545	13
Canadian provincial and municipal debt	10	10	—	—	—	—	10	10	—
U.S. treasury and other U.S. agencies' debt	102	99	3	10	9	1	112	108	4
Other foreign governments' debt	1,800	1,775	25	73	58	15	1,873	1,833	40
Other debt	1,269	1,255	14	2,286	2,157	129	3,555	3,412	143
Preferred shares	2	2	—	346	309	37	348	311	37
Common shares	242	227	15	99	82	17	341	309	32
Total	\$ 4,415	\$ 4,356	\$ 59	\$ 3,275	\$ 3,064	\$ 211	\$ 7,690	\$ 7,420	\$ 270

As at October 31, 2011, the cost of 700 (2010 – 549) available-for-sale securities exceeded their fair value by \$426 million (2010 – \$270 million). This unrealized loss is recorded in accumulated other comprehensive income as part of unrealized gains (losses) on available-for-sale securities. Of the 700 (2010 – 549) securities, 175 (2010 – 225) have been in an unrealized loss position continuously for

more than a year, amounting to an unrealized loss of \$174 million (2010 – \$211 million). The increase in the unrealized loss on debt instruments is mainly due to the widening of credit spreads in the last quarter of fiscal 2011. For equity investments, declines in capital markets in the last quarter increased the unrealized loss.

Since the Bank has the ability and intent to hold these securities until there is a recovery of fair value, which may be at maturity for debt securities, these unrealized losses are considered temporary in nature.

The Bank conducts a quarterly review to identify and evaluate investments that show indications of impairment. An investment is considered impaired if its fair value falls below its cost, and a

writedown is recorded when the decline is considered other-than-temporary. Factors considered in determining whether a loss is temporary include the length of time and extent to which fair value has been below cost; financial condition and near-term prospects of the issuer, and the ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

**(d) An analysis of net gain (loss) on securities, other than trading<sup>(1)</sup> is as follows:**

For the year ended October 31 (\$ millions)	2011	2010	2009
Realized gains	\$ 409	\$ 790	\$ 593
Realized losses	67	304	316
Impairment writedowns <sup>(2)</sup>	103	131	689
Net gain (loss) on securities, other than trading	\$ 239	\$ 355	\$(412)

(1) The net gain (loss) on securities, other than trading mainly relates to available-for-sale securities and equity accounted investments.

(2) Impairment writedowns are comprised of \$47 for equity securities (2010 – \$107; 2009 – \$546) and \$56 for debt securities (2010 – \$24; 2009 – \$143).

Net gains realized on available-for-sale equity securities which did not have a quoted market price were \$165 million for the year ended October 31, 2011 (2010 – \$60 million; 2009 – \$28 million).

## 4 Loans

**(a) Loans outstanding by geography**

The Bank's loans, net of unearned income and the allowance for credit losses in respect of loans, are as follows <sup>(1)</sup>:

As at October 31 (\$ millions)	2011	2010
<b>Canada:</b>		
Residential mortgages	\$ 106,858	\$ 104,546
Personal and credit cards	50,747	49,657
Business and government	36,613	35,520
	<b>194,218</b>	189,723
<b>United States:</b>		
Personal	2,254	3,864
Business and government	18,911	17,149
	<b>21,165</b>	21,013
<b>Mexico:</b>		
Residential mortgages	3,412	3,686
Personal and credit cards	1,744	1,987
Business and government	5,602	4,725
	<b>10,758</b>	10,398
<b>Other International:</b>		
Residential mortgages	12,812	12,250
Personal and credit cards	8,019	7,040
Business and government	54,547	46,587
	<b>75,378</b>	65,877
	<b>301,519</b>	287,011
Less: allowance for credit losses	<b>2,817</b>	2,787
Total <sup>(2)(3)(4)</sup>	<b>\$ 298,702</b>	\$ 284,224

(1) Geographic segmentation of assets is based upon the location of the ultimate risk of the underlying assets.

(2) Loans denominated in U.S. dollars amount to \$63,471 (2010 – \$57,508), loans denominated in Mexican pesos amount to \$8,299 (2010 – \$8,554) and loans denominated in other foreign currencies amount to \$38,666 (2010 – \$33,822).

(3) In addition to loans designated as trading (see Note 27), the fair value of the Bank's loans transacted after October 31, 2009 and classified as trading was \$2,407. These trading loans were included in Business and Government.

(4) As at October 31, 2011, loans include securities, not traded in an active market, of \$4,114 (2010 – \$6,483), of which \$2,934 was included in Personal (2010 – \$5,189). These debt instruments included consumer auto-based securities, other auto-based securities, cash-based collateralized loan and debt obligations, and a specific portfolio of government and corporate bonds held by one of the Bank's international units.

## (b) Loans and acceptances by type of borrower

As at October 31 (\$ millions)	2011		2010	
	Balance	% of total	Balance	% of total
<b>Personal</b>				
Residential mortgages	\$ 122,814	39.9%	\$ 120,260	41.0%
Credit cards	10,847	3.5	10,781	3.7
Personal loans	51,234	16.6	51,101	17.4
	<b>\$ 184,895</b>	<b>60.0%</b>	<b>\$ 182,142</b>	<b>62.1%</b>
<b>Businesses and government</b>				
Financial services	22,136	7.2	19,269	6.6
Wholesale and retail	11,478	3.7	10,360	3.5
Real estate	10,926	3.5	10,679	3.6
Oil and gas	10,167	3.3	9,334	3.2
Transportation	7,918	2.6	7,008	2.4
Automotive	5,744	1.8	5,163	1.8
Agriculture	5,493	1.8	4,519	1.5
Government	4,461	1.4	4,170	1.4
Hotels and leisure	3,910	1.3	4,085	1.4
Mining and primary metals	6,682	2.2	5,252	1.8
Utilities	5,317	1.7	5,041	1.7
Health care	4,421	1.4	3,970	1.3
Telecommunications and cable	4,380	1.4	3,728	1.3
Media	1,785	0.6	1,899	0.7
Chemical	1,731	0.6	1,239	0.4
Food and beverage	2,977	1.0	2,834	1.0
Forest products	1,131	0.4	1,109	0.4
Other	12,674	4.1	11,449	3.9
	<b>\$ 123,331</b>	<b>40.0%</b>	<b>\$ 111,108</b>	<b>37.9%</b>
	<b>308,226</b>	<b>100.0%</b>	<b>293,250</b>	<b>100.0%</b>
	<b>(1,352)</b>		<b>(1,410)</b>	
	<b>\$ 306,874</b>		<b>\$ 291,840</b>	
General allowance				
Total loans and acceptances				

## (c) Sales of loans through securitizations

The Bank securitizes residential mortgages through the creation of mortgage-backed securities. The gain on sale of the mortgages resulting from these securitizations, before issuance costs, is recognized in other income in the Consolidated Statement of Income. The key weighted-average assumptions used to measure fair value at the dates

of securitization were a prepayment rate of 23.9% (2010 – 22.9%; 2009 – 22.5%), an excess spread of 1.2% (2010 – 1.2%; 2009 – 1.8%), and a discount rate of 1.9% (2010 – 1.7%; 2009 – 2.4%). No credit losses are expected as the mortgages are insured. The following table summarizes the Bank's sales.

For the year ended October 31 (\$ millions)	2011	2010	2009
Net cash proceeds <sup>(1)</sup>	\$ 8,253	\$ 3,762	\$ 11,879
Retained interest	216	103	480
Retained servicing liability	(45)	(22)	(69)
	<b>8,424</b>	<b>3,843</b>	<b>12,290</b>
Residential mortgages securitized <sup>(2)</sup>	<b>8,256</b>	<b>3,770</b>	<b>11,953</b>
Net gain on sale <sup>(3)</sup>	<b>\$ 168</b>	<b>\$ 73</b>	<b>\$ 337</b>

(1) Excludes insured mortgages which were securitized and retained by the Bank during the year of \$11,951 (2010 – \$4,309; 2009 – \$20,923). These assets are classified as available-for-sale securities and have an outstanding balance of \$21,446 (2010 – \$17,809; 2009 – \$20,864) [refer to Note 3a].

(2) Includes sales of mortgage-backed securities in the current period that related to residential mortgages securitized by the Bank in prior periods but retained by the Bank at that time of \$1,834 (2010 – \$960; 2009 – \$2,126).

(3) Net of issuance costs.



# CONSOLIDATED FINANCIAL STATEMENTS

The key assumptions used in measuring the fair value of the retained interests for mortgages securitized and the sensitivity of the current fair value of retained interests to a 10% and 20% adverse change to these assumptions are as follows:

As at October 31 (\$ millions)	2011	2010
Fair value of the retained interest (\$)	428	404
Weighted average life (in years)	3	3
Prepayment rate (%)	23.2	22.3
Impact on fair value of a 10% adverse change (\$)	(12)	(11)
Impact on fair value of a 20% adverse change (\$)	(23)	(22)
Residual cash flow annual discount rate (%)	1.05-1.82	1.19-2.42
Impact on fair value of a 10% adverse change (\$)	(1)	(1)
Impact on fair value of a 20% adverse change (\$)	(1)	(2)
Excess spread (%)	1.4	1.8
Impact on fair value of a 10% adverse change (\$)	(42)	(41)
Impact on fair value of a 20% adverse change (\$)	(84)	(82)

The sensitivity measures above are hypothetical and should be used with caution. Other sensitivity estimates should not be extrapolated from those presented above since the relationship between the change in the assumption to the change in fair value is not linear. In addition, changes in a particular assumption and the effect on the fair value of

the retained interest is calculated without changing any other assumption; however, the factors are not independent and the actual effects could be magnified or counteracted from the sensitivities presented. Information on total securitized loan assets<sup>(1)</sup> is summarized as follows:

	2011			2010			2009		
	Outstanding securitized loans as at October 31	Impaired and other past due loans as at October 31	Net credit losses for the year ended October 31	Outstanding securitized loans as at October 31	Impaired and other past due loans as at October 31	Net credit losses for the year ended October 31	Outstanding securitized loans as at October 31	Impaired and other past due loans as at October 31	Net credit losses for the year ended October 31
Residential mortgages <sup>(1)(2)</sup>	\$ 19,143	\$ 27	\$ –	\$ 16,033	\$ 19	\$ –	\$ 17,494	\$ 35	\$ –
Personal loans <sup>(3)</sup>	2	–	1	10	1	4	199	3	3
Total	\$ 19,145	\$ 27	\$ 1	\$ 16,043	\$ 20	\$ 4	\$ 17,693	\$ 38	\$ 3

(1) Excludes insured mortgages which were securitized and retained by the Bank (refer to Note 3a).

(2) Excludes past due payments relating to residential mortgages insured by Canada Mortgage and Housing Corporation of \$17 (2010 – \$15; 2009 – \$19).

(3) 2009 included a revolving securitization facility that matured in 2010.

## (d) Loans past due but not impaired<sup>(1)</sup>

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of loans that are past due but not classified as impaired because they are either less than 90 days past due, or fully secured and collection efforts are reasonably expected to result in repayment, or restoring it to a current status in accordance with the Bank's policy.

	2011				2010			
As at October 31 (\$ millions)	31 - 60 days	61 - 90 days	91 days and greater	Total	31 - 60 days	61 - 90 days	91 days and greater	Total
Residential mortgages	\$ 1,363	\$ 488	\$ 191	\$ 2,042	\$ 1,403	\$ 466	\$ 202	\$ 2,071
Personal and credit cards	377	187	55	619	398	207	58	663
Business and government	226	242	162	630	513	208	189	910
Total	\$ 1,966	\$ 917	\$ 408	\$ 3,291	\$ 2,314	\$ 881	\$ 449	\$ 3,644

(1) Loans past due 30 days or less are not presented in this analysis as they are not administratively considered past due.

## 5 Impaired loans and allowance for credit losses

### (a) Impaired loans

	<b>2011</b>		2010
As at October 31 (\$ millions)	Gross <sup>(1)</sup>	Specific allowance <sup>(2)</sup>	Net
<b>By loan type:</b>			
Residential mortgages	\$ 1,568	\$ (268)	\$ 1,300
Personal and credit cards	853	(683)	170
Business and government	1,667	(514)	1,153
Total	\$ 4,088 <sup>(3)(4)</sup>	\$ (1,465)	\$ 2,623
<b>By geography:</b>			
Canada			512
United States			115
Other International			1,996
Total			\$ 2,623

(1) Gross impaired loans denominated in U.S. dollars amounted to \$964 (2010 – \$1,122) and those denominated in other foreign currencies amounted to \$395 (2010 – \$458).

(2) The specific allowance for impaired loans evaluated on an individual basis totalled \$506 (2010 – \$485).

(3) Individual impaired loans without an allowance for credit losses totalled \$447 (2010 – \$1,039).

(4) Average balance of gross impaired loans totalled \$4,261 (2010 – \$4,642).

Loans purchased as part of the acquisition of R-G Premier Bank of Puerto Rico are subject to loss share agreements with the Federal Deposit Insurance Corporation (FDIC). The provision for credit losses related to these loans are reflected net of the amount expected to be reimbursed by the FDIC in the Consolidated Statement of Income. Allowance for credit losses are reflected on a gross basis on the Consolidated Balance Sheet. As at October 31, 2011, the fair value of loans guaranteed by FDIC were \$3.3 billion (October 31, 2010 – \$3.6 billion) with a net receivable of \$775 million (October 31, 2010 – \$852 million) from FDIC.

Included in impaired loans are \$308 million (October 31, 2010 – \$553 million) of purchased impaired loans from the 2010 R-G Premier Bank acquisition. The loans purchased are recorded at fair value on acquisition date and no allowance is recorded on acquisition date as credit losses are included in the determination of the fair value. Under IFRS, these purchased impaired loans will not be included in impaired loans as long as expected cash flows continue to equal or exceed the amounts expected at acquisition.

### (b) Allowance for credit losses

	<b>2011</b>					2010	2009
As at October 31 (\$ millions)	Balance at beginning of year	Write-offs <sup>(1)</sup>	Recoveries	Provision for credit losses	Other, including foreign currency adjustment <sup>(2)</sup>	Balance at end of year	Balance at end of year
<b>Specific</b>							
Residential mortgages	\$ 222	\$ (130)	\$ 55	\$ 176	\$ (55)	\$ 268	\$ 222
Personal and credit cards	666	(1,002)	223	763	33	683	666
Business and government	498	(192)	71	167	(22)	522	498
	1,386	(1,324)	349	1,106	(44)	1,473 <sup>(3)</sup>	1,386 <sup>(3)</sup>
<b>Sectoral<sup>(4)</sup></b>	–	–	–	–	–	–	44
<b>General<sup>(5)(6)</sup></b>	1,410	–	–	(60)	2	1,352	1,410
	\$ 2,796	\$ (1,324)	\$ 349	\$ 1,046	\$ (42)	\$ 2,825	\$ 2,796

(1) Loans restructured during the year amounted to \$28 (2010 – \$216). Write-offs of loans restructured during the year were \$39 (2010 – \$33; 2009 – nil).

(2) Includes \$nil in specific allowances and \$2 in general allowance related to acquisitions in 2011, \$14 in specific allowances from acquisitions in 2010, and \$9 in specific allowances from acquisitions in 2009.

(3) As at October 31, 2011 \$8 (2010 – \$9; 2009 – \$5) has been recorded in other liabilities.

(4) The sectoral allowance was established to reflect the deterioration in the automotive industry sector, within the business and government category.

(5) The general allowance amount is primarily attributable to business and government loans (\$1,109), with the remainder allocated to personal and credit cards (\$187) and residential mortgages (\$56). The specific allowance for credit losses for personal loans, credit cards and mortgages is formula-based and also reflects incurred but not yet identified losses. The \$60 reduction of the general allowance in 2011 was attributable to an improvement in the credit quality of the portfolio, and to a lesser extent, a stronger Canadian dollar.

(6) The changes to the General Allowance are on an overall portfolio basis and would be reflected as either a net reversal or provisions no longer required or net new provisions. There are no write-offs against the General Allowance, as write-offs would only be applied to individual loans against established specific allowances.

## 6 Variable interest entities

### (a) Consolidated VIEs:

The following table provides information about variable interest entities (VIEs) that the Bank consolidated.

As at October 31 (\$ millions)	2011	2010
	Total assets	Total assets
Funding vehicles	\$11,578	\$8,874
Other	509	306

The Bank uses funding vehicles to facilitate cost-efficient financing of its own operations. Activities of these special purpose entities are generally limited to holding a pool of assets or receivables generated by the Bank and used to finance distributions to their investors.

During the year, the Bank issued covered bonds for Australian \$1.0 billion and U.S. \$2.0 billion. Scotia Covered Bond Trust (SCB Trust) guarantees payments under the Bank's covered bond program. Canada Mortgage and Housing Corporation insured residential mortgages are the primary assets held by SCB Trust which is a VIE. The Bank consolidates SCB Trust as it is exposed to a majority of variability of its assets. Total assets in SCB Trust were \$11.3 billion as at October 31, 2011 (October 31, 2010 – \$7.7 billion) (refer to Note 24(d)).

The assets supporting the obligations of the consolidated VIEs as at October 31, 2011 are as follows: cash and non-interest bearing deposits with banks of nil (2010 – \$304 million); Canadian residential mortgage loans of \$11,521 million (2010 – \$8,446 million); trading securities of \$404 million (2010 – \$241 million); and other assets of \$162 million (2010 – \$189 million). In general, the investors in the obligations of consolidated VIEs have recourse only to the assets of those VIEs and do not have recourse to the Bank except where the Bank has provided a guarantee to the investors or is the counterparty to a derivative transaction involving the VIE.

### (b) Other VIEs

The following table provides information about other VIEs in which the Bank has a significant variable interest but is not the primary beneficiary. A significant variable interest is generally considered to exist where the Bank absorbs or receives between 10% and 50% of the VIE's expected losses, expected residual returns, or both.

As at October 31 (\$ millions)	2011		2010	
	Total assets	Maximum exposure to loss	Total assets	Maximum exposure to loss
Multi-seller conduits that the Bank administers	\$5,328	\$5,328	\$4,106	\$4,106
Structured finance entities	2,459	1,222	3,117	2,048
Collateralized debt obligation entities	598	53	63	23
Other	703	188	669	166

The Bank's maximum exposure to loss as at October 31 represents the notional amounts of guarantees, liquidity facilities, and other credit support relationships with the VIE, the credit risk amount for certain derivative contracts with the entities, and the amount invested where the Bank holds an ownership interest in the VIE. Of the aggregate amount of maximum exposure to loss, the Bank has recorded \$1.4 billion (2010 – \$2.2 billion), primarily its interest in the VIEs, on its Consolidated Balance Sheet as at October 31, 2011.

#### *Multi-seller conduits that the Bank administers*

The Bank currently sponsors three multi-seller conduits, two of which are Canadian-based and one in the United States. The conduits purchase assets from outside parties (the sellers) funded by the issuance of asset-backed commercial paper. The sellers continue to service the assets and provide credit enhancements for their portion of the programs through overcollateralization protection and cash reserves. The Bank has no rights to these assets as they are available to support the obligations of the respective programs, but manages for a fee the commercial paper selling programs.

To ensure timely repayment of the commercial paper, each asset pool financed by the multi-seller conduits has a deal-specific liquidity asset purchase agreement (LAPA) with the Bank that generally equals 102% of the assets purchased or committed to be purchased. The administrative agent can require the liquidity provider to perform under its asset purchase agreement in the event the conduit is unable to access the commercial paper market. The Bank is not obligated to purchase assets from the conduits in the event the conduit meets the requirements of an insolvency event. Pursuant to the terms of the

LAPA, the Bank as the liquidity provider is obligated to purchase assets, including defaulted assets, where applicable, transferred by the conduit at the conduit's original cost as reflected in the table above. As well, in some instances the Bank is counterparty to derivative contracts with these conduit programs and provides them with a large portion of their backstop liquidity and partial credit enhancement facilities (see Note 24). The Bank provides additional liquidity facilities to these multi-seller conduits to a maximum amount of \$4.2 billion (2010 – \$3.9 billion) based on future asset purchases by these conduits.

During fiscal 2011 and 2010, there were no changes to the obligations of the subordinated note holder and no reconsideration events have occurred.

#### *Structured finance entities*

This includes special purpose entities used to assist corporate clients in accessing cost-efficient financing through their securitization structures. The decrease from the prior year is a result of regular amortizations and paydowns on or before maturity.

#### *Collateralized debt obligation entities*

The Bank holds an interest in VIEs structured to match specific investor requirements. Loans or credit derivatives are held by the VIEs to create security offerings for investors that match their investment needs and preferences. The Bank's maximum exposure to loss includes the credit risk amounts relating to derivative contracts with these VIEs.

#### *Other*

Other includes investments in privately managed funds and other VIEs. The Bank's maximum exposure to loss includes its net investment in these funds.

## 7 Land, buildings and equipment

			2011	2010
	Cost	Accumulated depreciation & amortization	Net book value	Net book value
As at October 31 (\$ millions)				
Land	\$ 349	\$ —	\$ 349	\$ 328
Buildings	1,977	762	1,215	1,199
Equipment	3,234	2,650	584	525
Leasehold improvements	1,120	716	404	398
Total	\$ 6,680	\$ 4,128	\$ 2,552	\$ 2,450

Depreciation and amortization in respect of the above buildings, equipment, and leasehold improvements for the year amounted to \$274 million (2010 – \$236 million; 2009 – \$234 million).

## 8 Goodwill and other intangible assets

### Goodwill

The changes in the carrying amount of goodwill by main operating segment are as follows:

	Canadian Banking	International Banking	Scotia Capital	Global Wealth Management	2011	2010	2009
As at October 31 (\$ millions)							
Balance at beginning of year	\$ 829	\$ 2,101	\$ 120	\$ —	\$ 3,050	\$ 2,908	\$ 2,273
Reclassification due to re-organization of operating segments	(496)	(273)	—	769	—	—	—
Acquisitions	—	87	—	1,233	1,320	281	603
Effects of foreign exchange and other	6	(16)	5	12	7	(139)	32
Balance at end of year	\$ 339	\$ 1,899	\$ 125	\$ 2,014	\$ 4,377	\$ 3,050	\$ 2,908

Goodwill was assessed for impairment as at October 31, 2011, based on the seven reporting units, and no impairment charge was recorded.

### Intangible assets

	Finite useful life		Indefinite useful life		2011	2010	2009
	Cost	Accumulated Amortization	Net	Cost			
As at October 31 (\$ millions)							
Computer software	\$ 653	\$ (154)	\$ 499	\$ —	\$ 499	\$ 357	\$ 301
Fund management contracts	—	—	—	2,325	2,325	—	—
Other intangible	881	(483)	398	65	463	232	260
Total	\$ 1,534	\$ (637)	\$ 897	\$ 2,390	\$ 3,287	\$ 589	\$ 561

Other intangible assets are comprised primarily of core deposit intangibles. The aggregate amortization expense of total intangible assets for the year ended October 31, 2011, was \$137 million (2010 – \$98 million; 2009 – \$96 million).

The intangible assets acquired during the year include \$600 million (2010 – \$133 million) of intangible assets with finite useful lives and \$2,390 million (2010 – nil) of intangible assets with indefinite useful lives.

## 9 Other assets

	2011	2010
As at October 31 (\$ millions)		
Accrued interest	\$ 1,485	\$ 1,447
Accounts receivable	2,036	1,565
Future income tax assets (Note 19)	1,496	2,219
Receivable from brokers, dealers and clients	763	292
Pension assets <sup>(1)</sup> (Note 20)	1,645	1,612
Receivable from the Federal Deposit Insurance Corporation <sup>(2)</sup>	775	852
Other	3,832	3,379
Total	\$ 12,032	\$ 11,366

(1) Includes only principal plans.

(2) This is related to the Bank's subsidiary, R-G Premier Bank of Puerto Rico.

## 10 Deposits

	Payable on demand	Non-interest-bearing	Payable after notice	Payable on a fixed date	2011	2010
As at October 31 (\$ millions)	Interest-bearing					
Personal	\$ 5,014	\$ 3,536	\$ 53,445	\$ 71,030	\$ 133,025	\$ 128,850
Business and government <sup>(1)</sup>	36,494	14,121	13,545	177,846	242,006	210,687
Banks	342	817	448	19,738	21,345	22,113
Total	\$ 41,850	\$ 18,474	\$ 67,438	\$ 268,614	\$ 396,376	\$ 361,650
Recorded in:						
Canada					253,677	242,483
United States					74,324	49,238
Mexico					8,513	9,206
Other International					59,862	60,723
Total <sup>(2)</sup>					\$ 396,376	\$ 361,650

(1) Includes deposit notes issued by the Bank to Scotiabank Capital Trust of \$2,250 (2010 – \$2,250), Scotiabank Subordinated Notes Trust of \$1,000 (2010 – \$1,000) and Scotiabank Tier 1 Trust of \$650 (2010 – \$650) [refer to Note 13].

(2) Deposits denominated in U.S. dollars amount to \$151,290 (2010 – \$122,752), deposits denominated in Mexican pesos amount to \$7,818 (2010 – \$8,389) and deposits denominated in other foreign currencies amount to \$30,767 (2010 – \$31,386).

## 11 Other liabilities

As at October 31 (\$ millions)	2011	2010
Accrued interest	\$ 1,881	\$ 2,031
Accounts payable and accrued expenses	5,792	5,274
Deferred income	717	680
Future income tax liabilities (Note 19)	504	444
Gold and silver certificates and bullion	3,931	5,153
Margin and collateral accounts	4,149	3,360
Payable to brokers, dealers and clients	245	58
Other liabilities of subsidiaries and VIEs <sup>(1)(2)</sup>	8,046	8,535
Pension liabilities <sup>(3)</sup> (Note 20)	246	235
Other	3,473	3,177
Total	\$ 28,984	\$ 28,947

(1) Excludes deposits and capital instrument liabilities.

(2) Includes a note liability of \$2,118 (2010 – \$2,850) to the Federal Deposit Insurance Corporation related to the Bank's subsidiary, R-G Premier Bank of Puerto Rico. The Bank has an obligation to use the reimbursements from the FDIC under the loss-sharing agreement to pay down the outstanding principal balance of the Note. The Note may be repaid without penalty (prepayments can be made after giving 60 days prior notice of the Bank's intention to prepay). The original terms required the entire outstanding principal balance of the Note to be repaid in one year from issuance or at an earlier date if an event of default occurred and is continuing but with an option to renew (with a 60 day notice period) by terms of a year up to 2015. The Note has since been renewed in April 2011. The interest rate for the first year is 0.881% and adjusts for each subsequent renewal period based on the current one-year U.S. Treasury Bill rate plus 50 basis points.

(3) Includes only principal plans.

## 12 Subordinated debentures

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.

As at October 31 (\$ millions)			2011	2010
Maturity date	Interest rate (%)	Terms <sup>(1)</sup>	Par value	Carrying value <sup>(2)</sup>
September 2013	8.30	Redeemable at any time	\$ 250	\$ 251
January 2018	5.30	Redeemable at any time. After January 31, 2013, interest will be payable at an annual rate equal to the 90-day bankers' acceptance rate plus 1.90%	300	300
March 2018	4.99	Redeemable at any time. After March 27, 2013, interest will be payable at an annual rate equal to the 90-day bankers' acceptance rate plus 2%	1,700	1,713
October 2018	6.00	Redeemable at any time. After October 3, 2013, interest will be payable at an annual rate equal to the 90-day bankers' acceptance rate plus 3.25%	950	950
April 2019	4.94	Redeemable at any time. After April 15, 2014, interest is payable at an annual rate equal to the 90-day bankers' acceptance rate plus 4.24%	1,000	1,000
January 2021	6.65	Redeemable at any time. After January 22, 2016, interest is payable at an annual rate equal to the 90-day bankers' acceptance rate plus 5.85%	1,000	1,000
June 2025	8.90	Redeemable at any time	250	268
November 2037	3.015	JPY ¥10 billion. Redeemable on November 20, 2017	128	134
April 2038	3.37	JPY ¥10 billion. Redeemable on April 9, 2018	128	136
August 2085	Floating	US \$172 million bearing interest at a floating rate of the offered rate for six-month Eurodollar deposits plus 0.125%. Redeemable on any interest payment date. Total repurchases in fiscal 2011 were approximately nil (2010 – US \$10 million)	171	175 <sup>(3)</sup>
			\$ 5,877	\$ 5,923

The contractual maturities of the debentures are summarized in Note 25(b).

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

(2) The carrying value of subordinated debentures may differ from par value due to adjustments related to hedge accounting.

(3) For the year ended October 31, 2010, the Bank recorded a net realized gain of \$4 related to repurchases of subordinated debentures.

### 13 Capital instrument liabilities, trust securities and trust subordinated notes

Capital instrument liabilities are financial instruments, which can be settled at the Bank's option by issuing a variable number of the Bank's own equity instruments. These instruments remain eligible as Tier 1 Capital for regulatory purposes.

Scotiabank Capital Trust, Scotiabank Subordinated Notes Trust, and Scotiabank Tier 1 Trust are VIEs and are not consolidated on the Bank's balance sheet as the Bank is not the primary beneficiary. Therefore, the Scotiabank Trust Securities, Scotiabank Trust Subordinated Notes and the Scotiabank Tier 1 Trust Securities Notes issued by the Trusts are not reported on the Consolidated Balance Sheet. The deposit notes issued by the Bank to Scotiabank Capital Trust, Scotiabank Subordinated Notes Trust and Scotiabank Tier 1 Trust are reported in Deposits [refer to Note 10]. These trust securities and trust subordinated notes remain eligible for inclusion in the Bank's regulatory capital as Tier 1 and Tier 2 capital, respectively.

As at October 31 (\$ millions)	2011	2010
<b>Capital instrument liabilities</b>		
Scotiabank Trust Securities – Series 2000-1 issued by BNS Capital Trust <sup>(a)</sup>	\$ –	\$ 500
<b>Scotiabank Trust Securities not consolidated by the Bank</b>		
Scotiabank Trust Securities – Series 2002-1 issued by Scotiabank Capital Trust <sup>(b)(f)(g)</sup>	\$ 750	\$ 750
Scotiabank Trust Securities – Series 2003-1 issued by Scotiabank Capital Trust <sup>(c)(f)(g)</sup>	750	750
Scotiabank Trust Securities – Series 2006-1 issued by Scotiabank Capital Trust <sup>(d)(f)(g)</sup>	750	750
Scotiabank Tier 1 Securities – Series 2009-1 issued by Scotiabank Tier 1 Trust <sup>(e)(f)(g)</sup>	650	650
<b>Scotiabank Trust Subordinated Notes not consolidated by the Bank</b>		
Scotiabank Trust Subordinated Notes – Series A issued by Scotiabank Subordinated Notes Trust <sup>(h)</sup>	\$ 1,000	\$ 1,000

(a) On December 31, 2010, BNS Capital Trust redeemed all of its \$500 million issued and outstanding Scotiabank Trust Securities – Series 2000-1.

(b) On April 30, 2002, Scotiabank Capital Trust, a wholly owned open-end trust, issued 750,000 Scotiabank Trust Securities – Series 2002-1 ("Scotia BaTS"). The Scotia BaTS are entitled to receive non-cumulative fixed cash distributions payable semi-annually in an amount of \$33.13 per security. With regulatory approval, these securities may be redeemed in whole or in part by the payment of cash, at the option of Scotiabank Capital Trust. The holder has the right at any time to exchange their security into Non-cumulative Preferred Shares Series W of the Bank. The Series W shares will be entitled to cash dividends payable semi-annually in an amount of \$0.53125 per \$25.00 share. Under the circumstances outlined in (f) below, the Scotia BaTS would be automatically exchanged without the consent of the holder into Non-cumulative Preferred Shares Series X of the Bank. The Series X shares will be entitled to non-cumulative cash dividends payable semi-annually in an amount of \$0.70 per \$25.00 share [refer to Notes 14 and 15 – Restrictions on dividend payments]. In certain circumstances, on or after December 31, 2012, the Non-cumulative Preferred Shares Series W and the Non-cumulative Preferred Shares Series X are exchangeable at the option of the holder into a variable number of common shares of the Bank based upon an average of the Bank's common share price, subject to regulatory approval, and certain prior rights of the Bank. The proceeds of the issue were used to purchase a deposit note issued by the Bank. If there is an automatic exchange of the Scotia BaTS into Preferred Shares Series X of the Bank, then the Bank would become the sole beneficiary of the Trust.

(c) On February 13, 2003, Scotiabank Capital Trust issued 750,000 Scotiabank Trust Securities – Series 2003-1 ("Scotia BaTS"). The Scotia BaTS are entitled to receive non-cumulative fixed cash distributions payable semi-annually in an amount of \$31.41 per security. With regulatory approval, these securities may be redeemed in whole or in part by the payment of cash, at the option of Scotiabank Capital Trust. The holder has the right at any time to exchange their security into Non-cumulative Preferred Shares Series U of the Bank. The Series U shares will be entitled to cash dividends payable semi-annually in an amount of \$0.50 per

\$25.00 share. Under the circumstances outlined in (f) below, the Scotia BaTS would be automatically exchanged, without the consent of the holder, into Non-cumulative Preferred Shares Series V of the Bank. The Series V shares will be entitled to non-cumulative cash dividends payable semi-annually in an amount of \$0.61250 per \$25.00 share [refer to Notes 14 and 15 – Restrictions on dividend payments]. In certain circumstances on or after December 31, 2013, the Non-cumulative Preferred Shares Series U and the Non-cumulative Preferred Shares Series V are exchangeable at the option of the holder into a variable number of common shares of the Bank based upon an average of the Bank's common share price, subject to regulatory approval, and certain prior rights of the Bank. The proceeds of the issue were used to purchase a deposit note issued by the Bank. If there is an automatic exchange of the Scotia BaTS into Preferred Shares Series V of the Bank, then the Bank would become the sole beneficiary of the Trust.

(d) On September 28, 2006, Scotiabank Capital Trust issued 750,000 Scotiabank Trust Securities – Series 2006-1 ("Scotia BaTS"). The Scotia BaTS are entitled to receive non-cumulative fixed cash distributions payable semi-annually in an amount of \$28.25 per security. With regulatory approval, these securities may be redeemed in whole or in part by the payment of cash prior to December 30, 2011, upon the occurrence of certain tax or regulatory capital changes, or on or after December 30, 2011, at the option of Scotiabank Capital Trust. The holder has the right at any time to exchange their security into Non-cumulative Preferred Shares Series S of the Bank. The Series S shares will be entitled to cash dividends payable semi-annually in an amount of \$0.4875 per \$25.00 share [refer to Notes 14 and 15 – Restrictions on dividend payments]. Under the circumstances outlined in (f) below, the Scotia BaTS would be automatically exchanged without the consent of the holder, into Non-cumulative Preferred Shares Series T of the Bank. The Series T shares will be entitled to non-cumulative cash dividends payable semi-annually in an amount of \$0.625 per \$25.00 share. The proceeds of the issue were used to purchase a deposit note issued by the Bank. If there is an automatic exchange of the Scotia BaTS into Preferred Shares Series T of the Bank, then the Bank would become the sole beneficiary of the Trust.



- (e) On May 7, 2009, Scotiabank Tier 1 Trust issued 650,000 Scotiabank Tier 1 Securities Series 2009-1 (Scotia BaTS III). These securities qualify as Tier 1 capital. Interest is payable semi-annually in the amount of \$39.01 per Scotia BaTS III Series 2009-1 on the last day of June and December until June 30, 2019. After June 30, 2019 and on every fifth anniversary thereafter until June 30, 2104, the interest rate on the Scotia BaTS III Series 2009-1 will be reset at an interest rate per annum equal to the then prevailing 5-year Government of Canada Yield plus 7.05%. On or after June 30, 2014, the Trust may, at its option redeem the Scotia BaTS III Series 2009-1, in whole or in part, subject to regulatory approval. Under the circumstances outlined in (f) below, the Scotia BaTS III Series 2009-1, including accrued and unpaid interest thereon, would be exchanged automatically without the consent of the holder, into newly issued non-cumulative Preferred Shares Series R of the Bank. In addition, in certain circumstances, holders of Scotia BaTS III Series 2009-1 may be required to invest interest paid on the Scotia BaTS III Series 2009-1 in a series of newly issued preferred shares of the Bank with non-cumulative dividends (each such series is referred to as Bank Deferral Preferred Shares). The proceeds of the issue were used to acquire the Series 2009-1 Bank Deposit Note. If there is an automatic exchange of the Scotia BaTS Preferred Shares, then the Bank would become the sole beneficiary of the Trust. Scotiabank Tier 1 Trust which is a special purpose entity is not consolidated by the Bank as the Bank is not the primary beneficiary. These securities are reported on the Consolidated Balance Sheet as deposit notes issued by the Bank to Scotiabank Tier 1 Trust.
- (f) The Scotia BaTS and Scotia BaTS III may be automatically exchanged, without the consent of the holder, into Non-cumulative Preferred Shares of the Bank in the following circumstances: (i) proceedings are commenced for the winding-up of the Bank; (ii) the Superintendent takes control of the Bank or its assets; (iii) the Bank has a Tier 1 Capital ratio of less than 5% or a Total Capital ratio of less than 8%; or (iv) the Superintendent has directed the Bank to increase its capital or provide additional liquidity and the Bank elects such automatic exchange or the Bank fails to comply with such direction.
- (g) No cash distributions will be payable on the Scotia BaTS and Scotia BaTS III in the event that the regular dividend is not declared on the Bank's preferred shares and, if no preferred shares are outstanding, the Bank's common shares. In such a circumstance, the net distributable funds of the Trust will be payable to the Bank as the holder of the residual interest in the Trust. Should the Trust fail to pay the semi-annual distributions on the Scotia BaTS in full, the Bank will not declare dividends of any kind on any of its preferred or common shares for a specified period of time [refer to Notes 14 and 15 – Restrictions on dividend payments].
- (h) On October 31, 2007, the Bank issued 1,000,000 Scotiabank Trust Subordinated Notes ("Scotia TSNs – Series A"), through a special purpose entity, Scotiabank Subordinated Notes Trust, a closed-end trust established under the laws of the Province of Ontario. The proceeds were used to purchase a deposit note from the Bank which is reported as a Business and government deposit in the Consolidated Balance Sheet. Holders of the Scotia TSNs – Series A are entitled to receive interest at the rate of 5.25% per annum payable semi-annually until October 31, 2012. Commencing November 1, 2012 until November 1, 2017, interest will be payable on the Scotia TSNs – Series A at the 90-day Banker's Acceptance Rate plus 1% per annum payable quarterly with the first such payment on February 1, 2013. These securities may be redeemed in whole by the payment of cash with regulatory approval.

The Bank has guaranteed the payments of principal, interest, redemption price, if any, and any other amounts on the Scotia TSNs – Series A when they become due and payable. This guarantee will be a direct, unsecured obligation, and will be subordinate to the Bank's deposit liabilities and all other liabilities, except for other guarantees, obligations or liabilities that are either designated as ranking equally with or subordinated to the subordinated indebtedness. In addition, the Scotia TSNs – Series A will be automatically exchanged, without the consent of the holders, into an equal principal amount of 5.25% Bank Subordinated Notes upon occurrence of any one of the following events: (i) proceedings are commenced for the winding-up of the Bank; (ii) the Superintendent takes control of the Bank or its assets; (iii) the Bank has a Tier 1 Capital ratio of less than 5% or a Total Capital ratio of less than 8%; (iv) the Superintendent has directed the Bank to increase its capital or provide additional liquidity and the Bank elects such automatic exchange or the Bank fails to comply with such direction; or (v) the Bank determines that as a result of the enactment or anticipated enactment of federal Canadian income tax legislation, the interest payable on the Scotia TSNs – Series A will not be deductible by Scotiabank Subordinated Notes Trust for tax purposes.



## 14 Preferred shares

Authorized:

An unlimited number of preferred shares without nominal or par value.

Issued and fully paid:

As at October 31 (\$ millions)	2011		2010		2009	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
<b>Preferred shares<sup>(a)</sup>:</b>						
Series 12 <sup>(b)</sup>	12,000,000	\$ 300	12,000,000	\$ 300	12,000,000	\$ 300
Series 13 <sup>(c)</sup>	12,000,000	300	12,000,000	300	12,000,000	300
Series 14 <sup>(d)</sup>	13,800,000	345	13,800,000	345	13,800,000	345
Series 15 <sup>(e)</sup>	13,800,000	345	13,800,000	345	13,800,000	345
Series 16 <sup>(f)</sup>	13,800,000	345	13,800,000	345	13,800,000	345
Series 17 <sup>(g)</sup>	9,200,000	230	9,200,000	230	9,200,000	230
Series 18 <sup>(h)</sup>	13,800,000	345	13,800,000	345	13,800,000	345
Series 20 <sup>(i)</sup>	14,000,000	350	14,000,000	350	14,000,000	350
Series 22 <sup>(j)</sup>	12,000,000	300	12,000,000	300	12,000,000	300
Series 24 <sup>(k)</sup>	10,000,000	250	10,000,000	250	10,000,000	250
Series 26 <sup>(l)</sup>	13,000,000	325	13,000,000	325	13,000,000	325
Series 28 <sup>(m)</sup>	11,000,000	275	11,000,000	275	11,000,000	275
Series 30 <sup>(n)</sup>	10,600,000	265	10,600,000	265	—	—
Series 32 <sup>(o)</sup>	16,345,767	409	—	—	—	—
<b>Total preferred shares</b>	<b>175,345,767</b>	<b>\$ 4,384</b>	<b>159,000,000</b>	<b>\$ 3,975</b>	<b>148,400,000</b>	<b>\$ 3,710</b>

### Terms of preferred shares

	Dividends per share (a)	Issue date	Issue price	Initial dividend	Initial dividend payment date	Dividend reset rate (a)	Redemption date	Redemption price
<b>Preferred shares</b>								
Series 12 <sup>(b)</sup>	0.328125	July 14, 1998	\$ 25.00	\$ 0.381164	October 28, 1998	—	October 29, 2013	\$ 25.00
Series 13 <sup>(c)</sup>	0.300000	March 15, 2005	25.00	0.440500	July 27, 2005	—	April 27, 2011 to April 25, 2012	25.75
Series 14 <sup>(d)</sup>	0.281250	January 24, 2007	25.00	0.283560	April 26, 2007	—	April 26, 2012	26.00
Series 15 <sup>(e)</sup>	0.281250	April 5, 2007	25.00	0.348290	July 27, 2007	—	July 27, 2012	26.00
Series 16 <sup>(f)</sup>	0.328125	October 12, 2007	25.00	0.391950	January 29, 2008	—	January 29, 2013	26.00
Series 17 <sup>(g)</sup>	0.350000	January 31, 2008	25.00	0.337530	April 28, 2008	—	April 26, 2013	26.00
Series 18 <sup>(h)</sup>	0.312500	March 25, 2008	25.00	0.431500	July 29, 2008	2.05%	April 26, 2013	25.00
Series 20 <sup>(i)</sup>	0.312500	June 10, 2008	25.00	0.167800	July 29, 2008	1.70%	October 26, 2013	25.00
Series 22 <sup>(j)</sup>	0.312500	September 9, 2008	25.00	0.482900	January 28, 2009	1.88%	January 26, 2014	25.00
Series 24 <sup>(k)</sup>	0.390600	December 12, 2008	25.00	0.586500	April 28, 2009	3.84%	January 26, 2014	25.00
Series 26 <sup>(l)</sup>	0.390625	January 21, 2009	25.00	0.415240	April 28, 2009	4.14%	April 26, 2014	25.00
Series 28 <sup>(m)</sup>	0.390625	January 30, 2009	25.00	0.376710	April 28, 2009	4.46%	April 26, 2014	25.00
Series 30 <sup>(n)</sup>	0.240625	April 12, 2010	25.00	0.282200	July 28, 2010	1.00%	April 26, 2015	25.00
Series 32 <sup>(o)</sup>	0.231250	February 1, 2011	25.00	0.215410	April 27, 2011	1.34%	February 2, 2016	25.00

(a) Non-cumulative preferential cash dividends on Series 12, 13, 14, 15, 16, 17, 18, 20, 22, 24, 26, 28, 30 and 32 are payable quarterly, as and when declared by the Board. Dividends on the Non-cumulative 5-Year Rate Reset Preferred Shares (Series 18, 20, 22, 24, 26, 28, 30 and 32) are payable at the applicable rate for the initial five-year fixed rate period ending one day prior to the redemption date. Subsequent to the initial five-year fixed rate period, and resetting every five years thereafter, the dividend on all Rate Reset Preferred Shares will be determined by the sum of the 5-year Government of Canada Yield plus the indicated dividend reset rate, multiplied by \$25.00. If outstanding, non-cumulative preferential cash dividends on the Series 19, 21, 23, 25, 27, 29, 31 and 33 are payable quarterly, as and when declared by the Board. Dividends on the Non-cumulative 5-year Rate Reset Preferred Shares (Series 19, 21, 23, 25, 27, 29, 31 and 33) are payable, in an amount per share equal to the sum of the T-Bill Rate plus the

dividend reset rate of the converted preferred shares, multiplied by \$25.00. Holders of Fixed Rate Reset Preferred Shares will have the option to convert shares into an equal number of the relevant series of Floating Rate Preferred Shares on the applicable Rate Reset Series conversion date and every five years thereafter. If the Bank determines that, after giving effect to any Election Notices received, there would be less than 1,000,000 Series 18, 20, 22, 24, 26, 28, 30 or 32 preferred shares issued and outstanding on the applicable conversion date, all of the issued and outstanding Series 18, 20, 22, 24, 26, 28, 30 or 32 preferred shares will be automatically converted on the applicable conversion date into an equal number of Series 19, 21, 23, 25, 27, 29, 31 or 33 preferred shares.

(b) With regulatory approval, the Series 12 Non-cumulative Preferred Shares may be redeemed by the Bank at par on or after October 29, 2013, in whole or in part, by the payment in cash of

- \$25.00 per share, together with declared and unpaid dividends to the date then fixed for redemption.
- (c) With regulatory approval, the Series 13 Non-cumulative Preferred Shares may be redeemed by the Bank during the period commencing April 27, 2011 and ending April 25, 2012 at \$25.75 per share, together with declared and unpaid dividends to the date then fixed for redemption, and thereafter at annually declining premiums until April 27, 2014, following which no redemption premium is payable.
  - (d) With regulatory approval, the Series 14 Non-cumulative Preferred Shares may be redeemed by the Bank during the period commencing April 26, 2012 and ending April 25, 2013 at \$26.00 per share, together with declared and unpaid dividends to the date then fixed for redemption, and thereafter at annually declining premiums until April 26, 2016, following which no redemption premium is payable.
  - (e) With regulatory approval, the Series 15 Non-cumulative Preferred Shares may be redeemed by the Bank during the period commencing July 27, 2012 and ending July 28, 2013 at \$26.00 per share, together with declared and unpaid dividends to the date then fixed for redemption, and thereafter at annually declining premiums until July 26, 2016, following which no redemption premium is payable.
  - (f) With regulatory approval, the Series 16 Non-cumulative Preferred Shares may be redeemed by the Bank on or after January 29, 2013, at \$26.00 per share, together with declared and unpaid dividends to the date then fixed for redemption, and thereafter at annually declining premiums until January 26, 2017, following which no redemption premium is payable.
  - (g) With regulatory approval, the Series 17 Non-cumulative Preferred Shares may be redeemed by the Bank on or after April 26, 2013, at \$26.00 per share, together with declared and unpaid dividends to the date then fixed for redemption, and thereafter at annually declining premiums until April 25, 2017, following which no redemption premium is payable.
  - (h) Holders of Series 18 Non-cumulative 5-Year Rate Reset Preferred Shares will have the option to convert shares into an equal number of Series 19 non-cumulative floating rate preferred shares on April 26, 2013, and on April 26 every five years thereafter. With regulatory approval, Series 18 preferred shares may be redeemed by the Bank on April 26, 2013, and for Series 19 preferred shares, if applicable, on April 26, 2018 and every five years thereafter, respectively, at \$25.00 per share, together with declared and unpaid dividends.
  - (i) Holders of Series 20 Non-cumulative 5-Year Rate Reset Preferred Shares will have the option to convert shares into an equal number of Series 21 non-cumulative floating rate preferred shares on October 26, 2013, and on October 26 every five years thereafter. With regulatory approval, Series 20 preferred shares may be redeemed by the Bank on October 26, 2013, and for Series 21 preferred shares, if applicable, on October 26, 2018 and every five years thereafter, respectively, at \$25.00 per share, together with declared and unpaid dividends.
  - (j) Holders of Series 22 Non-cumulative 5-Year Rate Reset Preferred Shares will have the option to convert shares into an equal number of Series 23 non-cumulative floating rate preferred shares on January 26, 2014, and on January 26 every five years thereafter. With regulatory approval, Series 22 preferred shares may be redeemed by the Bank on January 26, 2014, and for Series 23 preferred shares, if applicable, on January 26, 2019 and every five years thereafter, respectively, at \$25.00 per share, together with declared and unpaid dividends.
  - (k) Holders of Series 24 Non-cumulative 5-Year Rate Reset Preferred Shares will have the option to convert shares into an equal

number of Series 25 non-cumulative floating rate preferred shares on January 26, 2014, and on January 26 every five years thereafter. With regulatory approval, Series 24 preferred shares may be redeemed by the Bank on January 26, 2014, and, if applicable, Series 25 preferred shares on January 26, 2019 and every five years thereafter, respectively, for \$25.00 per share, together with declared and unpaid dividends.

- (l) Holders of Series 26 Non-cumulative 5-Year Rate Reset Preferred Shares will have the option to convert shares into an equal number of Series 27 non-cumulative floating rate preferred shares on April 26, 2014, and on April 26 every five years thereafter. With regulatory approval, Series 26 preferred shares may be redeemed by the Bank on April 26, 2014, and for Series 27 preferred shares, if applicable, on April 26, 2019, and every five years thereafter, respectively, at \$25.00 per share, together with declared but unpaid dividends.
- (m) Holders of Series 28 Non-cumulative 5-Year Rate Reset Preferred Shares will have the option to convert shares into an equal number of Series 29 non-cumulative floating rate preferred shares on April 26, 2014, and on April 26 every five years thereafter. With regulatory approval, Series 28 preferred shares may be redeemed by the Bank on April 26, 2014 and for Series 29 preferred shares, if applicable, on April 26, 2019 and every five years thereafter, respectively, at \$25.00 per share, together with declared and unpaid dividends.
- (n) Holders of Series 30 Non-cumulative 5-Year Rate Reset Preferred Shares will have the option to convert shares into an equal number of Series 31 non-cumulative floating rate preferred shares on April 26, 2015, and on April 26 every five years thereafter. With regulatory approval, Series 30 preferred shares may be redeemed by the Bank on April 26, 2015, and for Series 31 preferred shares, if applicable, on April 26, 2020 and every five years thereafter, respectively, at \$25.00 per share, together with declared and unpaid dividends.
- (o) Holders of Series 32 Non-cumulative 5-Year Rate Reset Preferred Shares will have the option to convert shares into an equal number of Series 33 non-cumulative floating rate preferred shares on February 2, 2016, and on February 2 every five years thereafter. With regulatory approval, Series 32 preferred shares may be redeemed by the Bank on February 2, 2016, and for Series 33 preferred shares, if applicable, on February 2, 2021 and every five years thereafter, respectively, at \$25.00 per share, together with declared and unpaid dividends.

#### *Restrictions on dividend payments*

Under the Bank Act, the Bank is prohibited from declaring any dividends on its common or preferred shares when the Bank is, or would be placed by such a declaration, in contravention of the capital adequacy, liquidity or any other regulatory directives issued under the Bank Act. In addition, common share dividends cannot be paid unless all dividends to which preferred shareholders are then entitled have been paid or sufficient funds have been set aside to do so.

In the event that applicable cash distributions on any of the Scotiabank Trust Securities [refer to Note 13 Capital instrument liabilities] are not paid on a regular distribution date, the Bank has undertaken not to declare dividends of any kind on its preferred or common shares. Similarly, should the Bank fail to declare regular dividends on any of its directly issued outstanding preferred or common shares, cash distributions will also not be made on any of the Scotiabank Trust Securities. Currently, these limitations do not restrict the payment of dividends on preferred or common shares.

For each of the years presented, the Bank paid all of the non-cumulative preferred share dividends.

## 15 Common shares

Authorized:

An unlimited number of common shares without nominal or par value.

Issued and fully paid:

As at October 31 (\$ millions)	2011		2010		2009	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
<b>Common shares:</b>						
Outstanding at beginning of year	1,042,912,914	\$ 5,750	1,024,939,384	\$ 4,946	991,923,631	\$ 3,829
Issued under Shareholder Dividend and Share Purchase Plan <sup>(1)</sup>	11,651,346	632	12,577,506	623	14,304,029	516
Issued in relation to stock-based compensation, net (Note 18)	3,014,910	151	5,396,024	181	3,650,978	78
Issued in relation to the acquisition of a subsidiary or associated corporation	31,393,003	1,803 <sup>(2)</sup>	—	—	15,060,746	523
Outstanding at end of year	1,088,972,173 <sup>(3)(4)</sup>	\$ 8,336	1,042,912,914 <sup>(3)</sup>	\$ 5,750	1,024,939,384 <sup>(3)</sup>	\$ 4,946

(1) As at October 31, 2011, there were 7,767,978 common shares held in reserve under the Shareholder Dividend and Share Purchase Plan.

(2) Includes \$1,796 issued in relation to the acquisition of DundeeWealth Inc. (See Note 29).

(3) In the normal course of business, the Bank's regulated Dealer subsidiary purchases and sells the Bank's common shares to facilitate trading/institutional client activity. During fiscal 2011, the number of such shares bought and sold was 14,416,246 (2010 – 13,319,524; 2009 – 13,134,586).

(4) Excludes 506,807 shares held by the Bank in relation to stock-based compensation plans cancelled.

### Restrictions on dividend payments

Under the Bank Act, the Bank is prohibited from declaring any dividends on its common or preferred shares when the Bank is, or would be placed by such a declaration, in contravention of the capital adequacy, liquidity or any other regulatory directives issued under the Bank Act. In addition, common share dividends cannot be paid unless all dividends to which preferred shareholders are then entitled have been paid or sufficient funds have been set aside to do so.

In the event that applicable cash distributions on any of the Scotiabank Trust Securities [refer to Note 13 Capital instrument liabilities] are not paid on a regular distribution date, the Bank has undertaken not to declare dividends of any kind on its preferred or common shares. Similarly, should the Bank fail to declare regular dividends on any of its directly issued outstanding preferred or common shares, cash distributions will also not be made on any of the Scotiabank Trust Securities. Currently, these limitations do not restrict the payment of dividends on preferred or common shares.

## 16 Capital management

The Bank has a capital management process in place to measure, deploy and monitor its available capital and assess its adequacy. This capital management process aims to achieve four major objectives: exceed regulatory thresholds and meet longer-term internal capital targets, maintain strong credit ratings, manage capital levels commensurate with the risk profile of the Bank and provide the Bank's shareholders with acceptable returns.

Capital is managed in accordance with the Board-approved Capital Management Policy. Senior executive management develop the capital strategy and oversee the capital management processes of the Bank. The Bank's Finance, Group Treasury and Global Risk Management (GRM) groups are key in implementing the Bank's capital strategy and managing capital. Capital is managed using both regulatory capital measures and internal metrics.

Although the Bank is subject to several capital regulations in the different business lines and countries in which the Bank operates, capital adequacy is managed on a consolidated Bank basis. The Bank also takes measures to ensure its subsidiaries meet or exceed local regulatory capital requirements. The primary regulator of its consolidated capital adequacy is the Office of the Superintendent of Financial Institutions Canada (OSFI). The capital adequacy regulations in Canada are largely consistent with international standards set by the Bank for International Settlements.

Regulatory capital ratios are determined in accordance with the capital framework, based on the International Convergence of Capital

Measurement and Capital Standards: A Revised Framework, commonly known as Basel II.

Under this framework there are two main methods for computing credit risk: the standardized approach, which uses prescribed risk weights; and internal ratings-based approaches, which allow the use of a bank's internal models to calculate some, or all, of the key inputs into the regulatory capital calculation. Users of the Advanced Internal Ratings Based Approach (AIRB) are required to have sophisticated risk management systems for the calculations of credit risk regulatory capital. Once banks demonstrate full compliance with the AIRB requirements, and the Superintendent has approved its use, they may proceed to apply the AIRB approach in computing capital requirements.

The Bank uses the Advanced Internal Ratings Based Approach (AIRB) to compute credit risk for material Canadian, U.S. and European portfolios and effective 2011, for a significant portion of international corporate and commercial portfolios. The Bank is targeting the remaining material credit portfolios for application of AIRB approach by fiscal 2014, and currently uses the standardized approach for these portfolios. The Bank uses both internal models and standardized approaches to calculate market risk capital. During the year, the Bank expanded the use of internal market risk models to include some portfolios that were previously under the standardized approach. The Bank uses the standardized approach to calculate the operational risk capital requirements.

The Bank's total regulatory capital is comprised of Tier 1 and Tier 2 capital as follows:

As at October 31 (\$ millions)	2011	2010
<b>Shareholders' equity per Consolidated Balance Sheet</b>	<b>\$ 32,760</b>	<b>\$ 27,631</b>
Components of accumulated other comprehensive income excluded from Tier 1 capital	(444)	(457)
Capital Instrument liabilities – trust securities	2,900	3,400
Non-controlling Interest in subsidiaries	640	579
Goodwill/Non qualifying Intangibles deduction	(4,662)	(3,050)
Other capital deductions <sup>(1)</sup>	(2,705)	(2,769)
<b>Tier 1 capital</b>	<b>\$ 28,489</b>	<b>\$ 25,334</b>
Qualifying subordinated debentures, net of amortization	5,723	5,790
Trust subordinated notes	1,000	1,000
Other net capital items <sup>(2)</sup>	(2,679)	(2,525)
<b>Tier 2 capital</b>	<b>4,044</b>	<b>4,265</b>
<b>Total regulatory capital</b>	<b>\$ 32,533</b>	<b>\$ 29,599</b>
<b>Total risk weighted assets</b>	<b>\$ 233,970</b>	<b>\$ 215,034</b>
<b>Capital ratios</b>		
Tier 1 capital ratio	12.2%	11.8%
Total capital ratio	13.9%	13.8%
Assets-to-capital multiple	16.6x	17.0x

(1) Comprised of 50% of all investments in certain specified corporations and other items.

(2) Comprised of 50% of all investments in certain specified corporations and other items, 100% of investments in insurance entities, offset by eligible allowance for credit losses and net after-tax unrealized gain on available-for-sale equity securities.

The two primary regulatory capital ratios used to assess capital adequacy are the Tier 1 and Total capital ratios, which are determined by dividing those capital components by risk-weighted assets. Risk-weighted assets represent the Bank's exposure to credit, market and operational risk and are computed by applying a combination of the Bank's internal credit risk parameters and OSFI prescribed risk weights to on- and off-balance sheet exposures.

The regulatory minimum ratios prescribed by OSFI are 7% for Tier 1 capital and 10% for Total capital. The Bank substantially exceeded these minimum ratio thresholds as at October 31, 2011. OSFI has also prescribed an asset-to-capital leverage multiple; the Bank was in compliance with this threshold as at October 31, 2011.

## 17 Accumulated other comprehensive income (loss)

The components of accumulated other comprehensive income (loss) as at October 31, 2011 and 2010, and other comprehensive income (loss) for the years then ended are as follows:

### Accumulated other comprehensive income (loss)

As at and for the year ended October 31 (\$ millions)	2011			2010		
	Opening balance	Net change	Ending balance	Opening balance	Net change	Ending balance
Unrealized foreign currency translation gains (losses), net of hedging activities	\$ (4,508)	\$ (654)	\$ (5,162) <sup>(1)</sup>	\$ (3,917)	\$ (591)	\$ (4,508) <sup>(1)</sup>
Unrealized gains (losses) on available-for-sale securities, net of hedging activities	818	(119)	699 <sup>(2)</sup>	540	278	818 <sup>(2)</sup>
Gains (losses) on derivative instruments designated as cash flow hedges	(361)	106	(255) <sup>(3)</sup>	(423)	62	(361) <sup>(3)</sup>
<b>Accumulated other comprehensive income (loss)</b>	<b>\$ (4,051)</b>	<b>\$ (667)</b>	<b>\$ (4,718)</b>	<b>\$ (3,800)</b>	<b>\$ (251)</b>	<b>\$ (4,051)</b>

(1) Net of cumulative income tax expense of \$800 (2010 – expense of \$761). As at October 31, 2011, non-derivative instruments designated as net investment hedges amounted to \$5,730 (2010 – \$5,869).

(2) Net of cumulative income tax expense of \$321 (2010 – expense of \$371).

(3) Net of cumulative income tax benefit of \$ 86 (2010 – benefit of \$128). The reclassification from accumulated other comprehensive income to earnings over the next 12 months as a result of outstanding cash flow hedges is expected to be a net after tax loss of approximately \$164 (2010 – net after tax loss of \$172). As at October 31, 2011, the maximum length of cash flow hedges outstanding was less than 8 years (2010 – 9 years).

### Other comprehensive income (loss)

The following table summarizes the changes in the components of other comprehensive income (loss).

For the year ended October 31 (\$ millions)	2011	2010	2009
<b>Net change in unrealized foreign currency translation losses</b>			
Net unrealized foreign currency translation gains (losses) <sup>(1)</sup>	\$ (754)	\$ (869)	\$ (2,410)
Net gains (losses) on hedges of net investments in self-sustaining foreign operations <sup>(2)</sup>	100	278	674
	<b>(654)</b>	<b>(591)</b>	<b>(1,736)</b>
<b>Net change in unrealized gains (losses) on available-for-sale securities</b>			
Net unrealized gains (losses) on available-for-sale securities <sup>(3)</sup>	(63)	603	872
Reclassification of net (gains) losses to net income <sup>(4)</sup>	(56)	(325)	22
	<b>(119)</b>	<b>278</b>	<b>894</b>
<b>Net change in gains (losses) on derivative instruments designated as cash flow hedges</b>			
Net gains (losses) on derivative instruments designated as cash flow hedges <sup>(5)</sup>	68	(258)	(112)
Reclassification of net (gains) losses to net income <sup>(6)</sup>	38	320	155
	<b>106</b>	<b>62</b>	<b>43</b>
<b>Other comprehensive income (loss)</b>	<b>\$ (667)</b>	<b>\$ (251)</b>	<b>\$ (799)</b>

(1) Net of income tax expense of nil.

(2) Net of income tax expense of \$39 (2010 – expense of \$115; 2009 – expense of \$328).

(3) Net of income tax benefit of \$7 (2010 – expense of \$211; 2009 – expense of \$277).

(4) Net of income tax expense of \$43 (2010 – expense of \$128; 2009 – benefit of \$59).

(5) Net of income tax expense of \$23 (2010 – benefit of \$95; 2009 – benefit of \$23).

(6) Net of income tax benefit of \$18 (2010 – benefit of \$141; 2009 – benefit of \$67).

## 18 Stock-based compensation

### (a) Stock option plans

Under the terms of the Employee 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 Bank's common shares on the Toronto Stock Exchange (TSX) on the day prior to the date of the grant. As well, for grants made beginning December 2005, the exercise price must not be less than the volume weighted average price on the TSX for the five trading days immediately preceding the grant date.

Employee stock options granted between November 1, 2002, and October 31, 2009, have Tandem Stock Appreciation Rights (Tandem SARs), which provide the employee with the choice to either exercise the stock option for shares, or to exercise the Tandem SARs and thereby receive the intrinsic value of the stock option in cash. In addition, in fiscal 2003, Tandem SARs were retroactively attached to the fiscal 2002 employee stock options. All other terms and conditions relating to these 2002 stock options remained unchanged. These 2002 stock options were out of the money at the date of attachment. As a result, there was no impact on the Bank's stock-based compensation expense on the date of the retroactive attachment of the Tandem SARs.

Stock options granted after November 1, 2009 do not include Tandem SAR features as described above and are expensed using the fair value method of accounting.

Options vest evenly over a four-year period and are exercisable no later than 10 years after the date of the grant. In the event that the expiry date falls within an insider trading blackout period, the expiry date will be extended for 10 business days after the end of the blackout period.

An aggregate expense of \$46 million (2010 - \$25 million) was recorded in salaries and employee benefits in the Consolidated Statement of Income with a corresponding increase to Contributed Surplus in the Consolidated Balance Sheet for all equity-classified awards. Compensation expense related to unrecognized compensation costs for non-vested options was \$9 million (2010 – \$8 million) to be recognized over the weighted average period of 1.75 years (2010 – 1.84 years).

Outstanding options expire on dates ranging from December 10, 2011 to December 6, 2020. As approved by the shareholders, a total of 129 million common shares have been reserved for issuance under this plan of which 84.4 million common shares have been issued as a result of the exercise of options and 21.3 million common shares are committed under outstanding options, leaving 23.2 million common shares available for issuance as options.

In 2001, a Directors' Stock Option Plan was approved by the shareholders. A total of 800,000 common shares have been reserved for issuance to non-officer directors under this plan.

As of November 1, 2002, director stock options are expensed using a fair value-based method. As at October 31, 2011, 40,000 (2010 – 91,000; 2009 – 140,000) options were outstanding at a weighted average exercise price of \$24.46 (2010 – \$23.79; 2009 – \$23.00). In fiscal 2011, 51,000 of these options (2010 – 49,000; 2009 – 4,000) were exercised at a weighted average exercise price of \$23.27 (2010 – \$21.54; 2009 – \$24.40). The outstanding options expire between December 10, 2011 and December 6, 2012. Commencing in fiscal 2004, the Bank ceased granting stock options to its directors.

During fiscal 2011, 3,414,948 options were granted under the employee stock option plan and as at October 31, 2011, 3,392,776 of these options were outstanding of which 2,671,012 options were vested.

For options granted after November 1, 2009 that do not have the Tandem SAR features, the weighted average fair value of options granted in 2011 was estimated at \$9.42 (2010 – \$8.47) using the Black-Scholes option pricing model on the date of grant using the following assumptions:

As at	2011	2010
Risk-free interest rate	2.70%	2.95%
Expected dividend yield	3.43%	4.33%
Expected price volatility	23.24%	27.12%
Expected life of option	6.12 years	6.03 years



Details of the Bank's Employee Stock Option Plan are as follows:

	2011		2010		2009	
	Number of stock options (000's)	Weighted average exercise price	Number of stock options (000's)	Weighted average exercise price	Number of stock options (000's)	Weighted average exercise price
As at October 31						
Outstanding at beginning of year	20,988	\$ 39.14	22,889	\$ 33.90	22,979	\$ 31.32
Granted	3,415	55.63	3,954	47.75	4,427	33.89
Exercised as Options	(2,800)	29.01	(5,347)	23.94	(3,647)	18.56
Forfeited/cancelled	(186)	37.80	(229)	33.17	(524)	32.16
Exercised as Tandem SARs	(68)	28.18	(279)	27.28	(346)	26.80
Outstanding at end of year <sup>(1)</sup>	21,349	\$ 43.15	20,988	\$ 39.14	22,889	\$ 33.90
Exercisable at end of year	12,422	\$ 39.84	12,290	\$ 36.10	15,404	\$ 30.40
Available for grant	23,202		11,363		14,808	

As at October 31, 2011	Options Outstanding			Options Exercisable		
	Number of stock options (000's)	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of stock options (000's)	Weighted average exercise price	
Range of exercise prices						
\$24.40 to \$27.435	2,446	0.70	\$ 24.53	2,446	\$ 24.53	
\$31.45 to \$46.02	7,782	5.13	\$ 36.71	5,670	\$ 37.76	
\$47.39 to \$52.00	5,620	7.13	\$ 49.11	2,731	\$ 50.54	
\$52.57 to \$55.63	5,501	7.96	\$ 54.46	1,575	\$ 52.57	
	21,349	5.87	\$ 43.15	12,422	\$ 39.84	

(1) Included are 14,163,016 (2010 – 16,382,636; 2009 – 19,086,780) options with Tandem SAR features and 7,185,705 of options (without the Tandem SAR feature).

As part of the acquisition, DundeeWealth share options were converted to 1,293,308 options based on the Bank's common shares on February 1, 2011. As at October 31, 2011, 1,057,349 options are outstanding at a weighted average exercise price of \$48.14. From February 1, 2011 to October 31, 2011, 235,959 of these options were exercised at a weighted average exercise price of \$25.36. These options expire between December 16, 2011 and January 20, 2021. No share option awards have been granted under this plan since February 1, 2011.

### (b) Employee share ownership plans

Qualifying employees can generally contribute up to a specified percentage of salary towards the purchase of common shares of the Bank or deposits with the Bank. In general, the Bank matches 50% of qualifying contributions, up to a maximum dollar amount, which is expensed in salaries and employee benefits. During 2011, the Bank's contributions totalled \$30 million (2010 – \$29 million; 2009 – \$30 million). Contributions, which are used by the plan trustee to purchase common shares in the open market, do not result in a subsequent expense to the Bank from share price appreciation.

### (c) Other stock-based compensation plans

All other liability-classified stock-based compensation plans use notional units that are valued based on the Bank's common share price on the TSX. These units, with the exception of Stock Appreciation Rights (SARs), accumulate dividend equivalents in the form of additional units based on the dividends paid on the Bank's common shares. Fluctuations in the Bank's share price change the value of the units, which affects the Bank's stock-based compensation expense. As described below, the value of a portion of the Performance Share Unit notional units also varies based on Bank performance. Upon exercise or redemption, payments are made to the employees with a corresponding reduction in the accrued liability. In 2011, an aggregate expense of \$204 million (2010 – \$180 million expense; 2009 – \$79 million expense) was recorded in salaries and employee benefits in the Consolidated Statement of Income for changes in the amount of the Bank's liability for these units. This expense includes losses arising from derivatives used to manage the volatility of stock-based compensation of \$25 million (2010 – gains of \$274 million; 2009 – gains of \$154 million). Details of these plans are as follows:

### Stock Appreciation Rights (SARs), including Tandem SARs

The SARs include Tandem SARs, as described above, as well as stand-alone SARs which are granted instead of stock options to selected employees in countries where local laws may restrict the Bank from issuing shares. SARs have vesting and exercise terms and conditions similar to the employee stock options. The cost of SARs is recognized on a graded vesting basis except where the employee is eligible to retire prior to the vesting date, in which case the cost is recognized between the grant date and the date the employee is eligible to retire. When a SAR is exercised, the Bank pays the appreciation amount in cash equal to the rise in the market price of the Bank's common shares since the grant date. During fiscal 2011, 385,736 SARs were granted (2010 – 425,180; 2009 – 4,938,692) and as at October 31, 2011, 16,760,924 SARs were outstanding (2010 – 19,636,734; 2009 – 23,467,755), of which 16,423,232 SARs were vested (2010 – 18,811,216; 2009 – 21,537,430).

### Deferred Stock Unit Plan (DSU)

Under the DSU Plan, eligible senior executives may elect to receive all or a portion of their cash bonus under the Annual Incentive Plan (which is expensed for the year awarded in salaries and employee benefits in the Consolidated Statement of Income) in the form of deferred stock units which vest immediately. Units are redeemable, in cash, only when an executive ceases to be a Bank employee and must be redeemed by December 31 of the year following that event. As at October 31, 2011, there were 1,764,974 units outstanding (2010 – 1,655,197; 2009 – 1,591,426).

### Directors' Deferred Stock Unit Plan (DDSU)

Under the DDSU Plan, non-officer directors of the Bank may elect to receive all or a portion of their fee for that fiscal year (which is expensed by the Bank in other expenses in the Consolidated Statement of Income) in the form of deferred stock units which vest immediately. Units are redeemable, in cash, only following resignation or retirement and must be redeemed by December 31 of the year following that event. As at October 31, 2011, there were 360,216 units outstanding (2010 – 350,029; 2009 – 324,066).

### Restricted Share Unit Plan (RSU)

Under the RSU Plan, selected employees receive an award of restricted share units which vest at the end of three years, at which time the units

are paid, in cash, to the employee. The stock-based compensation expense is recognized evenly over the vesting period except where the employee is eligible to retire prior to the vesting date, in which case the expense is recognized between the grant date and the date the employee is eligible to retire. As at October 31, 2011, there were 2,107,385 units (2010 – 2,073,623; 2009 – 1,983,701) awarded and outstanding of which 1,621,118 were vested.

#### Performance Share Unit Plan (PSU)

Eligible executives receive an award of performance share units that vest at the end of three years. PSU awards granted after November 1, 2009 are subject to performance criteria measured over a three-year period. For prior PSU awards, only a portion of the award was subject to performance criteria. The three-year performance measures include return on equity compared to target and total shareholder return relative to a comparator group selected prior to the granting of the award. The stock-based compensation expense is recognized evenly over the vesting period except where the employee is eligible to retire prior to the vesting date, in which case the expense is recognized between the grant date and the date the employee is eligible to retire. This expense varies based on performance compared to the performance measures. Upon vesting, the units are paid, in cash, to the employee. As at October 31, 2011, there were 7,822,434 units (2010 – 6,001,672; 2009 – 4,062,895) awarded and outstanding [including 7,385,718 (2010 – 4,988,748; 2009 – 2,345,134) subject to performance criteria] of which 6,085,003 were vested. The above units include PSUs awarded to Scotia Capital employees described below.

#### Scotia Capital Deferred Payment Plan

Under the Scotia Capital Incentive Plan, a portion of the bonus awarded to certain employees (which is accrued and expensed in the year to which it relates) is allocated in the form of DPP units, with the remainder paid out in cash. These units are subsequently paid, in cash, to qualifying employees over each of the following three years. Other eligible employees may be allocated PSUs or stock options/SARs (which are expensed as described above) instead of DPP units.

DPP units awarded after November 1, 2009 are subject to performance criteria measured over the units' vesting period. The performance

measures include the same measures as described above for the PSU awards as well as an assessment of the annual performance of the Bank and Scotia Capital.

Changes in the value of the units, which arise from fluctuations in the market price of the Bank's common shares as well as based on performance compared to the performance measures, are expensed in the same manner as the Bank's other stock-based compensation plans in salaries and employee benefits expense in the Consolidated Statement of Income.

#### Share Bonus and Retention Award Plans

Prior to the acquisition of DundeeWealth on February 1, 2011, DundeeWealth had established share bonus plans for eligible participants. The share bonus plans permitted common shares of DundeeWealth to be issued from treasury or purchased in the market. At the time of the acquisition of DundeeWealth, the share bonus awards that were granted but not yet vested were converted into 377,516 Bank of Nova Scotia common shares to be issued from treasury. As at October 31, 2011, there were 257,278 share bonus awards outstanding from the DundeeWealth share bonus plans. From February 1, 2011 to October 31, 2011, 119,806 common shares were issued from treasury for these plans and 432 awards were cancelled. Share bonus awards have not been granted under these plans since February 1, 2011.

Prior to the acquisition of DundeeWealth, DundeeWealth had established share-based retention award plans whereby DundeeWealth purchased shares in the market to be held in trust for the benefit of certain employees and portfolio managers. At the time of the acquisition of DundeeWealth, the retention awards were converted to Bank common shares, other securities and cash. As of October 31, 2011, there were 506,807 Bank common shares held in trust for these plans. Retention awards have not been granted under these plans since February 1, 2011.

The share bonus and retention award plans are considered to be equity-classified awards.



## 19 Corporate income taxes

Corporate income taxes recorded in the Bank's consolidated financial statements for the years ended October 31 are as follows:

### (a) Components of income tax provision

For the year ended October 31 (\$ millions)	2011	2010	2009
<b>Provision for income taxes in the Consolidated Statement of Income:</b>			
<b>Current income taxes:</b>			
Domestic:			
Federal	\$ 216	\$ 118	\$ (155)
Provincial	263	223	91
Foreign	730	847	1,035
	<b>1,209</b>	<b>1,188</b>	<b>971</b>
<b>Future income taxes:</b>			
Domestic:			
Federal	127	313	85
Provincial	37	87	37
Foreign	37	157	40
	<b>201</b>	<b>557</b>	<b>162</b>
Total provision for income taxes in the Consolidated Statement of Income	<b>\$1,410</b>	<b>\$ 1,745</b>	<b>\$ 1,133</b>
<b>Provision for income taxes in the Consolidated Statement of Changes in Shareholders' Equity:</b>			
Reported in Other Comprehensive Income	29	244	708
Cumulative effect of adopting new accounting policy <sup>(1)</sup>	—	—	323
Share issuance costs	—	(2)	(6)
Total provision for income taxes in the Consolidated Statement of Changes in Shareholders' Equity	<b>29</b>	<b>242</b>	<b>1,025</b>
Total provision for (recovery) of income taxes	<b>\$1,439</b>	<b>\$ 1,987</b>	<b>\$ 2,158</b>

(1) The new accounting policy, adopted in 2009, related to the classification and impairment of financial assets. Refer to changes in accounting standards prior to November 1, 2009, in Note 1.

### (b) Reconciliation to statutory rate

Income taxes in the Consolidated Statement of Income vary from the amounts that would be computed by applying the composite federal and provincial statutory income tax rate for the following reasons:

	2011		2010		2009	
For the year ended October 31 (\$ millions)	Amount	Percent of pre-tax income	Amount	Percent of pre-tax income	Amount	Percent of pre-tax income
Income taxes at statutory rate	\$ 1,872	28.0%	\$ 1,842	30.3%	\$ 1,516	31.6%
Increase (decrease) in income taxes resulting from:						
Lower average tax rate applicable to subsidiaries and foreign branches	(257)	(3.8)	(72)	(1.2)	(325)	(6.8)
Tax-exempt income from securities	(309)	(4.6)	(152)	(2.5)	(168)	(3.5)
Future income tax effect of substantively enacted tax rate changes	54	0.8	105	1.7	120	2.5
Other, net <sup>(1)</sup>	50	0.7	22	0.4	(10)	(0.2)
Total income taxes and effective tax rate	<b>\$ 1,410</b>	<b>21.1%</b>	<b>\$ 1,745</b>	<b>28.7%</b>	<b>\$ 1,133</b>	<b>23.6%</b>

(1) Includes the benefit from the non-taxable gain related to the DundeeWealth acquisition and the valuation allowance claimed with respect to the future tax asset related to a loss on disposal of subsidiary operations in a prior year.

### (c) Future income taxes

The tax-effected temporary differences which result in future income tax assets and (liabilities) are as follows:

As at October 31 (\$ millions)	2011	2010
Loss carryforwards <sup>(1)</sup>	\$1,114	\$1,242
Allowance for credit losses <sup>(2)</sup>	566	686
Deferred compensation	267	305
Deferred income	139	187
Premises and equipment <sup>(3)</sup>	29	(65)
Intangible assets <sup>(3)</sup>	(802)	(135)
Pension fund	(316)	(304)
Securities	(203)	(339)
Other <sup>(3)</sup>	198	198
Net future income taxes <sup>(4)</sup>	\$ 992	\$1,775

(1) Includes a gross future tax asset of \$287 as at October 31, 2011 (2010 – \$347) relating to subsidiaries' unused income tax losses. This future tax asset has been reduced by a valuation allowance of \$19 (2010 – \$1), resulting in a net future tax asset of \$268 (2010 – \$346).

(2) As at October 31, 2011, the future income tax asset related to the allowance for credit losses has been reduced by a valuation allowance of \$316 (2010 – \$316) relating to a subsidiary's unused tax deductions arising from previous years' allowance for credit losses.

(3) Prior period information has been reclassified to conform with current period presentation.

(4) Net future income taxes of \$992 (2010 – \$1,775) are represented by future income tax assets of \$1,496 (2010 – \$2,219), net of future income tax liabilities of \$504 (2010 – \$444).

Earnings of certain international subsidiaries are subject to tax only upon their repatriation to Canada. As repatriation is not currently planned in the foreseeable future, the Bank has not recognized a future income tax liability. If all international subsidiaries' unremitted

earnings were repatriated, taxes that would be payable as at October 31, 2011, are estimated to be \$935 million (October 31, 2010 – \$907 million).

## 20 Employee future benefits

The Bank sponsors a number of employee future benefit plans, including pensions and other post-retirement benefits, post-employment benefits and compensated absences for most of its employees globally. The following tables present financial information

related to the Bank's principal plans. The principal plans include pension and other benefit plans in Canada, the U.S., Mexico, Jamaica and the U.K.<sup>(1)</sup>

For the year ended October 31 (\$ millions)	Pension plans			Other benefit plans		
	2011	2010	2009	2011	2010	2009
<b>Change in benefit obligation</b>						
Benefit obligation at beginning of year	\$ 5,255	\$ 4,367	\$ 4,414	\$ 1,225	\$ 1,038	\$ 1,040
Cost of benefits earned in the year	162	118	124	49	41	39
Interest cost on benefit obligation	302	306	298	74	72	71
Employee contributions	14	13	13	—	—	—
Benefits paid	(427)	(274)	(278)	(56)	(55)	(53)
Actuarial loss (gain)	(117)	731	(47)	32	152	(21)
Non-routine events <sup>(2)</sup>	(9)	19	(61)	—	(19)	—
Foreign exchange	(30)	(25)	(96)	(22)	(4)	(38)
Benefit obligation at end of year <sup>(4)</sup>	\$ 5,150	\$ 5,255	\$ 4,367	\$ 1,302	\$ 1,225	\$ 1,038
<b>Change in fair value of assets</b>						
Fair value of assets at beginning of year	\$ 5,078	\$ 4,830	\$ 5,537	\$ 277	\$ 245	\$ 256
Actual return on assets	426	363	(348)	23	28	4
Employer contributions	129	172	141	62	58	60
Employee contributions	14	13	13	—	—	—
Benefits paid	(427)	(274)	(278)	(56)	(55)	(53)
Non-routine events <sup>(2)</sup>	(95)	—	(90)	—	—	—
Foreign exchange	(32)	(26)	(145)	(19)	1	(22)
Fair value of assets at end of year <sup>(3)(4)</sup>	\$ 5,093	\$ 5,078	\$ 4,830	\$ 287	\$ 277	\$ 245
<b>Funded status</b>						
Excess (deficit) of fair value of assets over benefit obligation at end of year <sup>(4)</sup>	\$ (57)	\$ (177)	\$ 463	\$ (1,015)	\$ (948)	\$ (793)
Unrecognized net actuarial loss	1,423	1,758	1,003	309	296	168
Unrecognized past service costs	125	104	96	(3)	(3)	(4)
Unrecognized transitional obligation (asset)	(122)	(178)	(216)	104	122	141
Valuation allowance	—	(139)	(129)	—	—	—
Employer contributions after measurement date	30	9	20	12	11	11
Net prepaid (accrued) benefit expense at end of year	\$ 1,399	\$ 1,377	\$ 1,237	\$ (593)	\$ (522)	\$ (477)
Recorded in:						
Other assets in the Bank's Consolidated Balance Sheet	\$ 1,645	\$ 1,612	\$ 1,463	\$ 34	\$ 31	\$ 23
Other liabilities in the Bank's Consolidated Balance Sheet	(246)	(235)	(226)	(627)	(553)	(500)
Net prepaid (accrued) benefit expense at end of year	\$ 1,399	\$ 1,377	\$ 1,237	\$ (593)	\$ (522)	\$ (477)
<b>Annual benefit expense</b>						
Cost of benefits earned in the year	\$ 162	\$ 118	\$ 124	\$ 49	\$ 41	\$ 39
Interest cost on benefit obligation	302	306	298	74	72	71
Actual return on assets	(426)	(363)	348	(23)	(28)	(4)
Actuarial loss (gain) on benefit obligation	(117)	731	(47)	32	152	(21)
Amount of curtailment (gain) loss recognized	—	—	—	—	(8)	—
Amount of settlement (gain) loss recognized	52	—	12	—	—	—
Special termination benefits <sup>(2)</sup>	48	—	31	—	—	—
Non-routine events <sup>(2)</sup>	38	19	—	—	(19)	—
Elements of employee future benefit costs (income) before adjustments to recognize the long-term nature of employee future benefit costs	59	811	766	132	210	85
Adjustments to recognize the long-term nature of employee future benefit costs:						
Difference between expected return and actual return on plan assets	67	(36)	(753)	1	7	(17)
Difference between net actuarial loss (gain) recognized and actual actuarial loss (gain) on benefit obligation	192	(726)	49	(19)	(146)	28
Difference between amortization of non-routine events and actual non-routine events	(26)	(8)	10	—	19	—
Amortization to recognize transitional obligation (asset)	(32)	(37)	(39)	18	18	18
	201	(807)	(733)	—	(102)	29
Change in valuation allowance provided against prepaid benefit expense	(139)	10	(50)	—	—	—
Benefit expense (income) recognized, excluding defined contribution benefit expense	121	14	(17)	132	108	114
Defined contribution benefit expense recognized	7	6	5	—	—	—
<b>Total benefit expense recognized</b>	\$ 128	\$ 20	\$ (12)	\$ 132	\$ 108	\$ 114

(1) Other plans operated by certain subsidiaries of the Bank are not considered material and are not included in these disclosures.

(2) Non-routine events include plan amendments, acquisitions, divestitures, transfers, etc. The special termination benefits are also considered a non-routine event associated with additional benefits paid upon the termination of a pension plan.

(3) The fair value of pension plan assets invested in securities of the Bank totalled \$428 (2010 – \$429; 2009 – \$426).

(4) The Bank uses a measurement date of July 31 or August 31, depending on the employee future benefits plan.

Included in the benefit obligation and fair value of assets are the following amounts in respect of plans that are not fully funded:

For the year ended October 31 (\$ millions)	Pension plans			Other benefit plans		
	2011	2010	2009	2011	2010	2009
Benefit obligation <sup>(1)</sup>	\$ 886	\$ 4,841	\$ 774	\$ 1,302	\$ 1,225	\$ 890
Fair value of assets	509	4,349	446	287	277	96
Deficit of fair value of assets over benefit obligation	\$ (377)	\$ (492)	\$ (328)	\$ (1,015)	\$ (948)	\$ (794)

(1) Includes the benefit obligation of \$286 at the end of 2011 (2010 – \$280; 2009 – \$258) related to supplemental unfunded pension arrangements

#### Key weighted-average assumptions (%)<sup>(1)</sup>

The key weighted-average assumptions used by the Bank for the measurement of the benefit obligation and benefit expense are summarized as follows:

For the year ended October 31	Pension plans			Other benefit plans		
	2011	2010	2009	2011	2010	2009
To determine benefit obligation at end of year						
Discount rate	6.00%	5.90%	7.05%	5.80%	6.00%	6.90%
Rate of increase in future compensation <sup>(2)</sup>	3.30%	3.60%	3.90%	1.20%	1.30%	1.30%
To determine benefit expense (income) for the year						
Discount rate	5.90%	7.05%	6.70%	6.00%	6.90%	6.90%
Assumed long-term rate of return on assets	6.70%	7.50%	7.25%	7.90%	8.50%	8.70%
Rate of increase in future compensation <sup>(2)</sup>	3.60%	3.90%	3.90%	1.30%	1.30%	1.50%
Health care cost trend rates at end of year						
Initial rate	n/a	n/a	n/a	6.30%	6.70%	7.00%
Ultimate rate	n/a	n/a	n/a	4.20%	4.50%	4.70%
Year ultimate rate reached	n/a	n/a	n/a	2029	2029	2029

(1) Includes international plans which generally have higher rates than Canadian plans. The discount rate used to determine the 2011 benefit expense for all Canadian pension plans was 5.7% and other benefit plans was 5.8% (2010 – 6.8%; 2009 – 6.4%). The discount rate used for the 2011 end of year benefit obligation was 5.8% for the main pension plan, 5.6% for the other Canadian pension plans and 5.4% for all Canadian other benefit plans, respectively (2010 – 5.7% for all Canadian pension plans; 5.8% for all Canadian other benefit plans; 2009 – 6.8%) and the assumed long-term rate of return on assets for all Canadian pension plans was 7.0% (2010 – 7.0%; 2009 – 7.0%).

(2) The weighted-average rates of increase in future compensation shown for other benefit plans do not include Canadian flexible post-retirement benefits plans established in fiscal 2005, as they are not impacted by future compensation increases.

#### Sensitivity analysis

For the year ended October 31, 2011 (\$ millions)	Pension plans		Other benefit plans	
	Benefit obligation	Benefit expense	Benefit obligation	Benefit expense
Impact of 1% decrease in discount rate	\$ 827	\$ 95	\$ 195	\$ 15
Impact of 1% decrease in assumed long-term rate of return on assets	n/a	50	n/a	3
Impact of 0.25% increase in rate of increase in future compensation	58	12	–	–
Impact of 1% increase in health care cost trend rate	n/a	n/a	155	27
Impact of 1% decrease in health care cost trend rate	n/a	n/a	(125)	(21)

#### Assets

The Bank's principal pension plans' assets are generally invested with the long-term objective of maximizing overall expected returns, at an acceptable level of risk relative to the benefit obligation. A key factor in managing long-term investment risk is asset mix. Investing the pension assets in different asset classes and geographic regions helps to mitigate risk and to minimize the impact of declines in any single asset class, particular region or type of investment. Within each asset class, investment management firms – including related-party managers – are hired and assigned specific mandates.

Pension plan asset mix guidelines are set for the long term, and are documented in each plan's investment policy. Asset mix policy typically also reflects the nature of the plan's benefit obligation. Legislation places certain restrictions on asset mix – for example, there are usually limits on concentration in any one investment. Other concentration and

quality limits are also set forth in the investment policies. The use of derivatives is generally prohibited without specific authorization; currently, the main use of derivatives is to hedge currency fluctuations associated with US equity holdings in the Canadian pension funds. Asset mix guidelines are reviewed at least once each year, and adjusted, where appropriate, based on market conditions and opportunities. However, large asset class shifts are rare, and typically reflect a change in the pension plan's situation (e.g. a plan termination). Actual asset mix is reviewed regularly, and rebalancing – as needed – back to the target asset mix is considered, generally, twice each year.

The Bank's other benefit plans are generally not funded; the relatively small assets for these other benefit plans are mostly related to programs in Mexico.

The Bank's principal plans' weighted-average actual and target asset allocations at the measurement date, by asset category, are as follows:

Asset category %	Pension plans				Other benefit plans			
	Target 2011	Actual 2011	Actual 2010	Actual 2009	Target 2011	Actual 2011	Actual 2010	Actual 2009
Equity investments	68%	66%	64%	63%	40%	40%	40%	36%
Fixed income investments	31%	34%	36%	34%	60%	60%	60%	64%
Other	1%	—	—	3%	—	—	—	—
Total	100%	100%	100%	100%	100%	100%	100%	100%

#### Actuarial valuations

Actuarial valuations for the Bank's principal pension plans are generally required every three years. The most recent actuarial valuation of the Bank's main pension plan was conducted as of November 1, 2008, and the date of the next required valuation is November 1, 2011 (this plan accounts for 75% of principal pension plans' benefit obligation and 78% of principal pension plans' fair value of assets). Actuarial valuations for the Bank's principal other benefit plans are generally carried out every two to three years, with the most recent valuation completed as of July 31, 2011 for the other post-retirement benefits and July 31, 2009 for post-employment benefits. The next actuarial valuations are currently scheduled in fiscal year 2014 for post-retirement benefits and fiscal year 2012 for post-employment benefits.

#### Cash payments and contributions

In fiscal year 2011, the Bank made net cash payments of \$150 million (2010 – \$161 million; 2009 – \$154 million) to fund the principal defined benefit pension plans, including the payment of benefits to beneficiaries under the unfunded pension arrangements. The Bank also made cash payments of \$63 million (2010 – \$58 million; 2009 – \$60 million) during the year to the principal other benefit plans, primarily in respect of benefit payments to beneficiaries under these plans. The Bank also made cash payments of \$7 million (2010 – \$6 million; 2009 – \$5 million) to the principal defined contribution pension plans.

## 21 Earnings per common share

For the year ended October 31 (\$ millions)

	2011	2010	2009
<b>Basic earnings per common share</b>			
Net income attributable to common shareholders	\$ 4,959	\$4,038	\$3,361
Average number of common shares outstanding (millions)	1,072	1,032	1,013
Basic earnings per common share <sup>(1)</sup>	\$ 4.62	\$ 3.91	\$ 3.32
<b>Diluted earnings per common share</b>			
Net income attributable to common shareholders	\$ 4,959	\$4,038	\$3,361
Average number of common shares outstanding (millions)	1,072	1,032	1,013
Stock options potentially exercisable (millions) <sup>(2)</sup>	2	2	3
Average number of diluted common shares outstanding (millions) <sup>(3)</sup>	1,074	1,034	1,016
Diluted earnings per common share <sup>(1)</sup>	\$ 4.62	\$ 3.91	\$ 3.31

(1) Earnings per share calculations are based on full dollar and share amounts.

(2) Reflects the potential dilutive effect of stock options granted under the Bank's Stock Option Plans as determined under the treasury stock method. Excludes options with Tandem SAR features as these options are expensed and recorded as liabilities. All other stock options are included in the computation.

(3) Certain convertible instruments have not been included in the calculation since the Bank has the right to redeem them for cash prior to conversion date.

## 22 Related party transactions

The Bank provides regular banking services to its associated and other related corporations in the ordinary course of business. These services are on terms similar to those offered to non-related parties. Loans granted to directors and officers in Canada are at market terms and conditions. Prior to March 1, 2001, the Bank granted loans to officers and employees at reduced rates in Canada. The loans granted prior to March 1, 2001, are grandfathered until maturity. In some of the Bank's foreign subsidiaries and branches, in accordance with local practices and laws, loans may be made available to officers of those units at reduced rates or on preferred terms. Loans to executive officers of the Bank totalled \$11.0 million as at October 31, 2011 (2010 – \$7.3 million), and loans to directors \$0.3 million (2010 – \$0.3 million). Directors can use some or all of their fees to buy common shares at

market rates through the Directors' Share Purchase Plan. Non-officer directors may elect to receive all or a portion of their fees in the form of deferred stock units which vest immediately. Commencing in 2004, the Bank no longer grants stock options to non-officer directors. Refer to Note 18, Stock-based compensation for further details of these plans. The Bank may also provide banking services to companies affiliated with the Bank's directors. These commercial arrangements are conducted at the same market terms and conditions provided to all customers and follow the normal credit review processes within the Bank. The Bank's committed credit exposure to companies controlled by directors totalled \$4.4 million as at October 31, 2011 (2010 – \$4.6 million), while actual utilized amounts were \$2.0 million (2010 – \$2.8 million).

## 23 Segmented results of operations

Scotiabank is a diversified financial services institution that provides a wide range of financial products and services to retail, commercial and corporate customers around the world. Effective November 1, 2010, the Bank began reporting under its new business structure that

includes the Global Wealth Management business segment. The Bank's businesses were regrouped into four main operating segments: Canadian Banking, International Banking, Global Wealth Management and Scotia Capital.

Canadian Banking provides a comprehensive array of retail and commercial banking services through branch and electronic delivery channels, to individuals and small to medium-sized businesses in Canada. The retail services include consumer and mortgage lending, credit and debit card services, savings, chequing and retirement products, and transaction services. In addition to credit, commercial clients are provided with deposit and cash management services.

International Banking provides retail and commercial banking services through branches, subsidiaries and foreign affiliates. The products, services and channels offered are generally the same as those in Canadian Banking.

Global Wealth Management is comprised of the Bank's global wealth management and insurance businesses as well as global transaction banking. Wealth management businesses include Global Asset Management, responsible for global investment manufacturing, and Global Wealth Distribution, responsible for global client-facing businesses including private client and institutional client services, full service brokerage, online brokerage, offshore brokerage and the independent advisor channel. Insurance products offered in Canada include creditor, life and health, home and auto, and travel insurance. Internationally, the Bank offers credit-related life, health and property insurance, as well as other products, not related to banking credit, including life, health, property (home, auto and other property), and ATM fraud insurance.

Scotia Capital is an integrated corporate and investment bank which services the credit, capital market and risk management needs of the Bank's global relationships with large corporations, financial institutions and governments. The services provided include credit and related products, debt and equity underwriting, foreign exchange, derivative

products, precious metals products and financial advisory services. Also, it conducts trading activities for its own account and provides short-term Canadian dollar funding for the Bank.

The Other category represents smaller operating segments, including Group Treasury and other corporate items, which are not allocated to an operating segment.

The historical comparative segment financial information has been restated to reflect this realignment. The restated historical segment financial information of Canadian Banking, International Banking and Other did not impact the Bank's previously reported consolidated financial information.

The results of these business segments are based upon the internal financial reporting systems of the Bank. The accounting policies used in these segments are generally consistent with those followed in the preparation of the consolidated financial statements as disclosed in Note 1. The only notable accounting measurement difference is the grossing up of tax-exempt net interest income to an equivalent before-tax basis for those affected segments. This change in measurement enables comparison of net interest income arising from taxable and tax-exempt sources.

Due to the complexity of the Bank, various estimates and allocation methodologies are used in the preparation of the business segment financial information. The assets and liabilities are transfer-priced at wholesale market rates, and corporate expenses are allocated to each segment based on utilization. As well, capital is apportioned to the business segments on a risk-based methodology. Transactions between segments are recorded within segment results as if conducted with a third party and are eliminated on consolidation.

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended October 31, 2011 (\$ millions)

	Canadian Banking	International Banking	Global Wealth Management	Scotia Capital	Other (1)	Total
Taxable equivalent basis						
Net interest income <sup>(2)</sup>	\$ 4,889	\$ 3,988	\$ 345	\$ 1,066	\$(1,018)	\$ 9,270
Provision for credit losses	590	485	2	29	(60)	1,046
Other income	1,351	1,420	2,973	1,894	380	8,018
Net interest and other income	5,650	4,923	3,316	2,931	(578)	16,242
Depreciation and amortization	159	146	50	51	5	411
Other non-interest expenses	2,910	2,910	1,840	1,358	135	9,153
Income before the undernoted:	2,581	1,867	1,426	1,522	(718)	6,678
Provision for income taxes	719	382	208	338	(237)	1,410
Net income <sup>(3)</sup>	\$ 1,862	\$ 1,485	\$ 1,218	\$ 1,184	\$ (481)	\$ 5,268
Net income attributable to non-controlling interests <sup>(3)</sup>	4	60	29	—	—	93
Net income attributable to equity holders of the Bank <sup>(3)</sup>	1,858	1,425	1,189	1,184	(481)	5,175
Total average assets (\$ billions)	\$ 210	\$ 92	\$ 9	\$ 188	\$ 70	\$ 569

For the year ended October 31, 2010 (\$ millions)

	Canadian Banking	International Banking	Global Wealth Management	Scotia Capital	Other (1)	Total
Taxable equivalent basis						
Net interest income <sup>(2)</sup>	\$ 4,919	\$ 3,616	\$ 339	\$ 1,093	\$(1,346)	\$ 8,621
Provision for credit losses	705	616	1	(43)	(40)	1,239
Other income	1,302	1,323	1,864	2,086	309	6,884
Net interest and other income	5,516	4,323	2,202	3,222	(997)	14,266
Depreciation and amortization	146	129	21	35	3	334
Other non-interest expenses	2,828	2,533	1,200	1,160	127	7,848
Income before the undernoted:	2,542	1,661	981	2,027	(1,127)	6,084
Provision for income taxes	772	504	165	677	(373)	1,745
Net income <sup>(3)</sup>	\$ 1,770	\$ 1,157	\$ 816	\$ 1,350	\$ (754)	\$ 4,339
Net income attributable to non-controlling interests <sup>(3)</sup>	1	68	31	—	—	100
Net income attributable to equity holders of the Bank <sup>(3)</sup>	1,769	1,089	785	1,350	(754)	4,239
Total average assets (\$ billions)	\$ 197	\$ 85	\$ 9	\$ 164	\$ 61	\$ 516

For the year ended October 31, 2009 (\$ millions)

	Canadian Banking	International Banking	Global Wealth Management	Scotia Capital	Other (1)	Total
Taxable equivalent basis						
Net interest income <sup>(2)</sup>	\$ 4,537	\$ 3,585	\$ 367	\$ 1,427	\$(1,588)	\$ 8,328
Provision for credit losses	700	576	3	338	127	1,744
Other income	1,203	1,182	1,522	2,138	84	6,129
Net interest and other income	5,040	4,191	1,886	3,227	(1,631)	12,713
Depreciation and amortization	152	126	17	32	3	330
Other non-interest expenses	2,740	2,569	1,113	1,040	127	7,589
Income before the undernoted:	2,148	1,496	756	2,155	(1,761)	4,794
Provision for income taxes	679	256	131	704	(637)	1,133
Net income <sup>(3)</sup>	\$ 1,469	\$ 1,240	\$ 625	\$ 1,451	\$(1,124)	\$ 3,661
Net income attributable to non-controlling interests <sup>(3)</sup>	—	78	36	—	—	114
Net income attributable to equity holders of the Bank <sup>(3)</sup>	1,469	1,162	589	1,451	(1,124)	3,547
Total average assets (\$ billions)	\$ 186	\$ 87	\$ 9	\$ 183	\$ 48	\$ 513

(1) Includes revenues from all other smaller operating segments of \$140 in 2011 (2010 – (\$169); 2009 – (\$638), and net income/(loss) of \$43 in 2011 (2010 – (\$152); 2009 – (\$467)). As well, includes corporate adjustments such as the elimination of the tax-exempt income gross-up reported in net interest income and provision for income taxes of \$287 in 2011 (2010 – \$286; 2009 – \$288), changes in the general allowance, differences in the actual amount of costs incurred and charged to the operating segments, and the impact of securitizations.

(2) Commencing November 1, 2008, the impact of including a liquidity premium charge in the cost of funds allocated to the business segments was a reduction in the net interest income of the four major segments of \$270 in 2011, \$239 in 2010 and \$331 in 2009, which were offset by a reduction in the net interest expense of the Other segment.

(3) Refer to Note 1 of the consolidated financial statements for the impact of the new accounting standards effective November 1, 2010. Prior period information has been reclassified to conform with current period presentation.



**Geographical segmentation<sup>(1)</sup>**

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, 2011 (\$ millions)	Canada	United States	Mexico	Other International	Total
Net interest income	\$ 5,313	\$ 421	\$ 867	\$ 3,385	\$ 9,986
Provision for credit losses	619	(13)	137	363	1,106
Other income	4,762	495	452	2,079	7,788
Non-interest expenses	5,428	408	858	2,810	9,504
Provision for income taxes	713	210	73	380	1,376
	\$ 3,315	\$ 311	\$ 251	\$ 1,911	\$ 5,788
Corporate adjustments					(520)
Net income <sup>(2)</sup>					\$ 5,268
Net income attributable to non-controlling interests <sup>(2)</sup>					93
Net income attributable to equity holders of the Bank <sup>(2)</sup>					5,175
<b>Total average assets (\$ billions)</b>	\$ 354	\$ 59	\$ 19	\$ 122	\$ 554
Corporate adjustments					15
<b>Total average assets, including corporate adjustments</b>					\$ 569

For the year ended October 31, 2010 (\$ millions)	Canada	United States	Mexico	Other International	Total
Net interest income	\$ 4,960	\$ 458	\$ 801	\$ 3,144	\$ 9,363
Provision for credit losses	709	(54)	168	456	1,279
Other income	3,770	609	438	1,912	6,729
Non-interest expenses	4,653	327	778	2,379	8,137
Provision for income taxes	767	330	76	558	1,731
	\$ 2,601	\$ 464	\$ 217	\$ 1,663	\$ 4,945
Corporate adjustments					(606)
Net income <sup>(2)</sup>					\$ 4,339
Net income attributable to non-controlling interests <sup>(2)</sup>					100
Net income attributable to equityholders of the Bank <sup>(2)</sup>					4,239
<b>Total average assets (\$ billions)</b>	\$ 337	\$ 47	\$ 18	\$ 105	\$ 507
Corporate adjustments					9
<b>Total average assets, including corporate adjustments</b>					\$ 516

For the year ended October 31, 2009 (\$ millions)	Canada	United States	Mexico	Other International	Total
Net interest income	\$ 4,482	\$ 641	\$ 821	\$ 3,332	\$ 9,276
Provision for credit losses	744	296	185	392	1,617
Other income	3,211	452	424	1,673	5,760
Non-interest expenses	4,529	255	791	2,317	7,892
Provision for income taxes	538	222	69	380	1,209
	\$ 1,882	\$ 320	\$ 200	\$ 1,916	\$ 4,318
Corporate adjustments					(657)
Net income <sup>(2)</sup>					\$ 3,661
Net income attributable to non-controlling interests <sup>(2)</sup>					114
Net income attributable to equityholders of the Bank <sup>(2)</sup>					3,547
<b>Total average assets (\$ billions)</b>	\$ 335	\$ 44	\$ 19	\$ 109	\$ 507
Corporate adjustments					6
<b>Total average assets, including corporate adjustments</b>					\$ 513

(1) Revenues are attributed to countries based on where services are performed or assets are recorded.

(2) Refer to Note 1 of the consolidated financial statements for the impact of the new accounting standards adopted effective November 1, 2010. Prior period information has been reclassified to conform with current period presentation.

## 24 Guarantees, commitments and contingent liabilities

### (a) Guarantees

A guarantee is a contract that contingently requires the guarantor to make payments to a third party based on (i) changes in an underlying interest rate, foreign exchange rate, index or other variable, including the occurrence or non-occurrence of an event, that is related to an asset, liability or equity security held by the guaranteed party, (ii) an indemnification provided to the third party with the characteristics listed above, (iii) another entity's failure to perform under an obligating agreement, or (iv) another entity's failure to perform in relation to its indebtedness. The various guarantees and indemnifications that the Bank provides to its customers and other third parties are presented below.

As at October 31 (\$ millions)	2011	2010
	Maximum potential amount of future payments <sup>(1)</sup>	Maximum potential amount of future payments <sup>(1)</sup>
Standby letters of credit and letters of guarantee	\$ 21,150	\$ 20,450
Liquidity facilities	9,810	8,377
Derivative instruments	2,537	3,071
Indemnifications	559	538

(1) The maximum potential amount of future payments represents those guarantees that can be quantified and excludes other guarantees that cannot be quantified. As many of these guarantees will not be drawn upon and the maximum potential amount of future payments listed above does not consider the possibility of recovery under recourse or collateral provisions, the above amounts are not indicative of future cash requirements, credit risk, or the Bank's expected losses from these arrangements.

#### Standby letters of credit and letters of guarantee

Standby letters of credit and letters of guarantee are issued at the request of a Bank customer in order to secure the customer's payment or performance obligations to a third party. These guarantees represent an irrevocable obligation of the Bank to pay the third-party beneficiary upon presentation of the guarantee and satisfaction of the documentary requirements stipulated therein, without investigation as to the validity of the beneficiary's claim against the customer. Generally, the term of these guarantees does not exceed four years. The types and amounts of collateral security held by the Bank for these guarantees is generally the same as for loans. As at October 31, 2011, \$8 million (2010 – \$9 million) was included in other liabilities in the Consolidated Balance Sheet with respect to these guarantees.

#### Liquidity facilities

The Bank provides backstop liquidity facilities to asset-backed commercial paper conduits, administered by the Bank and by third parties. These facilities provide an alternative source of financing, in the event market disruption prevents the conduit from issuing commercial paper or, in some cases, when certain specified conditions or performance measures are not met. Generally, these facilities have a term of up to one year. Of the \$9,810 million (2010 – \$8,377 million) in backstop liquidity facilities provided to asset-backed commercial paper conduits, 95% (2010 – 95%) is committed liquidity for the Bank's sponsored conduits.

The Bank provides partial credit enhancements in the form of financial standby letters of credit to commercial paper conduits, administered by the Bank. As at October 31, 2011, these credit enhancements amounted to \$685 million (2010 – \$669 million) and are considered as liquidity facilities in the above table. The credit enhancements are provided to ensure a high investment grade credit rating is achieved for notes issued by the conduits. Generally, these facilities have a term of up to one year. No amounts have been recorded in the Consolidated Balance Sheet with respect to these facilities.

#### Derivative instruments

The Bank enters into written credit derivative contracts under which a counterparty is compensated for losses on a specified referenced asset, typically a loan or bond, if a default or other defined triggering event occurs. The Bank also enters into written option contracts under which a counterparty is granted the right, but not the obligation, to sell a

specified quantity of a financial instrument at a pre-determined price on or before a set date. These written option contracts are normally referenced to interest rates, foreign exchange rates or equity prices. Typically, a corporate or government entity is the counterparty to the written credit derivative and option contracts that meet the characteristics of guarantees described above. The maximum potential amount of future payments disclosed in the table above relates to written credit derivatives, puts and floors. However, these amounts exclude certain derivatives contracts, such as written caps, as the nature of these contracts prevents quantification of the maximum potential amount of future payments. As at October 31, 2011, \$215 million (2010 – \$196 million) was included in derivative instrument liabilities in the Consolidated Balance Sheet with respect to these derivative instruments.

#### Indemnifications

In the ordinary course of business, the Bank enters into many contracts which contain indemnification provisions, such as purchase contracts, service agreements, trademark licensing agreements, escrow arrangements, sales of assets or businesses, outsourcing agreements, leasing arrangements, clearing system arrangements, securities lending agency agreements and structured transactions. In such contracts, the Bank may indemnify counterparties to the contracts for certain aspects of the Bank's operations that are dependent on other parties performance, or if certain events occur, such as changes in laws and regulations (including tax legislation), changes in financial condition of third parties, infringements and breaches of representations and warranties, undisclosed liabilities, and loss caused by the actions of third parties, or as a result of litigation claims by third parties. These indemnification provisions will vary based upon the contract. In certain types of arrangements, the Bank may in turn obtain indemnifications from other parties to the arrangement or may have access to collateral under recourse provisions. In many cases, there are no pre-determined amounts or limits included in these indemnification provisions and the occurrence of contingent events that will trigger payment under them is difficult to predict. Therefore, the Bank cannot estimate in all cases the maximum potential future amount that may be payable, nor the amount of collateral or assets available under recourse provisions that would mitigate any such payments. Historically, the Bank has not made any significant payments under these indemnities. As at October 31, 2011, \$4 million (2010 – \$4 million) was included in other liabilities in the Consolidated Balance Sheet with respect to indemnifications.

### (b) Other indirect commitments

In the normal course of business, various other indirect commitments are outstanding which are not reflected on the Consolidated Balance Sheet. These may include:

- 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

principal or agent, agrees to lend securities to a borrower. These transferred securities are not derecognized. The borrower must fully collateralize the security loan at all times. The market value of the collateral is monitored relative to the amounts due under the agreements, and where necessary, additional collateral is obtained; and

- Security purchase commitments which require the Bank to fund future investments.

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 other indirect commitments expressed in terms of the contractual amounts of the related commitment or contract which are not reflected on the Consolidated Balance Sheet.

As at October 31 (\$ millions)	2011 <sup>(1)</sup>	2010 <sup>(1)</sup>
Commercial letters of credit	\$ 1,340	\$ 1,090
Commitments to extend credit <sup>(2)(3)</sup>		
Original term to maturity of one year or less	41,709	43,089
Original term to maturity of more than one year	65,806	60,493
Securities lending	12,334	12,463
Security purchase and other commitments	574	436
Total	\$ 121,763	\$ 117,571

(1) Amounts relating to variable interest entities are disclosed in Note 6.

(2) Includes liquidity facilities, net of credit enhancements.

(3) Excludes commitments which are unconditionally cancellable at the Bank's discretion at any time.

### (c) Lease commitments and other executory contracts

Minimum future rental commitments at October 31, 2011, for buildings and equipment under long-term, non-cancellable leases are shown below.

For the year (\$ millions)	2012	2013	2014	2015	2016	2017 and thereafter	Total
		\$ 234	208	175	144	112	325
							\$ 1,198

Building rent expense, net of rental income from subleases, included in the Consolidated Statement of Income was \$276 million (2010 – \$243 million; 2009 – \$243 million). In addition, the Bank and its subsidiaries have entered into certain long-term executory contracts relating to outsourced services. The significant outsourcing arrangements have variable pricing based on utilization and are cancellable with notice.

### (d) Assets pledged and repurchase agreements

In the ordinary course of business, securities and other assets are pledged against liabilities. As well, securities are sold under repurchase agreements. Details of these activities are shown below.

As at October 31 (\$ millions)	2011	2010
Assets pledged to:		
Bank of Canada <sup>(1)</sup>	\$ 25	\$ 25
Foreign governments and central banks <sup>(1)</sup>	6,293	7,044
Clearing systems, payment systems and depositories <sup>(1)</sup>	1,853	2,026
Assets pledged in relation to exchange-traded derivative transactions	1,293	561
Assets pledged as collateral related to securities borrowed, and securities lent	31,684	33,015
Assets pledged in relation to over-the-counter derivative transactions	4,994	5,267
Assets pledged in relation to covered bonds (refer to Note 6a)	11,435	7,584
Other	3,195	103
Total assets pledged	\$ 60,772	\$ 55,625
Obligations related to securities sold under repurchase agreements <sup>(2)</sup>	46,062	40,286
Total	\$ 106,834	\$ 95,911

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

(2) The securities sold under repurchase agreements are not derecognized.

## (e) Litigation

In the ordinary course of business, the Bank and its subsidiaries are routinely defendants in or parties to a number of pending and threatened legal actions and proceedings, including actions brought on behalf of various classes of claimants.

In view of the inherent difficulty of predicting the outcome of such matters, the Bank cannot state what the eventual outcome of such

matters will be; however, based on current knowledge, management does not believe that liabilities, if any, arising from pending litigation will have a material adverse effect on the consolidated financial position, or results of operations of the Bank.

## 25 Financial instruments – risk management

The Bank's principal business activities result in a balance sheet that consists primarily of financial instruments. In addition, the Bank uses derivative financial instruments for both trading and asset/liability management purposes. The principal financial risks that arise from transacting financial instruments include credit risk, liquidity risk and market risk. The Bank uses comprehensive risk management techniques to monitor, evaluate and manage these risks, as follows:

- extensive risk management policies define the Bank's risk appetite, set the limits and controls within which the Bank and its subsidiaries can operate, and reflect the requirements of regulatory authorities. These policies are approved by the Bank's Board of Directors, either directly or through the Executive and Risk Committee, (the Board);
- guidelines are developed to clarify risk limits and conditions under which the Bank's risk policies are implemented;

- processes are implemented to identify, evaluate, document, report and control risk. Standards define the breadth and quality of information required to make a decision; and
- compliance with risk policies, limits and guidelines is measured, monitored and reported to ensure consistency against defined goals.

Further details on the fair value of financial instruments and how these amounts were determined are provided in Note 26. Note 28 provides details on the terms and conditions of the Bank's derivative financial instruments including notional amounts, remaining term to maturity, credit risk, and fair values of derivatives used in trading activities and asset/liability management including hedging.

## (a) Credit risk

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Bank. The Bank's credit risk strategy and credit risk policy are developed by its Global Risk Management (GRM) department and are reviewed and approved by the Board on an annual basis. The credit risk strategy defines target markets and risk tolerances that are developed at an all-Bank level, and then further refined at the business line level. The objectives of the credit risk strategy are to ensure that, for the Bank, including the individual business lines:

- target markets and product offerings are well defined;
- the risk parameters for new underwritings and for the portfolios as a whole are clearly specified; and
- transactions, including origination, syndication, loan sales and hedging, are managed in a manner that is consistent with the Bank's risk appetite.

The credit risk policy sets out, among other things, the credit risk rating systems and associated parameter estimates, the delegation of authority for granting credit, the calculation of the allowance for credit losses and the authorization of write-offs. It forms an integral part of enterprise-wide policies and procedures that encompass governance, risk management and control structure.

The Bank's credit risk rating systems are designed to support the determination of key credit risk parameter estimates which measure credit and transaction risk. For non-retail exposures, parameters are associated with each credit facility through the assignment of borrower and transaction ratings. Borrower risk is evaluated using methodologies that are specific to particular industry sectors and/or business lines. The risk associated with facilities of a given borrower is assessed by considering the facilities' structural and collateral-related elements. For retail portfolios, each exposure has been assigned to a particular pool (real estate secured, other retail – term lending, unsecured revolving)

and within each pool to a risk grade. This process provides for a meaningful differentiation of risk, and allows for appropriate and consistent estimation of loss characteristics at the pool and risk grade level. Further details on credit risk relating to derivatives are provided in Note 28(c).

### (i) Credit risk exposures

Credit risk exposures disclosed below are presented based on Basel II approaches utilized by the Bank. The Bank uses the advanced internal ratings based approach (AIRB) for all material Canadian, U.S. and European portfolios, and effective 2011 for a significant portion of international corporate and commercial portfolios. The remaining portfolios, including other international portfolios, are treated under the standardized approach. Under the AIRB approach, the Bank uses internal risk parameter estimates, based on historical experience, for probability of default (PD), loss given default (LGD) and exposure at default (EAD), as defined below:

- EAD: Generally represents the expected gross exposure – outstanding amount for on-balance sheet exposure and loan equivalent amount for off-balance sheet exposure.
- PD: Measures the likelihood that a borrower will default within a 1-year time horizon, expressed as a percentage.
- LGD: Measures the severity of loss on a facility in the event of a borrower's default, expressed as a percentage of exposure at default.

Under the standardized approach, credit risk is estimated using the risk weights as prescribed by the Basel II framework either based on credit assessments by external rating agencies or based on the counterparty type for non-retail exposures and product type for retail exposures. Standardized risk weights also take into account other factors such as specific provisions for defaulted exposures, eligible collateral, and loan-to-value for real estate secured retail exposures.

	2011			2010	
	Exposure at default <sup>(1)</sup>				
As at October 31 (\$ millions)	Drawn <sup>(2)</sup>	Undrawn commitments	Other exposures <sup>(3)</sup>	Total	Total
By counterparty type					
Non-retail					
AIRB portfolio					
Corporate	\$ 72,341	\$ 40,712	\$ 34,124	\$ 147,177	\$ 111,522
Bank	22,373	11,153	22,265	55,791	43,508
Sovereign <sup>(4)</sup>	100,185	1,086	4,043	105,314	82,728
	194,899	52,951	60,432	308,282	237,758
Standardized portfolio					
Corporate	27,455	1,797	1,401	30,653	51,202
Bank	3,651	188	56	3,895	14,564
Sovereign	3,379	42	—	3,421	13,029
	34,485	2,027	1,457	37,969	78,795
Total non-retail	\$ 229,384	\$ 54,978	\$ 61,889	\$ 346,251	\$ 316,553
Retail					
AIRB portfolio					
Real estate secured	\$ 91,735	\$ 11,780	\$ —	\$ 103,515	\$ 98,744
Qualifying revolving	14,239	12,195	—	26,434	19,783
Other retail	13,539	630	—	14,169	12,424
	119,513	24,605	—	144,118	130,951
Standardized portfolio					
Real estate secured	16,592	—	—	16,592	16,666
Other retail	13,669	—	—	13,669	12,567
	30,261	—	—	30,261	29,233
Total retail	\$ 149,774	\$ 24,605	\$ —	\$ 174,379	\$ 160,184
Total	\$ 379,158	\$ 79,583	\$ 61,889	\$ 520,630	\$ 476,737
By geography <sup>(5)</sup>					
Canada	\$ 230,707	\$ 49,845	\$ 25,092	\$ 305,644	\$ 280,984
United States	39,972	18,564	22,067	80,603	73,316
Mexico	11,580	161	760	12,501	12,658
Other International					
Europe	14,630	4,784	7,865	27,279	27,153
Caribbean	27,505	2,242	2,088	31,835	30,490
Latin America (excluding Mexico)	26,972	820	1,684	29,476	25,267
All Other	27,792	3,167	2,333	33,292	26,869
Total	\$ 379,158	\$ 79,583	\$ 61,889	\$ 520,630	\$ 476,737

(1) After credit risk mitigation, Basel II exposures excludes available-for-sale equity securities and other assets.

(2) Includes loans, acceptances, deposits with banks and available-for-sale debt securities.

(3) Not applicable for retail exposures. Includes off-balance sheet lending instruments such as letters of credit, letters of guarantee, securitizations, derivatives and repo-style transactions (reverse repurchase agreements, repurchase agreements, securities lending and securities borrowing), net of related collateral.

(4) AIRB drawn and undrawn exposures include government guaranteed mortgages.

(5) Geographic segmentation is based upon the location of the ultimate risk of the credit exposure.

**Balance sheet asset categories cross-referenced to credit risk exposures**

The table below provides a mapping of on-balance sheet asset categories that are included in the various Basel II exposure categories as presented in the credit exposure summary table on page 153 of these financial statements. The amounts for Basel II purposes do not include certain assets such as cash, precious metals, available-for-sale equity securities and other assets. Also excluded from Basel II credit exposures are all trading book assets and assets of the Bank's insurance subsidiaries.

	Balance sheet asset exposures				
	Drawn <sup>(1)</sup>		Other exposures		
As at October 31, 2011 (\$ millions)	Non-retail	Retail	Securitization	Repo-style transactions	Derivatives
Deposits with banks	\$ 36,396	\$ —	\$ —	\$ 6,914	\$ —
Available-for-sale debt securities	26,179 <sup>(2)</sup>	21,446	397	—	—
Residential mortgages	53,982 <sup>(3)</sup>	68,641	—	—	—
Personal and credit cards loans	—	59,562	2,934	—	—
Securities purchased under resale agreements	—	—	—	34,582	—
Business and government loans	103,353	—	1,126	7,814	—
Customers' liability under acceptances	8,171	—	—	—	37,208
Derivative instruments	—	—	—	—	—
Other assets	1,303	125	—	—	—
Total	\$ 229,384	\$ 149,774	\$ 4,457	\$ 49,310	\$ 37,208
As at October 31, 2010	\$ 201,014	\$ 153,412	\$ 6,926	\$ 41,238	\$ 26,852

(1) Gross of allowances for credit losses for AIRB exposures and net of specific allowances for standardized exposures.

(2) Includes securities held as trading under fair value option.

(3) Includes government guaranteed residential mortgages.

**(ii) Credit quality of non-retail exposures**

Credit decisions are made based upon an assessment of the credit risk of the individual borrower or counterparty. Key factors considered in the assessment include: the borrower's management; the borrower's current and projected financial results and credit statistics; the industry in which the borrower operates; economic trends; and geopolitical risk. Banking units and Global Risk Management also review the credit quality of the credit portfolio across the organization on a regular basis

to assess whether economic trends or specific events may affect the performance of the portfolio.

The Bank's non-retail portfolio is well diversified by industry. As at October 31, 2011 and October 31, 2010, a significant portion of the authorized corporate and commercial lending portfolio was internally assessed at a grade that would generally equate to an investment grade rating by external rating agencies.

Internal grades are used to differentiate the risk of default of borrower. The following table cross references the Bank's internal borrower grades with equivalent ratings categories utilized by external rating agencies:

**Cross referencing of internal ratings to external ratings**

Internal Grades	Equivalent External Ratings	
	Moody's	S&P
Investment grade		
99 – 98	Aaa to Aa1	AAA to AA+
95 – 90	Aa2 to A3	AA to A-
87 – 83	Baa1 to Baa3	BBB+ to BBB-
Non-investment grade		
80 – 75	Ba1 to Ba3	BB+ to BB-
73 – 70	B1 to B3	B+ to B-
Watch List		
65 – 30		
Default		
27 – 21		

### Non-retail AIRB portfolio

The credit quality of the non-retail AIRB portfolio, expressed in terms of risk categories of borrower internal grades is shown in the table below:

As at October 31 (\$ millions)	2011				2010
	Exposure at default <sup>(1)</sup>				
Category of internal grades	Drawn	Undrawn commitments	Other exposures <sup>(2)</sup>	Total	Total
Investment grade	\$ 88,990	\$ 39,222	\$ 51,901	\$ 180,113	\$ 145,253
Non-investment grade	48,106	13,370	7,766	69,242	38,967
Watch list	2,733	217	69	3,019	3,185
Default	1,518	142	103	1,763	837
Total, excluding residential mortgages	\$ 141,347	\$ 52,951	\$ 59,839	\$ 254,137	\$ 188,242
Government guaranteed residential mortgages <sup>(3)</sup>	53,552	—	—	53,552	48,733
Total	\$ 194,899	\$ 52,951	\$ 59,839	\$ 307,689	\$ 236,975

(1) After credit risk mitigation.

(2) Includes off-balance sheet lending instruments such as letters of credit, letters of guarantee, derivatives, securitizations, excluding first loss protection of \$593 (October 31, 2010 – \$783) and repo-style transactions (reverse repurchase agreements, repurchase agreements and securities lending and borrowing), net of related collateral.

(3) Under Basel II, these exposures are classified as sovereign exposure and included in the non-retail category.

### Non-retail standardized portfolio

Non-retail standardized portfolio as at October 31, 2011 comprised of drawn, undrawn and other exposures to corporate, bank and sovereign counterparties amounted to \$38 billion (October 31, 2010 – \$79 billion).

Exposures to most Corporate/Commercial counterparties mainly in the Caribbean and Latin American region, are to non-investment grade counterparties based on the Bank's internal grading systems.

### (iii) Credit quality of retail exposures

The Bank's credit underwriting methodology and risk modeling is more customer focused than product focused. Generally, decisions on consumer loans are based on risk ratings, which are generated using predictive scoring models. Individual credit requests are processed by proprietary adjudication software designed to calculate the maximum debt for which a customer qualifies.

The Bank's retail portfolios consist of a number of relatively small loans to a large number of borrowers. The portfolios are distributed across Canada and a wide range of countries. As such, the portfolios inherently have a high degree of diversification.

### Retail AIRB portfolio

The data in the table below provides a distribution of the retail AIRB exposure within each PD grade by exposure class:

As at October 31 (\$ millions)	2011						2010
	Exposure at default <sup>(1)</sup>						
Category of (PD) grades	Real estate secured			Qualifying revolving	Other retail	Total	Total
	PD range	Mortgages	Line of credit				
Very low	0.0000 – 0.2099%	\$ 56,282	\$ 22,314	\$ 11,363	\$ 2,208	\$ 92,167	\$ 84,182
Low	0.2100 – 0.4599%	5,814	282	4,383	5,891	16,370	19,510
Medium	0.4600 – 3.1999%	9,327	5,572	8,058	4,725	27,682	23,249
High	3.200 – 17.2899%	1,852	1,311	2,112	978	6,253	2,461
Very high	17.2900 – 99.9999%	321	201	335	247	1,104	998
Default	100%	202	37	183	120	542	551
Total		\$ 73,798	\$ 29,717	\$ 26,434	\$ 14,169	\$ 144,118	\$ 130,951

(1) After credit risk mitigation.

### Retail standardized portfolio

As at October 31, 2011, the retail standardized portfolio of \$30 billion (October 31, 2010 – \$29 billion) was comprised of residential mortgages, personal loans, credit cards and lines of credit to individuals, mainly in the Caribbean and Latin American region. Of the

total retail standardized portfolio, \$17 billion (October 31, 2010 – \$17 billion) was represented by mortgages and loans secured by residential real estate, mostly with a loan-to-value ratio of below 80%.

### (iv) Collateral

#### Collateral held

In the normal course of business, to reduce its exposure to counterparty credit risk, the Bank receives collateral on derivative, securities borrowing and lending, and other transactions related to the capital markets. The following are examples of the terms and conditions customary to collateral for these types of transactions:

– The risks and rewards of the pledged assets reside with the pledgor.

- Additional collateral is required when the market value of the transaction exceeds thresholds agreed upon with the pledgor.
- The Bank is normally permitted to sell or repledge the collateral it receives, although this right is specific to each agreement under which the collateral is pledged.



- Upon satisfaction of the obligation, the Bank must return the pledged assets; unless the Bank has the right to sell or repledge the collateral it receives, in which case the Bank must return comparable collateral to the pledgor.

As at October 31, 2011, the approximate market value of collateral accepted that may be sold or repledged by the Bank was \$59.3 billion (2010 – \$44.3 billion). This collateral is held primarily in connection with reverse repurchase agreements, securities borrowing and lending, and derivative transactions.

### (b) Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its financial obligations in a timely manner at reasonable prices. The Bank's liquidity risk is subject to extensive risk management controls and is managed within the framework of policies and limits approved by the Board. The Board receives reports on risk exposures and performance against approved limits. The Liability Committee (LCO) provides senior management oversight of liquidity risk through its weekly meetings.

The key elements of the Bank's liquidity risk management framework include:

- liquidity risk measurement and management limits, including limits on maximum net cash outflow by currency over specified short-term horizons;

### (i) Contractual maturities

The table below shows the contractual maturities of certain of the Bank's financial liabilities:

As at October 31, 2011 (\$ millions)	Payable on demand	Payable after notice	Payable in less than one year	Payable in one to five years	Payable in greater than five years	Total
Deposits	\$ 60,324	\$ 67,438	\$ 192,337	\$ 70,110	\$ 6,167	\$ 396,376
Subordinated debentures	–	–	–	251	5,672	5,923
Total	\$ 60,324	\$ 67,438	\$ 192,337	\$ 70,361	\$ 11,839	\$ 402,299
As at October 31, 2010	\$ 55,641	\$ 67,674	\$ 167,711	\$ 66,523	\$ 10,540	\$ 368,089

### (ii) Commitments to extend credit

In the normal course of business, the Bank enters into commitments to extend credit in the form of loans or other financings for specific amounts and maturities, subject to specific conditions. These commitments, which are not reflected on the Consolidated Balance Sheet, are subject to normal credit standards, financial controls and monitoring procedures. As at October 31, 2011 and October 31, 2010, approximately half of the commitments to extend credit had a remaining term to maturity of less than one year.

### (c) Market risk

Market risk arises from changes in market prices and rates (including interest rates, credit spreads, equity prices, foreign exchange rates and commodity prices), the correlations among them, and their levels of volatility. Market risk is subject to extensive risk management controls, and is managed within the framework of market risk policies and limits approved by the Board. The LCO and Market Risk Management and Policy Committee oversee the application of the framework set by the Board, and monitor the Bank's market risk exposures and the activities that give rise to these exposures.

The Bank uses a variety of metrics and models to measure and control market risk exposures. The measurements used are selected based on an assessment of the nature of risks in a particular activity. The principal measurement techniques are Value at Risk (VaR), stress testing, sensitivity analysis and simulation modeling, and gap analysis. The Board reviews results from these metrics quarterly. Models are independently validated internally prior to implementation and are subject to formal periodic review.

### Collateral pledged

In the normal course of business, securities and other assets are pledged to secure an obligation, participate in clearing or settlement systems, or operate in a foreign jurisdiction. Note 24(d) details the nature and extent of the Bank's asset pledging activities. Asset pledging transactions are conducted under terms that are common and customary to standard derivative, securities borrowing and lending, and other lending activities. Standard risk management controls are applied with respect to asset pledging.

- prudent diversification of its wholesale funding activities by using a number of different funding programs to access the global financial markets and manage its maturity profile, as appropriate;
- large holdings of liquid assets to support its operations, which can generally be sold or pledged to meet the Bank's obligations;
- liquidity stress testing, including Bank-specific, Canada-systemic, and global-systemic scenarios; and
- liquidity contingency planning.

The Bank's foreign operations have liquidity management frameworks that are similar to the Bank's framework. Local deposits are managed from a liquidity risk perspective based on the local management frameworks and regulatory requirements.

### (iii) Derivative instruments

The Bank is subject to liquidity risk relating to its use of derivatives to meet customer needs, generate revenues from trading activities, manage market and credit risks arising from its lending, funding and investment activities, and lower its cost of capital. The maturity profile of the notional amounts of the Bank's derivative instruments is summarized in Note 28(b).

VaR is a statistical measure that estimates the potential loss in value of the Bank's positions due to adverse market movements over a defined time horizon with a specified confidence level. The quality of the Bank's VaR is validated by regular back testing analysis, in which the VaR is compared to theoretical and actual profit and loss results. To complement VaR, the Bank also uses stress testing to examine the impact that abnormally large swings in market factors and periods of prolonged inactivity might have on trading portfolios. The stress testing program is designed to identify key risks and ensure that the Bank's capital can absorb potential losses from abnormal events. The Bank subjects its trading portfolios to more than 75 stress tests on a daily basis, and more than 250 stress tests on a monthly basis.

Sensitivity analysis assesses the effect of changes in interest rates on current earnings and on the economic value of assets and liabilities. Simulation modeling under various scenarios is particularly important for managing risk in the deposit, lending and investment products the Bank offers to its retail customers. Gap analysis is used to assess the interest

rate sensitivity of the Bank's retail, wholesale banking and international operations. Under gap analysis, interest rate-sensitive assets, liabilities and derivative instruments are assigned to defined time periods, on the

(i) Interest rate risk

Interest rate risk, inclusive of credit spread risk, is the risk of loss due to the following: changes in the level, slope and curvature of the yield curve; the volatility of interest rates; mortgage prepayment rates; changes in the market price of credit; and the creditworthiness of a particular issuer. The Bank actively manages its interest rate exposures with the objective of enhancing net interest income within established risk tolerances. Interest rate risk arising from the Bank's funding and investment activities is managed in accordance with Board-approved

earlier of contractual repricing or maturity dates on the basis of expected repricing dates.

policies and global limits, which are designed to control the risk to income and economic value of shareholders' equity. The income limit measures the effect of a specified shift in interest rates on the Bank's annual net income, while the economic value limit measures the impact of a specified change in interest rates on the present value of the Bank's net assets. Interest rate exposures in individual currencies are also controlled by gap limits.

Interest rate sensitivity gap

The following table summarizes carrying amounts of balance sheet assets, liabilities and equity, and derivative instrument notional amounts 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 reclassify the Bank's trading instruments to the Immediately rate sensitive and Within 3 months categories.

All Bank	2011						Total
	Immediately rate sensitive <sup>(1)</sup>	Within 3 months	Three to 12 months	One to 5 years	Over 5 years	Non-rate sensitive	
As at October 31 (\$ millions)							
Cash resources	\$ 1,671	\$ 39,342	\$ 704	\$ —	\$ —	\$ 12,754	\$ 54,471
Trading securities	19	4,743	5,903	14,736	11,169	26,757	63,327
Securities, other than trading	1,703	9,692	5,108	30,452	1,923	7,668 <sup>(2)</sup>	56,546
Securities purchased under resale agreements	2,983	27,548	4,051	—	—	—	34,582
Loans	30,268	158,097	31,744	69,197	8,125	1,271 <sup>(3)</sup>	298,702
Other assets	—	—	—	—	—	67,628 <sup>(4)</sup>	67,628
Total assets	\$ 36,644	\$ 239,422	\$ 47,510	\$ 114,385	\$ 21,217	\$ 116,078	\$ 575,256
Deposits	\$ 48,436	\$ 217,131	\$ 43,309	\$ 68,836	\$ 3,697	\$ 14,967	\$ 396,376
Obligations related to assets sold under repurchase agreements	9,379	35,753	930	—	—	—	46,062
Obligations related to securities sold short	24	897	1,005	6,993	4,800	1,731	15,450
Subordinated debentures	—	—	172	5,214	537	—	5,923
Capital instrument liabilities	—	—	—	—	—	—	—
Other liabilities	—	—	—	—	—	78,045 <sup>(4)</sup>	78,045
Shareholders' equity	—	—	—	—	—	33,400 <sup>(4)</sup>	33,400
Total liabilities and shareholders' equity	\$ 57,839	\$ 253,781	\$ 45,416	\$ 81,043	\$ 9,034	\$ 128,143	\$ 575,256
On-balance sheet gap	(21,195)	(14,359)	2,094	33,342	12,183	(12,065)	—
Off-balance sheet gap	—	10,748	1,025	(12,051)	278	—	—
Interest rate sensitivity gap based on contractual repricing	(21,195)	(3,611)	3,119	21,291	12,461	(12,065)	—
Adjustment to expected repricing	38,885	14,268	(11,213)	(23,052)	(8,708)	(10,180)	—
<b>Total interest rate sensitivity gap</b>	<b>\$ 17,690</b>	<b>\$ 10,657</b>	<b>\$ (8,094)</b>	<b>\$ (1,761)</b>	<b>\$ 3,753</b>	<b>\$ (22,245)</b>	<b>\$ —</b>
<b>Cumulative gap</b>	<b>\$ 17,690</b>	<b>\$ 28,347</b>	<b>\$ 20,253</b>	<b>\$ 18,492</b>	<b>\$ 22,245</b>	<b>\$ —</b>	<b>\$ —</b>
As at October 31, 2010 (\$ millions)							
Total interest rate sensitivity gap	\$ (7,952)	\$ 32,649	\$ (9,526)	\$ 1,855	\$ 4,558	\$ (21,584)	\$ —
Cumulative gap	\$ (7,952)	\$ 24,697	\$ 15,171	\$ 17,026	\$ 21,584	\$ —	\$ —

(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 represents common shares, preferred shares and equity accounted investments.

(3) This represents net impaired loans, less the general allowance.

(4) This includes non-financial instruments.

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

The following tables summarize average effective yields, by the earlier of the contractual repricing or maturity dates, for the following interest rate-sensitive financial instruments:

As at October 31, 2011 (%)	Immediately rate sensitive	Within 3 months	Three to 12 months	One to 5 years	Over 5 years	Total
Cash resources	1.8%	0.6%	1.4%	—%	—%	<b>0.7%</b>
Trading securities	—	2.0	2.2	2.2	3.5	<b>2.6</b>
Securities, other than trading <sup>(1)</sup>	1.6	2.9	4.0	3.7	4.5	<b>3.5</b>
Securities purchased under resale agreements	0.1	1.3	1.0	—	—	<b>1.1</b>
Loans <sup>(2)</sup>	4.3	3.4	5.4	4.8	5.7	<b>4.1</b>
Deposits <sup>(3)</sup>	0.9	0.8	2.3	3.0	5.2	<b>1.4</b>
Obligations related to assets sold under repurchase agreements	0.1	1.3	1.4	—	—	<b>1.1</b>
Obligations related to securities sold short	0.2	0.9	1.1	1.0	2.3	<b>1.5</b>
Subordinated debentures <sup>(3)</sup>	—	—	0.1	5.6	5.7	<b>5.5<sup>(4)</sup></b>

As at October 31, 2010 (%)	Immediately rate sensitive	Within 3 months	Three to 12 months	One to 5 years	Over 5 years	Total
Cash resources	2.8%	0.6%	0.9%	—%	—%	0.7%
Trading securities	—	1.1	1.6	2.4	3.6	2.5
Securities, other than trading <sup>(1)</sup>	1.2	4.5	3.7	4.2	4.2	3.9
Securities purchased under resale agreements	0.2	1.2	0.7	—	—	1.2
Loans <sup>(2)</sup>	5.0	3.5	4.3	4.9	6.2	4.2
Deposits <sup>(3)</sup>	0.8	0.9	2.4	3.2	5.4	1.5
Obligations related to securities sold under repurchase agreements <sup>(3)</sup>	0.2	1.2	1.7	—	—	1.1
Obligations related to securities sold short	—	0.9	1.1	1.3	3.0	1.8
Subordinated debentures <sup>(3)</sup>	—	—	0.7	5.4	6.3	5.5 <sup>(4)</sup>
Capital instrument liabilities <sup>(3)</sup>	—	7.3	—	—	—	7.3

(1) Yields are based on cost or amortized cost 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.

(2) Yields are based on book values, net of allowance for credit losses, and contractual interest rates, adjusted for the amortization of any unearned income.

(3) Yields are based on book values and contractual rates.

(4) After adjusting for the impact of related derivatives, the yield was 5.2% (2010 – 5.2%).

**Interest rate sensitivity**

Based on the Bank's interest rate positions, the following table shows the pro-forma after-tax impact on the Bank's net income over the next twelve months and economic value of shareholders' equity of an immediate and sustained 100 and 200 basis point increase and decrease in interest rates across major currencies as defined by the Bank.

As at October 31	2011						2010	
	Net income			Economic value of equity			Net income	Economic value of equity
	Canadian dollar	Other currencies <sup>(1)</sup>	Total	Canadian dollar	Other currencies <sup>(1)</sup>	Total		
(\$ millions)								
100 bp increase	\$ 139	\$ 39	\$ 178	\$ 56	\$ (200)	\$ (144)	\$ 50	\$ (415)
100 bp decrease	\$ (144)	\$ (41)	\$ (185)	\$ (149)	\$ 235	\$ 86	\$ (35)	\$ 411
200 bp increase	\$ 291	\$ 77	\$ 368	\$ 79	\$ (379)	\$ (300)	\$ 102	\$ (829)
200 bp decrease	\$ (284)	\$ (82)	\$ (366)	\$ (328)	\$ 452	\$ 124	\$ (80)	\$ 858

(1) The 2011 net income and economic value of equity includes Mexican, Chilean and Peruvian currency balance sheets.

**(ii) Non-trading foreign currency risk**

Foreign currency risk is the risk of loss due to changes in spot and forward rates, and the volatility of currency exchange rates. Non-trading foreign currency risk, also referred to as structural foreign exchange risk, arises primarily from Bank's net investments in self-sustaining foreign operations and is controlled by a Board-approved limit. This limit considers potential volatility to shareholders' equity as well as the potential impact on capital ratios from foreign exchange

fluctuations. On a quarterly basis, the LCO reviews the Bank's exposures to these net investments. The Bank may fully or partially hedge this exposure by funding the investments in the same currency, or by using other financial instruments, including derivatives.

The Bank is subject to foreign currency risk on the earnings of its foreign operations. To manage this risk, foreign currency revenues and expenses, which are primarily denominated in U.S. dollars, are

projected over a number of future fiscal quarters. The LCO assesses economic data and forecasts to decide on the portion of the estimated future foreign currency revenues and expenses to hedge. Hedging instruments normally include foreign currency spot and forward contracts, as well as foreign currency options and swaps.

As at October 31, 2011, a one percent increase (decrease) in the Canadian dollar against all currencies in which the Bank operates decreases (increases) the Bank's before-tax annual earnings by

### (iii) Equity risk

Equity risk is the risk of loss due to adverse movements in equity prices. Equity price risk is often classified into two categories: general equity risk, which refers to the sensitivity of an instrument or portfolio's value to changes in the overall level of equity prices, and specific equity risk, which refers to that portion of an individual equity instrument's price volatility that is determined by entity-specific characteristics.

The Bank is exposed to equity risk through its equity investment portfolios, which are controlled by Board-approved portfolio, VaR, and stress-test limits. Equity investments include common and preferred shares, as well as a diversified portfolio of third-party managed funds.

### (iv) Trading portfolio risk management

Trading activity of the Bank is primarily focused on client flow transactions. A trading portfolio consists of positions in financial products held either with trading intent or in order to hedge other elements of the trading book.

Market risk arising from the Bank's trading activities is managed in accordance with Board-approved policies and limits, including aggregate VaR and stress testing limits.

Trading portfolios are marked-to-market in accordance with the Bank's valuation policies. Positions are marked-to-market daily and valuations are independently reviewed by back office or GRM units on a regular

approximately \$33 million (October 31, 2010 – \$34 million) in the absence of hedging activity, primarily from exposure to U.S. dollars. A similar change in the Canadian dollar as at October 31, 2011 would increase (decrease) the unrealized foreign currency translation losses in the accumulated other comprehensive income section of shareholders' equity by approximately \$216 million (October 31, 2010 – \$199 million), net of hedging.

The majority of the Bank's equity investment portfolios are managed by Group Treasury under the strategic direction of the LCO. The Investment Committee reviews and approves equity investment strategies, tactical asset allocation and specified types of transactions identified in its mandate. Group Treasury delegates the management of a portion of equity and equity-related portfolios to other external fund managers to take advantage of these fund managers' expertise in particular market niches and products.

The fair value of available-for-sale equity securities is shown in Note 3.

basis. These units also provide profit and loss reporting, as well as VaR and limit compliance reporting to business unit management and executive management for evaluation and action as appropriate. VaR is calculated daily using a 99% confidence level, and a one-day holding period. This means that, about once in every 100 days, the trading positions are expected to lose more than the VaR estimate. The Bank calculates general market risk and equity specific risk VaR using historical simulation based on 300 days of market data. For debt specific risk VaR, the Bank uses a combination of Monte Carlo and historical simulation. The table below shows the Bank's VaR by risk factor:

### One-day VaR by risk factor

(\$ millions)	As at October 31, 2011	For the year ended October 31, 2011			As at October 31, 2010
		Average	High	Low	
Interest rate	\$ 8.3	\$ 10.3	\$ 20.9	\$ 6.2	\$ 9.0
Equities	1.7	4.8	10.9	1.1	3.4
Foreign exchange	1.3	1.2	2.4	0.4	0.9
Commodities	2.6	2.2	4.5	1.2	1.5
Diversification	(5.4)	(7.2)	n/a	n/a	(6.3)
All-Bank VaR	\$ 8.5	\$ 11.3	\$ 19.6	\$ 7.8	\$ 8.5

## 26 Financial instruments – fair value

Fair value is normally defined as the amount of consideration that would be agreed upon in an arms-length transaction between knowledgeable, willing parties who are under no compulsion to act. The best evidence of fair value is quoted bid or ask prices in an active market. Quoted prices are not always available for over-the-counter transactions, as well as transactions in inactive or illiquid markets. In these instances, internal models, normally with observable market-based inputs, are used to estimate fair value. Financial instruments traded in a less active market have been valued using indicative market prices, present value or other valuation techniques. Fair value estimates normally do not consider forced or liquidation sales. Where financial instruments trade in inactive markets or when using models where observable parameters do not exist, greater management judgement is required for valuation purposes. In addition, the calculation of estimated fair value is based on market conditions at a specific point in time and therefore may not be reflective of future fair values.

Changes in interest rates and credit spreads are the main cause of changes in the fair value of the Bank's financial instruments resulting in a favourable or unfavourable variance compared to book value. For the Bank's financial instruments carried at cost or amortized cost, the carrying value is not adjusted to reflect increases or decreases in fair value due to market fluctuations, including those due to interest rate changes. For available-for-sale securities, derivatives and financial instruments held for trading purposes, the carrying value is adjusted regularly to reflect the fair value.

The book value of certain financial assets and financial liabilities that are carried at cost or amortized cost may exceed their fair value due primarily to changes in interest rates and credit spreads. In such instances, the Bank does not reduce the book value of these financial assets and financial liabilities to their fair value as it is the Bank's intention to hold them until there is a recovery of fair value, which may be to maturity.

### Fair value of financial instruments

The following table sets out the fair values of financial 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.

As at October 31 (\$ millions)	2011			2010		
	Total fair value	Total carrying value	Favourable/ (Unfavourable)	Total fair value	Total carrying value	Favourable/ (Unfavourable)
<b>Assets:</b>						
Cash resources	\$ 54,471	\$ 54,471	\$ –	\$ 46,027	\$ 46,027	\$ –
Securities	119,873	119,873	–	116,563	116,563	–
Securities purchased under resale agreements	34,582	34,582	–	27,920	27,920	–
Loans	302,982	298,702	4,280	285,982	284,224	1,758
Customers' liability under acceptances	8,172	8,172	–	7,616	7,616	–
Derivative instruments (Note 28)	37,208	37,208	–	26,852	26,852	–
Other	7,622	7,622	–	6,820	6,820	–
<b>Liabilities:</b>						
Deposits	397,914	396,376	(1,538)	363,323	361,650	(1,673)
Acceptances	8,172	8,172	–	7,616	7,616	–
Obligations related to securities sold under repurchase agreements	46,062	46,062	–	40,286	40,286	–
Obligations related to securities sold short	15,450	15,450	–	21,519	21,519	–
Other	29,294	29,294	–	29,063	29,063	–
Subordinated debentures	6,348	5,923	(425)	6,439	5,939	(500)
Capital instrument liabilities	–	–	–	505	500	(5)
Derivative instruments (Note 28)	40,889	40,889	–	31,990	31,990	–

### Determination of fair value

The following methods and assumptions were used to estimate the fair values of financial instruments (refer to Note 28(d) for fair value of derivative instruments).

The fair values of cash resources, securities purchased under resale agreements, customers' liability under acceptances, other assets, obligations related to securities sold under repurchase agreements, acceptances and other liabilities are assumed to approximate their carrying values, due to their short-term nature.

Fair values of securities are disclosed in Note 3 for those securities that have quoted market prices; for available-for-sale equity securities that have no quoted market prices, the amounts reflected in the table above include such securities at cost. The value of obligations related to securities sold short are carried at fair value. These fair values are based on quoted prices, when available. When a quoted price is not readily available, fair 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 floating rate loans, potential adjustments for credit spread changes are not considered when estimating fair values. Therefore, fair value is assumed to be equal to book value.
- 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 not adjusted for credit spread changes. Therefore, fair value is assumed to equal book value for these types of deposits. 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 capital instrument liabilities are determined by reference to quoted market prices. When quoted market prices are not available, fair values are estimated using current market prices for debt with similar terms and risks.

### Fair value hierarchy

The Bank values instruments carried at fair value using quoted market prices, where available. Quoted market prices represent a Level 1 valuation. When quoted market prices are not available, the Bank maximizes the use of observable inputs within valuation models. When all significant inputs are observable, the valuation is classified as Level 2. Valuations that require the significant use of unobservable inputs are considered Level 3. The following table outlines the fair value hierarchy of instruments carried at fair value:

As at October 31 (\$ millions)	2011				2010			
	Level 1	Level 2 <sup>(1)</sup>	Level 3	Total	Level 1	Level 2 <sup>(1)</sup>	Level 3	Total
<b>Assets:</b>								
Trading securities <sup>(2)</sup>	\$ 41,988	\$ 19,802	\$ 1,537	\$ 63,327	\$ 48,869	\$ 14,689	\$ 1,126	\$ 64,684
Available-for-sale securities <sup>(3)</sup>	14,169	35,442	1,650	51,261	13,801	31,246	1,263	46,310
Derivative instruments	1,171	35,600	437	37,208	499	25,652	701	26,852
<b>Liabilities:</b>								
Obligations related to securities sold short	\$ 10,150	\$ 5,300	\$ –	\$ 15,450	\$ 17,685	\$ 3,832	\$ 2	\$ 21,519
Derivative instruments	1,452	37,737	1,700	40,889	506	29,051	2,433	31,990

(1) Loans and deposit notes designated as trading are classified as Level 2.

(2) Includes securities designated as trading. Level 2 trading securities are comprised of \$6,481 (2010 – \$4,710) of bonds mainly issued by foreign governments and \$10,206 (2010 – \$9,979) of corporate bonds and other debt and equity instruments which generally trade in public markets.

(3) Excludes available-for-sale equity securities that are not quoted in an active market of \$794 (2010 – \$918). Level 2 available-for-sale securities include \$7,060 (2010 – \$4,757) of bonds mainly issued by foreign governments and \$6,148 (2010 – \$7,810) of corporate bonds and other debt instruments which generally trade in public markets. The remaining Level 2 available-for-sale securities are primarily comprised of mortgage-backed securities guaranteed by Canada Mortgage and Housing Corporation.

### Level 3 instrument fair value changes

The following table summarizes changes in Level 3 instruments during the year:

As at October 31 (\$ millions)	2011			2010		
	Trading securities <sup>(1)</sup>	Available-for-sale securities	Derivative instruments	Trading securities <sup>(1)</sup>	Available-for-sale securities	Derivative instruments
Balance at beginning of year	\$ 1,124	\$ 1,263	\$ (1,732) <sup>(2)</sup>	\$ 1,976	\$ 1,395	\$ (1,285) <sup>(2)</sup>
Gains (losses) recorded in net income <sup>(3)</sup>	37	28	(31)	(16)	9	(268)
Gains (losses) recorded in other comprehensive income	–	4	–	–	6	–
Net purchases, sales, issuances and settlements	356	334	495	(742)	(142)	(196)
Other, net	20	21	6	(94)	(5)	17
Balance at end of year	\$ 1,537	\$ 1,650	\$ (1,262) <sup>(2)</sup>	\$ 1,124	\$ 1,263	\$ (1,732) <sup>(2)</sup>

(1) Changes in Level 3 trading securities are net of changes in Level 3 obligations related to securities sold short.

(2) Represents a net liability.

(3) Gains or losses for items in Level 3 may be offset with losses or gains on related hedges in Level 1 or Level 2.

### Level 3 sensitivity analysis

The Bank applies judgment in determining unobservable inputs used to calculate the fair value of Level 3 instruments. Included in the Bank's Level 3 available-for-sale securities are certain securitization retained interests, illiquid debt instruments and structured credit investments. The unobservable inputs used in the valuation of these securities primarily include mortgage prepayment rates, the correlation of default, certain bond yields, as well as the timing and amount of cash flows. A sensitivity analysis has been performed to determine the potential gain or loss by varying the different assumptions by different amounts (for example, varying bond yields by – 0.1% to + 1.0%). For the Bank's available-for-sale securities, the impact of applying these other reasonably possible assumptions is a potential gain or loss of \$31 million (2010 – \$40 million) and \$78 million (2010 – \$85 million), respectively. The component of this potential gain or loss that would be recorded through other comprehensive income is \$30 million (2010 – \$38 million) and \$74 million (2010 – \$74 million), respectively.

Included in the Bank's Level 3 derivative instruments, trading securities and obligations related to securities sold short are unfunded synthetic collateralized debt obligations, certain interest rate swaps and equity options, and equity investments that are not quoted in an active market. The unobservable inputs used in the valuation of these instruments primarily include the correlation of default, mortgage prepayment rates and equity option volatilities. A sensitivity analysis has been performed on these valuations by varying the different assumptions by different amounts (for example, varying mortgage prepayment rates by +/- 5%). For the Bank's trading securities, derivative instruments and obligations related to securities sold short, the impact of applying these other reasonably possible assumptions is a potential net gain or loss of \$125 million (2010 – \$117 million) and \$126 million (2010 – \$121 million), respectively.

## 27 Financial instruments designated as trading

The Bank has elected to designate certain portfolios of assets and liabilities as trading, which are carried at fair value with changes in fair values recorded in income. These portfolios include:

- loans to economically hedge the derivative exposure arising from credit derivatives in the trading book transacted on behalf of customers, in order to significantly reduce or eliminate an accounting mismatch.

- loans in specifically authorized trading portfolios for which performance is evaluated on a fair value basis.
- certain debt and equity investments, in order to reduce an accounting mismatch between these assets and fair value changes in related derivatives.
- certain deposit note liabilities containing extension features, in order to significantly reduce an accounting mismatch between these liabilities and fair value changes in related derivatives.



The following table presents the fair value of assets and liabilities designated as trading and their changes in fair value:

As at and for the year ended October 31 (\$ millions)	Fair value		Change in fair value <sup>(1)</sup>		
	2011	2010	2011	2010	2009
Loans hedging derivative exposures <sup>(2)</sup>	\$ 1,038	\$ 2,096	\$ 33	\$ 243	\$ 740
Proprietary loans	(1)	2	(1)	(6)	15
Debt and equity investments	1,138	2,764	–	146	190
Deposit note liabilities <sup>(3)</sup>	101	99	–	(1)	(2)

(1) These amounts were recorded in trading income except for deposit liabilities and certain debt investments which were recorded in net interest income.

(2) The changes in fair value of these loans were substantially offset by the changes in the fair value of the related credit derivatives.

(3) The Bank was contractually obligated to pay \$100 to the holders of the notes at maturity (2010 – \$97).

## 28 Derivative instruments

### (a) Notional amounts

The following table provides the aggregate notional amounts of 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), which includes derivatives designated in hedging relationships. 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. Credit derivatives within other derivative contracts are comprised primarily of purchased and sold credit default swap transactions. To a lesser extent, this category also includes total return swaps referenced to loans and debt securities. Other derivative contracts – other includes precious metals other than gold, and other commodities including energy and base metal derivatives.

As at October 31 (\$ millions)	2011			2010		
	Trading	ALM	Total	Trading	ALM	Total
Interest rate contracts						
Exchange-traded:						
Futures	\$ 114,494	\$ 5,534	\$ 120,028	\$ 102,338	\$ 6,974	\$ 109,312
Options purchased	67,228	–	67,228	47,635	–	47,635
Options written	77,041	–	77,041	44,332	–	44,332
	258,763	5,534	264,297	194,305	6,974	201,279
Over-the-counter:						
Forward rate agreements	139,936	498	140,434	112,520	8,888	121,408
Swaps	1,368,343	107,772	1,476,115	1,023,880	113,194	1,137,074
Options purchased	12,735	40	12,775	37,358	490	37,848
Options written	8,131	40	8,171	13,441	40	13,481
	1,529,145	108,350	1,637,495	1,187,199	122,612	1,309,811
Total	\$1,787,908	\$113,884	\$1,901,792	\$ 1,381,504	\$ 129,586	\$ 1,511,090
Foreign exchange and gold contracts						
Exchange-traded:						
Futures	\$ 16,590	\$ –	\$ 16,590	\$ 7,614	\$ –	\$ 7,614
Options purchased	1,999	–	1,999	2,184	–	2,184
Options written	2,188	–	2,188	2,407	–	2,407
	20,777	–	20,777	12,205	–	12,205
Over-the-counter:						
Spot and forwards	239,344	36,952	276,296	197,308	35,255	232,563
Swaps	174,132	15,066	189,198	139,376	16,864	156,240
Options purchased	1,994	–	1,994	3,239	–	3,239
Options written	2,301	–	2,301	3,480	–	3,480
	417,771	52,018	469,789	343,403	52,119	395,522
Total	\$ 438,548	\$ 52,018	\$ 490,566	\$ 355,608	\$ 52,119	\$ 407,727
Other derivative contracts						
Equity: over-the-counter	\$ 32,548	\$ 2,060	\$ 34,608	\$ 34,906	\$ 1,868	\$ 36,774
Credit: over-the-counter	72,527	470	72,997	79,486	822	80,308
Other	41,878	3	41,881	18,916	12	18,928
Total	\$ 146,953	\$ 2,533	\$ 149,486	\$ 133,308	\$ 2,702	\$ 136,010
Total notional amounts outstanding	\$2,373,409	\$168,435	\$2,541,844	\$ 1,870,420	\$ 184,407	\$ 2,054,827



## (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, 2011 (\$ millions)	Within 1 year	One to 5 years	Over 5 years	Total
<b>Interest rate contracts</b>				
Futures	\$ 77,293	\$ 42,735	\$ —	\$ 120,028
Forward rate agreements	119,120	21,314	—	140,434
Swaps	500,230	727,900	247,985	1,476,115
Options purchased	76,160	3,417	426	80,003
Options written	80,494	4,055	663	85,212
	853,297	799,421	249,074	1,901,792
<b>Foreign exchange and gold contracts</b>				
Futures	9,846	6,443	301	16,590
Spot and forwards	248,179	27,757	360	276,296
Swaps	43,884	96,754	48,560	189,198
Options purchased	2,419	1,574	—	3,993
Options written	3,273	1,216	—	4,489
	307,601	133,744	49,221	490,566
<b>Other derivative contracts</b>				
Equity	24,124	10,232	252	34,608
Credit	14,813	52,832	5,352	72,997
Other	24,945	16,920	16	41,881
	63,882	79,984	5,620	149,486
<b>Total</b>	<b>\$ 1,224,780</b>	<b>\$1,013,149</b>	<b>\$ 303,915</b>	<b>\$ 2,541,844</b>
<b>As at October 31, 2010 (\$ millions)</b>	<b>Within 1 year</b>	<b>One to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Interest rate contracts</b>				
Futures	\$ 71,407	\$ 37,905	\$ —	\$ 109,312
Forward rate agreements	112,619	8,767	22	121,408
Swaps	486,014	504,647	146,413	1,137,074
Options purchased	81,573	3,655	255	85,483
Options written	53,589	3,878	346	57,813
	805,202	558,852	147,036	1,511,090
<b>Foreign exchange and gold contracts</b>				
Futures	4,444	3,090	80	7,614
Spot and forwards	222,755	9,158	650	232,563
Swaps	38,453	74,564	43,223	156,240
Options purchased	4,727	696	—	5,423
Options written	5,196	691	—	5,887
	275,575	88,199	43,953	407,727
<b>Other derivative contracts</b>				
Equity	24,203	12,158	413	36,774
Credit	16,376	55,497	8,435	80,308
Other	9,497	9,046	385	18,928
	50,076	76,701	9,233	136,010
<b>Total</b>	<b>\$ 1,130,853</b>	<b>\$ 723,752</b>	<b>\$ 200,222</b>	<b>\$ 2,054,827</b>

### (c) Credit risk

As with other financial 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 other financial 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 generally expose the Bank to credit loss 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 other financial 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.

To control credit risk associated with derivatives, the Bank uses the same credit risk management activities and procedures that are used in the lending business in assessing and adjudicating potential credit exposure.

The Bank applies limits to each counterparty, measures exposure as the current positive fair value plus potential future exposure, and uses credit mitigation techniques, such as netting and collateralization. Investment grade counterparties account for a significant portion of the credit risk exposure arising from the Bank's derivative transactions as at October 31, 2011.

Derivative instruments used by the Bank include credit derivatives in its investment and loan portfolios: credit protection is sold as an alternative to acquire exposure to bond or loan assets, while credit protection is bought to manage or mitigate credit exposures.

The following table summarizes the credit exposure of the Bank's over-the-counter derivatives. The credit risk amount (CRA) represents the estimated replacement cost, or positive fair value, for all contracts. Effective 2011, CRA at product level, is presented after taking into account 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 calculated by multiplying the CEA by the capital requirement (K) times 12.5, where K is a function of the probability of default (PD), loss given default (LGD), maturity and prescribed correlation factors. Other derivative contracts – other includes precious metals other than gold, and other commodities including energy and base metal derivatives.

As at October 31, 2011 (\$ millions)	Notional amount	Credit risk amount <sup>(1)</sup> (CRA)	Credit equivalent amount <sup>(1)</sup> (CEA)	Risk-weighted assets <sup>(1)</sup>
<b>Interest rate contracts</b>				
Futures	\$ 120,028	\$ –	\$ –	\$ –
Forward rate agreements	140,434	7	52	10
Swaps	1,476,115	3,065	6,337	1,867
Options purchased	80,003	15	14	6
Options written	85,212	–	–	–
	<b>1,901,792</b>	<b>3,087</b>	<b>6,403</b>	<b>1,883</b>
<b>Foreign exchange and gold contracts</b>				
Futures	16,590	–	–	–
Spot and forwards	276,296	1,707	4,311	932
Swaps	189,198	2,017	5,163	1,256
Options purchased	3,993	102	30	11
Options written	4,489	–	–	–
	<b>490,566</b>	<b>3,826</b>	<b>9,504</b>	<b>2,199</b>
<b>Other derivative contracts</b>				
Equity	34,608	1,012	2,525	454
Credit	72,997	58	2,165	666
Other	41,881	786	1,817	668
	<b>149,486</b>	<b>1,856</b>	<b>6,507</b>	<b>1,788</b>
<b>Total derivatives</b>	<b>\$ 2,541,844</b>	<b>\$ 8,769</b>	<b>\$ 22,414</b>	<b>\$ 5,870</b>

(1) The amounts presented are net of collateral and master netting agreements at the product level. The total amounts relating to netting and collateral were \$28,439 for CRA, and \$37,412 for CEA.

As at October 31, 2010 (\$ millions)	Notional amount	Credit risk amount <sup>(1)</sup> (CRA)	Credit equivalent amount <sup>(1)</sup> (CEA)
<b>Interest rate contracts</b>			
Futures	\$ 109,312	\$ –	\$ –
Forward rate agreements	121,408	30	75
Swaps	1,137,074	13,139	16,914
Options purchased	85,483	170	192
Options written	57,813	–	–
	<b>1,511,090</b>	<b>13,339</b>	<b>17,181</b>
<b>Foreign exchange and gold contracts</b>			
Futures	7,614	–	–
Spot and forwards	232,563	3,928	6,448
Swaps	156,240	6,451	13,806
Options purchased	5,423	183	265
Options written	5,887	–	–
	<b>407,727</b>	<b>10,562</b>	<b>20,519</b>
<b>Other derivative contracts</b>			
Equity	36,774	779	2,548
Credit	80,308	1,480	5,752
Other	18,928	692	2,085
	<b>136,010</b>	<b>2,951</b>	<b>10,385</b>
<b>Total derivatives</b>	<b>\$2,054,827</b>	<b>\$26,852</b>	<b>\$ 48,085</b>
Less: impact of master netting and collateral		19,816	29,711
<b>Total</b>		<b>\$ 7,036</b>	<b>\$ 18,374</b>
<b>Total risk-weighted assets</b>			<b>\$ 5,656</b>

(1) CRA and CEA are stated at product level, without taking into account any master netting or collateral arrangement.

### (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 determination of the fair value of derivatives includes consideration of credit risk and ongoing direct costs over the life of the instruments.

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

As at October 31 (\$ millions)	2011		2011		2010	
	Average fair value <sup>(1)</sup>		Year-end fair value		Year-end fair value	
	Favourable	Unfavourable	Favourable	Unfavourable	Favourable	Unfavourable
<b>Trading</b>						
<b>Interest rate contracts</b>						
Forward rate agreements	\$ 56	\$ 33	\$ 94	\$ 48	\$ 27	\$ 23
Swaps	12,181	12,043	19,166	19,053	12,134	11,983
Options	126	120	138	122	169	162
	12,363	12,196	19,398	19,223	12,330	12,168
<b>Foreign exchange and gold contracts</b>						
Forwards	3,965	4,405	5,097	5,347	3,692	4,229
Swaps	7,016	6,393	6,156	5,304	5,696	5,609
Options	139	161	163	210	183	180
	11,120	10,959	11,416	10,861	9,571	10,018
<b>Other derivative contracts</b>						
Equity <sup>(2)</sup>	1,051	2,154	1,069	2,277	739	1,968
Credit <sup>(2)</sup>	1,323	3,789	1,588	4,692	1,446	3,132
Other	966	1,110	1,152	1,103	692	1,007
	3,340	7,053	3,809	8,072	2,877	6,107
Trading derivatives' market valuation	\$ 26,823	\$ 30,208	\$ 34,623	\$ 38,156	\$ 24,778	\$ 28,293
<b>ALM</b>						
<b>Interest rate contracts</b>						
Forward rate agreements			\$ –	\$ –	\$ 3	\$ 4
Swaps			1,233	1,607	1,005	1,757
Options			1	–	1	–
			1,234	1,607	1,009	1,761
<b>Foreign exchange and gold contracts</b>						
Forwards			544	406	236	778
Swaps			731	636	755	1,029
Options			–	–	–	–
			1,275	1,042	991	1,807
<b>Other derivative contracts</b>						
Equity			48	5	40	7
Credit			28	79	34	122
Other			–	–	–	–
			76	84	74	129
ALM derivatives' market valuation			\$ 2,585	\$ 2,733	\$ 2,074	\$ 3,697
Total derivative instruments before netting			\$ 37,208	\$ 40,889	\$ 26,852	\$ 31,990
Less: impact of master netting and collateral			28,439	28,439	19,816	19,816
Total derivative instruments			\$ 8,769	\$ 12,450	\$ 7,036	\$ 12,174

(1) The average fair values of trading derivatives' market valuation for the year ended October 31, 2010 were: favourable \$23,758 and unfavourable \$25,571. Average fair value amounts are based on month-end balances.

(2) A substantial portion of these derivative contracts are hedging exposures that are not derivative instruments and are classified elsewhere on the balance sheet, primarily trading securities and trading loans.

Included in the above ALM derivatives' market valuation amounts are derivatives designated in hedging relationships as follows:

As at October 31 (\$ millions)	2011		2010	
	Favourable	Unfavourable	Favourable	Unfavourable
Derivatives designated in fair value hedging relationships	\$ 996	\$ 541	\$ 730	\$ 552
Derivatives designated in cash flow hedging relationships	186	703	126	825
Derivatives designated in net investment hedging relationships	21	23	4	24
Total derivatives designated in hedging relationships	\$ 1,203	\$ 1,267	\$ 860	\$ 1,401

Due to the ineffective portion of designated hedges, the Bank recorded a gain of \$68 million (2010 – a gain of \$105 million; 2009 – a gain of \$127 million) in net interest income, of which a gain of \$49 million (2010 – a gain of \$28 million; 2009 – a gain of \$51 million) related to cash flow hedges. No ineffectiveness was recognized on net investment hedges.

## 29 Acquisitions

### Current year

#### Canadian acquisition

##### Acquisition of DundeeWealth Inc.

As part of the Bank's strategy to expand its wealth management platform, on February 1, 2011, the Bank completed the acquisition of DundeeWealth Inc. (DundeeWealth), a diversified wealth management company. After the transaction, the Bank owned approximately 120 million common shares of DundeeWealth (representing 97% of the issued and outstanding common shares of DundeeWealth) and all of the issued and outstanding special shares and first preference shares, series X of DundeeWealth. Subsequently, on March 9, 2011, the Bank acquired the remaining 3% of the common shares of DundeeWealth.

As consideration for the additional 81% interest in DundeeWealth, the Bank issued approximately 31 million common shares, 16 million preferred shares and paid cash of \$226 million. Total consideration, including the value of the equity interest held prior to the business combination, was \$3,011 million. The fair value of the common shares is the quoted price of the shares of the Bank at the acquisition date. Prior to closing, DundeeWealth paid a special cash dividend of \$2.00 per common share and special share and \$1.67 per first preference share, series X, and also distributed to its shareholders one common share of Dundee Capital Markets Inc. (DCM) per common share and special share and 0.83 of a DCM common share per first preference share, series X. As a result, the Bank now owns approximately 18% of the issued and outstanding common shares of DCM.

The fair value of the identifiable assets and liabilities of DundeeWealth as at the date of acquisition were:

#### *Fair value recognized on acquisition (\$ millions)*

Assets	
Cash and non-interest-bearing deposits with banks	\$ 262
Securities	162
Other assets	458
	<u>\$ 882</u>
Liabilities	
Other liabilities	1,047
Total identifiable net liabilities at fair value	<u>\$ (165)</u>
Intangible assets arising on acquisition <sup>(1)</sup>	1,948
Goodwill arising on acquisition	1,228
Purchase consideration transferred	<u>\$ 3,011</u>
Purchase consideration transferred was comprised of:	
Cash	\$ 226
Common shares	1,796
Preferred shares	409
Fair value of previously held equity interest in DundeeWealth <sup>(2)</sup>	546
Contributed surplus	34
	<u>\$ 3,011</u>

(1) Net of taxes of \$661.

(2) The Bank recognized a \$260 million gain in other income-other in the Consolidated Statement of Income as a result of remeasuring to fair value the equity interest in DundeeWealth held by the Bank before February 1, 2011.

Intangible assets of \$2,609 million are primarily comprised of fund management contracts. Goodwill of \$1,228 million largely reflects the value of synergies expected by combining certain operations within the Bank's existing asset and wealth management businesses as well as DundeeWealth's strong market presence and future growth prospects.

Transaction costs of \$4 million are included in non-interest expenses – professional in the Consolidated Statement of Income.

In the nine months to October 31, 2011, DundeeWealth contributed other income of \$647 million and net income of \$111 million.

If the acquisition had occurred on November 1, 2010, management estimates for the three months ended January 31, 2011, consolidated other income would have increased by \$281 million and consolidated net income would have increased by \$42 million. These amounts represent the incremental 81% interest acquired. In determining these amounts, management has assumed that the fair value adjustments that arose on the acquisition date would have been the same if the acquisition had occurred on November 1, 2010. The impact of non-recurring items has been removed.

#### International acquisitions

##### Royal Bank of Scotland's Corporate & Commercial Banking Operations in Chile

On December 17, 2010, the Bank completed its acquisition of the Royal Bank of Scotland's (RBS) corporate and commercial banking

operations in Chile. The purchase resulted in the Bank acquiring approximately \$189 million of net assets of RBS and the Bank recorded negative goodwill of \$52 million in Other income – other.

##### Investment in Dresdner Bank, Brasil S.A.

On September 30, 2011, the Bank acquired 100% of the outstanding shares of Dresdner Bank Brasil S.A. - Banco Multiplo (renamed Scotiabank Brasil S.A. Banco Multiplo) for cash consideration. Scotiabank Brasil S.A. Banco Multiplo has a multiple banking license and will offer a range of wholesale banking services. Under the terms of the transaction, the Bank acquired \$149 million of net assets. The purchase price allocation for the acquisition was recorded in the fourth quarter and the Bank recorded negative goodwill of \$27 million in Other income – other.

##### Investment in Bank of Guangzhou (BGZ), China

On September 9, 2011, the Bank announced its intention to purchase a 19.99% stake in the Bank of Guangzhou (BGZ) for approximately \$719 million (CNY 4.65 billion). The investment is subject to regulatory approval.

##### Investment in Banco Colpatria, Colombia

On October 20, 2011, the Bank announced its agreement to pay US\$500 million and 10,000,000 common shares of the Bank for 51% of the common shares of Banco Colpatria Multibanca Colpatria S.A. in Colombia. The transaction is expected to close in the first quarter of 2012 and is subject to regulatory approval.

### Investment in Pronto! and Nuevo Comercial S.A., Uruguay

The Bank completed its acquisition of 100% of the common shares of Pronto! on February 4, 2011. On June 29, 2011, the Bank also acquired 100% of the common shares of Nuevo Banco Comercial S.A. These acquisitions represent Scotiabank's entry into Uruguay and the impact is not financially material to the Bank.

### Prior year

#### International acquisitions

#### Thanachart Bank and Siam City Bank

On April 9, 2010, the Bank's affiliate Thanachart Bank (Scotiabank currently owns 49%), acquired a 48% stake of Thailand's Siam City Bank. In accordance with securities laws in Thailand, upon closing of the 48% stake, Thanachart Bank launched a tender offer for the remaining shares in Siam City Bank. The completed tender offer

resulted in Thanachart Bank owning 99% of Siam City Bank. As part of the financing for this transaction, Scotiabank subscribed to additional shares in Thanachart Bank of approximately \$663 million. This investment is accounted for under the equity method of accounting.

#### R-G Premier Bank of Puerto Rico

On April 30, 2010, the Bank, through its subsidiary Scotiabank de Puerto Rico, acquired R-G Premier Bank of Puerto Rico. Under the terms of the transaction, Scotiabank acquired US\$5.6 billion in assets, which included US\$5.2 billion of loans covered under a loss sharing agreement with the Federal Deposit Insurance Corporation (FDIC). Under this agreement, the FDIC guarantees 80% of loan losses. The acquisition also included US\$2.2 billion in deposits with the remainder financed by the FDIC.

The purchase price allocation for the acquisition was finalized and the Bank recorded goodwill of US\$250 million.

## 30 Reconciliation of Canadian and United States generally accepted accounting principles (GAAP)

The consolidated financial statements of the Bank have been prepared in accordance with Canadian GAAP. The significant measurement differences between Canadian and U.S. GAAP affecting the consolidated financial statements are as follows:

### Reconciliation of net income

For the year ended October 31 (\$ millions)	Net income		
	2011	2010	2009
Net income based on Canadian GAAP attributable to:			
Common shareholders of the Bank	\$ 4,959	\$ 4,038	\$ 3,361
Preferred shareholders of the Bank	216	201	186
Non-controlling interests (p)	93	100 <sup>(1)</sup>	114 <sup>(1)</sup>
Net income based on Canadian GAAP	\$ 5,268	\$ 4,339	\$ 3,661
Consolidation of variable interest entities (a)	7	—	—
Employee future benefits (b)	(207)	(82)	(91)
Transfers of loans through securitizations (d)	19	(14)	—
Derivative instruments and hedging activities (e)	141	(124)	(427)
Conversion of loans into debt securities (g)	20	66	39
Unrealized gains (losses) on securities reclassified (g)	3	57	(17)
Computer software (h)	(3)	(3)	(3)
Stock-based compensation (i)	10	31	5
Liabilities and equity (j)	6	37	37
Business combinations (m)	5	(6)	—
Equity accounted investments (o)	—	23	—
Tax effect of above differences	(4)	(19)	119
Net income based on U.S. GAAP	\$ 5,265	\$ 4,305	\$ 3,323
Net income based on U.S. GAAP attributable to:			
Common shareholders of the Bank	\$ 4,950	\$ 3,967	\$ 2,986
Preferred shareholders of the Bank	216	201	186
Non-controlling interests (p)	99 <sup>(2)</sup>	137 <sup>(2)</sup>	151 <sup>(2)</sup>
Net income based on U.S. GAAP	\$ 5,265	\$ 4,305	\$ 3,323
Earnings per share based on U.S. GAAP (in dollars) <sup>(3)</sup>			
Basic	\$ 4.62	\$ 3.84	\$ 2.95
Diluted	\$ 4.61	\$ 3.84	\$ 2.94

(1) Prior to 2011, non-controlling interest was a deduction to arrive at net income under Canadian GAAP. In 2011, the Bank has adopted new accounting standards on Business Combinations, Consolidated Financial Statements and Non-controlling Interests (see Note 1) that present the attribution of net income to equity holders, including non-controlling interests, on a consistent basis with U.S. GAAP. The prior years' presentation has been restated to conform with current period presentation.

(2) The net income based on U.S. GAAP attributable to non-controlling interests represents the non-controlling interests' portion of net income based on Canadian GAAP and the impact of Canadian GAAP/U.S. GAAP differences noted in liabilities and equity (j).

(3) Earnings per share calculations are based on full dollar and share amounts.

## Reconciliation of retained earnings

As at October 31, 2011 (\$ millions)

	2011	2010
Canadian GAAP Retained Earnings	\$ 24,662	\$ 21,932
Consolidation of variable interest entities (a)	(25)	—
Employee future benefits (b)	(345)	(199)
Restructuring costs (c)	(4)	(4)
Transfers of loans through securitizations (d)	14	—
Derivative instruments and hedging activities (e)	(79)	(172)
Unrealized gains(losses) on securities reclassified (g)	(17)	(20)
Conversion of loans into debt securities (g)	(36)	(49)
Computer software (h)	9	11
Stock-based compensation (i)	(8)	(15)
Business combinations (m)	1	(5)
Equity accounted investments (o)	20	20
Total Retained Earnings Adjustments	(470)	(433)
US GAAP Retained Earnings	\$ 24,192	\$ 21,499

### (a) Consolidation of variable interest entities

Under Canadian GAAP the Bank consolidates variable interest entities (VIEs) when it is the primary beneficiary of the VIEs. The primary beneficiary is the enterprise that absorbs or receives the majority of the VIE's expected losses, expected residual returns, or both.

Amendments have been made to FASB ASC 810 Consolidation of Variable Interest Entities that impacts the Bank effective November 1, 2010. The new standard changes the approach for determining the primary beneficiary of a variable interest entity from a quantitative risk and reward model to a qualitative model, based on control and economics. The new standard also requires that the primary beneficiary analysis be reevaluated whenever circumstances change or at each reporting period, whichever is earlier. The Bank adopted the requirements of ASC 810 effective November 1, 2010.

Effective November 1, 2010, the Bank also prospectively adopted ASC Topic 860 (FAS 166) Transfers and Servicing. The new standard eliminates the concept of qualified special purpose entities (QSPE); therefore, all transfers of assets to QSPEs are within the scope of ASC Topic 860 and also within the scope of ASC Topic 810 for primary beneficiary assessment.

As a result of adopting ASC Topic 810, the Bank concluded that it is the primary beneficiary of the Bank-sponsored U.S.-based multi-seller conduit because the Bank is the variable interest holder with the power to direct the activities of the conduit that most significantly impact the conduit's economic performance and the Bank retains the obligation to absorb losses from the conduit. Therefore, the Bank consolidated this conduit that was not consolidated under Canadian GAAP and previous U.S. GAAP. As a result, as at November 1, 2010, the Bank recorded an increase in total assets of \$2,954 million and total liabilities of \$3,082 million, with an offsetting decrease in after-tax opening retained earnings and AOCI of \$28 million and \$100 million, respectively.

The consolidation of the Bank-sponsored U.S.-based multi-seller conduit resulted in an increase of \$7 million in net income.

The cumulative impact as at October 31, 2011 was a decrease to retained earnings of \$25 million.

The Bank also concluded that it consolidates the National Housing Act (NHA) MBS pools created under the NHA MBS program where it retains control over the pool. Control of the pools is retained when the Bank has the power over the economic performance of the pool. Previously the Bank's ownership interest in these pools was classified as AFS securities. The new guidance has resulted in a reclassification of certain pools where the Bank has retained control, from AFS securities to mortgage loans with a corresponding decrease in AOCI. As a result of the new standard, at November 1, 2010 mortgage loans increased by

\$16,215 million, AFS securities decreased by \$16,670 million, other assets increased by \$146 million and AOCI decreased by \$309 million. At October 31, 2011, mortgage loans increased by \$18,705 million, AFS securities decreased by \$19,140 million, other assets increased by \$141 million, liabilities increased by \$2 million and AOCI decreased by \$296 million.

### (b) Employee future benefits

U.S. GAAP requires: (i) the recognition of a pension and other post-retirement plan's over-funded or under-funded status as an asset or liability, respectively; and (ii) the recognition of existing unrecognized net actuarial gains and losses, prior service costs and credits, and net transitional assets or obligations in other comprehensive income. Canadian GAAP requires that only the cumulative difference between pension income/expense and funding contributions be reflected in the Bank's Consolidated Balance Sheet.

Although Canadian and U.S. GAAP are substantially consistent with respect to recognition and measurement of pension expense, there continues to be a difference in the charge to income between Canadian and U.S. GAAP, principally due to differences in the amortization of the transitional amounts resulting from differing adoption dates of the previous standards, and differences in the treatment of the pension valuation allowance.

Canadian GAAP requires recognition of a pension valuation allowance for any excess of the prepaid benefit expense over the expected future benefit. These changes in the pension valuation allowance are recognized in the Consolidated Statement of Income. U.S. GAAP does not permit recognition of a pension valuation allowance. The impact of this difference is a decrease in net income of \$139 million (2010 – increase of \$10 million).

Commencing in fiscal 2009, U.S. GAAP requires the measurement of defined benefit plan assets and obligations at the fiscal year-end date. The impact of the 2009 adoption of the requirement to measure defined benefit plan assets and obligations at the fiscal year-end date was an increase of \$2 million to other assets, an increase of \$22 million to other liabilities, a decrease of \$32 million to retained earnings (net of income taxes is \$24 million), and an increase of \$6 million (net of income taxes is \$4 million) in accumulated other comprehensive income.

The recognition differences, the reversal of the valuation allowance, and the measurement date change result in a decrease of \$207 million (2010 – \$82 million) in net income and a decrease of \$345 million (2010 – \$199 million) in retained earnings.

### (c) Restructuring costs

Under Canadian GAAP, restructuring costs incurred for activities initiated prior to April 1, 2003, were accrued as liabilities provided that



a restructuring plan detailing all major actions to be taken had been approved by an appropriate level of management, and significant changes to the plan were not likely. Under U.S. GAAP, for activities initiated prior to January 1, 2003, additional criteria were required to have been met prior to accrual, including that certain restructuring costs be incurred within one year from the date of approval of the restructuring plan; the accruals recorded under Canadian GAAP for certain planned restructuring costs not incurred within the one-year time limit were reversed under U.S. GAAP and the costs are expensed as incurred. For restructuring costs incurred for activities initiated after March 31, 2003, Canadian and U.S. GAAP are consistent.

The decrease in retained earnings of \$4 million (2010 – \$4 million) with an offset to goodwill captures the cumulative impact of the adjustment prior to harmonization.

#### (d) Transfers of loans through securitizations

Effective July 1, 2001, the Bank adopted a new Canadian accounting guideline for transfers of loans on a prospective basis. This guideline is consistent with the U.S. standard for transfers of loans adopted on April 1, 2001.

Prior to the adoption of the new Canadian guideline, transfers of loans were treated as sales under Canadian GAAP when the significant risks and rewards of ownership were transferred. Gains on transfers of loans were recognized immediately, unless there was recourse to the Bank in excess of expected losses, in which case the gains were considered unrealized and deferred until they were collected in cash and there was no recourse to that cash. Under U.S. GAAP, gains on transfers of loans that qualify as sales are recognized in income at the time of sale. As a result, differences in Canadian and U.S. GAAP income will continue until the deferred gains related to assets securitized prior to July 1, 2001 have all been recognized in Canadian GAAP income, which occurred in fiscal 2010. The impact of such differences in 2011 is nil (2010 – decrease of \$14 million).

Amendments have been made to the accounting for transfers of financial assets in FASB ASC Topic 860 Transfers and Servicing. The new standard eliminates the concept of QSPEs and provides additional guidance with regard to accounting for transfers of financial assets.

This guidance also provides additional criteria and clarification of certain principles of sale accounting requirements in FASB Statement No. 140 – *Accounting for Transfer and Servicing of Financial Assets and Extinguishment of Liabilities* (FAS 140) and requires an entity to determine first whether a special purpose entity (SPE) should be consolidated and then determine whether the transfer of financial assets meets the requirements for sale accounting. In addition, this new standard states that the transfer of a portion of financial assets may be accounted for as a sale only if it meets the definition of a participating interest. Otherwise, the transfer is accounted for as a secured borrowing. Adoption of this standard did not impact the Bank's accounting for mortgages sold under the Government of Canada's Canada Mortgage Bond (CMB) program. These mortgages meet the sale recognition criteria under both Canadian and U.S. GAAP.

As discussed above in note (a), the Bank does not consolidate MBS pools which it does not control. The Bank recognizes a gain on sale on mortgages sold into these pools which includes the beneficial interest that the Bank obtains in the MBS pools, as per ASC 860 requirements. The net impact of the change is an increase in net income of \$19 million (2010 - nil) and an increase in the retained earnings of \$14 million (2010 - nil).

#### (e) Derivative instruments and hedging activities

Canadian GAAP, as described in Note 1, is substantially consistent with U.S. GAAP for the Bank's activities relating to derivatives and hedging. The current year reconciling items between Canadian and U.S. GAAP mainly relate to the classification of certain guarantees resulting in a

increase in net income of \$143 million (2010 – decrease \$95 million) as well as hedging differences resulting in a decrease to net income of \$2 million (2010 – \$29 million).

Prior to August 1, 2010, U.S. GAAP did not require bifurcation of credit-related embedded derivatives in synthetic collateralized debt obligation (CDO) structures. As a result, changes in fair value of these embedded derivatives from November 1, 2009 to July 31, 2010 were reclassified from net income to other comprehensive income as a reconciling item between Canadian GAAP and U.S. GAAP.

Effective August 1, 2010, U.S. GAAP required the bifurcation of credit-related embedded derivatives in such CDO structures. The change in fair value of the embedded derivatives to be recognized in income is consistent with Canadian GAAP. The cumulative transition impact of the U.S. GAAP amendment as at August 1, 2010, was an after-tax loss of \$23 million (net of income taxes of \$9 million) that was reclassified from accumulated other comprehensive income to retained earnings.

The total net impact of the differences related to derivative instruments and hedging activities result in a increase of \$141 million (2010 – decrease of \$124 million) in net income.

The decrease in retained earnings of \$79 million (2010 – \$172 million) is comprised of the impact of the classification of certain financial guarantees (a decrease of \$139 million (2010 – \$231 million)), partially offset by the impact of the bifurcation of credit-related embedded derivatives in CDO structures and foreign currency translation.

#### (f) Classification and Impairment of financial instruments

Effective November 1, 2008, under Canadian GAAP certain debt instruments that are not quoted in an active market were reclassified to loans and are carried at amortized cost. Impairment on these assets is recognized only to the extent of incurred credit losses. U.S. GAAP precludes securities from being classified as loans. As a result, certain debt securities which are classified as loans under Canadian GAAP of \$4,114 million (2010 – \$6,483 million) are classified as available-for-sale under U.S. GAAP. This resulted in a balance sheet reconciling item between loans, available-for-sale debt securities, and other comprehensive income.

Effective May 1, 2009, under U.S. GAAP, certain impaired available-for-sale debt instruments are written down to the extent of incurred credit losses. Under Canadian GAAP, impaired available-for-sale debt instruments are written down to fair value. As the Bank's available-for-sale debt securities under Canadian GAAP contains a limited number of impairment write-downs, effectively for credit-related losses, this U.S. GAAP change had no impact on the Bank.

#### (g) Securities

Except as discussed in (e), Canadian GAAP is substantially harmonized with U.S. GAAP for the Bank's activities relating to the accounting for securities. The significant differences between Canadian and U.S. GAAP for fiscal 2008 and prior years are described below.

Under Canadian GAAP, securities are accounted for on a settlement date basis. Under U.S. GAAP, securities are required to be accounted for on a trade date basis.

Under Canadian GAAP, debt securities acquired in a loan restructuring prior to May 1, 2003 were recorded at net book value. Under U.S. GAAP, the debt securities are recorded at their fair value with the difference between the carrying value of the loans and the fair value of the debt securities acquired recorded in income. For debt securities acquired in a loan restructuring after April 30, 2003, Canadian and U.S. GAAP are consistent. The impact of this difference is an increase in net income of \$20 million (2010 – \$66 million).

The decrease in retained earnings of \$36 million (2010 – \$49 million) is the cumulative impact of recording debt securities acquired in a loan restructuring at fair value prior to harmonization.

Prior to fiscal 2007, certain securities with embedded derivatives were reclassified from available-for-sale to trading securities. Under Canadian GAAP, these securities were classified as available-for-sale securities.

Canadian GAAP was amended in October 2008 allowing a reclassification of non-derivative financial assets out of the trading category under rare circumstances. The Bank reclassified certain trading securities to available-for-sale securities effective August 1, 2008, as permitted under Canadian GAAP. Under U.S. GAAP, this reclassification was effective October 31, 2008. The net impact of this difference is an increase in net income of \$3 million (2010 – \$57 million).

The decrease in retained earnings of \$17 million (2010 – \$20 million) is the net cumulative impact of reclassifying certain securities with embedded derivatives to trading securities.

#### (h) Computer software

U.S. GAAP requires qualifying software costs to be capitalized and depreciated over the useful life of the software. Prior to November 1, 2003, these costs were expensed as incurred under Canadian GAAP. For software costs incurred after November 1, 2003, Canadian and U.S. GAAP are consistent. The impact of this difference is a decrease in net income of \$3 million (2010 – \$3 million).

The increase in retained earnings of \$9 million (2010 – \$11 million) is the cumulative impact of the adjustment prior to harmonization.

#### (i) Stock-based compensation

Effective November 1, 2005, the Bank adopted, on a modified prospective basis, a new U.S. GAAP standard amending the accounting for stock-based compensation to new awards and to any awards modified, repurchased or cancelled after the effective date. The prospective adoption of the standard requires the use of a fair-value-based method, rather than an intrinsic-value-based method, to measure and account for the cost of employee services received in exchange for an award linked to the Bank's common shares. The greatest impact was on the Bank's employee stock option plan.

The U.S. GAAP stock-based compensation expense was quantified using the Black-Scholes option pricing model and the following weighted average assumptions:

As at	October 31, 2011	October 31, 2010
Risk-free interest rate	1.21%	1.63%
Expected dividend yield	3.83%	3.52%
Expected price volatility	23.0%	27.3%
Expected life of option	6.6 years	6.4 years

Under Canadian GAAP, the Bank uses an intrinsic-value-based method to record stock-based compensation expense for all liability classified awards. Effective November 1, 2005, the Bank adopted a new pronouncement amending the accounting for stock-based compensation for employees eligible to retire before the vesting date and permitted application on a retrospective basis. There was also a corresponding change in U.S. GAAP; however, this change was required to be applied prospectively under U.S. GAAP for awards granted in fiscal 2006 and onwards. The net impact of the differences results in an increase of \$10 million (2010 – \$31 million) in net income.

The cumulative impact of these adjustments is a decrease in retained earnings of \$8 million (2010 – \$15 million).

#### (j) Liabilities and equity

Under Canadian GAAP, as at October 31, 2010 the Scotiabank Trust Securities issued by BNS Capital Trust of \$500 million were classified as capital instrument liabilities. These securities were redeemed during fiscal 2011. The related payments of \$6 million (2010 – \$37 million) are recognized as interest expense. Under U.S. GAAP, these securities with conversion or conditional redemption features are recorded as non-controlling interests in subsidiaries. The related payments are recognized as net income attributable to non-controlling interests.

#### (k) Non-cash collateral

Under Canadian GAAP, non-cash collateral received as part of securities lending transactions is not recognized in the Consolidated Balance Sheet. Under U.S. GAAP, collateral received for transactions where the Bank lends securities as principal is accounted for as a secured borrowing in the Consolidated Balance Sheet.

The adjustment for non-cash collateral received in securities lending transactions resulted in an addition to other assets of \$6,046 million (2010 – \$6,211 million) and an addition to other liabilities of \$6,046 million (2010 – \$6,211 million).

#### (l) Comprehensive income

Both Canadian and U.S. GAAP require a separate Statement of Comprehensive Income. The reconciling items between other comprehensive income under Canadian and U.S. GAAP mainly result from changes in assets and liabilities relating to consolidation of variable interest entities, employee future benefits, transfers of loans through securitizations, bifurcation of embedded derivatives in synthetic CDOs, and certain debt securities classified as loans. These reconciling items are further discussed in (a), (b), (d), (e) and (f).

#### (m) Business combinations

Effective November 1, 2010, the Bank elected for Canadian GAAP purposes to early adopt the new accounting standard on Business Combinations (see Note 1). This standard is more aligned with U.S. GAAP.

Effective November 1, 2009, the Bank adopted for U.S. GAAP purposes, FASB ASC Topic 805 Business Combinations. This standard requires most identifiable assets, liabilities, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value as at the acquisition date and all acquisition related and restructuring costs to be expensed. Negative goodwill which represents any excess of recognized assets, liabilities and non-controlling interests over the purchase consideration, is to be recognized in net income. Under Canadian GAAP prior to November 1, 2010, acquisition related and restructuring costs were capitalized as part of the purchase consideration. Negative goodwill is first applied to reduce intangible and fixed assets to nil, with any residual being recognized in net income.

Under U.S. GAAP, for the year ended October 31, 2011 the increase in net income of \$5 million was primarily due to the recognition of negative goodwill arising from the finalization of a purchase price equation in relation to an acquisition prior to November 1, 2010. For the year ended October 31, 2010, the decrease in net income of \$6 million was primarily due to acquisition-related costs being expensed as incurred.

The increase in retained earnings of \$1 million (2010 – decrease of \$5 million) is the cumulative impact of recognizing negative goodwill in net income, net of expensing acquisition related cost as incurred.

#### (n) Income taxes

On November 1, 2007, the Bank adopted, for U.S. GAAP purposes, Accounting for Uncertainty in Income Taxes in FASB ASC Topic 740 Income Taxes. The Standard prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of an uncertain tax position taken or expected to be taken on a tax return.

The Standard uses a two-step approach for evaluating tax positions: 1) a tax position must be more-likely-than-not to be sustained based solely on its technical merits in order to be recognized; and 2) the benefit is measured as the largest dollar amount of that position that is more-likely-than-not to be sustained upon settlement. The difference between the benefit recognized for a position in accordance with the U.S. GAAP model and the tax benefit claimed on a tax return is referred to as an unrecognized tax benefit.

The adoption of Accounting for Uncertainty in Income Taxes in FASB ASC Topic 740 had no material impact on 2008 opening retained earnings under U.S. GAAP. The amount of unrecognized tax benefits as at November 1, 2010 was \$615 million. There was a net \$269 million decrease during 2011 substantially from a settlement of prior periods and tax positions taken during the current period. The 2011 balance of \$346 million of unrecognized tax benefits, if recognized, would affect the effective tax rate. The Bank operates in Canada, the U.S. and other foreign jurisdictions, subject to examination by tax authorities.

### (o) Equity accounted investments

Under Canadian GAAP, for equity accounted investments, the Bank applies equity accounting prospectively from the date it has obtained significant influence. Under U.S. GAAP, the investment, results of operations, and retained earnings of the investor is adjusted retrospectively on a step-by-step basis as if the equity method had been in effect during all previous periods in which the investment was held. The impact of the adjustment was nil (2010 – increase of \$23 million) to net income.

The increase of \$20 million (2010 – \$20 million) in retained earnings is the cumulative impact of the adjustment.

### (p) Non-controlling interests

Effective November 1, 2010, when the Bank elected for Canadian GAAP purposes to early adopt the new accounting standard on

Business Combinations, the Bank was also required to adopt the new accounting standards on Consolidated Financial Statements and Non-controlling Interests (see Note 1). These standards are more aligned with U.S. GAAP.

Effective November 1, 2009, the Bank adopted for U.S. GAAP purposes, FASB ASC Topic 810 Consolidations. This standard requires non-controlling interests in subsidiaries to be classified as a separate component of equity. For the year ended October 31, 2010, non-controlling interests of \$579 million has been reclassified from liabilities to equity.

In addition, under U.S. GAAP effective November 1, 2009, purchases of equity interests that do not result in a change in control are accounted for as equity transactions. Goodwill is not affected. Under Canadian GAAP prior to November 1, 2010, increases in ownership interest of an acquiree where control has already been obtained were accounted for under the purchase method. Goodwill is proportionately adjusted based on the percentage purchased.

The decrease in equity of \$23 million (2010 – \$23 million) is a result of accounting for equity interests with no change in control as equity transactions.

Net income and comprehensive income based on U.S. GAAP attributable to non-controlling interests of \$99 million (2010 – \$137 million) is presented separately on the reconciliations of net income and comprehensive income.

## Consolidated statement of comprehensive income (loss)

	2011			2010	2009
	Canadian GAAP	Adjustments(I)	U.S. GAAP		
For the year ended October 31 (\$ millions)					
Net income	\$ 5,268	\$ (3)	\$ 5,265	\$ 4,305	\$ 3,323
Other comprehensive income (loss), net of income taxes:					
Change in unrealized foreign currency translation gains (losses), net of hedging activities <sup>(1)</sup>	\$ (654)	\$ 4	\$ (650)	\$ (593)	\$(1,739)
Change in unrealized gains (losses) on available-for-sale securities, net of hedging activities <sup>(2)</sup>	(119)	81	(38)	291	1,303
Change in gains (losses) on derivative instruments designated as cash flow hedges <sup>(3)</sup>	106	(2)	104	62	43
Change in pension asset and liability <sup>(4)</sup>	-	33	33	(322)	(548)
Total other comprehensive income (loss)	\$ (667)	\$ 116	\$ (551)	\$ (562)	\$ (941)
Comprehensive income	\$ 4,601	\$ 113	\$ 4,714	\$ 3,743	\$ 2,382
Comprehensive income attributable to:					
Common shareholders of the Bank	\$ 4,292	\$ 107	\$ 4,399	\$ 3,405	\$ 2,045
Preferred shareholders of the Bank	216	-	216	201	186
Non-controlling interests (p)	93	6	99	137	151
Comprehensive income	\$ 4,601	\$ 113	\$ 4,714	\$ 3,743	\$ 2,382

## Accumulated other comprehensive income (loss)<sup>(5)</sup>

	2011			2010	2009
	Canadian GAAP	Adjustments	U.S. GAAP		
For the year ended October 31 (\$ millions)					
Unrealized foreign currency translation gains (losses), net of hedging activities	\$(5,162)	\$ (43)	\$(5,205)	\$(4,555)	\$(3,962)
Unrealized gains (losses) on available-for-sale securities, net of hedging activities	699	(511)	188	635	321
Derivative instruments designated as cash flow hedges	(255)	(1)	(256)	(360)	(422)
Employee future benefits	-	(1,084)	(1,084)	(1,117)	(795)
Total accumulated other comprehensive income (loss)	\$(4,718)	\$(1,639)	\$(6,357)	\$(5,397)	\$(4,858)

(1) U.S. GAAP amounts are net of income tax expense of \$37 (2010 – expense of \$117; 2009 – expense of \$328).

(2) U.S. GAAP amounts are net of income tax benefit of \$3 (2010 – expense of \$98; 2009 – expense of \$570).

(3) U.S. GAAP amounts are net of income tax expense of \$42 (2010 – expense of \$46; 2009 – expense of \$44).

(4) U.S. GAAP amounts are net of income tax expense of \$18 (2010 – benefit of \$181; 2009 – benefit of \$290).

(5) All amounts presented are net of income tax.

## Condensed consolidated balance sheet

	2011			2010		
As at October 31 (\$ millions)	Canadian GAAP	Adjustments	U.S. GAAP	Canadian GAAP	Adjustments	U.S. GAAP
<b>Assets</b>						
Cash resources	\$ 54,471	\$ —	\$ 54,471	\$ 46,027	\$ —	\$ 46,027
Securities						
Trading	63,327	(692) <sup>g</sup>	62,635	64,684	895 <sup>g</sup>	65,579
Available-for-sale	52,055	(13,865) <sup>a,d,f,g</sup>	38,190	47,228	6,097 <sup>f,g</sup>	53,325
Equity accounted investments	4,491	23 <sup>o</sup>	4,514	4,651	23 <sup>o</sup>	4,674
Securities purchased under resale agreements	34,582	—	34,582	27,920	—	27,920
Loans	298,702	16,404 <sup>a,f</sup>	315,106	284,224	(6,483) <sup>f</sup>	277,741
Derivative instruments	37,208	231 <sup>a,e</sup>	37,439	26,852	111 <sup>e</sup>	26,963
Other	30,420	10,416 <sup>(5)</sup>	40,836	25,071	10,831 <sup>(1)</sup>	35,902
	<b>\$ 575,256</b>	<b>\$ 12,517</b>	<b>\$ 587,773</b>	<b>\$ 526,657</b>	<b>\$ 11,474</b>	<b>\$ 538,131</b>
<b>Liabilities and shareholders' equity</b>						
<b>Liabilities</b>						
Deposits	\$ 396,376	\$ 3,459 <sup>a,e</sup>	\$ 399,835	\$ 361,650	\$ 4 <sup>e</sup>	\$ 361,654
Derivative instruments	40,889	—	40,889	31,990	—	31,990
Other	98,668	11,190 <sup>(6)</sup>	109,858	98,368	13,272 <sup>(2)</sup>	111,640
Non-controlling interest in subsidiaries	—	—	—	579	(579) <sup>p</sup>	—
Subordinated debentures	5,923	—	5,923	5,939	—	5,939
Capital instrument liabilities	—	—	—	500	(500) <sup>j</sup>	—
	<b>\$ 541,856</b>	<b>\$ 14,649</b>	<b>\$ 556,505</b>	<b>\$ 499,026</b>	<b>\$ 12,197</b>	<b>\$ 511,223</b>
<b>Shareholders' equity</b>						
Capital stock						
Preferred shares	\$ 4,384	\$ —	\$ 4,384	\$ 3,975	\$ —	\$ 3,975
Common shares and contributed surplus	8,432	—	8,432	5,775	—	5,775
Retained earnings	24,662	(470) <sup>(7)</sup>	24,192	21,932	(433) <sup>(3)</sup>	21,499
Accumulated other comprehensive income (loss)	(4,718)	(1,639) <sup>(8)</sup>	(6,357)	(4,051)	(1,346) <sup>(4)</sup>	(5,397)
Changes in ownership interest in a subsidiary after control is obtained	—	(23) <sup>p</sup>	(23)	—	(23) <sup>p</sup>	(23)
Non-controlling interest in subsidiaries	640	—	640	—	1,079 <sup>j,p</sup>	1,079
	<b>\$ 33,400</b>	<b>\$ (2,132)</b>	<b>\$ 31,268</b>	<b>\$ 27,631</b>	<b>\$ (723)</b>	<b>\$ 26,908</b>
	<b>\$ 575,256</b>	<b>\$ 12,517</b>	<b>\$ 587,773</b>	<b>\$ 526,657</b>	<b>\$ 11,474</b>	<b>\$ 538,131</b>

Note references refer to GAAP differences described above.

- (1) Refer to b, c, d, e, f, g, h, k, m, p (3) Refer to b, c, e, g, h, i, m, o  
 (2) Refer to b, d, e, g, i, k, m, o (4) Refer to b, e, f, g, l

- (5) Refer to a, b, c, d, e, f, g, h, k, m, p (7) Refer to a, b, c, d, e, g, h, i, m, o  
 (6) Refer to a, b, d, e, g, i, k, m, o (8) Refer to a, b, d, e, f, g, l

## Future accounting changes

When to perform step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts

In December 2010, FASB issued guidance ASU 2010-28, *Intangibles – Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts* (a consensus of the FASB Emerging Issues Task Force). This update modifies step one of goodwill impairment testing for reporting units with zero or negative carrying amounts. Under Topic 350 on goodwill and other intangible assets, testing for goodwill impairment is a two-step test. For units with zero or negative carrying amounts, the update clarifies that an entity is only required to perform step two of the goodwill impairment process where it is more likely than not that a goodwill impairment exists. This update is effective for the Bank prospectively on November 1, 2011. The Bank is assessing the impact of this change.

Disclosure of supplementary pro forma information for business combination

In December 2010, FASB issued guidance ASU 2010-29, *Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations* (a consensus of the FASB

*Emerging Issues Task Force*). This amendment clarifies the acquisition date that should be used for reporting the pro forma financial information disclosures in Topic 805 when comparative financial statements are presented and requires additional quantitative information about the pro forma adjustments. This update is effective for the Bank prospectively on November 1, 2011. The Bank is assessing the impact of this change.

Repurchase agreements

In April 2011, FASB issued guidance ASU 2011-03, *Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements*. ASU 2011-03 states that the accounting for a repurchase agreement (repo) depends in part on whether the transferor maintains effective control over the transferred financial assets. If the transferor maintains effective control, the transferor is required to account for its repo as a secured borrowing rather than a sale. The FASB concluded that the assessment of effective control depends on the transferor's contractual rights and obligations with respect to transferred financial assets. It does not depend on the transferor's ability, by way of a collateral maintenance agreement, to exercise those rights or honor those obligations. This update is effective for the Bank prospectively on November 1, 2012. The Bank is assessing the impact of this change.



# Management's Report on Internal Control Over Financial Reporting

The management of The Bank of Nova Scotia (the Bank) is responsible for establishing and maintaining adequate internal control over financial reporting, and have designed such internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles (GAAP), including a reconciliation to U.S. GAAP.

Management has used the Internal Control – Integrated Framework to evaluate the effectiveness of internal control over financial reporting, which is a recognized and suitable framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of

any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has evaluated the design and operation of the Bank's internal control over financial reporting as of October 31, 2011, and has concluded that such internal control over financial reporting is effective. There are no material weaknesses that have been identified by management in this regard.

KPMG LLP, the independent auditors appointed by the shareholders of the Bank, who have audited the consolidated financial statements, have also audited internal control over financial reporting and have issued their report below.

Rick Waugh  
President and Chief Executive Officer

Toronto, Canada  
December 2, 2011

Luc Vanneste  
Executive Vice-President and  
Chief Financial Officer

## Report of Independent Registered Public Accounting Firm

To the Shareholders of The Bank of Nova Scotia

We have audited The Bank of Nova Scotia's internal control over financial reporting as of October 31, 2011, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Bank of Nova Scotia's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Report on Internal Control over Financial Reporting". Our responsibility is to express an opinion on The Bank of Nova Scotia's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and

expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, The Bank of Nova Scotia maintained, in all material respects, effective internal control over financial reporting as of October 31, 2011, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with Canadian generally acceptable accounting standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of The Bank of Nova Scotia as of October 31, 2011 and October 31, 2010 and the consolidated statements of income, changes in shareholders' equity, comprehensive income and cash flows for each of the years in the three-year period ended October 31, 2011, and notes, comprising a summary of significant accounting policies and other explanatory information, and our report dated December 2, 2011 expressed an unmodified (unqualified) opinion on those consolidated financial statements.

KPMG LLP  
Chartered Accountants, Licensed Public Accountants  
December 2, 2011  
Toronto, Canada

## CORPORATE GOVERNANCE

### Corporate Governance Regulation

The Board of Directors and management believe that a strong, effective, independent Board plays a crucial role in building long-term sustainable growth in shareholder value, protecting the interests of stakeholders and maximizing the value they receive from their investment in the Bank. The Board is committed to meeting high standards of corporate governance in all aspects of the Bank's affairs, as the Bank's corporate governance is an integral part of the Bank's operations.

The Bank's corporate governance practices are regulated by many different parties, including the Bank's regulator, the Office of Superintendent of Financial Institutions Canada, and the Board looks to evolving best practices domestically and internationally in reviewing its corporate governance practices. Our practices:

- Meet or exceed the standards set out in the guidelines and rules of the *Bank Act* (Canada) (the "Bank Act") and those of the Canadian Securities Administrators ("CSA") — which include National Instrument 52-110, National Instrument 52-109, National Policy 58-201 and National Instrument 58-101; and
- Comply with applicable requirements of the New York Stock Exchange ("NYSE") and the Sarbanes-Oxley Act of 2002, including applicable rules of the U.S. Securities and Exchange Commission.

The Bank is not required to comply with most of the NYSE corporate governance rules. However, except as summarized in the Corporate Governance section of the Bank's website ([www.scotiabank.com](http://www.scotiabank.com)), the Bank's practices do not differ significantly from these rules.

The Corporate Governance Policies and the committee charters are available in the Corporate Governance section of the Bank's website and in print to any shareholder who requests a copy from the Bank's Secretary. Additional information on the Bank's Audit and Conduct Review Committee, including a copy of its charter and descriptions of its members and their applicable education and experience, can be found in Exhibit 1, the Bank's Annual Information Form, under the heading "The Bank's Audit and Conduct Review Committee" and in Schedule "A" thereto.

### Director Independence

The Bank is committed to complying with all applicable laws, rules and regulations related to the status of its Directors. The Bank defines a Director who does not have a direct or indirect material relationship with the Bank as independent. To assist it in determining the independence of directors, the Board has approved Director Independence Standards (the "Independence Standards"), which provide a framework for the Board to assess any material relationships of the

Directors with the Bank. The Independence Standards are derived from the Bank Act Affiliated Persons Regulations, the CSA rules and the NYSE corporate governance rules. The Independence Standards were revised in 2008 and 2009 to reflect changes in CSA and NYSE requirements. The revised Independence Standards form part of the Bank's Corporate Governance Policies and the text of the Independence Standards can be found in the Corporate Governance section of the Bank's website and are attached below. Each year:

- The Board reviews its Directors against these standards, considering all relevant facts and circumstances, including the relationship of the non-management Directors to the Bank — as well as any relationship to the Bank of their spouses, children, principal business affiliations and any other relevant individuals.
- All Directors complete a detailed questionnaire to inform this review.
- All Directors certify their compliance with the Bank's Guidelines for Business Conduct, including the requirement that they declare any material interest in matters coming before the Board.

On the recommendation of the Corporate Governance and Pension Committee, the Board determined that as of December 2, 2011, Richard E. Waugh was the only Director determined to be non-independent, due to his position as President and CEO. Mr. Waugh is also affiliated under the Bank Act due to his management position.

That means, 13 of the current 14 (or 92.9%) Directors are independent, including John T. Mayberry, the Chairman of the Board.

The following Directors are independent: Ronald A. Brenneman, C.J. Chen, David A. Dodge, N. Ashleigh Everett, John C. Kerr, The Honourable Michael J.L. Kirby, John T. Mayberry, Thomas C. O'Neill, Alexis E. Rovzar de la Torre, Indira V. Samarasekera, Allan C. Shaw, Paul D. Sobey and Barbara S. Thomas.

### **Director Independence Standards**

A majority of the Bank's directors are independent, as required by Canadian Securities Administrators' National Policy 58-201 — *Corporate Governance Guidelines* and the current NYSE listed company corporate governance rules. To be considered independent under these rules, the Board must determine that a director has no direct or indirect material relationship with the Bank. A material relationship is a relationship that could, in the view of the Board, be reasonably expected to interfere with the exercise of a director's judgement independent of management. The rules permit the Board to adopt categorical standards in making its independence determinations. The standards adopted by the Board are reproduced below. Definitions and interpretation of terms in the standards are in accordance with applicable source rules and regulations, as amended from time to time. In applying these standards, the Board broadly considers all relevant facts and circumstances.

1. A director will not be independent if:



- the director is, or has been within the last three years, an employee or executive officer of the Bank or a subsidiary, or an immediate family member of the director is, or has been within the last three years, an executive officer of the Bank or a subsidiary;
- the director has received, or an immediate family member of the director has received for service as an executive officer, during any twelve-month period within the last three years, more than the lesser of Cdn\$75,000 and US\$120,000 in direct compensation from the Bank or a subsidiary, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service);
- (a) the director or an immediate family member of the director is a current partner of a firm that is the Bank's or a subsidiary's internal or external auditor; (b) the director is a current employee of such firm; (c) an immediate family member of the director is a current employee of such a firm and personally works on the Bank's or a subsidiary's audit, or the director's spouse, or child or stepchild who shares a home with the director, is an employee of such firm and participates in the firm's audit, assurance or tax compliance (but not tax planning) practice; or (d) the director or an immediate family member was within the last three years a partner or employee of such a firm and personally worked on the Bank's or a subsidiary's audit within that time;
- the director or an immediate family member of the director, is, or has been within the last three years, employed as an executive officer of another company where any of the Bank's or a subsidiary's present executive officers at the same time serves or served on that company's compensation committee;
- the director is currently an employee, or an immediate family member of the director is currently an executive officer, of a company that has made payments to, or received payments from, the Bank or a subsidiary for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of US\$1 million or 2% of such other company's consolidated gross revenues (with the exception that contributions to tax exempt organizations shall not be considered payments for this purpose); or
- the director is "affiliated" with the Bank as that term is used in the Affiliated Persons (Banks) Regulations made under the *Bank Act* (Canada).

An "immediate family member" includes a person's spouse, parents, children, stepchildren, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law, and anyone (other than domestic employees) who shares the person's home.

2. In addition to satisfying the independence standards set forth above, members of the audit committee must satisfy the following additional independence requirements:
  - An audit committee member may not accept, directly or indirectly, any consulting, advisory or other compensatory fee from the Bank or any subsidiary, other than

compensation in his or her capacity as a member of the Board or any committee or any fixed amount of compensation under a retirement plan (including deferred compensation) for prior service with the Bank (provided such compensation is not contingent in any way on continued service).

- An audit committee member may not be an “affiliated” person of the Bank or any subsidiary, as defined in applicable Canadian and U.S. securities laws.

The indirect acceptance by an audit committee member of any consulting, advisory or other compensatory fee includes acceptance of such fee by a spouse, minor child or stepchild or a child or stepchild who shares a home with the audit committee member or by an entity in which such audit committee member is a partner, member, an officer such as a managing director occupying a comparable position or executive officer, or occupies a similar position (except limited partners, non-managing members and those occupying similar positions who, in each case, have no active role in providing services to the entity) and which provides accounting, consulting, legal, investment banking or financial advisory services to the Bank or any subsidiary.

Whether directors meet these categorical independence standards will be reviewed and will be made public annually prior to their standing for re-election to the Board. The Board will examine relationships such as the nature of the director’s banking, lending or other business dealings with the Bank or a director’s role in a charitable organization which has received a certain level of contributions from the Bank. For relationships not covered by the standards in section 1 above, the determination of whether the relationship is material, and therefore whether the director would be independent, will be made by the directors who satisfy those standards. The Bank will disclose the basis for any Board determination that a relationship is immaterial despite the fact that it does not meet the categorical standards set forth above.



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**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors of The Bank of Nova Scotia

We consent to the inclusion in this annual report on Form 40-F of The Bank of Nova Scotia (the "Bank") of:

- (i) our Independent Auditors' Report of Registered Public Accounting Firm dated December 2, 2011 on the Consolidated Balance Sheets of the Bank as at October 31, 2011 and October 31, 2010, and the Consolidated Statements of Income, Changes in Shareholders' Equity, Comprehensive Income and Cash Flows for each of the years in the three-year period ended October 31, 2011; and
- (ii) our Report of Independent Registered Public Accounting Firm dated December 2, 2011 on the Bank's internal control over financial reporting as of October 31, 2011

each of which is contained in this annual report on Form 40-F of the Bank for the fiscal year ended October 31, 2011.

We also consent to the incorporation by reference of such reports in the Registration Statement – Form F-9 – File No. 333-174823 and the Registration Statement – Form S-8 – File No. 333-177640.

/s/ KPMG LLP

Chartered Accountants, Licensed Public Accountants

December 2, 2011  
Toronto, Canada

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

**CERTIFICATIONS**

I, RICHARD E. WAUGH, certify that:

1. I have reviewed this annual report on Form 40-F of The Bank of Nova Scotia;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;
4. The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: December 2, 2011

/s/ R. E. Waugh

President and Chief Executive Officer

## CERTIFICATIONS

I, LUC A. VANNESTE, certify that:

1. I have reviewed this annual report on Form 40-F of The Bank of Nova Scotia;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;
4. The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: December 2, 2011

/s/ Luc A. Vanneste

Executive Vice-President and  
Chief Financial Officer



CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ENACTED PURSUANT TO  
SECTION 906 OF THE U.S. SARBANES-OXLEY ACT OF 2002

In connection with the annual report of The Bank of Nova Scotia (the "Bank") on Form 40-F for the year ended October 31, 2011 (the "Report") as filed with the U.S. Securities and Exchange Commission,

I, Richard E. Waugh, President and Chief Executive Officer of the Bank, certify, pursuant to 18 U.S.C. section 1350, as enacted pursuant to section 906 of the U.S. Sarbanes-Oxley Act of 2002, that to my knowledge:

- (i) the Report fully complies with the requirements of section 13(a) or 15(d) of the U.S. Securities Exchange Act of 1934; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank.

December 2, 2011

/s/ R. E. Waugh

Richard E. Waugh

President and Chief Executive Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ENACTED PURSUANT TO  
SECTION 906 OF THE U.S. SARBANES-OXLEY ACT OF 2002

In connection with the annual report of The Bank of Nova Scotia (the "Bank") on Form 40-F for the year ended October 31, 2011 (the "Report") as filed with the U.S. Securities and Exchange Commission,

I, Luc A. Vanneste, Executive Vice-President and Chief Financial Officer of the Bank, certify, pursuant to 18 U.S.C. section 1350, as enacted pursuant to section 906 of the U.S. Sarbanes-Oxley Act of 2002, that to my knowledge:

- (i) the Report fully complies with the requirements of section 13(a) or 15(d) of the U.S. Securities Exchange Act of 1934; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank.

December 2, 2011

/s/ Luc A. Vanneste

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Luc A. Vanneste  
Executive Vice-President and Chief  
Financial Officer